FY2022 Interim Results Webcast

Company Participants

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

Other Participants

- Stephanie Lam, Original Asset Management
- Louise Li, Bank of America
- Anne Ling, Jefferies
- Emil Wolter, Comgest
- Yuming Song, China Tonghai Asset Management
- Emily Lee, Nomura
- Jamie Isenwater, Ash Park Capital
- Chris Gao, CLSA

Presentation

Janis Lai

Welcome, everyone. Thank you for joining L'Occitane International's presentation today on the FY2022 Interim Results. With me here today in Hong Kong is our Vice Chairman and CEO Mr André Hoffmann. We're also joined on the line by Group CFO Mr Thomas Levilion. First Thomas will start with walking us through the presentation and André will also go over our strategic review and outlook before we go into Q&A. Today we are having an audience onsite and also online. For those who are joining via the webcast, 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. Without further ado, I will pass it over to Thomas. Thank you.

Thomas Levilion

Thank you, Janis. Hello, everyone. The Group is pleased to announce strong financial results for the six months ended September 2021. The Group's restructuring efforts, our prudence in capital expenditures and targeting investments in key channels and countries all contributed to the outstanding results.

First of all, we reported net sales growing by 12.9% and our like-for-like sales growth was 18.6%. We achieved a record operating profit of €78.9 million or 11.3% of reported net sales exceeding management expectations. The Group also posted record interim net profit of €60.6 million, equivalent to 8.7% of reported net sales and a growth of 262% as compared to December last year. Our net debt reduced by 20% to €556 million.

Finally in August this year, L'Occitane, Inc., so our US subsidiary, completed its Chapter 11 proceedings. Thus the Group's accounting treatment for it was reverted from investment under equity method to consolidation method again. The positive impacts to the operating profit under the two methods amounted to a net gain of €4.5 million or 1.1 points to reported net sales. Excluding this gain, the operating margin was still impressive at 10.3%.

Some reminders about our net sales in the first half and the second quarter. First with the net sales breakdown, sell-out and sell-in accounted for 65% and 35% respectively. This compares to last year, 72% to 28%. So the increase in sell-in channels this year was mainly contributed by the continued success of web partners as well as the rebound in travel retail, wholesale and distribution.

In terms of contribution by brand, L'OCCITANE en Provence posted around 22% growth in H1 this year and now accounts for 77% of the total sales of the Group, and ELEMIS growing by 33% now accounts for 12% of the Group's sales.

Looking at the sales growth by quarter, although the growth rate was lower in Q2 than in Q1 this year, it's worthy to note that Q2 was comping against a relatively higher base same quarter last year than Q1. Compared to pre-pandemic levels in FY2020, so that's two years ago, the net sales growth in Q2 accelerated to 7% as compared to 3.1% in Q1 on a like-for-like basis.

By brand now, L'OCCITANE en Provence recorded 22% growth again in the first half and it was the largest growth contributor. The markets that contributed most to the overall growth were Hong Kong mostly driven by travel retail, China and the other geographic areas.

ELEMIS accelerated its growth from 21% in Q1 to 43% in Q2 which was mainly contributed by the gradual return of the cruise business in the US and of course the strong rebound of the spa business in the UK following the end of lockdown measures. ELEMIS ended H1 with an encouraging 33% growth.

LimeLife, on the contrary, following the removal of lockdowns and recovery of the employment market in the US has seen more difficulties to recruit and retain beauty guides The sales in H1 were down by 29% as comping with a 35% growth in the same period last year. So that actually over two years, the sales of LimeLife are almost stable.

The other brands together posted a growth of 25% in H1 and Erborian was outstanding with close to 50% growth.

After finally, the foreign exchange headwind that we have seen in Q1, the FX impact turned favourable with a positive impact of 1.9 points on overall sales, so narrowing the overall foreign exchange impact in H1 to only -1%.

In France, our sales turned softer during Q2 after a strong rebound in Q1. Even though shopping malls were re-opened in Q2, the retail traffic remained low. That was due to the impact of COVID-19 on tourism. France ended H1 with 8.5% growth.

