

THE ESTÉE LAUDER COMPANIES INC. (NYSE: EL) & COTY INC. (NYSE: COTY)

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APRIL 2022



COTY

BEAUTY, LIBERATED

- I. INTRODUCTION
- II. COMPANY BACKGROUND
- III. ACQUISITION DRIVERS
- IV. MODEL, VALUATION, & FINANCIALS

I. INTRODUCTION

RECOMMENDATION: EL TO ACQUIRE COTY

- Acquisition Price:

\$7.57

- Premium Paid:

~\$1.26

1

- Supply Chains and Structural Enhancements

2

- Beauty Product and Geographic Synergies

II. COMPANY BACKGROUND

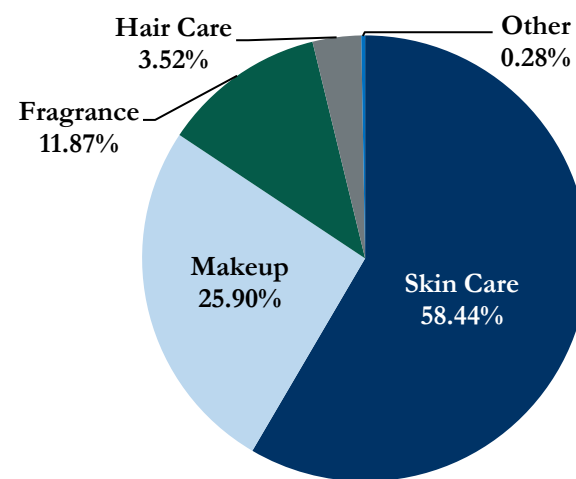
THE ESTÉE LAUDER COMPANIES INC. OVERVIEW

BUSINESS DESCRIPTION

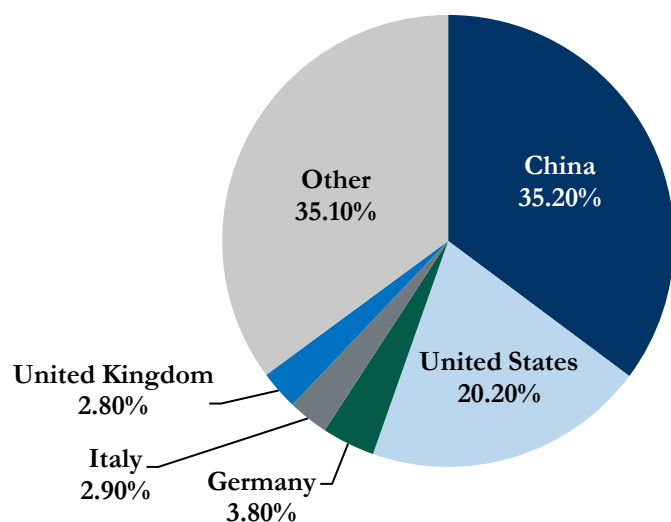
Estée Lauder engages in the manufacture and sale of skin care, fragrance, makeup, and hair care products

- The company operates in 5 business segments:
 - **Skin Care:** Includes moisturizers, serums, cleansers, exfoliators, acne care, facial mask, sun care products, etc.
 - **Makeup:** Includes lipsticks, mascaras, foundations, etc.
 - **Fragrance:** Includes sprays, colognes, candles, etc.
 - **Hair Care:** Includes shampoos, conditioners, etc.
 - **Other:** Includes ancillary products and services
- As of FY2020, the Company operates ~1,600.00 stores

REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHIC SEGMENT



KEY FIGURES

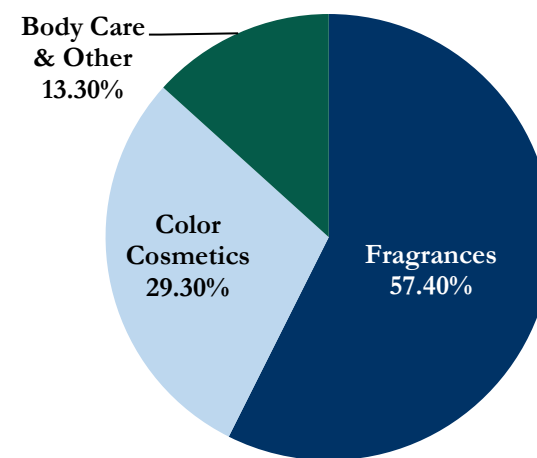
(\$ in millions)	2021A	2020A	2019A	2018A
Sales	\$ 16,251.00	\$ 14,259.00	\$ 14,835.00	\$ 13,683.00
<i>Growth</i>	13.97%	-3.88%	8.42%	15.72%
Total Expense	\$ 13,118.00	\$ 12,262.00	\$ 12,320.00	\$ 11,250.00
<i>Margin</i>	80.72%	85.99%	83.05%	82.22%
Operating Income	\$ 3,133.00	\$ 1,997.00	\$ 2,515.00	\$ 2,433.00
<i>Margin</i>	19.28%	14.01%	16.95%	17.78%
Net Income	\$ 2,870.00	\$ 684.00	\$ 1,785.00	\$ 1,108.00
<i>Growth</i>	319.59%	-61.68%	61.10%	-11.29%

BUSINESS DESCRIPTION

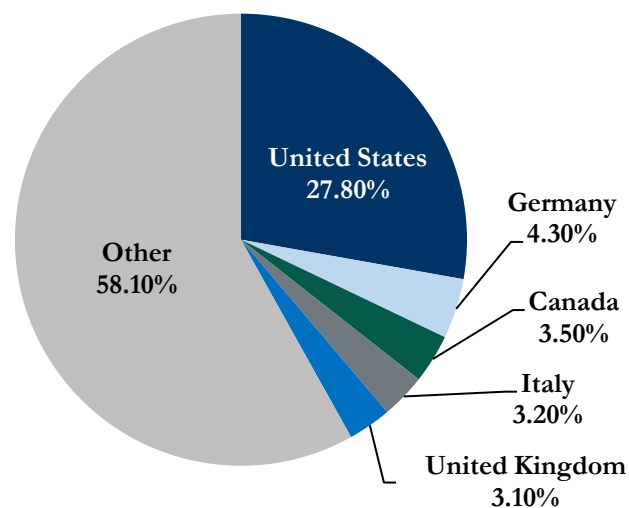
Coty engages in the manufacture, distribution, marketing, and sale of branded beauty products

- The company operates in 3 business segments:
 - Fragrances:** Includes products that contain a combination of chemicals to give its unique scent
 - Color Cosmetics:** Includes beauty products designed to alter one's appearance, such as make-up and nail polish
 - Body Care & Other:** Includes products designed for use on the skin, such as lotions, creams, and moisturizers
- The Company makes prestige and mass beauty products for ~39.00 brands organically and through licensing deals

REVENUE BY BUSINESS SEGMENT



REVENUE BY GEOGRAPHIC SEGMENT







KEY FIGURES

(\$ in millions)	2021A	2020A	2019A	2018A
Sales	\$ 4,628.90	\$ 4,717.20	\$ 6,287.90	\$ 9,398.80
<i>Growth</i>	-1.87%	-24.98%	-33.10%	22.89%
Total Expense	\$ 4,476.20	\$ 5,104.00	\$ 6,043.70	\$ 8,760.30
<i>Margin</i>	96.70%	108.20%	96.12%	93.21%
Operating Income	\$ 152.70	\$ (386.80)	\$ 244.20	\$ 638.50
<i>Margin</i>	3.30%	-8.20%	3.88%	6.79%
Net Income	\$ (64.00)	\$ (1,093.90)	\$ (3,905.20)	\$ (168.80)
<i>Growth</i>	94.15%	71.99%	-2213.51%	60.02%

