FY2017 Annual Results Webcast

Company Participants

- Reinold Geiger, Chairman and Chief Executive Officer
- André Hoffmann, Vice Chairman, MD for Asia Pacific
- Thomas Levilion, Chief Financial Officer
- Olivia Wang, Investor Relations Director

Other Participants

- Tiffany Feng, Citigroup
- Shen Li, JPMorgan
- Emily Lee, Nomura International (via webcast, questions voiced by operator)
- Alison Lee, CLSA
- Jamie Soo, Daiwa Capital Markets
- Siguo Chen, UBS (via webcast, questions voiced by operator)
- Dr. Uwe Rathausky, GANÉ Aktiengesellschaft (via webcast, questions voiced by operator)

Presentation

Olivia Wang

Good evening everyone and welcome to L'Occitane International's annual results presentation for the full year ended 31th March 2017. With us here today is our Vice Chairman 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 annual results, and we will open the floor for questions. For those joining online, you may submit a question by clicking the ask-a-question link at the bottom right-hand corner of the webcast page. With that, I would like to pass it on to Thomas, please. Thank you.

Thomas Levilion

Thank you very much. Hello, everyone. Well, starting this presentation with the highlights, first with the net sales, which grew by 3.2% at reported rates and 1.7% at constant rates. We continued to see a tough retail context in Europe and North America, as well as adverse trends in travel retail, with a material impact in Asia. Nevertheless, after a better Q3, the fourth quarter marked again an improvement from previous trends.

China was part of this acceleration, and they had a double-digit growth in FY '17. Within our other key markets, Japan also delivered a very straight performance, notably with the turnaround of its E-commerce sales. In all our markets, our web-based activities continued to grow at a fast pace, with own E-commerce growing by 12% and e-marketplaces by 31%.

Besides the strong E-commerce and e-marketplaces development, we continued to deliver encouraging growth in wholesale and distribution channels, and with the emerging brands, L'Occitane au Bresil, Melvita and Erborian, and we disposed of Le Couvent Des Minimes in order to focus on our core strengths and deliver better results for our shareholders.

As for the L'Occitane brand, we've put in place a new organisation that is focused on delivering profitable growth for the years to come. We have reassessed our strategies and set three top priorities:
- increase brand appeal
- create a customer experience that pleases all the senses
- build agile teams with a sense of purpose and action.

Our operating margin, which was down by 0.4 points, reflecting both the soft top line and the first steps of the execution of our strategy:
- First, the negative leverage, we have seen negative leverage, representing one point of net sales, but this was more than offset by favourable channel mix due to the strong development of our activities on the web and efficiency efforts, and
- second, the investment in marketing, R&D and development of the emerging brands.

One of the major trends of the market, in particular for the millennials is the development of the social commerce and the makeup category. We are making key steps in this direction, notably with the creation of a joint venture with the very fast-growing LimeLight Company.

From a financial standpoint, we achieved a strong improvement in our exchange rates results and our effective tax rates, which was down to 21%. As a consequence, our net profit margin improved by 1.1 points to 10%, and our net profit was over EUR132 million, which is the highest in our history.

As a result, the Board is pleased to propose an increase of the dividend by 8.6%, showing its confidence in the potential of our business model to deliver growth and return to our shareholders.

We are moving to net sales breakdown. Sell-in sales accounted for 25% of total sales. That's the same as last year. We delivered strong growth in wholesale distribution and B2B channels in certain countries, such as France, Brazil, Russia and US, and this was also due to an increasing growth in our emerging brands, as said before.

Travel retail business remained weak, despite improvements in Q2 and Q3 and better sell-out results in Q4. Improvements were mainly contributed by the UK and certain Asian countries, such as Korea and Japan. However, the situation remains challenging in Asia as a whole, and some key European cities, which has remained affected by, as we see, terrorist threats and trends towards budget airlines.

In sell-outs, retail was slightly negative. On the contrary, own E-commerce grew by almost 12% and reached 11% of retail sales. Other web channels, like marketplaces in China and Korea, were also very dynamic with 31% growth, driven by China, with Tmall, which was growing by a staggering 49%.

Japan accounted for 18% of total sales, thanks to its solid growth and stronger Japanese yen. Brazil increased its share also by 0.4 points to 4.3%. And with 11% growth in local currency, China delivered a very solid performance, but its share in our total sales was slightly down by 0.7 points due to the weaker Renminbi. And among the other countries, Canada, Australia and Mexico continued the good results, whilst Korea managed to deliver pretty good growth in a very tough market.

