FY2020 Annual Results Webcast

Company Participants

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

Other Participants

- Anne Ling, Jefferies
- Carol Xia, CLSA
- Huang Yihui, Whitefield Capital Management
- Hou Liwei, CICC
- Louise Li, Bank of America
- Jamie Isenwater, Ash Park Capital
- Southeastern Asset Management
- Uwe Rathausky, GANÉ AG
- Emily Lee, Nomura
- Tiffany Feng, Citi

Presentation

Janis Lai

Good afternoon, everyone, and welcome to L'Occitane International's annual results presentation for the year ended 31 March 2020. Joining us today is our Chairman and CEO, Mr Reinold Geiger; Vice Chairman, Mr André Hoffmann; and Mr Thomas Levilion, our Group CFO. First, Thomas will walk us through the presentation to discuss the annual results, after which we will take some questions.

Today we are taking questions online only. To submit a question you may click the ask a question link at the bottom right-hand corner of the webcast page. You are more than welcome to submit your questions early, even during the presentation, and we will take them in order after the presentation. With that, I would like to pass it on to Thomas to commence the presentation, thank you.

Thomas Levilion

Thank you, Janis. Hello, everyone. We are starting this presentation as usual with some highlights. The first thing I wanted to say is that the Group delivered decent results in FY2020, despite the impact of COVID-19 in the fourth quarter of the financial year. Our sales grew by more than 15% at reported rates and around 13% at constant rates.

The operating profit margin improved by 0.8 percentage points to 11.4%, with contribution mainly from our core brand L'OCCITANE en Provence and from ELEMIS. The earnings per

share decreased slightly by 1% to €0.08 per share, but if excluding the impact of first time application of the new IFRS 16 lease accounting norm, earnings per share would actually increase by 2%.

The Group remains strong in generating cash flow. Excluding again the impact of IFRS 16, the Group generated more than double the free cash flow as in FY2019. Finally, as mentioned during our last trading update, the Board proposes to reduce the dividend by 25% in order to protect our liquidity in the context of COVID-19 and it represents a dividend payout ratio of around 28%.

This year we have to address a number of accounting and comparability matters in order to better understand our numbers in FY2020. First of all, there is a one-off expense related to the acquisition of ELEMIS, with a total of €5.3 million for the professional parties involved in the deal.

Second, FY2020 marked, as I said before, the initial adoption of IFRS 16. As the Group opted not to restate figures in FY2019 for comparison, total unfavourable impact on net profit in this year is €5.6 million. And note that this is a non-cash impact, mainly coming from the accrued financial interests on lease liabilities. Detailed impact on the cost structure will be explained in the next slide. Then in the second half of FY2020, we finalised the valuation of the contractual customer relationship component and dissociated it from the ELEMIS goodwill. Such contractual customer relationship is amortised over approximately 10 years and the related amount in FY2020 was €3.6 million.

Now, regarding the accounting treatment for goodwill, no amortisation, as you know, is allowed under IFRS. However, LimeLife's and ELEMIS's goodwill and trademarks are actually amortised over 15 years under US GAAP. The amortisation is tax deductible, and this is actual tax saving. However, at the Group's consolidation level this tax saving is reversed by a non-cash provision for deferred tax liability. The amount concerned is €6.7 million on a recurring basis. So we have a cash gain, actual gain in tax of €6.7 million, but this does not show in the actual reported effective tax rate.

And finally, the tax reform in Switzerland ended with a higher profit tax rate for our entities in this country and the net impact on the bottom line was €1.8 million this year.

And we are not totally done with the technical matters, sorry, so we focus now on the impact of IFRS 16 on net profit and balance sheet. The highlighted two columns on the slide show the financials excluding IFRS 16 impacts and the corresponding growth rates as compared to last year. So the operating profit was impacted positively by €8 million, so that excluding IFRS 16, the operating profit was €180 million.

At the same time, the finance costs were hit by the notional financial cost that is calculated on the lease liabilities for €14 million. And as a result, the net profit was negatively impacted by non-cash effects once again for €6 million approximately. So if excluding the IFRS 16 impacts, the net profit for FY2020 would have been improved to €121 million. As for the balance sheet items at the end of March 2020, the new norm resulted in an increase of €388 million in right-of-use assets and a corresponding increase of €415 million in lease liabilities.