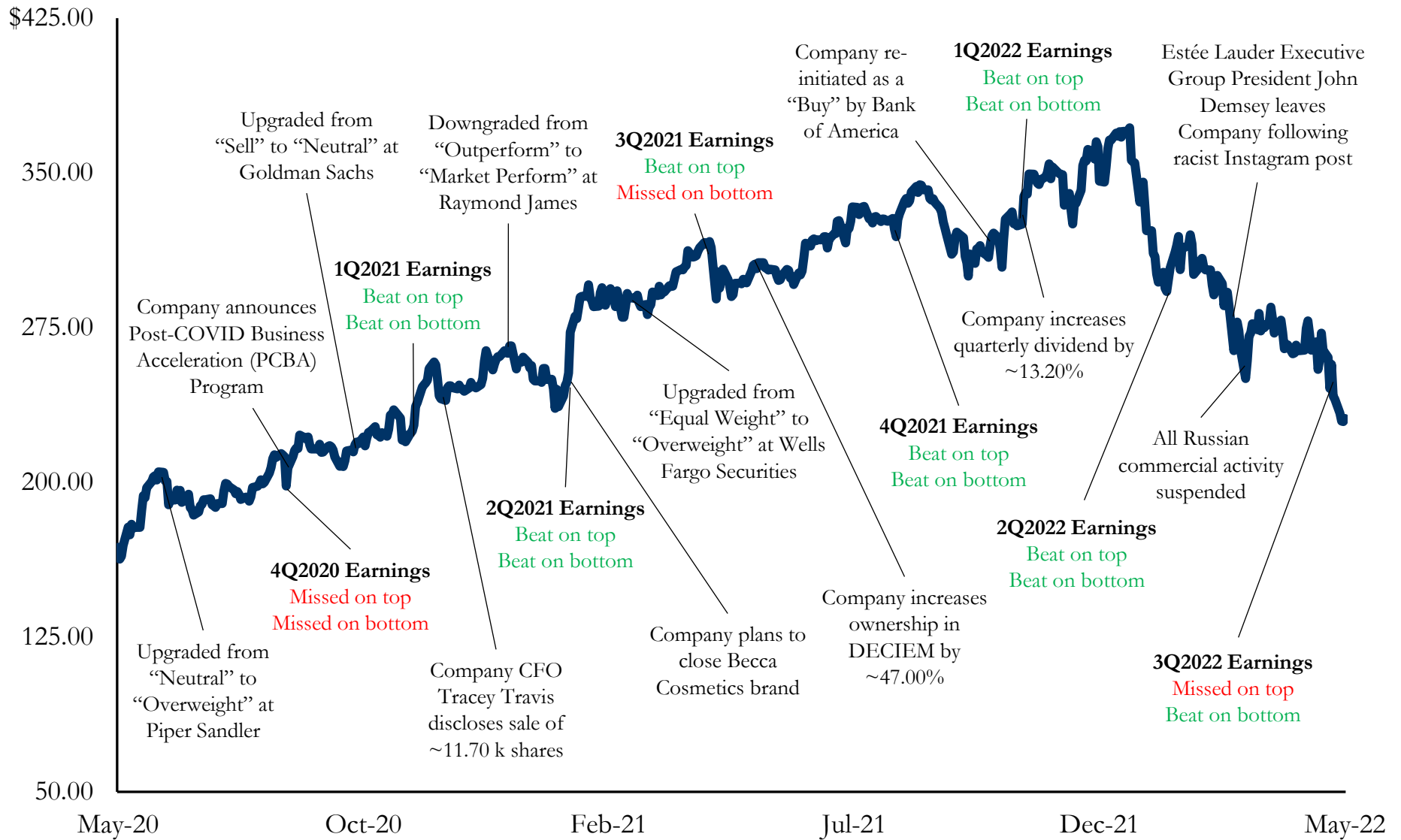
INDUSTRY OVERVIEW

- Firms in the Cosmetic and Beauty Product industry generally engage in the development, marketing, manufacturing, sale, and distribution of personal care and beauty-related products, including perfumes, makeup items, hair products, creams, lotions, and skin care products
- The Cosmetic and Beauty Products industry is part of the Personal Products subsector, the least defensive sector in Consumer Staples
- The industry has underperformed as the COVID-19 pandemic began, especially for luxury products linked to travel and leisure activity
- Some key trends for the industry include a shift to more eco-friendly products and more product offerings for diverse populations
 - Eco-friendly personal products include natural ingredients from renewable raw materials, such as natural oils and agricultural plants
- The total value of M&A deals in the subsector dropped ~80.23% in CY2020 to ~\$6.90 bn, but increased to ~\$21.80 bn in CY2021

	COMPANY	SIZE (BN)	DESCRIPTION
	The Estée Lauder Companies Inc. (EL)	\$82.24	Estée Lauder engages in the manufacture of skin care, fragrance, hair care, and makeup products. It sells products under various brand names, including Clinique, Estée Lauder, and MAC, and also operates over 1,000.00 independent stores
	COTY INC. (COTY)	\$5.29	Coty manufactures, distributes, and sells branded prestige and mass beauty products. In CY2020, the Company acquired ~51.00% of Kylie Cosmetics to expand its market reach worldwide and sells many products through licensing deals
	L'Oréal SA (LRLCY)	\$174.70	L'Oréal engages in the sale and manufacture of beauty and hair products. Based out of France, it is the world's leading cosmetics brand, with ~\$32.00 bn in sales in FY2020. Some of L'Oréal's established brands include L'Oréal and Maybelline
	Natura & Co. Holding SA (NTCO)	\$4.44	Natura & Co. develops, manufactures, sells, and distributes personal care products through e-commerce channels and its own stores. The Company also purchased The Body Shop in CY2017 for ~\$1.10 bn, with over 3,000.00 total locations