Next, despite the growth of 11.8% in own E-commerce and strong performance in China and Brazil, same-store sales declined by 1.3%. However, this was up from minus 1.7% as at December, which reflected an improvement in Q4 and notably in China and several other Asian countries. The better Q4 followed an improvement already in Q3 from the very challenged first half.

So retail sales were slightly down as growth contributed by non-comparable stores and marketplaces was offset by the lower sales by comparable stores. The contribution of the non-comparable stores was particularly positive in Japan, in China, in Brazil and the group of other countries, but was also impacted by the closure of several non-profitable stores in the US.

Sell-in continued to deliver strong growth of 7% excluding travel retail, which was down approximately 5% from last year. Wholesale and distribution business in Europe, franchise in Brazil, sales of amenities to hotels and emerging brands all contributed to the good performance in sell-in.

And finally, as the euro was relatively softer against major currencies during the second half, the overall currency impact turned positive at 1.5% over the full year.

Looking at our key countries such as Americas and Europe, starting with France. So in France, retail sales continued to be affected by the terrorist threats and poor retail sentiment but benefited from the holiday offers, and like in many countries, particularly with the Advent Calendar. However, excluding the transfer of some B2B sales to international, sales in France were actually positive, growing by 0.6%, thanks to the strong growth of E-commerce and the development of the emerging brands in wholesale channels.

Similarly and despite weak traffic and the post-Brexit uncertainties, the UK achieved a strong performance in H2 on the web and with the holidays offers. The overall sales have turned slightly positive, and this despite the closure of several points of sales by December.

The US remained challenging as a result of low traffic and depressed, and remained depressed, since the November elections. We have initiated a network rationalisation program, which resulted in this financial year in a net closure of 10 underperforming stores and explains approximately 80% of the top-line decrease of 2% in the US.

On the other side, the own E-commerce channel continued to grow with gains from conversion and average ticket value, even at lower discounts. And in Q4, our own E-commerce jumped to 28% of retail sales. We continued to see good growth in web partner, in particular Amazon, and e-marketplaces. And finally Canada, which is now fully managed from the US, delivered a very strong performance.

Brazil, in the context of difficult market conditions and aggressive promotional environment, the country still achieved high growth from all main channels, including comparable stores, E-commerce and distribution. Growth in Q4 was supported by successful new product launches for both brands. And by the way, L'Occitane au Bresil contributed 64% to growth of the country.

In Russia, the second half year saw highly promotional environment in the context of a decline in traffic, which resulted in negative same-store sales growth and softer sales to the department stores. On the contrary, our own E-commerce maintained a decent growth, and our distributors' expansion strategy continued to deliver excellent results, delivering double-digit growth.

Now, Asia, with Japan - Japan delivered a clear acceleration in H2 and grew by 4.1% in FY 2017. This was primarily supported by the TV campaign, new opportunities to merchandising and a double-digit growth in E-commerce. The first steps with Amazon were positive, and Melvita continued to deliver strong growth of more than 36% in Japan.

Hong Kong business improved slightly in the Q4, thanks to the Reine Blanche product line and improved average ticket value but remains challenging, with continued weakness in mainland Chinese tourist traffic, heavy discounts from competitors and the strong Hong Kong dollar. In travel retail, after our bounce-back in Q2 and Q3, mainly from sales to Korea, Japan and Southeast Asian countries, H2 was softer and driven by industry-wide soft trends, both in sell-in and sell-out.

Sales growth in China jumped from 5% in the first half year to 8% year-to-date December and 11% year-to-date March. So there was a very strong performance in H2, was driven by retail and by Tmall, and Tmall was now growing by 49%. Both channels benefited from an advertising campaign with a local celebrity and from also the stronger economy in China.

The overall retail market continued to be weak in Taiwan, with low consumer confidence and poor department store performance. But Q4 showed some positive signs, with a moderate increase in the number of transactions and good results of the Reine Blanche products. The soft retail was partly offset by good performance in E-commerce and E-marketplace.

And as said before, the growth in other countries was 3%, with contributions from countries such as Canada, Australia, Korea and Mexico, which were all driven by non-comparable stores and E-commerce and marketplaces.

Our total store network reached more than 3,000 points of sale, so that's an increase of 4% over March 2016, and our own stores network now has 1,514 doors, an increase of 51 - excuse me - from March 2016.

