FY2021 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
- Carol Xia, Morgan Stanley
- Joanne Lau, CLSA
- Stephanie Lam, Haitong International
- Peter Lau, Bloomberg Research

(Online participants)
- Emily Lee, Nomura
- Louise Li, Bank of America
- Anne Ling, Jefferies
- Jamie Isenwater, Ash Park Capital
- Huang Yihui, Whitefield Capital Management

Presentation

Janis Lai
Welcome, everyone. Thank you for joining L'Occitane International's presentation today on the FY2021 annual results. With me here in the Hong Kong office today is our Vice Chairman, André Hoffmann. We are also joined on the line by Chairman and CEO Mr Reinold Geiger and Group CFO Mr Thomas Levilion. First, Thomas will start with walking us through the financial highlights. André will then go over our strategic review, and Reinold will also give some concluding remarks before we go into Q&A. Today, we are taking questions from both the onsite audience here and also online.

For those who are joining online, you may click the ask a question link at the bottom right-hand corner of the webcast page. Feel free to submit your questions even during the presentation. I will now pass it over to Thomas to start. Thank you.

Thomas Levilion
Thank you, Janis. Hello, everyone. As a summary, I would say that FY2021 was obviously a year marked by the significant disruptions caused by COVID-19, but it was also a year marked by record profits for the Group. The way we navigated through the challenges this year has proven the Group's resilience, agility and adaptability as both sales performance and profitability exceeded the management's expectations.

Sales for the year ended with a slight decrease of 1.1% on a like-for-like basis, but the operating profit margin improved significantly by 2.9 points to 14.3% of net sales, with contributions from all brands. On a like-for-like basis, excluding the various accounting effects of the deconsolidation of the L'Occitane US subsidiary, the operating margin would be 13.6%. The Group posted a record net profit of €157 million for the year, which grew by more than 36%, and net profit margin reached 10.2%.

The Group also generated strong free cash flow, and at the same time, reduced its net debt by more than 45%. Due to the encouraging results of the year, the Board is pleased to propose a dividend of €0.03687 per share, which represents a payout ratio of 35%, and an increase of 65% of the dividend per share as compared to last year.

We'll go through a quick review of the sales performance of the year, first with a ratio of sell-out and sell-in sales. Sell-out and sell-in accounted for 72% and 28%, respectively, of total net sales this year, and in terms of contribution by brand, the share of our core L'Occitane brand decreased by about one percentage point to 78%, while LimeLife posted good growth and increased its share by 1.4 percentage points.

Geographically, China accounted for 17% of the overall sales and is now the largest market of the Group, followed by the US, Japan and the UK. In terms of sales by brand, assuming our US subsidiary remained within the Group and its sales in February and March '21 were consolidated, sales at constant rates reduced slightly by 1.7%. Then if March '19 sales were excluded in FY20, sales decrease - so the actual sales decrease for the year, the like-for-like sales decrease - would be even lower, at 1.1%.

The performance of LimeLife was particularly good, with growth of 26% at constant rates, and ELEMIS grew around 6% on a like-for-like basis. L'OCCITANE en Provence decreased by – I would say only – around 3%.

Of course, most of Europe and the Americas were affected by the restrictive measures and intermittent lockdowns throughout the year. The relatively small sales decline in the UK was supported by ELEMIS, which showed growth for the full year thanks to very strong online sales, and similarly, in the US, LimeLife's strong momentum cushioned some of the impact from L'Occitane's closed stores. Meanwhile, Russia remained resilient and grew 6%.

Sales in Asia were strong. In particular, China, Taiwan and Korea posted growth of 36%, 16% and 43%, respectively. The situation in Japan was more complicated with the intermittent lockdowns and states of emergency. Still, it managed to turn positive growth in the second half of the year, thanks to strong online channels and a successful holiday season. Hong Kong's sales fell 20% for the year. However, the situation improved also in the second half of the year, and most of our shops saw back to normal traffic. The travel retail business also rebounded, as duty-free sales in Asia soared as a result of a domestic travel boom.

Now, we have an overview of the profitability. We saw gains in both the gross and the operating profit margins. The overall gross margin increased by 1.4 points to 83%, due mainly to channel and brand mix. The operating margin improved by 2.9 points to 14.3%, mainly due to reduction in cost of sales, distribution expenses, R&D and admin costs, and the savings were partly net off by higher marketing investments and one-off expenses that were related to the restructuring and Chapter 11 filing. And we'll go of course into more details in the following slides.