ANNOTATED STOCK CHART: EL

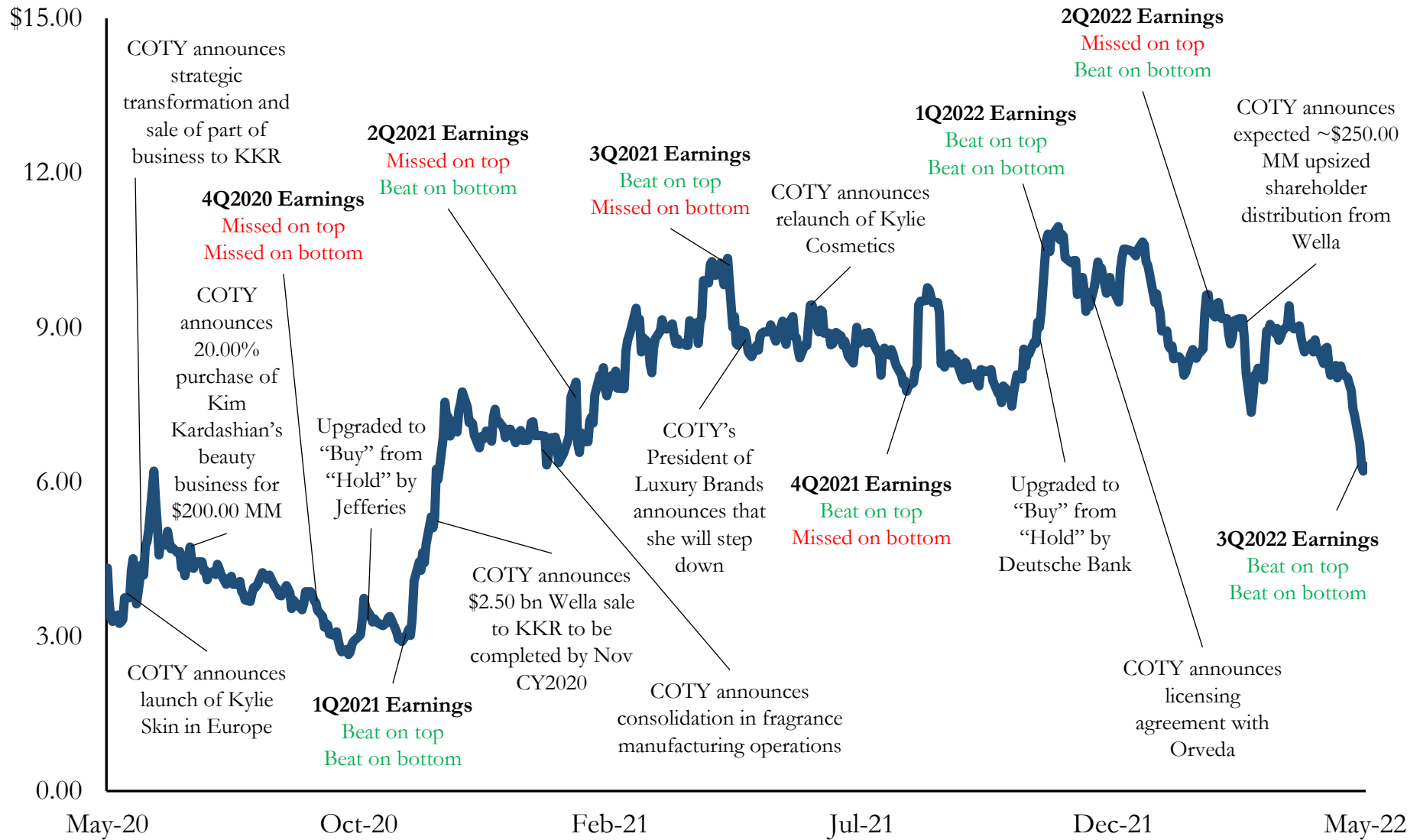
THE ESTÉE LAUDER COMPANIES INC. NOMINAL PERFORMANCE AND KEY EVENTS



Source: Data from FactSet as of 5/12/22

ANNOTATED STOCK CHART: COTY

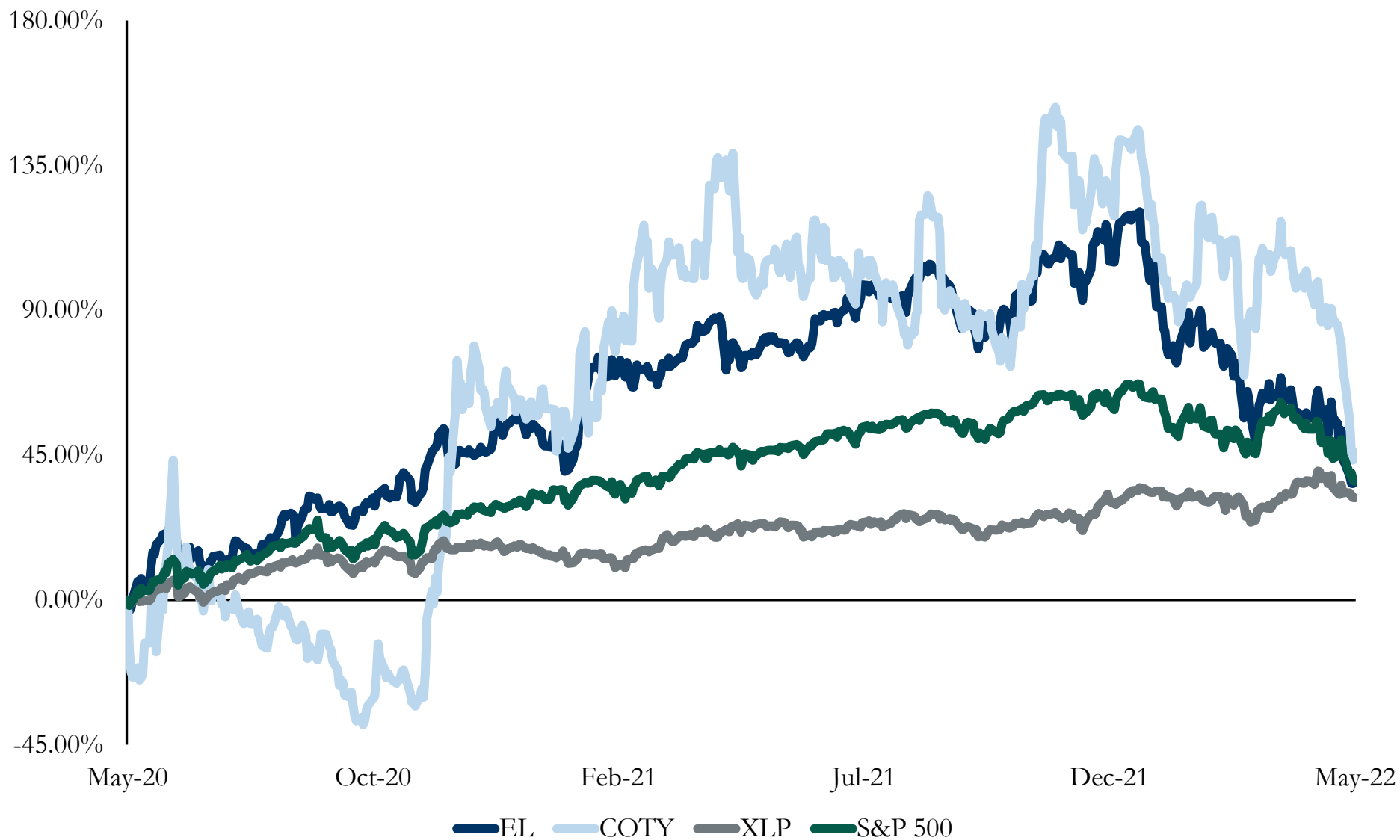
COTY INC. NOMINAL PERFORMANCE AND KEY EVENTS



Source: Data from FactSet as of 5/12/22

RELATIVE PERFORMANCE

EL vs. COTY vs. XLP vs. S&P 500



III. ACQUISITION DRIVERS

EXPOSURE TO DIVERSE SUPPLY CHAIN PIPELINES

A merger between Estée Lauder and COTY would bring increased specialized resources to produce product

- COTY currently manufactures ~85.00% of its product, and discussed plans of outsourcing more of its supply chain to other businesses to further optimize operations
 - EL has reported COGS of ~19.00% of revenue in FY2021, compared to ~31.00% of revenue for COTY
- Estée Lauder’s new R&D and manufacturing facilities can complement COTY’s lack of exposure to international markets and catalyze slowing EMEA and APAC sales

MARGIN AND STRUCTURE SYNERGIES

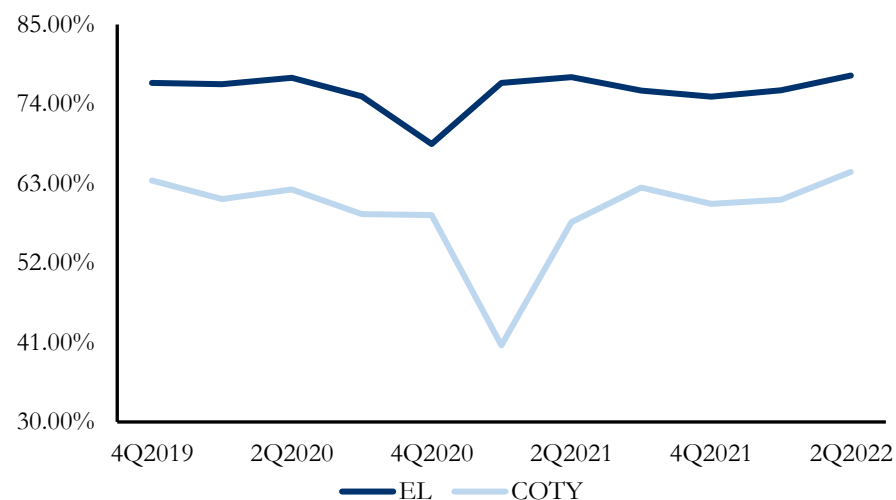
Estée Lauder can provide COTY with the expertise to improve its margins, therefore boosting operating profits

- COTY has stressed the importance of its ability to stabilize and improve profitability through the Transformation Plan
 - The program highlights the Company’s vision of enhancing margin growth and overall cost controls
- Estée Lauder announced the Post-COVID Business Alliance Program (PCBA) in August CY2020
 - The program is designed to further enhance efficiencies and focus on growing areas of the prestige beauty market

NUMBER OF FACILITIES BY REGION

	Americas				EMEA				APAC			
	EL		COTY		EL		COTY		EL		COTY	
	O	L	O	L	O	L	O	L	O	L	O	L
Mfg./Dist.	3	11	3	0	5	10	5	1	1*	2	1	0
R&D	1	2	0	1	0	0	0	0	1*	2	0	0
Corporate	0	1	0	1	0	0	0	2	0	0	0	1
Total	4	14	3	2	5	10	5	3	2	4	1	1
Total O&L	18		5		15		8		6		2	

COMPANY GROSS MARGINS (LAST 12 QUARTERS)



Key: O = Owned, L = Leased

Source: Company Filings, *EL Tokyo Mfg. and Shanghai R&D Facilities in Construction

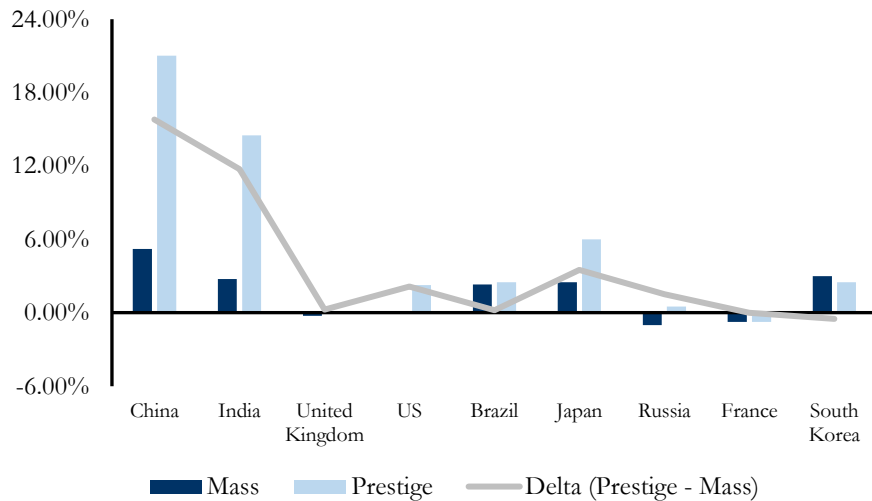
Source: Bloomberg

PRESTIGE/MASS BEAUTY GROWTH OPPORTUNITY

COTY's prestige and mass beauty exposure could catalyze Estée Lauder's growth in multiple markets

