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PRESENTATION

Olivia Wang - *L'Occitane International SA - IR Director*

Good afternoon everyone and welcome to L'Occitane's presentation for the interim results for the six month ended 30th September, 2015. I am Olivia Wang, Investor Relations Director.

With us here today is Mr. Andre Hoffmann, our Group Executive and MD for Asia Pacific. Joining us via the teleconference today, we have Mr. Reinold Geiger, our Chairman and CEO and Mr. Thomas Levilion, our group CFO.

First, Thomas will walk us through the presentation to discuss the interim results and we will open for questions. With that, I would like to pass it on to Thomas.

Thomas Levilion - *L'Occitane International SA - CFO*

Thank you, thank you Olivia. Good afternoon, good evening for everyone. So we're starting with the highlights. In H1 grew by 12.5% at actual rates and 5.8% at constant rates.

The environment was very challenging with the softening economy and the stock market crash in China, the MERS in Korea, the depressed economies in Hong Kong, Brazil and Russia and also bumpy recovery in other countries.

Along with the economic turmoils, the currency movements resulted in changes in the flow of tourists which impacted countries like Hong Kong and the USA but benefited to Japan and Europe. The travel retail business was particularly disrupted by these changes.

In this context, we believe that our top line performance demonstrated our resilience, the sound balance of our activities and geographical mix. China was the primary contributor to our growth. Japan delivered a strong growth of 8.2% and was the second contributor to our overall growth. We also achieved good results in France, Russia [and the Group of the "Other Countries", which contributed 42% to our overall growth] (corrected by company after the call).

Thomas Levilion - *L'Occitane International SA - CFO*

Our operating profit remained stable whilst we continued to invest in our future sales growth, notably in digital and our emerging brands. We were also impacted by some deleveraging due to the tough sales environment.



This was offset in the operating profit by continued gains from pricing, product mix and efficiency efforts and also positive FX as the euro, on average over the period, was less strong against several major currencies as compared to the same period last year.

The currency volatility in September strongly hit the emerging countries' currencies and resulted in material unrealized, non-cash foreign exchange losses. And as a result, the net profit was down from the same period last year by 46%. However, due notably to our efforts at improving our inventory management, we increased our net cash by 30%.

One quick word about the seasonality. Due to the seasonality in sales and operating profits, our second half profit is historically higher than that of the first half. As an example, in FY 2015 our 1H net sales accounted for 41% of the full financial year and our operating profits represented 19% of the year. In the second half, we should benefit from a better operating leverage due to the higher sales during the holiday season.

Now moving to slide 4, net sales breakdown. The growth in sell-in was primarily contributed by the distributors wholesale and B2B activities with the emerging brands contributing 49% to this growth.

Travel retail was more challenged. We had a drop in Asia, primarily due to the MERS in Korea and less traffic to Hong Kong and Macau. This drop was largely offset by strong growth in Europe whilst the Americas and Middle East suffered from the strong USD.

Within sell-out, we continued to deliver strong growth of 20.6% in own e-commerce. Our own e-commerce was 9.4% to retail sales in the first half. However the pace of e-commerce sales growth was softer than in previous quarters, essentially in the USA due to our discount control efforts.

Among our key countries, the share of China increased to 9.4% of our total sales as compared to 7.3% in the same period last year. The USA also increased their share in our total sales primarily due to the favorable currency effects.

Slide 5, the non-comparable stores, combined with the other sell-out activities, contributed 59% to the overall growth. The market place activities, notably in China and Korea, are part of the other sell-out activities with a growth of almost 153%. The market place activities contributed significantly to the non-comp stores and others.

The comp stores grew by 1.6% with a softer performance in Q2. This was due to the challenged situation in Hong Kong, Taiwan and USA, combined with the softer performance in China. The growth in sell-in was driven by wholesale B2B and the sales to our distributors. Finally the weaker euro, on average against most other currencies contributed 6.7 points to the overall growth.

Looking now at sales growth by geography, first with America and Europe.

France grew by 11% driven by a healthy performance in retail and e-commerce combined with a significant contribution of the emerging brands, particularly Erborian and Melvita.