So if we look at the net openings of 51, in Asia first, the net openings included 15 stores in China and 11 in Japan. In America, the net openings were primarily in Brazil, with 31 net openings, including 24 L'Occitane au Bresil stores. Out of the 24 L'Occitane au Bresil stores, eight were so-called kiosks, which were compact format shop-in-shop in malls.

Canada opened a net five stores, whilst the US closed a net 10 stores within the framework of our store and network rationalisation program.

In Europe, Russia transferred three stores to distributors. And further to positive sales development in Poland, we opened another two stores net in this country, where by the way, we now have 21 stores.

The overall same-store sales growth remains soft at minus 1.3%, but was up from minus 1.7% as at December and minus 2.5% as at September 2016.

As discussed before, the same-store growth improved in Q4, notably in China and several other Asian countries.

Japan and Brazil continued to deliver a decent performance during the quarter, and UK and several smaller European countries delivered stronger results than in the first 9 months of the financial year. And those countries benefited also from the obviously strong development of own E-commerce.

We are now moving to the profitability analysis. So again, the operating margin was down by 0.4 points to 12.7%, and this was primarily from some deleveraging in our distribution expenses, investments in marketing and one-off effects in general and administrative, which was partly offset by positive pricing, product mix and channel mix effects, and this will be detailed in the following slides.

First, with the gross profit margin, which rose by 0.6 points to 83.3%, as a result of the key following factors:
- the reduction in production and logistic costs for 0.3 points,
- favourable price and product mix effects for 0.3 points, and
- favourable exchange rate effects and other effects for 0.3 points.

The lower production costs were due to higher productivity, notably with the new tube production line, and to leverage of higher production volume on stable fixed industrial costs.

The positive pricing effect was explained by - primarily by price increases in the Western part of the world, in Brazil and in Russia, whilst the prices remain largely unchanged in Asia and thus lowering the pricing gap between the regions.

The rise in gross profit margin was partly offset by unfavourable brand mix for 0.2 points, and this was due to the faster growth of the emerging brands, and to channel mix for 0.1 points. This was being explained by the softer sales in travel revenue.

Our distribution expenses increased by 0.3 points to 47%. The higher cost percentage is attributable primarily to lower leverage on rental and personnel costs, and this for one points. This was more than offset by:
- favourable channel mix for 0.6 points, driven by our Internet sales, and
- net improvements from store network optimisation for 0.5 points.

In addition, we added 0.3 points of sales for investments in:
- travel retail points of sales,
- freight on sales driven by a higher volume of gift boxes in certain countries, and
- the new store openings and the development of L'Occitane au Bresil's retail network.

As regards the marketing expenses, which increased by 0.4 points to 12.9% of net sales, this increase was attributable to L'Occitane en Provence brand awareness investments in advertising and digital media, as well as strengthening of the teams for a total 0.5 points.

The increase in brand awareness investment was focused on key countries - Japan, Russia, China, US, UK and Brazil, whilst we lowered our investment in some other countries where we actually over-invested last year, and also reduced some of our CRM expenses with less-expensive mailings, for instance.

Further to the related digital and traditional media and PR spending, we also incurred a higher production agency - production and agency costs to enhance the efficacy of these digital, traditional media and PR spending.

To a lower extent, the investment in brand awareness was also driven by higher purchases of promotional tools and gift boxes.

And finally, the leaner structure in general and administrative, as we will see in a minute, allowed to, so to say, beef up our marketing resources in product marketing and pricing.

On the other hand, we benefited from a leverage effect from the emerging brands' higher sales.

And not bearing on this slide, research and development expenses increased by 0.1 points of net sales, due mainly to increased investments dedicated to new products for L'Occitane en Provence.

In terms of general and administrative expenses, they increased by 0.5 points, and this was driven by one-off effects. The one-off costs incurred this year included various commercial and tax litigations, as well as costs related to the divestment of Le Couvent Des Minimes.

On the other hand, our new, leaner general and administrative organisation generated gains for 0.2 points of sales, which as said before were partly reallocated to some focused strengthening of our marketing resources.

There were some IT investments, and these were related to our data warehouse, further licence, maintenance and depreciation costs for the rollout of our ERP and also some peripheral systems and the increased security of our infrastructures and systems.

Not on the slide, but we had also other gains, which were EUR2.2 million and compared to losses of EUR1.7 million in FY 2016, and this resulted in a gain of 0.3 points of net sales.

So as a summary, the operating profit margin decreased by 0.4 points to 12.7%, and the decrease is explained by:

- investments for future sales growth and increased efforts in R&D, digital, and L'Occitane en Provence brand awareness for 0.4 points.

