FY2022 Annual Results Webcast

Company Participants

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

Other Participants

• Chris Gao, CLSA
• Jamie Isenwater, Ash Park Capital
• Anne Ling, Jefferies
• Sunny Chow, Macquarie
• Ken Siazon, Southeastern Asset Management

Presentation

Janis Lai

Welcome, everyone. Thank you for joining L'Occitane International's presentation today on the FY2022 annual results. With me here today in Hong Kong today is our Vice Chairman and CEO, Mr. Andre Hoffmann. We are also joined on the line by Chairman, Mr. Reinold Geiger and Group CFO, Mr. Thomas Levilion. First, Thomas will start with walking us through the financial highlights and Andre will then go over our strategic review and outlook before we go into Q&A.

Today we are taking questions both onsite and online. For those who are joining online, there is an 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. Thank you.

Thomas Levilion

Thank you, Janis. Hello, everyone, and welcome again to this presentation. So we're starting with the highlights and I would like to say that despite continued turbulence in the global macroeconomic environment, the Group continued to invest in a disciplined and targeted manner to achieve outstanding results in FY2022. Our reported net sales this year were €1.8 billion and grew 16% over last year. The reported operating margin reached a record 17.4%, which is our highest level since listing and exceeding the management's expectations. It represents an expansion of 3.3 points as compared to last year.

The Group reports a second consecutive year of record-high net profits, with net profit reaching €242 million and it is 58% growth as compared to FY2021. So due to the exceptional results this year and confidence in the Group's future prospects, the Board is pleased to propose an increase in dividend payout ratio from 35% to 40%. And as a result, the dividend per share should increase by approximately 79% from last year.

Let's start reviewing the sales growth details of the year. First, sell-out and sell-in accounted for around 67% and 33% respectively of total net sales and last year the ratio was 72% to 28%. So the increase in sell-in ratio of 5 percentage points is mainly attributable to higher growth in wholesale channels of L'OCCITANE en Provence and ELEMIS, together with the first inclusion of Sol de Janeiro, which is mostly a sell-in business.

In terms of contribution by brand, L'OCCITANE en Provence posted 15% growth at reported rates this year and accounted for around 77% of the total sales of the Group while ELEMIS grew 42% at reported rates and accounted for more than 12% of the Group's sales. And by geography, China remains the Group's largest market at 18%, followed by the US at 16% and Japan at 11%.

By brand, L'OCCITANE en Provence's momentum rebounded strongly in Europe and the Americas, following the removal of restrictive measures related to COVID-19. Retail business contributed most to overall growth as stores reopened and footfall normalised. Yet online channels continued to grow in FY2022, despite comparing with an exceptional FY2021. And by country or by region, China, Hong Kong, the US and other geographic areas were the key contributors to the brand's overall growth in FY2022.

ELEMIS posted an exceptional growth of 37% at constant rates with the spa and cruise ship businesses rebounding strongly as restrictions loosened obviously. Online channels continued to grow, thanks to the successful omnichannel business model and strengthened collaborations with digital partners.

LimeLife, on the contrary, posted a sales decline of 31% at constant rates, after a very successful FY2021. In addition to the high base last year, the brand faced difficulties in recruiting and retaining beauty guides as the US economy returned to normal and employment conditions improved.

The Group began to consolidate Sol de Janeiro in its results in January 2022 and it contributed therefore €26.1 million, or 11.0% to the overall growth of the Group in FY2022. And the other brands together posted a growth of 19% in the year. Erborian was outstanding with close to 43% growth and L'OCCITANE au Brésil rebounded strongly and posted 60% growth. Melvita was impacted, however, by COVID in its key markets, France and Japan. And finally, FX, so the exchange rate impact was favourable and contributed 2.1 percentage points to overall growth.

By geography, starting with Europe and Americas, I guess, France saw a sales growth of 11% this year, which was a rebound from low base in FY2021 which was impacted by the COVID-19 measures. In the UK the sales grew 21%. The business environment normalised after the removal of all restrictive measures. And ELEMIS was particularly dynamic, with a strong contribution from online channels and spa and wholesale customers.

