COTY INC.
Form 10-K
August 21, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 001-35964

COTY INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3823358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
350 Fifth Avenue, New York, NY	10118
(Address of principal executive offices)	(Zip Code)

(212) 389-7300
Registrant's telephone number, including area code

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No ý

As of December 31, 2017, the aggregate market value of the registrant’s Class A Common Stock held by non-affiliates was $8,993,216,977 based on the number of shares held by non-affiliates as of December 31, 2017 and the last reported sale price of the registrant’s Class A Common Stock on December 31, 2017.

At August 14, 2018, 750,792,022 shares of the registrant’s Class A Common Stock, $0.01 par value were outstanding.

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Forward-looking Statements

Certain statements in this Form 10-K are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views with respect to, among other things, the Company’s targets and outlook for future reporting periods (including the extent and timing of revenue and profit trends and the Consumer Beauty division’s stabilization), establishing the Company as a global leader and challenger in beauty, its future operations and strategy (including brand relaunches and performance in emerging markets and channels), synergies, savings, performance, cost, timing and integration relating to our recent acquisitions (including The Proctor & Gamble Company’s beauty business (the “P&G Beauty Business”)), ongoing and future cost efficiency and restructuring initiatives and programs, strategic transactions (including mergers and acquisitions, joint ventures, investments, divestitures, licenses and portfolio rationalizations), future cash flows and liquidity, future performance in digital and e-commerce and the expected impact of our digital transformation agenda, future effective tax rates, timing and size of cash outflows and debt deleveraging, and impact and timing of supply chain disruptions. These forward-looking statements are generally identified by words or phrases, such as “anticipate”, “are going to”, “estimate”, “plan”, “project”, “expect”, “believe”, “intend”, “foresee”, “forecast”, “will”, “may”, “should”, “out “target”, “aim”, “potential” and similar words or phrases. These statements are based on certain assumptions and estimates that we consider reasonable, but are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual events or results (including our financial condition, results of operations, cash flows and prospects) to differ materially from such statements, including risks and uncertainties relating to:

- our ability to achieve our global business strategies, compete effectively in the beauty industry and achieve the benefits contemplated by our strategic initiatives (including sell-through of our relaunched brands, enhancement of our innovation pipeline, focus on emerging markets and channels, improvement of in-store execution and reduction in discounts in certain markets) within the expected time frame or at all;
- our ability to anticipate, gauge and respond to market trends and consumer preferences, which may change rapidly, and the market acceptance of new products, including any launches or relaunches and their associated costs and discounting, and consumer receptiveness to our marketing and consumer engagement activities (including digital marketing and media);
- use of estimates and assumptions in preparing our financial statements, including with regard to revenue recognition, stock compensation expense, income taxes, the assessment of goodwill, other intangible assets and long-lived assets for impairment, the market value of inventory, pension expense and the fair value of acquired assets and liabilities associated with acquisitions;
- managerial, integration, operational, regulatory, legal and financial risks, including diversion of management attention to and management of cash flows, expenses and costs associated with multiple ongoing and future strategic initiatives, internal reorganizations and restructuring activities;
- the continued integration of the P&G Beauty Business and other recent acquisitions with our business, operations, systems, financial data and culture and the ability to realize synergies, avoid future supply chain and other business disruptions, reduce costs and realize other potential efficiencies and benefits (including through our restructuring initiatives) at the levels and at the costs and within the time frames contemplated or at all;
- increased competition, consolidation among retailers, shifts in consumers’ preferred distribution and marketing channels (including to digital and luxury channels), shelf-space resets or reductions, compression of go-to-market cycles, changes in product and marketing requirements by retailers, and other changes in the retail, e-commerce and wholesale environment in which we do business and sell our products and our ability to respond to such changes;
- our and our business partners' and licensors' abilities to obtain, maintain and protect the intellectual property used in our and their respective businesses, protect our and their respective reputations (including those of our and their executives or influencers), public goodwill, and defend claims by third parties for infringement of intellectual property rights;
- the effect of the divestiture and discontinuation of our non-core brands (including associated subsequent cost reduction programs) and rationalizing wholesale distribution by reducing the amount of product diversion to the value and mass channels;
- any change to our capital allocation and/or cash management priorities;
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any unanticipated problems, liabilities or other challenges associated with an acquired business which could result in increased risk or new, unanticipated or unknown liabilities, including with respect to environmental, competition and other regulatory, compliance or legal matters;

- our international operations and joint ventures, including enforceability and effectiveness of our joint venture agreements and reputational, compliance, regulatory, economic and foreign political risks, including difficulties and costs associated with maintaining compliance with a broad variety of complex local and international regulations;
- our dependence on certain licenses (especially in our Luxury division) and our ability to renew expiring licenses on favorable terms or at all;
- our dependence on entities performing outsourced functions and third-party suppliers, including third party software providers;
- administrative, product development and other difficulties in meeting the expected timing of market expansions, product launches and marketing efforts;
- global political and/or economic uncertainties, disruptions or major legal, regulatory or policy changes, and/or the enforcement thereof that affect our business, financial performance, operations or products, including the impact of Brexit, the current U.S. administration, the results of elections in European countries and future elections in Brazil, changes in the U.S. tax code, and recent changes and future changes in tariffs, retaliatory or trade protection measures, trade policies and other international trade regulations in the U.S. and in other regions where we operate including the European Union and China;
- the number, type, outcomes (by judgment, order or settlement) and costs of legal, compliance, tax, regulatory or administrative proceedings, investigations and/or litigation;
- our ability to manage seasonal and other variability and to anticipate future business trends and business needs;
- disruptions in operations and sales, including due to disruptions in supply chain, logistics, restructurings and other business alignment activities, manufacturing or information technology systems, labor disputes and natural disasters;
- restrictions imposed on us through our license agreements, credit facilities and senior unsecured bonds or other material contracts, our ability to repay, refinance or recapitalize debt, and changes in the manner in which we finance our debt and future capital needs;
- increasing dependency on information technology and our ability to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, costs and timing of implementation and effectiveness of any upgrades or other changes to information technology systems, including our digital transformation initiatives, and the cost of compliance or our failure to comply with any privacy or data security laws (including the European Union General Data Protection Regulation (the “GDPR”)) or to protect against theft of customer, employee and corporate sensitive information;
- our ability to attract and retain key personnel;
- the distribution and sale by third parties of counterfeit and/or gray market versions of our products; and
- other factors described elsewhere in this document and from time to time in documents that we file with the Securities and Exchange Commission (the “SEC”).

When used in this Annual Report on Form 10-K, the term “includes” and “including” means, unless the context otherwise indicates, including without limitation. More information about potential risks and uncertainties that could affect our business and financial results is included under the heading “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Annual Report on Form 10-K and other periodic reports we have filed and may file with the SEC from time to time.

All forward-looking statements made in this document are qualified by these cautionary statements. These forward-looking statements are made only as of the date of this document, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, or changes in future operating results over time or otherwise.

Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance unless expressed as such, and should only be viewed as historical data.

Industry, Ranking and Market Data

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning our industry and the market in which we operate, including our general expectations about our industry, market position and ranking, market opportunity and market size, is based on data from various sources including internal data and estimates as well as third party sources widely available to the public such as independent industry publications, government

publications, reports by market research firms or other published independent sources and on our assumptions based on that data and other similar sources. We

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did not fund and are not otherwise affiliated with the third party sources that we cite. Industry publications and other published sources generally state that the information contained therein has been obtained from third-party sources believed to be reliable. Internal data and estimates are based upon information obtained from trade and business organizations and other contacts in the markets in which we operate and management's understanding of industry conditions, and such information has not been verified by any independent sources. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. While we believe the market, industry and other information included in this Annual Report on Form 10-K to be the most recently available and to be generally reliable, such information is inherently imprecise and we have not independently verified any third-party information or verified that more recent information is not available.

Our fiscal year ends on June 30. Unless otherwise noted, any reference to a year preceded by the word "fiscal" refers to the fiscal year ended June 30 of that year. For example, references to "fiscal 2018" refer to the fiscal year ended June 30, 2018. Any reference to a year not preceded by "fiscal" refers to a calendar year.

PART I

Item 1. Business.

Overview

Coty Inc. is one of the world's largest beauty companies with a rich entrepreneurial heritage and an iconic portfolio of brands. Founded in 1904, Coty has grown into a multi-segment beauty company with market leading positions in both North America and Europe through new product offerings, diversified sales channels, acquisitions and a global growth strategy. Today, we are the global leader in fragrance, a strong number two in professional salon hair color & styling, and number three in color cosmetics.

Over the past three years, transformational acquisitions and strategic transactions have strengthened and diversified our presence across the countries, product categories and channels in which we compete, including our acquisition of The Proctor & Gamble Company's beauty business (the "P&G Beauty Business"), the acquisition of ghd, a premium brand in high-end hair styling appliances, the acquisition of the Brazilian personal care and beauty business of Hypermarcas S.A. (the "Hypermarcas Brands"), and our joint venture with Younique LLC ("Younique"), a leading online peer-to-peer social selling platform in beauty. In addition, we acquired the exclusive long-term global license rights for Burberry Beauty luxury fragrances, cosmetics and skincare.

We are focused on rejuvenating our core business and amplifying our growth potential, by supporting and strengthening our brands and developing a stronger innovation pipeline, including by accelerating our time to market with on-trend collections and products, and advancing our end-to-end digital transformation and e-commerce efforts. We are also prioritizing our growth opportunities to expand in the faster-growing emerging markets, as we continue our restructuring efforts to optimize our business and reset fixed costs.

Segments

We are organized into three divisions, which are also our operating and reportable segments: Consumer Beauty, Luxury and Professional Beauty. Our organizational structure is product category focused, putting the consumer first, by specifically targeting how and where they shop and what and why they purchase. Each division has end-to-end responsibility to optimize the consumers' beauty experiences in their relevant categories and channels and to translate this into profitable growth.

Consumer Beauty is primarily focused on color cosmetics, retail hair coloring and styling products, body care and mass fragrances.

Luxury is primarily focused on prestige fragrances, premium skincare and premium cosmetics.

Professional Beauty is primarily focused on hair and nail care products for salon professionals.

For segment and geographic area financial information and information about our long-lived assets, see Note 4, "Segment Reporting" in the notes to our Consolidated Financial Statements, and for information about recent acquisitions or dispositions of any material amount of assets, see Note 3, "Business Combinations" in the notes to our Consolidated Financial Statements.

Brands

The following chart reflects our iconic brand portfolio by segment:

Coty Consumer Beauty	Coty Luxury	Coty Professional Beauty
Adidas	Alexander McQueen	Clairol Professional*
Beckham	Balenciaga	ghd (good hair day)*
Beyonce	Burberry	Kadus Professional*
Biocolor*	Bottega Veneta	Londa Professional*
Bozzano*	Calvin Klein	Nioxin*
Bourjois*	Cavalli	O P I*
Bruno Banani	Chloe	Sassoon Professional
Clairol*	Davidoff	Sebastian*
CoverGirl*	Escada*	System Professional*
Enrique	Gucci	Wella Professionals*
Jovan*	Hugo Boss	
Nautica	Jil Sander	
Max Factor*	Joop!*	
Mexx	Lacoste	
Monange*	Lancaster*	
Paixao*	Marc Jacobs	
Rimmel*	Miu Miu	
Risque*	philosophy*	
Sally Hansen*	Stella McCartney	
Stetson	Tiffany & Co.	
Wella*		
Younique*		
007 James Bond		

* Indicates an owned brand.

Marketing

We have a diverse portfolio of over 75 brands, some owned and some licensed, and we employ different models to create a distinct image and personality suited to each brand’s equity, distribution, product focus and consumer. For our licensed brands, we work with licensors to promote brand image. Each of our brands is promoted with logos, packaging and advertising designed to enhance its image and the uniqueness of each brand. We manage our creative marketing work through a combination of our in-house teams and external agencies that design and produce the sales materials, social media strategies, advertisements and packaging for products in each brand. Our marketing teams work closely with our digital marketing agency, increasingly using digital social listening and trend spotting capabilities to expand digital marketing of our brands to different channels as the behaviors of beauty consumers continue to transform.

We promote our brands through various channels to reach and engage beauty consumers, through traditional media, through in-store and in-salon displays, increasingly on digital and social media, and through collaborations, product placements and events. In addition, we seek editorial coverage for products and brands in both traditional media and digital and social media to drive influencer amplification and to build brand equity. We also leverage our relationships with celebrities and on-line influencers to endorse certain of our products.

We have dedicated marketing and sales forces in most of our significant markets. These teams leverage local insights to strategically promote our brands and product offerings and tailor our creative marketing to fit local tastes and resonate with consumers most effectively.

We are focused on revamping our in-store execution and deploying new brand visuals for certain of our brands. Our marketing efforts benefit from cooperative advertising programs with retailers, often in connection with in-store marketing activities designed to engage consumers so that they try, or purchase, our products, including sampling and “gift-with-purchase” programs designed to stimulate product trials. We have been working with retailers to develop

branding and

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marketing execution strategies and to enhance our in-store execution by implementing "perfect store" methodologies to maximize the consumer experience.

Distribution Channels and Retail Sales

We market, sell and distribute our products in over 150 countries and territories, with dedicated local sales forces in most of our significant markets. We have a balanced multi-channel distribution strategy which complements our product category focused divisions. The Consumer Beauty division primarily sells products through hypermarkets, supermarkets, drug stores and pharmacies, mid-tier department stores, and traditional food and drug retailers. The Luxury division primarily sells products through prestige retailers, including perfumeries, department stores and duty-free shops, with travel retail sales channels accounting for 15% of the division's net revenues. The Professional Beauty division primarily sells products to nail and hair salons, nail and hair professionals and professionals stores. We also sell our products through third-party distributors. In fiscal 2018, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets and segments. In fiscal 2018, Wal-Mart, our top retailer, accounted for 6% of our net revenues.

We are focused on expanding our e-commerce presence. All of our divisions sell products through direct-to-consumer websites, third party-operated websites and through our own branded websites. In addition, we selectively evaluate opportunities to expand into other channels, such as freestanding retail stores for certain brands and social selling.

Innovation

Innovation is a pillar of our business. We innovate through brand-building and new product lines, as well as through new technology. Our research and development teams work with our marketing and operations teams, as well as our internal digital agency to identify recent trends and consumer needs and to bring products quickly to market.

We are continuously innovating to increase our sales by elevating our digital presence, including e-commerce and digital, social media and influencer marketing designed to build brand equity and consumer engagement. We have also focused our efforts on meeting evolving consumer shopping preferences and behaviors, both on-line and in-store. We have introduced new ways to customize the consumer experience, including using artificial intelligence-powered tools to provide personalized advice on selecting and using products, and augmented reality tools that invite customers to virtually try products with curated looks, tutorials and product recommendations.

In addition, we continuously seek to improve our products through research and development. Our basic and applied research groups, which conduct longer-term and "blue sky" research, seek to develop proprietary new technologies for first-to-market products and for improving existing products. This research and development is done both internally and through affiliations with various universities, technical centers, supply partners, industry associations and technical associations. As of June 30, 2018, we owned approximately 2,000 utility patents and patent applications globally and approximately 1,800 design patents.

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

We do not perform, nor do we commission any third parties on our behalf to perform, testing of our products or ingredients on animals except where required by law.

Supply Chain

We manufacture and package a majority of our products, primarily in the United States, Europe and Brazil. Our manufacturing facilities provide multi-segment manufacturing. We recognize the importance of our employees at our manufacturing facilities and have in place programs designed to ensure operating safety. In addition, we implement programs designed to ensure that our manufacturing and distribution facilities comply with applicable environmental rules and regulations. To capitalize on innovation and other supply chain benefits, we continue to utilize a network of third-party manufacturers on a global basis.

The principal raw materials used in the manufacture of our products are primarily essential oils, alcohols and specialty chemicals. The essential oils in our fragrance products are generally sourced from fragrance houses. As a result, we realize material cost savings and benefits from the technology, innovation and resources provided by these fragrance houses.

We purchase the raw materials for all our products from various third parties. We also purchase packaging components that are manufactured to our design specifications. We collaborate with our suppliers to meet our stringent design and creative criteria. We believe that we currently have adequate sources of supply for all our products.

Following the acquisition of the P&G Beauty Business, we have been engaged in a transformation of our supply chain aimed at integrating and optimizing the combined organization, and we continue to focus on restructuring our supply chain footprint and processes in order to increase efficiency, improve utilization and reduce our order lead times. We have

experienced disruptions in our supply chain from time to time, including in connection with these restructuring efforts, and we work to anticipate and respond to actual and potential disruptions.

Competition

There is significant competition within each market where our products are sold. We compete against manufacturers and marketers of beauty products, hair care, salon professional and personal care products. In addition to the established multinational brands against which we compete, small targeted niche brands continue to enter the beauty market. Competition is also increasing from private label products sold by retailers.

We believe that we compete primarily on the basis of perceived value, including pricing and innovation, product efficacy, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce initiatives, direct sales and other activities (including influencers). It is difficult for us to predict the timing, scale and effectiveness of our competitors' actions in these areas or the timing and impact of new entrants into the marketplace. For additional risks associated with our competitive position, see "Risk Factors—The beauty industry is highly competitive, and if we are unable to compete effectively, our business, prospects, financial condition and results of operation could suffer".

Intellectual Property

We generally own or license the trademark rights in key sales countries in Trademark International Class 3 (covering cosmetics and perfumery) for use in connection with our brands. When we license trademark rights we generally enter into long-term licenses, and we are generally the exclusive trademark licensee for all Class 3 trademarks as used in connection with our products. We or our licensors, as the case may be, actively protect the trademarks used in our principal products in the U.S. and significant markets worldwide. We consider the protection of our trademarks to be essential to our business.

A number of our products also incorporate patented, patent-pending or proprietary technology in their respective formulations and/or packaging, and in some cases our product packaging is subject to copyright, trade dress or design protection. While we consider our patents and copyrights, and the protection thereof, to be important, no single patent or copyright, or group of patents or copyrights, is material to the conduct of our business.

Products representing 39% of our fiscal 2018 net revenues are manufactured and marketed under exclusive license agreements granted to us for use on a worldwide and/or regional basis. As of June 30, 2018, we maintained 31 brand licenses.

Our licenses impose obligations and restrictions on us that we believe are common to many licensing relationships in the beauty industry, such as paying annual royalties on net sales of the licensed products and maintaining the quality of the licensed products and the image of the applicable trademarks. We are currently in material compliance with the terms of our brand license agreements.

Most brand licenses have renewal options for one or more terms, which can range from three to ten years. Certain brand licenses provide for automatic extensions, so long as minimum annual royalty payments are made, while renewal of others is contingent upon attaining of specified sales levels or upon agreement of the licensor. One of our brand licenses is up for renewal during fiscal 2019, and, while many of our licenses are long term, licenses relating to certain of our global brands are up for renewal in the next few years. For additional risks associated with our licensing arrangements, see "Risk Factors—Our brand licenses may be terminated if specified conditions are not met, and we may not be able to renew expiring licenses on favorable terms or at all" and "Risk Factors—Our failure to protect our reputation, or the failure of our partners or brand licensors to protect their reputations, could have a material adverse effect on our brand images".

Employees

As of June 30, 2018, we had approximately 20,000 full-time employees in over 46 countries. In addition, we employ a large number of seasonal contractors during our peak manufacturing and promotional season. We expect our overall headcount to decrease as we continue our efforts to restructure and rationalize our business.

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

We recognize the importance of our employees to our business and believe our relationship with our employees is satisfactory.

Government Regulation

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

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

Seasonality

Our sales generally increase during our second fiscal quarter as a result of increased demand by retailers associated with the holiday season. We also experience an increase in sales during our fourth fiscal quarter in our Professional Beauty segment as a result of stronger activity prior to the summer holiday season. Working capital requirements, sales, and cash flows generally experience variability during the three to six months preceding the holiday period due in part to product innovations and new product launches and the size and timing of certain orders from our customers. We generally experience peak inventory levels from July to October and peak receivable balances from September to December. During the months of November, December and January of each year, cash is normally generated as customer payments for holiday season orders are received. For more information, see “Risk Factors—Our business is subject to seasonal variability.”

Availability of Reports

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

Item 1A. Risk Factors.

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

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

The beauty industry is highly competitive and can change rapidly due to consumer preferences and industry trends, such as the expansion of digital channels and advances in technology. Competition in the beauty industry is based on several factors, including pricing, value and quality, product efficacy, packaging and brands, speed or quality of innovation and new product introductions, in-store presence and visibility, promotional activities (including influencers) and brand recognition , distribution channels, advertising, editorials and adaption to evolving technology and device trends, including via e-commerce initiatives.