First is gross margin, which improved by 1.4 points to 83%, mainly contributed by favourable channel mix, with increase in share of online channels and also increase in share of countries in Asia, which have higher gross margin, for a total of 1.5 points' improvement in gross margin. We also had price increase and lower discounts, which contributed for 0.2 points, and some lower use of mini-products and pouches, in particular in the travel retail channel, which further saved another 0.1 points. The improvement was partly offset by higher obsolescence and inventory provision for 0.2 points, unfavourable exchange rates for 0.1, and some higher freights, duties and other factors for another 0.1 points.

The distribution expenses saw a significant reduction by 3.3 points to 43.3% of net sales. During the year, of course, we had lower leverage in percent costs, fixed rental and depreciation, which increased our distribution expenses ratio by five points due to the lower sales in the brick and mortar. However, we were able to more than offset this by favourable brand and channel mix for 3.8 points as a result of the sharp increase in online channel sales, which have lower distribution cost structure.

We also had cuts in rents, headcount, traveling and some other costs in response to COVID-19. This contributed for 2.4 points, and then grants and subsidies received from governments for 1.9 points, and of course, some one-off forex and others for 0.2.

The marketing expenses as a percentage of net sales increased by 1.3 points to 13.9% of net sales for FY2021, and the increase was attributable to various factors. First, an unfavourable channel mix, this time, due to the rapid growth in online channels, which have higher marketing costs than brick and mortar channels. This was partly offset by favourable brand mix for a net increase of 0.6 points.

Second, we had higher investment in digital marketing, online search, social media, in China and also at ELEMIS for a total of 0.4 points, and another 0.4 points for ELEMIS's investments for its international marketing structure and its online marketing as well, in the developed markets. We had some deleveraging, some unfavourable forex impact and others, which added for 0.2 points, and a higher usage of samples, promotional tools for another 0.2, and the increase was partly offset by savings in travelling and other expenses, lower CRM spending in retail channels and also some government subsidies related to COVID-19 for a total 0.5 points.

General and admin expenses as a percentage to net sales decreased by 0.1 points to 9.6%. First of all, we had an increase in incentives for staff, which added 0.6 points, lower leverage for 0.2 points, some investment in ELEMIS's international team, management and long-term incentives for another 0.2, and finally, IT investments, forex impact and others for 0.1. We were able to offset, or more than offset this increase, by a reduction in costs, consumables, travelling and headcounts in response to COVID-19 for 0.7 points, and the COVID-19 reliefs, grants, subsidies, furlough schemes offered by governments for a total of 0.5 points.

Besides this, the operating profit was also impacted by unusual items. First, we had the share of loss from associates for €4.1 million, which represented the result of L'Occitane in the US in February and March. Then we had the pure deconsolidation bookings of L'Occitane Inc. with the gain of €5.8 million, and restructuring expenses for €13.2 million. I will be more specific about the impact of the US deconsolidation in a couple slides.

All in all, the operating profit margin increased significantly by 2.9 points to 14.3% of net sales, and the improvement was contributed by the following factors. First, the proactive cost cutting in response to the COVID-19 crisis for a total of 5.6 points, that's including savings for reorganizations, cutting on non-essential expenses, as well as grants and subsidies received from governments. Second, we had the favourable channel and also brand and product mixes for 4.9 points, and third, gains from deconsolidation bookings after L'Occitane Inc.'s Chapter 11 proceedings for 0.4 points. And the improvement is partly offset by lower leverage on rental, retail staff costs and others due to COVID-19 of course for 5.3 points. We also had enhanced investments, mainly in marketing in China and at ELEMIS, for a total of

1.4 points, one-off costs and the global restructuring plan, and Chapter 11 for 0.9 points, and other factors for 0.4.

Operating profit by brand - all brands showed improvement in operating margin as compared to last year. L'OCCITANE en Provence improved its operating margin by 1.4 points to 15.4%, despite the significant impact from COVID-19 on its retail channels, and despite the restructuring costs. The improvement is attributable to the extraordinary development of online and China, as well as the cost cutting in retail and other areas, and the first benefits of our restructuring actions. ELEMIS's operating profit improved significantly from 17.5% last year to 25.7% this year, thanks to the measures in cost cutting, lower discounts, restructuring and the one-off acquisition costs impact in FY2020.

