L'OCCITANE
EN PROVENCE

FY2019 Interim Results Webcast

Company Participants
• André Hoffmann, Vice Chairman
• Thomas Levilion, Chief Financial Officer
• Janis Lai, Investor Relations Manager

Other Participants
• Tiffany Feng, Citigroup

Presentation

Janis Lai
Good afternoon, everyone, and welcome to L'Occitane International's interim results presentation for the six months ended 30 September 2018. With us here today is Mr André Hoffmann, our Vice Chairman, and joining us via teleconference today is our Group CFO, Mr Thomas Levilion. First of all, Thomas will walk us through the presentation to present the interim results, and then we will move on to the Q&A. We will take the questions from our live audience first before moving to the online questions. If you are joining us online, you can see an ask-a-question link at the bottom right-hand corner. With that, I would like to pass it over to Thomas to start the presentation.

Thomas Levilion
Thank you very much, Janis. Good afternoon, everyone. So we are starting this presentation with the highlights. First off, sales. As we discussed during our Q2 trading update a couple weeks ago, the sales momentum strengthened in the second quarter with the launch of *Immortelle Reset*. The net sales for the six months ended September 2018 grew by 12.4% at constant exchange rates and by 8.6% at reported rates. On a like-for-like basis, that is, excluding LimeLife and Le Couvent des Minimes, the growth actually accelerated to 4.9% from 3.6% in the first quarter and 2.3% in the same period last year.

The growth was driven by continued CRM efforts and successful launches, such as *Aqua Réotier* and our new hero product, *Immortelle Reset* serum, and most key countries saw stronger momentum in the second quarter. However, as key product launches in most countries occurred in August and December, the related advertising and marketing spending was accounted for in the first half. Furthermore, start-up costs for LimeLife's business development outside the US also put pressure on the operating margin and all these investments further amplified the already-seasonal profitability of the group.

Meanwhile, unfavourable FX continued to impact the top line and bottom line. FX impacted our sales by 3.8% and shaved 0.7 points off our operating profit margin.

As a reminder, the operating margin is normally much higher in the second half of the financial year, and this is due to the high seasonality of our business. For example, in the last financial year, our 1H net sales accounted for 42% of the full-year sales, but our 1H operating profit represented only 10% of the whole-year operating profit, so the result in the first half is extremely insignificant. In the second half, we should benefit from better operating leverage due to higher sales during the holiday season, especially in the third quarter.

Net sales breakdown. The sell-out sales grew by 14% at constant rates and accounted for 73% of the Group's sales. And the increase in percentage share was mainly from the other sales channels, which includes LimeLife and marketplaces. The web sell-out channels, including own e-commerce and marketplaces but not LimeLife, grew by 9% and amounted to 12.4% of total sell-out sales.

The second quarter saw improvement in all major countries. Sell-in sales grew by 8% at constant rates and accounted for 27% of total sales. Travel retail, web partners and B2B all posted double-digit growth. In terms of geographical areas, the US is now the largest market after consolidating LimeLife, followed by Japan, China and Hong Kong.

Moving to the next slide, comparable stores ended the first half with 2% growth. That's a clear improvement from 0.6% growth in the first quarter, thanks to the good performance in most of the key countries, including China, Brazil, Hong Kong and the US. We also saw Japan turn positive in the period.

The non-comparable stores and others increased by roughly 50% and contributed 73% to the total growth thanks to marketplaces in China and LimeLife sales in the US, and to a much lesser extent, of course, to Canada and the UK. Sell-in sales increased by 8% and contributed around 20% to overall growth, mainly by travel retail, web partners and B2B. And finally, the unfavourable FX translation effect further reduced from 6.1% in Q1 to 3.8% this period end. Actually, the US dollar, Hong Kong dollar and Japanese yen turned slightly stronger against the euro in Q2.

By geography, in the Americas and Europe, France and UK continued to be tough, yet both improved from the first quarter, notably with the launch of *Immortelle Reset* that boosted average ticket values in both countries. Meanwhile, LimeLife contributed the most part of the growth in the US. Excluding LimeLife, sales growth was still healthy at 1%, despite trading with 15 less stores than last year, and same-store sales growth in the US was 3.3%.

In Brazil, L'OCCITANE au Brésil continued to drive the growth with double-digit growth in same store, in retail, e-commerce and the distribution channels, while L'OCCITANE en Provence also managed to achieve a healthy overall growth in local currency. Face care saw an increase in percentage share, thanks to the good result of the new range, *Aqua Réotier*, which was launched recently, given the fact that Brazil launches these types of products at a different stage than other countries.