The U.K. benefitted from a continued strong performance in e-commerce and solid contribution of sell-in with good results in wholesale, department stores and TV channels. Retail was softer due to traffic and an impact of the strong pound on the tourist traffic.

The U.S. was impacted by a soft retail environment with a negative same store sales growth being offset by the development of non-comparable stores. The challenging results of retail are notably explained by the strong USD impacting the touristic stalls and also the decline in traffic. The sell-in activities were impacted by the exit from Nordstrom but this was offset by the development of e-commerce though in a softer pace than in previous quarters. Part of the softer sales in sellout is also attributable to a lower level of discounting and promotions in order to protect the bottom line.

Brazil grew by 6%, delivering an acceptable performance given the Brazilian economic situation and also the strong first half last year. The growth was primary driven by L'Occitane au Bresil, both from the development of the franchise network and the own stores. L'Occitane en Provence also delivered a solid performance notably due to the launches of new products like Divine Oil, whipped Shea and Cedrat.

Russia, in a depressed economy experiencing high inflation and material drop in consumer spending, Russia managed to grow by 8% primarily due to sell-outs with a high same store sales growth resulting notably from the recent price increases and the very strong growth of more than 50% in e-commerce. Sell-in grew by 26% driven by the successful development of the franchise network.

Now Asia and the other countries. Japan experienced a healthy growth of 8% driven primarily by retail sales and e-commerce. The good performance benefitted from the success of the new Cedrat men's range and the Immortelle and Citrus Verbena windows. Melvita confirmed its good results in Japan and contributed more than 15% to the growth in this country.

Hong Kong retail was impacted by the soft environment and the lower number of PRC tourists. As a result, sell-out was down by 14%. Travel retail decreased also due to the softness in Korea and Hong Kong and despite good results in Thailand and Japan.

China's strong performance was driven primarily by the non-comparable stores and Tmall. The market environment turned very soft particularly since the stock market turmoil, which resulted in lower same store growth than in previous quarters. Also, with the first 8 stores opened, Melvita contributed 7% to the growth in China.

Taiwan was challenging with soft retail sales due to the weak economic environment and also to a series of typhoons that hit the country during the summer. This was offset by an impressive growth in marketplace and solid developments of the spa and cafe activities.

Despite soft results in Korea, Singapore and Malaysia, the "other countries" contributed 42% to our overall growth and this from strong performances in Australia, Canada, Germany and Mexico in particular.

Store network, slide 8, our total stores network reached close to 2,860 point of sales, an increase of 2% over March 2015, with our own stores network now having 1,441 doors, an increase of 57 from March 2015.

The following slide will provide more insight on the changes in our own store network so we move to slide 9. We opened a net 57 stores in 1H this year, as compared to 38 over the same period last year excluding, of course, the acquisition of our distributor in Norway in July 2014.

So, the openings in Asia were primarily in China, Japan and Korea with 19, 6 and 5 stores respectively. In the Americas, 4 stores were opened in Canada and 7 in Brazil. The openings in Europe and Africa include 6 stores in South Africa.

It's worth noting that out of the total 57 net store openings, 14 were Melvita stores, which were all opened in Asia. We've also opened our first two Erborian stores in Paris in May and in Seoul in September and since then we have opened a store in Russia in Moscow as well.

Same store sales growth profile. At 1.6% the same store sales growth was more challenged than in the same period last year. This was driven by softer results in Asia, the U.S. and Russia.

Hong Kong continued to suffer from the deeply depressed retail environment and the reduction of profit from mainland Chinese, partly switching to Japan and Europe.

In Taiwan, the same store sales growth was affected by the disappointing results of the Mother's Day campaign of department stores and the typhoons during the summer. The same store sales growth in China remained positive but was obviously weaker than in previous quarters, reflecting the deterioration of the market at the department stores and shopping malls in the context of the softening economy, and the crashing stock market.

Negative same store sales growth in the U.S. is explained by a sharp fall in sales in the touristic stores and the overall discount retail environment. The growth in e-commerce sales was also softer than usual partly due to a voluntary reduction in discounts in order to protect the bottom line.