Our competitors include large multinational consumer products companies, private label brands and emerging companies, among others, and some have greater resources than we do or may be able to respond more quickly or effectively to changing business and economic conditions than we can. It is difficult for us to predict the timing and scale of our competitors' actions and their impact on the industry or on our business. For example, the fragrance category is being influenced by new product introductions, niche brands and growing e-commerce distribution, and the nail category in the U.S. by lower cost brands, which have increased pricing pressure and shifts in consumer preference away from certain traditional formulations. The color cosmetics category has been influenced by entry by new competitors and smaller competitors that are fast to respond to trends and engage with their customers through digital platforms and innovative in-store activations. In addition, the hair color category is being influenced by new product introductions in the premium category and innovations by competitors to meet growing category needs. Furthermore, the Internet and the online retail industry are characterized by rapid technological evolution, changes in consumer requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices in a cost-effective and timely way. If we are unable to compete effectively on a global basis or in our key product categories or geographies, it could have an adverse impact on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

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

Significant consolidation in the retail industry has occurred during the last several years. The trend toward consolidation, particularly in developed markets such as the U.S. and Western Europe, has resulted in our becoming increasingly dependent on our relationships with, and the overall business health of, fewer key retailers that control an increasing percentage of retail locations, which trend may continue. For example, certain retailers account for over 10% of our net revenues in certain geographies, including the U.S. Our success is dependent on our ability to manage our retailer relationships, including offering trade terms on mutually acceptable terms. Furthermore, increased online competition and declining in-store traffic has resulted, and may continue to result, in brick-and-mortar retailers closing physical stores, which could negatively impact our distribution strategies and/or sales if such retailers decide to significantly reduce their inventory levels for our products or to designate more shelf space to our competitors. Additionally, these retailers periodically assess the allocation of shelf space and could elect to reduce the shelf space allocated to our products. Some of our Consumer Beauty brands, including CoverGirl, have experienced a loss of shelf space, and such declines may continue. Further consolidation and store closures, or reduction in inventory levels of our products or shelf space devoted to our products, could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. We generally do not have long-term sales contracts or other sales assurances with our retail customers.

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

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

Our success depends on our products' appeal to a broad range of consumers whose preferences cannot be predicted with certainty and may change rapidly, and on our ability to anticipate and respond in a timely and cost-effective manner to industry trends through product innovations, product line extensions and marketing and promotional activities, among other things. Product life cycles and consumer preferences continue to be affected by the rapidly increasing use and proliferation of social and digital media by consumers, and the speed with which information and opinions are shared. As product life cycles shorten, we must continually work to develop, produce and market new

products, maintain and enhance the recognition of our brands and shorten our product development and supply chain cycles.

In addition, net revenues and margins on beauty products tend to decline as they advance in their life cycles, so our net revenues and margins could suffer if we do not successfully and continuously develop new products. This product innovation also can place a strain on our employees and our financial resources, including incurring expenses in connection with product innovation and development, marketing and advertising that are not subsequently supported by a sufficient level of sales. Furthermore, we cannot predict how consumers will react to any new products that we launch or to repositioning of our brands. Our successful Luxury division product launches may not continue. The amount of positive or negative sales contribution of any of our products may change significantly within a period or from period to period. The above-referenced factors, as well as

new product risks, could have an adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

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

Our future growth depends on our ability to successfully implement our global business strategies, which include rejuvenating our core business and amplifying our growth potential, which we believe should ultimately translate into revenue growth, strong cash flow and the creation of long-term shareholder value. Achieving our global business strategies will require investment in new capabilities, products and brands, categories, distribution channels, technologies and emerging and more mature geographies and beauty markets. These investments may result in short-term costs without any current revenues and, therefore, may be dilutive to our earnings and negatively impact our cash flows. As part of this strategy, we are also working to simplify and rationalize our cost structure, including reducing fixed costs, though a number of restructuring and cost-savings initiatives. These cost efficiency measures may require us to change the way that we conduct and structure our operations, may increase demands on our management and operations or disrupt business activities (including supply chain or logistics aspects), and may not achieve the anticipated savings or benefits.

In addition, we have completed our announced portfolio rationalization program, which resulted in the termination or divestiture of 14 brands. We may continue to dispose of or discontinue select brands and/or streamline operations in the future, and incur costs or restructuring and/or other charges in doing so. We may face risks of declines in brand performance and license terminations, due to expirations and/or allegations of breach or for other reasons, including with regard to our potentially divested or discontinued brands. If and when we decide to divest or discontinue any brands or lines of business, we cannot be sure that we will be able to locate suitable buyers or that we will be able to complete such divestitures or discontinuances successfully, timely, on commercially advantageous terms or without significant costs, including relating to any post-closing purchase price adjustments or claims for indemnification. Our recent divestitures and discontinuances, and any future divestitures and discontinuances, could have a dilutive impact on our earnings, create dissynergies, and associated activities have diverted and may continue to divert in the future significant financial, operational and managerial resources from our existing operations, and make it more difficult to achieve our operating and strategic objectives. We also cannot be sure of the effect such divestitures or discontinuances would have on the performance of our remaining business or ability to execute our global strategies.

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

We have incurred significant costs associated with the acquisition and integration of the P&G Beauty Business and simplifying our business that could affect our period-to-period operating results.

We anticipate that we will incur a total of approximately $1.3 billion of operating expenses and capital expenditures of approximately $500 million in connection with the acquisition of the P&G Beauty Business. Through June 30, 2018, we incurred life-to-date operating expenses and capital expenditures against these estimates of approximately $1,150 million and $370 million, respectively, and we expect the remaining operating expenses, including any anticipated restructuring activities, and capital expenditures to be incurred in future periods through fiscal 2021. The cash usage associated with such, and similar, expenses usually occurs in subsequent periods and could impact our ability to execute our business strategies or deleverage. In addition, independent of the final stages of our integration of the P&G Beauty Business, we are implementing a cost restructuring program, which will combine and expand existing initiatives, in order to reduce fixed costs and enable further investment in the business. We expect that this cost restructuring program will result in total pre-tax restructuring costs of approximately $250.0 million. If our management is required to devote a substantial amount of time and attention to this cost restructuring program, its implementation could divert attention from ongoing operations and affect our period-to-period operating results. If our management is not able to effectively manage these initiatives, address fixed and other costs, we incur additional operating expenses or capital expenditures to realize these synergies, simplifications and cost savings, or if any significant business activities are interrupted as a result of these initiatives, our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities may be materially adversely

affected. The amount and timing of the above-referenced charges and management distraction could further adversely affect our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. In addition, the ongoing integration of acquisitions and continuing restructuring initiatives may impact our ability to anticipate future business trends and accurately forecast future results.

Moreover, the diversion of resources to the integration of the P&G Beauty Business and the exit of all three stages of our transition services agreement with The Proctor and Gamble Company ("P&G") (the "TSA exit") in fiscals 2017 and 2018 together with changes in our management teams as we reorganized our business, negatively impacted our fiscal year 2017 and

2018 results. In particular, we incurred significantly higher costs in the fourth fiscal quarter of 2017 due, in part, to the lack of visibility into the operating cash needs of the P&G Beauty Business while the transition services agreement was in place. Although we have instituted initiatives to deliver meaningful, sustainable expense and cost management results, events and circumstances such as financial or strategic difficulties, unexpected employee turnover, business disruption and delays may occur or continue, resulting in new, unexpected or increased costs that could result in us not realizing all of the anticipated benefits of the integration on our expected timetable or at all. In addition, we are executing many initiatives simultaneously, which may result in further diversion of our resources and business disruption (including further supply chain disruptions), and may adversely impact the execution of such initiatives. Any failure to implement the integration, our cost restructuring program and other initiatives in accordance with our expectations could adversely affect our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

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

We must continually work to develop, produce and market new products and maintain a favorable mix of products in order to respond in an effective manner to changing consumer preferences. We continually develop our approach as to how and where we market and sell our products. In addition, we believe that we must maintain and enhance the recognition of our brands, which may require us to quickly and continuously adapt in a highly competitive industry to deliver desirable products and branding to our consumers. For example, we are in the process of rebranding certain brands, particularly in Consumer Beauty, to increase the competitiveness of those brands. There is no assurance that these or other initiatives will be successful and, if they are not, our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities could be adversely impacted.

We have made changes and may continue to change our process for the continuous development and evaluation of new product concepts. In addition, each new product launch carries risks. For example, we may incur costs exceeding our expectations, our advertising, promotional and marketing strategies may be less effective than planned or customer purchases may not be as high as anticipated. In addition, we may experience a decrease in sales of certain of our existing products as a result of consumer preferences shifting to our newly-launched products or to the products of our competitors as a result of unsuccessful or unpopular product launches harming our brands. Any of these could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

As part of our ongoing business strategy we expect that we will need to continue to introduce new products in our traditional product categories and channels, while also expanding our product launches into adjacent categories and channels in which we may have little operating experience. For example, we acquired professional and retail hair brands in connection with the acquisition of the P&G Beauty Business, purchased a premium brand in high-end hair styling and appliances and entered into a joint venture with an online peer-to-peer social selling platform in beauty, all of which were new product categories and channels for us. The success of product launches in adjacent product categories could be hampered by our relative inexperience operating in such categories and channels, the strength of our competitors or any of the other risks referred to herein. Our inability to introduce successful products in our traditional categories and channels or in these or other adjacent categories and channels could limit our future growth and have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

We may not be able to identify suitable acquisition targets and our acquisition activities and other strategic transactions may present managerial, integration, operational and financial risks, which may prevent us from realizing the full intended benefit of the acquisitions we undertake.

Our acquisition activities and other strategic transactions expose us to certain risks related to integration, including diversion of management attention from existing core businesses and substantial investment of resources to support integration. During the past several years, we have explored and undertaken opportunities to acquire other companies and assets as part of our growth strategy. For example, we completed five significant acquisitions in fiscal 2016 through fiscal 2018 (including the acquisition of P&G Beauty Business in October 2016) and entered into a joint venture with Younique in February 2017. These assets represent a significant portion of our net assets, particularly the P&G Beauty Business. As we focus on re-prioritizing our growth opportunities, we may continue to seek acquisitions

that we believe strengthen our competitive position in our key segments and geographies or accelerate our ability to grow into adjacent product categories and channels and emerging markets or which otherwise fit our strategy. There can be no assurance that we will be able to identify suitable acquisition candidates, be the successful bidder or consummate acquisitions on favorable terms or otherwise realize the full intended benefit of such transactions. In addition, acquisitions could adversely impact our deleveraging strategy.

The assumptions we use to evaluate acquisition opportunities may not prove to be accurate, and intended benefits may not be realized. Our due diligence investigations may fail to identify all of the problems, liabilities or other challenges associated with an acquired business which could result in increased risk of unanticipated or unknown issues or liabilities, including with respect to environmental, competition and other regulatory matters, and our mitigation strategies for such risks that are

identified may not be effective. As a result, we may not achieve some or any of the benefits, including anticipated synergies or accretion to earnings, that we expect to achieve in connection with our acquisitions, including the P&G Beauty Business Acquisition, or we may not accurately anticipate the fixed and other costs associated with such acquisitions, or the business may not achieve the performance we anticipated, which may materially adversely affect our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. Any financing for an acquisition could increase our indebtedness or result in a potential violation of the debt covenants under our existing facilities requiring consent or waiver from our lenders, which could delay or prevent the acquisition, or dilute the interests of our stockholders. For example, in connection with the P&G Beauty Business Acquisition, Green Acquisition Sub Inc., a wholly-owned subsidiary of the Company, was merged with and into Galleria, with Galleria continuing as the surviving corporation and a direct wholly-owned subsidiary of the Company (the “Green Merger”) and pre-Green Merger holders of our stock were diluted to 46% of the fully diluted shares of common stock immediately following the Green Merger. In addition, acquisitions of foreign businesses, new entrepreneurial businesses and businesses in new distribution channels, such as our acquisition of the Hypermarcas Brands, Younique, Burberry and ghd, entail certain particular risks, including potential difficulties in geographies and channels in which we lack a significant presence, difficulty in seizing business opportunities compared to local or other global competitors, difficulty in complying with new regulatory frameworks, the adverse impact of fluctuating exchange rates and entering lines of business where we have limited or no direct experience. See “—Fluctuations in currency exchange rates may negatively impact our financial condition and results of operations” and “—We are subject to risks related to our international operations.”

We face risks associated with our joint ventures.

We are party to several joint ventures in both the U.S. and abroad. Going forward, we may acquire interests in more joint venture enterprises to execute our business strategy by utilizing our partners’ skills, experiences and resources. These joint ventures involve risks that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with or adverse to ours;
- take actions contrary to our requests or contrary to our policies or objectives, including actions that may violate applicable law;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- take actions that may harm our reputation;
- have financial difficulties; or
- have disputes with us as to the scope of their rights, responsibilities and obligations.

In certain cases, joint ventures may present us with a lack of ability to fully control all aspects of their operations, including due to veto rights, and we may not have full visibility with respect to all operations, customer relations and compliance practices, among others.

Our present or future joint venture projects may not be successful. We have had, and cannot assure you that we will not in the future have, disputes or encounter other problems with respect to our present or future joint venture partners or that our joint venture agreements will be effective or enforceable in resolving these disputes or that we will be able to resolve such disputes and solve such problems in a timely manner or on favorable economic terms, or at all. Any failure by us to address these potential disputes or conflicts of interest effectively could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks, patents and copyrights, or if our brand partners and licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively impacted.

Our intellectual property is a valuable asset of our business. Although certain of the intellectual property we use is registered in the U.S. and in many of the foreign countries in which we operate, there can be no assurances with respect to the continuation of such intellectual property rights, including our ability to further register, use or defend key current or future trademarks. Further, applicable law may provide only limited and uncertain protection, particularly in emerging markets, such as China.

Furthermore, we may not apply for, or be unable to obtain, intellectual property protection for certain aspects of our business. Third parties have in the past, and could in the future, bring infringement, invalidity, co-inventorship,

re-examination, opposition or similar claims with respect to our current or future intellectual property. Any such claims, whether or not successful, could be costly to defend, may not be sufficiently covered by any indemnification provisions to which we are party, divert management's attention and resources, damage our reputation and brands, and substantially harm our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. Patent expirations may also

affect our business. As patents expire, competitors may be able to legally produce and market products similar to the ones that were patented, which could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

In addition, third parties may illegally distribute and sell counterfeit versions of our products, which may be inferior or pose safety risks and could confuse consumers, which could cause them to refrain from purchasing our brands in the future or otherwise damage our reputation. In recent years, there has been an increase in the availability of counterfeit goods, including fragrances, in various markets by street vendors and small retailers, as well as on the Internet. The presence of counterfeit versions of our products in the market and of prestige products in mass distribution channels could also dilute the value of our brands, force us and our distributors to compete with heavily discounted products, cause us to be in breach of contract (including license agreements) or otherwise have a negative impact on our reputation and business, prospects, financial condition or results of operations. We are rationalizing our wholesale distribution and continue efforts to reduce the amount of Luxury product diversion to the value and mass channels, however, stopping such commerce could result in a potential adverse impact to our sales and net revenues, including to those customers who are selling our products to unauthorized retailers, or an increase in returns over historical levels.

In order to protect or enforce our intellectual property and other proprietary rights, we may initiate litigation or other proceedings against third parties, such as infringement suits, opposition proceedings or interference proceedings. Any lawsuits or proceedings that we initiate could be expensive, take significant time and divert management’s attention from other business concerns, adversely impact customer relations and we may not be successful. Litigation and other proceedings may also put our intellectual property at risk of being invalidated or interpreted narrowly. The occurrence of any of these events may have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

In addition, many of our products bear, and the value of our brands is affected by, the trademarks and other intellectual property rights of our brand and joint venture partners and licensors. Our brand and joint venture partners’ and licensors’ ability to maintain and protect their trademark and other intellectual property rights is subject to risks similar to those described above with respect to our intellectual property. We do not control the protection of the trademarks and other intellectual property rights of our brand and joint venture partners and licensors and cannot ensure that our brand and joint venture partners and licensors will be able to secure or protect their trademarks and other intellectual property rights, which could have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows, as well as the trading price of our securities.

Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the intellectual property of third parties.

Our commercial success depends in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and other proprietary rights of third parties. However, we cannot be certain that the conduct of our business does not and will not infringe, misappropriate or otherwise violate such rights. Moreover, our acquisition targets and other businesses in which we make strategic investments are often smaller or younger companies with less robust intellectual property clearance practices, and we may face challenges on the use of their trademarks and other proprietary rights. For example, we are facing oppositions to our use of the “Younique” mark in certain jurisdictions, including the European Economic Area and China. If we are found to be infringing, misappropriating or otherwise violating a third party trademark, patent, copyright or other proprietary rights, we may need to obtain a license, which may not be available in a timely manner on commercially reasonable terms or at all, or redesign or rebrand our products, which may not be possible or result in a significant delay to market or otherwise have an adverse commercial impact. We may also be required to pay substantial damages or be subject to a court order prohibiting us and our customers from selling certain products or engaging in certain activities, which could therefore have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows, as well as the trading price of our securities.

Our goodwill and other assets have been subject to impairment and may continue to be subject to impairment in the future.

We are required, at least annually, to test goodwill and indefinite intangible assets to determine if any impairment has occurred. Impairment may result from various factors, including adverse changes in assumptions used for valuation

purposes, such as actual or projected revenue growth rates, profitability or discount rates. If the testing indicates that an impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or indefinite intangible assets and the implied fair value of the goodwill or the fair value of indefinite intangible assets.

We cannot predict the amount and timing of any future impairments, if any. We have experienced impairment charges with respect to goodwill, intangible assets or other items in connection with past acquisitions, and we may experience such charges in connection with recent and future acquisitions, particularly if business performance declines or expected growth is not realized. Any future impairment of our goodwill or other intangible assets could have an adverse effect on our financial condition and results of operations, as well as the trading price of our securities. For a further discussion of our impairment

testing, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Liquidity and Capital Resources—Goodwill, Other Intangible Assets and Long-Lived Assets".

We have taken on significant debt, and the agreements that govern such debt contain various covenants that impose restrictions on us, which may adversely affect our business.

We have a substantial amount of indebtedness. There can be no assurances we will be able to refinance our indebtedness in the future (1) on commercially reasonable terms, (2) on terms, including with respect to interest rates, as favorable as our current debt or (3) at all.

Agreements that govern our indebtedness, including the indenture governing our senior unsecured notes (the "Indenture") and our credit agreement (the "2018 Coty Credit Agreement"), impose operating and financial restrictions on our activities. These restrictions may limit or prohibit our ability and the ability of our restricted subsidiaries to, among other things:

- incur indebtedness or grant liens on our property;
- dispose of assets or equity;
- make acquisitions or investments;
- make dividends, distributions or other restricted payments;
- effect affiliate transactions;
- enter into sale and leaseback transactions; and
- enter into mergers, consolidations or sales of substantially all of our assets and the assets of our subsidiaries.

In addition, we are required to maintain certain financial ratios calculated pursuant to a financial maintenance covenant under the 2018 Coty Credit Agreement.

Our debt burden and the restrictions in the agreements that govern our debt could have important consequences, including increasing our vulnerability to general adverse economic and industry conditions; limiting our flexibility in planning for, or reacting to, changes in our business and our industry; requiring the dedication of a substantial portion of any cash flow from operations to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of such cash flow to fund our operations, growth strategy, working capital, capital expenditures, future business opportunities and other general corporate purposes; exposing us to the risk of increased interest rates with respect to any borrowings that are at variable rates of interest; restricting us from making strategic acquisitions or causing us to make non-strategic divestitures; limiting our ability to obtain additional financing for working capital, capital expenditures, research and development, debt service requirements, acquisitions and general corporate or other purposes; limiting our ability to adjust to changing market conditions; limiting our ability to take advantage of financing and other corporate opportunities; and placing us at a competitive disadvantage relative to our competitors who are less highly leveraged. In addition, a significant portion of our cash and investments are held outside the U.S., and we may not be able to service our debt without undergoing the costs of repatriating those funds.

Our ability to service and repay our indebtedness will be dependent on the cash flow generated by our subsidiaries and events beyond our control.

