FY2018 Interim Results Webcast

Company Participants

- André Hoffmann, Vice Chairman, MD for Asia Pacific
- Thomas Levilion, Chief Financial Officer
- Janis Lai, Investor Relations Manager

Other Participants

- Spencer Leung, UBS
- Kevin Zhao, Bank of America Merrill Lynch
- Anne Ling, Deutsche Bank
- Jeff Liu, Buena Vista Fund Management *(via webcast, questions voiced by operator)*
- Mariana Kou, CLSA *(via webcast, questions voiced by operator)*

Presentation

Janis Lai

Good afternoon everyone, and welcome to L'Occitane International's interim results for the six months ended 30 September 2017. I'm Janis Lai, the Investor Relations Manager here, and with us here in Hong Kong is Mr Andre Hoffman, our Vice Chairman and Asia-Pacific MD, and online we have our Group CFO, Thomas Levilion.

First of all, Thomas will walk us through the presentation before we take any questions on-site, and then we'll move on to any online questions. If you are 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'll pass it on to Thomas to walk us through.

Thomas Levilion

Thank you, Janis. Good afternoon, everyone. So, we start our presentation with the highlights. As we discussed already at our Q2 trading update, the reported net sales were down 0.6%, but they actually grew by 2.3% at comparable parameters, and constant exchange rate, or like-for-like.

So, why do we talk about like-for-like sales? In FY17, you remember that we disposed of Le Couvent des Minimes, and in Q2 last year, we reported €3.8 million sales, on a one-off barter deal with obsolete products of L'Occitane au Bresil. So, we take these effects out, and we'll further comment our H1 sales on a like-for-like basis, which is why, by the way, you may find some figures in this presentation differ from those reported in the announcements.

Although we continue to face tough retail conditions, particularly in North America and Europe, we made encouraging progress online, within key emerging markets as well, and

also with our emerging brands. The web sell-out channels grew by 23%, notably driven by Tmall in China. Meanwhile, the sell-in business, overall, was growing by more than 5% on a like-for-like basis.

Within the key countries, China, of course, maintained a strong growth of 23%. Brazil delivered double-digit growth again. Japan was softer in the second quarter, but Hong Kong stayed in positive territory thanks to strong travel retail sales.

Finally, our emerging brands all delivered strong double-digit growth.

Talking about the results now, the profits, and as mentioned at the occasion of our Q2 trading update, our interim profit was clearly lower than last year due to significant one-offs, exchange rate headwinds, and phasing elements. Excluding such elements - so, excluding one-offs, excluding FX, and phasing - our operating margin was actually neutral, with gains from channel mix, from pricing, from production costs and organisation, offsetting the impact of soft retail on the distribution costs, and also our investments.

We are positive for the second half, with a strong action plan in place, already showing some positive signs, and a stronger start to the holiday season.

As you know, I mean, we are subject to strong seasonality. Due to the seasonality in sales and operating profit, our second half profit is historically higher than that of the first half. As an example, in FY17, our H1 net sales accounted for 42% of the full financial year, and our operating profit represented only 12% of the year. In the second half, we should benefit from a better operating leverage due to the higher sales during the holiday season.

Net sales breakdown. Our sell-in segment grew by 5.4%, like-for-like, driven by several channels. The distributors, plus 9% with a strong development in the Middle East, and L'Occitane au Bresil, and B2B plus 11%.

Travel retail grew by 9% from positive sell-out developments in China, Korea, Germany, and South America. Also, the first benefits from our investments in execution at the points of sales, and some restocking by the clients.

In sell-outs, retail declined by 1%, impacted by North America and Europe, despite strong growth in China. The web sell-out channels grew by 23%, and amounted to 13% of sell-out, versus 11% last year.

Our own e-commerce website was revamped, and went live in August. We have already noticed improved conversion as compared to the previous version.

Regarding the breakdown by country, the share of North America and Europe, except for France, decreased as a consequence of the tough retail market conditions. China and Brazil continued to increase their share in our total sales, and Russia benefitted from the stronger rouble. The shares of Hong Kong and France were slightly up, due to the positive developments in travel retail, the emerging brands, and the stabilisation in retail.