In the UK, on the contrary, the sales growth was 14% in the first half and it was contributed both by L'OCCITANE en Provence and ELEMIS and both brands were helped by of course the ending of restrictions in late July.

In the US, both L'OCCITANE en Provence and ELEMIS did very well in Q2 following the end of the restrictive measures. L'OCCITANE en Provence despite trading with 45 stores fewer than in the same quarter two years ago, L'OCCITANE en Provence grew more than 25% in Q2 this year and sales were almost back to the level of two years ago. LimeLife, on the other hand, faced difficulties in recruitment and retention of beauty guides following the end of lockdowns and the strong recovery in the employment market.

Brazil grew more than 80% in the first half, a very strong growth that was contributed from most L'OCCITANE en Provence and L'OCCITANE au Bresil.

Finally, Russia performed well and ended the first half with 45% growth which was mainly contributed by Erborian and ELEMIS.

In Japan, sales were affected by the state of emergency orders and the Tokyo Olympics during Q2. Japan ended H1 with a growth of 8%.

Hong Kong rebounded strongly with growth of around 64% in H1. The strong rebound, as said before, was mainly driven by travel retail sales in the region. Distribution sales to other Asian countries also rebounded strongly. Besides, the local retail market gradually improved despite trading with six stores less.

In China, sales momentum remained strong in the second quarter despite sporadic COVID outbreaks and flooding in certain provinces and comping against a high base last year. Sales grew 19% in Q2 thanks to the successful launch of Osmanthus and the dynamic marketplace and web partner business. China ended H1, as you can see, with 23% growth.

Taiwan, on the contrary, faced a new wave of COVID cases in Q2 so the corresponding restrictive measures hampered retail traffic and the sales in H1 decreased by 8%, comping however, with a very strong performance last year.

Finally, the other geographic areas together posted a growth of 23% in H1 that was mainly coming from the strong rebound of distribution sales in Europe and also the impressive growth in Korea, as well as the gradual recovery of travel retail sales in Europe and the Americas.

Now we move to the profitability analysis. So again, a very strong improvement in the operating profit margin by 6.1 points which was composed of a decrease in gross profit margin by 2.4 points, a very strong improvement of the distribution expenses by almost 9 points and also the general and administrative expenses that contributed. At the same time, we invested in marketing as we are going to see in more details in the following slides.

So first with the gross profit margin which again decreased by 2.4% to 9.7% for H1. But that was mainly due to one factor which was the deconsolidation of the US subsidiary in the first five months of the period. So it's a one-off effect of course and it will not continue in the second half.

Then we had an unfavourable channel mix for 0.7 points that was due to higher proportion of wholesale with lower gross margin but also lower operating expenses. Then we had an increase in freight and duties for 0.4 points and notably the effect of the inventory obsolescence and some accelerated depreciation of production equipment for 0.4 points. Others for 0.2 points and this was partly offset by lower production costs for 0.5 points.

Now the distribution expenses. As said before, we've seen a very significant reduction by 9 points to 41.4% of net sales and the strong improvement was mainly contributed obviously by the higher leverage, sales leverage which represented 8 points. In addition, we have here a positive effect of the deconsolidation of the US and a positive effect also of what we call efficiency here which is notably the fact that last year we have closed some non-profitable stores in the same period last year and that contributed for 0.7 points, with others slightly in the positive for 0.6.

And finally, this was alleviated partly by the fact that last year we had significant support from the government and also a little bit from the landlords with the one-off furlough, one-off rental subsidies from the government, from the landlords which of course we did not have or do not have at the same level this year and this accounted for 2 points.

Then the marketing expenses. The marketing expenses increased by 1.6 points to 16% of net sales and this was mainly attributable to investments first at ELEMIS for 1.4 points. The Group stepped up marketing investments in ELEMIS to strengthen market share in existing markets and to develop new markets in Asia as well. We have also targeted the more higher growth and more profitable web channels of ELEMIS. Besides ELEMIS, we have also higher investment in L'OCCITANE en Provence for 1.3 points and this was essentially focused on China's marketplace channel and also special events.