And now we're moving to business with a reminder of our net sales breakdown. The sell-out segment in FY2020 accounted for around 69% of the total sales and within this segment, the web sell-out channel grew by 42% and is now equivalent to 19% of total sell-out sales. The key drivers of the growth of the web sell-out channels were ELEMIS in the UK and the US and marketplace channels in China and Korea.

Looking at the sales by brand, L'OCCITANE en Provence accounted for around 79% of the Group's overall sales. Its sales decreased significantly in Q4 after the outbreaks in Asia, which seriously affected the retail business in China, Hong Kong and Japan, as well as the travel retail business in the region. And yet the brand still ended the year with a decent growth of 1.7%.

ELEMIS accounted for more than 10% of the Group's total sales. Both UK and US performed outstanding in e-commerce sales in Q4. However, the maritime business followed the sluggish trend from the previous quarters and was further impacted by the COVID-19 outbreak. Still ELEMIS ended the quarter with around 20% growth.

LimeLife's sales were impacted by the rebranding exercise last year, some teething pains related to new market expansions and the coronavirus outbreak in the US. LimeLife, as a result, ended the year with a 3% decline and now accounts for more than 5% of the Group's sales. The emerging brands finished the year with 1% growth. Among the emerging brands, Erborian remained robust and posted a double-digit growth in Q4.

Sales growth in our key markets in the Americas and Europe managed to stay positive for the full year, despite the impact from COVID-19 in the last part of Q4. The sales lost from store closures were partly covered by a sales boom on e-commerce. Meanwhile, the stellar growth in the UK and the US is mainly contributed by ELEMIS.

Over in Asia, the markets have had quite divergent performances. Japan, first, ended the year with 2% decline, affected partly by the sales tax hike in October and the coronavirus outbreak. Hong Kong clearly had a difficult year and retail sales continued to be weak. Travel retail was also deeply affected by travel halts and drop in traffic after the start of the coronavirus.

Meanwhile, China continued its strong performance for three quarters, only to be set back by the coronavirus in Q4. However, retail sales started to pick up in March as lockdown measures eased and it ended the year with 10% growth. Taiwan stayed relatively resilient throughout the outbreak and ended the year with 4% growth. Other geographic areas saw 7% growth for the full year, with Korea being a star performer in Q4 with continued success in its marketplace operations.

And here we give an overview of store closures in our key markets since the end of January and until the beginning of June. As you can see, the impact was mostly in Asia up until mid-March, after which widespread store closures were seen across Europe and the Americas. Stores in Mainland China have progressively reopened starting early March and all stores are now open. The stores in European countries were closed after starting mid-March, but now started to reopen gradually from end April. And currently, actually at the beginning of June, more than 60% of our store network were reopened. Based on internal reviews and facts, we estimate that the total loss of sales attributed to COVID-19 was approximately €56 million, that's around 3% of the total sales for the year.

Now onto the profitability analysis, operating margin improved by 0.8 points, mainly due to savings in distribution and marketing expenses and partly net off by a lower gross margin and higher general and administrative costs. About the gross margin, it's reduced from 83.2% to 81.6%, due mainly to brand mix effects. Actually ELEMIS runs a mostly wholesale business model, which has a lower gross margin than the Group's.

Marketing percentage to sales decreased by 0.4 points, thanks to the reduction in advertising and PR events. But web-related advertising was reinforced to align with various promotion programs on web channels. On the other hand, general and administrative expenses percentage to sales increased by 0.4 points, mainly explained by the one-off costs incurred

from the acquisition of ELEMIS and investments in IT and HR. And we now explain in more detail the saving from distribution expenses in the next slide.

So distribution expenses improved by 2.5 points to 46.6% of net sales, that was largely contributed by favourable brand mix, which contributed 2.7 points and obviously directly explained by the distribution structure of ELEMIS. Moreover, a favourable channel mix accounted for an improvement of 0.8 points as a result of higher proportion of e-commerce, marketplace and sell-in channels.

In addition, the initial adoption of IFRS 16 lease accounting also contributed 0.5 points to lower the distribution expenses percentage. This improvement was partly net off by lower leverage in retail personnel costs and rents for 1.2 points and some investments in LimeLife's distribution networks for 0.2 points.

All in all, the operating profit improved by 0.8 points to 11.4 % to net sales. And the improvement is explained first by a favourable brand mix effect for 1.3 points, favourable channel mix 0.7 points, a more targeted and controlled marketing spending for 0.6 points, IFRS 16 for 0.5 points and some exchange rate tailwinds for 0.4 points. And the improvement is partly net off by the ELEMIS acquisition costs and fees for 0.3 points, further investments in LimeLife, R&D, IT and HR for another 0.9 points and lower leverage and efficiency for 1.5 points, notably in distribution in connection with COVID-19 outbreak.