Prevailing economic conditions and financial, business and other factors, many of which are beyond our control, will affect our ability to make payments on our debt and to meet our deleveraging objectives. In particular, due to the seasonal nature of the beauty industry, with the highest levels of consumer demand generally occurring during the holiday buying season in our second fiscal quarter, our subsidiaries' cash flow in the second half of the fiscal year may be less than in the first half of the fiscal year, which may affect our ability to satisfy our debt service obligations, including to service our senior unsecured notes and the 2018 Coty Credit Agreement, and to meet our deleveraging objectives. In addition, we earn a significant amount of our operating income, and hold a significant portion of our cash and investments, in our foreign subsidiaries outside the U.S. As of June 30, 2018, the amount of cash and cash equivalents held outside of the U.S. by our foreign subsidiaries was approximately $301.4 million. If our domestic subsidiaries are not able to generate sufficient cash flow to satisfy our debt service obligations, including to service our senior unsecured notes and the 2018 Coty Credit Agreement, we may need to repatriate additional earnings. If we do not generate sufficient cash flow to satisfy our debt service obligations, including payments on our senior unsecured notes and under the 2018 Coty Credit Agreement, we may have to undertake alternative financing plans, such as refinancing or restructuring our debt, selling assets, reducing or delaying capital investments or seeking to

raise additional capital. Our ability to restructure or refinance our debt will depend on the capital markets and our financial condition at such time. Any refinancing of our debt could result in higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of the Indenture governing our senior unsecured notes, the 2018 Coty Credit Agreement or any existing debt instruments or future debt instruments that we may enter into may restrict us from adopting some of these alternatives. The inability of our subsidiaries to generate sufficient cash flow to satisfy our debt service obligations, including the inability to service our senior unsecured notes and the 2018 Coty Credit Agreement,

or to refinance our obligations on commercially reasonable terms, could have a material adverse effect on our business, financial condition, results of operations, profitability, cash flows or liquidity and may impact our ability to satisfy our obligations in respect of our senior unsecured notes and the 2018 Coty Credit Agreement.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase.

Borrowings under the 2018 Coty Credit Agreement are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness referred to above would increase even if the principal amount borrowed remained the same, and our net income and cash flows will correspondingly decrease. We are currently party to, and in the future, we may enter into additional, interest rate swaps that involve the exchange of floating for fixed rate interest payments, in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

A general economic downturn, credit constriction, uncertainty in global economic or political conditions or other global events or a sudden disruption in business conditions may affect consumer spending, which could adversely affect our financial results.

Global events may impact our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. We operate in an environment of slow overall growth in the segments and geographies in which we compete with increasing competitive pressure and changing consumer preferences. While luxury fragrances and skin care categories are experiencing strong growth, declines in the retail nail, mass color cosmetics and mass fragrance categories in the U.S. and certain key markets in Western Europe continue to impact our business and financial results. Deterioration of social or economic conditions in Europe or elsewhere could reduce sales and could also impair collections on accounts receivable. For example, the June 23, 2016 referendum in the U.K. in which voters approved an exit from the E.U., commonly referred to as "Brexit," and subsequent initiation of formal withdrawal procedures by the U.K. government has caused significant volatility in the financial and credit markets and may impact consumer spending and economic conditions generally in Europe. The global markets and currencies have been adversely impacted, including volatility in the value of the British pound as compared to the U.S. dollar. Volatilities in exchange rates resulting from Brexit are expected to continue at least in the short term as the U.K. continues to negotiate its exit from the E.U. Although it is unknown what those terms will be, it is possible that there will be greater restrictions on imports and exports between the U.K. and E.U. countries and increased regulatory complexities. These changes may adversely affect our operations and financial results. See "—We are subject to risks related to our international operations." Further, recent political and economic developments in the U.S., the U.K., Europe and Brazil, including those relating to the current administration in the U.S., and the results of several elections in European nations and future elections in Brazil, have introduced uncertainty in the regulatory and business environment in which we operate (including potential increases in tariffs). These political and economic developments have resulted and could continue to result in changes to legislation or reformation of government policies, rules and regulations pertaining to trade. Such changes could have a significant impact on our business by increasing the cost of doing business, affecting our ability to sell our products and negatively impacting our profitability.

In addition, our sales are affected by the overall level of consumer spending. The general level of consumer spending is affected by a number of factors, including general economic conditions, inflation, interest rates, government policies that affect consumers (such as those relating to medical insurance or income tax), energy costs and consumer confidence, each of which is beyond our control. Consumer purchases of discretionary and other items and services, including beauty products, tend to decline during recessionary periods and otherwise weak economic environments, when disposable income is lower. A decline in consumer spending may have a negative impact on our direct sales and could cause financial difficulties at our retailer and other customers. If consumer purchases decrease, we may not be able to generate enough cash flow to meet our debt obligations and other commitments and may need to refinance our debt, dispose of assets or issue equity to raise necessary funds. We cannot predict whether we would be able to undertake any of these actions to raise funds on a timely basis or on satisfactory terms or at all. The financial difficulties of a customer or retailer could also cause us to curtail or eliminate business with that customer or retailer. We may also decide to assume more credit risk relating to the receivables from our customers or retailers, which increases the possibility of late or non-payment of receivables. Our inability to collect receivables from a significant

retailer or customer, or from a group of these customers, could have a material adverse effect on our business, prospects, results of operations, financial condition, results of operations, cash flows, as well as the trading price of our securities. If a retailer or customer were to go into liquidation, we could incur additional costs if we choose to purchase the retailer's or customer's inventory of our products to protect brand equity.

Volatility in the financial markets could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

While we currently generate significant cash flows from our ongoing operations and have access to global credit markets through our various financing activities, credit markets may experience significant disruptions. Deterioration in global financial markets could make future financing difficult or more expensive. If any financial institutions that are parties to our credit facilities or other financing arrangements, such as interest rate or foreign currency exchange hedging instruments, were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity or could leave us unhedged against certain interest rate or foreign currency exposures, which could have an adverse impact on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Fluctuations in currency exchange rates may negatively impact our financial condition and results of operations.

Exchange rate fluctuations have affected and may in the future affect our results of operations, financial condition, reported earnings, the value of our foreign assets, the relative prices at which we and foreign competitors sell products in the same markets and the cost of certain inventory and non-inventory items required by our operations. The currencies to which we are exposed include the euro, the British pound, the Chinese yuan, the Polish zloty, the Russian ruble, the Brazilian real, the Argentine peso, the Australian dollar and the Canadian dollar. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar would decrease the U.S. dollar equivalent of the amounts derived from foreign operations reported in our consolidated financial statements and an appreciation of these currencies would result in a corresponding increase in such amounts. The cost of certain items, such as raw materials, transportation and freight, required by our operations may be affected by changes in the value of the various relevant currencies. To the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar would tend to negatively impact our financial condition and results of operations. Our efforts to hedge certain exposures to foreign currency exchange rates arising in the ordinary course of business may not successfully hedge the effect of such fluctuations.

We are subject to risks related to our international operations.

We operate on a global basis, and approximately 68% of our net revenues in fiscal 2018 were generated outside North America. We maintain offices in over 35 countries, and we market, sell and distribute our products in over 150 countries and territories. Our presence in such geographies has expanded as a result of our acquisitions, including the ghd acquisition, the acquisition of the Hypermarcas Brands and the P&G Beauty Business Acquisition, as well as organic growth, and we are exposed to risks inherent in operating in geographies in which we have not operated in or have been less present in the past.

Non-U.S. operations are subject to many risks and uncertainties, including ongoing instability or changes in a country's or region's economic, regulatory or political conditions, including inflation, recession, interest rate fluctuations, sovereign default risk and actual or anticipated military or political conflicts (including any other change resulting from Brexit), labor market disruptions, sanctions, boycotts, new or increased tariffs, quotas, exchange or price controls, trade barriers or other restrictions on foreign businesses, our failure to effectively and timely implement processes and policies across our diverse operations and employee base and difficulties and costs associated with complying with a wide variety of complex and potentially conflicting regulations across multiple jurisdictions. Non-U.S. operations also increase the risk of non-compliance with U.S. laws and regulations applicable to such non-U.S. operations, such as those relating to sanctions, boycotts, improper payments.

In addition, sudden disruptions in business conditions as a consequence of events such as terrorist attacks, war or other military action or the threat of further attacks, pandemics or other crises or vulnerabilities or as a result of adverse weather conditions or climate changes, may have an impact on consumer spending, which could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

The U.S. and the other countries in which our products are manufactured or sold have imposed and may impose additional quotas, duties, tariffs, retaliatory or trade protection measures, or other restrictions or regulations, or may adversely adjust prevailing quota, duty or tariff levels, which can affect both the materials that we use to manufacture or package our products and the sale of finished products. For example, the E.U. recently imposed tariffs on certain

luxury products imported from the U.S., which would impact the sale in the E.U. of certain of our Professional Beauty and Consumer Beauty products that are manufactured in the U.S. Similarly, the tariffs imposed by the U.S. on goods and materials from China would impact any materials we import for use in manufacturing or packaging in the U.S. Measures to reduce the impact of tariff increases or trade restrictions, including shifts of production among countries and manufacturers, geographical diversification of our sources of supply, adjustments in product or packaging design and fabrication, or increased prices, could increase our costs and delay our time to market or decrease sales. Other governmental action related to tariffs or international trade agreements has the potential to adversely impact demand for our products, our costs, customers, suppliers and global economic conditions and cause higher volatility in financial markets.

In addition, on December 22, 2017, the President of the U.S. signed the Tax Act, which includes a broad range of tax changes significantly revising the U.S. corporate income tax system by, amongst other things, reducing the U.S. federal corporate tax rate from 35% to 21%, implementing a modified territorial tax system (including a new minimum tax on certain foreign earnings) and imposing one-time deemed repatriation tax on historical earnings generated by certain foreign subsidiaries that had not previously been repatriated to the U.S. The new law makes broad and complex changes to the U.S. tax laws that affect businesses operating internationally, and we expect to see future regulatory, administrative or legislative guidance that could adversely affect our financial results. We have recorded provisional amounts in our financial statements based on information available at this time and our current analysis of the Tax Act. We continue to analyze the Tax Act to determine the full impact of the new law and related guidance, and to the extent any future guidance or analysis differs from our preliminary interpretation of the law, it could have a material adverse effect on our financial position and results of operations. In addition, some foreign governments may enact tax laws in response to the Tax Act that could result in further changes to global taxation and that could materially adversely affect our financial results, which could have a material adverse effect on our results of operations, financial condition and cash flows.

We are subject to legal proceedings and legal compliance risks.

We are subject to a variety of legal proceedings and legal compliance risks in the countries in which we do business, including the matters described under the heading “Legal Proceedings” in Part I, Item 3 of this report. We are under the jurisdiction of regulators and other governmental authorities which may, in certain circumstances, lead to enforcement actions, changes in business practices, fines and penalties, the assertion of private litigation claims and damages and adversely impact our customer relationships, particularly to the extent customers were implicated by such proceedings. We are also subject to legal proceedings and legal compliance risks in connection with legacy matters involving the P&G Beauty Business, the Burberry fragrance business, Hypermarcas Brands, ghd and Younique, that were previously outside our control and that we are now independently addressing, which may result in unanticipated or new liabilities. While we believe that we have adopted, and /or will adopt, appropriate risk management and compliance programs, the global nature of our operations and many laws and regulations to which we are subject mean that legal and compliance risks will continue to exist with respect to our business, and additional legal proceedings and other contingencies, the outcome and impact of which cannot be predicted with certainty, will arise from time to time.

In addition, we are subject to pending tax assessment matters in Brazil relating to local sales tax credits for the 2016-2017 tax periods. Although we are seeking a favorable administrative decision on the related tax enforcement action, we may not be successful. See Note 24, “Commitments and Contingencies” for more information regarding our potential tax obligations in Brazil.

Our operations and acquisitions in certain foreign areas expose us to political, regulatory, economic and reputational risks.

We operate on a global basis. Our employees, contractors and agents, business partners, joint venture and joint venture partners and companies to which we outsource certain of our business operations, may take actions in violation of our compliance policies or applicable law. In addition, some of our recent acquisitions have required us to integrate non-U.S. companies that had not, until our acquisition, been subject to U.S. law or other laws to which we are subject. In many countries, particularly in those with developing economies, it may be common for persons to engage in business practices prohibited by the laws and regulations applicable to us. We are in the process of enhancing our compliance program as a result of the P&G Beauty Business Acquisition and our other recent acquisitions, but we cannot assure you that we will not encounter problems with respect to such programs or that such programs will be effective in ensuring compliance.

Failure by us or our subsidiaries to comply with these laws or policies could subject us to civil and criminal penalties, cause us to be in breach of contract or damage to our or our licensors’ reputation, each of which could materially and adversely affect our business, prospects, financial condition, cash flows, results of operations, cash flows, as well as the trading price of our securities.

In addition, the U.S. may impose additional sanctions at any time on countries where we sell our products. If so, our existing activities may be adversely affected, we may incur costs in order to come into compliance with future sanctions, depending on the nature of any further sanctions that may be imposed, or we may experience reputational

harm and increased regulatory scrutiny.

We are subject to the interpretation and enforcement by governmental agencies of other foreign laws, rules, regulations or policies, including any changes thereto, such as restrictions on trade, import and export license requirements, and tariffs and taxes (including assessments and disputes related thereto), which may require us to adjust our operations in certain areas where we do business. We face legal and regulatory risks in the U.S. and abroad and, in particular, cannot predict with certainty the outcome of various contingencies or the impact that pending or future legislative and regulatory changes may have on our business. It is not possible to gauge what any final regulation may provide, its effective date or its impact at this time. These

risks could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Our failure to protect our reputation, or the failure of our brand partners or licensors to protect their reputations, could have a material adverse effect on our brand images.

Our ability to maintain our reputation is critical to our business and our various brand images. Our reputation could be jeopardized if we fail to maintain high standards for product quality and integrity (including should we be perceived as violating the law) or if we, or the third parties with whom we do business, do not comply with regulations or accepted practices and are subject to a significant product recall, litigation, or allegations of tampering, animal testing, use of certain ingredients (such as certain palm oil) or misconduct by executives. Any negative publicity about these types of concerns or other concerns, whether actual or perceived or directed towards us or our competitors, may reduce demand for our products. Failure to comply with ethical, social, product, labor and environmental standards, or related political considerations, could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. In addition, the behavior of our employees, including with respect to our employees' use of social media subjects us to potential negative publicity if such use does not align with our high standards and integrity or fails to comply with regulations or accepted practices. Furthermore, widespread use of digital and social media by consumers has greatly increased the accessibility of information and the speed of its dissemination. Negative or inaccurate publicity, posts or comments on social media, whether accurate or inaccurate, about us, our employees or our brand partners (including influencers) and licensors, our respective brands or our respective products, whether true or untrue, could damage our respective brands and our reputation.

Additionally, our success is also partially dependent on the reputations of our brand partners and licensors and the goodwill associated with their intellectual property. We often rely on our brand partners or licensors to manage and maintain their brands, but these licensors' reputation or goodwill may be harmed due to factors outside our control, which could be attributed to our other brands and have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. Many of these brand licenses are with fashion houses, whose popularity may decline due to mismanagement, changes in fashion or consumer preferences, allegations against their management or designers or other factors beyond our control. Similarly, certain of our products bear the names and likeness of celebrities, whose brand or image may change without notice and who may not maintain the appropriate celebrity status or positive association among the consumer public to support projected sales levels. In addition, in the event that any of these licensors were to enter bankruptcy proceedings, we could lose our rights to use the intellectual property that the applicable licensors license to us.

Damage to our reputation or the reputations of our brand partners or licensors or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations, financial condition and cash flows, as well as require additional resources to rebuild our reputation.

Our brand licenses may be terminated if specified conditions are not met, and we may not be able to renew expiring licenses on favorable terms or at all.

We license trademarks for many of our product lines. Our brand licenses typically impose various obligations on us, including the payment of annual royalties, maintenance of the quality of the licensed products, achievement of minimum sales levels, promotion of sales and qualifications and behavior of our suppliers, distributors and retailers. We have breached, and may in the future breach, certain terms of our brand licenses. If we breach our obligations, our rights under the applicable brand license agreements could be terminated by the licensor and we could, among other things, lose our ability to sell products related to that brand, lose any upfront investments made in connection with such license and sustain reputational damage. In addition, most brand licenses have renewal options for one or more terms, which can range from three to ten years. Certain brand licenses provide for automatic extensions, so long as minimum annual royalty payments are made, while renewal of others is contingent upon attaining of specified sales levels or upon agreement of the licensor. For example, one of our brand licenses is up for renewal in fiscal 2019, and, while many of our licenses are long term, licenses relating to certain of our global brands are up for renewal in the next few years. We may not be able to renew expiring licenses on terms that are favorable to us or at all. We may also face difficulties in finding replacements for terminated or expired licenses. Each of the aforementioned risks could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Our business is subject to seasonal variability.

Our sales generally increase during our second fiscal quarter as a result of increased demand by retailers associated with the winter holiday season. We also experience an increase in sales during our fourth quarter in our Professional Beauty segment as a result of stronger activity prior to the summer holiday season. Accordingly, our financial performance, sales, working capital requirements, cash flow and borrowings generally experience variability during the three to six months preceding and during the holiday period. As a result of this seasonality, our expenses, including working capital expenditures and advertising spend, are typically higher during the period before a high-demand season. Consequently, any substantial decrease in, or inaccurate forecasting with respect to, net revenues during such periods of high demand including as a result of decreased customer purchases, increased product returns, production or distribution disruptions or other events (many of which are outside of our control), would prevent us from being able to recoup our earlier expenses and could have a material adverse effect on our financial condition, results of operations and cash flows.

A disruption in operations could adversely affect our business.

As a company engaged in manufacturing and distribution on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in supply chain or information systems, loss or impairment of key manufacturing sites or distribution centers, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, pandemics, border disputes, acts of terrorism, possible dawn raids, and other external factors over which we have no control. For example, disruptions in our U.K. planning hub and one of our U.S. distribution centers in the fourth quarter of fiscal 2018 resulted in loss of revenue and increased costs, including penalty payments to retailers for unshipped products, as we were unable to meet consumer demand for certain Consumer Beauty products, which has impacted and is expected to continue to impact our results of operations. As we continue our integration and restructuring activities, any additional or ongoing supply chain disruptions may impact our quarterly results. The loss of, or damage or disruption to, any of our manufacturing facilities or distribution centers could have a material adverse effect on our business, prospects, results of operations, financial condition, results of operations, cash flows, as well as the trading price of our securities.

We manufacture and package a majority of our products. Raw materials, consisting chiefly of essential oils, alcohols, chemicals, containers and packaging components, are purchased from various third-party suppliers. The loss of multiple suppliers or a significant disruption or interruption in the supply chain could have a material adverse effect on the manufacturing and packaging of our products. Increases in the costs of raw materials or other commodities may adversely affect our profit margins if we are unable to pass along any higher costs in the form of price increases or otherwise achieve cost efficiencies in manufacturing and distribution. In addition, failure by our third-party suppliers to comply with ethical, social, product, labor and environmental laws, regulations or standards, or their engagement in politically or socially controversial conduct, such as animal testing, could negatively impact our reputations and lead to various adverse consequences, including decreased sales and consumer boycotts. The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements regarding the use of certain minerals mined from the Democratic Republic of Congo and adjoining countries (each, a “covered country”) and procedures pertaining to a manufacturer’s efforts regarding the source of such minerals. SEC rules implementing these requirements may have the effect of reducing the pool of suppliers who can supply covered country “conflict free” products, and we may not be able to obtain covered country conflict free products or supplies in sufficient quantities for our operations. For calendar year 2017, we determined that we have no reason to believe that any products we manufactured or contracted to manufacture contained conflict minerals that may have originated in the covered countries. However, since our supply chain is complex, we may face operational obstacles and reputational challenges with our customers and stockholders if we are unable to continue to sufficiently verify the origins for the minerals used in our products.

We have also outsourced and may continue to outsource certain functions, and we are dependent on the entities performing those functions. For example, a short-term transportation workers strike in Brazil impacted the distribution of our products and raw materials in the fourth quarter of fiscal 2018, resulting in increased logistical costs and lost revenues for products that could not be shipped. The failure of one or more such providers to provide the expected services, provide them on a timely basis or provide them at the prices we expect, or the costs incurred in returning these outsourced functions to being performed under our management and direct control, may have a material adverse

effect on our results of operations or financial condition.

We are increasingly dependent on information technology, and if we are unable to protect against service interruptions, corruption of our data and privacy protections, cyber-based attacks or network security breaches, our operations could be disrupted.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic and financial information, to manage a variety of business processes and activities, and to comply with regulatory, legal and tax requirements. We also increasingly depend on our information technology infrastructure for digital marketing activities, e-commerce and for electronic communications among our locations, personnel, customers and suppliers around the world. These information technology systems, some of which are managed by third parties that we do not control, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, cutover activities in our integration and simplification initiatives, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors, catastrophic events or other problems. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results. If not managed and mitigated effectively, these risks could increase in the future as we expand our digital capabilities and e-commerce activities, including through the use of new digital applications and technologies. There are further risks associated with the information systems of our joint ventures and of the companies we acquire, both in terms of systems compatibility, process controls, level of security and functionality. It may cost us significant money and resources to address these risks and if our systems were to fail or we are unable to successfully expand the capacity of these systems, or we are unable to integrate new technologies into our existing systems, our financial condition, results of operations and cash flows may be adversely affected.