Then we had an unfavourable brand mix which accounted for 0.6 points as both L'OCCITANE en Provence and ELEMIS, which have higher marketing ratios, increased in our brand mix. This was essentially offset or partly offset by a higher sales leverage for 1.5 points and some other effects.

Then general and administration expenses which decreased by 0.9 points. Here again we have a significant impact of the sales leverage for 1.8 points and here again a positive effect of the deconsolidation of L'Occitane, Inc. in the US for 0.3. On the negative side, we had obviously the fact that with stronger results and the fact that last year we cut the bonuses during the COVID – the peak of the COVID crisis. So we have on the contrary this year an effect of the higher impact of the long-term incentives and bonuses that represents 0.7 points. Lastly, again as in distribution, we have the effect of the one-off furlough and some subsidies received from the governments last year and this accounted for 0.6 points.

So all in all, the operating profit margin increased again by a very strong 6.1 points to 11.3% of net sales with firstly the massive effect of the leverage of higher sales on the fixed costs and also our channel distribution costs notably in retail which represented all in all 11.5 points. Then we had the one-off net gains from the deconsolidation reconciliation of L'Occitane, Inc. for 1.1 points and the different efficiencies that I mentioned before and notably with the store closing last year for 0.8 points.

At the same time, we did not have or not at the same level the subsidies and the rent relief that we had last year that represented 3 points, 3.2 and the marketing investments at ELEMIS and in China for L'Occitane which accounted for 3 points. Finally, some slightly negative channel mix with the rebound of retail and wholesale channels and a little bit of a brand mix effect due to the higher share of L'OCCITANE en Provence in our overall sales. All this represented 1.1 points.

Now we look at the operating profit by brand. L'OCCITANE en Provence first. L'OCCITANE en Provence contributed most to the overall operating profit of the Group with significant improvement in its operational efficiency. The operating margin improved significantly by 8.3 points to 12.6%. The improvement is attributable to higher leverage, deconsolidation of L'Occitane, Inc. and lower depreciation and lower distribution expenses.

ELEMIS's operating profit decreased from the exceptional 30.5% to 17.3% in this last year. The exceptional OP margin last year was actually due to drastic cost cutting measures and the almost complete collapse of the spa wholesale and cruise ships channels which have lower operating margin. This year we have increased marketing investments and distribution costs for new market developments and also enhancing our position in existing markets but we remain confident to reach the full year target for ELEMIS.

LimeLife turned to loss as sales were sluggish. It faced difficulties again in recruiting and maintaining beauty guides in the context of the rebound of the employment market in the US. The other brands together ended the period with an operating loss of €0.9 million. The emerging brand Erborian continued to perform well and further improved its operating margin to the mid-20s % which is the highest among the Group's brands. Melvita and L'OCCITANE au Bresil were in a loss position, but both narrowed their losses.

Just a few words on working capital and capital expenditure. So working capital ratio the cash cycle reduced by seven days to 51 days of net sales and that's a result of lower inventory and payable turnovers being partly offset by higher trade receivable turnover.

In terms of capital expenditure, we have increased our capital expenditure from €10.8 million to €15 million. So that's a slight increase if we compare it to a more normal year. Most of the increase actually was dedicated to starting again the renovation of our stores which was almost non-existent last year. So I guess this concludes the financial section of the presentation and I would now like to pass it onto André to go over the strategic review. Thank you.

André Hoffmann

Thank you, Thomas. As Thomas mentioned, we are very proud to deliver a strong set of results in the first half of fiscal year 2022 with record levels of operating and net profit. The results were achieved by balanced improvements in most of our key markets. In terms of channel strategy we have long invested in an omni-channel presence to reach customers across all touch points, online and offline. This proved to be particularly relevant during COVID-19 when traffic was diverted online. Now after almost two years of living with the pandemic, some behavioural shifts seem to have become permanent. As even as offline channels re-open, our online channels continue to be robust and take up about a third of total sales, roughly 10 points higher than pre-pandemic levels.

