L'Occitane International S.A.
FY2023 Interim Results Webcast

Company Participants

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

Other Participants

- Chris Gao, CLSA
- Jamie Isenwater, Ash Park Capital
- Lynn Wu, Bank of America
- Sunny Chow, Macquarie
- Benjamin Ng, Whitefield Capital Management
- Pratik Agrawal, HSBC

Presentation

Janis Lai

Welcome, everyone. Thank you for joining L'Occitane International's presentation today to present the FY2023 Interim Results. With me here today in Hong Kong is our Vice Chairman and CEO, Mr André Hoffmann. First, we will start with the financial highlights, and André will then go over our strategic review and outlook before going into Q&A.

Today we are taking questions from both the on-site event and the online audience. For those who are joining online, there is a raise-hand icon on the top right-hand corner, and you can feel free to submit your questions even during the presentation and we'll read them out loud at the site at the end of the event.

We start with the financial highlights. The Group had dynamic sales momentum in the first half of FY2023, with net sales exceeding €900 million, representing a growth of 29.3% at reported rates or 20.8% at constant rates. This is considered a strong result considering the macroeconomic challenges.

Gross profit margin remained high at 80.2%, a 0.5 point increase. This was mainly due to a one-off deconsolidation impact of the Group's US subsidiary last year and a favourable FX impact.

Operating profit increased by 10.3% to €87 million, while the operating profit margin decreased to 9.7%. Note that on a management basis, the operating profit margin showed an increase to 11.3%, as we'll explain in a later slide.

Encouragingly, the Group delivered a second consecutive year of record interim net profit of €64 million, equivalent to a 5.4% increase. Earnings per share increased by 3%. Meanwhile, the net debt increased to €823 million, mostly related to the acquisition of the Sol de Janeiro brand.

In terms of sales breakdown in the first half, sales breakdown by brand. Our core L'Occitane brand grew by 9.4% at reported rates in H1. It now represents slightly more than two-thirds of the Group's total sales, a decrease from 77% in the same period last year. The remaining one-third was split almost evenly between ELEMIS, Sol de Janeiro and the Others.

Sales by region: APAC remains the largest region of the Group in the first six months. AMERICAS is the second largest, mainly contributed by the inclusion of Sol de Janeiro. The US was the largest single market, accounting for around 26% of overall sales, followed by China at 13% and Japan and the UK both at 9%.

In terms of sales by channel, retail was the largest channel and accounted for about 36% of the Group's sales in H1. The wholesale ratio increased to 35% from 26% last year, and this was due mainly to the high wholesale mix of the Sol de Janeiro brand and the rebound of travel retail, the cruise ship channel and B2B. The online mix represents 29% versus 33% in the same period last year due mainly to softer sales at LimeLife.

If we look at the sales growth by quarter, Q2 continued the dynamic trend in Q1 with 16.2% growth and is in line with our plans. On a like-for-like basis, i.e. excluding the new brands Sol de Janeiro and Grown Alchemist, excluding the Russia market due to the Group's divestiture and excluding the impact of the US deconsolidation last year, the sales growth was 5.9% in the first half. This is an acceleration from 5.1% in Q1 to 6.7% in Q2.

Now we look at the sales growth by brand. The core L'Occitane brand posted a decent growth of 3.4% at constant rates. Travel retail rebounded stronger and earlier than planned. As markets continued to reopen, traffic returned to brick-and-mortar channels while online channels normalised. Excluding Russia, from which we divested in June 2022, the growth was 5% in the first half.

ELEMIS also performed well in the first half with 21% growth at reported rates or 13% at constant rates. This is mainly contributed by the strong growth in the US and further international rollouts. The cruise line business continued to rebound while online and offline channels remained dynamic.

The Sol de Janeiro brand ended the first half with sales of €95 million, an impressive growth of over 65% in local currency, and this beat management expectations. All channels posted encouraging growth, in particular, chain wholesale, distribution and marketplace thanks to the well-received summer fragrances and the *Beija Flor* range, as well as strong organic growth in all existing markets.

The Other brands together posted a growth of 12.7% at reported rates or 4.7% at constant rates. Grown Alchemist, Erborian, L'OCCITANE au Brésil remained dynamic while LimeLife and Melvita were relatively sluggish.

FX rates extended its tailwinds in Q2 with a positive impact of 8.7 percentage points on overall sales, which further accelerated from 7.6 points in Q1.