- investments in the development of emerging brands, essentially under the form of brand mix effects, were 0.3 points.

- the lower leverage and efficiency, in particular on distribution expenses, for 0.2 points, that - we'll see that this is offset by positive effects, and

- investments in infrastructures, including offices and IT supports for a total of 0.2 points.

And this was partly offset by:
- favourable channel mix for 0.5 points, of course, driven by the development of the Internet channels; and

- beneficial price and product mix for 0.2 points.

Some words about the CapEx - EUR50 million this year, EUR58 million last year, so a decrease of EUR8 million, except in the stores

- So the increase in our store CapEx from EUR30 million to EUR32 million is explained by our continued renovation efforts and part of the key money for a flagship store in Paris.

- On the contrary, we had less expenditures in IT as last year, which was a peak in our investment in IT security.

- What we added, we added software, licenses, equipment for EUR8 million, and that's included - that's including various upgrades of software and certain - in certain key subsidiaries and some new global projects, such as human resources database, the redesign of the website and accounts payable software and data centres.

- Similarly, our factories and R&D CapEx decreased significantly from the high level of last year, which included the new components and raw materials warehouse in Lagorces and the high-speed tube production line, which helped increase our gross margin.

- Within the 'Others' category, the decrease is also explained by CapEx incurred last year for the new offices in Geneva.

As the result, our CapEx in this year, in FY 2017, were the lowest since FY 2011 and that should pick up again in FY 2018, driven notably by more store investments for renovations and flagships, as well as machinery for our production facilities to enhance productivity and also capacity.

In terms of working capital, the inventory turnover improved by 18 days. This resulted from tighter inventory management, even tighter inventory management and forecasting at our factories for six days, and also in countries such as Brazil, Japan and the UK for an additional five days. And we had a positive exchange rate effect, which helped for nine days.

So the lower inventory turnover days, combined with improvements in trade receivable days and longer trade payables resulted in a reduction by six days of net sales in our overall cash cycle to 39 days only.

In terms of balance sheet, balance sheet ratios, the return on capital employed in FY 2017 increased by 2.4 points to a healthy 24.6%, and this good performance resulted from the strong increase in net operating profit after tax by 15%, which was combined with a limited increase of 4% in capital employed.

The capital and reserves increased by EUR69 million in 2017, or 8%, which was due mainly to the 20% increase in profit attributable to the equity holders. As a result, the return on equity ratio increased to 14.3%.

The group remained in a high net cash position with favourable liquidity and capital adequacy ratio. And the gearing ratio dropped to 5.9%, due mainly to a decrease in net borrowings for the financing needs at subsidiary level.

Strategic review. We are currently implementing a number of strategies to secure our long-term growth. Under our only omni-channel expansion strategy, we are improving the seamlessness of our physical and online shopping experience. This includes more investment in self-owned E-commerce websites, mobile sites, third-party marketplaces and social media platforms to make them more welcoming, user-friendly and personalised. This will drive traffic conversion, sales and growth in both our stores and E-commerce business. And we're also introducing a new 'Sunshine' store concept to some of our flagship stores to create more buzz around our newly renovated stores, for instance, in Paris, New York and Tokyo.

We are continuing to see growth across our brands. Our L'Occitane en Provence, Melvita, L'Occitane au Bresil and Erborian brands all performed very well. Our emerging brands achieved double-digit or even triple-digit growth, by tapping audiences and followings, especially in the Japan, France and Brazil markets. And we also recently invested in LimeLight, which is a US-based natural skincare and personalised makeup company, in part to speed up our expansion into the colour cosmetic sector.

The initial response to our new product lines in the face care and fragrance have continued to be encouraging. We also revamped our merchandising strategy to promote our iconic core products, our hero products and our bestsellers, which have historically proven to be the most popular among new customers.

We plan to accelerate the growth in L'Occitane en Provence by reinforcing its key strength. Its unique brand, its unique proposition that has rich in the history and universal appeal. We have a strong retail network globally. We have direct customer data to support future growth. And we offer high-quality, natural, sensorial products made in house with strong R&D capability.

We have further developed our E-commerce business, our CRM and digital marketing. Our E-commerce business is now equivalent to 11% of retail sales, and we further expanded our relationship with marketplaces such as Tmall, of course. And in terms of digital marketing, specific highlights, included a highly effectively brand ambassador campaign in China, which really supported sales on key online shopping holidays, such as Valentine's Day and Alibaba's 'Singles Day', and also had a very successful TV advertisement campaign in Japan.