LimeLife turned to profit with an operating margin of 1.8%, compared to a loss of 10.3% last year, benefitting mainly from its unique digital direct business model, with fantastic sales growth of more than 26%. The other brands together ended the year with an operating loss of around €7 million. However, L'OCCITANE au Brésil reduced its loss from FY2020 despite the very difficult context after its restructuring, and Melvita slightly increased its loss because of its own restructuring program, with the closure of several unprofitable stores. Meanwhile, Erborian remained resilient and posted a teens level operating profit margin.

Now, I'd like to summarise the different impacts of the deconsolidation of L'Occitane Inc. on the Group's operating profit. As you have in mind, the Group's exclusive control over the US entity, L'Occitane Inc., was lost when it filed for Chapter 11 at the end of January. Therefore, it must be deconsolidated at the date of filing, and consequently, the Group's investment in L'Occitane Inc. is recorded using the equity method. So the reported P&L figures of FY2021 of the Group do not include the sales of L'Occitane Inc. in February and in March 2021. However, its results were reported on a single item, "share of loss from associates" under the equity method.

At the same time, various one-time accounting effects, as listed on the slide, resulted in an increase of €8.6 million in the operating profit. However, the management believes that, assuming L'Occitane Inc. remains consolidated into the Group's result would provide a truer view of the financial performance in FY2021 and is thus more comparable to the reported results in FY2020. The management version shows a sales that is higher by €13 million and an operating profit that is lower by €8.6 million, as compared to the reported figures, resulting in a truer profitability of 13.6%.

Working capital – cash cycle reduced slightly by one day to 43 days of net sales. That's a net result of higher inventory and higher receivable turnover, being offset by higher trade payables turnover. Inventory value as at March '21 decreased by €5 million to €199 million, as compared to March '20. Average inventory turnover increased by 37 days, due partly to the COVID-19 development and partly to higher inventory for the rapid growth and development of ELEMIS and L'OCCITANE en Provence towards the end of FY2021. The net effect of the deconsolidation of L'Occitane Inc. was a decrease of five days.

Trade receivables turnover days increased by one day. That was due mainly to the sales development towards the end of the financial year in Asia and at ELEMIS, and the trade payables turnover days increased by 42 days, which was due mainly to an increase in trade payables and accrued expenses at the end of the period.

The Group remained strong in generating free cash flow. For FY2021, excluding the IFRS 16 impact, the total free cash generated was €278 million, which compares to €170 million only for last year. The strong performance was mainly contributed by record profit of the year, tighter working capital management, as well as a delay of CAPEX spending.

Talking about CAPEX, in response of course to COVID-19 crisis, CAPEX in FY2021 reduced sharply to €27.8 million, as compared to €67.5 million in last year. Half of the CAPEX this year was mainly related to the addition of hardware, software development costs and IT spending in general for €14.5 million. It's worth noting that within this IT spending, most was enhancement projects on e-commerce, CRM and our omni-channel platforms. Our spending on factories, R&D and for retail stores were, of course, exceptionally low. For FY2022, we expect the CAPEX for store innovations to catch up, leading to CAPEX of globally, including IT, including factories, of €50 million to €55 million.

In terms of balance sheet ratios, return on capital employed in FY2021 was 10.2%, so that's an increase of 3.3 points, as compared to FY2020, and that's a result of an increase in net operating profit after tax by 30.8%, combined with a decrease of 12.1% in capital employed. The decrease in capital employed was mainly due to lower fixed assets at the end of FY2021, after restraining CAPEX spending and of course the closure of a number of unprofitable stores.

The Group's gearing ratio reduced from 37.2% in FY2020 to 32.7% in FY2021, and if we exclude the impact of IFRS 16, the gearing ratio in FY2021 would decrease to 23.8%. Now, I would pass it to André for the strategic review. Thank you very much.

André Hoffmann

Thank you, Thomas. Despite the many challenges of COVID-19, we were able to deliver better than expected sales and a record profit, thanks to the hard work and commitment of our different management teams. As our stores closed around the world, agility, adaptability and flexibility were needed for us to quickly pivot our activities to online, where we launched numerous social selling projects to push our digital sales. Online consultations and live streaming events allowed us to maintain our human approach to beauty, despite the need for social distance. Thanks to these and other efforts, our online sales grew by 69% to account for 37% of our total sales, and as our online business has higher margins, this helped offset the operating deleverage from our closed stores.