- COTY derives ~63.87% of revenue from Prestige Beauty products, unlike Estée Lauder's focus on Mass Beauty
- The target age demographic for Estée Lauder is women aged ~35.00 - ~55.00, unlike ~25.00 - ~35.00 for COTY
- Estée Lauder has increasingly focused sales in the EMEA and APAC regions, compared to the Americas for COTY
- COTY maintains ~25.00 brand licenses, including popular brands used for Mass and Prestige Beauty products

PRESTIGE VS. MASS BEAUTY PER CAPITA SPENDING GROWTH (5-YR CAGR)

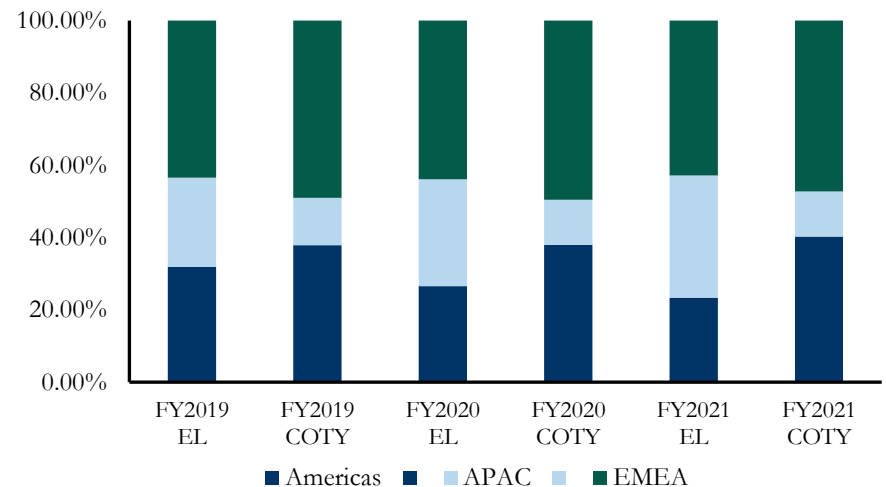


INCREASED EFFICIENCIES OF POINT OF SALE

Estée Lauder can use COTY's eCommerce and independent store model to improve operating costs

- Although both Companies earn revenue from eCommerce sales, COTY does not operate free-standing retail locations
- Estée Lauder plans to close locations to improve efficiencies
 - The Company projects a reduction SG&A expenses of ~\$400.00 MM - ~\$500.00 MM within ~2.00 years
- This complements Estée Lauder's PCBA Program, stressing decreased physical store expenses, while still growing sales in both eCommerce and brick-and-border locations

REVENUE SHARE AMONG GEOGRAPHIC REGIONS



Sources: Euromonitor, Stifel

Source: Bloomberg

IV. MODEL, VALUATION, & FINANCIALS

EL – INCOME STATEMENT



Income Statement for The Estée Lauder Companies, Inc. (MM except per share items)									
Year (FY)	Historical			Projected					5-yr CAGR
	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	
Revenue	14,835	14,259	16,251	18,567	20,433	22,272	24,053	25,857	3.4%
<i>% growth</i>	8%	-4%	14%	14%	10%	9%	8%	8%	
COGS	(2,830)	(2,931)	(3,167)	(3,342)	(3,657)	(3,964)	(4,257)	(4,577)	
<i>% of Revenue</i>	19%	21%	19%	18%	18%	18%	18%	18%	
Gross Profit	12,005	11,328	13,084	15,225	16,775	18,307	19,796	21,281	3.4%
<i>Gross Margin</i>	81%	79%	81%	82%	82%	82%	82%	82%	
SG&A	(8,731)	(8,492)	(9,057)	(10,325)	(11,099)	(11,932)	(12,827)	(13,789)	
R&D	(202)	(228)	(243)	(255)	(269)	(282)	(297)	(311)	
D&A	(557)	(611)	(651)	(744)	(819)	(892)	(964)	(1,036)	
EBIT(Operating Income)	2,515	1,997	3,133	3,901	4,588	5,201	5,709	6,145	4.6%
<i>EBIT Margin</i>	17%	14%	19%	21%	22%	23%	24%	24%	
Interest Income (Expense)	41	(22)	679	101	119	139	161	186	
Other Expenses	(249)	(929)	(481)	(481)	(481)	(481)	(481)	(481)	
Pre-Tax Income	2,307	1,046	3,331	3,521	4,226	4,859	5,389	5,850	
Tax Expense	(513)	(350)	(456)	(556)	(679)	(828)	(1,010)	(1,232)	
Tax Rate	22%	33%	14%	22%	22%	22%	22%	22%	
Net Income Attributable to EL	1,794	696	2,875	2,965	3,548	4,031	4,379	4,618	4.5%
EBITDA	3,072	2,608	3,784	4,645	5,407	6,093	6,673	7,181	
<i>EBITDA Margin</i>	21%	18%	23%	25%	26%	27%	28%	28%	
Basic Earnings Per Share	\$4.94	\$1.93	\$7.92	\$8.27	\$9.89	\$11.24	\$12.21	\$12.87	
Diluted Earnings Per Share	\$4.84	\$1.90	\$7.81	\$8.21	\$9.82	\$11.16	\$12.12	\$12.78	
Basic Shares Outstanding	364	361	363	359	359	359	359	359	
Diluted Shares Outstanding	370	367	368	361	361	361	361	361	

EL – BALANCE SHEET

Balance Sheet for The Estée Lauder Companies, Inc. (MM)								
Year (FY)	Historical			Projected				
	2020A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Assets								
Current Assets								
Cash & Cash Equivalents	2,987	5,022	4,958	5,781	6,692	7,884	9,218	10,458
Receivables	1,831	1,194	1,702	1,940	2,135	2,327	2,514	2,702
Inventories	2,006	2,062	2,505	2,643	2,893	3,136	3,368	3,620
Other Current Assets	388	614	603	712	840	991	1,169	1,380
Total Current Assets	7,212	8,892	9,768	11,076	12,560	14,338	16,268	18,160
Non-Current Assets								
PP&E	4,831	7,416	7,808	7,860	8,037	8,389	8,981	9,889
Accumulated Depreciation	(2,763)	(3,079)	(3,338)	(3,472)	(3,576)	(3,647)	(3,684)	(3,702)
Long Term Investments	177	-	-	-	-	-	-	-
Goodwill	1,868	1,401	2,616	3,035	3,520	4,083	4,737	5,494
Intangibles	1,203	2,338	4,095	4,750	5,510	6,392	7,415	8,601
Deferred Tax Assets	295	44	-	100	300	450	563	703
Other Non-Current Assets	333	769	1,022	1,186	1,328	1,474	1,621	1,783
Total Non-Current	5,944	8,889	12,203	13,459	15,120	17,141	19,632	22,769
Total Assets	13,156	17,781	21,971	24,535	27,679	31,479	35,900	40,928
Liabilities								
Current Liabilities								
Accounts Payable	1,490	1,177	1,692	1,786	1,954	2,118	2,275	2,445
Current Maturities and Leases	516	1,597	411	470	517	563	608	654
Other Current Liabilities	2,599	2,405	3,195	3,355	3,692	4,024	4,346	4,672
Total Current Liabilities	4,605	5,179	5,298	5,610	6,163	6,705	7,229	7,771
Non-Current Liabilities								
Long-Term Debt	2,896	7,192	7,688	7,073	6,507	5,987	5,508	5,067
Other Non-Current Liabilities	1,244	1,448	2,037	2,327	2,561	2,792	3,015	3,241
Total Non-Current Liabilities	4,140	8,640	9,725	9,400	9,068	8,778	8,523	8,308
Total Liabilities	8,745	13,819	15,023	15,010	15,231	15,484	15,752	16,079
Equity								
Common Stock & APIC	4,409	4,796	5,341	5,341	5,341	5,341	5,341	5,341
Retained Earnings	9,984	10,134	12,244	15,830	20,004	24,701	29,719	34,980
Accumulated Other Loss	(10,007)	(10,995)	(11,528)	(12,509)	(13,759)	(14,910)	(15,774)	(16,335)
Accumulated Minority Interest	25	27	891	863	863	863	863	863
Total Equity	4,411	3,962	6,948	9,525	12,448	15,996	20,149	24,849
Total Liabilities and Equities	13,156	17,781	21,971	24,535	27,679	31,479	35,900	40,928