The US posted a growth of 13% with a strong contribution from ELEMIS, L'OCCITANE en Provence and the initial inclusion of Sol de Janeiro. Brazil grew 37% this year at constant rates, with both L'OCCITANE au Brésil and L'OCCITANE en Provence contributing to this encouraging growth. When compared to two years ago, sales in local currency in FY2022 grew by around 15%, with contribution from all channels. Russia saw 25% growth this year, with contribution from all brands. Since the Ukraine-Russia conflict broke out, we suspended investments and expansion plans and subsequently, we exited the market.

In Asia, Japan was flat for the year, as sales were hampered by sporadic outbreaks of COVID-19 and regional lockdowns. Hong Kong saw 24% growth for the year that was mainly contributed by the strong rebound of travel retail business in the region. In China, overall sales momentum remained robust throughout the year, until lockdowns and restrictive measures were implemented in major cities in March 2022. Sales grew 17% over last year, with strong contribution from online channels and both L'OCCITANE en Provence and ELEMIS performed nicely. Taiwan ended the year with 3% growth, which was considered good as compared to the strong growth of 16% last year and the fact that Taiwan has faced sporadic semi-lockdowns in the second half of the year.

And other geographic areas together posted a growth of 16%, with countries having strong positive contribution like Korea, Mexico, Spain and Canada. Travel retail and distribution sales in Europe and the Americas also rebounded strongly.

Now we move on to profitability analysis. To begin with, gross margin remained high at 82.2% this year, a decrease of 0.8 points as compared to last year. Despite lower overall gross margin, which was notably due to brand mix, the Group managed to achieve a record reported operating profit margin of 17.4%, which is the highest OP margin since listing. The exceptional result was achieved through tighter control of distribution expenses and operational leverage, while sensibly resuming marketing investments in profitable and promising brands and markets. The result also benefited from certain one-off items and we'll go into more details in the following slides.

First, for a more representative view of the operational performance, we have also provided a management version of our OP. This excludes exceptional and one-off events and is thus more comparable to the management operating profit for FY2021. As you can see, the management operating profit for FY2022 would then be €307.8 million or 17% of net sales, still a fantastic result. This management version excludes the following exceptional items.

First, the net effects of deconsolidation and reconsolidation of L'Occitane, Inc. for €3.3 million; the net gain in change in valuation and the share of loss of Good Glamm Group for plus €15.1 million and an impairment for the Champs-Élysées store in Paris for €15.5 million.

Similar adjustments were done, of course, to the results of FY2021, so we took out the gain of the deconsolidation of L'Occitane, Inc. for €8.6 million, the restructuring expenses for €16.9 million and the share of loss of Good Glamm Group for €3.4 million. So all in all, the management operating margin improved from 14.7% in FY2021 to 17% in FY2022 and that's an improvement of 2.3 percentage points.

Now we'll go into each reported expense line. The decrease of 0.8 points in gross margin is mainly explained by the following factors. First, a drop of 0.6 points as a result of the deconsolidation of the US subsidiary from April to August 2021. Second, due to a change in brand mix, in particular, from the inclusion of Sol de Janeiro, which is a wholesale business with a lower gross margin than the Group's, had reduced the gross margin by 0.5 points. And finally, the soaring freight rates and inventory rebuild which also impacted our gross margin by 0.4 points.

And the deterioration is partly offset by higher production efficiency as production volume increased which led to better fixed costs absorption for 0.6 points and then we had price increases which impacted for plus 0.1 point.

The distribution expenses saw a significant reduction of 4.1 points to 39.2% of net sales. This strong improvement is attributable to a combination of higher sales leverage, in particular from retail and brick-and-mortar channels for 5.3 points, favourable brand and channel mix which also helped improve by 0.9 points. And this is mainly due to lower share of LimeLife in overall sales, as LimeLife has a higher ratio of distribution expenses. Then we had a more efficient retail network as a result of the network rationalisation for 0.6 points and positive impact from US deconsolidation, reconciliation for 0.4 points.

And the improvement is partly offset by exceptional COVID-19 subsidies from government and also rent concessions that we received last year, which we have only partly this year. Then we have the one-off impairment on the Champs-Élysées store for 0.9 points and also higher warehousing costs and others for 0.1 point.

Marketing expenses, so during the year the Group stepped up marketing investments in a sensible manner in promising brands and markets and increased overall marketing investments by 1.9 points to 15.8% of net sales. And the increase is attributable to the following factors. First, we put strategic investments in the Osmanthus fragrance line and hair care category in China through live streaming, social media, celebrity campaigns and video production for 0.9 points. Second, we reinvested in L'OCCITANE en Provence, other than China, and there was an acceleration plan of Erborian all together for 0.5 points.