France was very dynamic with good results in the stores, notably in the touristic areas and strong e-commerce.



The same store sales growth in the U.K. was healthy as well, driven primarily by continuing strong e-commerce growth. So despite a softer September, the stores benefitted from a strong PR coverage, notably generated by the Chelsea Garden sponsorship and also efficient new customers recruiting campaigns.

In a depressed market, Brazil remains strong with both brands with L'Occitane au Bresil and L'Occitane en Provence thanks notably to the successful product launches.

Russia continued to deliver a strong same store sales growth in a very challenging context thanks to the recent price increases and fast growing e-commerce sales.

We're now turning to profitability. Our operating margin benefitted from efficiency and productivity efforts combined with favorable exchange rate conversion effects, but some deleveraging occurred as a result of a tough sales conditions, whilst we continued our investment efforts, particularly in marketing. As a result, the operating profit was stable at EUR31 million, but the operating margin decreased by 0.7 points of net sales. And this will be detailed in the following slides.

Slide 12, for instance, while looking at the growth margin as a percentage of net sales. So the gross margin gained 1.3 points of net sales, at 81.6%. The favorable exchange rates accounted for plus 1.1 points due to the weaker euro, on average, over the period.

On the other hand, we used more mini products, pouches and gift boxes with an impact of 0.3 points which we managed to be more than offset by the benefits from increased sales prices, lower discounts, and improved product mix for 0.6 points.

Higher production costs impacted our gross margin by minus 0.2 points due to the higher depreciation costs of our recent investments in our factories, which was partly offset by productivity gains and a lower level of obsolescence of raw materials and components.

The unfavorable brand mix effect is explained by the development of the sales of our emerging brands, while the channel mix was slightly unfavorable due to the lower sales in travel retail. The tighter inventory management contributed to a material gain of 0.5 points through lower freight costs and custom duties and less obsolescence of finished goods.

Talking now about the distribution expenses, the increase by 0.5 points of net sales to 51.3%. And the increase was primarily driven by some deleveraging of our store personnel and rental costs in the context of soft same store sales growth.

The investments were directed notably towards the reinforcements of our wholesale and travel retail sales forces for our L'Occitane and emerging brands, the further implementation of our POS system in Asia and Brazil and the first steps of store digitalization.

We had some phasing effects and one-offs, showing here under others, which was offset by slightly positive FX effects. Better efficiency and lower logistic costs were obtained primarily from the restructuring of external warehouses, for example in Europe and the USA.

The favorable channel mix generated a gain of 0.4 points, explained by the higher share of e-commerce and market place. The lower share of travel retail also contributed, as this activity has higher distribution costs than other sell-in and B2B activities. The increase in marketing expenses by 1.4 points was primarily due to our investments in media and resources for our future growth.

In terms of resources, we have reinforced the following sectors, product development and packaging for 0.3 points, digital and CRM experts for 0.2 points, specific resources for the emerging brands, in the distribution subsidiaries for 0.1 point. The additional media investments were largely directed towards digital media but also TV. For example, in France for Melvita and partnerships with websites like Birchbox or My Little Paris.

The media investments were focused on several key countries for the L'Occitane brand like Hong Kong, Japan, China, France and the USA for a total of 0.3 points. And our emerging brands for 0.3 points also essentially for L'Occitane au Bresil and Melvita.

We also invested approximately 0.2 points in promotional tools, which is partly a phasing effect to support our upcoming holiday season sales. This was partly balanced by cost cutting initiatives. For example, the cost of mailings in the U.S. and leverage on existing structures, notably from the emerging brands for a total of 0.4 points.

Our G&A expenses increased slightly by 0.2 points, 10.3%. We had some investments here, also, which represented 0.5 points and we are dedicated essentially to stronger management teams in some countries like Japan, Russia, and Europe and the need for larger work space for HQs in Geneva and London.

The one-off impact was due to one-time gains, recorded in last year with reversal of accruals for bonuses and tax charges. In addition to a favorable effect of currencies, we generated positive leverage and efficiency gains for 0.3 points and also partly due from tax and insurances.

