FY2021 Interim Results Webcast

Company Participants

- Reinold Geiger, Chairman and Chief Executive Officer
- André Hoffmann, Vice Chairman
- Thomas Levilion, Chief Financial Officer
- Janis Lai, Investor Relations Director

Other Participants

- Anne Ling, Jefferies
- Huang Yihui, Whitefield Capital Management
- Emily Lee, Nomura
- Tiffany Feng, Citi
- Carol Xia, CLSA
- Jamie Isenwater, Ash Park Capital
- Louise Li, Bank of America
- Jes Fobrogo, Whitefield Capital Management
- Benjamin Ng, Whitefield Capital Management

Presentation

Janis Lai

Good afternoon everyone and welcome to L'Occitane International's interim results presentation for the six months ended 30 September 2020. Joining us today is our Chairman and CEO, Mr Reinold Geiger, Vice Chairman, Mr André Hoffmann, and Mr Thomas Levilion, our Group CFO. First, Thomas will start with the financial highlights of the first half year, afterwards André will go over our strategic highlights with some updates on Asia and on ELEMIS, and finally Reinold will make some comments on our other brands, our sustainability commitments, and also on our future outlook. Finally, we will open the floor for Q&A.

Today we are taking questions online only. To submit a question, you may click the Ask a Question link on the bottom right-hand corner of the webcast page. Feel free to submit your questions early even during the presentation. With that, I would like to pass it over to Thomas to start, thank you.

Thomas Levilion

Thank you Janis, hello everyone. So we are starting this presentation with a couple of highlights. I would say that despite the challenges posed by COVID-19, the Group registered solid financial results for H1 beating our expectations. Our gross margin improved by 0.9 points to 82.1% thanks the extraordinary growth in online channels and in the key profitable markets in Asia. Operating profit margin only slightly decreased by 0.4 points to 5.3%, which was impacted by the inevitable deleverage on fixed costs.

The Group ended H1 with a net profit of more than €17 million or 2.8% as a percentage of net sales. Last year we had €25 million in net profit or 3.5% of net sales. Our cash position remained healthy during the period, with significant improvement in net debt and in free cash flow.

Some quick words to remind you about our sales so first the net sales breakdown. Sell-out and sell-in accounted for 72% and 28% respectively of total net sales. The increase in Sell-in segment in Q2 was mainly driven by impressive growth in web partners and TV channels and distributor channel also improved from the first quarter. The web channels overall grew by 80% and represented 40% of total sales. Geographically, the US remained the biggest market of the Group, followed by China and Japan – the same as in the previous quarter – and China is the largest market of our core brand L'OCCITANE en Provence.

Our overall sales decline in H1 was 13% at constant exchange rates. Our core brand L'OCCITANE en Provence was affected by store closures and restrictive measures of the crisis. Sales decreased by 15% in the first half, mainly due to store closures and sluggish travel retail business. Online channels of L'OCCITANE en Provence, on the other hand, more than doubled.

ELEMIS' sales decrease was 22% in H1, which is in line with expectations in the context of COVID-19 as its spas and maritime channels were heavily impacted. Its online channels remained in high growth and the brand successfully launched into China and Russia. Excluding the sales in March 2019, ELEMIS' comparable sales growth in H1 was -11%.

LimeLife grew by around 35% in H1 mainly driven by a successful flash sale, product launches, and also a brand new mobile app for beauty guides. The other brands posted together a sales decrease of 22% in H1. Melvita and L'OCCITANE au Brésil obviously suffered from the restrictive measures while Erborian was resilient and posted mid-single digit growth in H1.

By geography, Europe and the Americas, the situation was tough as many stores remained closed and some markets were still in lockdown in the first part of the half year. However, the retail channel improved significantly as stores reopened in Q2 and E-commerce performed extremely well in all markets.

In Asia, the performance was mixed. Japan improved significantly in Q2 with L'OCCITANE en Provence posting only low single-digit decline in Q2, despite the high base in September last year before the VAT hike. Since then business has Japan turned very positive. The Hong Kong retail market continued to be challenging, however, the travel retail business showed a huge turnaround as some domestic travel resumed, while Korea duty free also improved.