The ongoing implementation of our 'operations roadmap' and reorganisation is set to bring greater efficiencies and leading us towards achieving operational excellence and long-term growth. The new management team in Japan, for instance, which has turned around the business there, and our new Chief Growth Officer and his team is continuing to explore more growth opportunities.

Looking forward, we'll continue to pursue sustainable growth and our vision to become the number one natural beauty brand by boosting our offerings in the face care and fragrance categories, and increasingly, the colour cosmetics category as a result of our recent investment in LimeLight. We'll continue to invest in our omni-channel strategy and digital presence to more closely integrate our online business and our physical stores, notably, to enchant customers with the introduction of the 'Sunshine concept' in the stores, and improved E-commerce websites and platforms.

We'll reinforce the customer-centric nature of the shopping experiences we offer and further leverage digital marketing and analytics to drive more traffic and sales.

And we believe that these selected initiatives, combined with the Group's ongoing efficiency improvement measures under this new organisation will continue to support its ability to deliver sustainable growth and value to its shareholders. So this concludes my presentation. Thank you for your attention.

Olivia Wang

Thank you, Thomas. So now we will like to take some questions from both the floor and online. As a reminder, for those joining online, you may submit a question by clicking the ask-a-question link at the bottom right-hand corner of the website page, so now please do submit questions.

Questions And Answers

Tiffany Feng

Thanks, management. It's Tiffany from Citigroup. I have in general two questions. The first one is regarding your new product performance, the Divine Harmony. So how much is the contribution, sales contribution last year on - I know it's not fair to ask the full-year contribution because it's launched in the second half, so how does contribution in the recent months up to the launch in the key regions? And also your expectations for this year's top-line growth, because you have a lot of new products in the pipeline and also due to the ramp-up of the new products. So how's your target for the full year? Do you continue to maintain the figures and I think the top-line growth for this year?

Second question is regarding key operating expenses and operating margin, so what do you see on target for the marketing expenses and distribution costs for this year?

Thomas Levilion

André, do you want to comment on the design of the new products? And maybe I can follow up with the remaining question.

André Hoffmann

I can briefly talk about Divine Harmony, which as you rightly pointed out, was launched in October in most of the Asian markets and in September/October in the rest of the world. The initial results were quite encouraging, but we noticed quite a significant cannibalisation of the Divine range, and I think that as Divine is really the hero product range, we're going to put further expansion of the Divine Harmony product assortment expansion on hold and focus this year mainly on Divine. And next year, we'll come out with some additional SKUs for the Divine Harmony range, but the reaction from the consumer was very good, but we lost a lot of our Divine customer business.

Thomas, do you want to handle the margin and operating expense?

Thomas Levilion

Maybe you want to say a word about Terre de Lumière?

André Hoffmann

Well, Terre de Lumière was launched in travel retail last year, the end of last year, on an exclusive basis and did have a very, very strong uptake. It was launched in domestic markets in North America, Europe, Middle East, earlier this year, and it will be launched in a lighter version, an eau de toilette, in Asia starting from the holiday season. But the initial result has been quite encouraging, and we're continuing to develop new products of the Terre de Lumière franchise.

Thomas Levilion

Okay, and Tiffany, hello. To answer your second part of your question, maybe I would like to put it in a broader perspective. Over the next few years, let's say until March 2021, our target is to grow our net sales to EUR1.6 billion to EUR1.8 billion, and that's a 5% to 8% CAGR, so first it gives you an idea of what we expect for the current year, so that's an acceleration.

At that time, by the way, because you are asking about the expenses and the key operating expenses, what we see by FY 2021 is an operating margin that will be around 13% to 15%. So the combination of the top-line growth and the improvement of the margin, by the way, should lead to an increase of 30% to 50% of the operating profit in value, of course, and in euros. But this year and next year, as we continue to invest, to re-enchant our brand, to improve the customer experience, we invest in the L'Occitane au Bresil, notably, so this will drive our margins to, I'd say, low double digits, with the further investments. And to specifically answer your question, we expect that the marketing spending should be a little less than 14% maybe, and distribution expenses a little more than 47%. So this will depend obviously on the channel mix, so I trust that this answers your question on our margins.

Shen Li

Hi, guys. Shen Li, JPMorgan. Sorry, I just wanted to clarify the 2021 targets. Was that 13% to 15% operating profit growth or was that 13% to 15% operating margins?