Then we had an unfavourable brand mix for 0.5 points, which was mainly driven by the growth of ELEMIS, which has a higher marketing ratio. But ELEMIS also reinvested in existing markets after some drastic cuts during COVID-19 last year and also invested in new markets in Asia for 0.4 points. Then we had a few effects like exchange rates, increase in staff and COVID-19 subsidies last year for 0.2 points and the initial inclusion of Sol de Janeiro, which has higher marketing expenses percentage, for another 0.2 points and the increase was partly offset by higher sales leverage for 0.8 points.

General and admin, the percentage increased slightly by 0.1 point and this was due, first of all, to the fact that last year we had COVID-19 grants, furloughs from governments which lowered the base for comparison for 0.4 points. In addition, due to the strong financial achievements this year, there was an increase in long-term incentive and bonus provisions for 0.3 points. There were 0.2 points coming from higher investment in IT, some FX impact and other factors. And we also had some one-off items, mostly related to the acquisition of Sol de Janeiro for 0.2 points, and some one-off reorganisation projects for another 0.2 points. We were able to offset most of the increase with higher sales leverage for 1.2 points.

So in a nutshell, the reported operating profit increased significantly by 43% to €311 million and the reported operating profit margin improved by 3.3 points to 17.4% of net sales, which is a record operating profit margin since listing and the outstanding result is explained by the following factors.

First, leverage of higher sales in brick-and-mortar channels on fixed costs for 7.4 points which was, however, partly offset by the reduction in COVID-related subsidies and rent concessions with a net effect of the two by plus 4.9 points. Note that we still benefited from some COVID-related support in FY2022. Second, there was an exceptional gain of 1.1 points, from an increase in valuation of the investment in Good Glamm Group. And third, the restructuring costs and effects of Chapter 11 last year and this year which accounted for 0.6 points.

And this improvement was partly offset by the following items. First, the strategic increase in marketing investments at ELEMIS and L'Occitane, Erborian as well and for L'Occitane, primarily in China, for 1.7 points. Then we had the one-off impairment of the Champs-Élysées store, higher incentives as a result of record profit for 0.3 points and higher warehousing and freight costs and also some rounding and other factors for 0.4 points.

If we look at the operating profit by brand, the improvement in overall OP margin was mainly contributed by L'OCCITANE en Provence. L'OCCITANE en Provence further improved its operating margin by 4.4 points to an exceptional 19.8%. The improvement was due to the brick-and-mortar sales recovery, the continued high level of web sales and our restructuring efforts notably last year. It was due also to the non-recurring elements that we mentioned earlier, so that from a management perspective the profitability was approximately 19%.

ELEMIS's operating profit margin decreased by 2.9 points to 22.8% this year, which reflects the retail marketplace and marketing investment in APAC. LimeLife turned to loss this year, mainly due to operational deleveraging in relation to the difficulties in recruiting beauty guides. Sol de Janeiro reported an OP of 1.7% for the three months ended 31 March 2022, which was mainly distorted by the one-off acquisition costs of close to €3 million. The other brands together ended the year with an operating loss of around €1 million, which is a significant improvement from a loss of around €7 million last year. And the improvement was mainly contributed by Erborian which further improved its profitability.

In terms of working capital, the cash cycle increased slightly by 1 day to 44 days of net sales due to the 2 days increase in receivables turnover days, which was a consequence of the higher share of sell-in in our overall sales. The inventory value at March 2022 increased by 32% to €263 million and the increase was mostly due to strong growth of L'OCCITANE en Provence, the first inclusion of Sol de Janeiro and the rapid expansion of ELEMIS.

The average inventory turnover days of cost of sales, however, decreased by 17 days in FY2022, reflecting a lower coverage of future sales as a consequence of higher sales anticipations and also some tensions in the supply chain. And the decrease was partly offset by Sol de Janeiro's initial inclusion for 7 days and unfavourable FX impact for another 7 days.

As regards to cash flow, the Group remains strong in generating free cash flow. Free cash flow was €288 million this year as compared to €400 million last year. But last year was exceptionally good in the COVID context and there were significant cuts in CapEx and inventory, as well as payment delays in taxes and other contributions. The decrease this year is explained by higher working capital that was required for business expansion and resumption of store renovation CapEx, partly offset by the record net profit. And net cash at the end of the year dropped by €60 million, that was due to the €300 million investment in Sol de Janeiro.