China was the star performer with fantastic growth in all channels. We also launched ELEMIS in 125 Sephora shops during the period, and during the recent Double 11 festival L'OCCITANE en Provence grew over 40% and the brand landed the number one spot in both body care and hand care. Taiwan's growth accelerated as well in Q2 and it was one of our fastest growing markets in the period. Other geographic areas: Korea had amazing 50% growth in Q2, while Germany and Malaysia also had positive contribution.

Now we move onto profitability analysis and as you can see, we managed to lose only 0.4 points of operating margin despite the very challenging conditions in the first half. Notably, distribution expenses remained stable although we had significant deleverage while we continued to invest in a targeted manner on marketing and I will explain of course in more details in the next slides.

First, I'm missing a slide here about gross margin. But gross margin increased – improved despite the higher cost of production and also some more obsolescence than we normally have. These both being explained by the lower sales and lower production but was benefitted on the contrary from the high positive impact of the change in channel mix, by that I mean the switch from retail to the web activities, which offer higher gross margin.

Now moving to the distribution expenses. In the context of COVID-19, the sales drop led to lower leverage, obviously, so this impacted as much as 11.7 points and one-off items also impacted the distribution expenses mainly related to the closure of unprofitable stores, which resulted in a negative impact of 1.2 points. However, we were able to offset the deterioration. First the shift to online channels, which have lower distribution costs as compared to retail business, which contributed for an improvement of almost 0.7 points from the positive channel and also some brand mix effect.

In addition, the COVID rated savings were mainly from rent release but also on T&E, or entertainments, also contributed 3.0 points, and then the grants and subsidies from governments also improved the situation by 2.8 points. So distribution expenses as a percentage to sales improved slightly by 0.1 point to 50.3%.

The marketing expenses as a percentage of net sales increased by 1.7 points to 14.4% and the increase was attributable to the following. First, unfavourable channel mix this time for 0.9 points due to the higher proportion of web channels, which have higher marketing cost percentage. Second, lower leverage on our fixed costs from lower sales for 0.8 points. There was also an increase in targeted usage of promo tools and samples for 0.4 points, and the donation of sanitiser gels and care products and other factors for another 0.2 points.

More importantly, we have largely refocused our marketing spending towards China with increases notably for the Super Brand Day, key opinion leaders, and advertising. But this increased investment in China was offset by the moderated spending in other countries, particularly in mailers and communication campaigns. Lastly, there was a favourable brand mix effect, notably coming from LimeLife, which contributed for 0.5 points.

General and administrative expenses as a percentage to net sales increased by 0.3 points to 11.2% and the increase is attributable to the following factors. First of all, a deleverage for 1.9 points, investing in IT and staff for 0.4 and a higher cost of office related to moves last year notably in the US and Hong Kong. We also had phasing effects and other factors for a negative 0.4 points. The increase was largely offset by prompt actions in cost cutting and savings for 1.8 points and a reduction in one-off costs – explained by the ELEMIS acquisition costs that we had last year.

So all in all the operating profit margin decreased by 0.4 points to 5.3% of net sales. The decline is explained largely by deleverage on fixed costs, you see the huge impact of 15 points, we also had investments in IT and other for 0.5 points, and the net effect of refocusing the marketing expenses for 0.3 points. The one-off items were also net negative for 0.5 points, explained by the accelerated closure of unprofitable stores, partly offset by the ELEMIS acquisition costs last year. The decline is mostly offset by an increase in proportion of online channels for 8 points, brand mix for 0.4 points, and lastly, through proactive crisis management, overheads reduction and government support for a total of 7.6 points.

Operating profit by brand now. Our largest brands posted profits in the first half of the year with a significant improvement in ELEMIS and LimeLife. L'OCCITANE en Provence remained profitable yet was inevitably affected by store closures and other restrictive measures of the pandemic. Operating profit margin at L'OCCITANE en Provence reduced by 2.3 points to 4.4% to sales due mainly to lower leverage. The decline was partly alleviated by higher gross margin for 0.4 points and the proactive crisis management.

ELEMIS' operating profit increased to around €20 million to 30.5% of net sales, which was contributed mainly from growth in online channels, stringent cost control measures, as well as the absence of the one-off acquisition costs, which we had last year. LimeLife turned profitable with an operating profit margin of 4.1%, improved from -10.6% in the same period last year, benefiting mainly from its unique digital direct business model with fantastic sales growth of more than 30%.

