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Coty Inc.'s (COTY) CEO Pierre Laubies on Q1 2020 - Earnings Call Transcript

Nov. 6, 2019 2:26 PM ET | 2 Likes
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FQ1: 11-06-19 Earnings Summary

Press Release *10-Q* *Slides*

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Coty Inc. (NYSE:COTY) Q1 2020 Results Earnings Conference Call November 6, 2019 8:00 AM ET

Company Participants

Pierre Laubies - CEO

Pierre-André Terisse - CFO

Conference Call Participants

Robert Ottenstein - Evercore

Olivia Tong - Bank of America Merrill Lynch

Nik Modi - RBC

Faiza Alwy - Deutsche Bank

Joe Lachky - Wells Fargo

Lauren Lieberman - Barclays

Stephanie Wissink - Jefferies

Mark Astrachan - Stifel

Wendy Nicholson - Citigroup

Andrea Teixeira - JP Morgan

Operator

Good morning, ladies and gentlemen. My name is Maria, and I'll be your conference operator today. At this time, I would like to welcome everyone to Coty's Fourth Quarter Fiscal 2020 Results Conference Call. As a reminder, this conference call is being recorded today, November 06, 2019. On today's call are Pierre Laubies, Chief Executive Officer; and Pierre-Andre Terisse, Chief Financial Officer.

I would like to remind you that many of the comments today may contain forward-looking statements. Please refer to Coty's earnings release and the reports filed with the SEC, where the Company lists factors that could cause actual results to differ materially from these forward-looking statements.

All commentary are like-for-like in net revenue reflect the comparison of the business at constant currency in the current and prior year, excluding the impact of acquisitions and divestitures. In addition, except where noted, the discussion of our financial results and our expectations reflects certain adjustments as specified in the non-GAAP financial measures section of our earnings release. You can find the bridge from GAAP to non-GAAP results in the reconciliation tables in the earnings release.

I will now turn the call over to Mr. Laubies.

Pierre Laubies

Thank you, Maria. And welcome everybody to Coty's first quarter fiscal 2020 conference call. I will start by reviewing the progresses we have made on our turnaround plan in the last few months and Pierre-Andre will then discuss our financial results, outlook and some of the recent strategic developments.

Our Q1 can be characterized by several key developments. First, we have begun activating our turnaround plan announced on July 1. Second, our operational and financial results illustrate that we are off to a solid start for the year and that we are showing improvement on the parameters that we seek to drive. And third, we remain confident in the fiscal 2020 targets we laid out on the last earnings call.

As a reminder, we built our turnaround plan aimed at serving what we consider our most pressing issues. More specifically, we were talking of the need to redress the trajectory of our Consumer Beauty business, retain the high performance levels of our Luxury and Professional Beauty businesses, close our margin gap against our peers, reconcile our organizational design and our size, and build an engaging culture relying less on personal genius and more on collective mastery [ph].

Four months into the activation of our plan, we are tackling each of these areas one by one. To begin stabilizing our plans in Consumer Beauty, we have been refocusing our teams on the most pressing fundamentals, namely our working media strategies. In Q1 working media spend increased 11% with the biggest step up behind Consumer Beauty brands. Within Consumer Beauty, we are actively focusing our resources behind our priority brand country combinations, leading to an investment increase of close to 40% on the strategic priorities.

We are also returning, as you may have noticed with the recent announcement on Cover Girl to a marketing strategy bolted on our strongest distinctive brand assets. We are also beginning to address our gross margin gap in several ways. First and foremost, we are now making sure that we have the best possible alignment between sell-in and sell-out thus avoiding value destructive selling tactics.

Two, our plans include least price increases where relevant which have already been or as we speak are being activated in several countries. Finally, we are advancing in our objectives to be the leaner and more aligned organization supported by an enabling [ph] culture with the right balance of key activity and discipline. We have defined our new organizational culture and have been communicating it for the core functions and in market.

We are currently actively allocating externally and internally for our new Amsterdam headquarters which will be ready by Q4, and we have recently named Richard Jones our Global Chief Supply Officer. Richard joined us with extensive experience in the beauty industry and is a key addition to our leadership team to lead our core [ph] and SKUs simplification agenda.

To build further on the progress we have made our [indiscernible] approach to defining market turn on plans has now covered approximately 50% of our business. This includes Consumer Beauty U.S., UK, Germany and Brazil, as well as Luxury UK and an overall review of the philosophy brand.

In these markets we have arrived at core findings identified the value at stake and have begun deploying action plans. This analytical approach is now being deployed in Consumer Beauty Russia, Poland and Canada, as well as Luxury U.S. and Germany, where we expect many of the same findings and conclusions. Our remaining markets will be covered in the next 12 to 18 months.

Although we are still in the early stages of activating our plans, we are beginning to see some green shoots in our operational performance. In the UK, where we remain the number one cosmetics, mass cosmetics plan had experienced market share erosions. Our actions have driven 200 basis points improvement in sales trends driving market share gains.