And now we're moving to something new and this is the first time that the Group has disclosed its profitability by brand. So you see that the operating profit was largely contributed by L'OCCITANE en Provence. Its operating profit margin was 14% this year, despite the impact of the COVID and this was an improvement of 0.8 points over last year. ELEMIS has the highest operating margin in our brand portfolio and ended the year at 17.5% of sales. And if excluding the one-off acquisition costs and the amortisation on contractual customer relationship, ELEMIS's operating margin would be 22.9%, so consistent with what we provided as a guidance for when we acquired the brand.

LimeLife and other brands remain in the development stage with investments in infrastructure, marketing and human resources and then remained in a loss position in FY2020. However, within this group of the emerging brands, Erborian continues to be profitable. So the Group's overall operating margin ended at 11.4%, an improvement of 0.8 points again as compared to last year.

Note that based on internal estimation, the loss in sales, as I said before due to the COVID, was around €56 million and the corresponding reduction in operating profit would be around €34 million or 18% of the reported operating profit for FY2020. So without COVID-19 and IFRS 16, the Group's operating margin would be 12.5% and that's in line with our initial guidance.

Now we focus on the effective tax rate, the effective tax rate increased quite a lot, from 20.7% to 28.2%, that's an increase of 7.5 points which is mainly due to one-time effects for a total of 4.0 points. Among the one-time effects were 2.6 points from the change in treatment of amortisation of LimeLife's goodwill and 1.4 points were from other prior years adjustment.

From FY2020 onwards, there is a profit tax rate hike in Switzerland, which is increasing the overall effective tax rate by 1.4 points. Then we have unfavourable exchange rate effects increasing the tax rate by 0.7 points and lastly, 1.4 points, explained by various effects from the subsidiaries. So excluding the one-time effects, the effective tax rate in FY2020 would have been 24.2% and again, this includes the non-cash provision for this tax liability that is offsetting the gain from the depreciation of the goodwill of LimeLife and ELEMIS.

Working capital now, the cash cycle in days of net sales remains at 44 days. FY2020 saw improvement in inventory turnover for 28 days, mainly contributed by ELEMIS which has a much lower inventory turnover rate. The trade receivables shortened by one day and trade payables turnover shortened by 30 days and this is mainly explained by the lower outstanding trade payables of the factories at the end of the year, as a first effect of the production reduction in taking into account the decrease in sales expected from the COVID-19.

In terms of cash flow, the Group remains strong in generating free cash flow and again for FY2020, excluding the IFRS 16 impact, the total free cash generated was €168 million, that's more than double of the amount in last year. And just precision, but investments in new ventures and financial assets for €814 million last year related essentially to the acquisition of ELEMIS.

In terms of balance sheet ratios, excluding again the impact of IFRS 16, the return on capital employed decreased to 8.5%, as compared to 11.6% in the same period last year. And this decrease is a net result of the increase in net operating profit after tax by 5%, together with an increase of 44% in capital employed, which reflects the acquisition of ELEMIS. The gearing ratio increased to 37.2% and that's due to the lease liabilities incurred under IFRS 16 and if we exclude the lease liabilities, the gearing ratio indeed decreased by 5 points to 23.8%.

For capital expenditures, we used €67 million net cash in this year, which compares to €86 million last year, representing a decrease of €19 million. The decrease was mainly due to lower investment in store CapEx for €16 million and lower CapEx in information technology for €3.5 million.

So moving to the strategic review, despite the impact of COVID-19 towards the end of the year, the Group saw faster sales growth and improved profitability. First off, we built on the initial success of Immortelle Reset serum to strengthen our skincare positioning and reached our target of selling one million units. We believe that the recent launch of the Immortelle Reset eye serum and the addition of ELEMIS, which is known for its anti-aging skincare, will be positive for this development.

And while skincare was the focus of our hero product strategy, the outbreak of COVID-19 shed new light on the importance of hygiene and self-care. So our iconic body and hand care segments saw an increase in sales mix and we recently launched a hand purifying gel that has been well received. We will balance, therefore, our product strategy between our hero skincare products, our evergreen body care products and our seasonal offerings. Meanwhile, our brand mix is expected to further diversify as each brand continues to grow. In particular, ELEMIS has proved to be a significant growth and profitability driver.