Our capital expenditures amounted to €38 million this year, that's around €10 million more than last year, with the increase being largely attributable to the resumption of store renovations and a few openings. On the production side, we also had an increase which was explained by investment in solar electricity production in one of our factories and productivity equipment.

In terms of the balance sheet ratios, the return on capital employed was 12.8% for FY2022, that's an increase of 2.7 points as compared to FY2021, being a net result of 51% increase in net operating profit after tax together with an increase of 18.5% in capital employed as we discussed before and also due to inclusion of Sol de Janeiro. The Group's gearing ratio increased from 32.8% in FY2021 to 34% in FY2022 and excluding IFRS 16, that would be 27.2%.

So this concludes my section of the presentation. As the Group has announced a couple of months ago, I am going to retire by the end of the month, which makes this my last results presentation as CFO. I am really truly grateful to end my career with L'Occitane on a high note and also very grateful for Reinold's, Andre's and the rest of the management team's support throughout the years and I look forward to continue working with the team in a slightly different capacity as a Non-Executive Director of the Board. Thank you also to the investors and analysts for your support and trust over the years and now with that, I pass it on to André for the strategic review. Thank you.

André Hoffmann

Well, thank you, Thomas. As Thomas mentioned, we delivered a set of exceptional results in FY2022, with mid-teens sales growth and record-breaking profit margins. Especially encouraging was that our core brand L'OCCITANE en Provence achieved a broad-based improvement in results. It showed a balanced contribution from all geographical regions and growth in all product categories.

In adherence with our targeted marketing strategy, close to half of our annual media and marketing budget was geared towards major campaigns and projects considered most strategic for the Group. Although marketing spend as a percentage of sales increased, it was highly effective. We were able to drive better operating sales leverage and together, with the gains from restructuring efforts and a favourable channel mix, the core brand reached an outstanding operating margin of almost 20%.

At the same time, our omni-channel strategy proved to be successful, as we were able to continue growing online sales despite the strong rebound of offline sales. As a result, our online channels continue to represent about a third of our total sales. We expect the online mix to remain at the current high level, as our digitally-centric or digitally-native brands, such as ELEMIS, Sol de Janeiro and Grown Alchemist continue to grow.

Our second-largest brand, ELEMIS, delivered strong profitable growth as we planned. Thanks to a measured digital-first global expansion strategy, it achieved a stellar operating margin of 23% despite rapid market rollouts. We are also gearing up for its next phase of development in China, as we expand into new digital channels.

On the M&A front, we added two new brands into our portfolio this year, Sol de Janeiro and Grown Alchemist. Both brands are complementary to our strategy and have a strong appeal to millennial and Gen-Z customers. We are very excited to develop these two promising brands, furthering our transition into a multi-brand, geographically balanced Group.

Our sustainability strategy continues to inform our business decisions, anchored by our three priorities of contributing to a carbon net-zero, nature-positive and fair and inclusive world. Sustainability is now embedded in our management's annual incentive system, to ensure we progress in a unified and purposeful manner. Our efforts are also gaining recognition, our eco- pop-up store in Seoul, South Korea last year won two international awards for its environmentally conscious design, winning over thousands of other entrants from around the world.

The record results in FY2022 were truly a collective effort and attests to the fact that the management is very focused to deliver sustainable and profitable growth. Although market turbulences remain, as we have seen in the first few months of FY2023, we are confident of our future prospects. Hence, I am glad to announce the Board finds it an opportune occasion to increase our dividend payout, to reward our longstanding shareholders.

Looking ahead, even as consumers around the world rediscover the joy of in-store shopping, we expect omni-channel sales to remain robust. Through a harmonised promotion strategy between all channels, continued online developments will further support our omnichannel strategy.

In the past couple of years, we have accelerated our M&A activity. This was made possible by the strong cash flow of our core L'Occitane brand, as well as ELEMIS. Today, with eight brands under the Group, we have a solid foothold in all major regions in the world. However, we continue to stay open to M&A opportunities that fit our criteria, specifically, brands that have a unique story to tell, high quality products, a committed and entrepreneurial management team and that are accretive to the Group's operating results.