So, our operating margin was obviously affected by our investments, primarily in marketing but also in distribution and G&A. We believe that such investments are necessary to drive and to sustain our future growth. They were notably focused on, enhancing the awareness of the L'Occitane brand and its presence on the digital scene, on our sales capabilities and our emerging brands.

The impact of the investments is magnified by the seasonality. The efforts done in H1 will contribute to our sales in H2 and the additional investments required in H2 will have a lesser impact on higher sales in the second half of the year. The brand mix effect also illustrates the development of our emerging brands which are still in their initial stages.

Our profitability was affected by one-off effects and the deleveraging of some of our distribution expenses in the tough sales environment.

On the contrary, we continued to see the benefits of our long-term strategies in terms of pricing, in terms of product mix and balanced distribution channels and our continued efforts to improve the efficiency of our operations, notably in logistics. Finally, although several emerging country currencies and Japanese yen remain weak, the positive exchange rate effects reflected the end of a period of strong euro against several major currencies.

We'll say a few words now about the exchange losses that we had below the operating profit. So that's slide 17. The first half year was marked by high foreign exchange losses but the losses were mostly unrealized, that means non-cash. Such losses were due to a sharp, but temporary rise of the euro in September following the sudden devaluation of the renminbi and as a result our books reflected the depreciation of loans and intercompany trading balances in foreign currencies.

So, this impacted, essentially, the balances and currencies of the emerging countries for which it is impossible to implement hedging instruments at reasonable costs. At this moment, with the euro back to more standard levels, the loss will be significantly reduced.

About our working capital. Our cash cycle improved by five days of net sales. And the improvement was driven by lower inventory levels, notably raw materials and components at factory level and at several major subsidiaries like the USA, Japan and U.K., with finished goods.

We believe that this positive trend, which by the way, was also found in March 2015, is a result of our past investment in our IT systems, in our processes and of course in our teams of skilled professionals.

Capital expenditures, slide 19. The lower level of store CapEx then last year is due to the geographical mix of the openings with a higher share of Asia where the CapEx per store is lower than in other countries.

The increase in CapEx in our factories is explained by the construction of a raw materials and components warehouse, in our premises in Lagorce directly connected to the production line. So this warehouse replaces a third-party warehouse located off-site and we expect material savings and improved productivity from this new setup. The major part of the cost of this new warehouse was recorded in 1H.

Balance sheet ratios. As a consequence of the lower profit than in H1 last year, our profitability ratios declined from September 2014 and this is despite the decrease in working capital and a slight decrease in shareholders' equity.

The decrease in working capital allows us to offset the lower profits which resulted in the higher level of net cash than at September 2014. The net cash now reaches EUR195 million as compared to EUR150 million as at September last year, so that's an increase of 30%. As a result, of course, our liquidity and capital adequacy ratios remained solid.

Finally, we'll do a quick strategic review starting with the omni-channel expansion. We refined the store portfolio with selective store openings and upgrades.

We have increased our e-commerce outreach with our own websites and partners such as Tmall, and we continue to roll out new functions to our stores and e-commerce sites with "click and collect", for instance -- order online, pick in store services and other services.

Our CRM and digital marketing investments were focused on collaboration with social networking platforms, for instance, Line, Kakao Talk and WeChat in Asia. Skincare recruitment campaign with innovative sampling to drive traffic and word of mouth with bloggers and vloggers.

We further developed our e-commerce business, our own e-commerce was up by more than 20%, representing 9% to retail sales and we continued our investment on platforms and CRM.

In terms of brand portfolio and product offerings, we opened 8 Melvita stores in China and the first 2 Erborian boutiques in Paris and Seoul. We had the ramp-up of L'Occitane au Bresil, which is well on track with SKUs doubled in two years to over 100. And we have exciting product pipeline such as Reine Blanche, Cedrat and Verbena.

Under volatile conditions, our operations delivered strongly. Following our "operations roadmap", we delivered material gains in our gross margin and operating expenses. However, the short-term exchange rates volatility hampered the benefits of our strategies and efforts.