Thomas Levilion

Operating profit margin, Shen

Shen Li

Then secondly, could you just give us a little bit of colour on the other income line today, just including any profits, in euro profits, just a bit more colour on that? Thanks.

Thomas Levilion

Sure. So this is Thomas speaking. Hi, Shen. The other gains and losses in euro turns positive, notably because we had the profits or the capital gains from the disposal of Le Couvent Des Minimes, but this was largely offset by a loss that we have and a barter deal for L'Occitane au Bresil where we are disposing of some inventories in this brand, which actually was supposed to be compensated by marketing credits, but this could not take place at the level we expected. So instead of actually - it's better than actually destroying the products.

So this offset part of the gain of Le Couvent Des Minimes. In addition, we had positive R&D tax credits pretty much as every year by EUR1.4 million. So this was - explains why the gain was around EUR2.2 million for Le Couvent Des Minimes disposal, a little bit of loss with the barter deal and EUR1.4 million R&D tax credits. So the reason why it was negative last year, because from one year to the other, you of course generate a strong improvement, is that we had a one-off last year. If you remember, that was related to an additional profit sharing due to the French tax audit, the conclusion of the French tax audit, so this was one-off and related to the past. So that's why we have an improvement.

If you - the recurring part of the other gains and losses is a positive one-point-something that's related to the R&D tax credit, which is a specific regime in France.

Operator

We'll take some questions from online. Just as a reminder for those joining online, you may submit a question by clicking the ask-a-question link at the bottom right-hand corner of the webcast page.

Emily Lee (via webcast, questions voiced by operator)

Emily Lee at Nomura has three questions for the management. The first one is can you please provide a gross and operating margin breakdown in terms of sell-in, sell-out and E-commerce in FY '17? The second is what is your marketing expense to sales ratio for FY '18? And finally, what is your expectation for LimeLight in FY '18? Thank you.

Thomas Levilion

Sorry, can you repeat the second question, please?

Operator

The second one was the marketing expense to sales ratio for FY '18.

Thomas Levilion

So this is Thomas speaking again. So hello, Emily. I hope you're hearing us. In terms of sell-in, sell-outs, I guess margin in FY '17, you will see in the announcement - we don't disclose separately E-commerce from sell-out. It's part of sell-out, and you will see in our announcement in the - sorry - in the operating segments notes, it's note 2.1, we have 30% - 30.3% margin in sales, so a bit margin than last year, which was 29.9%, and this is being explained notably by the higher share of E-commerce within sell-out.

Sell-in was 49.4%, exactly the same level as last year, so the overall slight decrease from 12.7% to - sorry, from 13.1% to 12.7% - was explained by the increase in the other reconciling items, which notably include the R&D and a good part of the marketing spending, which is not allocated to the different channels, plus the one-off in G&A. So I hope this provides you an answer on the first - your first question.

In terms of marketing expenses, as I just said before, answering to Tiffany, we expect they will be a bit around 14%, hopefully a bit below. And LimeLight, I think this is good that Reinold would first explain what is the whole idea about LimeLight. So Reinold, if you want to start with this, and then maybe I can provide some numbers.

Reinold Geiger

So LimeLight first has excellent products, because it is linked to a company which is called Alcone, which exists since over 60 years. They are supplying skincare and makeup products for the film and theater industry. That means that their customers are makeup artists, which are professionals and you can only provide actually good products to them.

So they are specialised in skincare and makeup products. Both categories are very interesting, and we have synergies with them. For the skincare products, obviously today we have a very well-performing lab, which is producing unique and interesting products that LimeLight can profit off. And ourselves, we have no experience with colour cosmetics and obviously having our foot in a company whose business it is, is very interesting.

The company itself has a great potential in the US. This year, we expect the sales to be above US$100 million. The company has shown that in three years, so it's established performance. It is making direct sales partly by making use of Internet and the social medias. Obviously, there's a potential to develop this company internationally. At present, we are studying Brazil. We are studying Japan and the UK. There has nothing been decided yet. But we expect that within the next six to nine months, we will start in the first country outside of the United States. So all over for us, we believe it is a very interesting acquisition.

The management team is very entrepreneurial, very down to earth, and we are convinced that we have a very good collaboration with them.

Thomas Levilion

Thank you, and to finalize with some information - some numbers - I think it's important for everybody to have in mind that for us it's a very fast-growing company. As Reinold said, the target, US$100 million, US$120 million or even more sales in this financial year, which their financial year is ending in December 2017, and they are on track with this.