Having passed the €1 billion sales mark a decade ago, we are on track to pass the €2 billion milestone in FY2023. We expect to deliver 15% to 16% sales growth and 16% to 16% plus operating profit margin for the year. This operating margin guidance represents a decrease as compared to FY2022 record levels. However, this decrease is driven partly by the positive one-off effects that we had last year and also the current macroeconomic risks in different markets. We consider this a realistic and healthy target in view of the prevailing market conditions, as well as the continued investments we will put into our growing brands.

Before we end the presentation, I would just like to say a few words as we have Thomas here for his last results presentation. Although we are very sorry to see his departure as CFO, we are also very happy for his retirement in a few days. I would like to personally thank him for his valuable contribution over the past 15 years and I look forward to continue working with him as he remains on the Board as a Non-Executive Director.

With the completion of several planned key management changes, the Group is well positioned for a sustainable future. We are truly convinced that the strength of our expanding number of brands, our targeted investments and the absolute determination and focus of the management team, will allow the Group to continue delivering long-term growth and profitability. Thank you for your attention and I suggest now we go to the Q&A session.

Janis Lai

Thank you, André, thank you, Thomas, for the presentation. Now we will move on to the Q&A session. We will first take questions from the onsite audience here, before moving on to the online questions. Once again, for those who are joining online, you can click the ask a question link at any time and submit your questions and we will read them out here at the office. So first, any questions from the on-site audience here? Yes, Chris in the back.

Chris Gao

Good afternoon, management. This is Chris Gao from CLSA. Congratulations on the great results, especially for that high OP margin. So I have three questions. So firstly, may I ask if management can provide a brief update on trends in the first quarter of FY2023, possibly by brand and by region?

And then secondly, if my memory is correct, you will reach €2 billion sales in FY2023 and since the operating margin is already better than the guidance and reaching a record high, do you think the previous guidance for top line growth, as well as the profitability improvement trajectory can continue? And can we have an updated guidance for FY2023 of margins, possibly by brands?

And thirdly, we wondered if the dividend payout of 40% this year will be sustained in the future? Thank you very much.

André Hoffmann

Thomas, would you like to handle questions 1 and 2?

Thomas Levilion

Yes, André, of course I will try to do that. In terms of trends, I think certainly good trends. Let's say globally we've been growing from – as compared to last year in a consistent manner with our targets and our guidance that was provided by André, with most brands doing well actually, L'OCCITANE en Provence growing in the mid-single digits. LimeLife was up above its budget in May, still a bit down from last year. ELEMIS also in line with targets.

So all in all, I think that the brands are doing well, still facing some difficulties, of course, with China struggling in the first two, three months of the year, due to what we all know, the restrictive measures and in different key cities, which of course did not help. But on the contrary, North America and most European countries are doing pretty well, even though, of course, there are some tensions with inflation coming. We believe that our types of brands, types of products, have shown in the past that it's quite resilient to the more difficult economic times, so we are confident based on these very first results, we are confident that the type of growth that André mentioned is achievable.

So in terms of guidance for FY2023, I think if we want to be a little more specific, for L'OCCITANE en Provence we expect growth in the mid to high single digits, ELEMIS 20%, 25%, Sol de Janeiro about 30%. LimeLife we should still see a single-digit decline, but to be confirmed, depending on the good signs we have seen in May and the other brands, high single digits. Of course, Grown Alchemist we expect to deliver around €20 million of sales.

And in terms of profit by brand, L'OCCITANE en Provence should be a little down and as André mentioned, due to the risk that we have this year, due to the exceptional non-recurring elements that we have seen in FY2022, but still to a very high level of 17%. ELEMIS continues to invest so that we should see an operating margin of around 20%, together with high growth, as we mentioned before.

LimeLife will be slightly negative. For Sol de Janeiro, we expect to grow the operating margin to be close to 20%, so a very healthy level. And for Grown Alchemist, as well investing with starting the branding, it's a start-up, with low single digits.

So with the other brands, a low-single-digit loss this time, however, with Erborian being very positive. Does that respond to your questions?

Janis Lai
Yes, thank you, Thomas. And about the dividend payout?

André Hoffmann
Yes, dividend payout ratio. Look, we'd love to increase it in the future, but this will very much depend on the results.

Janis Lai
Thank you, management. We can take our next question from the onsite audience. We can move on to the online questions first.