In terms of outlook, our omni-channel strategy will continue to roll out with refined store format for our new openings and renovations, further investments in digital platforms, own e-commerce websites, marketplaces and web partners, and the rollout of services such as the "click and collect" service.

The Brand Awareness Program represents a budget of EUR10 million, out of which EUR6 million in this financial year, for long-term branding investments dedicated to digital and innovative marketing approaches. Customer-centric digital platforms, digital, if I can say so -- so that's digital plus physical concept flagships, technology and analytics, and CRM integration.

Finally, our partnership with Pierre Herme in this holiday season brings captivating and alluring combination for gift giving and we do expect a decent pick-up of demand from this partnership.

The group believes that the efforts to drive quality growth and improve efficiencies with focused investments will secure its position as a growing player in the premium natural cosmetic space which in turn, obviously, will create lasting value for its shareholders.

Thank you very much for your attention. I think this opens the ground for Q&A.

QUESTIONS AND ANSWERS

Olivia Wang - *L'Occitane International SA - IR Director*

Yes. Now we would like to open the floor for questions please.



Shen Li - JP Morgan - Vice President, HK& China Consumer

Just a couple questions. Firstly, on marketing expenses, in the first half last year I know there was a time where there was a lot of marketing expense in the second half of last year and not a lot in the first half. So, I was just wondering the increase in marketing expenses as percentage of sales, is that a function of timing differences or is that an actually a like-for-like -- an apples and apples type comparison?

Thomas Levilion - L'Occitane International SA - CFO

I would say that, as we said during the presentation there is part of that which is phasing, notably when we are talking about promotional tools, but I think it also illustrates the fact that we want to invest more for our future growth. So I think we have seen an increase in the level of marketing spending overall.

So, there will be also in the second half, higher marketing expenses than in the second half last year. So this is really what we want to do is, despite the fact that our sales are softer and this is the primary reason for the higher ratio actually, but we want to continue to improve, increase the awareness of our brand, L'Occitane brand, and we want to continue to develop our emerging brand standards.

Basically, we believe that it's not the right timing for cutting marketing investments; on the contrary, we want to be more present.

Shen Li - JP Morgan - Vice President, HK& China Consumer

And then, just in terms of outlook for FY17, there's been a lot of reinvestment in the business. Are we expecting some of the reinvestment to reduce in FY17 or beyond?

Thomas Levilion - L'Occitane International SA - CFO

Reinold you want to comment on that?

Reinold Geiger - L'Occitane International SA - CEO, Chairman

We will not reduce it in the short term, that means in the next two years, but then it will certainly leverage out.

But I mean, we are determined, especially, I mean, we do live a digital revolution and we believe that if you do not overinvest today and in the short term, that means within the next two years, any company which is not going to be strong in digital will not be a strong company anymore.

And I mean we are totally conscious that this is not hurting our bottom line in the immediate today and in the short term future.

Shen Li - JP Morgan - Vice President, HK& China Consumer

And then, finally, just maybe some comments on current trading by the American regions and the Asian regions?

Andre Hoffmann - L'Occitane International SA - Group Executive, MD for Asia Pacific

Yes, I'll just briefly touch on Asia. I mean, Hong Kong continues to be soft. We have a big promotion starting, I believe, next week with the launch of the Pierre Herme holiday collection. We're very optimistic about what this will deliver. In fact, we've already launched Pierre Herme collection in Japan and Asia and it has had extremely strong results. China, right now, I mean, our growth is mainly being driven by our Tmall business.



I mean, the level of sales we've achieved in the month of November, month to date, is almost bigger than the total sales we achieved with T-mall for the full, fiscal year to date. So it's clearly, it's driving sales.

I mean, it's taking sales away from the malls, it seems, because traffic in the malls is very soft but once again, we have a very strong holiday program in China where we'll be able to launch the Pierre Herme collection, I believe, in ten days. So, Korea is actually has -- in the middle of a big campaign for Shea Face Care which is also delivering growth.