In Russia, the market remains tough, yet we managed to accelerate sales growth to 12% with *Immortelle Reset* being one of the key contributors, as in other countries. Encouragingly, Erborian continues to grow well, with eight shops there now.

Japan ended the first half flat after a good second quarter, due to phasing but also supported by the successful product launches, and Melvita in Japan continued double-digit same-store sales growth.

China and Hong Kong were among the fastest-growing markets. China saw the successful launch of *Immortelle Reset* and leveraged on the use of celebrities Liu Shishi and Lu Han.

Growth in Hong Kong was mainly contributed by the dynamic travel retail sales in the region, while the retail market slowed down from a strong Q1 due to some macro factors and the typhoon in September.

Retail in Taiwan was a bit sluggish and was further worsened by the typhoons and the bad weather, so the overall growth ended up at minus 2.7%. The other countries ended with 3% growth, and the key contributing countries were Australia, Canada and Malaysia, which all posted double-digit growth.

Overall same-store sales growth was 2% in the first half, further improving from 0.6% in Q1 and minus 0.1% in the same period last year. China posted the highest growth, at 7.6%, despite a very high base of 15.8% last year, followed by Brazil, driven by L'OCCITANE au Brésil. The US also accelerated same-store sales growth from 2.7% in the first quarter to 3.3% in the first half, and although France and Taiwan remained weak in same-store sales, most of the other key countries saw improvement in the second quarter, with Japan turning positive and Russia, UK and other countries all showing good progress.

Now we turn to the profitability analysis. The operating margin was 1% of net sales, and that was down by 1.5 points, which was mainly due to, first of all, higher investments in advertising and marketing events, and as I said, this is phasing, because most of this was related to the *Immortelle Reset* launch in August/September in most countries. Then we have the setup costs of the international LimeLife business, and also the unfavourable FX impact, yet there were still improvements in certain sectors, such as brand mix and channel mix, also lower one-off pre-opening expenses and price increases.

We'll go, of course, into more detail in the next slides, starting first with the gross margin. The gross margin remained very high at 82.4%, even though it was slightly lower than the same time last year. In the first half, we saw unfavourable foreign exchange for 0.4 points, unfavourable brand mix for another 0.4 points, and some other negative factors and rounding for 0.2 points, and there was also reclassification of IT expenses to cost of sales for 0.1 points. The negative factors were mostly netted off by our continuous improvement in production and freight efficiency, which together increased the gross margin by 0.4 points. Furthermore, we had the first contribution from LimeLife International for 0.2 points, compared to zero contribution, of course, last year, and a price increase this year also improved the margin by 0.1 points.

Turning to the distribution expenses, which increased by 0.8 points to 55% of net sales, with the key explanation being that in some key countries, such as Japan, UK and France, retail, rent and personnel costs saw lower leverage under a tough retail environment, which increased the distribution expenses by 1.1 points. The emerging brands continued to grow as planned, yet this also boosts up the overall distribution expenses, given the cost structure of LimeLife. We had minus 0.5 points from brand mix, driven by LimeLife US, and minus 0.3 points from the international development of LimeLife.

The distribution expenses also increased by 0.1 points, due to reclassification of operation-related IT costs from admin. On the other hand, the higher share of e-commerce, marketplaces and sell-in channels contributed greatly to the strong channel mix effect of plus 0.7 points, and finally, this year we also had lower pre-opening expenses for flagship stores, as compared to the same period last year for 0.4 points.

In marketing, the marketing expenses increased by 0.4 points to 14.6% of net sales. L'OCCITANE en Provence had two big face-care product launches this year, *Aqua Réotier* and *Immortelle Reset*, and as a result, we had higher investment in advertising, marketing expenses, promotion tools, all for a total of 0.9 points, in particular, as you know, the brand ambassadors and advertising campaigns on Tmall and JD.com in China. But it is important to know that most of the marketing spending in our new hero product, *Immortelle Reset* occurred in August and September and was then accounted for in the first half, while the return of such investments is expected, obviously, to continue in the second half. This part of the increase in advertising and marketing events should be considered as phasing.

The increase in marketing expense was largely offset by a strongly positive brand-mix effect for 0.8 points, which is explained by the much lower than average level of marketing spending for LimeLife USA.