Behind these improvements are substantial increase in working media investment, particularly TV. The strong performance of recent launches, Wonderluxe Mascara, and Lasting Matte foundation, both of which were launched at premium pricing, and while it is still early, the limited demand elasticity we are experiencing following our recent pricing actions are in line with our expectations.

In Germany, we are mainly seeing many of different dynamics in the Mass Fragrance category. Bruno Banani, the number one Mass Fragrance brand in the market has also significantly increased its sell-out performance from a moderate decline to a double-digit growth, fueling the growth and the strong performance of the recently launched Loyal Man fragrance, increased media support for both the male and female lines, and the successful expansion of the brand into the shower gels category through product launch.

In the U.S. we have also seen some early positive signals, though we are clear that the path to stabilization will take some time. Sally Hansen, the number one nail brand in the U.S. mass market has struggled with sales declines for several years. Our analytical approach identified across our brands of mass focus on as well as the key lever to drive consumer engagement.

Investment months we had increased our digital media support for the premium Miracle Gel line, improved the packaging on our treatment products range and deployed seasonally relevant in-store displays including a Halloween theme in [indiscernible] collaboration. As a result, while the mass men market continued to moderately decline, both Sally Hansen nail color and nail treatment are back to steady growth.

And in Cover Girl, while the improvement in the overall brand sell-out has been more moderate, our actions plans are transforming performance in key areas. Our core eight sub-brands which account for two-thirds of the brand sales are now back to growth marking a 320 basis points improvement. Underpinning this improvement is a strong [indiscernible] in TV support, so we're behind these sub-brands. And while our sales continue to be weighed on by the shelf space correction, we are seeing productivity improvement in our core customers as well as sales growth in uncut [ph] channels such as Amazon and Ultra [ph].

Speaking of Amazon, as we continue to focus on improving our fundamentals, both offline and online, we have seen very strong growth of our brands on Amazon, both in the U.S. and globally. The strong growth has been supported by our close collaboration with Amazon as part of the Global Vendor Management Program, the increased TV support for hero sub-brands, execution focus on core SKUs that were particularly weighed on Amazon. As a result, in Q1 our mass brands listed on Amazon grew over 40% and we now have our fair share on Amazon across most categories which is a substantial change for us.

In Luxury and Professional Beauty, we are continuing to deploy our strategies of premiumization and category expansion. In Luxury, [indiscernible] by Gucci's Alchemist Garden which remains amongst the top performing ultra premium collections and now we are planning our learning [ph] to support the launch of Chloe's Atelier des Fleurs. We are also seeing some success in extending our Luxury brand into the cosmetics category with our Q1 luxury makeup sales, three times the level of last year.

In Professional Beauty the team is continuing to drive conversion of leading salons to the premium Wella Koleston Perfect with ME+ line. And following the core principle of innovation, penetration, driving ghd has built on a strong positioning in traditional [indiscernible] to launch its very successful Glide hot brush. All of these positive signals give us confidence that we have the right brands, the right people, and the right action plans to steadily improve Coty's performance and unlock significant value.

With that, let me turn it over to Pierre-André.

Pierre-André Terisse

Thank you, Pierre and good morning to everyone. So I'll roll as you have seen our Q1 results, are line with expectation and solid start to the year. Starting with first line on like for like net revenue declined minus 1.1% which was way down significantly by the performance in Younique and saw progress in the scope, our net revenues were particularly stable at minus 0.1%. This was obviously partially helped by low comparables in Q1 last year, but it was nonetheless an improvement from the approximately minus 3% like for like decline on the same scopes excluding Younique, both at quarter and in full year 2019 overall.

So continuing the like for like performance we had a strong growth in Luxury in Professional Beauty and a sequential improvement in Consumer Beauty. As we focused on gross margin improvement and continued controlling costs, our adjusted operating income grew 10% resulting in 110 basis points of operating margin expansion. I will come back on that point in more details in a few minutes.

But first, I'll shift to, I'll go to the division results and start with Luxury. As you can see here on this slide the compare for the new Tiffany & the fragrance launch is expanding the branding to both male and female fragrances. Over the course of October the line has been exclusive to Bloomingdales in the U.S., but we are already seeing strong results. The sales of Tiffany on the very first day of launch exceeded an entire week of sales, of the initial Tiffany Signature fragrance launch and we're pleased to see that the quarter of the sales are coming from the male line speaking to the appeal of the Tiffany brand across vendors.

On the right of the screen, close on the heels of the launch of our Gucci lipsticks globally, we also have been re-launching the Burberry Makeup line focused on Asia-Pacific and the results have been very promising.

So if I move to Luxury financial performance then, in Q1 the dividend delivered another quarter of low to mid single digit growth. This included growth in Europe and ALMEA. In Luxury fragrance category that continues to grow in the low single digits including in the U.S. While our revenue growth was based in part by easier comparables, some of our sales were impacted by the protests in Hong Kong. This has been hampering our growth in the city and the surrounding travel retail corridor throughout the quarter.

From a brand perspective, we are seeing steady performance in our innovation. Both Gucci and Burberry Makeup continued to expand, contributing over a third of our divisional growth in the quarter. And this confirms a strong potential of several of our luxury fragrance brand to expand into adjacent Beauty category.