Travel retail has made a very strong recovery for us. I mean, the month of October was the first month of the year we actually came close to our budget and our order book for November also looks very strong. So I did say, the last time we spoke, that we do believe travel retail will make a very strong recovery in this second half of the year and so far it looks like on track, at least in Asia.

Reinold, do you want to comment on the U.S. business?

Reinold Geiger - *L'Occitane International SA - CEO, Chairman*

In the U.S., it seems that our holiday products are very well received so we are optimistic on this. At the same time the U.S. remains very challenging in the sense that the -- because very, very promotional, and there are so many stores that are on sales before the holidays --right at the beginning of the start of the holiday season, which predict that it will be worth it once we approach Christmas.

But we still believe that our additions to the Christmas offering, we should have a reasonably good Christmas.

I mean, Europe it's, they were talking for sure that the tourist in this field will be very much good not only in France but in Europe in general. Besides this, I mean, you know Europe was very difficult the rest of this year and despite this we are doing pretty well. So, again, with our good holiday offer we should be OK.

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

Yes, just to add, because some of you have asked. I mean, fortunately...

Reinold Geiger - *L'Occitane International SA - CEO, Chairman*

I can, of course, I can make some comments about what's happening in France. I was in Paris and it's of course absolutely horrible and we are immediately in contact with all the different stores.

We are fortunate that nobody from our company got hurt but we decided that all the stores would be closed on Saturday because we didn't want any employees to take any risks because one did not know that there was a total confusion not knowing if there is -- anything could be happening again anywhere in Paris.

But on Monday, today, the stores will be opening again in normal.

Tina Long - *BofAML - Director, Greater China Consumer Research*

Hi management. I have three questions. The first one is regarding the margin outlook in second half because in first half we do have a lot of leverage, we do have a lot of efficiency gains but some of them was actually offset because of the increased investment.

So, I want to know the outlook or the trends for the second half also for the next fiscal year. That's the first question.



Second question is, I want to know what kind of new product launch pipeline you have in the next, probably, 12 to 18 months after the Divine cream which was very, very successful so, I want you to know, especially in the face care segments.

And lastly it's just a small clarification because when Thomas did the presentation he mentioned, basically, an example in Japan, like Melvita contributed 15% of growth. I just want to clarify that is 15% of Japan's sales or the growth rate which was 8%, but 15% of 8% which means, aside from Melvita was negative.

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

No, no, no. It's 15% of the 8%.

Tina Long - *BofAML - Director, Greater China Consumer Research*

15% of 8%. 8% of 15% ...

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

The total growth, if we said it grew -- total business grew by 8%, 15% of that 8% came from Melvita.

Tina Long - *BofAML - Director, Greater China Consumer Research*

OK.

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

Anyway, I'll just touch very quickly, on the product launches. So, as some of you may know, next year will be the 40th year since the L'Occitane company, the brand, was founded, so we have a very dynamic and very exciting promotional planned for the next year.

Obviously it will include many new products, limited edition products, specifically in face care. I'm not at liberty to explain to you right now, because it's not public knowledge, but we do have some very strong launches for face care within, not only existing ranges, meaning line extensions, but a new range.

So, the order of -- or the product development pipeline, I think, is very full. Concerning the outlook on margin, Thomas, would you like to reply to that?

Thomas Levilion - *L'Occitane International SA - CFO*

Yes, so, well, of course, a lot of the -- will depend, actually, on the holiday and Christmas season sales result, but as Reinold was telling you, we are confident that these results will be decent and we have a strong offer, and this Pierre Herme partnership seems to be very interesting.

So, it's still uncertain, however, I still believe that as we continue to invest in marketing, we'll see also a decrease in our margin in the second half as compared to second half last year. So the outlook for the whole year is probably that we'll be down in terms of margin by let's say 1, 1.5 points from last year and this is because, as Reinold said, even in difficult context we want -- well, we decided to make sure that we don't miss the opportunity in terms of the digital world which is really evolving so fast we have to be there.



Shen Li - *JP Morgan - Vice President, HK& China Consumer*

Question, for just the margin, just a clarification on the margin. One to one half point contraction, second half '16 on second half '15.

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

Thomas?