General and admin expenses reduced from 10.7% of net sales to 10.5%, and the decrease was mainly contributed by better leverage on higher sales for 0.5 points. That was also a reclassification of certain IT costs into cost of sales, distribution and marketing expenses, which lowered the administrative cost by a total of 0.4 points. LimeLife US has also lower-than-average administrative expenses, which resulted in favourable brand-mix effects for 0.3 points.

The overall improvement was offset by further IT investments, 0.2 points, and unfavourable FX impact for 0.1 points. During the first half, and that's of course important, we also kick-started the international development of LimeLife with new countries, common structures and specific incentives, also, therefore increasing the administrative costs by 0.7 points.

In summary, as a result of all the movements that we explained before, the operating margin ended the first half at 1% of net sales, a drop of 1.5 points from the same period last year. In summary, the decrease in operating margin is explained by the following major factors: first, higher investment in advertising and marketing events for 0.9 points – brand ambassadors, the online platforms in China, as well of course as the major product launches, and this is expected to drive the good performance in the second half, so we should consider part of these expenses as phasing.

Second, the setup costs of LimeLife's international's structure for 0.9 points. Third, an unfavourable FX effect for 0.7 points and then lower leverage in retail for 0.2 points. As you remember, it's largely offset by higher leverage and admin expenses and also an increase in IT investments for another 0.2 points.

This was partly offset by a price increase from 0.1 points, the favourable brand mix for 0.2 points - primarily from the development of LimeLife USA. Also, lower pre-opening costs for the flagship stores, which had an impact of plus 0.4 points, and lastly, the strong favourable general mix effect for 0.7 points. That's essentially coming from the development of the web channels and the travel retail.

Looking quickly at the working capital ratios, the cash cycle in days of net sales increased slightly by 2 days, and this is mainly the result of consolidating LimeLife's numbers. For the inventory turnover, the increase of 17 days is also due to the inclusion of LimeLife. If LimeLife was excluded, inventory turnover days in fact was reduced by 4 days, thanks to lower finished goods, raw materials, MPPs and boxes.

In terms of CAPEX, the overall cash that we spent decreased by almost EUR13 million to EUR45 million, with the lower overall CAPEX spending being mainly explained by the sharp drop in store-related CAPEX, in particular key money - last year we had high key money, a significant amount of key money, that was paid for the flagship store at the Champs-Élysées in Paris.

CAPEX for various IT projects indeed increased as compared to last year, and the IT CAPEX was focused on retail CRM, e-commerce efficiency, websites redesign and infrastructure. Finally, as you know, we are also building a new factory in Brazil, and we continue to upgrade the Manosque and Lagorce factories. This was a total CAPEX and work in progress of EUR13 million.

Strategic review, during the first half, the Group with a new management, as you know, formalised a new strategy named Pulse to clearly define our objectives to first pursue sustainable growth; second, enhance profitability; and third, build trust. This strategy has five pillars to: empower teams; execute fundamentals, which is obviously very key, especially in retail; adopt an omni-channel, mobile and digital approach; place customers first and engage with them in interesting and relevant ways; and strengthen brand commitments. We are pretty confident that this will spearhead the Group's future performance. Meanwhile, we have already taken action to promote empowerment and accountability, such as with a new incentive system, for instance, and also to clarify our commitments towards sustainability. We'll share in more details our specific actions in the next slide.

First of all, we were very happy with the performance of *Immortelle Reset*, our hero product, and this together with the *Aqua Réotier* range launched earlier this year strengthened the association between L'Occitane and face care. *Immortelle Reset* became a global best seller not only in terms of value but also in terms of volume, and that's a first for a face-care product. Marketing was of course a key element in supporting the product's success, and increasingly, it's about creating content, engaging with our customers. Examples include the use of aspirational celebrities, like within China, and a recent campaign called "Balloon Journey" that showcased our true stories.

Meanwhile, we continue to invest in an omni-channel distribution to make the path to purchase fun, memorable and convenient. We introduced - after the flagship stores that we opened in France and the UK - we introduced unique retail concepts in key cities, such as New York, Tokyo and Singapore and expanded our online presence in China via JD.com.

Our emerging brands all showed nice progress, and LimeLife continued its exciting growth. So far, we have already entered Canada, the UK and France, and we just started Brazil and Italy.

At the same time, we intend to build an even more agile and efficient organization. We rolled out a new incentive plan, as I said before, that is much more connected to growth and profitability, in order to foster the entrepreneurial culture.

Equally important, is the emphasis on our commitments toward sustainability. Under our new CSR platform, we have set ambitious goals for plastic use, biodiversity, fair trade, craftsmanship, sight and women empowerment.