We are subject to an evolving body of federal, state and non-U.S. laws, regulations, guidelines, and principles regarding data privacy and security. A data breach or inability on our part to comply with such laws, regulations, guidelines, and principles or to quickly adapt our practices to reflect them as they develop, could potentially subject us to significant liabilities and reputational harm. Several governments, including the E.U., have regulations dealing with the collection and use of personal information obtained from their citizens, and regulators globally are also imposing greater monetary fines for privacy violations. For example, in the E.U. a new law governing data practices and privacy called the GDPR became effective in May 2018. The law establishes new requirements regarding the handling of personal data, and non-compliance with the GDPR may result in monetary penalties of up to 4% of worldwide revenue. In addition, the state of California recently enacted a data privacy law applicable to entities serving or employing California residents (the “California Consumer Privacy Act”) that will require compliance by January 2020. The GDPR, the California Consumer Privacy Act and other changes in laws or regulations associated with the enhanced protection of certain types of sensitive data and other personal information, require us to evaluate our current operations, information technology systems and data handling practices and implement enhancements and adaptations where necessary to comply. Compliance with these laws, could greatly increase our operational costs or require us to adapt certain products, operations or activities, to comply with the stricter regulatory requirements, such as efforts to meet consumer demand for personalized products and services, in jurisdictions where we operate. The regulations are complex and likely require adjustments to our operations. Any failure to comply with all such laws by us, our business partners or third-parties engaged by us could result in significant liabilities and reputational harm.

In addition, if we are unable to prevent or detect security breaches, or properly remedy them, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers or suppliers, including personal employee, consumer or presenter information stored in our or third-party systems or as a result of the dissemination of inaccurate information. In addition, the unauthorized disclosure of nonpublic sensitive information could lead to the loss of intellectual property or damage our reputation and brand image or otherwise adversely affect our ability to compete.

Our information technology systems, operations and security control frameworks require an ongoing commitment of significant resources to maintain, protect, and enhance existing systems to keep pace with continuing changes in technology, legal and regulatory standards, cyber threats and the commercial opportunities that accompany the changing digital and data driven economy. From time to time, we undertake significant information technology

systems projects, including enterprise resource planning updates, modifications, integrations and roll-outs. These projects may be subject to cost overruns and delays and may cause disruptions in our daily business operations. These cost overruns and delays and distractions as well as our reliance on certain third parties for certain business and financial information could impact our financial statements and could adversely impact our ability to run our business, correctly forecast future performance and make fully informed decisions.

Our success depends, in part, on our employees, including our key personnel.

Our success depends, in part, on our ability to identify, hire, train and retain our employees, including our key personnel, such as our executive officers and senior management team and our research and development and marketing personnel. The unexpected loss of one or more of our key employees could adversely affect our business. Competition for highly qualified individuals can be intense, and although many of our key personnel have signed non-compete agreements, it is possible that

these agreements would be unenforceable, in whole or in part, in some jurisdictions, permitting employees in those jurisdictions to transfer their skills and knowledge to the benefit of our competitors with little or no restriction. We may not be able to attract, assimilate or retain qualified personnel in the future, and our failure to do so could adversely affect our business. Further, other companies may attempt to recruit our key personnel, even if bound by non-competes, which could result in diversion of management attention and our resources to litigation related to such recruitment. These risks may be exacerbated by the stresses associated with the integration of the P&G Beauty Business and our other acquisitions, our restructurings and simplification program, continued changes in our senior management team and other key personnel and other initiatives.

As we continue to restructure our workforce from time to time (including with respect to business restructuring initiatives, as well as acquisitions and our overall growth strategy) and work with more brand partners and licensors, the risk of potential employment-related claims will also increase. As such, we or our partners may be subject to claims, allegations or legal proceedings related to employment matters including discrimination, harassment (sexual or otherwise), wrongful termination or retaliation, local, state, federal and non-U.S. labor law violations, injury, and wage violations. In addition, our employees in certain countries in Europe are subject to works council arrangements, exposing us to associated delays, works council claims and associated litigation. In the event we or our partners are subject to one or more employment-related claims, allegations or legal proceedings, we or our partners may incur substantial costs, losses or other liabilities in the defense, investigation, settlement, delays associated with, or other disposition of such claims. In addition to the economic impact, we or our partners may also suffer reputational harm as a result of such claims, allegations and legal proceedings and the investigation, defense and prosecution of such claims, allegations and legal proceedings could cause substantial disruption in our or our partners' business and operations. While we do have policies and procedures in place to reduce our exposure to these risks, there can be no assurance that such policies and procedures will be effective or that we will not be exposed to such claims, allegations or legal proceedings.

Our success depends, in part, on the quality, efficacy and safety of our products.

Product safety or quality failures, actual or perceived, or allegations of product contamination, even when false or unfounded, or inclusion of regulated ingredients could tarnish the image of our brands and could cause consumers to choose other products. Allegations of contamination, allergens or other adverse effects on product safety or suitability for use by a particular consumer, even if untrue, may require us from time to time to recall a product from all of the markets in which the affected production was distributed. Such issues or recalls and any related litigation could negatively affect our profitability and brand image.

In addition, government authorities and self-regulatory bodies regulate advertising and product claims regarding the performance and benefits of our products. These regulatory authorities typically require a reasonable basis to support any marketing claims. What constitutes a reasonable basis for substantiation can vary widely based on geography, and there is no assurance that the efforts that we undertake to support our claims will be deemed adequate for any particular product or claim. If we are unable to show adequate substantiation for our product claims, or our promotional materials make claims that exceed the scope of allowed claims for the classification of the specific product, regulatory authorities could take enforcement action or impose penalties, such as monetary consumer redress, requiring us to revise our marketing materials, amend our claims or stop selling or recalling certain products, all of which could harm our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. Any regulatory action or penalty could lead to private party actions, which could further harm our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

If our products are perceived to be defective or unsafe, or if they otherwise fail to meet our consumers' expectations, our relationships with customers or consumers could suffer, the appeal of one or more of our brands could be diminished, and we could lose sales or become subject to liability claims. In addition, safety or other defects in our competitors' products could reduce consumer demand for our own products if consumers view them to be similar or view the defects as symptomatic of the product category. Any of these outcomes could result in a material adverse effect on our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

If we underestimate or overestimate demand for our products and do not maintain appropriate inventory levels, our net revenues or working capital could be negatively impacted.

We currently engage in a program seeking to improve control over our product demand and inventories. We have identified, and may continue to identify, inventories that are not saleable in the ordinary course, but there is no assurance that our existing program or any future inventory management program will be successful in improving our inventory control. Our ability to manage our inventory levels to meet demand for our products is important for our business. If we overestimate or underestimate demand for any of our products, we may not maintain appropriate inventory levels, we could have excess inventory that we may need to hold for a long period of time, write down, sell at prices lower than expected or discard, which could negatively impact our net sales or working capital, or cause us to incur excess and obsolete inventory charges. We also

could have inadequate inventories which could hinder our ability to meet demand. We have sought and continue to seek to improve our payable terms, which could adversely affect our relations with our suppliers.

In addition, we have significant working capital needs, as the nature of our business requires us to maintain inventories that enable us to fulfill customer demand. We generally finance our working capital needs through cash flows from operations and borrowings under our credit facilities. If we are unable to finance our working capital needs on the same or more favorable terms going forward, or if our working capital requirements increase and we are unable to finance the increase, we may not be able to produce the inventories required by demand, which could result in a loss of sales. In addition, we are reliant on our cash flows from operations to repay our indebtedness, which may impact the cash flows that are available for working capital needs. Our ability to generate and maintain sufficient cash levels also could impact our ability to reduce our indebtedness.

Changes in laws, regulations and policies that affect our business or products could adversely affect our business, financial condition, results of operations, cash flows, as well as the trading price of our securities.

Our business is subject to numerous laws, regulations and policies. Changes in the laws (both foreign and domestic), regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business or products, including those related to taxes, tariffs, corruption, the environment or climate change, immigration, restrictions or requirements related to product content, labeling and packaging, trade and customs (including, among others, import and export license requirements, sanctions, boycotts, quotas, trade barriers, and other measures imposed by U.S. and foreign countries), restrictions on foreign investment, the outcome and expense of legal or regulatory proceedings, and any action we may take as a result, and changes in accounting standards, could adversely affect our financial results. For example, the recent changes in sanctions against Iran have adversely impacted our net revenues and prohibits us from conducting business in Iran. Also, the Tax Act, enacted on December 22, 2017, introduced a broad range of tax changes significantly revising the U.S. corporate income tax system by, amongst other things, reducing the U.S. federal corporate tax rate from 35% to 21%, implementing a modified territorial tax system (including a new minimum tax on certain foreign earnings) and imposing one-time deemed repatriation tax on historical earnings generated by certain foreign subsidiaries that had not previously been repatriated to the United States. The new law makes broad and complex changes to the U.S. tax laws that affect businesses operating internationally, and future regulatory, administrative or legislative guidance could adversely affect our financial results. See "—We are subject to risks related to our international operations", "—Network marketing is subject to intense government scrutiny, and regulation and changes in the law, or the interpretation and enforcement of the law, might adversely affect our business" and "—We face risks associated with our independent contractors."

We are also subject to legal proceedings and legal compliance risks in connection with legacy matters related to recently acquired companies that were previously outside our control. Such matters may result in our incurring unanticipated costs that may negatively impact the positive financial contributions of such acquisitions at least in the periods in which such liability is incurred or require operational adjustments that affect our results of operations with respect to such investments. We may not have adequate or any insurance coverage for some of these legacy matters, including matters assumed in the acquisition of the P&G Beauty Business, Younique, ghd, the Hypermarcas Brands and the Burberry fragrance business. While we believe that we have adopted, and will adopt, appropriate risk management and compliance programs, the global nature of our operations and many laws and regulations to which we are subject mean that legal and compliance risks will continue to exist with respect to our business, and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time, which could adversely affect our business, prospects, financial condition, results of operations and cash flows, as well as the trading price of our securities.

Network marketing is subject to intense government scrutiny, and regulation and changes in the law, or the interpretation and enforcement of the law, might adversely affect our business.

On February 1, 2017, we entered into a joint venture with the founders of Younique, a leading online peer-to-peer social selling platform in beauty. We are now subject to a number of federal and state regulations administered by the Federal Trade Commission (the "FTC") and various federal and state agencies in the United States related to Younique's network marketing program, as well as regulations on direct selling in foreign countries administered by foreign agencies. We are subject to the risk that, in one or more countries, Younique's network marketing program could be found by federal, state or foreign regulators not to be in compliance with applicable law or regulations which could

result in significant fines, changes in business practices or a permanent injunction.
Regulations applicable to network marketing organizations generally are directed at preventing fraudulent or deceptive schemes, often referred to as “pyramid” or “chain sales” schemes, by ensuring that product sales ultimately are made to consumers and that advancement within an organization is based on sales of the organization’s products rather than investments in the organization or other non-retail sales-related criteria. The regulatory requirements concerning network marketing programs do not include “bright line” rules and are inherently fact-based and, thus, we are subject to the risk that these laws or regulations or the enforcement or interpretation of these laws and regulations by governmental agencies or courts can change

and business practices can evolve. There is no assurance that the FTC or other federal, state or foreign courts or agencies will consider us to be in compliance.

The ambiguity surrounding these laws can also affect the public perception of us. The failure of the network marketing program to comply with current or newly adopted regulations or any allegations or charges to that effect brought by federal, state, or foreign regulators could negatively impact our brands and business in a particular market or in general and may adversely affect our share price.

We are also subject to the risk of private party challenges to the legality of the network marketing program. Some network marketing programs of other companies have been successfully challenged in the past. Adverse judicial determinations with respect to the network marketing program, or in proceedings not involving us directly but that challenge the legality of network marketing systems, in any other market in which we operate, could increase costs to the extent we are obligated to contribute to the cost of defense and could negatively impact our business, prospects, financial condition, results of operations and cash flows, as well as the trading price of our securities.

Our employees or others may engage in misconduct or other improper activities including noncompliance with regulatory standards and regulatory requirements.

We are exposed to the risk of fraud or other misconduct by our personnel or third parties such as independent contractors or agents. Misconduct by employees, independent contractors, or agents could include intentional failures to comply with the laws and regulations to which we are subject or with our policies, provide accurate information to regulatory authorities, comply with ethical, social, product, labor and environmental standards, comply with fraud and abuse laws and regulations, report financial information or data accurately, or disclose unauthorized activities to us. In particular, our business is subject to laws, regulations and policies intended to prevent fraud, kickbacks, self-dealing, and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs, and other business arrangements. Our current and former employees, influencers or independent contractors may also become subject to allegations of sexual harassment, racial and gender discrimination or other similar misconduct, which, regardless of the ultimate outcome, may result in adverse publicity that could significantly harm our company's brand, reputation and operations. Employee misconduct could also involve improper use of information obtained in the course of employment, which could result in legal or regulatory action and serious harm to our reputation.

Violations of our prohibition on harassment, sexual or otherwise, could result in liabilities and/or litigation.

We prohibit harassment or discrimination in the workplace, in sexual or in any other form. This policy applies to all aspects of employment. Notwithstanding our conducting training and taking disciplinary action against alleged violations, we may encounter additional costs from claims made and/or legal proceedings brought against us, and we could suffer reputational harm.

We face risks associated with our independent contractors.

We have personnel that we classify as independent contractors for U.S. federal and state and international employment law purposes in certain positions in our business. For example, Younique relies on independent presenters that it classifies as independent contractors to sell its products through its peer-to-peer social selling platform and we are subject to risks related to Younique presenters' status as independent contractors.

We are not in a position to directly provide the same direction, motivation and oversight to our independent contractors as we would if such personnel were our own employees. As a result, there can be no assurance that our independent contractors will comply with applicable law or our policies and procedures or reflect our culture or values. Violations by our independent contractors of applicable law or of our policies and procedures in dealing with customers and other third parties or failure to meet our standards or reflect our culture could reflect negatively on our products and operations and harm our business reputation and also negatively impact our business, prospects, financial condition, results of operations and cash flows, as well as the trading price of our securities. In addition, it is possible that a court could hold us civilly or criminally accountable based on vicarious liability because of the actions of our independent contractors. In addition, our independent contractors are not subject to employment agreements with us and our ability to retain such personnel or enforce non-competes or other restrictions against them may be limited.

In addition, we are subject to the Internal Revenue Service regulations and applicable state law guidelines regarding independent contractor classification. These regulations and guidelines are subject to changes in judicial and agency interpretation, and it could be determined that the independent contractor classification is inapplicable. If legal

standards for classification of independent contractors change, it may be necessary to modify our compensation structure for these personnel, including by paying additional compensation and taxes and/or reimbursing expenses. In addition, if we are determined to have misclassified such personnel as independent contractors, we would incur additional exposure under federal and state law, including workers' compensation, unemployment benefits, labor, employment and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings. Any of these outcomes could result in costs to us, could impair

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our financial condition and our ability to conduct our business and could damage our reputation and our ability to attract and retain other personnel.

We are subject to risks related to our common stock and our stock repurchase program.

Any repurchases pursuant to our stock repurchase program, or a decision to discontinue our stock repurchase program, which may be discontinued at any time, could affect our stock price and increase volatility. For a two-year period following the closing of the P&G Beauty Business Acquisition, we are subject to certain restrictions in repurchasing our stock. For more information on our stock repurchase restrictions, see "—We could be adversely affected by significant restrictions following the P&G Beauty Business Acquisition in order to avoid tax-related liabilities." In addition, the timing and actual number of any shares repurchased will depend on a variety of factors including the timing of open trading windows, price, corporate and regulatory requirements, an assessment by management and our board of directors of cash availability, capital allocation priorities, including deleveraging, and other market conditions. Further, we allow pledging by our employees in connection with certain executive ownership programs. A drop in the share price could result in pledged shares being sold pursuant to the terms of the pledge, which could result in a decrease in the trading price of our stock and subject us to civil and criminal investigations, including with respect to insider trading.

If the Distribution (as defined below) does not qualify as a tax-free transaction under sections 355 or 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the "Code") or the Green Merger does not qualify as a tax-free "reorganization" under section 368(a) of the Code, including as a result of actions taken in connection with the Distribution or the Green Merger or as a result of subsequent acquisitions of Company, P&G or Galleria common stock, then P&G and its shareholders may incur substantial U.S. federal income tax liability, and we may have substantial indemnification obligations to P&G under the tax matters agreement entered into in connection with the P&G Beauty Business Acquisition dated October 1, 2016 (the "Tax Matters Agreement").

In connection with the closing of the P&G Beauty Business Acquisition on October 1, 2016, we and P&G received written opinions from special tax counsel regarding the intended tax treatment of the Green Merger, and P&G received an additional written opinion from special tax counsel regarding the intended tax treatment of the Distribution. The opinions were based on, among other things, certain assumptions and representations as to factual matters and certain covenants made by us, P&G, Galleria and Green Acquisition Sub Inc. ("Green Merger Sub") which, if incorrect or inaccurate in any material respect, could jeopardize the conclusions reached by special tax counsel in their opinions. We are not aware of any facts or circumstances that would cause the assumptions or representations to be relied upon in the above-described tax opinions to be untrue or incomplete in any material respect or that would preclude any of us, P&G, Galleria or Green Merger Sub from complying with all applicable covenants. Any change in currently applicable law, which may be retroactive, or the failure of any representation or assumption to be true, correct and complete or any applicable covenant to be satisfied in all material respects, could adversely affect the conclusions reached by counsel. Furthermore, it should be noted that there is a lack of binding administrative and judicial authority addressing the tax-free treatment of transactions substantially similar to the distribution by P&G of its shares of Galleria common stock to P&G shareholders by way of an exchange offer (the "Distribution") and the Green Merger, the opinions will not be binding on the Internal Revenue Service ("IRS") or a court, and the IRS or a court may not agree with the opinions. As a result, while it is impossible to determine the likelihood that the IRS or a court could disagree with the conclusions of the above-described opinions, the IRS could assert, and a court could determine, that the Distribution and Green Merger should be treated as taxable transactions.

If, notwithstanding the receipt of the above-described opinion received by P&G, the Distribution is determined to be a taxable transaction, each P&G shareholder who receives shares of Galleria common stock in the Distribution would generally be treated as recognizing taxable gain equal to the difference between the fair market value of the shares of Galleria common stock received by the shareholder and its tax basis in the shares of P&G common stock exchanged therefor. Additionally, in such case, P&G would generally recognize taxable gain equal to the excess of the fair market value of the assets transferred to Galleria plus liabilities assumed by Galleria over P&G's tax basis in those assets, and this would likely produce substantial income tax adjustments to P&G.

Even if the Galleria Transfer (as used herein, "Galleria Transfer" means the contribution of certain specified assets related to P&G Beauty Business by P&G to Galleria in exchange for Galleria common stock, any distribution to P&G of a portion of the amount calculated pursuant to the transaction agreement entered into in connection with the P&G

Beauty Business Acquisition dated July 8, 2015 (the "Transaction Agreement") for the recapitalization of Galleria and the assumption of certain liabilities related to P&G Beauty Business, in each case in accordance with the Transaction Agreement) and the Distribution, taken together, were otherwise to qualify as a tax-free transaction under section 368(a)(1)(D) of the Code, and the Distribution were otherwise to qualify as a distribution to P&G shareholders pursuant to section 355 of the Code, the Distribution would become taxable to P&G (but not P&G shareholders) pursuant to section 355(e) of the Code if a 50% or greater interest (by vote or value) of either P&G or Galleria was acquired (including, in the latter case, through the acquisition of our stock in or after the Green Merger), directly or indirectly, by certain persons as part of a plan or series of related transactions that included the Distribution. For this purpose, any acquisitions of shares of our common stock, P&G common stock or Galleria common stock

within the period beginning two years before the Distribution and ending two years after the Distribution are presumed to be part of such a plan, although we, P&G or Galleria may be able to rebut that presumption. While the Green Merger will be treated as part of such a plan for purposes of the test, standing alone, it should not cause the Distribution to be taxable to P&G under section 355(e) of the Code because P&G shareholders held over 54% of our outstanding common stock immediately following the Green Merger. However, if the IRS were to determine that other acquisitions of our shares of stock, P&G common stock or Galleria common stock, either before or after the Distribution, were part of a plan or series of related transactions that included the Distribution, that determination could result in the recognition of a taxable gain by P&G. While P&G generally would recognize gain as if it had sold the shares of Galleria common stock distributed to P&G shareholders in the Distribution for an amount equal to the fair market value of such stock, P&G has agreed under the Tax Matters Agreement among us, P&G, Galleria and Green Merger Sub to make a protective election under section 336(e) of the Code with respect to the Distribution, which generally causes a deemed sale of Galleria's assets upon a taxable Distribution. In such case, to the extent that P&G is responsible for the resulting transaction taxes, we generally would be required to make periodic payments to P&G equal to the tax savings arising from a "step up" in the tax basis of Galleria's assets as a result of the protective election under section 336(e) of the Code taking effect.