As I mentioned earlier, Tiffany & Love is off to a strong start. Gucci Memoire has been a solid addition to the expanding Gucci portfolio and Hugo Boss Bottled Infinite continued to be successful showing further distribution expansion. From a margin standpoint, Luxury drove strong gross margin improvement coupled with cost control and this resulted in over 300 basis points of operating margin improvements.

And now turning to Consumer Beauty, you can see on the next side a number of our recent successful initiatives. On the left of the screen is Lili Reinhart, an actress and celebrity with a strong following amongst Gen-Z consumers and she will be the new Cover Girl easy, breezy, beautiful ambassador. And the consumer response and engagement with these announcements has been quite positive.

For adidas, we are capitalizing on the strength of the sports brands with the launch of three new fragrances which are working well in markets. And as Pierre discussed already, Sally Hansen has significantly improved its momentum through a number of initiatives, including our Halloween nail [ph] correction and [indiscernible] in-store displays.

So let's turn now to the financial components of the division, for the quarter the like for like net revenues declined 7.8% improving from the minus 10% decline ex-Younique last quarter and in full year 2019. Europe reported sales results with a growth of net revenues reflecting incremental improvement in sell-out, so that's important.

In North America, the performance was mixed, but encouraging with Sally Hansen once again back to growth and noticeable improvements on the priority Cover Girl SKUs as already disclosed by Pierre. We expect such improvements to continue in the coming quarter as shelf [indiscernible] moderate and as our investments continue showing traction.

Last, we chose in most ALMEA countries for Consumer to drive healthy and sustainable sales foregoing margin dilutive low value sales and as a result, revenue declined in this region. In the division as in the rest of the group, we remain indeed focused on driving gross margin improvements and these results will allow us to free up gross margin dollars to reinvest in the business.

And so on this point, in Q1 we actively ramped up working media and redeployed it to our priority brands. With working major investments behind these brands up 38% in the quarter we saw a noticeable improvement in the strength of such sales which declined in low single digits in Q1 versus high single digit decline in full year in fiscal year 2019. So as expected, this is an increase in A&CP coupled to revenue decline drove a contraction in operating margin in Q1.

To and up on Consumer, while the performance of this division remains weak, this quarter has shown positive answer to our initiative and we look forward to more gradual improvements in the coming quarters.

And now shifting to Professional Beauty, ghd continued its strong momentum across core countries, aided by innovations such as the Glide hot brush and the Platinum Plus styler as you can see on the left and as Christmas is getting close you should really look at this as a gift idea for the people you really love, that's a great idea, so I recommend it.

On the right, you see that OPI also returned to strong growth supported by easier comparables and successful execution of some of our collection you see on the screen the Scottish collection. Talking about financials for the division, Professional Beauty returned to growth as expected, reporting a strong 5% like for like. We saw strong growth in Europe and North America partially have by low comparables in the case of the U.S. specifically. As expected, U.S. customer discounting that affected our sales in the second half of last year has run its course and we have been shipping in line with consumption.

The combination of this topline expansion and cost discipline drove over 400 basis points of operating margin expansion which stood at close to 10% for the quarter. So that's it for the division, I'm not going back to continue the whole. Key outcome of the beginning of this year is the changing shape of our P&L as we are seeing are actually focused on gross margin translating into results.

Gross margin in the quarter was up 160 basis points to 62% which was a strong improvement throughout the quarter. Consistent with our comments in August, we significantly increased working media in the quarter by 11% and this resulted in another increase of 70 basis points in our A&CP as we continue rationalizing our non-working media. This is a key outcome since it deals with year two's [ph] equation where growth margin progresses, finance investments behind our brands which will gradually help our revenues and in turn our gross margin.

It is also the main driver of growth of our operating income which was up 10% in Q1 or 110 basis points increase in terms of operating margin.

Last, or EPS ended at $0.07, which was down versus the $0.11 last year, which itself included $0.04 of non-recurring tax benefit and therefore absent from these tax benefits, the EPS has been stable.

And turning to cash flow statement, which as you know is a new performance element for us. While Q1 is always a seasonally weak period for cash generation, we did improve our free cash flow very meaningfully by $169 million year-over-year. This growth reflects strong underlying improvements in cash generation, as well as an additional $75 million from factoring.

Having closed the Younique divestiture in the quarter, we received $60 million of proceeds and at the same time repurchased the remaining stake in our Southeast Asia JV for $45 million, in total, aided by FX, our net debt and resultant leverage moved down moderately versus last quarter, to less than $7.4 billion for the debt.

So, I am now moving to Slide 18. In summary, Q1 was a solid delivery on our metric which was as well, a turning point in the management of our equation and a first milestone in the construction of our turnaround plan. This makes us confident for the rest of the year and we're happy to confirm our target for fiscal '20 at constant scope as said in the last earnings call.

In detail, that means like-for-like net revenues stable to slightly lower year-over-year and operating income at constant scope and constant currency growing 5% to 10%, or mid single-digit growth in the EPS and a moderate improvement in our free cash flow. We expect Q2 trends to be generally consistent with this growth algorithm.