EL – CASH FLOW STATEMENT

Statement of Cash Flows for The Estée Lauder Companies, Inc. (MM)								
	Historical			Projected				
	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Cash Flows from Operating Activities								
Net income	1,794	696	2,875	2,965	3,548	4,031	4,379	4,618
Adjustments to Reconcile Net Income								
Depreciation and Amortization	557	611	651	744	819	892	964	1,036
Deferred Income Taxes	(66)	(143)	(230)	-	-	-	-	-
Non-cash Stock-based Compensation		213	327	-	-	-	-	-
Other Adjustments to Reconcile Net Income	234	914	(546)	-	-	-	-	-
Changes in Operating Assests and Liabilities								
Decrease (Increase) in Accounts Receivable, Net	(169)	625	(398)	(238)	(195)	(192)	(186)	(189)
Decrease (Increase) in Inventory, Net	(375)	(3)	(140)	(138)	(250)	(243)	(232)	(253)
Decrease (Increase) in Current Assets, Net	285	(212)	13	(109)	(128)	(151)	(178)	(210)
Decrease (Increase) in Working Capital Assets, Net	(259)	410	(525)	(485)	(573)	(586)	(596)	(652)
Increase (Decrease) in Accounts Payable	319	(308)	440	94	169	164	157	171
Increase (Decrease) in Other Current Liabilities, Net	(62)	56	(56)	218	384	379	367	372
Increase (Decrease) in Working Capital Liabilities, Net	257	(252)	384	312	553	543	524	542
Decrease (Increase) in Other Noncurrent Assets, Net				(164)	(142)	(146)	(147)	(162)
Increase (Decrease) in Other Noncurrent Liabilities, Net		(169)	695	(325)	(332)	(290)	(256)	(214)
Net Cash Provided by Operating Activities	2,517	2,280	3,631	3,047	3,872	4,443	4,867	5,167
Cash Flows from Investing Activities								
Capital Expenditures	(744)	(623)	(637)	(796)	(995)	(1,244)	(1,555)	(1,944)
Sale/Maturity of Investments	2	-	-	-	-	-	-	-
Purchase of Investments	1,215	(5)	(42)	-	-	-	-	-
Other Investing Activities		(1,070)	(1,185)	-	-	-	-	-
Net Cash Provided by (Used for) Investing Activities	473	(1,698)	(1,864)	(796)	(995)	(1,244)	(1,555)	(1,944)
Cash Flows from Financing Activities								
Change In Debt	(172)	2,723	(607)	(607)	(607)	(607)	(607)	(607)
Repurchases of Common and Preferred Stock	(1,555)	(893)	(733)	(733)	(733)	(733)	(733)	(733)
Sale of Common and Preferred Stock	192	180	215	-	-	-	-	-
Dividends paid to stockholders	(609)	(503)	(753)	(622)	(626)	(667)	(638)	(644)
Other Financing Activities	(29)	(46)	(14)	-	-	-	-	-
Net Cash Flows Provided by (used for) Financing Activities	(2,173)	1,461	(1,892)	(1,962)	(1,966)	(2,007)	(1,978)	(1,984)
Exchange Rate Effect	(11)	(8)	61	-	-	-	-	-
Net Change in Cash								
Net change in Cash & Cash Equivalents	806	2,035	(64)	289	911	1,192	1,334	1,240
Cash & Cash Equivalents, beginning of period	2,715	3,521	5,556	5,492	5,781	6,692	7,884	9,218
Cash & Cash Equivalents, end of period	\$3,521	\$5,556	\$5,492	5,781	\$6,692	\$7,884	\$9,218	\$10,458

COTY – INCOME STATEMENT

Income Statement for COTY INC. (MM except per share items)									
Year (FY)	Historical			Projected					5-yr CAGR
	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	
Revenue	8,649	4,717	4,629	5,289	5,685	6,083	6,448	6,771	2.5%
<i>% growth</i>	-8%	-45%	-2%	14%	8%	7%	6%	5%	
COGS	(2,914)	(1,389)	(1,446)	(1,534)	(1,634)	(1,734)	(1,822)	(1,896)	
<i>% of Revenue</i>	34%	29%	31%	29%	29%	29%	28%	28%	
Gross Profit	5,734	3,328	3,183	3,755	4,051	4,349	4,627	4,875	2.6%
<i>Gross Margin</i>	66%	71%	69%	71%	71%	72%	72%	72%	
SG&A	(4,239)	(2,801)	(2,267)	(2,720)	(2,992)	(3,217)	(3,377)	(3,462)	
R&D	(163)	(93)	(97)	(104)	(112)	(120)	(129)	(139)	
D&A	(736)	(821)	(667)	(600)	(546)	(502)	(467)	(439)	
EBIT(Operating Income)	596	(387)	153	331	401	511	653	835	9.7%
<i>EBIT Margin</i>	7%	-8%	3%	6%	7%	8%	10%	12%	
Interest Income (Expense)	(296)	(214)	(255)	(255)	(241)	(250)	(249)	(247)	
Unusual Expenses	(4,068)	(965)	(177)	(100)	(90)	(81)	(73)	(66)	
Other Income (Expense)	(11)	98	39	42	44	46	48	51	
Pre-Tax Income	(3,778)	(1,468)	(240)	18	114	226	380	574	
Tax Expense	9	378	172	200	231	268	311	361	
Tax Rate	N/A	N/A	N/A	16%	16%	16%	16%	16%	
Minority Interest	(15)	(4)	4	(5)	(2)	(1)	(3)	(2)	
Net Income Attributable to COTY	(3,784)	(1,094)	(64)	213	344	493	689	933	15.9%
EBITDA	3,072	2,608	3,784	931	947	1,013	1,120	1,274	
<i>EBITDA Margin</i>	36%	55%	82%	18%	17%	17%	17%	19%	
Basic Earnings Per Share	-\$5.04	-\$1.44	-\$0.08	\$0.25	\$0.41	\$0.59	\$0.82	\$1.11	
Diluted Earnings Per Share	-\$5.04	-\$1.44	-\$0.08	\$0.25	\$0.40	\$0.57	\$0.80	\$1.08	
Basic Shares Outstanding	751	759	765	839	839	839	839	839	
Diluted Shares Outstanding	751	759	765	865	865	865	865	865	

COTY – BALANCE SHEET

Balance Sheet for COTY INC. (MM)

Year (FY)	Historical			Projected				
	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Assets								
Current Assets								
Cash & Cash Equivalents	380	352	310	985	1,386	1,798	2,161	2,545
Receivables	1,161	440	348	398	427	457	485	509
Inventories	1,153	678	651	690	736	780	820	853
Other Current Assets	579	5,026	473	568	624	671	705	722
Total Current Assets	3,273	6,496	1,782	2,641	3,173	3,707	4,170	4,630
Non-Current Assets								
PP&E	3,115	2,917	2,921	2,547	2,295	2,175	2,205	2,411
Accumulated Depreciation	(1,515)	(1,464)	(1,684)	(1,516)	(1,379)	(1,269)	(1,180)	(1,109)
Long Term Investments	-	-	1,276	1,276	1,276	1,276	1,276	1,276
Goodwill	5,074	3,974	4,118	4,705	5,058	5,412	5,736	6,023
Intangibles	7,422	4,372	4,463	5,099	5,481	5,865	6,217	6,528
Deferred Tax Assets	146	362	759	759	759	759	759	759
Other Non-Current Assets	150	72	56	64	69	74	78	82
Total Non-Current	14,392	10,233	11,909	12,934	13,559	14,292	15,091	15,970
Total Assets	17,665	16,729	13,691	15,575	16,732	17,998	19,261	20,600
Liabilities								
Current Liabilities								
Accounts Payable	1,733	1,190	1,166	1,236	1,318	1,398	1,468	1,528
Other Current Liabilities	1,745	2,396	1,248	1,426	1,533	1,640	1,738	1,825
Total Current Liabilities	3,478	3,586	2,414	2,662	2,850	3,038	3,207	3,354
Non-Current Liabilities								
Long-Term Debt	7,470	8,925	6,707	6,707	6,707	6,707	6,707	6,707
Other Non-Current Liabilities	1,672	910	1,424	1,627	1,749	1,871	1,984	2,083
Total Non-Current Liabilities	9,142	9,835	8,131	8,334	8,456	8,578	8,691	8,790
Total Liabilities	12,620	13,421	10,545	10,996	11,306	11,616	11,898	12,143
Equity								
Common Stock, APIC, and Other Adjusting Items	46	(2,544)	(2,896)	(2,297)	(2,420)	(2,624)	(2,969)	(3,454)
Retained Earnings	4,541	5,549	5,756	6,590	7,560	8,720	10,047	11,624
Accumulated Minority Interest	458	303	286	286	286	286	286	286
Total Equity	5,045	3,308	3,146	4,579	5,425	6,382	7,364	8,456
Total Liabilities and Equities	17,665	16,729	13,691	15,575	16,732	17,998	19,261	20,600