Operator (on behalf of Jamie Isenwater)
Just as a reminder for those joining online, you can submit a question by clicking on the ask a question link at the bottom right-hand corner of the webcast page. Jamie Isenwater of Ash Park Capital asks how should we think about the right long-term margin for the L'Occitane brand and what was the brand's peak marketing-to-sales ratio compared to last year's 14.3%? Thank you.

André Hoffman
Thomas?

Thomas Levilion
Yes, I would say that L'OCCITANE en Provence has demonstrated its strength and some more long-term perspective within that, even though the 19% from the management view this year

was very high, we believe that on a mid-term basis we should be around 18%, taking advantage of more leverage as we continue to grow. The digital strength that we have, and we confirmed, and we will continue to confirm, will allow us to finance more investments in China and also in the ESG domain, as André mentioned. So I think this plus 18% is sustainable and in terms of marketing, I will not be surprised if it would add 1 point and notably for these investments in China that I mentioned.

Janis Lai
Thank you, Thomas. Next question please.

Operator (on behalf of Anne Ling)
Anne Ling of Jefferies, she has a few questions. First of all, she would like to know what is your mid-term target for FY2025 or for any new five-year plan and what will be the main growth drivers? What will be your target debt ratio for the long-term?

The second question is about China and I'll combine a few questions here. Basically, what are you seeing in terms of this operating trend next year? What kind of growth are you expecting year-on-year in FY2023? Thank you.

Thomas Levilion
Hello, Anne. So I think that the mid-term targets, if we look at it globally, in terms of top-line, I think we can sustain this mid-teens average growth, with L'OCCITANE en Provence being in the mid-single to high single digits, ELEMIS 25%, 30%. Sol de Janeiro also up 25% to 30%, same with Grown Alchemist. LimeLife I think we should see some further growth, as they are putting in place all the measures to rebound from the current difficulties and we expect 40% to 45% and the other brands 30% to 40%.

So that's why we believe that our target to reach about €3 billion sales or even more in the mid-range, I mean in FY2026 is totally achievable. And interestingly, the total sales at that stage we expect that L'Occitane will be just 50% to 60% of the total sales and ELEMIS should be 20% and we expect Sol de Janeiro and Grown Alchemist to be about 10%.

In terms of operating margin, as I said before, for L'OCCITANE en Provence, we target this about 18% and 22% or more for ELEMIS, LimeLife should turn positive, Sol de Janeiro also 20% and we should see breakeven for Melvita and au Brésil in FY2025, and LimeLife should be breakeven in FY2024. So that's basically the trend, I would say, for FY2024 to FY2026 is, in our view, quite similar to the global guidance that we give for FY2023. Did I answer all the questions? Am I missing anything?

Janis Lai
There is also the target debt ratio and also the operating trends in China and also growth expectations for FY2023.

Thomas Levilion
Okay, maybe I will let you, André, discuss the trends in China. For the debt ratio, we have no particular target, we are pretty low at this stage. So we know that gives us good opportunities or the possibility to seize good opportunities in terms of M&A. But today, with the leverage of between 1 and 2, we are very healthy, so we don't have any specific targets. What is more important to us is the quality of the targets that we may find in the future.

André Hoffmann
Hi, Anne, it's André. Just concerning China, as we said earlier in the presentation, April and May were very challenging, primarily due to the lockdowns and also our warehouse which was

in the lockdown area, so that impacted our ability to deliver for our e-commerce business. But June has come back very strong and we're looking to still deliver double-digit growth, sort of low to mid-teens for the full year. So basically what you can look at, as we missed our budget for April/May, but we're going to deliver on our budget for the rest of the year.

Janis Lai

Thank you, André. Next question please.

Operator (on behalf of Sunny Chow)

Staying with China, Sunny Chow from Macquarie asked questions about ELEMIS. Firstly, can the management elaborate more on what is ELEMIS's strategy this year, after the Sephora partnership has come to an end?

The second question is how does management think about the competitive landscape in China's online space? What is the strategy for the core brand and ELEMIS? Thank you.