To end up, let me remind you of an important decision, which we announced two weeks ago. While our turnaround plan is financing to building a better business and you have seen some first elements of delivery. We have with the Board come to the conclusion that we need to accelerate the transformation of Coty to increase our focus on core categories and to free up resources to invest behind these categories, namely fragrances, cosmetics and skin care.

And therefore, we decided to engage a strategic review of the Professional Beauty business, associated hair brands as well as the Brazilian operations. The teams in these businesses have done an incredible job of the tax-free use [ph] in creating strong platforms in their respective business. However, we believe we need to work to identify the best options for them with very simple objectives.

Number one, unlock shareholder value; number two, sharpen our focus on our fragrance, color cosmetics and skincare businesses and by doing so, reduce the complexity of our portfolio and with potential proceeds deleverage Coty with target pro forma leverage which we have fixed at around 3x.

We anticipate that the review will be completed by summer 2020. And I must say that we have already received multiple marks of interest, which I think says about the high attractiveness of these assets. After the stabilization of our supply chain as through the building of our turnaround plan, this is a key decision to accelerate the transformation of our company into a focused and competitive unique [ph] company.

That's the end of our opening comments. Thank you for your attention and let's now go through the questions you may have.

Question-and-Answer Session

Operator

Thank you. The floor is now open for questions. [Operator Instructions] Our first question comes from the line of Robert Ottenstein of Evercore.

Robert Ottenstein

Great, thank you very much. I was just wondering --.

Pierre Laubies

Good morning.

Robert Ottenstein

Good morning. I was just wondering if you can maybe just help us understand a little bit more of why selling Professional is strategic imperative, great business, important cash flow generator. I think we were a little surprised to hear about how you're thinking about it. So just really trying to understand, in a little bit more depth, kind of the thinking around that? And then once assuming that happens, maybe give us a little bit of sense of any issues in terms of stranded costs or scale issues that could result from the sale?

And then finally, along those lines, what that does to your kind of expected medium term algorithm, whether the kind of targets that you have for fiscal 2020 would make sense as a medium term algorithm after that divestiture? Thank you.

Pierre Laubies

Pierre Laubies

Okay. I'll hand it over to Pierre-Andre.

Pierre-André Terisse

I think the reasoning is very simple. We have three great categories. We believe in each of them, but we also believe that each of them has a lot of potential and we need to be able to put the means, human and financial behind each of them to develop them. We don't believe at the moment we would be in the best position to manage the three at the same time for reasons which has to do with leverage on the one hand and for reasons which has to do with complexity of and focus on the others.

So, we've chosen to focus on two segments, which are Luxury and Consumer which in reality category-wise are fragrances, cosmetics and skincare because we believe by focusing on these categories and only these categories, we can grow faster in creating value with them and we can sharpen our focus and transform the group actually. At the same time, we believe that by putting the Professional business, the Hair business and, the Brazilian business in a different context that's going to give these businesses as well, the means, it needs to, they need to develop.

So it's, yes, it's really a matter of focusing of giving ourselves more attention to the categories we've chosen, freeing up financial needs as well recovering financial flexibility to invest behind those and this is we believe the way we are going to maximize the value creation for our shareholders.

With respect to stranded costs, this is something we'll have to deal with but we are not overly worried for couple of reasons, the main one being that most of the turnaround plan efforts have been focusing on Consumer Beauty and Luxury and therefore the essence of the plan is going to remain on the sub-base [ph] and we think that's going to be definitely allowing us to deliver the target we achieved for ourselves at the time, which was 14% to 15% operating margin, and which we have confirmed recently. So essentially, it doesn't change our target in terms of gross margin and operating margin improvements, and we hope it is going to help us accelerate the transformation of the Group.

Robert Ottenstein

And in terms of the algorithm, what do you see is a good medium term algorithm ex-divestitures?

Pierre-André Terisse

What do you mean by algorithm?

Robert Ottenstein

Well, just in terms of expected topline growth, operating profit growth, EPS growth as, you know, the kind of targets that you gave for fiscal 2020?

Pierre-André Terisse

Okay. So we are opening a strategic review and I think it's a bit early days to talk about all that. What we are confident about is our ability to deliver substantial margin improvement and to target the 14% to 16% and then for the rest we need to work.

Operator

Our next question comes from the line of Olivia Tong of Bank of America.

Olivia Tong

Great, thanks, good morning. First question is just on Luxury, if you could just break down the performance a bit, because it decelerated despite comping against a period where you had some supply chain issue. So are there still old disruptions you're working through because since there might be underlying categories changed much, particularly in fragrances? And then if you could just talk about your exposure to Hong Kong and travel retail there that would be great? Thank you.