During the period, our core brand L'OCCITANE en Provence was the largest growth contributor. They had improved results globally with balanced contributions from Asia, North America and Europe. Asia especially continued to be strong as we increased investments in this highly profitable yet competitive market.

We had great success with the new Osmanthus fragrance launch in China. By leveraging celebrities and influential KOLs in our campaign, we were able to drive social media buzz and recruit new customers and the range contributed about 10% of the brand's total sales in China during the launch period. During this year's Double 11 campaign in China, we achieved growth significantly higher than the overall market on both Tmall and JD platforms and retained our number 1 position in body care and hand care.

ELEMIS accelerated sales growth in the first half of fiscal year 2022 and played an important role in the Group's evolution from a monoband company into a multi-brand group. We've expanded our presence in Asia and other markets, opening up ELEMIS-branded retail stores in China, Southeast Asia, Middle East and parts of Europe. In the second half of this year, we also launched ELEMIS in Japan, Taiwan and Korea. While entering several new markets was dilutive on ELEMIS' operating profit in the first half of the year, we are very confident to reach our full year target of above 20% operating margin.

On the M&A front we have recently announced the acquisition of a majority stake in Sol de Janeiro, an innovative leader in the premium body care market with a strong position in North America and showing good traction in other newly entered markets. We have ambitious plans for Sol de Janeiro and are excited to have another strong brand in our portfolio, helping our transition into a multi-brand geographically balanced Group.

We are also making significant strides in our sustainability strategy anchored by our three priorities of contributing to a carbon net-zero, nature-positive and fair and inclusive world. This year we took two important steps – one was to add sustainability progress as a metric to evaluate and to incentivise employees globally and second was to establish a sustainability committee at the Board level. These steps will allow us to move forward on our sustainability journey in a unified and more structured way and ultimately achieve an ever greater impact.

During the first half of the year we also completed our exit from Chapter 11 in the US and our leadership evolution with myself becoming the CEO. Finally, the outstanding results achieved was a collective effort and attests to the fact that the management is highly focused to deliver continued improvements to the bottom line.

Looking forward, even as consumers around the world rediscover the joy of in-store shopping especially in the lead up to the holiday season, we expect omni-channel sales to remain robust. This is a key quarter for us and we are firing on all cylinders to ensure we deliver a strong holiday season. The good results during Double 11 and Black Friday are an indication that we are trending well and off to a great start.

In the past couple of years, we've accelerated our M&A activity. This was made possible by the strong cash flow of our L'Occitane core brand, as well as ELEMIS. With the new addition of Sol de Janeiro we have a solid foothold in all major regions in the world. We continue to stay open to M&A opportunities that are suitable to the Group, specifically brands that have a unique story to tell, high-quality products, a committed and entrepreneurial management team and companies that will generate results accretive to the Group's operating results.

Although the impacts from COVID may linger, we remain confident that our resilience backed by the strength of our brands, targeted investments and focused management will drive our further growth and profitability. Thank you for your attention. I suggest we now start the Q&A.

Janis Lai

Thank you, André, and thank you, Thomas, for the presentation. We will now start the Q&A session. We'll first take questions from the live audience here in Hong Kong before moving on to the online questions. For those who are joining online, just a reminder to - there's a button on the bottom right-hand page, saying ask a question. So please feel free to submit your questions and then we will read out your questions here. So first from the live audience.

Stephanie Lam

This is Stephanie from Original Asset Management. My first question is regarding, can management share about the recent sales update by brands or even by markets?

The second is regarding on the resurgence of the new COVID variant. Are we getting more - I mean better prepared this time? Any concrete measures are we going to take regarding the new resurgence of the COVID? Yes, that's all my questions, thank you.

André Hoffmann

Thomas, would you like to give an update on the recent performance?