During FY2020, we were met with an unprecedented challenge. The consequent store closures from COVID-19 urged us to rethink how to stay connected with customers, while still maintaining a human approach to beauty. This crisis spurred creativity and we were able to leverage on our web platforms to compensate for some of the sales decline. An omni-channel approach and increased focus on digital selling will continue to be central to our strategy.

We will continue to make well measured and targeted investments to support our key campaigns, products and channels, in line with the Pulse strategy. And last but not least, sustainability and social responsibility are prioritised at every step. And as the world battled COVID-19, we felt it was our duty to support healthcare workers around the world, as well as our natural ingredients producers.

So as the Group navigates through the COVID-19 crisis, we have already put in place several initiatives to increase our financial flexibility. At the same time, we will continue to look for growth opportunities for each brand under our portfolio, while maintaining their autonomy.

Although COVID-19 may continue to impact consumer sentiment, the Pulse strategy will continue to guide our plans and actions and we firmly believe the inherent strength of our brands, products and strong web-based activities will help us stay resilient and lead us back to long-term growth.

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

Questions and Answers

Janis Lai
Thank you, Thomas. We will now move onto the Q&A session. Just as a reminder, if you would like to submit a question you can just click the ask a question link at the bottom right-hand corner of the webcast page.

Operator (on behalf of Anne Ling, Jefferies)
Thanks, Janis. Our first question comes from Anne Ling of Jefferies. Firstly, she is asking for more colour in terms of update or guidance by brands. And second question is about ELEMIS, can you provide an update on the maritime business and the launch in China? Thank you.

Thomas Levilion
Maybe I can start with the guidance and then we'll let you talk about ELEMIS.

André Hoffmann
Sure, Thomas.

Thomas Levilion
So Anne, thank you for your question, it's a quite challenging one in the circumstances. So the fact is the situation is too fluid yet to issue guidance for FY2021. Maybe we can be more specific later on, notably at our call on the first quarter at the end of July. It's a fact that the retail and travel retail parts of our model are more affected by the crisis. However, we say that this crisis will have an end and I am really impressed by the resilience of the Group. We have had a very strong performance with our web activities since the beginning of the financial year already at the end of last year.

We have a strong underlying performance of L'OCCITANE [en Provience] and ELEMIS and there is strong desire for the brands and the products. We are currently demonstrating I would say our ability to adapt, also to control and cut costs in difficult times and we have very positive early signs this year driven by LimeLife. So for sure, we will be materially impacted but most probably less than many other brands and retailers and I would add to that that our financial situation is safe and healthy.

Currently, we are launching several key actions and the for the next six to 36 months to let's say reshape the Company, that's in the fields of omni-channel development, sustainability, branding and also addressing our loss areas and financial flexibility. And with that, we strongly believe that we will be back even stronger and that our mid-term targets remain totally achievable. So I'm sorry that I cannot be more specific at this stage, but we have good prospects. So André, maybe on ELEMIS.

André Hoffmann
So Anne, just to give you an update on our cruise business with OneSpaWorld, it's a very challenging situation with continuing moving targets of when the business can restart.

Initially, they had told us they thought they could have some of the Asian cruise ships operating in July and August. Now it looks like it's being pushed back until September. For us, for the ELEMIS brand, there were no orders in Q1, so the business is off roughly 29% compared to last year. But we do expect it to come back some time in the second half of the year, but it's really hard to predict right now.

Concerning the China launch, well, I'm happy to share with you that it has started. We've opened our first doors with Sephora, as we've probably mentioned in the past they're the exclusive launch partner. By the end of July we should have about 120 doors open. Most of our marketing campaign starts kicking in from 15 July, with some KOLs and famous influencers. There'll be a very active digital component to the launch and we remain pretty optimistic based on the initial feedback they've given us. So I think it's a little bit too early to give you precise numbers and maybe when we do our next trading update at the end of July, we'll be able to share some more information with you.

Operator (on behalf of Carol Xia, CLSA)

Thank you, management. The next question is from Carol Xia of CLSA. First question is as stores open globally, can you talk a little bit about how the store traffic is looking and how this compares to the normal scenario? And can you share any information about how momentum is looking by region? Her second question is are there any risks of breaching covenants, that's it, thank you.