Slide 5. Despite the healthy growth in own e-commerce, and good results in China, Japan, and Brazil, the comp stores sales declined slightly by 0.1%, primarily from the tough retail situation again in North America and Europe. This represented, however, a noticeable improvement from Q1, which was minus 0.6%, and also from the minus 2.5% that we recorded in the same period last year.

As compared to the previous quarter, same store sales growth in Asia and Brazil continued to improve, while the trend was better oriented in Europe and North America. Japan was

down after August and September results were weaker than expected. China delivered an outstanding performance, with almost 16% same store sales growth.

The non-comp stores and other sell-outs delivered a healthy 5% growth, thanks to the stores opened in FY17 and FY18, as well as the performance in e-marketplaces, which were up 74%. The 5% growth in sell-in was contributed by B2B, travel retail, and distributors, as explained before.

As regards exchange rates, the euro was stronger on average than in the same period of last year, which resulted in an unfavourable impact of 1.8 points.

Looking at the sales growth by geography, slide 6, in France, the 4% growth was primarily driven by Melvita and Erborian. L'Occitane en Provence resumed growth thanks to sales and good performances of the new outlet at La Vallée Village, and also the refurbished stores at Forum des Halles and Ternes in Paris, with the latter being the first Sunshine store in Europe.

The UK saw a slight improvement in Q2, but remained negative due to low traffic and reduced TV channels activities. Retail was impacted by the closure of some underperforming stores, partly offset by new openings. On the contrary, the own e-commerce and web partners continued to deliver strong results.

In the US, almost half of the decrease was explained by the closure of underperforming stores, last year and also in this half year. Retail remained challenging due to declining traffic, but was doing better towards the end of Q2. We relate this to the first benefit of the influencers on the brand awareness, and the encouraging early results of innovations. Wholesale was affected by the phasing of promotional activities at Macy's as compared to last year. The total web activities were growing very strongly, notably with Amazon Direct.

In Brazil, in a challenging environment, again, the strong 13% growth was driven by L'Occitane au Bresil, with the contribution of strong web sales and the new own stores and franchises. L'Occitane en Provence was also growing, helped by the non-comparable stores sales, the e-commerce, and the good success of Terre de Lumiere, and the relaunch of our Aromachologie hair care.

In Russia, the market continued to be tough, with intense discounting among wholesalers and chains, which impacted seriously our retail stores, together with softer product windows than last year. Last year, we had, by the way, the strong Harmonie launch. Wholesale performed well, notably with with Ile de Beauté and Stockmann, and B2B was strongly up thanks to large orders from major players.

In Japan, Q2 was affected by weaker than expected contributions from product launches. On the contrary, the web and Melvita continued to deliver very strong performances, growing by over 25% and 50% respectively. Japan maintained, overall, 2% growth.

Hong Kong was plus 3%. The stronger Asian travel retail more than compensated for a still-weak retail activity. Retail was primarily impacted by the closure of two underperforming stores, as well as some temporary closures for renovations. Same store sales growth remained slightly negative at minus 5%, with weak traffic partially offset by a strong growth in average ticket value.

China, plus 23%, delivered an impressive performance. This was contributed by the recovery of the retail market, and the very successful campaign with Lu Han, which was launched in May. On a year-to-date basis, same store sales growth was close to 16%, and

Tmall was growing by 140%, and represented 14% of total sell-out. B2B also delivered an excellent performance, thanks to orders from independent hotels, and Shangri-La.

Taiwan continued to be challenged, with retail suffering from less generous promotion support by major department stores. On a positive note, the Immortelle and Reine Blanche windows performed quite well, helping to further give the brands a skincare expertise image.

Other countries, the growth was led by the very strong performance of the Geneva Hub in travel retail, B2B, and distributor segments, and good results in Australia, Mexico, and Malaysia.

In terms of store network management, we maintained our selective network expansion strategy, with a total store network remaining almost stable, with only 5 net openings. In Asia-Pacific, we had 7 openings in Japan including 4 Melvita stores, and one L'Occitane store in Macau as well. These openings were offset by some closures in other countries, like Taiwan and China.

In the Americas, there were 2 net closures in the US, while new stores will open in Brazil later in the year, after 31 net openings in FY17.

Selective openings were done in Western Europe notably in France, Spain, Italy and Switzerland.

Meanwhile, we placed greater focus on upgrading our store network. During the period, we refurbished 78 stores. That was a clear acceleration from 39 stores in the same period last year.