Pierre-André Terisse

Yes, I can, I can take it and Pierre can again complement. Its true Luxury had a favorable base, so that's why - the way to read the focus into that is, it's very strong, it's a strong performance, but at the same time it reflects easy comps and the Hong Kong and travel retail impact I have been mentioning. And so if you turn to Q2, you would expect the reverse, you would expect that the comps are going to be much higher. And therefore reverse, you would expect that the comps are going to be much higher. And therefore, probably Luxury is going to be low-single digit growth in this particular quarter. We continue seeing fundamentally positive drivers of performance in the fragrance in the expansion to cosmetics and at the same time, we have this situation in Asia, which is likely to continue impacting us for a few quarters.

Operator

Our next question comes from the line of Nik Modi of RBC.

Nik Modi

Hi, good morning everyone. Two quick questions from me, first, I just want to make sure I heard it right that your second quarter outlook is in line with the full year and I thought I heard that, but I just wanted to confirm that. And just given how important the December quarter is for the Beauty business in general, just any more clarity or specifics you can give us on kind of how you're thinking about that season would be very helpful in terms of selling of new products or programs or anything that would give us a little bit more clarity?

And then the second question is, just bigger picture question on make-up, obviously a lot of companies have been struggling in this area. I just wanted to get your views on what you see going on in that market. Do you think it's something that can be turned around? Is it really just a function of a cyclical change between skincare and makeup that tends to go every three to five years, any thoughts around that would be helpful?

Pierre Laubies

Hi Nik, this is Pierre. I'll take the last question first and then Pierre-Andre will take the other ones. I think our vision on the makeup is that probably, there has been a bit of bench [ph] timing, if I may say so and I think we probably are in a normal cycle of multiplication of purchase by consumer, the category has massed out in probably any type of penetration and probably increase penetration by going to lower ranges, younger ages, sorry. But we do think that clearly we have seen a bad developing [ph] case of quantity of purchase over the years, and I think we are cycling through that.

We also, I think, have ourselves in the middle of channel, which are not measured in the typical panel and like, we are talking of the online business and if I assume that if we have such a good performances and as well we may not be the only one having that performance, and as a consequence, I think alternative channels are also taking their fair share, yes.

So I think probably the shift in channel is, plays a role here, in the official data that we see, and probably are going through, I would call it an accelerated cycle of purchase over the last two years, which we need to cycle through, but we do think that the category still has potential and particularly we really believe that the category has, or we have potential in the Luxury side of these categories.

Pierre-André Terisse

Hi Nik, Andre. So on the new launches, there are a couple of things, we've already mentioned, Tiffany & Love, which is really a Q2, going to be a Q2 event, which is off to a strong start as you have seen. We have in addition Gucci Bloom Ambrosia and the first signs we have are pretty positive in the U.S. and in the UK, but these are very early days.

We have Burberry Her Eau de Parfum, which is adding to the range of Burberry for hair. We have as well two shades of glitzy lipstick for Gucci which are going to come in addition and widen the range and that is for Luxury. So we are -- we continue coming with innovation on the market.

With respect to Q2 and what we expect, so you all know that the base of comparison, in particular for Luxury and TV was low this quarter and therefore, you would expect to have still a solid and pretty good performance of these two businesses next quarter, but probably being on the higher base level. And at the same time, we expect to see continuing progress in Consumer Beauty.

So if I look at the consensus now on net revenues, I would say that we are comfortable with that. On the operating income for H1 given the strong start, which further is attributable to phasing [ph] elements. I would see the OI up in the low part of the range we have given for the year, which means about mid single-digit. So Q2, which will be on a different day is very much in the continuation of what we are showing in Q1 and we've -- reflecting a substantial improvement in the business.

Nik Modi

Thank you very much.

Pierre Laubies

Thank you.

Pierre-André Terisse

Thank you.

Operator

Our next question comes from the line of Faiza Alwy of Deutsche Bank.

Faiza Alwy

Yes, hi, good morning. So, a couple of questions.

Pierre Laubies

Hi, Faiza.

Faiza Alwy

Hi, so, first, I just wanted to understand sort of why did you decide to include Brazil and as part of your strategic review, because I thought that business was doing reasonably well relative to the rest of Consumer Beauty? And so I just wanted to clarify how much that Brazil and the retail hair care business contribute to growth this quarter on an organic basis?

And then, I also just wanted to ask about gross margin and was hoping that you could disaggregate for us the margin increase here because I think last quarter you had sort of the higher incremental freight costs because of the supply chain issues. So I was wondering if we could get an underlying growth rate excluding that, and if possible sort of a break down between mix, if there was any contribution from lower promotions, any contribution from productivity, cost cutting and synergies? Thank you.

Pierre-André Terisse

Okay, I'll take these questions -- number of questions. Maybe about the gross margin element, so strong progress in Luxury for the quarter, strong progress in Professional Beauty as well for the quarter; in Consumer Beauty, it's been mix, pretty different from one market to the other. ALMEA for the reasons I mentioned, which is that we have chosen to give the priority to gross margin, and really to the [indiscernible] on sales, we are negative [ph] but we have a strong rebound on the gross margin.

Europe depends very much market-by-market, overall exactly negative and so is the case of the Americas. So Consumer Beauty as a whole is pretty contracted. These different, very different movements and dynamics market-by-market, I think it's important we try not to manage consumer as a whole, but really to address the specific situation of each market.

