

Private Equity Dealmaking amid COVID-19

KKR's Strategic Deal with Coty: Case Study



Insights from Peter Chomyonk

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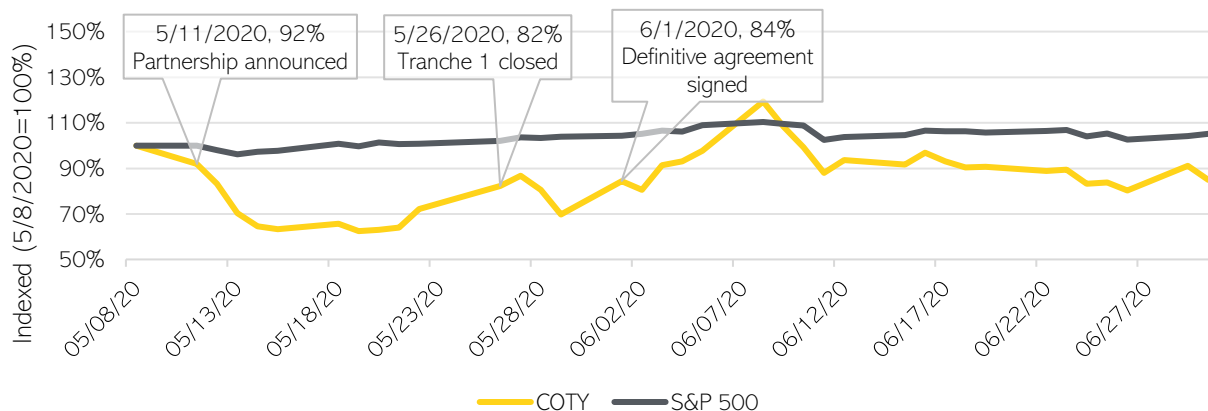
KKR Strikes Strategic Deal With Cosmetic Giant Coty, Inc.

The consumer discretionary sector is facing its toughest challenge as businesses remain shuttered due to the coronavirus. In the wake of the COVID-19 pandemic, a growing number of companies have filed for bankruptcy in 2020. Recent high-profile bankruptcy filings include J-Crew, Neiman Marcus, J.C. Penney, and Pier 1 Imports. Without material action or intervention, more companies in this sector can be expected to file for bankruptcy.

With the backdrop of uncertainty stemming from the COVID-19 pandemic, private equity firms stand ready to deploy their capital during this market dislocation. According to data from Preqin, private equity firms are sitting on a record level of dry powder, having amassed a total \$1.45 trillion in cash to invest at the end of 2019. Private equity firms have been actively seeking deals in the struggling consumer discretionary sector, which includes travel and leisure, gaming, consumer retail, luxury goods, etc.

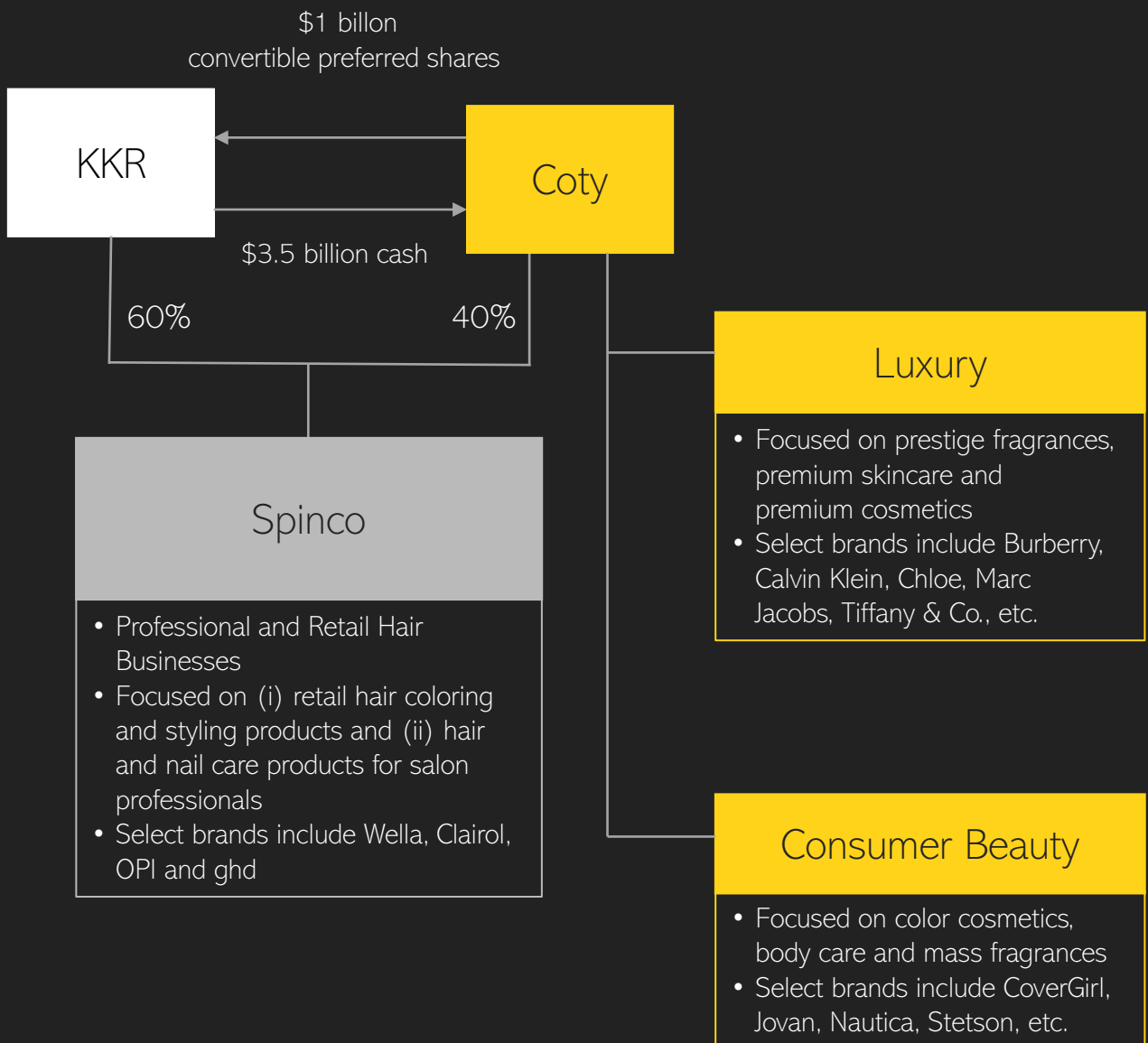
One example of such an opportune investment was the recent strategic deal private equity firm KKR entered with the global beauty firm Coty Inc. (the "Company" or "Coty"). On May 11, 2020, Coty announced a strategic partnership with KKR. As part of the strategic partnership, KKR initially invested \$750 million in Coty through the sale of convertible preferred shares to KKR. Additionally, Coty and KKR signed a Memorandum of Understanding ("MOU") for the sale of a majority in Coty's Professional and Retail Hair Businesses, which includes the Wella, Clairol, OPI and ghd brands (together, "SpinCo") at an enterprise value of \$4.3 billion. On June 1, 2020, Coty announced that it has entered into a definitive agreement with KKR for the sale of a majority in SpinCo.