We paid US$128 million for this business, including US$8 million contribution to working capital, so that's a valuation of US$120 million for 40%, therefore a total US$300 million, which is about 2.5 times the sales - expected sales for 2017. So it's of course a significant amount of money. But with the growth perspective again, they have been growing by seven times, just in the US, in terms of 2017, and we have a huge potential in the US and in the rest of the world, so I think it's a very, very interesting operation. Plus, as Reinold said, it opens us a new field with the social commerce, which is something which is one of the high or hot distribution channels, notably for makeup.

What is interesting also, and I should have had it at the beginning, is that this company is profitable, is relatively high profitable, so they are in the high single digits operating margin in 2016, even with limited sales. Most of the operating expenses are variable, so that's the cost of goods and commissions to the beauty guides. And by the way, I think they have about more than 10,000 beauty guides in the US as we speak, and of course growing this base as fast as possible. So I think it's a very interesting operation from a business standpoint and a strategic standpoint and also from a financial standpoint.

Alison Lee

Hi. It's Alison Lee from CLSA. I have a couple of questions from Mariana Kou. Can I please learn the sales trend for major markets from April to June 2017? And also would you mind repeating the margin expectations for FY '18 as well?

André Hoffmann

Well, I'll just speak to the trends of Asia for the first two months of this year. As we mentioned earlier, China has been exceptionally strong. That really did start from the beginning of the calendar year, but it's continued on. And with the launch of our celebrity endorsement campaign, with Lu Han, which started in May, we expect the growth to actually accelerate.

So China, very strong double-digit growth. Taiwan has had a very nice turnaround after very challenging last year. The initial start to the year is positive. Korea, on the other hand, has been very challenging. Korea has been impacted by all sorts of macro factors, political factors, so the Korean business is off to a tough start for the year.

Hong Kong showed slight improvement. We have every year this special SOGO Thankful Week, which tends to really turbo-charge the sales, and it didn't disappoint. We had very strong growth for the L'Occitane brand during SOGO Thankful Week. We posted in Causeway Bay and Tsim Sha Tsui.

Southeast Asia is a little bit of a mixed bag, with Thailand strong growth off a small base, Malaysia, Singapore, slightly positive in Malaysia, slightly negative in Singapore. Australia, on target with their budget. Travel retail got off to a very good start to the year, but we expect June to be a little bit softer. So all in all, I think with the exception of Hong Kong, which still is challenging, I think that the markets are following plan.

Japan, as Thomas has mentioned earlier, is showing some improvements, but still a lot of work to be done there.

Thomas Levilion

Okay. So, Alison, your second question was about the margins. So for FY 2018, so I mentioned this before within the framework of our target, which is EUR1.6 billion, EUR1.7 billion, EUR1.8 billion by 2021, March 2021. We need to continue to invest, and notably for L'Occitane au Bresil, but also for new products, our stores, which we want to renovate in a very significant way, and also the brand awareness. All this will result in a higher level of marketing spending, which I mentioned already before that's a couple of occasions. And although we target 13% to 15% operating margin by 2021, we know that this - in this financial year, possibly the next financial year, we target more a low double-digit operating margin. Then of course we can see the pickup.

This clearly excludes any consequence of LimeLight. We, from a technical standpoint, will show in our books our share of the profits in the US, which is 40%, and this will be in the operating profit just below the G&A. So we will see, and of course they will have some spending to launch the brand in other countries. This will be too early to say.

Jamie Soo

Hi. Thanks for taking my question. This is Jamie Soo from Daiwa Capital Markets. Two questions from me, just turning back to the LimeLight, are we talking about US$100 million to US$120 million for the Group, right? So it would be 40% of US$100 million to US$120 million on top line?

André Hoffmann

I believe that that figure that Thomas had shared with you is for their US business and doesn't include anything for the international side at this point. We haven't finalized those plans yet.

Thomas Levilion

André is perfectly right, and the second point to address your question, Jamie, is to keep in mind that as it's a minority stake and we don't have control of the US business, but we have control of the international business. From a technical point of view, in accounting, it's the equity consolidation method, which means that we will not add 40% of their sales to our sales. We'll just add 40% of the profits to our operating profit.

Jamie Soo

I understand…

Thomas Levilion

It will not show up in the top line, but only in the operating profit.

Jamie Soo

I think I missed just a little bit of - did you talk about margins on that business?