Our core brand, L'OCCITANE en Provence, was particularly resilient in FY2021. This was in part due to the big increase in demand for key product categories, such as soaps and hand care and body care products. Key markets in Asia, especially China, Taiwan and South Korea, all delivered strong double-digit growth, with China becoming our biggest market by the end of the year. ELEMIS was also a key profitability driver. Its digital-first strategy allowed it to open in many new markets in an efficient manner. In FY2021, we opened a strategic China market and launched elemis.com websites in 13 different countries across Asia and Europe. ELEMIS's lean operating structure enabled it to achieve an impressive 26% operating margin for the full year. LimeLife also performed well during the year, as it was our fastest-growing band, with 26% growth, and turned profitable for the full year.

FY2021 was also significant in that the Group undertook two major restructuring actions to accelerate its transformation, address loss-making areas and increase the efficiency of our investments. In October last year, we announced a reorganisation at our corporate offices that led to a reduction of approximately 300 positions, or about 3% of our total workforce, and in January of this year, we initiated a voluntary Chapter 11 filing in the US to accelerate our store rationalisation there. Both of these actions are expected to deliver significant savings in the years to come.

Finally, COVID-19 was another reminder of the importance to take care of the environment and our communities. As a Group that takes inspiration from nature and its resources, contributing to long-term sustainability has always been a part of our DNA, and we have identified three priority areas where we believe we can deliver the most positive impact - first, mitigating the climate crisis, second, protecting and restructuring biodiversity, and three, empowering people in our communities.

I would like to pass to Reinold for some closing comments.

Reinold Geiger

Thank you, André. FY2021 was a challenging, interesting and at the end, a good year for us. COVID-19 changed lives around the world and, in a way, forced everyone to innovate and to adapt. With the development of digital and web, we started our transformation many years ago, and COVID-19 did only accelerate it. We did two major restructurings to be more agile and efficient for the years to come, and it paid already during this fiscal year. After first having been focussed to become a much bigger Group, we concentrate much more on the bottom line to come back to the profitability when we were a much smaller company.

Looking ahead, we remain very optimistic. The demand for natural cosmetics will continue to lead the growth in this industry, and we are fortunate to have very motivated and committed teams around the world. While impacts from COVID-19 may linger, the Group is well equipped to meet evolving customer needs and create engaging content through accelerating digital and sustainability initiatives. The inherent strength of our brands, targeted investments, as well as our focus and determination will further drive growth and profitability.

This concludes our presentation. Now, I suggest to start the Q&A session. Thank you for your attention.

Janis Lai

Thank you, management, for the presentation. Now we will go into the Q&A session. We'll first take the questions from the live audience here, and I would please ask you to announce your name and also the firm in which you belong to first, and then we'll also take some questions from our online audience. First, Carol, in the front.

Carol Xia

Hi. Thanks, management, for taking my questions. This is Carol Xia from Morgan Stanley. So I'm feeling very excited to enter this office again after more than a year, and my first question is regarding your new FY expectation, because compared with the expectation of exactly a year ago, you obviously delivered a large beat, and your bottom line beat expectations a month ago. So if we look forward of the new fiscal year, what kind of expectations shall we set for the sales and also the OP margin. It would be great if you could provide a breakdown by brand and by geography. That's my first question. The second - or maybe you can answer.

André Hoffmann

Thomas, would you like to handle that?

Thomas Levilion

Yes, sure, hello. So, okay, it was a fantastic year with the beats, a lot of special events and everything, so we are optimistic for the year that is now FY2022. We expect to continue to grow our sales. Globally, we target low-teens sales growth. That's on the base that is including the US, sorry. For L'OCCITANE en Provence, of course, this low-teens growth makes sense given the size of the brand already. We are more pushy on ELEMIS, maybe 30%, LimeLife, 20%, 25%, and the other brands as well, the emerging brands.

For the operating margin, we target 14% plus. Don't forget that the true operating margin this year is more 13.6%, so we target to continue to improve our operating margin based on higher sales, better deleveraging and also, of course, the full extent of the restructuring that we have achieved this year. So again, an improvement in the operating margin, with L'OCCITANE en Provence around 15%, ELEMIS around 25%, so pretty much where they are this year already, with LimeLife improving in terms of profitability and others being close to breakeven, excluding of course - not to mention Erborian, which is already one of the most profitable brands within the Group.

But that gives you an overall picture. I think it's not going to be so easy, but we believe that we can deliver another very good year.