The overall same store sales growth remained soft at minus 0.1%, but was up from the same period last year. Again, it was minus 2.5% last year, and up from Q1 this year, which was minus 0.6%. Japan was softer in Q2, as already mentioned, but benefited from the strong performance of Melvita and the web. China remained very strong at almost 16%, whilst several Asian countries, Brazil, the US, and most European countries, improved in Q2 as compared to Q1.

As compared to the same period last year, the 2.4 points improvement is primarily explained by the very strong result in China, and the stabilisation in Europe, Japan, and Hong Kong.

We're now moving to the profitability analysis. The operating margin was down 1 point to 2.5%, primarily from one-off effects, exchange rate translation effects, and phasing in relation with the seasonality of our activity. Material gains from production costs, from positive pricing, from channel mix effects, and efficiency efforts, allowed us to offset our investments, and some de-leveraging due to soft retail performance in some countries. This will be detailed in the following slides.

So, I'll talk about the gross margin first. The gross margin continued to improve, and increased by 0.6 points to 82.8% of net sales. This was explained by lower production costs, for 0.5 points, price increase for 0.3 points, and reduction in obsolescence for 0.2 points. This performance was partly moderated by the consequences of the disposal of Le Couvent Des Minimes, as well as the L'Occitane au Bresil barter deal last year.

It should be noted, talking about the barter deal, that the gain related to the deal last year was neutralised in the second half of last year. So, as a result, it is important to note that there would be no adverse impact of this deal when comparing FY18 to FY17 on a full-year basis.

The distribution expenses increased by 1.7 points to 54.2%. With several countries struggling in retail, the higher costs percentage was attributable primarily to lower leverage on rental and personnel costs for 1.2 points. Second, investments in stores reflected pre-opening costs for the flagship stores in Paris and London, and to a lesser extent, the closure of a couple of underperforming stores in Japan, actually Shinjuku and Ginza.

The start of our Asian regional distribution centre also generated some one-off implementation costs, which will be offset by gains starting in the second half and next year. The slightly negative brand mix effect was due to the development of L'Occitane au Bresil's own store network.

On the other hand, we had a significant gain of 0.4 points from the strong development of our web sell-out activities, and to a lesser extent from the stronger sell-in businesses.

Marketing expenses increased slightly, by 0.2 points, to 14.2% of net sales. We further invested in marketing for a total of 0.2 points, particularly in the brand ambassador in China, digital marketing such as media influencers in the US, and new product launches such as Divine Youth Oil and Terre de Lumiere. Such investments were partly offset, or compensated, by some savings in mailers and events.

In relation to our seasonality, some phasing of marketing materials shipped to subsidiaries before the holiday season impacted for another 0.2 points. Further investment in the marketing teams for 0.1 points, which were balanced by a reduction in professional fees, and also benefitted from leverage from higher sales of emerging brands, essentially Melvita, for 0.2 points.

General and admin. Despite some increase in fees on various projects for 0.1 points, and an unfavourable exchange rate for 0.1 points, the general and admin expenses decreased by 0.3 points to 10.7% thanks to lower personnel costs after reorganisations at Group and subsidiary levels for 0.2 points, decrease in IT expenses for 0.1 points, and one-off tax reliefs, subsidies, litigations, and credit recoveries for net a 0.2 points.

So, as a recap, the operating profit margin decreased again by 1 point to 2.5% of net sales. The decrease in operating profit margin is explained by the combination of one-off effects for a total of 0.5 points - that's essentially the pre-opening costs, some closing costs, and the effects of the L'Occitane au Bresil deal last year - exchange rates, translation effects, for 0.4 points, and phasing effects for 0.2 points.

The unfavourable leverage in retail was largely offset by efficiency gains in production and general and admin expenses, which resulted in a net impact of minus 0.3 points. A limited increase in advertising and marketing was partly balanced by the leveraging of existing structures in the emerging brands for net 0.1 points, and the new Asian warehouse represented an investment for 0.3 points.

The investment and net negative leverage and efficiency were compensated by favourable channel mix for 0.4 points - this is linked to the internet, of course - positive price and product mix for 0.3 points, and gains from LimeLight for 0.1 points. The net income was further impacted by slightly higher finance costs, which was explained by our investment in LimeLight and the flagships, unrealised and limited exchange rated losses in the context of the strong increase in the euro, and an unfavourable change in income tax which should be considered as seasonal and insignificant, as our effective tax rate should be back to normal on a full-year basis.