COTY – CASH FLOW STATEMENT

Statement of Cash Flows for COTY INC. (MM)								
	Historical			Projected				
	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Cash Flows from Operating Activities								
Net income	(3,784)	(1,094)	(64)	213	344	493	689	933
Adjustments to Reconcile Net Income								
Depreciation and Amortization	736	821	667	600	546	502	467	439
Deferred Income Taxes	(176)	(343)	(218)	(249)	(268)	(287)	(304)	(319)
Non-cash Stock-based Compensation				-	-	-	-	-
Other Adjustments to Reconcile Net Income	3,979	518	307	-	-	-	-	-
Changes in Operating Assests and Liabilities								
Decrease (Increase) in Accounts Receivable, Net	345	425	11	(50)	(30)	(30)	(27)	(24)
Decrease (Increase) in Inventory, Net	(22)	124	81	(39)	(45)	(45)	(40)	(33)
Decrease (Increase) in Current Assets, Net	(378)	(36)	(46)	(95)	(57)	(47)	(34)	(18)
Decrease (Increase) in Working Capital Assets, Net	(55)	513	46	(183)	(132)	(121)	(101)	(75)
Increase (Decrease) in Accounts Payable	(127)	(374)	(50)	70	81	80	71	60
Increase (Decrease) in Other Current Liabilities, Net	53	(77)	(103)	426	295	295	268	234
Increase (Decrease) in Working Capital Liabilities, Net	(75)	(451)	(153)	496	376	375	339	293
Decrease (Increase) in Other Noncurrent Assets, Net				(8)	(5)	(5)	(4)	(4)
Increase (Decrease) in Other Noncurrent Liabilities, Net				406	244	245	225	198
Net Cash Provided by Operating Activities	625	(36)	585	1,274	1,105	1,202	1,310	1,466
Cash Flows from Investing Activities								
Capital Expenditures	(427)	(267)	(174)	(226)	(294)	(382)	(497)	(646)
Sale/Maturity of Investments	(27)	(566)	2,853	-	-	-	-	-
Purchase of Investments				-	-	-	-	-
Other Investing Activities			(238)	-	-	-	-	-
Net Cash Provided by (Used for) Investing Activities	(454)	(833)	2,442	(226)	(294)	(382)	(497)	(646)
Cash Flows from Financing Activities								
Change In Debt	226	325	(3,126)	(300)	(300)	(300)	(300)	(300)
Repurchases of Common and Preferred Stock		(5)		-	-	-	-	-
Sale of Common and Preferred Stock	6	727	227	-	-	-	-	-
Dividends paid to stockholders	(346)	(197)	(26)	(190)	(111)	(108)	(150)	(136)
Other Financing Activities	(46)	(81)	5	-	-	-	-	-
Net Cash Flows Provided by (used for) Financing Activities	(160)	771	(2,920)	(490)	(411)	(408)	(450)	(436)
Exchange Rate Effect	(7)	(8)	61	-	-	-	-	-
Net Change in Cash								
Net change in Cash & Cash Equivalents	4	(106)	168	558	400	412	363	384
Cash & Cash Equivalents, beginning of period	362	366	259	427	985	1,386	1,798	2,161
Cash & Cash Equivalents, end of period	\$366	\$259	\$427	985	1,386	\$1,798	\$2,161	\$2,545

COTY – DCF MODEL

Unlevered Free Cash Flow for COTY INC. (MM)								
Year (FY)	Historicals			Projected				
	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
EBITDA	596	(387)	153	331	401	511	653	835
<i>EBITDA Margin</i>	7%	-8%	3%	6%	7%	8%	10%	12%
<i>Less D&A</i>	(736.00)	(821.00)	(666.50)	(599.85)	(545.86)	(502.19)	(467.04)	(439.02)
EBIT	596	(387)	153	331	401	511	653	835
<i>EBIT Margin</i>	7%	-8%	3%	6%	7%	8%	10%	12%
Tax Rate	N/A	N/A	N/A	16%	16%	16%	16%	16%
Plus D&A	736	821	667	600	546	502	467	439
Less: Capital Expenditures	(427)	(267)	(174)	(226)	(294)	(382)	(497)	(646)
Less: Change in Net Working Capital	(205)	2,910	(632)	(21)	323	669	963	1,276
Unlevered Free Cash Flow (uFCF)	701	3,077	13	405	639	871	1,038	1,203
Present Value of uFCF	-	-	-	374	544	684	752	804

Assumptions:

Long-term Growth Rate	2.50%	Assumption
WACC	8.40%	FactSet
Cost of Debt	4.69%	FactSet
Tax Rate	16.00%	10-Q
Beta	1.20	Factset (5-Year Adjusted)

Implied Values (MM)

Terminal Value	20,898
Present Value of Terminal Value	13,962
% Enterprise Value	82%
Present Value of uFCF	3,157
% Enterprise Value	18%
Implied Enterprise Value	17,119
Implied Equity Value	10,436
Diluted Shares Outstanding	864.58

Implied Share Price: \$12.07

MERGER MODEL – PRECEDENT TRANSACTIONS

(\$ in millions)

Date	Target	Acquirer	Value	Equity Value	Payment Type	TV/Revenue	TV/EBIT	TV/EBITDA
5/16/2019	Galderma Holding SA	Abhu Dhabi Investment Authority	\$10,200.00	\$10,200.00	Cash	3.28x	44.07x	39.74x
2/12/2019	COTY INC.	JAB Holding Co. Sarl.	\$9,149.53	\$1,750.43	Cash	1.81x	16.87x	12.90x
5/22/2019	Avon Products Inc.	Natura & Co. Holding SA	\$4,110.45	\$2,697.55	Stock	1.97x	17.11x	13.22x
9/25/2017	Carver Korea Co. Ltd.	Unilever NV	\$2,270.00	\$2,270.00	Cash	3.28x	44.07x	39.74x
7/11/2019	Laboratoires Filorga Cosmetiques SAS	Colgate-Palmolive Co.	\$1,516.00	\$1,516.00	Cash	3.28x	44.07x	39.74x
1/29/2018	Albea Sarl	PAI Partners SAS	\$1,518.00	\$620.00	Stock & Debt	3.28x	44.07x	39.74x

MERGER MODEL - ASSUMPTIONS



(\$ in millions, except per share items)

Transaction Assumptions	
General information	
Current date	5/12/2022
Acquirer	
Name	The Estée Lauder Companies, Inc.
Ticker	EL
Latest filing date	12/31/2021
Filing type (10K or 10Q)	10Q
Current share price	\$231.00
Target	
Name	COTY INC.
Ticker	COTY
Latest filing date	12/31/2021
Filing type (10K or 10Q)	10Q
Current share price	\$6.31
% Offer premium	20%
Offer price per share	\$7.57
Diluted shares outstanding (MM)	864.6
Offer value	6,546.6
Deal structure	
% Stock	0%
% Cash	100%
Tax structure	Stock Sale
Acquirer shares issued in transaction	0.00
Nominal exchange ratio (offer price/acq share price)	0.03x
Actual exchange ratio (% stock x offer price/acq share price)	0.00x
Other assumptions	
Deal fees as % of offer value	2.00%
Deal fees	130.93
Assumed annual pretax cost synergies	100.00
The Estée Lauder Companies, Inc. Calendar Year Ending 2022 EBITDA	4,736.00
COTY INC. Calendar Year Ending 2022 EBITDA	952.00
Acquirer tax rate	21.50%
Target tax rate	16.00%

Transaction financing	
% Cash consideration financed with debt	75%
% Cash consideration financed with excess cash	25%
Acquirer new borrowing	4909.973683
Acquirer excess cash used	1636.657894
% of total acquirer cash balance	33.01%
Treatment of target debt	Refinanced
Debt to be refinanced	5425.2
Total acquisition financing	10335.17368
Acquirer available cash	4958.00
Target debt outstanding	5425.2
Term of loan	5
Financing fees as % of acquisition financing	1%
Financing fees	103.35
Annual financing fee amortization	20.67
Interest rate on new debt	4.0%
Interest earned on cash	1.0%

MERGER MODEL – ASSUMPTIONS CONTINUED

(\$ in millions)