Now we move to the sales growth by region. APAC grew 7.8% at reported rates and 1.9% at constant rates in the first half, with slightly better performance in Q2. Most markets posted double-digit growth, led by Hong Kong, Australia and Malaysia. The growth in the region was partly offset by the mid-teens decline at constant rates in China, yet the decline in Q2 narrowed from that of Q1.

With the Americas, it grew 84.5% at reported rates or close to 60% at constant rates in the first half, with accelerated growth in Sol de Janeiro and ELEMIS. L'OCCITANE en Provence also posted decent growth.

EMEA saw a rebound in the first half and grew 8.2% at constant rates, with strong contributions from travel retail and distribution sales in the region. Touristic cities in Europe also benefited from a strong rebound in local and international tourists. France, in particular, performed well with more than 25% growth in the first half, and excluding Russia from the region, the growth was 16% at constant rates.

Now sales growth by channel. Retail saw an increase in footfall and tourist sales and grew 4.4% at constant rates despite trading with 121 fewer stores. Excluding Russia, the retail growth in the first half was around 7%.

Online channels grew by 2.2% in the first half, and this was impacted by the weaker digital direct sales at LimeLife and the retail channel rebound as most markets reopened.

Wholesale and others grew by 51% at constant rates with good growth in wholesale chains, international distribution and travel retail contributing most to the overall growth of the Group.

Now we move on to the profitability analysis. The gross margin remained high at 80.2%, an improvement by 0.5 points. The reported operating profit margin decreased by 1.6 points, and this was mainly due to exceptional items, namely, there were other operating losses this year from the Russia divestiture and the exceptional gains we had last year from the deconsolidation and reconsolidation of the US subsidiary. Excluding these exceptional items, the operating profit margin showed an increase. We will explain in detail in a later slide.

First, we have the analysis of the gross margin, which improved from 79.7% in the previous period to 80.2% in the first half this year. First, we had the positive impact of the one-off deconsolidation of the US subsidiary last year for 1.3 points. We had lower obsolescence and lower depreciation for 0.9 points. We had a favourable FX impact for 0.5 points and a price increase for 0.3 points. This improvement was partly offset by an unfavourable brand mix for 1.5 points coming from the newer brands, which have a higher sell-in mix, an unfavourable channel mix for 0.7 points due to the increase in the sell-in and B2B, and lastly higher freight and duties for 0.3 points.

Next, we have the distribution expenses. The distribution expenses also improved from 41.4% of net sales to 39.2% of net sales. First, we had a positive brand mix for 4.3 points, of which 3.4 points came from the new brands which have a lower level of distribution costs. Second, we had higher sales leverage contributing 0.8 points, and then we had lower depreciation costs for 0.7 points after we closed some non-profitable stores and fewer renovations last year, and we had a favourable FX impact for 0.4 points.

This improvement was partly net off by the deconsolidation of the US subsidiary last year for 1.6 points. We had an increase in third-party logistic supplier fees, other sell-in partner fees and others for 0.8 points. We also had higher personnel costs for 0.7 points, especially in retail, and we had lower subsidies received from governments on personnel and rental costs for 0.6 points and lastly higher freight on sales for 0.3 points.

Marketing expenses: we increased our investments from 16% of net sales to 17.8% of net sales. First, we had higher investments in both traditional and digital media for 1 percentage point, of which 0.6 was for the core L'Occitane brand in key strategic markets, including the US, Japan, France and Korea, and 0.4 points for the other brands, including ELEMIS, to build brand awareness in new markets. Next, we have 0.6 points in brand mix, of which 0.4 came from newer brands which have a higher level of marketing costs and 0.4 points from the US deconsolidation, other factors including FX, channel mix, phasing and reclassification. We had a positive impact of 0.2 points coming from a higher sales leverage.

On general and administrative expenses, it increased slightly from 10.3 percentage points of net sales to 10.7%. We had an increase of 1.1 points for higher investment in staff, recruitment fees and others. We had 0.4 points for the deconsolidation in the US, 0.3 points for the COVID subsidies received last year, and 0.2 points for the Group's divestiture of Russia. This deterioration was partly helped by higher sales leverage of 0.6 points, lower bonus and incentives for 0.6 points, and lastly 0.4 points for a favourable brand mix and other one-off items.