The cash cycle in days of net sales decreased slightly by three days, thanks to a higher level of trade payables, which more than compensated a slight increase in the inventories. The change in inventory days was notably explained by some increases in Japan and Brazil, and the implementation of the Asian distribution centre.

CapEx now. Our capital expenditures increased significantly from a low level last year, notably driven by key money for the flagship store in Paris, in Champs-Élysées, and the addition of machinery and equipment to the factories in Manosque, and to some extent in Brazil, on top of that.

In addition to the capital expenditures mentioned, we also invested €114 million in LimeLight during the period for the acquisition of a 40% stake.

Our net cash remained healthy at €167 million as compared to €257 million at the end of September 2016, so that's €90 million less, which remains a healthy situation, despite our unusually high investing activities.

Strategic review now. In the first half, we stayed focused on our strategies, to secure long-term growth, and this is anchored by our key priorities. First, to boost brand appeal. After the launch of Terre de Lumiere earlier this year, we placed focus on our other hero product, Divine Youth Oil, notably with a strong pan-Asian advertising campaign. We are now actively preparing our further steps in skincare with the upcoming launch of a promising new range next Spring.

Our omni-channel expansion remains a pillar of our strategy. We renovated the first stores using the new Sunshine concept, which has been well-received across regions, and we also revised our merchandising and navigation in the store to be more customer-centric, and further developed our Beauty Assistants training, and incentive programs.

The multi-brand strategy continued to yield positive results. All of our emerging brands delivered double-digit growth, supporting performance in Japan, France, and Brazil, and our promising investment in LimeLight will allow us to speed up our expansion into colour cosmetics and develop the social commerce model.

We further invested in e-commerce and digital marketing. We went live with our revamped e-commerce site, which has already shown better conversion. Together with marketplaces like Tmall, our web sell-out segment is now 13% of our total sales. Our brand ambassador in China, and influencers in the US, increased the brand's relevance and proximity with the new generation of consumers.

The ongoing improvements in management structure and operations will bring greater efficiencies, as illustrated by the production and efficiency gains in H1, and further projects will go live, such as the reorganisation of our European logistics after we did the Asian one.

Looking forward, we will stay on course to pursue sustainable growth, and realise our vision to become the leader in natural beauty, through inspiring product ranges and brand experiences. We will continue to implement our omni-channel expansion to complement our strong physical store network with digital presence, create exciting store concepts, notably with the upcoming flagship openings in London and Paris, and increasingly leverage on our direct touchpoints with customers through analytics and learning.

As we head into the holiday season, we will capitalise on our initial successes with Divine Youth Oil and Terre de Lumiere, and support LimeLight's expansion as part of our efforts to gain exposure in colour cosmetics and social commerce. With these initiatives, coupled with

our commitment to drive efficiencies, we will support our ability to bring lasting value to investors.

This concludes my presentation. Thank you very much for your attention.

Janis Lai
Thank you, Thomas. So, we will now open the floor for questions. We will start by taking some questions from the live audience, before moving to the online questions.

Just as a reminder for those joining us via webcast, you can click the link on the right-hand bottom corner of the webcast page that says ask a question.

So, we'll take the first question from the floor, please.

Questions And Answers

Spencer Leung
Thank you, management, for hosting the results briefing. I have two questions. The first question is, what gives you the confidence that, in the second half, you're going to catch up? Do you see some of the new products gaining traction? Do you see China accelerating after you intensify the marketing efforts?

Second question is on payables. So, I see your payables is increasing. I'm interested in the reason behind this, and whether or not we're going to see a reversal. Thank you.

André Hoffmann
Okay, I'll handle the first question, and Thomas will do the second one. So, I think what gives management confidence in an improved result for the second half is, already we've seen October, and October was a very strong month for the Group - I think one of the strongest months of the year so far. Even Hong Kong, we delivered strong positive same store growth.

November so far, month-to-date, has also been particularly strong in Hong Kong, with double-digit same store growth. Travel retail, Asia-Pac, we had the biggest month in the history of the Company in October. November is looking to beat even the October sales.