On Brazil, well, the reasoning is very simple. Once you eliminate hair, hair is a substantial part of Brazil, as well as mass products and the other ones in particular and, therefore, Brazil in this perimeter, in this release portfolio was not really fitting in our portfolio, so we thought it was natural for Brazil to go with professional and hair in this strategic review and not for reason of performance because the performance of both Brazil and the rest of the scope on the review is positive.

So, I mean, it's really not a question of getting rid of businesses, which are not performing well, it is more of a question of having the right level of focus to invest our resources where we think we can generate more results.

And on your question of what's been doing what on the quarter, the scope which is under strategic review was positive low single-digits and the scope which is not under strategic review, I think, is fewer single-digit. I hope has been complete. Thank you.

Operator

Our next question comes from the line of Joe Lachky of Wells Fargo.

Joe Lachky

Hi, thanks. I just wanted to get back to the strategic options review that you're doing and I guess, first of, on the timing of it, because four months ago, you guys presented plans, after doing a thorough review of the business. So I'm wondering what's really changed and what's driving the need to accelerate change given the confidence that you had four months ago in the turnaround plan and who is really driving the decision to do that? Is it the management team? Is it the Board or the primary shareholder? Can you shed a little light on that? Thanks.

Pierre Laubies

Hi. Well, I mean you're right on something which is that we go fast. Pierre has been in the business for about a year. I think the business for about nine months. I mean in this period of time we have solved the supply chain issues and we have stabilized the business in '19, then we have produced a turnaround plan and now we are talking the strategic review. So that's a lot of thinking. One year, I think that's just made necessary if we want to reshape Coty and to transform it into a performing beauty company and beauty Champions. I don't think there was any change.

I once said that we had to take things one by one and not to try and do everything at the same time. So that's really the methodology we follow. We had to stabilize the company and solve the supply chain issues, that was done. We had to stabilize '19 and to deliver '19, that was done.

We definitely had to look at a plan to close the performance gap of all of our businesses and that's what we've tried to do with the turnaround plan and once we've done that, we started looking at the portfolio and thinking, is there any way we can improve faster, we can make faster the transformation of the Group and improve faster our performance and obviously a key element was our ability to free up resources, human and financial behind core categories, and this is why we have made this decision, so no change.

A diagnostic from the management, which has been shared with the Board and fully supported by the Board, there is not one company, and another one, there is only one company with management in both and we have taken this decision together. That's fundamentally it.

Joe Lachky

And then, if you can maybe talk about if you have any expectations for proceeds, is there a hurdle level in mind where you could potentially walk away from doing a deal and hold on to the businesses? And then maybe if you could talk just generally, I know it's early, but generally about like potential uses of the proceeds, how they could potentially be allocated between debt repayment and share repurchases? And along those lines, would you do a deal that could be dilutive to EPS in order to hit your leverage target of 3x?

Pierre Laubies

Well, I won't comment on the last one. Again it is too early days. In terms of expectations, the only thing I can say is that these businesses are incredibly attractive whether you focus Professional Beauty which for many, many reasons, the hair business is one of the leading platform in the world and has been performing well, and has been strengthened for the past few years by the management.

OPI which is an outstanding brand, GHD which is literally flying in terms of growth and Brazil, which is a unique pleasure on the Brazilian market, which is, as you would recall, a very attractive market in the Beauty space. So, we have expectations, which basically match the attractiveness of these assets, and I will not comment further on that.

On the potential use of proceeds, we've been pretty clear, I think, in the press release saying that the potential proceeds would be used to decrease the indebtedness with a target leverage of about 3x net debt to EBITDA and any excess will be returned to shareholders. So, I have got nothing to add to that.

Operator

Our next question comes from the line of Lauren Lieberman of Barclays.

Lauren Lieberman

Great, thanks, good morning.

Pierre Laubies

Hi, Lauren.

Lauren Lieberman

Hi. So I wanted to ask again about Consumer Beauty margins, I know you touched on it already, but I was intrigued by you saying you're not going to manage holistically, but more thinking about the specific situation of each market. So with that in mind, when you said that for ALMEA, where you have really decided to start to prioritize gross margins more dramatically, sales were down.

So when I think about the situation in the U.S. and promotional intensity and things that you've talked about trying -- needing to start to correct, how does that play out? Look, if I think about the trajectory for Consumer Beauty in the U.S., is there a point in time, somewhere in the next, I don't know 12 months, 18 months when we see more pressure on sales because that focus switches to be more about gross margins?

Pierre Laubies

Hi Lauren, this is Pierre. How are you? The - I think I'll come back to that point at the end of the day, it's first and foremost our strategy is to raise the gross margin and we raised the gross margin by combination of the deal [ph] that is really competitive on the promotion, but do not be overly competitive. So clearly, we do understand that there is a [indiscernible] promotional intensity that you need to respect. So we are going to be in line with what we think should be the level of promotion in the market, but certainly what we believe is that we have not exhorted pricing power on our products over the course of the last five years, and it is time to return to that, right?