There was an important variance in the operating profit margin coming from the other income and losses that increased by 2.3 points, so we went from a gain of 0.6% of net sales to a negative 1.7% of net sales. First, we had the negative impacts from the Russia divestiture, arising from a capital loss mainly due to the currency translation differences. Next, we had an exceptional gain last year from the US deconsolidation for 0.4 points. We also had an increase in the share of loss in associates coming from the My Glamm results, which invested quite strongly in marketing investments in the first half of the year, but we also had a capital gain arising from the change in the percentage of interest last year in Good Glamm Group. This helped by 0.2 points.

Slide 15 is a summary of all of the movements on our operating profit margin, which again on the reported basis went from 11.3% to 9.7% in the first half this year. First, we had a negative impact in terms of supply chain costs due to inflation, recruitment fees, phasing and others for 2.1 points, an increase in the marketing and organisational investments to sustain the development of all brands for 1.7 points, and then we had the two exceptional items coming from the Russia divestiture of 1.6 points and the US deconsolidation for 1.0 point. Then we had the COVID subsidies received last year, 0.9 points, and a channel mix due to the sell-in and B2B channel rebound for 0.6 points. The favourable brand mix helped us by 2.4 points. We had higher leverage on fixed costs for 1.5 points, one-off and others was 1.2 points and favourable FX impact for 1.2 points.

Slide 16 is a bridge between the reported and the management operating profit margin. As you can see here, if we excluded those two exceptional items of Chapter 11, deconsolidation and reconsolidation of the US subsidiary last year and the capital loss on the Russia divestiture, our operating profit margin increased from 10.3% to 11.3%.

Next, we have the operating profit by brand. The core L'OCCITANE en Provence brand contributed most to the overall operating profit of the Group, with €55 million and an OP margin of 9.1%, compared to a record 12.6% in the same period last year. Once again, this was impacted by the two exceptional items, and if we had excluded those two, the OP margin of L'OCCITANE en Provence improved from 11.2% last year to 11.4%.

ELEMIS's operating profit margin decreased from 17.3% to 10.8% as a result of accelerated marketing investments, particularly in the UK and the US, and higher distribution costs as we are developing new markets and enhancing market share in existing markets.

Sol de Janeiro had an exceptional operating profit margin of 28.4% due to the very strong top-line growth and lean structure. The Other brands combined ended the first half with an operating loss of about €7 million. Erborian continued to grow and further improved its operating margin to close to 30%, the highest in the Group. LimeLife, Melvita and L'OCCITANE au Brésil were in a loss position, yet the L'OCCITANE au Brésil brand showed an improvement.

In terms of CAPEX, we spent about €6 million more in CAPEX to €21 million in the first half this year. This was mostly due to the resumption of store openings and refurbishments after most markets emerged from COVID. We also increased investments in IT and also factories, warehouses and offices. Yet, the CAPEX remains quite low as compared to the pre-COVID levels.

The last financial slide is on working capital and inventory turnover days. The cash cycle increased by 10 days to 61 days of net sales, a net result of higher inventory and trade receivables being partly offset by lower payables turnover.

Inventory value as at the end of September this year increased by €70 million to €310 million as compared to September 2021. The average inventory turnover increased by 11 days to 293 days due mainly to an increase in raw materials and work in progress, mainly due to Sol de Janeiro. There was a lower inventory to provision. There was unfavourable FX, and the increase was partly offset by lower finished goods and MPPs.

The receivables increased by 6 days, mainly due to an increase in sell-in, and the payables was due to a decrease in accrued expenses at the end of the period.

This concludes my section of the presentation. I will now pass it to André to go over the strategic review and outlook. Thank you.

André Hoffmann

Thank you, Janis. Despite the challenging macroeconomic landscape, we delivered a solid first half for FY2023. Our net sales grew by 29% on a reported basis to exceed €900 million. The results were broad-based. We saw growth from our three largest brands that take up about 90% of the total Group sales – L'OCCITANE en Provence, ELEMIS and Sol de Janeiro. These results came from all regions across all channels. This again demonstrates the strength of our multi-brand business model.

In recent years, we have emphasised our focus on balancing both the top- and bottom-line growth, and we are seeing the results in our margin improvement. In an earlier part of our presentation, we explained that our results were impacted by certain exceptional items. Excluding these impacts, our operating profit margin expanded by 1 point to 11.3%. This is the second consecutive year we delivered record interim net profit, reaching €64 million, equivalent to a 5% growth in the profit.