Thomas Levilion - *L'Occitane International SA - CFO*

I'm talking for the full year 2016.

Olivia Wang - *L'Occitane International SA - IR Director*

So, here's the question from Mariana Kou CLSA, so marketing expenses ratio for the FY2016 and the next year FY2017, so Thomas, please.

Thomas Levilion - *L'Occitane International SA - CFO*

So, we expect the marketing ratio to be around 13% this year in 2016 and probably similar in the next year.

Olivia Wang - *L'Occitane International SA - IR Director*

And, another question from her is, any hedging policy on FX and how does the company control FX risk?

Thomas Levilion - *L'Occitane International SA - CFO*

Well we, of course, we have hedging policies. It is the same as we have explained many times.

So, we are hedged between 40% to 60% and actually more than that we are hedged at 62% of our current exposure up till the end of the year. And we do what is called natural hedging which is for the main currencies where we have intercompany financing.

We do; we borrow in the same currency, the same maturity, same duration in the same currency as we have loan and so the thing is that it is pretty much under control.

The thing is, as I tried to explain during the presentation, we had a very exceptional situation in September that was following the devaluation of the renminbi and there was a very strong move and depreciation of the currencies of the emerging countries which resulted in the depreciation, which is temporary, which is also non cash, the depreciation of the balances, intercompany balances leading to low-value trading at the end of September.

So, it's something that is to some point is very delicate. We cannot really hedge those emerging currencies because the cost is very high. We've calculated that if we wanted to hedge those currencies, which in terms to borrow money in these currencies, borrow money in Russia rouble and without of course, it would cost us about EUR3 million a year.

So, as we are cash rich, we believe it's not -- and also this is non-cash effect, we believe that it's not worth spending so much money just for showing a nice picture every six months.



Reinold Geiger - *L'Occitane International SA - CEO, Chairman*

I just wanted to make a comment about marketing expenses. For all the new digital media investments, because many of them are new, many of the investments, one does not know what is working, what is not working so there is an overspending at present and for the near, medium future.

Spending will be reduced after a certain time, but we reckon it will certainly last for another one or two years.

Olivia Wang - *L'Occitane International SA - IR Director*

So, next question from Anne Ling. Does the 1% to 1.5% decline in EBIT margin include the ForEx loss we experience in the first half of FY2016?

Thomas Levilion - *L'Occitane International SA - CFO*

No, Anne, it does not. The ForEx loss is below the operating margin now. The ForEx gains or losses that we have so this is totally different. The operating profit benefits actually from the weaker euro or less strong euro on average.

So, the FX loss is below the operating margin. It's difficult, of course, to predict, but what I can tell you is that as the euro is already back to more normal levels, this loss if we were to book it today or to announce it today would be probably lower by EUR3 million to EUR4 million.

Tina Long - *BofAML - Director, Greater China Consumer Research*

Two follow-up questions. The first one is the store network opening and renovation plan for second half of next year.

And second question is, I remember, I think, probably, 18 or 24 months ago, when we talked about the five year plan of the company we mentioned that, I think by the five -- by the end of the five year the other brands, which means emerging brands will actually contribute about 20% of sales.

So are we still on track to achieve that or we need to make further acquisitions to achieve that target, thank you. Or we need to revise it down, something?

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

Thomas?

Thomas Levilion - *L'Occitane International SA - CFO*

Yes, so we had about 64 renovations or relocations in the first half of the year and we'll continue to operate the second half which you can see. Now it will be less, as always, in the second half, because we don't want to be closed at the time during the holiday season so we are on track with this program.

It's slightly less than last year at the same time we had 73 as compared to 64 this year but I think we are moving forward pretty well and it's not only in Asia general, there's a lot in terms of renovations and relocations. Which is not bad for our cash, by the way, because you know that the cost of such renovations and relocations in Asia is lower than in the rest of the world. And sorry, what was the second question?

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

Would the emerging brands originally we shared that it would represent 20% of our revenue, do you still hold that to be the case?