Thomas Levilion

Yes, André, sorry. Hello, Stephanie. So, we are pretty happy with the recent performance, I would say that October was above our expectations. So a bit better notably in North

America, in the Americas in general. Also APAC, also some other countries as well. So that was for L'OCCITANE en Provence, there was also a good result for, notably, ELEMIS in October. LimeLife was still suffering for the same reasons as we mentioned before.

As far as we know, November is off to a very good result. I think we mentioned before, or we did not mention that Double 11 in China was very strong. I think Janis will remind us maybe of the result but I think that all in all we had a 45% growth on Tmall during Double 11 and even more on JD.

In the US, with Black Friday, we had very, very strong results, both for L'Occitane and ELEMIS and L'Occitane was 42% up versus last year and 8% up versus two years ago even though we are trading as you know with fewer stores. So this is quite positive. We hear that our Christmas offer in the different countries for L'OCCITANE en Provence is doing well. So it's a bit too early for the other countries to talk about Christmas. But we are confident that we will see solid numbers again for the whole of November and hopefully for December. So I will let you maybe answer on the COVID variant, André.

André Hoffmann

Yes, well obviously, I mean like everybody we're concerned. We don't have the full picture of what it really means. When you ask, are we better prepared than last time? I think we took a lot of measures. We were very reactive and in a sense proactive in terms of ensuring the safety of our staff. But government-imposed lockdowns can happen. The good thing is we've shown with the results of last year and the first half of this year is we have a very strong online presence. If we have to drive traffic online, we'll do so. But apart from that, there's not much we can do.

Janis Lai

Thank you management, do we have a second question from the live audience? If not, we can move onto some online questions first.

Operator (on behalf of Louise Li)

Some of these questions have already been asked so I'll skip ahead. Louise Li from Bank of America is asking if you have any guidance change for the OPM for the full year, the operating margin?

André Hoffmann

We do but I'll let you answer that.

Thomas Levilion

Yes, hello, Louise. Obviously, we are seeing good results as I said at the beginning. We are exceeding a little bit our expectations so we believe that we will do a bit better than our previous guidance. In terms of net sales, we said before that we are targeting low teens growth. Now I think we are doing a bit better than that, let's say low to mid-teens.

In terms of operating margin, we targeted 14% plus. I think we can talk now about 15% plus. Just two precisions on that is that in this guidance we include Sol de Janeiro for three months and the acquisition costs of Sol de Janeiro. So that we are adding a little bit of sales let's say €20 million to €25 million. But in terms of profit it's going to be marginal because the profit of the three months will be eaten up by the acquisition cost. So that's what we hope now that we will be able to deliver.

Janis Lai

Thank you Thomas. Do we have a next question?

Operator (on behalf of Anne Ling)
Hello. The next question from Anne Ling, it's an accounting question. I'd like to know what the D&A would be if you exclude depreciation from lease liabilities?

Thomas Levilion
Let me check. I am not sure if I have the numbers here. I am sorry. Can we take another question while I'm looking at the exact number?

André Hoffmann
Anne, we'll come back to you on that one.

Operator (on behalf of Emil Wolter)
Certainly. Actually there was a follow-up question I just saw for the OPM. Emil Wolter of Comgest asks just to clarify the OPM, looking at the negative impact of 3 points from COVID subsidies, can we simply add this back if the current sales momentum stays? And further, can you clarify what your OPM levels are for Sol de Janeiro is? Thank you.

Thomas Levilion
Okay, the sound is not very good. So, the question was about the impact of the COVID subsidies?

Janis Lai
That's right, Thomas.

Thomas Levilion
Okay, yes. So, I mean we had of course more COVID subsidies last year in the first half than in the second half. So, the second half of course if there is no further re-lockdowns and things like this, you should see also a decrease of the subsidies corresponding more or less to what we had last year. So it's not just adding back the same amount, the 3 points, it's a bit more complicated than that. So, I think that the math can be done quite easily with what we had last year in the second half.

Operator (on behalf of Emil Wolter)
There was also a question about what your OPM expectations are for the new acquisition.