The other brands together ended the first half with an operating loss of around €9 million as was expected actually. Emerging brands, Melvita and L'OCCITANE au Brésil both suffered from much lower leverage. However, Erborian remained resilient and posted a teen digit operating profit margin.

In terms of working capital, the cash cycle increased by four days to 58 days of net sales and was a net result of higher inventory turnover and trade receivable days, offset partly by higher trade payables turnover. Indeed, we managed to reduce inventory on hand in euros, inventory net value decreased by €11 million as compared to September 2019. However, the inventory turnover increased by 60 days which is attributed to the reduction of cost of sales by around 20% as compared to the same period last year. Note also that the inventory at the end of September is in the pipeline for the upcoming peak holiday season from October to December.

The trade receivable turnover days increased by 3 days, which was the result of a higher proportion of Asia Pacific countries in total sell-out sales. Finally, trade payable turnover days increased by 48 days, which was due mainly to an increase in trade payables and also accrued expenses at the end of the period.

Capital expenditures now. Most projects relating to stores and factories have been put on hold. Capital expenditure during the first half amounted to only €11 million, so reduced significantly as compared to the €39 million that we had in the same period last year. Investments this year were mainly related to IT. As a result of these numbers, our CAPEX for the full year will be significantly less than our initial guidance. However, we are planning to invest to take a participation in one of our industrial partners to secure our access to its high level of innovation and we will further invest in our joint venture in the Middle East.

As we mentioned earlier, we have also engaged in restructuring actions. We will continue to seek opportunities for accelerating the closure of unprofitable stores. In October, we announced a resizing of our structures which should lead to a reduction of approximately 300 positions out of 9,000 positions in the Group. We expect the cost of this resizing to be around €10 million in this financial year, while the related savings are evaluated at approximately €9 million this year and €20 million on a recurring basis, so starting in FY2022. This concludes the financial highlight section, and I will now pass it on to André for our strategic review, thank you very much.

André Hoffmann

Thank you Thomas. I would like to now go over some strategic highlights for the first six months of the year. Given the challenging circumstances in the first half of the year we are pleased with our performance. In particular, the strong rebound of the L'OCCITANE en Provence brand and its stellar performance in Asia, the successful launch of ELEMIS in China, and its strong profit contribution, the improving results from both LimeLife and Erborian, as well as our online sales across the world.

COVID-19 has opened a window of opportunity for us to showcase L'Occitane's expertise in body and hand care. With our iconic products, we rode on the increased enthusiasm for selfcare and hygiene by sending targeted messages to various customer touch points. These timely communication angles helped support the resilient sales performance of L'Occitane.

Asia continues to be the biggest growth driver for our Group and we managed to accelerate the sales growth in China, Korea, and Taiwan, and continue to see this strong momentum in October and November. During Double 11, L'OCCITANE en Provence had sales growth of 41% and achieved a number one ranking in both the body care and hand care categories on Tmall.

In Japan, while the first six months of the year were quite difficult with multiple store closures and September was comping against a high base from last year before the VAT increase, October and November have both seen good sales growth. These signs usually point to a successful holiday season in Asia.

Now as mentioned earlier, we saw a very strong performance from our different online channels, which helped offset some of the decline in brick and mortar channels. As you can see from slide 19, all of our key markets registered strong double digit, and in many cases triple digit growth from online sales. Globally, sales from our online channels grew 80% and accounted for more than 40% of our total sales. Notably, our US business is now more than 80% online thanks to the strong contribution of ELEMIS and LimeLife.

The successful pivot to online sales was complemented by many digital and social selling initiatives, which allowed us to maintain a human approach to beauty despite the physical distancing. In the first half, we initiated close to 50 different digital selling projects around the world. Particularly in Asia, we held several livestreaming events with top KOLs. In South Korea, we launched a very successful shopping service on KaKao Talk, further cementing our number one ranking as the top selling beauty brand, while in India, customers were able to schedule online consultations.

In the US, the clienteling pilot program was launched for in-store beauty advisors to communicate directly with their customers via SMS and social media. This initiative was very successful with clienteling now representing more than 10% of our retail sales in the US. In Europe, personal shopping concierge services provided consultations online, and click and collect services were expanded rapidly to adapt to changing customer behaviours during the lockdowns. We believe these initiatives will continue to be a mainstay even as our stores reopen.