Looking forward, the Pulse strategy will guide our plans and actions. In the near term, the coming holiday season is obviously essential to our full-year financial performance. This year's holiday campaign carry messages that celebrate our commitments, a part of our brand that we believe resonate strongly with today's socially conscious consumers.

Of course, we intend to sustain the success of *Immortelle Reset*, and we are currently exploring possible extensions to this franchise, and have already set up a multi-functional team to devise a 360-degree plan. So with a renewed sense of focus, we are confident to become a leader in the affordable premium natural beauty space and deliver long-term value for our shareholders.

This concludes my presentation, and now, I suggest to start the Q&A session. Thank you very much for your attention.

Questions And Answers

Janis Lai

Than you, Thomas. We will now move on to the Q&A session. We will first take some questions from the live audience before moving to those online. May we have the first question from the audience here, please? Tiffany, in the front.

Tiffany Feng

Thanks, management. It's Tiffany Feng from Citigroup. Three questions. The first one is can you give us an update of the October and November to date sales performance in the key countries and key markets? The second question, can you share with us more details of the hero product, *Immortelle Reset*, versus September's very encouraging results? How was the recent performance in October and November? My last question is about the OP margin target for the full year. After the interim results, do you have any update of the full-year target? Thank you.

Thomas Levilion

Okay. Hi, Tiffany. This is Thomas speaking. Andre, would you like to answer the first two questions, or should I try to do it the best I can?

André Hoffmann

You can, Thomas.

Thomas Levilion

Okay, so, Tiffany, I'll do my best. I think that while we're pretty happy with the results in October and November that confirm more or less the more positive trend that we have seen in Q2, so without giving too precise numbers, I think it's been the case in the US, and also Europe, doing better, and the Asian countries continuing to do well. I think that it's interesting to note that we are seeing very strong results from Double 11 in China, even beating our expectations, and Andre will probably comment more at some stage on this. Also we just had the first results of the Black Friday in the US that were also showing interesting growth, I think close to 4% on Black Friday, and I think André will confirm, I think we have - we are pretty close to the RMB100 million bar for Double 11, so that's a very strong, very strong development. So we are happy globally with developments in October and November in most countries, actually.

In terms of the hero product result, we confirm that we are on a very good trend. I think we shared with you earlier in October that it is our best-ever launch of a face-care product. We sold, in only eight weeks from the launch, 160,000 units of the product. That's EUR8 million in sales, and for the first time, it's a face care product that is now one of the top-five products in quantity, in volume. That's very interesting and very encouraging for the future, so we will continue to develop, as I say, the franchise and come up with new products to build on this basis.

So your question, your third question was about the operating margin target, so basically I think we confirm that we are still aiming at our guidance, as we said quite a few months ago now at the occasion of the FY18 results announcement. So basically the target being to say that we are - we expect to stabilise the profitability for the core brand and possibly bring some incremental improvement on this after some years of decrease in the profitability. So that's the first step of the improvement of the situation, so despite the fact that we may see a top line that is slightly below our expectations, as notably, the first quarter in Europe and the US was not up to our expectations, but we are confident that we can continue to deliver more or less the same operating profit as targeted.

So therefore, there should be for the core brand this stabilisation or even the slight improvement of the profitability that I was mentioning. I think one important thing, one important factor, will be LimeLife, which as you have seen is a bit complicated to show and changes the structure of our P&L quite significantly, but the question will be with the investment in the international development on the one hand and also the success in the US. The strong growth in the USA, for you to know, the growth, even though of course we did not have the LimeLife number last year, but the actual growth in the first six months was more than 45%, actually more than 50%, so that continues to be, as I said during the presentation, very exciting growth. So the balance of this, with the pluses and minuses, we believe that it will be almost neutral, so the strong development on the one hand and the investment on the second hand, and of course we should see the benefit of these investments later on with the development of sales in the new countries, and if we achieve the same type of exciting growth as we've seen in the US, we can be pretty confident for the future.

And lastly, I want to mention the fact that although we have been pretty much impacted by the exchange rates notably in the first quarter, now we are back to a level of exchange rates that is comparable to the same period last year, so hopefully we'll see less negative impact from the exchange rates. I hope this answers your questions, Tiffany.

Janis Lai

Thank you, Thomas. We can have the next question from the floor here. If we don't have any more questions from the live audience. We don't have any other questions. Otherwise, I believe we were very clear in our presentation, so with that, we can conclude the presentation for today. Thank you, everyone, for joining here and online. Thank you.

Thomas Levilion

Okay, thank you very much.

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