Thomas Levilion

Would you like me to start addressing the question about the stores and then Reinold and André can add to that and then I will address the covenants questions. In terms of the reopening, I would say that there are different situations within the stores. First, China showed very good results since the reopening at the end of March and I believe that the retail operation is growing by about 10%, so it's very positive.

In the rest of the world it's a bit early, because the stores have reopened, just are gradually reopening. The impression or the first learnings is that the local stores are doing relatively well, in Europe notably, back to almost normal level pretty quickly. But the touristic stores, the outlets, continue to be strongly impacted. So, the different countries may be more or less impacted depending on the presence of the touristic stores and outlets. So, that's the case in France, France is more affected by it than Germany for instance as there is more touristic stores and outlets. Then, of course, in other key countries, like the US, the reopening is quite difficult and we had to close a couple of stores again in some states, in Texas notably, this weekend, due to the uncertain situation with the COVID and the UK has not reopened yet, so we are going to be early July as far as we know, so a couple of days from now.

So, it's a mixed bag, but all in all, I think that besides the touristic stores, it is pretty satisfying. Do you want to add anything, André or Reinold?

André Hoffmann

Just from an Asian perspective, with the exception of Hong Kong, which remains very, very challenging for reasons linked to the lack of mainland Chinese tourists, local consumption is also depressed but it's showing some signs of life because a lot of the shopping malls are doing quite active promotions. Outside of Hong Kong, I would say that Korea, Taiwan, have performed pretty strongly both online and in our stores. Southeast Asia has come back quite strong, both Malaysia, Thailand. Singapore was quite late to reopen, but since it's reopened, it's done okay. Australia remains soft and so does India.

So, all in all, it's quite mixed, but I do expect in the second half, if we have some positive news on the COVID-19 situation stabilising, there will be a return to the stores.

Reinold Geiger

There is one comment which is important is our having our own retail store was a great strength in the past. It's obviously difficult when you have most of the stores closed, but at the same time, because through our own stores we have direct contact with the customers, which is not the case with companies doing wholesaling because there are third party stores who are in contact with the customers and therefore we have a much bigger opportunity to develop on a bigger scale sales on the internet. We had countries where for two months all the stores were closed in practically all over the world, and despite this, our sales, depending on the areas, was between 30% and 80% of the previous year. So, this means that our internet was absolutely booming.

Thomas Levilion

Thank you, Reinold. Your question about the covenants, it's most probable that we will reach our covenant of leverage by the end of the year and the end of September. This is already being discussed. We have informed our banks. We are in the process of discussing a waiver with the banks. We are not concerned that this will be granted simply because we have a very good relationship with our banks and they know, as I illustrated during the presentation, that we are strongly generating cash in normal situation, so they see no particular risk with us. On top of that, it's a side comment, you know that we have secured additional credit line, just in case the situation gets even worse with the COVID. We have a new back-up plan of €203 million and a loan granted by the French government for €50 million. So, with that, we are extremely confident that we'll have no issue with liquidity even if the crisis worsens. So, I hope this answers your questions.

Operator (on behalf of Huang Yihui, Whitefield Capital)

Thank you, management. The next question is from Huang Yihui of Whitefield Capital Management. He's asking what kind of payout ratio should we be expecting in FY2021? Thank you.

Thomas Levilion

This is something that we've not discussed yet. We will discuss and it will depend on what the type of results we will actually deliver and, as a consequence, the cash we'll generate in FY2021. So, I think we should answer this question at a later stage. I would say in the longer term, there is no reason why we should not continue with our previous level of payout ratio of 35%.

Operator (on behalf of Liwei Hou, CICC)

Thank you, management. The next question is from Hou Liwei of CICC. Further to your launch plan for ELEMIS in China, are you able to share anything more about your estimated growth and operating margin for ELEMIS in FY2021? Thank you.

André Hoffmann

It's a little bit early. We're projecting for the full year, not just for China, but globally, small growth obviously impacted by COVID-19. But margins should be pretty consistent with what they were in the past because there's been a lot of cost restructuring and some reductions in marketing in certain markets. But it's a little bit too early to give details on that.

Operator (on behalf of Louise Li, Bank of America)

The next question is from Louise Li of Bank of America. She's asking for an update on L'OCCITANE [en Provence] and ELEMIS' performance in April to June both in China and other regions. Thank you.