One of the key highlights in the first half was the much-anticipated launch of ELEMIS in China. We launched late July in 125 doors and we have already expanded to 149 doors as of the end of October, with plans for a full roll out to about 250 stores by the end of fourth quarter of this fiscal year. This is an important acceleration on our original plan.

We are also bringing our digital-first approach for ELEMIS in China through livestreaming. We did a first livestream in September with Austin Li, who is considered one of the top beauty livestreamers in China, and we sold out 2,300 units of our best-selling *Pro-collagen Marine Cream* in a few minutes. A second livestream with Austin was done on November 10th and that sold 5,000 units of our best-selling *Cleansing Balm* in less than one minute. We are set to launch a second batch of ELEMIS products over the next few months, including our most premium priced range, the *Ultrasmart* anti-aging collection.

We are also moving forward with ELEMIS's expansion into other new markets with our digital-first strategy. We are now live with new ELEMIS.com websites in about 14 countries, including Germany, Italy, France, Hong Kong, Taiwan, Korea, and Singapore. We also opened our first new concept store in Indonesia with plans to open additional stores in several other markets in Southeast Asia, including Singapore, Thailand, and Malaysia.

We are very impressed with what the ELEMIS management team has been able to achieve so far this year. Although ELEMIS sales were down 11% on a comparable basis in the first half, largely due to the closure of our cruise ship business and much of our spa business, ELEMIS's operating margin reached a record high of 30%, making an important contribution to the Group's bottom line. This was possible due to their lean and agile structure, which enabled it to act swiftly and cut costs early on in the pandemic.

I will now pass on to Reinold to make some comments on our other brands, our CSR commitments, and the future outlook - Reinold.

Reinold Geiger

Thank you very much André. I would first like to make some comments on our non-core brands. First Melvita. It was seriously challenged in the first half of the year, however, we did see improvements in Q2, and restructure is well underway to cut unprofitable businesses including stores and streamline the structure. We will focus on the key markets, France, Japan, and China. France and Japan, they are also markets who did suffer very, very much from the COVID crisis. Now the target is to be profitable in the fiscal year 2023.

Brazil, now it is one of the hardest hit countries by the coronavirus. With a heavy restructure, including the closure of 40 stores in Brazil, 39 of which were L'OCCITANE au Brésil, we expect the country to be back to positive next year. For au Brésil, we target to be profitable in fiscal year 2023. Erborian is doing very well. Despite the crisis, the growth is close to 30% in Q2 and the brand remains profitable.

LimeLife, it had a very nice performance with a 35% increase in the first half year and turned profitable with a decent 4% operating margin.

ELEMIS, as André pointed out, had a high contribution to our bottom line. We are very impressed with the performance and believe it has a lot of potential in Asia and the rest of the world. I mean to mention until now, the business of ELEMIS was mainly in the UK and the US, the two countries which again are very much hit by the COVID crisis.

Next, I would like to say a few words on our sustainability and commitments. The COVID-19 pandemic has shed new light on the importance of protecting our society and the environment. The focus on climate change, biodiversity, sustainability, and social consciousness will increase in the days and years to come.

L'Occitane has been a pioneer since the creation of the company. We are committed to maximise our positive impact rather than just minimise our negative impact on the world. We identified three priorities in which we believe we can make the most impact.

Making drastic changes to mitigate the climate crisis. We have a target to become carbon net zero at our French production sites by 2025, and across the Group by 2030. To preserve and restore biodiversity and empower all people in our communities with a focus on women empowerment – all this is creating a great sympathy and resonance for our company and products, especially with the younger generation.

Now looking ahead, we remain very optimistic. As we announced earlier, we are undergoing a restructure to accelerate our transformation. We are also actively addressing loss areas for emerging brands, Melvita and L'OCCITANE au Brésil, and it is likely we will accelerate the store rationalisation program in the US.

The management are the controlling shareholders and as such, we were able to develop our company to create maximum value long-term. In a span of 10 years, our sales have multiplied by approximately three. We did not have the same growth in the percentage of the bottom line because we were focused on investing in future growth.