Thomas Levilion

Yes, the operating margin is quite positive. It's in the high single digit, hopefully low double digits next year. So it will not have any dilutive effect on our margin

Jamie Soo

Okay. I understand, thank you. And my second question is on Melvita and the other emerging brands. What's management's outlook on this and strategy for fiscal year '18 and onwards? Thank you.

Thomas Levilion

Oh, this is Thomas. Maybe I can answer also this question, but of course I know that Andre can add on this. We obviously continue to develop our brands. The growth in FY 2017 was very strong for all of them, except, of course, Le Couvent Des Minimes, which we divested. We have very high hopes for L'Occitane au Bresil, but we know that it's a more long-term thing. The market is huge, and the brand is very interesting, and the combination of the two creates a lot of potential.

We know that we have to continue to invest and notably, due to, again, local complexities and also to the long run improve our margins, we probably have some industrial investments in Brazil in the next few months, not a big thing but still some CapEx there. So we continue to target strong sales, but this will be more in the 2020, 2021 and thereafter, because we have to develop the network of franchisees and owned stores.

Melvita is doing very well in France and in Japan today, so we'll continue to grow. I remind you that we grew by 36% in Japan this year, and with double-digit growth in France, also, which is far from being easy to do in a country where the market in general is pretty depressed, so we expect to continue this 15%, 20% growth from Melvita. At some stage, we'll have opportunities to expand to other countries. A bit too early to say when this could take place.

And for Erborian, we are well in place. We will do a little less - in the short term, a little less short term in Asia as we initially expected, because we see that we have some issues to address with the brand in Asia, but the brand is doing extremely well in Europe and now in the US.

And we have certainly enough potential to grow it there in the first few years and possibly switch back to Asia when we have confirmed, let's say, strengthened the brand for this region. So all positive about our emerging brands.

In terms of profitability, Melvita is set to be break even or clearly positive in FY '19. It's not in FY '18 as we say before because we believe that it's better to invest a little bit more again in marketing to ensure the growth in the following periods. But the other brands, of course, have managed a bit negative and L'Occitane au Bresil as well, as we need to invest.

Alison Lee

Sorry. It's Alison again with CLSA. I'm not sure if you said this earlier, but for LimeLight, you paid $120 million for 40% interest. What sort of valuation does that imply?

Thomas Levilion

Oh, Alison, this is very clearly we paid $120 million for 40%, so that's the full valuation is $300 million.

Siguo Chen (via webcast, questions voiced by operator)

We have another online question, this time from Siguo Chen at UBS. Firstly, what is the April to date same-store sales trend in key markets? And the second is, what is the current emerging brand sales contribution in terms of percentage and what is your 2020 target? Thank you.

Thomas Levilion

Okay, I think André addressed already pretty much the sales situation in different countries. Maybe more in Asia than in the rest of the world. So I can add a little bit on this and say that the first two months in Europe have been tough, so we are really struggling. The next - the most recent weeks were a bit more positive, and US was also a bit negative. This was a little more expected. The good thing in all those countries is that the E-commerce continues to do well. And lastly, Brazil continued to be positive, and this again despite the environment that is not so positive in Brazil still so far.

And the second question was, sorry? Oh, it was the share of the emerging brands in our total sales. So today, it's pretty low. It's a little more than 5%, and we expect in the next four years - we expect those brands to reach about more than 15% of our sales - maybe 16% or 17% of our sales.

Dr. Uwe Rathausky (via webcast, questions voiced by operator)

We have one final question from online, this time from Dr. Rathausky of GANÉ Aktiengesellschaft. He's asking for a little bit more insight into your revenue and operating result of your emerging brands at a combined level. Thank you.

Thomas Levilion

Sorry, I wasn't clear on the first question. Can you repeat it?

Operator

Sorry. It's if you can share some further insight into your revenue and the operating results of your emerging brands on a combined level.

Thomas Levilion

Okay, which is pretty much the same question as we just discussed. So again, the revenue related to the emerging brands is about 5% of the total today, expected to be above 15% let's say in 2021, and we don't disclose the profitability by brand. But again, as I said before, the brands are negative for the moment, as we're investing for all of them, Melvita, Erborian and L'Occitane au Bresil. And again, we expect Melvita to be breakeven in FY '19 and Erborian, L'Occitane au Bresil by '21 or '22.

Olivia Wang

Thanks everyone for joining this evening. I now announce the end of today's presentation. Thank you.

Thomas Levilion

Thank you very much. Goodbye.

Olivia Wang

Bye-bye.

Reinold Geiger

Thank you very much. Goodbye.

-End-