Under the Tax Matters Agreement, we are required to indemnify P&G against tax-related losses (e.g., increased taxes, penalties and interest required to be paid by P&G) if the Distribution were taxable to P&G as a result of the acquisition of a 50% or greater interest (by vote or value) in us as part of a plan or series of related transactions that included the Distribution, except where such acquisition would not have been taxable but for P&G's breach of certain provisions described in the Tax Matters Agreement. In addition, we are required to indemnify P&G for any tax liabilities resulting from the failure of the Green Merger to qualify as a reorganization under section 368(a) of the Code or the failure of the Distribution to qualify as a tax-free reorganization under sections 355 and 368(a) of the Code (including, in each case, failure to so qualify under a similar provision of state or local law) to the extent that such failure is attributable to a breach of certain representations and warranties by us or certain actions or omissions by us. Tax-related losses attributable both to actions or omissions by us, on the one hand, and certain actions or omissions by P&G, on the other hand, would be shared according to the relative fault of us and P&G. If we are required to indemnify P&G in the event of a taxable Distribution, this indemnification obligation would be substantial and could have a material adverse effect on us, including with respect to our financial condition and results of operations. Except as described above, P&G would not be entitled to indemnification under the Tax Matters Agreement with respect to any taxable gain recognized in the Distribution. To the extent that we have any liability for any taxes of P&G, Galleria or any of their affiliates with respect to the P&G Beauty Business Acquisition that do not result from actions or omissions for which we are liable as described above, P&G must indemnify us for such tax-related losses.

We could be adversely affected by significant restrictions following the P&G Beauty Business Acquisition in order to avoid tax-related liabilities.

The Tax Matters Agreement among us, P&G, Galleria and Green Merger Sub requires that we and Galleria, for a two-year period following the closing of the Merger, generally avoid taking certain actions. This period ends on October 1, 2018. These limitations are designed to restrict actions that might cause the Distribution to be treated under section 355(e) of the Code as part of a plan under which a 50% or greater interest (by vote or value) in us is acquired or that could otherwise cause the Distribution, Green Merger and/or certain related transactions to become taxable to P&G. Unless we deliver an unqualified opinion of tax counsel reasonably acceptable to P&G, confirming that a proposed action would not cause the Distribution, Green Merger and/or certain related transactions to become taxable, or P&G otherwise consents to the action, we and Galleria are each generally prohibited or restricted during the two-year period following the closing of the Green Merger from:

- subject to specified exceptions, issuing stock (or stock equivalents) or recapitalizing, repurchasing, redeeming or otherwise participating in acquisitions of its stock;
- amending our or Galleria's certificate of incorporation or other organizational documents to affect the voting rights of our or Galleria's stock;
- merging or consolidating with another entity, or liquidating or partially liquidating, except for any merger, consolidation, liquidation or partial liquidation that is disregarded for U.S. federal income tax purposes;

- discontinuing, selling, transferring or ceasing to maintain the Galleria active business under section 355(b) of the Code;
- taking any action that permits a proposed acquisition of our stock or Galleria stock to occur by means of an agreement to which none of us, Galleria or their affiliates is a party (including by soliciting a tender offer for Galleria stock or our stock, participating in or otherwise supporting any unsolicited tender offer for such stock or redeeming rights under a shareholder rights plan with respect to such stock); and
- engaging in other actions or transactions that could jeopardize the tax-free status of the Distribution, Merger and/or certain related transactions.

In addition, even if we deliver such an unqualified opinion, or P&G otherwise consents, we generally would be required to indemnify P&G if an action that would be otherwise restricted results in tax-related losses to P&G.
Due to these restrictions and indemnification obligations under the Tax Matters Agreement, including the indemnification obligations described in the preceding risk factor, many strategic alternatives may be unavailable to us during the two-year period following the consummation of the Green Merger, which could have a material adverse effect on our liquidity and financial condition. We may be limited during this period in our ability to pursue strategic transactions, equity or convertible debt financings, internal restructurings or other transactions that may maximize the value of our business and that may otherwise be in our best interests. Also, the restrictions and our potential indemnity obligation to P&G might discourage, delay or prevent a change of control transaction during this two-year period that our stockholders may consider favorable to our ability to pursue strategic alternatives.
JABC is a significant shareholder of the Company, owning approximately 39% of the fully diluted shares of Class A Common Stock, and has the ability to exercise significant influence over decisions requiring stockholder approval, which may be inconsistent with the interests of our other stockholders.
Prior to the close of the P&G Beauty Business Acquisition, we were controlled by JABC, Lucresca and Agnaten. Lucresca and Agnaten indirectly share voting and investment control over the shares of the Class A Common Stock held by JABC. Following the completion of the P&G Beauty Business Acquisition, JABC remains our largest stockholder, owning approximately 39% of the fully diluted shares of Class A Common Stock following the close of the P&G Beauty Business Acquisition. As a result, JABC, Lucresca and Agnaten continue to have the ability to exercise significant influence over decisions requiring stockholder approval, including the election of directors, amendments to our certificate of incorporation and approval of significant corporate transactions, such as a merger or other sale of the Company or our assets. In addition, several of the directors on our Board of Directors are affiliated with JABC.
JABC's interests may be different from or conflict with the interests of our other shareholders and, as a result, this concentration of ownership may have the effect of delaying, preventing or deterring a change in control of us and may negatively affect the market price of our stock. Also, JABC and its affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete indirectly with us. JABC or its affiliates may also pursue acquisition opportunities that are complementary to our business, and, as a result, those acquisition opportunities may not be available to us.
Item 1B. Unresolved Staff Comments.
None.
Item 2. Properties.
We occupy numerous offices, manufacturing, distribution and research and development facilities in the U.S. and abroad. Our principal executive offices are located in New York, U.S. and our division corporate headquarters are located in New York for Consumer Beauty, Paris, France for Luxury and Geneva, Switzerland for Professional Beauty.
We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. The following table sets forth our principal owned and leased corporate, manufacturing and research and development facilities as of June 30, 2018. The leases expire at various times subject to certain renewal options at our option.

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Location/Facility	Use	Segment
London, England (leased)	Corporate/Commercial	Corporate
New York, New York, U.S. (leased)	Corporate/Commercial	Corporate / Consumer Beauty
Paris, France (3 locations) (leased)	Corporate/Commercial	Corporate / Luxury
Geneva, Switzerland (2 locations) (leased)	Corporate/Commercial/R&D	Corporate / Professional Beauty
Ashford, England (land leased, building owned)	Manufacturing	Consumer Beauty
Bangkok, Thailand (owned)	Manufacturing	Professional Beauty
Capella, Russia (owned)	Manufacturing	Consumer Beauty
Chartres, France (owned)	Manufacturing	Luxury
Cologne, Germany (owned)	Manufacturing	Luxury
Granollers, Spain (owned)	Manufacturing	Luxury
Hünfeld, Germany (owned)	Manufacturing	Professional Beauty
Hunt Valley, U.S. (owned)	Manufacturing	Consumer Beauty
Mariscala, Mexico (owned)	Manufacturing	Professional Beauty
Monaco, Monaco (leased)	Manufacturing	Luxury
Rothenkirchen, Germany (owned)	Manufacturing	Professional Beauty
Sanford, North Carolina, U.S. (owned)	Manufacturing	Luxury
Senador Canedo, Brazil (owned)	Manufacturing	Consumer Beauty
Wujiang, China (owned)	Manufacturing	Consumer Beauty
Morris Plains, New Jersey, U.S. (leased)	R&D	All segments

Item 3. Legal Proceedings.

We are involved, from time to time, in various litigation and administrative and other legal proceedings including regulatory actions, incidental or related to our business, including consumer class or collective actions, personal injury (including asbestos-related claims), intellectual property, competition, and advertising claims litigation, among others (collectively, “Legal Proceedings”). While we cannot predict any final outcomes relating thereto, management believes that the outcome of current Legal Proceedings will not have a material effect upon our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities. However, management’s assessment of our Legal Proceedings is ongoing, and could change in light of the discovery of additional facts with respect to Legal Proceedings pending against us not presently known to us or determinations by judges, arbitrators, juries or other finders of fact or deciders of law which are not in accord with management’s evaluation of the probable liability or outcome of such Legal Proceedings. From time to time, we are in discussions with regulators, including discussions initiated by us, about actual or potential violations of law in order to remediate or mitigate associated legal or compliance risks. As the outcomes of such proceedings are unpredictable, we can give no assurance that the results of any such proceedings will not materially affect our reputation, our business, prospects, financial condition, results of operations, cash flows, as well as the trading price of our securities.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our Class A Common Stock is listed and publicly traded on the New York Stock Exchange (“NYSE”) under the symbol “COTY”.

	Fiscal 2018			Fiscal 2017		
	High	Low	Cash Dividends	High	Low	Cash Dividends
July 1 - September 30	$20.88	$15.83	$ 0.125	$30.13	$23.06	$ 0.275
October 1 - December 31	20.31	14.24	0.125	25.34	17.94	0.125
January 1 - March 31	21.68	16.50	0.125	20.09	18.12	0.125
April 1 - June 30	18.75	12.92	0.125	20.51	16.95	0.125

Stockholders of Record

As of June 30, 2018 there were 991 stockholders of record of our Class A Common Stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have paid an annual dividend since fiscal 2011, and we began paying a quarterly dividend in fiscal 2017. Subject to legally available funds, we expect to continue to pay a quarterly cash dividend on our Class A Common Stock, but there can be no assurance that our Board of Directors ("Board") will continue to declare dividends or that any dividends will be paid in the anticipated amounts and frequency, or at all.

Furthermore, we are required to comply with certain covenants contained within the agreements that govern our indebtedness, including our credit agreements and the indenture relating to our senior unsecured notes. These agreements contain customary representations and warranties as well as customary affirmative and negative covenants, including but not limited to, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Liquidity and Capital Resources—Debt" and Note 13 "Debt" in the notes to our Consolidated Financial Statements.

Market Performance Graph

Comparison of 5 Year Cumulative Total Return [a]

Coty Inc., The S&P 500 Index, and Fiscal 2018 Peer Group [b]

[a] Total return assumes reinvestment of dividends at the closing price at the end of each quarter, since June 30, 2013.

[b] The Peer Group includes L'Oréal S.A., Avon Products, Inc., Estee Lauder Companies, Inc. and Revlon, Inc.

The Market Performance Graph above assumes a $100.00 investment on June 30, 2013, in Coty Inc.'s common stock, the S&P 500 Index and the Peer Group. The dollar amounts indicated in the graph above are as of the last trading day in the quarter. The returns of each company in the Peer Group have been weighted according to their respective stock market capitalization at the beginning of each measurement period for purposes of arriving at a Peer Group average.
Equity Compensation Plan Information

Plan Category	(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans[f] (excluding securities reflected in column(1))
Equity compensation plans approved by security holders			
Options[a]	13,375,385	$ 16.75	
Series A Preferred Stock [b]	3,324,707	23.36	
Restricted Stock Units	7,538,244	N/A	
Subtotal	24,238,336	—	46,825,145
Equity compensation plans not approved by security holders			
Options [c]	16,975	$ 10.50	—
Series A Preferred Stock [b][d]	1,645,921	24.15	
Phantom Units [e]	349,432	N/A	
Subtotal	2,012,328	—	—
Total	26,250,664		46,825,145

N/A is not applicable

[a] For information about options, see Note 22, "Share-Based Compensation Plans" in the notes to our Consolidated Financial Statements.

[b] Upon vesting of the Series A Preferred Stock, the recipient receives, in cash or shares, at our sole election, the fair market value of our Class A Common Stock on the vest date of the Series A Preferred Stock less the sum of the fair market value of our Class A Common Stock on the original issue date of the Series A Preferred Stock and a hurdle price specified in the recipient's subscription agreement. As such, the benefit provided under the Series A Preferred Stock will always be based solely on the increase in value of our Class A Common Stock after the date of grant and the Series A Preferred Stock will not have any value to the participant until the value of our Class A Common Stock exceeds the value of such shares on the date of grant plus the specified hurdle.

[c] Executive Ownership Plan. From fiscal 2008 until December 2012, we invited certain key executives to participate in our Executive Ownership Plan by purchasing shares of our common stock and receiving stock options to match such purchases. The Executive Ownership Plan was replaced by the Platinum Program in December 2012. All matching stock options have five-year cliff vesting tied to continued employment with us and continued ownership of the restricted shares that the matching stock options match.

[d] On April 14, 2015, a duly constituted committee of the Board approved employment inducement awards outside of the Company's Equity and Long-Term Incentive Plan of Series A Preferred Stock in the amount of 645,921 shares to

Camillo Pane who had, at that time, been announced as the Company’s new Executive Vice President of Category Development. On March 27, 2017, the Board approved an award of 1,000,000 shares of Series A Preferred Stock, par value $0.01 per share, to Lambertus J.H. Becht in his capacity as a non-employee director to compensate him for services performed in connection with closing the P&G Beauty Business transaction, aiding with the transition of the new chief executive officer into his role and integrating the P&G Beauty Business.

(e) On December 1, 2014, the Board granted Lambertus J.H. Becht an award of 49,432 phantom units (the “December Grant”). On July 21, 2015, the Board granted to Mr. Becht an award of 300,000 phantom units (the “July Grant”). Both the December Grant and July Grant to Mr. Becht were outside of the Company’s Equity and Long-Term Incentive Plan. At the time of December Grant, the phantom units had a value of $1,000,009 based on the closing price of the Company’s Class A Common Stock on December 1, 2014, and at the time of the July Grant, the phantom units had a value of approximately $8,106,000 based on the closing price of the Class A Common Stock on July 21, 2015. Each phantom unit has an economic value equivalent to one share of the Company’s Class A Common Stock. The phantom units vest on the fifth anniversary of the grant date and, in the event of a change in control or Mr. Becht’s death or disability, the phantom units shall vest immediately. Within 30 days of the grant date, Mr. Becht had the ability to elect whether to receive payment in respect of the phantom units in cash or shares of Class A Common Stock. Mr. Becht elected to receive payment in respect of the December Grant and the July Grant in shares of Class A Common Stock.

[f] Reflects number of securities remaining available for future issuance under equity compensation plans, excluding share reserves related to terminated equity plans.

Issuer Purchases of Equity Securities

No shares of Class A Common Stock were repurchased during the fiscal quarter ended June 30, 2018.

Item 6. Selected Financial Data.

(in millions, except per share data)	Year Ended June 30,				
	2018 [a]	2017 [b]	2016 [c]	2015 [c]	2014
Consolidated Statements of Operations Data:					
Net revenues	$9,398.0	$7,650.3	$4,349.1	$4,395.2	$4,551.6
Gross profit	5,789.6	4,621.8	2,603.1	2,638.2	2,685.9
Restructuring costs	173.2	372.2	86.9	75.4	37.3
Acquisition-related costs	64.2	355.4	174.0	34.1	0.7
Asset impairment charges	—	—	5.5	—	316.9
Operating income (loss)	161.2	(437.8)	254.2	395.1	25.7
Interest expense, net	265.0	218.6	81.9	73.0	68.5
Loss on early extinguishment of debt	10.7	—	3.1	88.8	—
Other expense, net	38.0	1.6	30.4	—	1.3
(Loss) income before income taxes	(152.5)	(658.0)	138.8	233.3	(44.1)
(Benefit) provision for income taxes	(24.7)	(259.5)	(40.4)	(26.1)	20.1
Net (loss) income	(127.8)	(398.5)	179.2	259.4	(64.2)
Net income attributable to noncontrolling interests	2.0	15.4	7.6	15.1	17.8
Net income attributable to redeemable noncontrolling interests	39.0	8.3	14.7	11.8	15.4
Net (loss) income attributable to Coty Inc.	$(168.8)	$(422.2)	$156.9	$232.5	$(97.4)
Per Share Data:					
Weighted-average common shares					
Basic	749.7	642.8	345.5	353.3	381.7
Diluted	749.7	642.8	354.2	362.9	381.7
Cash dividends declared per common share	$0.50	$0.65	$0.25	$0.20	$0.20
Net (loss) income attributable to Coty Inc. per common share:					
Basic	$(0.23)	$(0.66)	$0.45	$0.66	$(0.26)
Diluted	(0.23)	(0.66)	0.44	0.64	(0.26)

(in millions)	Year Ended June 30,				
	2018 [a]	2017 [b]	2016 [c]	2015 [c]	2014
Consolidated Cash Flows Data:					
Net cash provided by operating activities	$413.7	$757.5	$501.4	$526.3	$536.5
Net cash (used in) investing activities	(687.6)	(1,163.6)	(1,059.2)	(171.2)	(257.6)
Net cash provided by (used in) financing activities	69.3	595.2	592.6	(1,138.2)	(5.7)

(in millions)	As of June 30,				
	2018 [a]	2017 [b]	2016 [c]	2015 [c]	2014
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$331.6	$535.4	$372.4	$341.3	$1,238.0
Total assets [d]	22,630.2	22,548.2	7,035.6	5,998.0	6,570.8
Total debt, net of discount	7,610.5	7,205.0	4,162.8	2,634.7	3,293.5
Total Coty Inc. stockholders' equity	8,849.7	9,314.7	360.2	969.8	843.8

[a] Included in fiscal 2018 are the financial impacts of the acquisition of the Burberry Beauty Business as of October 2, 2017.
[b] Included in fiscal 2017 are the financial impacts of the acquisitions of the P&G Beauty Business as of October 1, 2016, ghd as of November 21, 2016 and Younique as of February 1, 2017.
[c] Included in fiscal 2016 and 2015 are the financial impacts of the Hypermarcas Brands as of February 1, 2016 and the Bourjois acquisition as of April 1, 2015.
[d] In fiscal 2017, we adopted authoritative guidance issued by the Financial Accounting Standards Board requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. Prior to the adoption of this guidance, debt issuance costs were presented within total assets in the Consolidated Balance Sheets. Total assets for all periods presented in the table above have been conformed to the current balance sheet presentation.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the financial condition and results of operations of Coty Inc. and its consolidated subsidiaries, should be read in conjunction with the information contained in the Consolidated Financial Statements and related notes included elsewhere in this document. When used in this discussion, the terms "Coty," the "Company," "we," "our," or "us" mean, unless the context otherwise indicates, Coty Inc. and its majority and wholly-owned subsidiaries. The following discussion contains forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" for a discussion on the uncertainties, risks and assumptions associated with these statements as well as any updates to such discussion as may be included in subsequent reports we file with the SEC. Actual results may differ materially and adversely from those contained in any forward-looking statements. The following discussion includes certain non-GAAP financial measures. See "Overview—Non-GAAP Financial Measures" for a discussion of non-GAAP financial measures and how they are calculated.

All dollar amounts in the following discussion are in millions of United States ("U.S.") dollars, unless otherwise indicated.

OVERVIEW

We are a global beauty company and our vision is to be a new global leader and challenger in the beauty industry. We manufacture, market, sell and distribute branded beauty products, including fragrances, color cosmetics, hair care products and skin & body related products throughout the world.

Operating and Reportable Segments

Our business is organized into three divisions: Luxury, Consumer Beauty and Professional Beauty, and our operating and reportable segments reflect this divisional structure. Certain shared costs and the results of corporate initiatives are managed outside of our three segments by Corporate.

Our organizational structure is product category focused, putting the consumer first, by specifically targeting how and where they shop and what and why they purchase. Each division has full end-to-end responsibility to optimize the consumers' beauty experiences in their relevant categories and channels in this new organizational design and translate this into profitable growth.

The operating and reportable segments are:

Luxury — primarily focused on prestige fragrances, premium skin care and premium cosmetics;

Consumer Beauty — primarily focused on color cosmetics, retail hair coloring and styling products, mass fragrance, mass skin care and body care;

Professional Beauty — primarily focused on hair and nail care products for professionals.

Geographic Structure

We have determined our geographic regions to be North America (Canada and the U.S.), Europe and ALMEA (Asia, Latin America, the Middle East, Africa and Australia).

Overview

We are one of the world's largest beauty companies, with a purpose to celebrate and liberate the diversity of consumers' beauty. Over the past three years, the transformational acquisition of the P&G Beauty Business and our other strategic transactions have strengthened and diversified our presence across the countries, categories and channels in which we compete. As we complete the final stages of the P&G Beauty Business integration, we are focused on rejuvenating our core business and amplifying our growth potential, by supporting and strengthening our brands, developing a stronger innovation pipeline, advancing our end-to-end digital transformation, and expanding our presence in the faster-growing emerging markets.

The beauty industry has continued to evolve, driven by increasing consumer desire for immersive shopping experiences, the importance of digital communication for brand building, the expanding role of e-commerce and specialty retail formats, and new brand introductions. This evolution has put pressure on traditional retail formats and traditional models of brand building and reaching consumers.

We are tailoring our approach to address this evolution of the beauty industry. Revenues from e-commerce channels comprise a small but fast-growing portion of our consolidated net revenues. Transforming our digital and e-commerce capabilities is a central part of our overall strategy. While we are still in the early days of our digital transformation, we are making significant multi-year investments in talent acquisition, in-house content creation capabilities and product management systems that will fuel our e-commerce efforts. This, together with the dedication across each of our divisions to drive momentum in this rapidly expanding channel, will allow for expansion of our e-commerce footprint.