And so, we do know that we have all the math in order. We do clearly understand that there is some necessity and we are ready to accept some of these volume losses associated with that because we think it is very important that we generate the gross margin, which will enable us to increase the velocity of our brands by advertising and I think that model, I - we are convinced that this model will work and we are going to execute [ph] it.

The second thing well into work to improve our gross margin is to really simplify our portfolio, simplify our brands, and make sure that the SKUs, which are penetration drivers and are also in general high margin SKUs, these obviously get the shelving that they deserve and being working on the shelf for six elements, four elements, two elements or one element.

And I think it is, there is a lot of tackling and blocking there to be done, but actually, I do believe that we can both at the same time play by the rule of the game of the promotional intensity, which we require but not over and at the same time, raise our gross margin by balancing the mix over time.

Lauren Lieberman

Okay, that's great. Thank you.

Operator

Thank you. Our next question comes from the line of Steph Wissink of Jefferies.

Stephanie Wissink

Hi, good morning everyone. I wanted to just focus on the work media, I want to make sure I have the statistics right here. So I think you mentioned core brand investment in working media was up about 38%. Can you help us understand what percentage of the business falls into that priority or core brand mix, and then also tell us a little bit about where some of those media dollars are going. I know you mentioned TV, but if there any other areas of emphasis in terms of your media mix, that would be helpful?

Pierre-André Terisse

Media mix is established by our reach based strategy and as a consequence, we apply the media mix that we need to apply based on the - again the specific complex situation where you have countries where you can use, you need to have a balance between where you have countries where you can use, you need to have a balance between - adjusted balance in term of online versus regular TV and due to the penetration of digital and all the companies where the penetration of digital is lower, and as a consequence, you do more mainstream media.

So that's, and even in some countries, you can do - you will do a general balances with take or shop [ph]. If you look at the most [indiscernible] you already to be massively investing into digital versus the rest of the company, you are going to invest in key. So, I think we tailor-made this media plan market by market and there is not a one size fits all strategy. So that's one of the field drivers.

The second thing [indiscernible] at this stage or it is called, DMUs, if we call them by market intersection will present on which we are focusing this media effort point [ph] about 60% of all the news and they tend to be also our biggest global brands. Over time, we do want to continue to be exposed to increase that because we still have gaps to close in term of media investment in a certain number of market and this is why the job that I was relating to earlier on gross margin is absolutely important, as well as the balance between working media and non-working media, we still can be improved at Coty.

Operator

Our next question comes from the line of Mark Astrachan of Stifel.

Mark Astrachan

Thanks, good morning everybody. Two --

Pierre Laubies

Good morning, Mark.

Mark Astrachan

Good morning. One, on the pricing commentary. So is this something that it's more of a one-time repositioning of product pricing, is it something that you want to use as a lever on a more ongoing basis kind of an inflation plus kind of curious on that? And then secondly back on the potential asset sales, I realize, it's obviously early and this is kind of a second debt, if you will, the implication of what you said about leverage would imply redeploying proceeds assuming multiples or value that we all kind of believe is reasonable for the business.

So maybe holistically, if you could talk a bit about what you would do with cash, where are you unencumbered by the current debt levels, that would be kind of helpful and just hearing your thoughts there?

Pierre Laubies

Hi, Mark. I'll take the pricing decision, this is Pierre, or the pricing question sorry. I think both of the above will be line sale [ph]. Yes, we have a catch-up plan to do and we are executing our catch up plan. We have not taken pricing for many years and it has depleted our ability to - it has depleted our gross margin. And as a consequence, as we can all plan [ph] and as a consequence has unfortunately led us to increase promotional intensity.

So we need to get out of this virtual circle [ph] to get back into a virtual circle and then at this stage we, this is why we do think that we need to have a bit of a reset, right, and then going forward, indeed you are absolutely, right. We need to make sure that we manage inflation correctly and we do not fall back into this trap we have fallen into.

Pierre-André Terisse

And Pierre-Andre here, I think it's really a matter of - it's a matter of trade offs and financial flexibility, trade off, we have debt level which given the recent evolution of the business has led us to make our trade offs in favor of cash as opposed to in favor of brand investment and profits by the way.

So, I think, by coming back to leverage level, which is more additive to the industry and category, we are putting ourselves in a position to make ourselves in a position to make better trade-offs overall, which sometimes will still be in favor of cash but sometime will be in favor of growth and then altogether that's giving us more financial flexibility and more financial flexibility means that with two categories which offers a lot of possibilities of growth.

We would have the ability to invest if and when in front of the right opportunity. So, yeah, I would say overall that's definitely an improvement in order to grow the business we have chosen to - we have chosen to keep.

Operator

Our next question comes from the line of Wendy Nicholson of Citigroup.

Wendy Nicholson

Hi, good morning. My first question has to do with the comments you made about selling on Amazon and the great growth that you're seeing there and you're one of the few beauty companies who talks about that. So, I was curious on why do you think that is? Are you doing extra promotion on Amazon? Can you talk about what your margins look like on Amazon selling to Amazon versus selling to traditional retail?