However, in the last year, we brought a more balanced focus on to the bottom line. We have seen already that this focus, along with our targeted investments, have started to pay off. Despite our low sales, our quick actions have led to a profit very close to that of last year. The pandemic did obviously disturb our plan. During the first wave, we had approximately 75% of the 1,600 of our own stores closed. However, the internet did replace in a big proportion of the lost sales. We also saw that L'OCCITANE en Provence has become a global strong brand that has been very resilient in such a crisis.

We managed to adjust ourselves quickly to a new situation, created products adapted to the new COVID environment, and after a difficult Q1, which is April to June, we are profitable at the end of Q2. October continued the same trend with higher sales – I mention higher sales than last year – and this was despite the still difficult situation in travel retail, B2B, and many markets like the Americas and Southern Europe.

We continue adjusting to the new environment and consumer behaviours and are confident of having a good result in the second half of the year. Next to L'OCCITANE en Provence, ELEMIS is becoming another leader with a size that we now can develop internationally. We are very fortunate to have such motivated and committed teams around the world. The first half of this year has been very difficult but along with the management's determination, the strength of our brands, products and web-based activities, we will be able to weather this crisis and continue to tap into great opportunities.

This concludes my presentation. Now I suggest to start the Q&A session, thank you very much.

Questions and Answers

Janis Lai
Thank you Reinold and thank you management. We will now start our question and answer session. Just as a reminder for those joining online you can still submit a question by clicking the Ask a Question link at the bottom right-hand corner of the webcast page.

Operator (on behalf of Anne Ling, Jefferies)
Thank you Janis. The first two questions are from Anne Ling of Jefferies. First, what is the gross profit margin for sell-in and sell-out? Second, what is the real depreciation and amortisation i.e. ex the depreciation on the rights of use?

Her second question was, with ELEMIS' OPM being 30%, do we see this as being sustainable in the second half and into FY2022?

André Hoffmann
Would you like to handle the first part and I'll handle ELEMIS?

Thomas Levilion
So, yes, I will try to answer you first two question Anne. Hello first. So your first question was about a gross margin in sell-in and sell-out. Let's say that gross margin and to take big numbers in sell-out is probably around 90%, where it's probably close to 70% in sell-in in general. So it really depends a little bit on the different businesses like B2B, is of course lower but it's a small part. So let's maybe keep those numbers in mind. Your second point was about the impact of the store closures if I remember well your question.

In general, I would say that the impact of the store closures or stores that have closed or stores that will close in different forms – I mean impairments, penalties, provisions for penalties or everything that we have to support to close these stores – was about €9 million in the first half of the year. So I hope this will answer your questions and I will leave it to André for the question about ELEMIS.

André Hoffmann
Anne, hi, it's André. Look, ELEMIS operating profit grew by 25% in the first six months of the year compared to last year. Is the 30% sustainable for the second half of the year? We believe absolutely it is. With the new markets we are opening with new product launches in China, with the slow return but return we believe of the OneSpaWorld business with maritime, and with the reopening of our spas, it is absolutely possible that we can sustain this level of margin.

Janis Lai
Thank you, management. Just to supplement to Anne's question, I think another part of her question was about the depreciation and amortisation amount if we exclude the rights of use.

Thomas Levilion
I think that's what I tried to answer earlier. Again, the total impact, including all sorts of depreciation, amortisation excluding IFRS16 – so excluding the amortisation of the depreciation of rights of use was about €9 million.

Janis Lai
Thank you Thomas.

Reinold Geiger
It's Reinold speaking. I will just make one comment. I mean for L'OCCITANE en Provence, [while its] performance was very good, we had no or very little business in the first half year in duty free travel retail and in B2B. ELEMIS has a similar problem with practically zero business among the cruise lines. I mean all this business will come back one day and this will at some stage increase profitability significantly.

Thomas Levilion
And we are seeing already a very strong rebound of strong retail in Korea and China.

Reinold Geiger
Yes.

Operator (on behalf of Huang Yihui, Whitefield Capital Management)

Thank you management. The next question comes from Huang Yihui of Whitefield Capital Management. He is asking how many L'OCCITANE en Provence stores have been closed and if you exclude the impact of these closed stores, did L'OCCITANE en Provence's sales still decline?