The economics of developing, producing, launching, supporting and discontinuing products impact the timing of our sales and operating performance each period. In addition, as product life cycles shorten, results are driven primarily by successfully developing, introducing and marketing new, innovative products. We are continuing to improve our innovation process, aiming to introduce bigger, more impactful innovations while reducing time-to-market. We also support new and established products through our focus on strategic advertising and merchandising, brand repositioning, innovation and in-store execution.

Certain market segments and geographies in which we compete generally continue to grow moderately. While luxury fragrances and skin care categories are experiencing strong growth, low single digit declines in the retail nail, retail hair, mass body care, mass color cosmetics and mass fragrances categories in the U.S. and certain key countries in Western Europe continue to impact our business and financial results. We experienced strong growth in our Luxury segment supported by strong category trends and our successful brand innovation, steady growth in our Professional Beauty segment and uneven performance in our Consumer Beauty segment. Emerging markets have been a source of growth in many of our categories in fiscal 2018. We are also continuing to expand our presence in faster-growth emerging markets, by building strong relationships with key retailers in those markets and leveraging our broad portfolio of brands.

Transformation of our business

Following our acquisition of the P&G Beauty Business, we have been focused on integrating, restructuring and optimizing the combined organization. In fiscal 2018, we successfully exited the third and final stage of our transition services agreement with P&G, following the successful exit of the first two stages in fiscal 2017. We also instituted new initiatives to deliver meaningful, sustainable expense and cost management to address increases in our fixed cost base as a combined company. The last step of the integration includes the completion of the one order, one invoice, one shipment program which will make Coty a fully integrated company, able to sell, ship and invoice all of our brands in a seamless way for our customers, allowing significant simplification for our employees and increasing our scalability potential.

Further, in connection with the acquisition of the P&G Beauty Business, we are implementing our plan through which we continue to target realizing approximately $750 million of synergies driven by cost, procurement, supply chain and selling, general, and administrative savings through fiscal 2020. We realized cumulative synergies of approximately 20% in fiscal 2017, 50% though fiscal 2018, and we expect to cumulatively generate approximately 80% of the net synergies throughout fiscal 2019 and the full $750 million through fiscal 2020.

A milestone in our transformation was the completion in fiscal 2018 of our announced portfolio rationalization program and, as a result, we divested or terminated 14 brands including: CLC, Celine Dion, Cutex, Esprit, Guess,

Halle Berry, JLo, Lady Gaga, Love2Love, Playboy, Summer and Tim McGraw, which were reported in our Consumer Beauty segment and Cerruti and Chopard, which were reported in our Luxury segment. In addition, we continuously evaluate strategic transactions including acquisitions, divestitures and new brand licenses to optimize our portfolio. During fiscal 2018, we acquired the exclusive long-term global license rights and other related assets for the Burberry Beauty luxury fragrances, cosmetics and skincare business (the “Burberry Beauty Business”), which is managed within the Luxury division. We will continue to opportunistically look at strategic opportunities as and when they arise, subject to our strict financial discipline and deleveraging objectives.

Performance

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In fiscal 2018, solid operating performance was driven by steady progress on business integration. Modest revenue growth was driven by strong performance in Luxury, due to impactful innovations across the major brands, and solid growth in Professional Beauty supported by growth in both hair and nail categories, offset by declines in Consumer Beauty revenues as we made gradual progress towards stabilizing performance. In the fourth fiscal quarter, strong performance from Luxury and solid growth in Professional Beauty were offset by declines in Consumer Beauty, where a number of temporary supply chain disruptions impacted revenues. Specifically, disruptions in two major distribution centers in the U.S. and U.K., due in part to challenges arising in connection with our restructuring efforts, impacted our ability to meet consumer demand for products in the Consumer Beauty segment and resulted in a loss of revenue and increased costs that we expect to continue into the first half of fiscal 2019. In addition, during the same period, a transportation workers strike in Brazil impacted the delivery of raw materials as well as our ability to ship our products to customers in that country.

Outlook

While we work on the full turnaround of the new Coty, we expect the integration to be largely completed by the end of fiscal 2019. We are focused on returning the business to flat to modest net revenue growth. This level of net revenue growth, combined with our ongoing focus on reducing costs even after the synergies are fully delivered, underpins our medium term target of achieving operating margin growth.

Against this backdrop, we view fiscal 2019 as an important step in the right direction to achieve our medium term ambitions. For fiscal 2019, we are targeting operating margin expansion, which, combined with our target of flat to modest net revenue growth would deliver operating income growth. We believe financial performance across quarters in fiscal 2019 will not be linear and the peak of the impact of the supply chain disruptions, due to logistics and manufacturing consolidation, will come in first half of fiscal 2019. We anticipate that this will have a considerable impact on both net revenue and net income. We do expect that the business disruption related impacts will be substantially complete by the end of first half fiscal 2019 and our fiscal 2019 targets take these disruptions into consideration. We are also focused on increasing our cash flow and reducing our indebtedness.

Non-GAAP Financial Measures

To supplement the financial measures prepared in accordance with GAAP, we use non-GAAP financial measures including Adjusted operating income, Adjusted net income attributable to Coty Inc. and Adjusted net income attributable to Coty Inc. per common share (collectively, the “Adjusted Performance Measures”). The reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in tables below. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for or superior to, financial measures reported in accordance with GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of the business as determined in accordance with GAAP. Other companies, including companies in the beauty industry, may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Despite the limitations of these non-GAAP financial measures, our management uses the Adjusted Performance Measures as key metrics in the evaluation of our performance and annual budgets and to benchmark performance of our business against our competitors. The following are examples of how these Adjusted Performance Measures are utilized by our management:

- strategic plans and annual budgets are prepared using the Adjusted Performance Measures;
- senior management receives a monthly analysis comparing budget to actual operating results that is prepared using the Adjusted Performance Measures; and
- senior management’s annual compensation is calculated, in part, by using the Adjusted Performance Measures.

In addition, our financial covenant compliance calculations under our debt agreements are substantially derived from these Adjusted Performance Measures.

Our management believes that Adjusted Performance Measures are useful to investors in their assessment of our operating performance and the valuation of the Company. In addition, these non-GAAP financial measures address questions we routinely receive from analysts and investors and, in order to ensure that all investors have access to the same data, our management has determined that it is appropriate to make this data available to all investors. The Adjusted Performance Measures exclude the impact of certain items (as further described below) and provide

supplemental information regarding our operating performance. By disclosing these non-GAAP financial measures, our management intends to provide investors with a supplemental comparison of our operating results and trends for the periods presented. Our management believes these measures are also useful to investors as such measures allow investors to evaluate our performance using the same metrics that our management uses to evaluate past performance and prospects for future performance. We provide disclosure of the effects of these non-GAAP financial measures by presenting the corresponding measure prepared in conformity with GAAP in our

financial statements, and by providing a reconciliation to the corresponding GAAP measure so that investors may understand the adjustments made in arriving at the non-GAAP financial measures and use the information to perform their own analyses.

Adjusted operating income excludes restructuring costs and business structure realignment programs, amortization, acquisition-related costs and acquisition accounting impacts, the impact of accounting modifications from liability plan accounting to equity plan accounting as a result of amended share-based compensation plans, asset impairment charges and other adjustments as described below. We do not consider these items to be reflective of our core operating performance due to the variability of such items from period-to-period in terms of size, nature and significance. They are primarily incurred to realign our operating structure and integrate new acquisitions, and fluctuate based on specific facts and circumstances. Additionally, Adjusted net income attributable to Coty Inc. and Adjusted net income attributable to Coty Inc. per common share are adjusted for certain interest and other (income) expense as described below and the related tax effects of each of the items used to derive Adjusted net income as such charges are not used by our management in assessing our operating performance period-to-period.

The Adjusted Performance Measures were changed in the fourth quarter of fiscal 2016 to incorporate the exclusion of expense and tax effects associated with the amortization of acquisition-related intangible assets. Our management believes that such amortization is not reflective of the results of operations in a particular year because the intangible assets result from the allocation of the acquisition purchase price to the fair value of identifiable intangible assets acquired. The effect of this exclusion on our non-GAAP presentation was to amend Adjusted operating income in a manner that provides investors with a measure of our operating performance that facilitates period to period comparisons, as well as comparability to our peers. Exclusion of the amortization expense allows investors to compare operating results that are consistent over time for the consolidated company, including newly acquired and long-held businesses, to both acquisitive and nonacquisitive peer companies.

Adjusted Performance Measures reflect adjustments based on the following items:

- Costs related to acquisition activities: We have excluded acquisition-related costs and acquisition accounting impacts such as those related to transaction costs and costs associated with the revaluation of acquired inventory in connection with business combinations because these costs are unique to each transaction. The nature and amount of such costs vary significantly based on the size and timing of the acquisitions and the maturities of the businesses being acquired. Also, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of such expenses, may not be indicative of the size, complexity and/or volume of any future acquisitions.
- Restructuring and other business realignment costs: We have excluded costs associated with restructuring and business structure realignment programs to allow for comparable financial results to historical operations and forward-looking guidance. In addition, the nature and amount of such charges vary significantly based on the size and timing of the programs. By excluding the referenced expenses from our non-GAAP financial measures, our management is able to further evaluate our ability to utilize existing assets and estimate their long-term value. Furthermore, our management believes that the adjustment of these items supplement the GAAP information with a measure that can be used to assess the sustainability of our operating performance.
- Amortization expense: We have excluded the impact of amortization of finite-lived intangible assets, as such non-cash amounts are inconsistent in amount and frequency and are significantly impacted by the timing and/or size of acquisitions. Our management believes that the adjustment of these items supplement the GAAP information with a measure that can be used to assess the sustainability of our operating performance. Although we exclude amortization of intangible assets from our non-GAAP expenses, our management believes that it is important for investors to understand that such intangible assets contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Any future acquisitions may result in the amortization of additional intangible assets.
- Asset impairment charges: We have excluded the impact of asset impairments as such non-cash amounts are inconsistent in amount and frequency and are significantly impacted by the timing and/or size of acquisitions. Our management believes that the adjustment of these items supplement the GAAP information with a measure that can be used to assess the sustainability of our operating performance.
- Share-based compensation adjustment: During fiscal 2016, we excluded the impact of the fiscal 2013 accounting modification from liability plan to equity plan accounting for the share-based compensation plans as well as other

share-based compensation transactions that are not reflective of the ongoing and planned pattern of recognition for such expense. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" contained in our Annual Report on Form 10-K filed with the SEC for the fiscal year ended June 30, 2016 for a full discussion of the share-based compensation adjustment.

- Interest and other (income) expense: We have excluded foreign currency impacts associated with acquisition-related and debt financing-related forward contracts, as well as debt financing transaction costs as the nature and amount of such charges are not consistent and are significantly impacted by the timing and size of such transactions.
- Loss on early extinguishment of debt: We have excluded loss on extinguishment of debt as this represents a non-cash charge, and the amount and frequency of such charges is not consistent and is significantly impacted by the timing and size of debt financing transactions.
- Noncontrolling interest: This adjustment represents the after-tax impact of the non-GAAP adjustments included in Net income attributable to noncontrolling interests based on the relevant non-controlling interest percentage.
- Tax: This adjustment represents the impact of the tax effect of the pretax items excluded from Adjusted net income. The tax impact of the non-GAAP adjustments are based on the tax rates related to the jurisdiction in which the adjusted items are received or incurred.

While acquiring brands and licenses comprises a part of our overall growth strategy, along with targeting organic growth opportunities, we have excluded acquisition-related costs and acquisition accounting impacts in connection with business combinations because these costs are unique to each transaction and the amount and frequency are not consistent and are significantly impacted by the timing and size of our acquisitions. Our management assesses the success of an acquisition as a component of performance using a variety of indicators depending on the size and nature of the acquisition, including:

- the scale of the combined company by evaluating consolidated and segment financial metrics;
- the expansion of product offerings by evaluating segment, brand, and geographic performance and the respective strength of the brands;
- the evaluation of market share expansion in categories and geographies;
- the earnings per share accretion and substantial incremental free cash flow generation providing financial flexibility for us; and
- the comparison of actual and projected results, including achievement of projected synergies, post integration; provided that timing for any such comparison will depend on the size and complexity of the acquisition.

Constant Currency

We operate on a global basis, with the majority of our net revenues generated outside of the U.S. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations. Therefore, to supplement financial results presented in accordance with GAAP, certain financial information is presented in "constant currency", excluding the impact of foreign currency exchange translations to provide a framework for assessing how our underlying businesses performed excluding the impact of foreign currency exchange translations. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We calculate constant currency information by translating current and prior-period results for entities reporting in currencies other than U.S. dollars into U.S. dollars using prior year foreign currency exchange rates. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different to the functional currency of that entity when exchange rates fluctuate. The constant currency information we present may not be comparable to similarly titled measures reported by other companies.

Basis of Presentation of Acquisitions and Divestitures

During the period when we complete an acquisition, divestiture or early license termination, the financial results of the current year period are not comparable to the financial results presented in the prior year period. When explaining such changes from period to period and to maintain a consistent basis between periods, we exclude the financial contribution of: (i) the acquired brands or businesses in the current year period until we have twelve months of comparable financial results and (ii) the divested brands or businesses or early terminated brands in the prior year period, to maintain comparable financial results with the current fiscal year period. Acquisitions, divestitures and early license terminations that would impact the comparability of financial results between periods presented in the Management's Discussion and Analysis of Financial Condition and Results of Operations are shown in the table below.

	2018	2017
First fiscal quarter	n/a	n/a
Second fiscal quarter	Acquisition: Burberry Beauty Business (Luxury segment)	Acquisitions: P&G Beauty Business (all segments) and ghd (Professional Beauty segment)
Third fiscal quarter	Termination: Guess (Consumer Beauty segment)	Acquisition: Younique (Consumer Beauty segment) Divestiture: J.Lo (Consumer Beauty segment)
Fourth fiscal quarter	Divestitures: Playboy (Consumer Beauty segment) and Cerruti (Luxury segment)	n/a

When used herein, the term "Acquisitions" and "Divestitures" refer to the financial contributions of the related acquisitions or divestitures and early license terminations shown above, during the period that is not comparable as a result of such acquisitions or divestitures and early license terminations.

NET REVENUES

In fiscal 2018, net revenues increased 23%, or $1,747.7, to $9,398.0 from $7,650.3 in fiscal 2017. Incremental net revenues from the acquisition of the P&G Beauty Business comprised 13% of the total percentage increase in net revenues for the fiscal year and the incremental net revenues from the acquisitions of Younique, ghd, and the Burberry Beauty Business combined comprised 6% of the total percentage increase in net revenues for the fiscal year. The incremental net revenues in the first quarter of fiscal 2018 from the acquisition of the P&G Beauty Business in the prior year was the primary driver of the significant increase in total net revenues in all of our segments and geographic regions. Excluding the impacts of the Acquisitions and Divestitures, total net revenues in fiscal 2018 increased 4%, or $340.6, to $7,924.6 from $7,584.0 in fiscal 2017, reflecting a positive price and mix impact of 6%, a positive foreign currency exchange translations impact of 4%, and a decrease in unit volume of 6%. See below for further details of net revenues by segment.

In fiscal 2017, net revenues increased 76%, or $3,301.2, to $7,650.3 from $4,349.1 in fiscal 2016. The acquisition of the P&G Beauty Business comprised 41% of total net revenues for the fiscal year and the Hypermarcas Brands, ghd and Younique combined comprised 7% of the total net revenues for the fiscal year. The acquisition of the P&G Beauty Business was the primary driver of the significant increase in total net revenues in all of our segments and geographic regions. The increase in net revenues in fiscal 2017 reflects an increase in unit volume of 75% and a positive price and mix impact of 4%, partially offset by a negative foreign currency exchange translations impact of 3%. Excluding the impacts of the Acquisitions and Divestitures, total net revenues in fiscal 2017 decreased 8% reflecting a negative price and mix impact of 4%, a decrease in unit volume of 3% and a negative foreign currency exchange translations impact of 1%.

Net Revenues by Segment

	Year Ended June 30,			Change %	
(in millions)	2018	2017	2016	2018/2017	2017/2016
NET REVENUES					
Luxury	$3,210.5	$2,566.6	$1,836.6	25%	40 %
Consumer Beauty	4,268.1	3,688.2	2,262.5	16%	63 %
Professional Beauty	1,919.4	1,395.5	250.0	38%	>100%
Total	$9,398.0	$7,650.3	$4,349.1	23%	76 %

Luxury

In fiscal 2018, net revenues from the Luxury segment increased 25%, or $643.9 to $3,210.5 from $2,566.6 in fiscal 2017, primarily due to the impact of the Acquisitions. The incremental net revenues in the first quarter of fiscal 2018 from the acquisition of the P&G Beauty Business in the prior year comprised 12% of the total percentage change in net revenues for the segment, and the acquisition of the Burberry Beauty Business comprised 3% of the total percentage change in net revenues for the segment in fiscal 2018 as compared to fiscal 2017. Excluding the impacts of the Acquisitions and Divestitures, net revenues from the Luxury segment increased 10%, or $267.6, to $2,828.6 in fiscal 2018 from $2,561.0 in fiscal 2017, reflecting a positive price and mix impact of 5%, a positive foreign currency exchange translations impact of 4%, and an increase in unit volume of 1%. This increase in net revenues primarily reflects: (i) the successful launches of Tiffany & Co. and Gucci Bloom and (ii) higher net revenues from Calvin Klein due to the launch of Obsessed by Calvin Klein and from CK One due to the launch of a successful campaign in the third quarter of fiscal 2018. Fiscal 2018 revenues were positively impacted by innovative products across our philosophy, Marc Jacobs and Chloe brands. There was also solid growth in fiscal 2018, compared to fiscal 2017, of Luxury brands sold in China and the Middle East as well as an increased contribution of Luxury brands sold through e-commerce channels.

In fiscal 2017, net revenues from the Luxury segment increased 40% or $730.0 to $2,566.6 from $1,836.6 in fiscal 2016, primarily due to the impact of the Acquisitions. The acquisition of the P&G Beauty Business comprised 33% of the total net revenues for the segment. Hugo Boss and Gucci fragrances were the largest contributors to net revenues as a result of the acquisition of the P&G Beauty Business. Excluding the impacts of the Acquisitions and Divestitures, net revenues from the Luxury segment decreased 6%, or $110.0, to $1,726.6 in fiscal 2017 from $1,836.6 in fiscal 2016, reflecting a negative price and mix impact of 3%, a decrease in unit volume of 2%, and a negative foreign currency exchange translations impact of 1%. This decrease primarily reflects lower net revenues from Calvin Klein and Marc Jacobs fragrances. Net revenues from Calvin Klein declined due to: (i) our strategic efforts to rationalize wholesale distribution by reducing the amount of product diversion to the value and mass channels resulting in a lower volume and (ii) a higher level of discounting and promotional activities resulting in a negative price and mix. The decline in Marc Jacobs primarily reflects declines in volumes from existing product lines and a lower level of launch activity in fiscal 2017 as compared to fiscal 2016.

Consumer Beauty

In fiscal 2018, net revenues from the Consumer Beauty segment increased 16%, or $579.9, to $4,268.1 from $3,688.2 in fiscal 2017, due to the impact of the Acquisitions. The incremental net revenues in the first quarter of fiscal 2018 from the acquisition of the P&G Beauty Business in the prior year comprised 11% of the total percentage change in net revenues for the segment, and the acquisition of Younique comprised 6% of the total percentage change in net revenues for the segment in fiscal 2018 compared to fiscal 2017. Excluding the impacts of the Acquisitions and the Divestitures, net revenues from the Consumer Beauty segment decreased 1%, or $21.2, to $3,622.3 in fiscal 2018 from $3,643.5 in fiscal 2017, primarily reflecting a decrease in unit volume of 7%, a positive foreign currency exchange translations impact of 3%, and a positive price and mix impact of 3%. The change in net revenues primarily reflects:

(i) A decline in net revenues from CoverGirl due to declines in existing product lines along with increased markdowns and trade spending. Despite declines in the brand in fiscal 2018, we have launched a multi-year brand turnaround strategy for CoverGirl in North America in the second quarter of fiscal 2018.

(ii) Lower net revenues from Sally Hansen and Playboy due to less innovation in the first half of fiscal 2018 and declines in existing product lines.

(iii) Lower net revenues from Risque due to a reduction in volume in Brazil in response to decreased sales discounts in the second half of fiscal 2018 and trade inventory correction. However, we continue to experience market share growth.

(iv) Lower net revenues from Astor due to shelf-space losses in Germany.

These decreases were partially offset by:
(i) Higher net revenues from Nautica primarily driven by increased volume through value distribution channels.
(ii) Higher net revenues from Max Factor primarily reflecting increased distribution in China.
(iii) Higher net revenues from Guess due to the timing of shipments.