Sources & Uses of Funds	
Sources of Funds	
New borrowing to acquire target	\$4,909.97
New borrowing to refinance target debt	\$5,425.20
Cash used to acquire target	\$1,636.66
Value of stock issued to acquire target	\$0.00
Cash for fees	\$234.28
Total sources	\$12,206.116
Uses of Funds	
Stock to target	0.00
Cash to target	6546.63
Target debt refinanced	5425.20
Deal fees (advisory, legal, and accounting)	130.93
Financing fees (related to acq debt)	103.35
Total Uses	12206.12
<i>Do sources equal uses?</i>	Yes

Write-Ups and Purchase Price Allocation	
Asset write-ups	
<u>Tangible assets</u>	
Book value of target PP&E	772.7
% Write-up	20%
Asset write-up	154.5
Useful life	15 years
Incremental depreciation expense	10.3
Incremental deferred tax liabilities	33.2
<u>Intangible assets</u>	
Book value of target intangible assets	4,222.1
% Write-up	150.0%
Asset write-up	6,333
Useful life	20 years
Incremental amortization expense	316.6575
Incremental deferred tax liabilities	1,361.6
Purchase Price Allocation	
<u>Target assets - book value</u>	13,434.0
Plus: PP&E write ups	154.5
Plus: Intangible asset write ups	6,333
Less: Write off of target goodwill	(3,990.7)
Less: Write off of target deferred tax assets	(723.2)
Target assets - fair market value	15,207.8
<u>Target liabilities - book value</u>	9,962.5
Less: Write off of target deferred tax liabilities	0.0
Plus: New deferred tax liabilities created	1,394.9
Target liabilities - fair market value	11,357.4
Target net book value - fair market value	3,850.44
Offer value	\$6,546.63
Goodwill created in transaction	2,696.2

MERGER MODEL – PRO FORMA BALANCE SHEET

(\$ in millions)

Pro Forma Balance Sheet					
	Standalone		Adjustments		Pro Forma
	Acquirer EL	Target COTY			
	12/31/21	12/31/21	Increase	(Decrease)	
Cash and equivalents	4,603.0	562.5		(1,871)	3,294.6
Accounts receivable	2,079.0	506.8			2,585.8
Inventory	2,612.0	589.0			3,201.0
Deferred tax assets (current and long term)	0.0	723.2		(723.2)	0.0
Other current assets	661.0	520.1			1,181.1
PP&E	4,553.0	772.7	154.5		5,480.2
Intangible assets	3,883.0	4,222.1	6,436.5		14,541.6
Goodwill	2,572.0	3,990.7	2,696.2	(3,990.7)	5,268.2
Other assets	1,115.0	1,546.9			2,661.9
Total assets	22,078.0	13,434.0			\$35,512.0
Accounts payable	1,639.0	1,394.3			3,033.3
Accrued expenses & def rev. (current & non-current)	3,851.0	1,327.1			5,178.1
Revolver and current debt	272.0	93.8		(93.8)	272.0
Long term debt	7,287.0	5,130.8	10,335.2	(5,130.8)	17,622.2
Convertible debt	0.0	0.0		0.0	0.0
Deferred tax liabilities	0.0	776.7	1,394.9	0.0	2,171.6
Other liabilities	1,937.0	816.6			2,753.6
Preferred stock	0.0	142.4			142.4
Noncontrolling interests	874.0	280.8			1,154.8
Shareholders' equity	6,218.0	3,471.5	0	(3,602.4)	6,087.1
Total liabilities + shareholder equity	\$22,078.0	\$13,434.0			\$35,512.0
	<i>Balance check</i>	<i>Balanced</i>	<i>Balanced</i>		<i>Balanced</i>
<i>Credit statistics</i>		EL	COTY		Pro Forma
Total debt		7,559.0	5,224.6		17,894.2
+ Noncontrolling interests		874.0	280.8		1,154.8
+ Preferred stock		0.0	142.4		142.4
- Cash & equivalents		(4,603.0)	(562.5)		(3,294.6)
Net debt		3,830.0	5,085.3		15,896.8
Equity value (share price x shares out)		83,442.7	6,546.6		83,442.7
Enterprise value		87,272.7	11,631.9		99,339.5
EBITDA for the calendar year ending 2022		4,736.0	952.0		5,688.0
Gross Debt / EBITDA		1.8x	5.9x		3.4x
Enterprise value / EBITDA		18.4x	12.2x		17.5x
Debt / Equity		10.1%	86.3%		23.0%

MERGER MODEL – ACCRETION/DILUTION ANALYSIS

(\$ in millions)

Accretion/Dilution Analysis				
<i>EPS Accounting:</i>	<i>GAAP EPS</i>	FY 2022	FY 2023	FY 2024
		6/30/2022	6/30/2023	6/30/2024
<i>Acquirer</i>				
Net income		2964.63	3547.60	4030.73
GAAP EPS		8.21	9.82	11.16
Diluted shares outstanding (weighted avg.)		361.22	361.22	361.22
<i>Target</i>				
Net income		212.65	343.57	493.16
GAAP EPS		0.25	0.40	0.57
Diluted shares outstanding (weighted avg.)		864.58	864.58	864.58
<u>Transaction related expenses/income⁽¹⁾</u>				
Less: Interest expense from new deal debt		(204.4)	(204.4)	(204.4)
Less: Interest income on cash forgone		(18.7)	(18.7)	(18.7)
Plus: Synergies		100.00	100.00	100.00
Less: Incremental D&A expense		(327.0)	(327.0)	(327.0)
Less: Financing fee amortization		(20.7)	(20.7)	(20.7)
Taxes (assumed at acquirer's rate)		101.2	101.2	101.2
Total after tax transaction related income/ (expenses)		(369.5)	(369.5)	(369.5)
Pro Forma GAAP Net Income		2807.74	3521.62	4154.35
Pro Forma Shares Outstanding		361.22	361.22	361.22
Pro Forma GAAP EPS		\$7.77	\$9.75	\$11.50
Acquirer standalone EPS		8.21	9.82	11.16
Accretion / Dilution per share		(\$0.43)	(\$0.07)	\$0.34
Accretion / Dilution %		(5.3%)	(0.7%)	3.1%
Additional pretax synergies required to breakeven		129.1	21.4	-

MERGER MODEL – SENSITIVITY ANALYSIS

Sensitivity Analysis					
Accretion Dilution - Year 1					
Relevant assumptions	% Stock	Offer price			
<u>Current offer price</u>		\$7.50	\$10.00	\$12.50	\$15.00
\$7.57	100%	(0.99)	(1.31)	(1.61)	(1.89)
<u>Current % stock</u>	75%	(0.86)	(1.14)	(1.41)	(1.67)
0.0%	50%	(0.72)	(0.97)	(1.21)	(1.44)
<u>% Cash consideration financed with debt</u>	25%	(0.58)	(0.78)	(0.99)	(1.19)
75.0%	0%	(0.43)	(0.59)	(0.75)	(0.91)
Accretion Dilution - Year 2					
Relevant assumptions	% Stock	Offer price			
<u>Current offer price</u>		\$7.50	\$10.00	\$12.50	\$15.00
\$7.57	100%	(0.77)	(1.13)	(1.47)	(1.80)
<u>Current % stock</u>	75%	(0.60)	(0.92)	(1.22)	(1.52)
100.0%	50%	(0.43)	(0.70)	(0.96)	(1.22)
<u>% Cash consideration financed with debt</u>	25%	(0.25)	(0.47)	(0.69)	(0.90)
25.0%	0%	(0.07)	(0.23)	(0.39)	(0.55)
Accretion Dilution - Year 3					
Relevant assumptions	% Stock	Offer price			
<u>Current offer price</u>		\$7.50	\$10.00	\$12.50	\$15.00
\$7.57	100%	(0.48)	(0.88)	(1.26)	(1.62)
<u>Current % stock</u>	75%	(0.29)	(0.63)	(0.97)	(1.29)
0.0%	50%	(0.08)	(0.37)	(0.66)	(0.93)
<u>% Cash consideration financed with debt</u>	25%	0.13	(0.10)	(0.33)	(0.55)
75.0%	0%	0.35	0.19	0.02	(0.14)