Thomas Levilion

This is Thomas. I think the number of stores that have been closed, you have this information in the announcement. Of course, there is the net effect of closing and opening stores. The net is minus 39 stores in total including the 40 stores in Brazil, so it means that the number of closures for L'OCCITANE en Provence and other brands and L'OCCITANE au Brésil was net almost zero but we have closed, I think, 5 stores in the US. The two key countries or brands where we have or we want to accelerate the store closures are essentially the US, where the traffic continued – it's a longer trend and it has accelerated the traffic – the decrease in traffic accelerated, so we need to restructure and rationalise in the US. Also for Melvita, in France and in Japan, it's also the other brand where we want to accelerate the rationalisation of the store portfolio.

So all in all, I think in the US we have closed five stores in the first half but we have provided for more than that because we have also plans and agreements to further close some stores in the next few months, and we have already agreed with the landlords in some cases, and we are also planning to close stores for Melvita in France and we have closed I think already three or four stores in Japan for Melvita.

So not so many for the time being but we are preparing to accelerate the rationalisation of the store portfolio. As I said, notably in these countries. But we are also looking at the footprint in other countries. So there will be – there is already an impact in the first half but there will be obviously an impact on the bottom line in the second half. It's a bit too early to say. I would say that we will comment on that at our next briefing, I guess at the end of January.

Reinold Geiger

Reinold speaking. I'll just make one comment. In the US, one has about two or three times more shopping centres than in most of the other countries in the world and today some of those malls will just not do well anymore and probably they will not survive. I mean, we need to get out of those malls. But in general, stores remain very interesting because especially I mean if they are in good locations, people continue to do shopping, they continue liking shopping. And with the stores, we can also [have] the personnel of the stores start as I think André explained it, to do social selling, to sell on the internet. So because we have our own stores, we have – we are in contact directly with our own customers and the stores have been a great asset in the past and they will remain a great asset in the future.

Operator (on behalf of Emily Lee, Nomura)

The next questions from Emily Lee of Nomura. First, can you provide a sales update for October and November and what was the online sales growth for the first half and for Double 11? What is your growth expectations for the second half? Finally, how are Christmas sales doing?

Her second question is, can you provide us with some guidance for gross profit margin and operating margins for the second half and any cost savings expected in the second half. Thank you.

Thomas Levilion

Hello, this is Thomas. So I'm sorry your sound is not perfect, so I did not get the second part of the question. I think the first part of the question was about the current trading in sales in October and November. I think I alluded to the fact that we were actually positive in October, growing from last year, even at actual exchange rates. This not only from the other brands but also from L'OCCITANE en Provence. So quite positive, quite reassuring for the October sales. November, we don't have yet the final numbers, but we should also see a growth including for L'OCCITANE en Provence. What happened in November is that Asia Pacific remained very very strong and André confirmed that our growth on Tmall and Double 11 was plus 40%. I'm not sure the growth in retail but it was very strong as well.

We also had a very very good performance in the double digits in Japan in the month of November. So the concern is a little bit more with a few countries in Europe like France where there was another lockdown, but it's now ended since Saturday and a few other countries in Europe. But some other countries like Germany continue to do well. The other more difficult place is the US where we are seeing more stringent anti-COVID measures recently but still with a limited loss in sales in November. We had some numbers about Thanksgiving, which due to the additional measures that are taken in different places in the US now and recently, was a bit down from last year. Globally, I think the total sales during the eight days of Thanksgiving was -19%, so it's – in percentage it's huge, in number it's not that huge actually – it's about €1.1 million that we have lost from last year so it's not something that we cannot overcome.

For the rest of the year I would say it's too early to say. We still need to go through the year absolutely key holiday period, Christmas period in all the countries and then you know we have other festive periods with Chinese New Year, with the Russian New Year and everything. So it's too early to say. Hopefully, we can be more precise again in January when we will meet again. I did not get the second question so maybe you can repeat please.

Operator (on behalf of Emily Lee, Nomura)

Can you provide some GPM or OPM guidance for the second half and are you seeing any recurring cost savings for the second half?

Thomas Levilion

Actually, we cannot give a guidance for the second half for the same reason that we need to know how things will go for the holiday season so it's too early to say. Of course, we continue to take advantage of all opportunities in terms of cost savings, so this is very fluid now of course it depends on the decisions from the governments, the compensations for the lockdowns. We continue to be as – to control our costs as much as possible such as our T&E and everything. We continue to negotiate the rents and we are continuing to be as active as possible, proactive as possible, to control our costs and notably our rents. But it is difficult to be more precise on that at this stage.