In addition, net revenues from Clairol comprised over 5% of the Consumer Beauty net revenues for fiscal 2018. Clairol, whose core markets are the U.S. and the U.K., was pressured in fiscal 2018 but benefited from the relaunch of the Nice'N'Easy franchise, on the back of a breakthrough new formula, with the relaunch now largely implemented on the shelf.
In fiscal 2017, net revenues from the Consumer Beauty segment increased 63%, or $1,425.7, to $3,688.2 from $2,262.5 in fiscal 2016, primarily due to the impact of the Acquisitions. The acquisition of the P&G Beauty Business, Younique and the incremental net revenues from the seven months of the Hypermarcas Brands in fiscal 2017, comprised 35%, 5% and 5%, respectively, of the total net revenues for the segment. CoverGirl and Max Factor cosmetics and the retail product line of Wella and Clairol hair products were the largest contributors to net revenues as a result of the acquisition of the P&G Beauty Business, although these and other brands were negatively impacted as we reorganized our business and by transitional factors, including significantly higher than expected trade inventory prior to the closing of the P&G Beauty Business acquisition. Additionally, a reduction in shelf space and declines in certain of these brands negatively impacted our results. Excluding the impacts of the Acquisitions and the Divestitures, net revenues from the Consumer Beauty segment decreased 10%, or $217.7, to $2,038.5 in fiscal 2017 from $2,256.2 in fiscal 2016, primarily reflecting a negative price and mix impact of 5%, a decrease in unit volume of 3%, and a negative foreign currency exchange translations impact of 2%. The decrease in net revenues primarily reflects lower net revenues from mass fragrances, as well as Sally Hansen and Rimmel. Mass fragrances declined in part due to a decrease in volume from brands that are later in their lifecycles and our continued efforts to execute portfolio rationalization in non-strategic distribution channels, and have also been adversely impacted by a negative market trend in the U.S. Lower net revenues from Sally Hansen and Rimmel reflect a decrease in volume as the result of the implementation of a new inventory management system by a key U.S. customer and a negative foreign currency translations impact. Lower net revenues from Sally Hansen also reflect the negative retail nail market trend in the U.S. and a lower volume of relative higher priced products. The declines in the segment were partially offset by higher net revenues from an increase in volume from the Hypermarcas Brands during the five months of the comparable periods and an increase in volume from Bourjois due to continued expansion in Eastern Europe.
Professional Beauty
In fiscal 2018, net revenues from the Professional Beauty segment increased 38%, or $523.9, to $1,919.4 from $1,395.5 in fiscal 2017, primarily due to the impact of the Acquisitions. The incremental net revenues in the first quarter of fiscal 2018 from the acquisition of the P&G Beauty Business in the prior year comprised 23% of the total percentage change in net revenues for the segment, and incremental net revenues from the acquisition of ghd comprised 8% of the total percentage change in net revenues for the segment in fiscal 2018 as compared to fiscal 2017. Excluding the impacts of the Acquisitions, net revenues from the Professional Beauty segment increased 7%, or $94.2 to $1,473.7 in fiscal 2018, from $1,379.5 in fiscal 2017, primarily reflecting a positive foreign currency exchange translation impact of 5%, a positive price and mix impact of 2%, and no impact from unit volume. The increase in this segment primarily reflects higher net revenues from OPI driven by the launch of the OPI ProHealth GelColor System, an increase in the professional product line of Wella hair products due to the launch of WellaPlex and higher ghd net revenues primarily due to strong performance in Europe. In fiscal 2018, there was solid performance in Wella and other hair brands, as well as OPI and other nail products in both developed and emerging markets.
In fiscal 2017, net revenues from the Professional Beauty segment increased greater than 100%, or $1,145.5, to $1,395.5 from $250.0 in fiscal 2016, primarily due to the impact of the Acquisitions. The acquisitions of the P&G Beauty Business and ghd comprised 74% and 10%, respectively, of the total net revenues for the segment. The professional product line of Wella hair products was the largest contributor to net revenues as a result of the P&G Beauty Business acquisition. Excluding the impacts of the Acquisitions and Divestitures, net revenues from the Professional Beauty segment decreased 12%, or $30.5 to $219.5 in fiscal 2017, from $250.0 in fiscal 2016, primarily

reflecting the following activity related to OPI: (i) a decrease in unit volume of 8% as a result of declines from existing lacquer product lines, partially offset by an increase in volume of gel and long wear product lines, (ii) a negative price and mix impact of 3% as a result of unfavorable regional, channel and promotional mix and (iii) a negative foreign currency exchange translations impact of 1%.

Net Revenues by Geographic Regions

In addition to our reporting segments, net revenues by geographic regions are as follows.

	Year Ended June 30,			Change %	
(in millions)	2018	2017	2016	2018/2017	2017/2016
NET REVENUES					
North America	$2,966.0	$2,506.9	$1,413.0	18%	77 %
Europe	4,201.6	3,325.7	1,924.6	26%	73 %
ALMEA	2,230.4	1,817.7	1,011.5	23%	80 %
Total	$9,398.0	$7,650.3	$4,349.1	23%	76 %

North America

In fiscal 2018, net revenues in North America increased 18% or $459.1, to $2,966.0 from $2,506.9 in fiscal 2017, primarily due to the impact of the Acquisitions. Excluding the impacts of the Acquisitions and Divestitures, net revenues in North America decreased 3% or $72.4, to $2,420.9 in fiscal 2018 from $2,493.3 in fiscal 2017, primarily due to declines in color cosmetics in the U.S. The decline in color cosmetics primarily reflects: (i) a decline in net revenues from CoverGirl due to declines in existing product lines, declines in the mass color cosmetics category and increased markdowns and trade spending associated with the CoverGirl brand relaunch which began in the second quarter of fiscal 2018, (ii) lower net revenues from Rimmel as declines in revenues from existing product lines offset current year launch activity. The decline in revenues in the region was partially offset by (i) higher revenues driven by the launches of the Tiffany & Co. and Gucci Bloom fragrances, and (ii) higher revenues in mass fragrances, primarily from Nautica due to an increased volume through value distribution channels. There was no impact from foreign currency exchange translations in fiscal 2018.

In fiscal 2017, net revenues in North America increased 77% or $1,093.9, to $2,506.9 from $1,413.0 in fiscal 2016, primarily due to the impact of the Acquisitions. Excluding the impacts of the Acquisitions and Divestitures, net revenues in North America decreased 10% or $141.8, to $1,271.2 in fiscal 2017 from $1,413.0 in fiscal 2016, primarily due to lower net revenues in the U.S. from Sally Hansen, in part reflecting negative market trends in the retail nail market in the U.S., N.Y.C. New York Color and Rimmel in the Consumer Beauty division, as well as, OPI in the Professional Beauty division. There was no impact from foreign currency exchange translations in North America.

Europe

In fiscal 2018, net revenues in Europe increased 26%, or 875.9, to $4,201.6 from $3,325.7 in fiscal 2017, primarily due to the impact of the Acquisitions. Excluding the impacts of the Acquisitions and Divestitures, net revenues in Europe increased 8%, or $251.4, to $3,542.8 in fiscal 2018 from $3,291.4 in fiscal 2017, primarily due to: (i) strong growth from prestige fragrances in Western Europe, (ii) incremental revenues from fragrances driven by the launches of the Tiffany & Co. and Gucci Bloom fragrances resulting in higher revenues in Western and Southern Europe, including the U.K., Spain, Italy, and Germany, and (iii) higher revenues from mass fragrances across the region. These increases were partially offset by declines in Playboy and Astor in Western Europe, including France and Germany. Excluding the impact of the Acquisitions, Divestitures and the positive foreign currency exchange translations impact of 8%, net revenues in Europe remained constant.

In fiscal 2017, net revenues in Europe increased 73%, or $1,401.1, to $3,325.7 from $1,924.6 in fiscal 2016, primarily due to the impact of the Acquisitions. Excluding the impacts of the Acquisitions and Divestitures, net revenues in Europe decreased 13%, or $242.2, to $1,682.4 in fiscal 2017 from $1,924.6 in fiscal 2016, primarily due to lower net revenues from mass fragrances across the region as a result of a negative market trend in Europe, Rimmel in the U.K., Astor in Germany and Eastern Europe, Playboy in Germany, France, and Eastern Europe and adidas in the U.K. and Germany, partially offset by growth in Bourjois in Eastern Europe. Excluding the impact of the Acquisitions, Divestitures and the negative foreign currency exchange translations impact of 4%, net revenues in Europe decreased 9%.

ALMEA

In fiscal 2018, net revenues in ALMEA increased 23%, or $412.7, to $2,230.4 from $1,817.7 in fiscal 2017, primarily due to the impact of the Acquisitions. Excluding the impacts of the Acquisitions and Divestitures, net revenues in ALMEA increased 9%, or $161.7, to $1,961.0 in fiscal 2018 from $1,799.3 in fiscal 2017, primarily due to: (i) incremental revenues from fragrances, driven by the launches of the Tiffany & Co. and Gucci Bloom fragrances, (ii) higher revenues from mass fragrances in Southeast Asia, driven by Nautica, and (iii) higher revenues from color

cosmetics, driven by Max Factor in China. These increases were partially offset by declines in Brazil in response to decreased sales discounts in the third and fourth quarters of fiscal 2018. Excluding the impact of the Acquisitions, Divestitures and the positive foreign currency exchange translations impact of 1%, net revenues in ALMEA increased 8%.

In fiscal 2017, net revenues in ALMEA increased 80% or $806.2, to $1,817.7 from $1,011.5 in fiscal 2016, primarily due to the impact of the Acquisitions. Excluding the impacts of the Acquisitions and Divestitures, net revenues in ALMEA increased 2%, or $19.4, to $1,030.9 in fiscal 2017 from $1,011.5 in fiscal 2016, primarily due to the Hypermarcas Brands in

Brazil during the five months of the comparable periods, partially offset by declines in Calvin Klein in China and Marc Jacobs in our travel retail business in Latin America. Excluding the impact of the Acquisitions, Divestitures and the positive foreign currency exchange translations impact of 1%, net revenues in ALMEA increased 1%.

COST OF SALES

In fiscal 2018, cost of sales increased 19%, or $579.9, to $3,608.4 from $3,028.5 in fiscal 2017, primarily due to the impact of the Acquisitions. Cost of sales as a percentage of net revenues decreased to 38.4% in fiscal 2018 from 39.6% in fiscal 2017, resulting in a gross margin improvement of approximately 120 basis points, primarily reflecting: (i) lower cost related to acquired inventory step-up amortization in fiscal 2018 as compared to fiscal 2017, (ii) mix impact associated with the increased net revenue contribution from higher-margin Luxury and Professional Beauty products in fiscal 2018 as compared to fiscal 2017, in addition to (iii) the continued contribution from our supply chain savings program. These improvements were partially offset by the negative impact of accelerated depreciation of buildings and equipment associated with plant closures, distributor terminations and inventory artwork transition costs related to the Global Integration Activities (as later defined).

In fiscal 2017, cost of sales increased 73%, or $1,282.5, to $3,028.5 from $1,746.0 in fiscal 2016, primarily due to the impact of the Acquisitions. Cost of sales as a percentage of net revenues decreased to 39.6% in fiscal 2017 from 40.1% in fiscal 2016, resulting in a gross margin improvement of approximately 50 basis points primarily reflecting the acquisitions of higher margin businesses in fiscal 2017 including the P&G Beauty Business and Younique and continued contribution from our supply chain savings program partially offset by: (i) the negative impact of the revaluation of acquired inventory from the Acquisitions, (ii) the negative impact of inventory buyback associated with distributor terminations relating to the acquisition of the P&G Beauty Business and (iii) higher promotional and discounted pricing activity reported in net revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In fiscal 2018, selling, general and administrative expenses increased 23%, or $949.6, to $5,009.6 from $4,060.0 in fiscal 2017, primarily due to the impact of the Acquisitions. Selling, general and administrative expenses as a percentage of net revenues increased to 53.3% in fiscal 2018 from 53.1% in fiscal 2017.

In fiscal 2017, selling, general and administrative expenses increased greater than 100%, or $2,032.2, to $4,060.0 from $2,027.8 in fiscal 2016, primarily due to the impact of the Acquisitions. Selling, general and administrative expenses as a percentage of net revenues increased to 53.1% in fiscal 2017 from 46.6% in fiscal 2016.

Unfavorable and (favorable) basis point changes in selling, general and administrative expenses as a percentage of net revenues for the fiscal years ended June 30, 2018 and 2017 as compared to the respective prior year periods, are comprised of the following:

	Year Ended June 30,	
(bps rounded to the nearest tenth)	2018/2017	2017/2016
Administrative costs	180	500
Advertising and consumer promotion costs	(110)	240
Foreign currency exchange impact	—	(50)
Share-based compensation	—	(40)
Other selling, general, and administrative expenses	(50)	—
Total basis point unfavorable (favorable) change	20	650

In fiscal 2018, the selling, general and administrative expenses as a percentage of net revenues increased primarily due to higher administrative costs from: (i) incremental consulting and third-party outsourcing expenses and (ii) increased depreciation expense for technological infrastructure which was placed into service with the successful completion of the P&G Beauty Business transition services agreement in the first quarter of fiscal 2018. The lower advertising and consumer promotion spending as a percentage of net revenues is primarily due to a shift in spending programs within our color cosmetics brands as the decrease in marketing spend, recorded in advertising and consumer promotion costs, was offset by an increase in in-store support, which is recorded as a reduction to net revenues.

In fiscal 2017, the selling, general, and administrative expenses as a percentage of net revenues increased primarily due to higher administrative costs as a result of consulting expenses and compensations costs incurred in the connection with the integration of the P&G Beauty Business and the new organizational structure in the Professional Beauty division where we acquired a large sales organization to service the salon business. The higher advertising and consumer promotion spending is

primarily due to the impact of the higher spending ratio for the P&G Beauty Business as compared with the Legacy-Coty business in fiscal 2016 and increased spending primarily supporting Rimmel, Sally Hansen, and Bourjois.

OPERATING (LOSS) INCOME

In fiscal 2018, operating income of $161.2 increased greater than 100%, or $599.0, from a loss of $437.8 in fiscal 2017. Operating margin, or operating income (loss) as a percentage of net revenues, increased to 1.7% of net revenues in fiscal 2018 as compared to (5.7)% in fiscal 2017.

In fiscal 2017, operating loss of $437.8 declined greater than 100%, or $692.0, from income of $254.2 in fiscal 2016. Operating margin, or operating (loss) income as a percentage of net revenues, declined to (5.7)% of net revenues in fiscal 2017 as compared to 5.8% in fiscal 2016

Favorable and (unfavorable) basis point changes in operating income (loss) as a percentage of net revenues for the fiscal years ended June 30, 2018 and 2017 as compared to the respective prior year periods, are comprised of the following:

	Year Ended June 30,	
(bps rounded to nearest tenth)	2018/2017	2017/2016
Acquisition-related costs	400	(60)
Restructuring	300	(290)
Cost of sales	120	50
Loss (gain) on sale of assets	(30)	(50)
Selling, general and administrative expenses	(20)	(650)
Amortization	(20)	(180)
Other operating expenses	(10)	20
Asset impairment charges	—	10
Total basis point favorable (unfavorable) change	740	(1,150)

Operating (Loss) Income by Segment

	Year Ended June 30,			Change %	
(in millions)	2018	2017	2016	2018/2017	2017/2016
OPERATING INCOME (LOSS)					
Luxury	$248.7	$158.0	$228.9	57 %	(31 %)
Consumer Beauty	278.9	261.2	246.5	7 %	6 %
Professional Beauty	119.4	78.5	68.0	52 %	15 %
Corporate	(485.8)	(935.5)	(289.2)	48 %	<(100%)
Total	$161.2	$(437.8)	$254.2	>100%	<(100%)

Luxury

In fiscal 2018, operating income for Luxury increased 57%, or $90.7, to $248.7 from $158.0 in fiscal 2017. Operating margin increased to 7.7% of net revenues in fiscal 2018 as compared to 6.2% in fiscal 2017, primarily driven by lower selling, general and administrative expenses as a percentage of net revenues and lower amortization expense as a percentage of net revenues.

In fiscal 2017, operating income for Luxury decreased 31%, or $70.9, to $158.0 from $228.9 in fiscal 2016. Operating margin decreased to 6.2% of net revenues in fiscal 2017 as compared to 12.5% in fiscal 2016, primarily driven by higher selling, general and administrative expenses as a percentage of net revenues and higher amortization as a percentage of net revenues, partially offset by lower cost of goods sold as a percentage of net revenues.

Consumer Beauty

In fiscal 2018, operating income for Consumer Beauty increased 7%, or $17.7, to $278.9 from $261.2 in fiscal 2017. Operating margin decreased to 6.5% of net revenues in fiscal 2018 as compared to 7.1% in fiscal 2017, primarily driven by

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higher selling, general and administrative expenses as a percentage of net revenues and higher amortization expense as a percentage of net revenues.

In fiscal 2017, operating income for Consumer Beauty increased 6%, or $14.7, to $261.2 from $246.5 in fiscal 2016. Operating margin decreased to 7.1% of net revenues in fiscal 2017 as compared to 10.9% in fiscal 2016, primarily driven by higher selling, general and administrative expenses as a percentage of net revenues and higher amortization expense as a percentage of net revenues, partially offset by lower cost of goods sold as a percentage of net revenues.

Professional Beauty

In fiscal 2018, operating income for Professional Beauty increased 52%, or $40.9 to $119.4 from $78.5 in fiscal 2017. Operating margin increased to 6.2% of net revenues in fiscal 2018 as compared to 5.6% in fiscal 2017, primarily driven by lower amortization as a percentage of net revenues and lower selling, general, and administrative expenses as a percentage of net revenues.

In fiscal 2017, operating income for Professional Beauty increased 15%, or $10.5, to $78.5 from $68.0 in fiscal 2016. Operating margin decreased to 5.6% of net revenues in fiscal 2017 as compared to 27.2% in fiscal 2016 primarily driven by higher selling, general and administrative expenses as a percentage of net revenues and higher amortization expense as a percentage of net revenues, partially offset by lower cost of goods sold as a percentage of net revenues.

Corporate

Corporate primarily includes corporate expenses not directly relating to our operating activities. These items are included in Corporate since we consider them to be corporate responsibilities, and these items are not used by our management to measure the underlying performance of the segments.

Operating loss for Corporate was $485.8, $935.5 and $289.2 in fiscal 2018, 2017 and 2016, respectively, as described under "Adjusted Operating Income" below.

Adjusted Operating Income by Segment

We believe that adjusted operating income by segment further enhances an investor's understanding of our performance. See "Overview—Non-GAAP Financial Measures." A reconciliation of reported operating income (loss) to adjusted operating income is presented below, by segment:

(in millions)	Year Ended June 30, 2018		
	Reported (GAAP)	Adjustments [(a)]	Adjusted (Non-GAAP)
Operating income (loss)			
Luxury	$248.7	$ (145.1)	$ 393.8
Consumer Beauty	278.9	(132.2)	411.1
Professional Beauty	119.4	(75.5)	194.9
Corporate	(485.8)	(485.8)	—
Total	161.2	(838.6)	999.8

(in millions)	Year Ended June 30, 2017		
	Reported (GAAP)	Adjustments [(a)]	Adjusted (Non-GAAP)
Operating income (loss)			
Luxury	$158.0	$ (125.0)	$ 283.0
Consumer Beauty	261.2	(94.5)	355.7
Professional Beauty	78.5	(55.6)	134.1
Corporate	(935.5)	(935.5)	—
Total	(437.8)	(1,210.6)	772.8

(in millions)	Year Ended June 30, 2016 Reported (GAAP)	Adjustments [(a)]	Adjusted (Non-GAAP)
Operating income (loss)			
Luxury	$228.9	$ (50.5)	$ 279.4
Consumer Beauty	246.5	(20.5)	267.0
Professional Beauty	68.0	(8.5)	76.5
Corporate	(289.2)	(289.2)	—
Total	254.2	(368.7)	622.9

(a) See a reconciliation of reported operating income to adjusted operating income and a description of the adjustments under "adjusted operating income for Coty Inc." below. All adjustments are reflected in Corporate, except for amortization expense which is reflected in the Luxury, Consumer Beauty and Professional Beauty divisions.

Adjusted Operating Income for Coty Inc.