So, I think it gives management some confidence. We've always said, heading into holiday season is our sweet-spot. This year, because we've had a lot of launches that were back-halved into the second half of the year, we knew in advance that the first half was going to be challenging. So, I think that these factors, with the product launches, the improved performance of travel retail, the turnaround in Hong Kong, I think this has given management some confidence that the second half will be much stronger.

Thomas, do you want to handle the payables question?

Thomas Levilion
Yes, thank you for the question. I believe that part of that might be seasonal, so if we go into the details. So, we may lose a little bit of that, but you also may recall that last year,

we increased our trade payables days by 10 days, so that's on the full-year basis, to 161. So, not so - lower, of course, than what we have at the end of September, but again, this is seasonal.

So, I think that we see the basic reason for an increase and improvement in this ratio, which is the fact that we have implemented now, in quite a few countries, a new purchase accounting system that allows us to better control our payment terms and conditions, and actually better control when, actually, we pay our suppliers, without creating, of course, any disruption or any issue with that.

So, I think the answer is, well, we may lose part of that because of seasonal reasons, but then the long-term trend is sound, and we are now more and more able to pay exactly when we have to pay our suppliers.

Janis Lai

Sure, and we'll take the next question.

Kevin Zhao

Hello, management and I've got three questions. The first, you guys mentioned a second campaign on Tmall in October in China. Just wondering, were there any updates on that? What about the growth rate of this Tmall campaign?

Second, do you guys still maintain this OP margin guidance of high single digits to low teens, and what will be the key investment areas to focus in second half?

Third, we do see a strong increase of the euro, and also FX swaps, in the first half. How does management think about this FX going forward? Thanks.

André Hoffmann

I'll handle the first question. The first question, about Tmall. The Tmall campaign in October was started with Shea Butter, which is a very strong range for the dry winter season. It got off to a little bit rocky start because the celebrity we used to endorse the product, Lu Han, there was an announcement that he has a girlfriend in China, and this caused a lot of backlash on social media. I think there was tens of millions of posts and re-posts on Weibo, and some of his fans, who we do count as our customers, were a little bit upset with him.

It seems to have settled down now, and they're back to purchasing online.

Growth for L'Occitane on Tmall for 11/11 was about 80%, which was slightly below what we had targeted, but I think still very, very good growth. We have three more campaigns outstanding with Lu Han before the end of the fiscal year, so I'm pretty optimistic our performance in China will continue to deliver very, very strong growth.

Just to give you a highlight for next fiscal year, we have re-signed Lu Han for another one year, and we've also signed two other celebrities. One for face care, because the Lu Han campaigns are only supporting body care products, and we've always said that face care or skincare products is the key strategic category for us, so we will have a top female celebrity which we will be able to share with you shortly as a campaign spokeswoman for L'Occitane, and another very young, hot, up and coming - I forget the nickname. The translation is fresh meat, I think. Maybe you know the Chinese word for it. But it's a young star, very

fast-growing in popularity. So, we'll have three spokeswomen in celebrity campaigns for next fiscal year.

Thomas, do you want to deal with the next two questions?

Thomas Levilion

Sure. So, as you remember very well, we guided at our Q2 trading update to operating margins between high single to low double. To be transparent with you, I think we've been pleased with some of the numbers that we've seen in the final financial statements, and notably we are quite happy with the strong gross margin, and notably the fact that it is driven by two of our long-term efforts in production efficiency with the gains in production costs, and second in terms of pricing product mix, which is a long-term price contributor to the improvement of the margins.

So, we are pleased with that. However, I would say it's a bit early to say we think it is going to be better. Also, I mean, the market continues to be tough in some places, and we see a good start in - as Andre mentioned, well, globally a good start in the first half, but this is still to be confirmed.

Again, as you know very well, our holiday season is so important, and we are just at the beginning of that. It is too early to say that things can be better or different in any sense than what we said before. So, we keep this high single to low double as the guidance for the moment.

Your third question was about FX, which are certainly not helping us this year. I would say that, well, of course, if anyone has a hint of what can happen in the second half in this, it would be greatly appreciated. Seriously, I think it's a very difficult moment to forecast, or to have any certainty about this. There are two key, absolutely key, countries that are not - well, it's not very clear where they are going for the time being.