Operator (on behalf of Tiffany Feng, Citi)

Thank you, the next question is from Tiffany Feng of Citi. She's asking what GP and OP margins for the online channels in the first half?

Thomas Levilion
So the online channels I mean it depends on the channels. Own E-commerce is extremely positive, extremely favourable, and you know we have an OP margin that is probably around 40%, 50%. It's a little bit less for the marketplace notably in China where it's very competitive, as you know, and every brand wants to take a share on Tmall and JD and so on. So the gross margin and the operating margin are less than on our own E-commerce. However, it remains, in China, almost comparable to retail so quite a strong operating margin. Then, it's what you've seen in my presentation, the fact that we have had so much web activities – it is the number one or the core number one explanation for the fact that we have been able to offset the consequences of the lower sales. The other one, of course, being the COVID crisis management including the government grants.

Operator (on behalf of Carol Xia, CLSA)
Okay, thank you. The next few questions are from Carol Xia of CLSA. The first is, given the further outbreak of COVID-19 in many markets globally, what type of consumer behaviour have you been observing now compared to earlier in the year in March, and how are you reacting to it?

The second is, that we were pleased to observe the change of the CEO for Japan two months ago. What will be the new role for Mr Nicolas Geiger?

Finally, we have seen that you've done pretty well with Hainan duty free, what would ELEMIS' strategy be there going forward? Thank you.

Thomas Levilion
André or Reinold, would you like to answer these questions?

André Hoffmann
I'll just - go ahead Reinold.

Reinold Geiger
Well I mean consumer behaviour I think there are – it was a change which was only – it started about 10 years ago with all the facilities that one has with the internet, with social media, people are not simply going to the stores anymore, and they are much more informed about the products, about the companies, about everything. Luckily we had – we did always believe in the internet and did already do a significant business before the COVID crisis and therefore we were able to replace a big proportion of the sales we could not do in the stores through the internet. The current crisis has accelerated this tremendously and I mean doing 40% of our sales on the web this was – I would have expected it in five to 10 years but not now. I mean, as a result, we are strengthening much further and we believe that all the companies that will be strong selling on internet will be good companies in the very, very near future.

Concerning the new change of the CEO in Japan, I mean I think today the person is on a leave period and what will happen with Nicolas Geiger, I mean there is another – he has another mission which will be very important but we are not disclosing it yet.

André Hoffmann

Carol, I'll just touch on Hainan Island. So ELEMIS will be opening between four and six duty free outlets in Hainan Island over the coming six months. I say between four and six because four are confirmed and two are currently under negotiation. But obviously ELEMIS is going to ride the wave of our expansion in China and brand awareness to profit from the big boom in mainland Chinese visitors to Hainan Island. So it's something we very much believe in and we also feel it will be a very very strong growth catalyst for L'Occitane's business in travel retail.

Reinold Geiger

I would add one thing to consumer behaviour. This COVID crisis made people very much aware how important it is to have – to preserve the nature, to preserve biodiversity, and it is strengthening much more, especially the younger generation want to understand what the companies are doing for the environment, for the world, and are not only in a blind way buying products. Now since L'Occitane, as I mentioned, has been a pioneer in this since the very beginning of the company, we are profiting off this very much now.

Operator (on behalf of Anne Ling, Jefferies)

Thank you management. The next question is also from Anne Ling of Jefferies. She'd like to know how is your debt repayment schedule particularly in regard to covenants, and can you walk us through how you're working with the banks on this? Thank you.

Thomas Levilion

Okay, Anne I guess this question is for me, this is Thomas speaking. So the debt repayments I mean two things, one is that we have a revolving credit facility that we signed, I think, back in 2014. This one is maturing next year, in one year from now, so we have started to discuss with our banks how we are going to replace this credit facility. As you know we also have a credit facility that we have put in place for financing or contributing to the financing of the acquisition of ELEMIS by €300 million that we have already started to pay down. Finally, we have a back-up line of €200 million that we signed at the beginning of the COVID crisis to be safe.

The thing is that actually our cash situation has been much better than we feared for two reasons. One is the fact that our results have been better and second is the fact that we have been able to manage not only the operating result and the operating expenses but also our payments for some rents – we have postponed some payments to, of course this will come at another stage, and so it's a postponement and not lower spending.