Thomas Levilion

I think we have answered this question already by talking about the recovery in the stores when they reopen. Also, as Reinold mentioned, the very strong performance of our web activities, notably our own e-commerce but also marketplaces in China and web partners in China and the rest of the world. So, obviously our sales will be down from last year. We'll be more specific at the end of July when we comment and present our Q1 trading update. So, as far as April and May are concerned where we have most of our stores, we are still closed in Europe and the Americas. We have decreased total sales by 20% to 30%, depending on the brand, depending on the region. So, it's positive contribution of Asia and negative contribution of retail which is strongly compensated by the higher sales on the web. So, we believe that the trend will continue to improve as the stores reopen and the situation gets back to more normal. André, do you want to comment more specifically on ELEMIS?

André Hoffmann

No, I think that ELEMIS, as I mentioned just a few minutes ago, we are projecting mid to high-level, single-digit growth for the full year. Operating margins should be in line with or close to what we have achieved in the past. It's a little bit early but a lot of initiatives have been taken to launch in new markets, like Russia, like the Emirates, China, South East Asia which I believe will all be very positive for the brand. But it is a little bit early. I mean, we just don't know how quickly markets will recover from the COVID-19 impact.

Operator (on behalf of Jamie Isenwater, Ash Park Capital)

Thank you, management. The next question is from Jamie Isenwater of Ash Park Capital. There's a few questions on this topic actually. So, he's asking how many stores do you think you may close over the next three years as shopping habits change, partly as a result of COVID-19? In your experience, when you have closed stores in the past, exactly what sort of percentage of sales do you think you would have generally retained, either through other stores, or online? Thank you.

Thomas Levilion

Okay Jamie, it's not an easy question this one. For sure, we will close some stores. It's something that we've already been doing in the US recently and we'll continue along this plan. Maybe we'll accelerate this plan. Then, obviously, we'll reconsider the situation on a store-by-store basis in each and every country but at this stage, I'm not in a position to give you any precise number for the next two to three years.

I think what is important is that we will continue to rely on the stores. As Reinold said before, it's our strength, it's one of our strengths and the other key strength is that we are able to leverage some of these stores to drive omni-channel activities. During the crisis and the lockdown, there was a lot of creativity to use whatever tool, WhatsApp, or any other application to drive business despite the store closures and on top of the existing web platforms that were really up. So, this was very successful, very interesting, and we continue to build on that. But it shows also that the stores were able to remain very important. So, there will be maybe some revisions in terms of store formats, store CapEx and things like this to make sure that it's as efficient as possible. But there is no plan to switch to other - totally new distribution model than we have. So, it would be about optimisation and, of course, getting as much as possible of the rent re-negotiations that are obviously going on.

So, in terms of percentage of sales that we regain when we close stores, in the past, if we look at the experience we have from the US, it's relatively limited, I would say from 10% to 20% of the sales that we recover and that we can identify and notably on the web. But another indication is that in the situation of the store closures as we have seen on the contrary, the compensation was much higher than that. More or less, I mean we've been able to offset about 40% of the sales that were lost in retail were recouped on the web, so that's quite significant. Moreover, what we see is those additional sales of the web, this web boom, is that we have surprisingly recruited a lot of new customers on the web. So, during this period, that's quite positive. So, it gives us a good indication that we have a major opportunity by re-organising this combination of the stores and the web. Maybe, Reinold, you would like to add to this?

Reinold Geiger

In general, we must say that it is important that we have a little bit over 1500 stores worldwide, but we are in over 90 countries. So, there are not many areas where we are over-exposed with stores. I mean, if you look at the United States, if you look at different countries in Europe, we don't have that many stores. We have some stores in malls in the US where the malls are not doing very well anymore, or which have become neighbourhood stores and which are not having the necessary traffic anymore. But it's very limited.

Operator (on behalf of Southeastern Asset Management)

Okay, thank you, management. The next few questions come from Southeastern Asset Management. Their first question is talking about the reported operating margin of 14%, what would this margin have been without the impact of COVID-19? The second question is the reported 14% operating margin figure with or without the IFRS 16 effect or any one-time accounting or other effects? The third question is can we talk a little bit more about the €168 million free cash flow. Are we able to separate out a bit and what was it specifically in the fourth quarter? Also related to the fourth quarter, what was the net cash from operations excluding the effect of IFRS 16? Maybe you can answer those two questions first.