Carol Xia

Thank you so much. That's pretty clear, and my second question is of course on one of my favourite brands, ELEMIS. So it's also a year from your official launch in China, so maybe it's time for an anniversary review. So if looking back in the past year, what do you think that you did particularly right, that beat your expectations of your operations in China for ELEMIS, and maybe what or which area that you could have done better? For this year, the OP margin for ELEMIS is at 25.7%, which is stellar, compared to half-year record high at above 30%. So maybe for the first half, can you please share a bit more details sharing where do we invest in ELEMIS, like which regions and which channels, and maybe for ELEMIS sales in China, what kind of percentage of sales of ELEMIS is from China right now?

Management just guided about the 25% OP margin for ELEMIS for the next year, so is it a long-term OP margin for ELEMIS that we should expect?

André Hoffmann

I'll handle that one, Thomas, to the best of my ability. Yes, we launched in China in September of last year, initially with 125 doors, with a multi-brand retailer called Sephora. We're presently in about 265 doors, so we have full distribution with them. Frankly, the brand has been performing very well. As part of our agreement, we do have the opportunity to open up ELEMIS-branded stores. We've signed leases with two very prominent landlords, one in Shanghai, one in Nanjing. We have three more to still conclude negotiations for, but by the end of the fiscal year, we plan to have five branded ELEMIS stores in China.

Look, we've always said that ELEMIS is a digital-first brand and today, our digital presence in China is really only through sephora.com, so we were not able to have our own website and to sell on Tmall. That's something that will happen next year. So that's obviously a big area of growth for the brand.

In addition to China, we have opened stores in APAC in Malaysia, two stores in Kuala Lumpur. The first store in Singapore is opening this month. The second store will open I believe in August in top shopping malls. Bangkok, we have two department store counters which are frankly exceeding expectations in a significant way. We have plans to launch this fall in Korea, Japan and Taiwan and in addition to APAC, we're opening up stores in Dubai, in the Middle East. We're opening up Spain, France, Germany. So basically this year is a big year for ELEMIS expansion and we're really hoping to see significant results.

Concerning the operating margins, you know the operating margins of the Group so ELEMIS operating margins are like 80% higher than the Group's average. We think we can sustain that, primarily because of the lean structure and because of our digital first strategy. ELEMIS's share of revenue coming from online is very, very high and obviously this is a higher margin channel. So I hope that answers, Carol, your questions about ELEMIS? Did I forget anything?

Carol Xia

How much of the overall business of ELEMIS is in China?

André Hoffmann
Well ELEMIS is doing about I think 2% of the total of L'Occitane's business in China so still very, very small. Still has a big, big room to grow.

Carol Xia
All my questions, thank you.

André Hoffmann
Sure.

Janis Lai
Thank you, thank you management. Can we take the next question from the live audience first?

Joanne Lau
Hi management and congratulations on such a stellar result. I'm Joanne from CLSA. So I have two questions. So my first question is on your GP margin, the margin I saw that expanded by 1.4 percentage points and it was mainly driven by channel mix change. So perhaps can you share more colour on the performance on ecommerce, as well as the margin online and how do you see the GP margin going forward in the next fiscal year?

André Hoffmann
Right. Thomas, would you like to handle that?

Thomas Levilion
Yes, I will try to handle this question. Hello Joanne. So the GP margin of course was improved by this channel mix effect, also the country mix effect because we had a very strong growth in countries like China, like Taiwan and like Korea where we tend to have higher gross margins than in the rest of the world, but the number one contributor was the channel mix.

So we have a high gross margin in digital and in ecommerce which is higher than other sell-in activities. The thing is that now brick and mortar - our sell-in activities - has a lower gross margin and decreased more than the sell-out. The ecommerce margin is comparable to retail so we have replaced retail shares with digital sales in sell-out. A little bit, also, in sell-in with web partners and a lower profit or gross profit activities in sell-in decreased in terms of their contribution to the sales.

So the mix effect in the gross margin is more due to sell-in, sell-out mix and of course supported by the very strong online growth whereas globally, and notably because of the low distribution costs of the ecommerce and web activities, there is an even bigger channel mix effect in the total operating margin. I hope this is not too complicated as an explanation. So it's not that the gross margin of web is higher than the one of retail, it's less of the lower gross margin sell-in activities. Does that answer?

Janis Lai
Thank you Thomas. I think she has a follow up question. Go ahead.