We have the US, with the fiscal reform on its way, or is it going to happen or not, and what is actually going to happen - nobody really knows at this stage. More recently, some trouble in Germany on the political side, also raising the level of uncertainty. So, no one really knows, actually, if - we might see, ideally, a combination of compromise on the political side in Europe, in Germany, and a bright future for the economy in the US. That would be ideal. But no one, I think, can be sure that it's going to happen.

So, we will see. In the meantime, we remain prudent in terms of hedging. We are hedged for the next three months, which actually, most of our actual invoiced flow, inter-company flows, were hedged above 90% for the next three months. Let's say that, for a longer period, we are still in our usual level of hedging for, let's say, the next seven to eight months at about 40%.

So, I hope this answers your question as much as I can.

Janis Lai

Thank you, management. We will take the next question.

Anne Ling

Hi management team. Just want to follow up on the - Thomas mentioned about - the second half, we have some action plan, and Andre, you already mentioned about the Hong

Kong, China-side. Maybe, just talk about Japan, which is now a key market. It seems the L'Occitane brand itself, you know, it seems that it's still not having positive same-store numbers. So, what is our plan?

Also, in Europe and the US, are we done in terms of store closures in the US? So, that's my first question.

The second question is on the Asian warehouse. It's just something that we have finished for the first half. Second half, we don't have any more impact, and with that Asian warehouse, is there any benefit moving forward?

André Hoffmann

Okay, I'll just talk very quickly about the Asian warehouse. The warehouse is built. It's up and running. All the major subsidiary companies in Asia are being shipped through that warehouse. That was phase one. Phase two - we also shipped travel retail, by the way, through that warehouse.

Phase two is to start shipping some of the smaller independent distributors, which will start from the beginning of next year. We absolutely believe there are benefits. I think we've estimated somewhere between €2 million and €3 million per year going forward in terms of savings and cost efficiencies, so it's very clear that this was a good decision that the Company has made, and as Thomas can elaborate on, a similar type of action is being planned for Europe, for having a regional warehouse.

Concerning Japan, look, we have a new team in place, as I think we shared with you. They are doing everything possible, leaving no stone unturned, to turn the results around. It's a big market. It's a big cruise ship to turn around. But from what I can see - and I'm going to Japan, actually, in two weeks - they're doing all the right steps.

We don't benefit so much from the inbound Chinese tourism that we've read about, so much the Japanese brands are benefitting from. But from what I can see, our core Japanese business is largely intact, and I think that we can get gains and improvements in terms of our store renovation plan. Many of our stores in Japan are just too old. They haven't been renovated.

So, I think there's a pretty aggressive plan to upgrade our store network. Not closing stores, maybe one or two, but really renovating our existing stores, and to focus on the customer experience. Improving the experience, focus on better training, upgrading the quality of the retail staff. This is the key focus that Japan is pursuing.

So, we absolutely still believe in the L'Occitane business there, and I know you didn't specifically ask it, but I'll take the opportunity to tell you - Melvita is still plus 50% year-to-date. This is three years in a row we've had explosive growth for the Melvita brand, and when I look at the management's three-year plan, Melvita's going to be a very serious contributor to profits from the Japan business very, very soon. So, it's looking very positive for Melvita in Japan.

Thomas, do you want to deal with Anne's next questions?

Thomas Levilion

Sure, thank you very much, Andre. So, first I would like to confirm, initially, that yes, the €2 million to €3 million gain per year we planned from the warehouse in Asia, and confirm

also that we are now working on a plan for Europe. We already have a European warehouse, but it's only for part of the countries in Europe, and part of the businesses. It's a different, separate warehouse for the web, for instance.

So, we are working to unify further our logistics and warehouse platforms in Europe, with gains, but it is too early to evaluate at this stage.

Second, also just to highlight what Andre just said about Melvita growing by 50% in Japan. Melvita is doing well in Japan. It is accelerating also in other Asian countries, and continues to do quite well in France, with a strong same store sales growth, and growing in double digits in France as well. So, that's why, by the way, we are starting to see some - even some - the positive leverage on the marketing expenses of Melvita. So, confirming that, we are in good shape to break even very soon. So, we are very happy with Melvita.

Then, I think your question was about the store closing in Europe and the US. We have no particular plan to close stores in Europe, but we do have a plan in the US. I think, you know, that after we closed about 10 stores in FY17, and we closed two or three in the first half of FY18.