André Hoffmann
Yes, well, Sol de Janeiro has operating margins in the low to mid 20s.

Operator (on behalf of Yuming Song)
Moving on then. Yuming Song of China Tonghai has two questions for us. Firstly, he'd like you to elaborate more about your channel mix and would like some examples and what cases would the channel mix be beneficial and when would it have a negative impact? His second question is how will the firm's sustainability measures impact your profit?

André Hoffmann
Thomas.

Thomas Levilion
Sorry I didn't get the second question. I think you have a problem with your mic. So the first question was the channel mix and the impact of the channel mix, okay. So on the operating margin our most profitable channels are number 1 the web channels and number

2 I think it should be travel retail, probably. So the improvement in travel retail and the fact that we've maintained a very high level of web sales in our total sales is obviously the number one driver of the very strong improvement of the profitability as compared to last year.

Also as compared to the previous year because we - if you just take L'OCCITANE en Provence we had 13% of our sales on the web two years ago and now it's 27%. So slightly down from last year but still much higher. So I think this is very simply the reason why we have a much better profitability than last year and two years ago. So I think that as André mentioned if it's - and we believe it is a behavioural change, so we should certainly continue to see the benefits on our bottom line of this channel mix effect.

André Hoffmann
Thomas, the second question was what was the impact of our sustainability efforts on our profitability?

Thomas Levilion
At this stage, I would say that it's pretty limited. We are doing a lot of efforts, I mean we've been doing a lot of efforts since a long time in R&D for instance, to deliver the cleanest possible formulas. So this is embedded into our existing cost. I think that moving ahead, going forward we'll probably see some more cost notably next year but it's too early to say. We are not talking about tens of millions. But we will be more specific on that when we have discussed our budget.

One of the investments I did not go into too many details in the capital expenditures but we have a slight increase of the capital expenditures also on the production side and that - to give you an example, at our factory in Lagorce, in Ardèche, in the number two factory, we are investing in solar panels, solar cells over the parking lot, for instance, and taking different - making different investments in order to achieve our target of becoming carbon net zero by 2025 actually for our factories. That investment is an investment for €2 million. That's the CAPEX.

André Hoffmann
I would just like to add on that that although there is a cost we believe that it is a cost well justified. All of our stakeholders, our employees, our investors, our customers, they all expect this from L'Occitane so we want to be ahead of the curve on all ESG matters. We've talked earlier about B Corp certification. We're well on the road to it. The company is fully, fully, fully committed and engaged with this. So we don't really look at the sustainability efforts as a cost. We look at it as a return on our investment and we hope our investors also look at it that way.

Janis Lai
Thank you, management, we can move onto the next question please.

Operator (on behalf of Emily Lee)
Thank you. The next question is from Emily Lee at Nomura. ELEMIS' first half OPM was 17.3% which was slightly below their expectations. So how should they be looking at it in the second half and in the longer run?

André Hoffmann
Number one was as I've said in my presentation as Thomas mentioned, we've opened up a lot of new markets. It was a little bit unlucky in some new markets where we launched with new stores. We immediately went into lockdown. We had the management teams and we

had the OpEx from these stores, without being able to make sales. However, that situation has been relieved and we just simply - when you open new markets, you're investing for the future. So the future growth of ELEMIS, two, three, four, five years down the road we're investing for now.

The good news is our growth has greatly accelerated in Q2 over Q1. Q3 looks like it's going to be a spectacular quarter for us and we maintain our operating margin targets of north of 20. So, 20 to mid-20s. So we're very confident we'll be able to deliver that. We always did say that it would be slightly down in this year compared to last year because last year there were many exceptional circumstances. But believe me, we're also very, very happy with the performance of the ELEMIS team.

Janis Lai
Thank you, next question please.

Operator (on behalf of Jamie Isenwater)
The next question is from Jamie Isenwater at Ash Park Capital. This is a question about MyGlamm. So after the latest fundraising, what is your percentage ownership of MyGlamm, what is the stake now worth? Why has it been reclassified as an investment to an associate? Thank you.