But at the end of the day the result is that our covenant situation is – was very healthy at the end of September so the worst of the risk is I would say behind us. So now the question is how we restructure or refinance our debt because we have debt at the level of the listed company, L'Occitane International, and LOG, we also have some debt with the same banks globally at the level of the holding company, which matures one year later. So we tend to handle the two subjects together because it's with the same banks so I mean I see no major difficulties to the negotiation as always, but the banks are willing, most of them, willing to continue. We are trying to open to other banks and we will probably diversify a little bit of the financing so that at the end of the day, when the crisis is over, we'll try to restore the capacity or otherwise to be flexible in investments, let's say.

Operator (on behalf of Jamie Isenwater, Ash Park)
Thank you. The next question is from Jamie Isenwater of Ash Park. In regards to the corporate organisation, the accelerating closure of some of your stores, and the renegotiations you are undertaking with a number of store leases, how much profitable do you think the business should be structurally in the long term versus what you previously thought. Thank you.

Thomas Levilion
Reinold, do you want to answer this question or shall I?

Reinold Geiger
Well I mean we are in the first six months where we have the lowest profit of the year because Q3 for us is the holiday season, which is the biggest profit contributor. Now if you can look at it in a very optimistic way and if you see that during this low profit period, our operating profit was 5.3% and we have made 15.1% because of leverage effects because of lower sales, we come to 20.4%. So this is – anyhow so this is of course very high. I mean before the COVID crisis we had an objective to be at this time at a 15% operating profit, which we know that we would have achieved this easily. Now this did disturb our plans, but our Company will have profits in the near future of certainly more than 15%.

Operator (on behalf of Louise Li, Bank of America)
Thank you management. The next questions come from Louise Li of Bank of America. First, do you think your 40% online sales mix will be maintained after COVID, will it be higher or lower? Second, can you comment on the long-term margin outlook for ELEMIS. Thank you.

Thomas Levilion
Maybe I can comment André on the long-term margin. I think we stick basically to the target of 25% operating margin that we had at the beginning above that for the time being so if we can deliver more, we will. Twenty-five is already a challenging target on the long term. I think it's clearly achievable, but we have – I don't think we have a higher target than that for the moment.

André Hoffmann
Correct.

Reinold Geiger
Concerning the online sales, we don't believe that it will remain at 40% with all the retail traffic coming back to normal. Even so that it will – we will not have the same – we don't believe that we will have the same traffic as before, but the online sales will decrease again in overall percentage. However, I am sure that medium term we will do something like 40% or more. We did expect it to grow from something like 20% to 30%, 40% within the next five to seven years and obviously it was done within nine months.

Operator (on behalf of Jes Fobrogo, Whitefield Capital)

Thank you. The next question is from Jes Fobrogo of Whitefield Capital. She's asking how many beauty guides did LimeLife add in the first half? Did we see any higher sales for beauty guides or is the sales growth being mostly driven by the increase in beauty guides? Do you plan to add more beauty guides in the second half?

Reinold Geiger

No, the sales growth was driven by both. It's by adding the beauty guides and I would say think that they have added about 10% but it is also that the other trades were increased.

Operator (on behalf of Benjamin Ng, Whitefield Capital Management)

Okay, in the interest of time we'll take one more question. This is from Benjamin Ng of Whitefield Capital Management. He's asking simply, can you comment on your marketing expenses and what's that looking like for the second half of this financial year? Thank you.

Thomas Levilion

Our marketing expenses I mean we were 1.7% more – 1.7 points of sales more in the first half. I think that in the total year it could be like 1% more than last year. The thing is that really we are refocusing as I said lately in China, and more generally on the growth markets, and this includes obviously in digital, where in the other countries we have really cut our mailers, our communication - traditional communication campaigns. We make sure that we never cut or even accelerate our spending in digital and I think this will continue – and the principles will continue in the second half. Of course, it will be adapted in a very reactive and positive way depending on the situation in the different countries.

Janis Lai

Thank you, thank you management, and thank you everyone for joining us this evening. I believe we had a good chance to interact with you all. Hopefully, we can all meet in person very soon. I wish you all staying safe and have a great evening ahead. Thank you.

André Hoffmann

Thank you, bye bye.

Reinold Geiger

Goodbye.

Thomas Levilion

Thank you

-End-