Thomas Levilion

I'll do my best. It's a little bit more than two questions, but anyway. Talking about the 14% margin of L'OCCITANE en Provence in FY2020, this actually was reported on the slide and in the document, the announcement, does include the impact of IFRS 16, so it has improved slightly by IFRS 16. It's a little bit - it's around 0.5% - 0.5 points, sorry, that was mentioned in the announcement. But to better answer your question, excluding the impact of IFRS 16 and the impact of COVID, so to give a true and clear vision of the underlying profitability of L'OCCITANE en Provence, I'm happy to say that it was around 15% this year, or would have been around 15% this year, which is consistent with the target that we have given ourselves all year and we say that we are wishing this target to beat all year than we expected. So, I hope I addressed the first couple of questions.

Then the free cash flow, I mean, it's a good performance throughout the year. There was a strong contribution of ELEMIS into this, increased by €80 million. It's more than €40 million coming from ELEMIS, but it's also €40 million coming from the other brands, mainly L'OCCITANE en Provence clearly. Then I'm happy to say also that the free cash flow generation in the fourth quarter, keeping in mind that the cash flow generation is very seasonal in our case because of the holiday season. But the cash flow generation in the fourth quarter was quite consistent with the past. There was no major decrease. So, this is illustrating that in this period we have been able to balance the missing sales by savings and postponements of spending. So, not everything of course will be saved in FY21 because some of the postponements will be paid later on. But the cash generation and cash performance at the end of the financial year and I must say also in the beginning of this financial year is quite satisfying. One of the explanations also being that we not only cost-cut but also take

advantage of the subsidy supports from the governments and different places in the world, which is really helping us. So, as a result, the cash situation is quite good at the end of May.

Of course, as we reopen stores, we'll have more customers and so on, so it will be less positive in the next few months but it's quite encouraging.

Operator (on behalf of Southeastern Asset Management)

Thank you, management. There are a few more questions from Southeastern Asset Management. Firstly, when talking about your money-losing brands, are you able to rank them from worst to best, and how much time and money would you sink into them until they can reach profitability? Do you have any rules and guidance that define how much capital you allocate to these projects? Final question is if having your own retail stores is so important to the group, can you provide some reasons why ELEMIS is the fastest growing brand when it just has one physical store? Thank you.

Thomas Levilion

Maybe I will let Reinold and André comment on the retail stores versus ELEMIS. In terms of the money-losing brands, in terms of ranking, I think the biggest one was LimeLife and this is visible in the chart, and L'OCCITANE au Brésil is pretty close or similar to that one. Melvita, less negative whereas Erborian is positive. It's been positive three years in a row. So, we have specific discussions right now on L'OCCITANE au Brésil and Melvita to see how we improve the situation, what actions do we take? So, this will be more specific at a later stage. We may have different strategies it's too early to say. Talking about LimeLife, as we said, LimeLife has been impacted by soft sales in FY2020 with the impacts of the rebranding and also some hiccups with COVID-19 in the US at the end of the financial year. But the very good thing is that on the contrary, ELEMIS - sorry LimeLife is doing very well, extremely well in the first two months of the year, so it's growing double digits. It has restructured some of its operation. We've closed the Brazil operation which was quite - having quite an impact on the bottom line. We have also streamlined some of the structures in Europe and this combined with the fast growing sales, leaves us with good hope that LimeLife will turn positive in FY21. So, I think it's extremely encouraging from this point of view. Maybe Reinold or André you would like to comment on the retail stores at L'OCCITANE [en Provence] versus ELEMIS.

Reinold Geiger

Well, first of all, ELEMIS is not at the same stage of development as L'OCCITANE [en Provence] today. L'OCCITANE [en Provence] at one stage was very small. When we got involved, it was doing about US$10 million in sales. Until it reached US$500 million or euros, we were growing between 50% and 100%. Now, concerning ELEMIS, again, we can compare it to a much earlier stage of the growth of L'OCCITANE [en Provence] and we believe that because of the concept and the product which are excellent, it has a big, big growth potential. Now time has changed. Today, we were much more focusing immediately on internet and social media selling rather than stores. But we will also try stores and we will at a later stage, not too far away, open the first store. If you open stores you can extend the store concept, the one store itself is very profitable. But I mean it's at a different stage of development and different times and today made a lot of sense to focus a lot on digital growth and development rather than get involved immediately in stores.

Operator (on behalf of Anne Ling, Jefferies)

Thank you, management. The next question is from Anne Ling of Jefferies. Can you remind the audience of your mid-term target and will this be impacted by COVID-19? Thank you.