While we stay focused on delivering sustainable returns, we are mindful that the world around us is changing faster than ever before. It is changing socially, economically and environmentally. Today we are glad to share our new corporate mission - "With empowerment we positively impact people and regenerate nature".

The introduction of this mission represents the next phase in the Group's transformation into a geographically-balanced, multi-brand group of premium beauty brands. While each of our brands demonstrates a strong identity and sense of purpose, our mission is what links our brands to each other. The mission is a guiding light, as it steers the actions of the entire organisation in an atmosphere of inclusivity.

To protect this mission over time and truly incorporate it into our decision-making, the Board and our shareholders have approved amending our Articles of Association to include ESG criteria. We have also created a Sustainability Committee at the Board, and each member of the senior leadership team has signed a letter committing to be a steward of the company's mission.

How this corporate mission is put in practice can be summarised by our focus on the triple bottom-line, as shown in this chart. The three Ps are People, the Planet and Profitability.

Indeed, profitability is necessary and ensures that the business can continue, but we do not view profitability as an end in itself. It provides means on our sustainability journey to serve the mission of creating societal and environmental value. With profit, we can invest in our People and the Planet.

On the People side, as an employer of a workforce close to 9,000, we have the power and duty to create social value. By empowering our retail teams, we also benefit directly in terms of strengthening our customer relationships. We already see in many countries when there is a low turnover rate of our retail staff, there is better customer loyalty. So, we know that by investing in our people and in CRM capabilities, we are in turn improving the customer lifetime value.

In taking care of the Planet, apart from reducing our own carbon footprint by switching to renewable sources of energy or reducing plastic consumption, we are also investing in product innovation that minimises our impact on the planet. We can contribute by offering customers sustainable choices that challenge long-held habits, such as launching a solid shampoo range and installing eco-refill fountains in our stores.

We are advocates of creating social, environmental and economic value at the same time, and believe this model creates a virtuous cycle.

We are now a group of eight premium beauty brands. Our unique approach enables our new brands to operate autonomously while leveraging on the Group's support in infrastructure or other local back-office functions. As a group of multiple brands, we are also able to ride on our commercial strengths with key business partners, for example, to negotiate for better locations and visibility for all of our brands.

Each brand has an entrepreneurial vision and distinctive identity, and this is particularly apparent in our product innovation.

For our core L'OCCITANE en Provence brand, we made several important launches in the first half of FY2023. As we have mentioned over the past several quarters, haircare is an important category and has also been one of our fastest-growing categories. This scalp serum, launched in August of this year, will form part of a highly functional haircare range. We have a big launch campaign planned for Asia next year, which is expected to be very promising, with linked selling with our best-selling *Reset Night Serum*.

Face care remains one of the most strategic categories for the core L'OCCITANE en Provence brand. We launched this *Immortelle Precious Emulsion* a couple of months ago and it now represents almost 25% of the total category sales. It's a highly encouraging result.

ELEMIS continues its strategy of constantly enhancing the brands in the marketplace. This year it set the target of gaining the #1 earned media value, or EMV ranking, in the US and UK to provide an outsized voice and deliver accelerated growth in the second half of this year. The US has leapt from #32 ranking to #2 in less than six months, far exceeding our expectations. It is on track to hit the #1 ranking in the second half of the year. The UK jumped from #3 to #1 in the same timeframe, again surpassing all aspirations with over double the EMV of its closest competitor.

To celebrate the 20 years of *Pro-Collagen Marine Cream*, ELEMIS is launching a *Rose Pro-Collagen* aromatic in January 2023. The Rose range will be expanded and provide significant opportunity for future growth.

Successful marketing campaigns drove record-breaking sales with a 190% increase in the sales of hero products in the US following the "Fab 3 campaign", which focused on the

Pro-Collagen Marine Cream, the best-selling *Pro-Collagen Cleansing Balm* and the *Dynamic Resurfacing Facial Pads*.

Similar to the core L'OCCITANE en Provence brand, ELEMIS' business is seasonal, particularly around the holiday season. We are confident that the brand's established omni-channel strategy, impactful marketing campaigns and outsized voice make the brand well-positioned to capture consumers' attention and drive growth throughout the second half of the year.