We have a plan, over the next four, five years, to close about 50 stores in the US, and this is because the cost of doing business, if I can say so, in the US is extremely high. So, the stores lose in terms of footfall and traffic, they become less profitable, or underperforming, or under-profitable in some cases, so we have this plan to shut down some of them, and to, by the way, more than compensate - not necessarily in terms of top line, but in terms of profit - by capturing part of the customers on the web, on the internet.

So, the plan is actually not good for the top line, but positive for the bottom line. So, this is the plan, but how this is going to translate in the second half, obviously, there will be only exceptions if we close stores in the US in the second half, because the second half is not the right moment to do that, or maybe at the end of the semester.

The further closures in the US will most likely take place during the first half of the following financial years.

Janis Lai

Thank you, Thomas. I think we'll now that our first question from online.

Operator

Thank you, Janis. 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. Our first question comes from Jeff Liu. He says, looking at the operating margin contraction, it looks like that's confined to the sell-out division, while the sell-in division is doing fine. Why is this the case, and is the one-off impact only in sell-out, and not in sell-in? Thank you.

André Hoffmann

Thomas, do you want to…

Thomas Levilion

Yes, so I think that what you are looking at is the profitability by segment that we reported in our announcement. Clearly, what I mentioned is that the retail, which is part of sell-out, is impacted by the softer, or the challenging sales in the European and North American regions, which results in deleveraging. i.e. we have less sales in some places, while we have fixed expenses for the rents and the staff, for instance.

So, this is an important effect, obviously, which is partly offset within sell-out by the fact that we are growing very fast our e-commerce, but also marketplaces business, which are - the two of them are more profitable, on average, than retail. So, there is a partial compensation.

In sell-in, it's a different story, because last year, the sales were pretty soft in sell-in, and Andre, I think, mentioned about travel retail being much stronger this year than it was last year. So, it's true about travel retail, it's true by B2B, also distributor. So, we have much stronger sales in sell-in, which grows by 5%. So, on the contrary, we have a positive leverage effect in sell-in.

So, I think that this is the explanation to the trend. I think that what we should keep in mind in general is that the overall balance, if you exclude all the one-offs, the exchange rate effects and everything, the phasing, the operations by themselves globally are positive, because you need to look at sell-out, you need to look at sell-in, also, what we have in the general non-allocated column, and of course, the gross margin.

So, the fact that we are going to compensate the negative in retail by lots of positives, as we said, in the gross margin, with a stable sell through e-commerce, with the prices, also, and reorganisation that we've done in our structures, and administration and so on, I think this is the positive message, is that in the end, even though we are seeing different challenges in retail, we are able to offset by efficiency gains, by margins, or everything that we are doing.

Janis Lai

Thank you, Thomas. Do we have another online question?

Operator

Mariana Kou from CLSA. Can you remind us on the five-year goals for sales and margins? Thank you.

Thomas Levilion

So, this is Thomas again. I guess I will answer this question as well, or try to. Hello, Mariana. So, the reminder is that, over the next four to five years, we target sales - and this is excluding LimeLight - target sales ranging from €1.6 billion to €1.8 billion, and operating margins from, at that stage, in the range of 13% to 15%, knowing that in the meantime, notably in this - FY18, and next year, FY19, on the contrary, we should see the operating margin go down as we have guided, this being explained by our investments to, of course, continue to grow L'Occitane, also in our emerging brands like L'Occitane au Bresil.

Just to be a little more specific, we expect that - I mean, that's about a €400 million top-line growth, and we believe that out of this €400 million, we can still have a contribution by L'Occitane en Provence by 70% of this €400 million, notably driven by the e-commerce and the web activities, and to a lesser extent by all the other activities, and the rest being contributed, of course, by the emerging brands with the strong growth that we've

mentioned, like Melvita, but also L'Occitane au Bresil and Erborian, which is doing well, like the other two brands.

On top of that, we'll see what we can add for LimeLight, but it's a bit too early to say.

Janis Lai

Thank you, Thomas. At this time, we'll take any last questions from our audience here.

If there are no further questions, I now announce the end of our analyst presentation. Thank you, everyone, for joining here and online. Good night.

André Hoffmann

Thank you.

Thomas Levilion

Thank you very much.

-End-