André Hoffmann
Thomas, would you like to handle that?

Thomas Levilion
Sure. Hello, Jamie, thank you for the question. So the reason why we have re-classified or changed accounting methods for MyGlamm is the fact that as we are - obviously since the beginning invested or involved in this activity notably with André. André has a seat at the Board of MyGlamm. So it's something that for the time being or before that, I mean, was not material given the small size of MyGlamm before. So we just accounted for it as a financial investment.

But now given the size that MyGlamm is taking and we have to - so we are above the materiality level. So we have to reclassify it as - under the equity method. So for the time being, we count our share of the loss because MyGlamm is investing a lot notably in marketing but growing very fast at the same. So we don't reflect the value of our participation. It's something that may come at a later stage or even if we sell one day, but the value of our participation, depending on the different elements with the new rounds for instance, can be largely above €200 million or dollar, depending on the exchange rates. So we have to discuss and make sure of how we want to handle this in the future. So I would say there is more to come about MyGlamm probably in the next few months.

André Hoffmann
Thank you, Thomas. Jamie, just to be a little bit clearer, so at their last raise, they had a valuation of US$1.25 billion. L'Occitane with its existing stake and some warrants, we have roughly 20% of what's now known as the Good Glamm Group. The name has been changed because they've acquired several new brands.

Janis Lai
Thank you.

Operator (on behalf of Anne Ling)

The next question is from Anne Ling. I'm paraphrasing this one a little bit. But basically your midterm sales guidance at the moment is €2.2 billion in sales and mid-teen OPM. Are you updating your midterm guidance following the recent acquisition? Are you also updating your midterm guidance for each of the brands both in terms of revenue and OPM?

Thomas Levilion

Hello, Anne. So, we will certainly update our guidance midterm with the new acquisition with Sol de Janeiro and also with the different trends of the brands. But this is more something that we do in February and March so we are able to talk about that most probably when we will present our full year results in June. For the moment, it's a bit too early.

Then I don't forget your earlier question about the D&A for the right-of-use assets and the exact number is €48 million in this half year which compares to €62 million last year.

Janis Lai

Thank you, Thomas. We will take two more online questions.

Operator (on behalf of Chris Gao)

The first is from Chris Gao at CLSA. She asks what are the drivers behind ELEMIS' second half EBIT margin improvement? Thank you.

Thomas Levilion

Okay. Well, hello, Chris. I think it's very straightforward. The sales as for L'Occitane, by the way, the sales of ELEMIS are seasonal and then then they are on a very fast growth trend and momentum, as was mentioned by André before. So very simply the improvement in the profitability in the second half will come from higher sales in proportion to fixed costs. So that's the number one driver and we expect also that very good results of typically what's going on now with Double 11 which is notably - sorry not Double 11 but Black Friday - which is notably online will also contribute to higher profitability.

Janis Lai

Thank you. We'll take our final question from the online audience.

Operator (on behalf of Emily Lee)

Yes, and it's a follow-up question from Emily Lee. She says marketing expense grew at a faster pace than sales in the first half and with the new acquisition, should we expect this to further grow and could it hurt our OPM in the longer run?

Thomas Levilion

Well, simply no, Emily, as André said we expect the profitability of Sol de Janeiro to be in the 20% to 25% range, let's say 20%, 22% for the first few years. So it's going to be better than L'OCCITANE en Provence, all in all, so we don't expect Sol de Janeiro to hurt our operating margin. On the contrary, we expect it to be accretive on our results. That's what André said in his presentation is that when we look at other M&As, we are looking at M&As that could be accretive to our results. That's the case that we expect for Sol de Janeiro.

Janis Lai

Thank you, Thomas. Before we end the presentation, I'll just make a quick check. Are there any last questions from the live audience? If there aren't any, I would like to announce the end of our analyst presentation today. Thank you all for joining here and also online. Have a good evening.

André Hoffmann
Thank you, everybody.

Thomas Levilion
Thank you very much.

Janis Lai
Thank you.

-End-