Thomas Levilion
Sure.

Joanne Lau
Yes, that was very clear. So my second question is on LimeLife, because we saw LimeLife actually posted very stellar growth this year. Can you maybe like share more colour on what's the driver for LimeLife in the past year and what is like the core strategy for the brand going forward? Because like previously we have heard a lot on ELEMIS, so will the main focus be on ELEMIS next year or will LimeLife also take up a significant proportion of the driver for next year? Thank you.

André Hoffmann
Reinold, would you like to handle that?

Reinold Geiger
Yes. Well I mean LimeLife, the main reason why we have had this growth is the quality of the product which is exceptional and perceived as being exceptional by the consumers. I mean obviously the main activity today is in the United States. Now LimeLife has no stores, so it did not have the same problem with the store closure as for L'OCCITANE en Provence, but it was affected by the COVID-19 crisis which is very severe and still is not finished in the US. We also started developing it in European countries but it is still very small there.

I mean it's just an excellent entrepreneurial management team in place, with good products with a distribution channel which is direct sales which is not so much affected by the crisis but I mean as a result, they had a fantastic growth. Now I mean this growth, we expect it to continue and it turned profitable and we really are convinced too, the profitability will increase. So LimeLife is also a very interesting company for the future and it is very complementary to the rest of what we are doing.

Janis Lai
Thank you Reinold. Yes, next question from Stephanie.

Stephanie Lam
This is Stephanie. I have two questions. The first question is regarding the sales trend lately. So can you share a bit on the sales trend from different markets as well as the recovery of travel related channels, such as the maritime channel as well as One Spa World. The second question is regarding the margin target. Given the better-than-expected margin expansion from brand mix and channel mix, will we consider to further revise up our midterm OP margin target that we mentioned earlier that is mid-teens?

André Hoffmann
Okay Thomas, I'll handle the first question and I'll leave you the second one if that's okay?

Thomas Levilion
Yes.

André Hoffmann
So just to give you an update since the start of the new financial year, we've actually had a very strong performance in April-May. For those two months, the sales were up about 46% compared to the previous financial year which we consider to be very, very strong. I think that June has slowed down a bit because of additional lockdowns in Japan, in Europe and India of course. So we're still optimistic that the first quarter numbers on whole will be very, very strong.

Concerning an update on the One Spa World, what we call the maritime channel which is only concerning the ELEMIS brand, we've been given feedback that the cruise ships have been given permission to sail. It's gradual. They're not all going to go out to sea at the same time, but we have started to receive orders to replenish the ships and we have budgeted for this year to gain back some of the lost business but we'll start to see a more impactful recovery towards the second half of the year when we think that the business will be much, much stronger.

Concerning travel retail, obviously that's a channel that has been very badly hit because many countries have their borders closed and Chinese tourists which have been a very, very big catalyst for travel retail in general, they're not travelling very much. Where we have compensated a little bit is with Hainan Island which you can call domestic travel retail and there we've seen a big boom, like most people in the category, but we still are not back to 2019 numbers. So we have to be patient with the recovery of that specific business. Okay, Thomas?

Thomas Levilion

Sure. So let me - Stephanie, let me maybe put this midterm target in terms of operating margin into the context of what we see also in terms of sales. So we still plan of course to become the number one natural brand in the affordable premium segment where we are today - number one group with our different brands - and we target to reach in total by FY2024, three years from now, about €2.2 billion in terms of sales. That's with globally a low teens CAGR. L'OCCITANE en Provence may be 6% to 8%, ELEMIS 25%, 30% - of course, much stronger, with everything that André already explained. LimeLife 20%, 25%, notably from the US but also we should see some expansion, also the new countries where they have started to sell and the other brands by 25%, 30%.

So that's just to give you an illustration of that. If you remember that now L'OCCITANE en Provence represents 78% of our total sales, we expect it should be more like 70% but - over - in the next three years, with ELEMIS being 15%, LimeLife 10% and the others.

In terms of operating margin, we said in the past that we were targeting 15%, now we are targeting more than that. We target 16% plus. L'OCCITANE en Provence should remain about this 15% that we have seen already this year and we expect also from Asia so there will be leverage and we will benefit from the share of digital but also at the same time, we have to understand that the very competitive market in China, which is the fastest growing market, is also very competitive in terms of investments and will require probably higher investment. So for that we tend to be a bit cautious and we believe that we will have to reinvest part of the gains that we make from the leverage and digital for L'OCCITANE en Provence.