MERGER MODEL – SENSITIVITY ANALYSIS CONTINUED

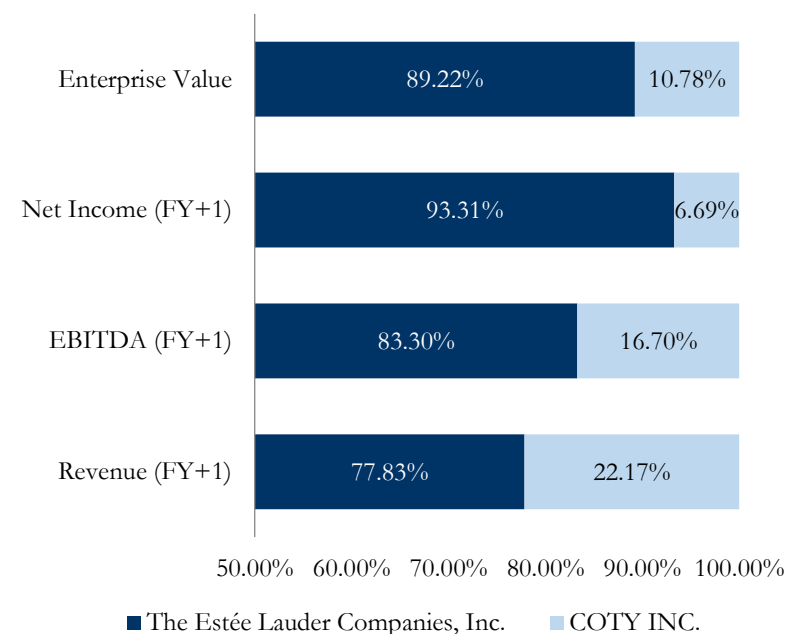
Accretion Dilution - Year 1					
Relevant assumptions	% Stock	% Cash consideration financed with debt			
		0%	25%	50%	100%
<u>Current offer price</u>					
\$7.57	100%	(0.68)	(0.79)	(0.89)	(1.11)
<u>Current % stock</u>	75%	(0.54)	(0.65)	(0.76)	(0.97)
0.0%	50%	(0.40)	(0.51)	(0.62)	(0.84)
<u>% Cash consideration financed with debt</u>	25%	(0.25)	(0.36)	(0.47)	(0.70)
75.0%	0%	(0.09)	(0.21)	(0.32)	(0.55)
Debt / LTM EBITDA multiple					
Relevant assumptions	% Stock	Offer price			
		\$7.50	\$10.00	\$12.50	\$15.00
<u>Current offer price</u>					
\$7.57	100%	3.37	3.65	3.94	4.22
<u>Current % stock</u>	75%	3.37	3.65	3.94	4.22
0.0%	50%	3.37	3.65	3.94	4.22
<u>% Cash consideration financed with debt</u>	25%	3.37	3.65	3.94	4.22
75.0%	0%	3.37	3.65	3.94	4.22

MERGER MODEL – CONTRIBUTION ANALYSIS

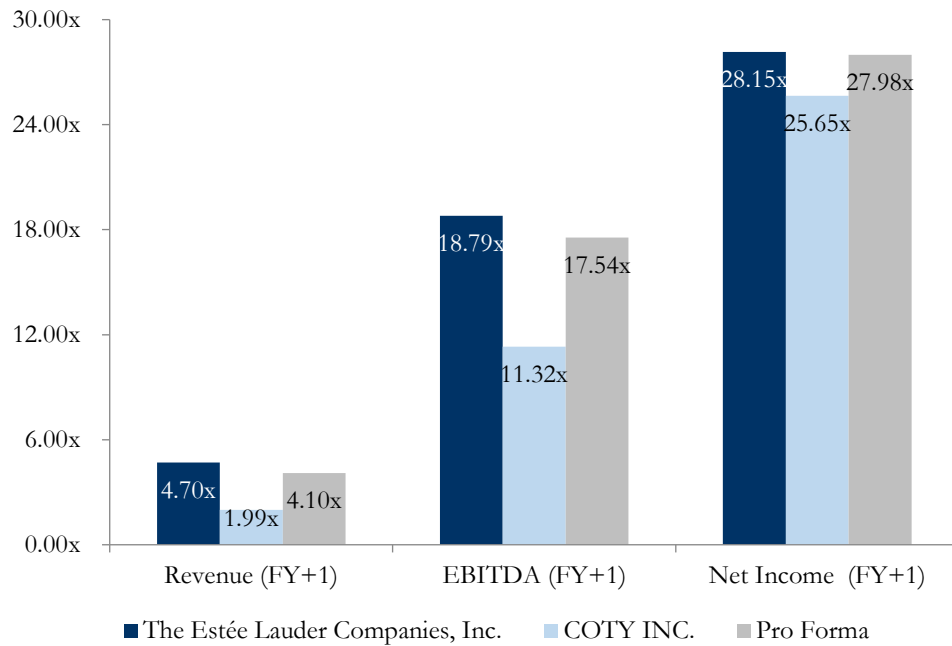
(\$ in millions, except per share items)

Market value	The Estée Lauder Companies, Inc.	COTY INC.	Pro Forma
Price per share	\$231.00	\$6.31	
Diluted shares outstanding	361.22	864.6	
Equity value	83,442.7	5,455.5	
Net debt	<u>3,830.0</u>	<u>5,085.3</u>	
Enterprise value	87,272.7	10,540.8	
Contribution \$ in MM			
Revenue (FY+1)	18,566.8	5,288.5	23,855.3
EBITDA (FY+1)	4,644.6	931.0	5,575.6
Net Income (FY+1)	2,964.6	212.7	3,177.3
Contribution %			
Revenue (FY+1)	77.8%	22.2%	100%
EBITDA (FY+1)	83.3%	16.7%	100%
Net Income (FY+1)	93.3%	6.7%	100%
Enterprise Value	89.2%	10.8%	100%
Multiples			
Revenue (FY+1)	4.70x	1.99x	4.10x
EBITDA (FY+1)	18.79x	11.32x	17.54x
Net Income (FY+1)	28.15x	25.65x	27.98x

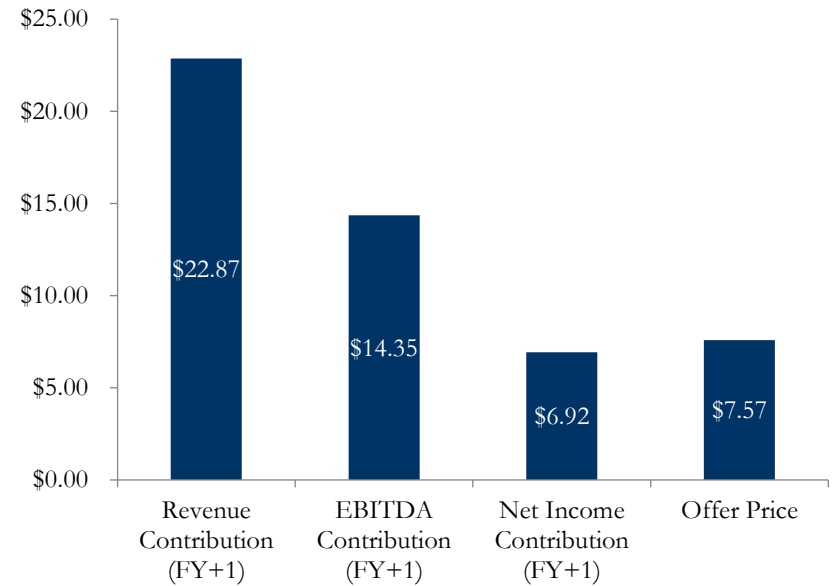
Contribution Analysis



Multiples



Implied Target Share Price Based on Contribution



RISKS

- Rising cases of COVID-19 or reimplemented lockdowns or restrictions may significantly affect the recovery and growth of sales for Estée Lauder and COTY, as many of their products are luxury goods or linked with travel and leisure activities
 - Since COTY sells more prestige beauty products than mass, Estée Lauder would become more exposed to this risk
- The merger adds ~\$5.20 bn in long-term debt for Estée Lauder and heavily affects their cash balance, affecting overall liquidity
- If the acquirer does not capitalize off the innovation and product synergies from the deal, they may fall behind competitors
- If Estée Lauder continues to have management issues, it can affect its own reputation and affect COTY's product demand
- Supply chain issues and costs may affect Company margins and top-line growth if COTY's COGS do not go down if acquired
 - COTY's COGS were ~31.00% of revenue in FY2021, compared to ~19.00% for Estée Lauder, a more established firm

BULL CASE

- Estée Lauder uses COTY's luxury personal product portfolio to rapidly grow sales and reach new audiences
- Innovation for beauty care grows due to synergies from the merger and creates successful personal products
- COTY's COGS decrease dramatically from the acquisition to improve profits

BASE CASE

- Estée Lauder takes advantage of COTY's luxury personal product portfolio to grow sales and reach new markets
- The merger spurs new innovation for both companies and creates new products due to expected firm synergies
- COTY's COGS significantly decrease from the acquisition to increase overall bottom lines

BEAR CASE

- Estée Lauder fails to take advantage of COTY's product portfolio to grow sales and reach new demographics
- The merger does not influence new or successful innovations in beauty care for the Company and synergies are not realized
- COTY's COGS remain at similar levels prior to the merger, affecting bottom lines