And then my second question just on the divestitures. I mean, I was stunned to see the price, the proceeds you've got for Younique. I mean one-tenth of what you paid is kind of stunning and I am a little bit worried that that sends a signal to potential buyers for professional, hair care, the Brazilian business that you're in kind of fire sale mode and you will sell these assets for anything. So, was Younique like a one-off situation, you just wanted out or was it really that bad of business? I mean, maybe you could just comment on how much discipline you're going to show in terms of the proceeds you will get for these businesses? Thanks.

Pierre Laubies

I'll take the first part of the question and I will have Pierre-Andre answer on the second one. Why are we going on Amazon? Mostly because we are playing on Amazon and the strategy that we aim at applying into [indiscernible] retail or the mass market, we clearly know now what our core SKUs are, we know what our high velocity items, which are penetration billing items are and we are making sure that they get their fair share on Amazon, as a consequence the business is growing.

So, we have an absolute coalition between the job that we have been doing and these markets that we have identified UK, US, Germany and Brazil and what we are doing on Amazon. And the benefit is definitely with online. I mean the implementation of the situation of that strategy works faster and the ability to expand your assortment or the ability to adapt your assortment is just more high-speed [ph] and as a consequence we get this result and also we have put resources behind it which probably, we haven't been necessarily putting before, and our margin is up from the metrics seen ago.

Pierre-André Terisse

So we are not, absolutely not in a fire sale mode. I think Younique, you will understand, was a very specific case and not to use the Younique word of course. It's a business, which was far away from our competencies, which we have been struggling to manage for the past few quarters now with very difficult performance and at some stage we just chose to move on. And we chose to move on and to divest it in conditions which I agree are not very good looking, but at the same time, we thought it was very important for the rest of Coty that we could move on and as we put this program on the side knowing that Derek [ph] will be managing us much better than we have done together.

So that's a choice we made, again not being in a fire sale mode, what we are doing now with our strategic review is completely different. Of course, we are talking of an asset which has not been losing [indiscernible], and we are talking of an asset, which is performing well.

You see this quarter, this is a case of Professional Beauty, this is a case hair, this is a case of OPI, GHD, Brazil, we are looking at brands, which are recognized by many, many people, Professional as a sector, but also by many investors, which attract a lot of interest, which was not the case of Younique.

These are brands, which have a fairly good level of profitability improving. PB [ph] was 12% last year, OI and that's a good proxy for the overall group. So if you should take into account the current costs, which are going to remain for about at Coty, we are talking of the scope, which has a mid teens operating income.

So, given what I said about the profitability of other growth given the obvious appetite, which we see and which I'm sure you can see, we expect this transaction to be creating a lot of value, actually, just creating a lot of value and we are going to make sure that this is, attaining [ph] this way. It's really about extenuating value for the Group and reshaping Coty in a much more substantial way than Younique which was very different small case.

Operator

Thank you. Our final question will come from the line of Andrea Teixeira of JP Morgan.

Andrea Teixeira

Thank you. So, just as a final question, sorry, a couple of clarifications. One is for the Q2 guide, when you mentioned, first half, did you mean the first half operating profit would be up mid single or were you referring just to Q2, specifically? The second one was on the expectation of the proceeds from the sale of the assets, I mean, I think that $8 billion to $9 billion from [indiscernible], you talked about implies about 20x to 21x EBITDA. So, as a follow-up just to see if from - you think that could be feasible from what you just mentioned about not being on a fire sale?

And then on the marketing spending, sorry, the third one would be, you said working media was up 11%. But can you comment about the whole A&P [ph] because I understand you were taking down couponing [ph]. So in the couponing, on the total A&P spending is still down, relatively, I think it is still down. So I want to just double check that and also how a like-for-like, I understand that you do on a net basis, how would like-for-like would have been without the reduction in couponing? Thank you.

Pierre Laubies

Okay. Pierre-Andre, I'll take these, I think I will take these questions. On A&CP first, it's up 70 basis points altogether. So 11% is increase of the working media, but the total entity is up 70 basis points. It's been open and you will continue growing growth and we believe it's important that we keep reinvesting altogether and therefore we will invest or invest - we will increase our investments in A&CP.

On the guidance for in Q2 - on the guidance for the full year, operating income, so I said mid-single digit for H1 and therefore, that includes the Q1, which has been specifically strong with some selling, as I said, but altogether H1 is going to be up, we expect it to be up mid single digits, so within the range we have given for the year in the rest half, the range or part of the range. And then from the proceeds, we didn't say it is a $9 billion. That was I think an information in the press in the Financial Times, if I'm not mistaken.

Now clearly that's going to be a sizable transaction. You know how much we're talking about in terms of earnings, I've give you some analysis about that. You know how strategic transaction can price on the market where it's kind of multiple it can attract and therefore you can make the math, it's going to be a sizable transaction, and we don't want to speculate on the amount, that's far too - that's far too early, but we believe it is going to be a sizeable one.

I think that is it. We'll conclude the call now. Thank you very much for your attention. It's exciting time at Coty, exciting to see the progress we are making and we look forward to sharing more progresses with you next quarter in February. Thank you, bye.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may now disconnect.