Coty Stock Price Performance (vs. S&P 500)



Transaction Structure Overview

Under the terms of the divestment, Coty will carve out SpinCo into a standalone company. KKR will own a 60 percent interest and Coty will retain the remaining 40 percent interest in the new business. At the closing of the divestment of SpinCo, Coty would receive additional net cash proceeds of approximately \$2.5 billion. Concurrent with the signing of the definitive agreement on the divestment on June 1, 2020, KKR will also make an incremental convertible preferred investment of \$250 million in Coty, bringing the aggregate total investment to \$1 billion.



Transaction Structure Overview (cont'd)

Transaction Summary

- KKR will invest \$1 billion in Coty through the sale of convertible preferred shares in 2 tranches:
 - Tranche 1: \$750 million investment, closed May 26, 2020
 - Tranche 2: \$250 million incremental investment with the execution of definitive agreement on the divestment of Coty's Professional and Retail Hair Businesses. Second closing set for July 31, 2020
- Coty carves out its Professional and Retail Hair Businesses into a standalone company. KKR purchases 60% stake in the newly formed standalone company for approximately \$2.5 billion. Closing is expected at the end of the year or early 2021

Summary Terms: Series B Convertible Preferred Shares

Issuer:	Coty Inc.
Investor:	KKR
Offering:	Up to 1,000,000 shares of new Series B Convertible Preferred Stock for an aggregate purchase price of \$1 billion, or \$1,000 per share. The Offering is issued in two tranches: <ul style="list-style-type: none">• initial issuance of 750,000 shares• subsequent issuance of 250,000 shares, subject to execution of divestment agreement
Dividend:	9% per annum, stepping up to 12% subject to upward adjustment provisions
Liquidation Preference:	Ranks senior to the shares of the common stock and currently outstanding series of preferred stock
Conversion:	Convertible at the option of the holders into shares of Common Stock at a conversion price of \$6.24 per share
Board Seats:	2 board seats designed by KKR

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m&a

capital raising

turnaround

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Keene Advisors Team



Peter Chomyonk

- Senior Advisor at Keene Advisors
- Over 18 years of investment banking experience
- Advised corporate and financial sponsor clients on optimal capital structure and financing alternatives including: refinancings, leveraged buyouts, acquisition financings, amendments and recapitalizations
- Completed over 75 financing transactions, representing over \$45 billion in total capital over career
- Master of Business Administration from University of Rochester

Travis Borden

- Founder and President of Keene Advisors
- Over 18 years of investment banking and consulting experience
- Advised on over 160 engagements globally, including on M&A, capital raising, turnarounds, and strategic consulting assignments
- Previously part of the founding team at global investment bank Moelis & Company and an investment banker at UBS
- Previously board member at Wawa, a \$10+ billion convenience store chain
- Boston Business Journal 40-under-40



Michael Hobey

- Senior Advisor at Keene Advisors
- Over 20 years of corporate finance, operating and restructuring experience
- CFO of Elah Holdings, Inc., a holding company seeking to acquire a profitable platform company
- Previously CFO of Real Industry, Inc., Real Alloy and the Global Recycling & Specification Alloy business unit of Aleris
- Previously VP, Corporate Development and VP, Treasurer of Aleris
- Previously an investment banker at Citi

Sergio Reyes

- Partner at Keene Advisors
- Joined Keene Advisors at inception
- Advised on over 40 engagements globally including M&A, capital raising, turnaround capital raising, and strategic consulting assignments
- Previously Generation Citizen, Chapter Executive Director
- Master and Bachelor of Arts in Political Science from Boston University



An aerial, top-down view of a rowing team in a scull on dark, rippling water. The team consists of six rowers, each with their own oar, positioned symmetrically along the length of the boat. The water is dark and textured with small waves. The overall mood is one of intense focus and physical effort.

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