André Hoffmann

Hi, Sunny. First, I have to say that the partnership with Sephora has not come to an end, it's evolved and they continue to be a strategic partner for us in China. It's just the previous exclusivity with them has changed and now we're able to sell to other channels in China. So I believe we are launching with Tmall this month and that's a very, very significant step for us because that's a key distribution partner for many luxury beauty brands. We will also be expanding and opening new stores in China. Just to remind you that we had opened up in the previous two years a store in Shanghai, in the IFC Mall and also one in Nanjing, in Deji Plaza. So we'll have a third store opening up in Chengdu this fall and we're also in the process of negotiating for Beijing and possibly for Shenzhen. So the partnership is very much alive with Sephora in China. The next question?

Janis Lai

What about the growth strategy for ELEMIS and L'Occitane digital?

André Hoffmann

Well, the growth strategy, we have very aggressive plans for China. We're investing a lot of marketing into building our brand awareness in China, so we are looking at also some live streaming opportunities to partner with TikTok. Basically we want to put ELEMIS in places where our customers want to shop and buy it, so that's really the key point.

For L'Occitane, we continue to open selectively new stores in China. We have approximately 200 stores today in maybe 70 or 80 different cities, but we believe L'Occitane still has tremendous growth in China. Last year was a very significant year and we decided to really overinvest in the hair care category. It delivered really exceptional results. We have a very innovative product pipeline for hair care, because we believe hair care is really a big, big opportunity in China, especially in the premium category. So we will continue to overinvest in hair care in the China market and push all things digital, which has been the core of our strategy over the past few years.

Janis Lai

Thank you, André. We can take the next online question please.

Operator (on behalf of Ken Siazon)

This has partly been covered already, but Ken Siazon of Southeastern Asset Management would like you to provide a wider bridge or commentary on how you have a 17% OPM for

FY2022 and how that goes to the 15% and 16% forecast for your OPM in this coming financial year, thank you.

André Hoffman

Thomas?

Thomas Levilion

Yes, I can take this one, I guess. Hello, Ken, so it's quite simple. Let's say that we are moving from 17% to 16%, not 15% to 16%, but more 16% and we would relate this to first, the different risks or difficulties that we know that we are facing already, some like what André mentioned or discussed about China. Also Russia, which is not helping in our bottom line, although it is quite limited. So that's all those risks and also the general economic risk relating to inflation in the rest of the world. That would be one to 1.5 points in the explanation.

Then we have the fact that in FY2022, as I mentioned during the presentation, we still had some COVID subsidies and rent concessions, although less than in FY2021 obviously. That impacts also a little less than 1 point and we will continue to develop our marketing investments for L'Occitane, for ELEMIS and for the new brands, Sol de Janeiro and Grown Alchemist. So that would be for another 0.5 to 0.7 points.

So then we have benefits coming from the addition of the new brands and of course, everything that we are doing in terms of efficiency, one of them being typically the rationalisation of the store network, closing a lot of underperforming stores and the benefit from higher sales, so the leverage effect. We should compensate all that so that we should be with a decrease of 1%, about one point of net sales, if you want, essentially driven by the risks, so China, Russia and the end of all the COVID subsidies, at least in our plans.

Janis Lai

Thank you, Thomas. So there are no more questions from the online audience. I will just have a last check from the onsite audience, are there any questions? If there are no further questions, I would like to announce the end of the presentation today. Thank you very much for your participation and also thank you, Reinold, André and also Thomas, for your participation.

Operator

There's one more question.

Janis Lai

Sorry, there's one more question, since we have a little bit of time, that just came in.

Operator (on behalf of Anne Ling)

Sorry, another question from Anne Ling. Can you tell me a little bit more about the sales mix by product category and what is your focus moving forward? How does this differ by market? And can you talk a little bit about the 618 performance in China? Thank you.

Janis Lai

So in terms of the product category sales mix, body and hand care continues to be the largest with 38%, face care at 20%, toiletries at 20%, hair care at 10%, perfume at 6%, home and others at 6%. And in terms of the China 618 performance, we did have a single-digit growth in terms of sales from last year and part of the growth is a little bit below our expectations and this is partly due to a decrease in traffic because of a lot of price competition. But we were able to offset the lower traffic with better conversion and also better ASP. And I think in terms of the largest growth categories being body care, we did have a mid-single-digit growth versus last year and also hair care was a very important category, where we had low teens growth.

I think that's the end of the questions. So once again, thank you very much for your participation. I would now like to announce the end of the presentation today. Thank you very much.

André Hoffmann

Thank you.

-End-