ELEMIS, as André said, we believe that this current level of profitability, 25% to 26%, 27%, 28%, 29% maybe, is sustainable. Notably as our initial investments so that we are doing now in Asia will pay. Erborian and LimeLife, I think they have both the potential to be around the 10% to 15% profitability and we expect Melvita and au Brésil with the restructuring and all that provides to the new strategies they have in place to be breakeven in FY2024.

Janis Lai

Thank you Thomas for the very clear explanation. I think we can now move onto the online questions.

Operator

I have quite a few questions about OP in particular, OP margin so I'll just combine a few for you. Basically the first one is why did the OP margin for ELEMIS and LimeLife drop in the second half, half on half? Can you talk about the OPM differences between online and offline and between Asia, in particular China, and other markets? Can the management share the colour and sales performance by region by April, May, June, to date? That's all for now.

André Hoffmann

Thomas?

Thomas Levilion

Yes, maybe I can assist with the first two questions. The - which drop, ELEMIS and…

Operator

Yes, there's a drop in OP margins for - in the second half, half on half.

Thomas Levilion

Yes, so okay. LimeLife's first half and even first quarter last year was exceptional in terms of sales. So by the way, they will not reproduce exactly the same performance in the first quarter this year. They had very, very strong recruitment of beauty guides. Remember it was the start of the COVID-19 in the US, everything was closed, and a lot of people turned to this direct selling.

So they did benefit at the time, was the only growing brand or activity in our portfolio. They did benefit from the situation at the time and then of course, as Reinold mentioned, they offered - they came up with very good products at the same time. So this is why of course we did this very high peak in sales in the first half. They of course delivered a very high profitability in the second year.

Mid-term I think we are very confident that LimeLife can deliver a better profitability and they have done a lot already. They are working hard on all the parameters, and so not only the sales but also the cost of the products, the commissions and all the elements of the margins so that we can reach their target of being 10% plus in the next couple years. So I think it's very satisfactory.

For ELEMIS, I think that the number one explanation is the fact that we have - in the previous year, we had the - so we had the acquisition cost but the second explanation is probably linked to the fact that there was some investment, of course, in the second half for China and some other countries but essentially China and notably marketing investments. Also I think they made a lot of the - they had a lot of these government subsidies for the COVID-19 in the first half this year. So I think this gives you an explanation of the differences from one half year to the other and again, with positive prospects, also for ELEMIS in the future.

What was your second question? Yes the difference in the margin for the different channels. So as I said before, I mean the gross margin for the ecommerce, that's marketplace or own ecommerce, is comparable to what we have in retail. So this is - you know what we have in terms of gross margin in sell-out in general, so that's another margin, gross margin of above 90%, but then of course in retail we have more than 50% of distribution costs that we obviously do not have at such a high level for the ecommerce activity because yes, we have more freights and more - little bit more of that sort of expense but all-in-all, there is a significant difference I would say, more than 10 points, clearly more than 10 points in the profitability.

Then in the countries, I mean we don't disclose too much detail about the profitability in different countries, but we always say that the profitability, the most profitable countries, were some of the Asian countries, so notably China, notably Taiwan, now Korea as well and

Japan remains one of our most profitable countries. It did not grow as fast as the other countries that I mentioned but it managed to be stable or slightly negative, so also contributed to this favourable country mix effect in the operating margin.

Your third question was about the trading situation. So as André said, we are still fighting some of the COVID-19 restrictions in some countries. So it's not yet back to normal but we believe that we'll be way above where we were last year, so I think at the end of May we were around - depending on if you look at it on a constant exchange rate basis or actual exchange rate, between 30% to 40% over last year, so quite strong. The only brand, for the reason that I explained before, that will not be up from last year will be LimeLife but if we look at it on a full year basis, we are pretty confident that it will be positive as well.

Does that answer your different questions?

Operator

That got most of them, thank you. There was one quick other one on operating margin. Basically do you think OP margin will decline as offline sales start to return? Another question is on marketing to sales ratio, so the understanding is that online marketing sometimes costs higher than offline. What is your target for the marketing to sales ratio?

Thomas Levilion

Of course, there will be a little less of the share of digital sales in FY2022 as the sales in the brick and mortar rebound, but so obviously this benefit of the channel mix will be less but we still believe that we will maintain a higher, significantly higher share of digital sales than we had before the crisis. We had about 37% of our total sales in digital in FY2021. We believe that we will be again above 30% or clearly above 30% in FY2022 whereas we were at 22% in FY2020.