Thomas Levilion

Yes, Anne, the mid-term targets I would say remain. It's getting to €2.5 billion sales and reaching 15% profitability. I think, as I said in my introduction, it's something I believe

remains achievable or totally achievable. Clearly, COVID-19 is not helping right now, but again, if we are at an end, so let's say that maybe we'd probably postpone unless the situation gets any even worse, much more dramatic. But we'll certainly postpone by one year, one year and a half, maximum two years I would say the achievement of this target.

Operator (on behalf of Uwe Rathausky, GANÉ AG)

Thank you. The next question is from Uwe Rathausky from GANÉ AG. He would like you to give some information on the new personalised beauty system Duolab that allows customers to create their own targeted face cream. How does it work? What have been the experiences so far and can you share anything about the global launch or distribution plans? Thank you.

Thomas Levilion

I think Reinold, it's more a question for you.

Reinold Geiger

Duolab, we did launch it in February in the UK. We first wanted to experiment it in one country. Now, unfortunately we have not - from a COVID-19 crisis, this was not the best choice of the country because the UK has been very much in disturbance and is still not functioning very well. There has been a fantastic reception. It is for sure considered as being a breakthrough innovation and despite the COVID crisis, we are following closely our objectives and our plan, not through the sales in stores because the stores remain closed, but through sales on the internet. So, I mean, it's too early to say it will be a big success, but I mean it is considered as an incredible innovation, and the consumer response is very enthusiastic. So, I mean, up until now, we are very happy.

Now, global launch, we will launch it in different countries within the next 12 months, but not in many, in one or two other European countries, and in one or two point of sales or cities in Asia, maybe Singapore. We did plan Hong Kong, but there may be too many - Hong Kong may still be too difficult, then it will probably be Singapore.

Operator (on behalf of Emily Lee, Nomura)

Thank you, management. Due to the time, we will take two more questions. The first one is from Emily Lee of Nomura. Can the management please comment on the performance of the online performance and the growth rate since the virus outbreak and do you think this growth can be sustainable once stores reopen? Could you also talk about the performance of the newly launched products that are specific to personal hygiene? Finally, has skin care somewhat underperformed post COVID-19? Thank you.

Thomas Levilion

Hello Emily, I can try to answer your questions quickly. So, since the beginning of the year, the performance in e-commerce and web business in general has been extremely strong. We're talking about 140%, 150%. Very, very good. Will that continue when the stores reopen, it's again a bit early to say, but we can say that China continues to do extremely well on the web, with the web partners and Tmall. In the countries in Europe where the stores have reopened, we continue to see not the same type of growth but quite strong growth, double digits, even when the stores have reopened. So, it's very encouraging for the development of the e-commerce and online sales. Sorry. I think there was another question from you, Emily. Maybe you can remind me.

Operator (on behalf of Emily Lee, Nomura)

Sure. Could you share more about the performance of the newly launched products that are specific to personal hygiene?

Thomas Levilion
Sure. The skin care products continue to do well, particularly the *Immortelle Reset* range and we've launched the *Immortelle Reset Eye* that is good timing when people have to wear masks obviously. But at the same time, we see much more interest, renewed interest, in our hand care and hygiene products and that's why we're also launching this hand sanitising gel that I mentioned before. It's another opportunity to put something new with a combination of very strong hand care that people certainly need when they have to wash their hands so frequently. So, a combination of that with hygiene products and even hand sanitising products. So, it's a new opportunity again.

Operator (on behalf of Tiffany Feng, Citi)
Thank you, management. The final question is from Tiffany Feng of Citi. Could you please provide some guidance regarding your operating expenses for FY2021? Thank you.

Thomas Levilion
I'm getting back to what I said before in terms of guidance. It's a bit too early to provide guidance. It's a bit too early to provide guidance for FY2021. Again, the situation is very fluid. We have uncertainties and other plans and we're also working very actively on the bottom line. So, meaning that there is a lot being done on the operating expenses right now. So, we'd probably be more specific later.

Operator
Thank you, management. I'll now hand it back to Janis.

Janis Lai
Thank you, Matt. Thank you, everyone, for joining today and your questions, if you have any follow-up questions or if there is anything we didn't answer fully during this presentation, feel free to reach our team afterwards. Thank you once again for joining and have a good evening.

André Hoffmann
Thank you, everybody, goodbye.

Thomas Levilion
Goodbye.

-End-