Adjusted operating income provides investors with supplementary information relating to our performance. See "Overview—Non-GAAP Financial Measures." Reconciliation of reported operating (loss) income to adjusted operating income is presented below:

(in millions)	Year Ended June 30, 2018	2017	2016	Change % 2018/2017	2017/2016
Reported operating income (loss)	$161.2	$(437.8)	$254.2	>100%	<(100%)
% of Net revenues	1.7 %	(5.7)%	5.8 %		
Restructuring and other business realignment costs	381.1	426.2	109.7	(11 %)	>100%
Amortization expense	352.8	275.1	79.5	28 %	>100%
Costs related to acquisition activities	76.1	494.9	197.5	(85 %)	>100%
Pension settlement	—	17.5	—	(100 %)	100 %
Asset impairment charges	—	—	5.5	N/A	(100 %)
Share-based compensation expense adjustment	—	—	1.3	N/A	(100 %)
Loss/(gain) on sale of assets	28.6	(3.1)	(24.8)	>100%	88 %
Total adjustments to reported operating (loss) income	838.6	1,210.6	368.7	(31 %)	>100%
Adjusted operating income	$999.8	$772.8	$622.9	29 %	24 %
% of Net revenues	10.6 %	10.1 %	14.3 %		

In fiscal 2018, adjusted operating income increased 29%, or $227.0, to $999.8 from $772.8 in fiscal 2017. Adjusted operating margin increased to 10.6% of net revenues in fiscal 2018 as compared to 10.1% in fiscal 2017, driven by approximately 60 basis points related to lower selling, general, and administrative expenses partially offset by approximately 10 basis points related to higher adjusted costs of sales as a percentage of net revenues. Excluding the impact of foreign currency exchange translations, adjusted operating income increased 28%.

In fiscal 2017, adjusted operating income increased 24%, or $149.9, to $772.8 from $622.9 in fiscal 2016. Adjusted operating margin decreased to 10.1% of net revenues in fiscal 2017 as compared to 14.3% in fiscal 2016, driven by approximately 630 basis points related to higher adjusted selling, general and administrative expenses partially offset by approximately 200 basis points related to lower adjusted cost of sales as a percentage of net revenues. Excluding the impact of foreign currency exchange translations, adjusted operating income increased 23%.

Restructuring and Other Business Realignment Costs

We periodically undertake activities to integrate, realign and restructure our business to streamline operations and optimize our cost structure.

In connection with the acquisition of the Burberry Beauty Business, we recorded $3.9 of restructuring costs related to distributor terminations which have been recorded in Corporate.

We continue to analyze our cost structure, including opportunities to simplify and streamline operations. Independent of the Global Integration Activities (as defined below), we are considering a range of smaller initiatives and other cost reduction activities, which will combine and expand existing initiatives, in order to reduce fixed costs and enable further investment in the business (the "2018 Restructuring Actions"). We expect that the 2018 Restructuring Actions will result in pre-tax restructuring and related costs of approximately $250.0, out of which approximately $78.0 has been approved through fiscal 2018.
In connection with the acquisition of the P&G Beauty Business, we anticipate that we will incur a total of approximately $1.3 billion of operating expenses, including restructuring and related costs aimed at integrating and optimizing the combined organization ("Global Integration Activities"). We expect that the Global Integration Activities will result in pre-tax restructuring and related costs of approximately $700.0 to $800.0, out of which approximately $700.0 has been approved through fiscal 2018.

In the first quarter of fiscal 2016, our Board approved an expansion to the acquisition integration program in connection with the acquisition of the Bourjois (the "Acquisition Integration Program"). Actions associated with the program were initiated after the Bourjois acquisition and substantially completed during fiscal 2017. We incurred $55.4 of restructuring costs life-to-date as of June 30, 2018, which have been recorded in Corporate.

In fiscal 2018, we incurred restructuring and other business realignment costs of $381.1, as follows:

- We incurred restructuring costs of $173.2 primarily related to the Global Integration Activities and 2018 Restructuring Actions, included in the Consolidated Statements of Operations.
- We incurred business structure realignment costs of $207.9 primarily related to our Global Integration Activities, and certain other programs. This amount includes $156.8 in Selling, general and administrative expenses and $51.1 in Cost of sales.

In fiscal 2017, we incurred restructuring and other business realignment costs of $426.2, as follows:

- We incurred restructuring costs of $372.2 primarily related to the Global Integration Activities, included in the Consolidated Statements of Operations.
- We incurred business structure realignment costs of $54.0 primarily related to our Global Integration Activities, Organizational Redesign and certain other programs. This amount includes $37.4 in Selling, general and administrative expenses and $16.6 in Cost of sales.

In fiscal 2016, we incurred restructuring and other business realignment costs of $109.7, as follows:

- We incurred Restructuring costs of $86.9 primarily related to the Acquisition Integration Program and Organizational Redesign, included in the Consolidated Statements of Operations
- We incurred other business realignment costs of $21.6 primarily related to our Organizational Redesign and the 2013 Productivity Program, included in Selling, general and administrative expenses in the Consolidated Statements of Operations. We incurred $1.2 of accelerated depreciation for fiscal 2016 resulting from a change in the estimated useful life of manufacturing equipment reported in Cost of sales.

In all reported periods, all restructuring and other business realignment costs were reported in Corporate.
Costs related to acquisition activities
Costs related to acquisition activities comprise primarily of: (i) costs included in Acquisition-related costs in the Consolidated Statements of Operations, which may include finder's fees, legal, accounting, valuation, and other professional or consulting fees, and other internal costs which may include compensation related expenses for dedicated internal resources. and (ii) other costs related to the amortization of acquired inventory step-up, included in Cost of sales in the Consolidated Statements of Operations.
In fiscal 2018, we incurred $76.1 of costs related to acquisition activities. We recognized Acquisition-related costs of $64.2, primarily in connection with the acquisitions of the P&G Beauty Business, the Burberry Beauty Business, ghd and Younique. We also incurred $7.1 of cost related to acquired inventory step-up amortization in connection with the acquisitions of Younique and the Burberry Beauty Business, as well as $4.8 in excess costs associated with the Burberry Beauty Business acquisition, included in Cost of sales in the Consolidated Statements of Operations.
In fiscal 2017, we incurred $494.9 of costs related to acquisition activities. We recognized Acquisition-related costs of $355.4, primarily in connection with the acquisition of P&G Beauty Business, ghd and Younique, included in the

Consolidated Statements of Operations. We also incurred $48.8, $44.4, and $40.8 in Cost of sales in the Consolidated Statements of

Operations, primarily related to the amortization of acquired inventory step-up in connection with the acquisition of the P&G Beauty Business, ghd, and Younique, respectively.
In fiscal 2016, we incurred $197.5 of costs related to acquisition activities. This includes Acquisition-related costs of $174.0, primarily in connection with the acquisition of P&G Beauty Business, included in the Consolidated Statements of Operations. We also incurred $20.3 of costs, primarily related to the amortization of acquired inventory step-up in connection with the acquisition of the Hypermarcas Brands and Bourjois, included in Cost of sales in the Consolidated Statements of Operations. We also incurred $3.2 of costs related to acquisition activities, included in Selling, general and administrative expense in the Consolidated Statements of Operations.
In all reported periods, all acquisition-related costs were reported in Corporate, except where otherwise noted.
Amortization Expense
In fiscal 2018, amortization expense increased to $352.8 from $275.1 in fiscal 2017 primarily as a result of the Acquisitions. In fiscal 2018, amortization expense of $145.1, $132.2, and $75.5 were reported in the Luxury, Consumer Beauty, and Professional Beauty segments, respectively.
In fiscal 2017, amortization expense increased to $275.1 from $79.5 in fiscal 2016, primarily as a result of the P&G Beauty Business acquisition. In fiscal 2017, amortization expense of $124.4, $94.9 and $55.8 were reported in the Luxury, Consumer Beauty, and Professional Beauty segments, respectively.
In fiscal 2016, amortization expense increased to $79.5 from $74.7 in fiscal 2015, primarily as a result of the Hypermarcas Brands and Bourjois Acquisition. In fiscal 2016, amortization expense of $50.4, $20.6 and $8.5 were reported in the Luxury, Consumer Beauty, and Professional Beauty segments, respectively.
Pension Settlement Charges
In fiscal 2018 and fiscal 2016, we did not incur any pension settlement charges.
In fiscal 2017, we incurred charges of $17.5 primarily in connection with the settlement of obligations related to the U.S. Del Laboratories, Inc. pension plan. The settlement of the plan was effectuated through lump sum payments to eligible participants during the three months ended September 30, 2016, in addition to, the purchase of annuity contracts from a third party insurance provider, effectively transferring the U.S. Del Laboratories, Inc. pension plan obligation to the insurance provider, during fiscal 2017. The settlement charge for fiscal 2017 is as a result of accelerating the recognition of losses previously deferred in other comprehensive income (loss). Pension settlement charges were reported in Corporate.
Asset Impairment Charges
In fiscal 2018 and 2017, we did not incur any asset impairment charges.
In fiscal 2016, Asset impairment charges of $5.5 were reported in the Consolidated Statements of Operations. The impairment represents the write-off of long-lived assets in Southeast Asia consisting of customer relationships reported in Corporate.
Share-Based Compensation Adjustment
There was no share-based compensation expense adjustment included in the calculation of adjusted operating income in fiscal 2018 and 2017. Share-based compensation adjustment for Pre-IPO grants in fiscal 2016 was $1.3.
Loss (Gain) on sale of assets
In fiscal 2018, we sold certain assets relating to our Playboy and Cerruti fragrance brands and recorded a loss of $28.6 which has been reflected in Loss (gain) on sale of assets in the Consolidated Statements of Operations.
In fiscal 2017, we sold certain assets relating to our J.Lo fragrance brand and recorded a gain of $3.1 which has been reflected in Loss (gain) on sale of assets in the Consolidated Statements of Operations.
In fiscal 2016, we sold the Cutex brand and related assets and recorded a gain of $24.8 which has been reflected in Loss (gain) on sale of assets in the Consolidated Statements of Operations.

INTEREST EXPENSE, NET
In fiscal 2018, net interest expense was $265.0 as compared with $218.6 in fiscal 2017. This increase is primarily a result of higher average debt balances and increased average interest rates.
In fiscal 2017, net interest expense was $218.6 as compared with $81.9 in fiscal 2016.This increase is primarily a result of higher average debt balances at increased interest rates due to the assumption of debt under the Galleria Credit Agreement and

the financings of the acquisitions of ghd and Younique. Additionally included in the prior period interest expense is a onetime foreign currency exchange gain of $11.1 related to our debt refinancing in fiscal 2016.

LOSS ON EARLY EXTINGUISHMENT OF DEBT

In fiscal 2018, we incurred $10.7 in losses related to the write-off of debt discount and deferred financing costs in connection with the refinancing of our credit agreement entered into on October 27, 2017 (the "Coty Credit Agreement") and the debt facilities available under the Galleria Credit Agreement (the "Galleria Credit Agreement").

In fiscal 2017, there were no losses related to the early extinguishment of debt.

In fiscal 2016, we incurred $3.1 in losses related to the write-off of deferred financing costs in connection with the refinancing of our long-term credit facilities.

OTHER EXPENSE (INCOME), NET

In fiscal 2018, we incurred $38.0 of net other expense. The other expense in fiscal 2018 primarily includes $24.1 in expense related to third-party debt issuance costs incurred in connection with the refinancing of the Coty Credit Agreement and Galleria Credit Agreement and $12.5 related to the change in the Mandatorily Redeemable Financial Instrument ("MRFI") balance primarily associated with a certain Southeast Asian subsidiary.

In fiscal 2017, we incurred $1.6 million of net other expense.

In fiscal 2016, we incurred $30.4 million of net other expense related to losses incurred of $29.6 on foreign currency contracts related to payments to Hypermarcas S.A. in connection with the acquisition of the Hypermarcas Brands and expenses of $0.8 related to the purchase of the remaining mandatorily redeemable financial instrument in a subsidiary.

INCOME TAXES

The following table presents our (benefit) provision for income taxes, and effective tax rates for the periods presented

	2018	2017	2016
(Benefit) provision for income taxes	$(24.7)	$(259.5)	$(40.4)
Effective income tax rate	16.2 %	39.4 %	(29.1)%

The effective income tax rate for fiscal 2018 was 16.2% as compared with 39.4% in fiscal 2017 and (29.1)% in fiscal 2016. The effective income tax rate in fiscal 2018 includes an expense of $41.0 as a result of the Tax Act. This expense is due to the one-time deemed repatriation tax offset by a tax benefit on the revaluation of the Company's deferred taxes. See Note 15—Income Taxes in the notes to our Consolidated Financial Statements for additional information.

The effective income tax rate in fiscal 2017 includes the release of a valuation allowance in the U.S. as a result of the P&G Beauty Business acquisition of $111.2.

The negative effective income tax rate in fiscal 2016 reflects a change in recognized tax benefit of $51.4 due to the settlement of tax audits in multiple jurisdictions and the expiration of foreign and state statutes of limitation.

The effective rates vary from the U.S. federal statutory rate of approximately 28% due to the effect of (i) jurisdictions with different statutory rates, (ii) adjustments to our unrecognized tax benefits and accrued interest, (iii) non-deductible expenses, (iv) audit settlements and (v) valuation allowance changes. Our effective tax rate could fluctuate significantly and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

Reconciliation of Reported (Loss) Income Before Income Taxes to Adjusted Income Before Income Taxes and Effective Tax Rates:

(in millions)	Year Ended June 30, 2018			Year Ended June 30, 2017			Year Ended June 30, 2016		
	(Loss)/ income before income taxes	(Benefit)provision for income taxes	Effective tax rate	(Loss)/ income before income taxes	(Benefit)provision for income taxes	Effective tax rate	Income before income taxes	(Benefit)provision for income taxes	Effective tax rate
Reported (loss) income before income taxes	$(152.5)	(24.7)	16.2 %	$(658.0)	(259.5)	39.4 %	$138.8	(40.4)	(29.1)%
Adjustments to reported operating income (loss) [(a)] [(b)]	838.6	152.5		1,210.6	355.0		368.7	50.7	
Other adjustments [(b)] [(c)]	33.4	10.4		1.4	0.4		9.6	(0.7)	
Adjusted income before income taxes	$719.5	$ 138.2	19.2 %	$554.0	$ 95.9	17.3 %	$517.1	$ 9.6	1.9 %

(a) See a description of adjustments under “Adjusted Operating Income for Coty Inc.”

(b) The tax effects of each of the items included in adjusted income are calculated in a manner that results in a corresponding income tax benefit/provision for adjusted income. In preparing the calculation, each adjustment to reported income is first analyzed to determine if the adjustment has an income tax consequence. The benefit/provision for taxes is then calculated based on the jurisdiction in which the adjusted items are incurred, multiplied by the respective statutory rates and offset by the increase or reversal of any valuation allowances commensurate with the non-GAAP measure of profitability

(c) See “Reconciliation of Reported Net (Loss) Income Attributable to Coty Inc. to Adjusted Net Income Attributable to Coty Inc.”

The adjusted effective tax rate was 19.2% compared to 17.3% in the prior-year period. The differences were primarily due to the release of a valuation allowance in the US in the prior period as a result of the P&G Beauty Business acquisition. Cash paid during the years ended June 30, 2018, 2017 and 2016, for income taxes of $124.6, $90.1 and $118.1 represents 17.3%, 16.3% and 22.8% of Adjusted income before income taxes for the fiscal year ended, respectively.

NET (LOSS) INCOME ATTRIBUTABLE TO COTY INC.

In fiscal 2018, net loss attributable to Coty Inc. decreased $253.4 to a loss of $168.8 from a loss of $422.2 in fiscal 2017. This decrease primarily reflects higher operating income partially offset by higher interest expense in fiscal 2018 and incremental costs related to the loss on early extinguishment of debt and other debt issuance costs.

In fiscal 2017, net loss attributable to Coty Inc. increased $579.1 to a loss of $422.2, from income of $156.9 in fiscal 2016. This decrease primarily reflects lower operating income and higher interest expense in fiscal 2017, partially offset by a higher tax benefit in the fiscal 2017 than in fiscal 2016 and losses related to hedges on the acquisition of the Hypermarcas Brands in fiscal 2016.

We believe that adjusted net income attributable to Coty Inc. provides an enhanced understanding of our performance. See “Overview—Non-GAAP Financial Measures.”

(in millions)	Year Ended June 30, 2018	2017	2016	Change % 2018/2017	2017/2016
Reported net (loss) income attributable to Coty Inc.	$(168.8)	$(422.2)	$156.9	60 %	<(100%)
% of Net revenues	(1.8 %)	(5.5 %)	3.6 %		
Adjustments to reported operating income [(a)]	838.6	1,210.6	368.7	(31 %)	>100%
Adjustments to other expense [(b)]	24.1	—	30.4	>100%	(100 %)
Loss on early extinguishment of debt [(c)]	10.7	—	3.1	>100%	(100 %)
Adjustments to interest (income) expense [(d)]	(1.4)	1.4	(23.9)	<(100%)	>100%
Adjustments to noncontrolling interest expense [(e)]	(24.0)	(25.9)	—	7 %	(100 %)
Change in tax provision due to adjustments to reported net (loss) income attributable to Coty Inc.	(162.9)	(355.4)	(50.0)	54 %	<(100%)
Adjusted net income attributable to Coty Inc.	$516.3	$408.5	$485.2	26 %	(16 %)
% of Net revenues	5.5 %	5.3 %	11.2 %		
Per Share Data					
Adjusted weighted-average common shares					
Basic	749.7	642.8	345.5		
Diluted	753.1	647.8	354.2		
Adjusted net income attributable to Coty Inc. per common share					
Basic	$0.69	$0.64	$1.40		
Diluted	$0.69	$0.63	$1.37		

(a) See a description of adjustments under “Adjusted Operating Income for Coty Inc.”

(b) In fiscal 2018, we incurred losses of $24.1 related to the expensing of third-party debt issuance costs incurred in connection with the refinancing of the Coty Credit Agreement and Galleria Credit Agreement. In fiscal 2016, we incurred losses of $29.6 on foreign currency contracts related to payments for the acquisition of the Hypermarcas Brands and expenses of $0.8 related to the purchase of the remaining mandatorily redeemable financial interest in a subsidiary, included in Other expense, net in the Consolidated Statements of Operations.

(c) In fiscal 2018, the amount represents the write-off of debt discount and deferred financing costs in connection with the refinancing of the Coty Credit Agreement and Galleria Credit Agreement, included in Loss on early extinguishment of debt in the Consolidated Statements of Operations. In fiscal 2016, the amount represents the write-off of deferred financing costs in connection with the refinancing of debt, included in Loss on early extinguishment of debt in the Consolidated Statements of Operations.

(d) The amount in fiscal 2018 represents one-time gains of $1.4 on short-term forward contracts to exchange euros for U.S. dollars to repay U.S. dollar debt balances outstanding under the Coty Credit Agreement and Galleria Credit Agreement, in connection with the refinancing of those respective agreements in April 2018, included in Interest expense, net in the Consolidated Statements of Operations. The amount in fiscal 2017 represents a net loss of $1.4 incurred in connection with the acquisition of the Hypermarcas Brands and subsequent intercompany loans, included in Interest expense, net in the Consolidated Statements of Operations. The amount in fiscal 2016 primarily represents one-time gains of $11.1 on short-term forward contracts to exchange euros for U.S. dollars related to the euro-denominated debt and a net gain of $12.8 in connection with the acquisition of the Hypermarcas Brands and subsequent intercompany loans, included in Interest expense, net in the Consolidated Statements of Operations.

(e) The amounts represent the after-tax impact of the non-GAAP adjustments included in Net income attributable to noncontrolling interest based on the relevant noncontrolling interest percentage in the Consolidated Statements of Operations.

Quarterly Results of Operations Data

The following tables set forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters in the periods ended June 30, 2018. We have prepared the quarterly consolidated statements of operations data on a basis consistent with the consolidated financial statements included in Part II, Item 8, “Financial Statements

and Supplementary Data" in this Annual Report on Form 10-K. In the opinion of management, the financial information reflects all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of this data. This information should be read in conjunction with the consolidated financial statements and related notes included in Part II, Item 8, "Financial Statements and Supplementary Data" in this Annual Report. The results of historical periods are not necessarily indicative of the results of operations for any future period.

	Fiscal 2018 [(a)] Three Months Ended				Fiscal 2017 [(b)] Three Months Ended			
	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,
(in millions, except per share data)	2018	2018	2017	2017	2017	2017	2016	2016
Consolidated Statements of Operations Data:								
Net revenues	$2,299.4	$2,222.7	$2,637.6	$2,238.3	$2,241.3	$2,032.1	$2,296.7	$1,080.2
Gross profit	1,402.7	1,410.3	1,612.6	1,364.0	1,366.0	1,216.0	1,404.4	635.4
Restructuring costs	97.6	42.7	21.7	11.2	193.2	155.8	15.8	7.4
Acquisition-related costs	0.5	2.6	7.0	54.1	80.3	57.7	135.9	81.5
Operating (loss) income	(61.8)	19.9	174.4	28.7	(279.0)	(192.5)	(12.7)	46.4
Interest expense, net	65.7	72.6	60.3	66.4	59.5	60.8	57.9	40.4
Loss on early extinguishment of debt	10.7							