So I think that part of the benefit of the channel mix effect will remain and of course we won't have such unfavourable deleveraging effects that we had in retail, despite of course the COVID-19 subsidies that we have. So all-in-all, that's why we believe that we will continue to grow our operating margin on a like-for-like basis. So 14% plus as compared to 13.6%.

In terms of marketing spending, yes I mean I was talking about China which is a very disputed market and everybody is trying to get a share, a piece of the cake obviously. So this requires marketing spending. So it's not so much that it's more digital or more expensive in digital than the traditional media. Both are expensive. It's more that in this country and the growing countries, there will be even more competition so we need to be clear and prepared to spend a little more. So I would say that in FY2022 it's not unreasonable to target about - to expect about little bit less than 15%, 14.5% to 15% of net sales in marketing.

Operator

One question is about your M&A opportunities. So you have shown with experience that with ELEMIS that you can very effectively acquire, integrate and grow external brands. So are you actively looking into further M&A opportunities and how far would you stretch the balance sheet for the right deal? Thank you.

André Hoffmann

Reinold?

Reinold Geiger

Well I mean, with ELEMIS we bought the company which we considered as being very interesting and it has proven that it is right. I mean there are not many companies that fit within our Group but we constantly look at the market and I mean tomorrow if there is an opportunity, we'll certainly try to grab it again.

Operator

The final question here, can you provide some tax rate guidance for FY2022? Thank you.

Thomas Levilion

Well yes, again this year was a bit special. We have a relatively low tax rate of 21% but there are some one-off effects as explained in the announcement by the way. Notably we had from one of our key countries, we had reinvestment of taxes, income tax paid in excess in the past for about €5 million so this definitely helps the tax rate in this year. Mid-term, I think well we said before, initially we targeted around 23% in the long range. It's probably a bit too optimistic, now that some governments might increase their rates again. Now it's even more pressure from the different governments to recoup as much tax as they can so I would say that 23% to 25% is the realistic target for next year and beyond.

Janis Lai

Thank you Thomas and we'll take a final question from our live audience here.

Peter Lau

Thank you. This is Peter from Bloomberg Research. So 36% of China's top line growth is definitely very impressive, but I'm curious, how do you maintain the growth in China and also like even - it would be great if you can comment on any strategy playbook in China, such as like offline, online. Like I heard you're trying to open a Tmall store, like back-end stuff or initiatives will be very interesting.

The second question will be, given the growth of domestic brands like Perfect Diary and stuff like that, how can we outperform? That will be helpful to listen, thank you.

André Hoffmann

Well I mean as I said earlier, the large majority of our total revenue in China comes from the L'OCCITANE en Provence brand. We have two other brands that are in the market, Melvita which is still quite small and ELEMIS which we have just started. I do expect triple-digit growth for ELEMIS going down the road just as we expand, as we open up into new cities, as we build our brand awareness and as we're able to start our own online business with Tmall, JD and other online players.

L'Occitane has a clear strategy. We're going to continue to push our hand care and body care where we are the number one brand in the premium segment in China. Hair care is an enormous opportunity for us. We have many new products that will be launched in the hair care category which we think is also a very big growth opportunity. Face care, we're still a very small business in China and we have a lot of products that are going to be launched over the next 24 months that we believe will be really catered to the Asian skin and we do expect significant improvement in that.

We have been using over the past four or five years celebrities as endorsers. We had two very successful campaigns last fiscal year with both male and female celebrities. We'll continue to use celebrities to endorse our brand and to do co-promotions. So the strategy hasn't changed at all for L'Occitane. It's just a question of execution and we believe that we have the resources to put behind all of our brands. It's not like we're going to only invest in ELEMIS and ignore L'Occitane.

Concerning the local competition, there's always been local competition. I mean it's true there's more and more, but we feel that we cater to a different segment of the consumer and our price points are quite different and our strategy is quite different too. So we're not really paying too much attention to that for the moment.

Janis Lai
Thank you. Thank you everyone for submitting your questions and also for management's explanation. I announce the end of the analyst presentation today. Thank you everyone for joining. Have a good evening.

André Hoffmann
Thank you.

Reinold Geiger
Thank you very much, goodbye.

Janis Lai
Goodbye.

Thomas Levilion
Thank you, goodbye.

-End-