Thomas Levilion - *L'Occitane International SA - CFO*

I believe that this is a reasonable assumption and I mentioned a couple times during my presentation, the contribution, without giving too many details, the contribution of the emerging brands to the growth of Japan, to growth of China, and the growth of France and it's -- and also the results in Brazil.

So it's pretty interesting and satisfying just to give you an indication, the growth of L'Occitane brand by itself was slightly below 5% at constant rates during the half year. But the growth of the emerging brands taken as a whole was 24%.

And some of them, of course not the biggest ones, L'Occitane au Bresil or Erborian were growing by 50% to 60%. So, yes we believe that -- that this is a reasonable target, reasonable assumption and we are doing what it takes to achieve this target.

So, it's also part of what you are seeing in terms of investments in marketing because we have 0.3 points which is marketing dedicated to the emerging brands and I mention L'Occitane au Bresil, I mentioned Melvita that we also invested that was in the distribution expenses.

Part of investment is people in charge of these brands, in new countries, because for instance, we just launched, we just opened the store for Erborian in Russia, you need to have people in charge of that otherwise it doesn't work, obviously.

So, it's part of our investment, it's not only digital, it's not only marketing, it's also emerging brands but the results are there to show that they can go very fast.

Olivia Wang - *L'Occitane International SA - IR Director*

So, we have some time for the last question, please.

Isis Wong - *Credit Suisse - Associate, Equity Research*

Thank you, I want to double check some numbers. You just mentioned that the marketing expense as a percentage of sales should maintain at 13% for FY16.

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

And FY17 too.

Isis Wong - *Credit Suisse - Associate, Equity Research*

So, because of the reinvestment in brand will continue in the next two years, when you say next two year, it means it's FY17 and FY18?

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

No, this means, this current fiscal year which is FY16 and next fiscal year, which we call that FY17. We believe marketing will maintain around the 13% level.

Isis Wong - *Credit Suisse - Associate, Equity Research*

And that's 13% already include the EUR6 million Brand Awareness Program that you mentioned in the presentation?

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

I'm not ...

Thomas Levilion - *L'Occitane International SA - CFO*

Yes, it does. Yes it does.

Isis Wong - *Credit Suisse - Associate, Equity Research*

Another thing is about the effective tax rate -- because last year in second half we have some additional tax provision in France for tax. Do we see this recurring this year because I saw that the tax expense in this first half actually has lowered a lot in terms of the effective tax rate. So, how should we expect for full year? This year, FY16 I mean.

Thomas Levilion - *L'Occitane International SA - CFO*

Very quickly, I mean you cannot judge from the tax rate at the end of September, it's meaningless, actually it depends so much on the internal transactions between the different countries from Switzerland to the inventories of other countries in view of Christmas or -- it's really meaningless and there's a lot of exchange rate effects also, in that as well.

So, this would not give us any indications on what can happen at the end of the year. It's -- let's say that the tax situation in France is still under discussion so we've made a provision last year and by EUR8 million, we believe that this provision is adequate for the time being.

We are talking with the tax authorities but it's too early to say what is going to come out of that. So, when we know, we will tell you. And I'm not sure, at this stage, whether it would result or not in the further provision in the March accounts.

Maybe another way to answer your question is to say that in the past we used to bet on a tax rate, effective tax rate of let's say 22%, 23%. The truth is that there is more and more pressure from the tax authorities all around the world, it's not only France, it's all countries and this will most likely result in the next few years in a slightly higher tax rate and let's say -- and that's what I would do myself, I would take that 25% assumption basically.

Isis Wong - *Credit Suisse - Associate, Equity Research*

Thank you.

PRESENTATION

Olivia Wang - *L'Occitane International SA - IR Director*

So, thank you everyone. I trust we've already answered all of your questions, so I now announce the end of the presentation today. Thank you.

Thomas Levilion - *L'Occitane International SA - CFO*

Thank you very much.



Reinold Geiger - *L'Occitane International SA - CEO, Chairman*

Thank you.

Andre Hoffmann - *L'Occitane International SA - Group Executive, MD for Asia Pacific*

Thank you, Thomas and Reinold.

Olivia Wang - *L'Occitane International SA - IR Director*

Thank you.

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