Sol de Janeiro continued to be a star performer over the first six months of the year. The brand continued to break sales records and deliver an impressive growth of close to 70% in the second quarter of the year. This was fuelled by both innovation and strong performance in the core product categories, with strong social media campaigns continuing behind the *Cheirosa 62 fragrance mist* and the *Bum Bum Cream*. The brand ranking holds at #1 in both Sephora US and Canada year-to-date.

The new *Beija Flor* franchise momentum continues as the holiday set for this new product – the brand's first holiday set not focused on the Bum Bum Cream – performed at +176% to the plan since launch. Finally, in Q4 of FY2023, Sol de Janeiro will launch their first body oil in the *Bum Bum Cream* franchise, with a first-year ambition to rank as the #1 body oil in the North American prestige market.

Looking ahead, the Group is cautiously optimistic about the second half of FY2023. The macroeconomic context remains uncertain, with current headwinds set to remain or even intensify. However, as we have seen in the past, our Group has a proven track record of resilience in the face of various macroeconomic challenges. We remain highly focused on delivering a strong holiday season and expect to pass the €2 billion mark in revenue for the full year.

At this point, we maintain our current guidance for the top-line growth and profitability in FY2023. Despite near-term headwinds, we are truly convinced that the strength of our brand portfolio, our management teams, our targeted investments, will allow us to continue delivering sustainable growth and profitability.

That concludes our presentation. I now suggest we can start the Q&A session.

Janis Lai

Thank you, André. We'll first take questions from the on-site audience and then we'll move on to the online audience. For those who are joining us online, as a reminder, you can submit your question by pressing the raise-hand icon on the top right. First, Chris.

Chris Gao

Thank you. This is Chris Gao, consumer analyst from CLSA. Thank you, management, for taking my question. I have three questions. Firstly, we are wondering what the company's key observations are on the key promotional events. In November, there was Black Friday in the western world, and we also have Double 11 in China. I'm wondering what the trends look like. It will be even better if more colour could be provided by brand.

The second question is also related to China. We are wondering what the impact of the recent COVID resurgence is in China. May we have an idea about what percentage of stores are impacted, and what impact this has had on the status of the sell-out channel build-out, especially for ELEMIS in China?

My last question is related to ELEMIS. I understand that upon the continuous investment of ELEMIS, including the OpEx investment in marketing and distribution expenses - how should we look at the OP margin trends of ELEMIS heading into the second half and also in the mid-term? Thank you very much.

André Hoffmann
On the first point about Black Friday in the US: overall it's not a bad result for L'OCCITANE en Provence. Overall growth was roughly 6.5%. If we take into account the closure of several stores as part of the restructuring plan, we could say that same store sales growth was closer to 9%. Overall, I think it's not a bad result in the highly promotional market that the US was.

In terms of China, the TMall results were disappointing, I think roughly negative 20%, but this was balanced by a very strong growth on JD.com, so overall if we combine the two, I think it was minus...

Janis Lai
Minus 11.5% on the two platforms together.

André Hoffmann
What we saw, Chris, is a very promotional, heavily discounted market, and we decided we didn't want to play that game. We put our limits on what we were able to offer. That is the story of Black Friday and [Double 11]. Concerning the lockdown…ELEMIS, I think their growth was 2X compared to last year on [Double 11], still building up momentum. We're very confident in the future for ELEMIS in China.

Concerning the lockdowns in China and the impact, today it's very hard to predict. Honestly, it changes every day. I think we've all seen the news about the protest and what that really means in terms of relaxation of zero-COVID or not. We don't know at this point.

But fortunately for us, we have our senior management team from China in Hong Kong right now. It's the first time they left China in more than two and a half years or three years, so we're spending time with them and trying to understand really what's going on.

In terms of your last question, the senior management of ELEMIS is very committed to delivering on their full [year] plan. They've given targets of roughly 20% operating margin for the full year, and we maintain that we will deliver that. We'll come very close to the top line. As I said earlier, last year we also had a significant reduction in the operating margin compared to the full year. This year was a little bit more because we made a lot of investments. But ELEMIS is delivering its plan, and the management of our company and the Board are very confident in ELEMIS being able to deliver.

Janis Lai
Next question from the on-site audience, if any? If not, we can move to the online audience, please.

Operator (on behalf of Jamie Isenwater)
Just one question online so far. Jamie Isenwater of Ash Park Capital asking, Sol de Janeiro's margins look to have come in far ahead of expectations. Is this a case of not being able to spend quickly enough to keep up with the top-line growth? Or could profitability be permanently higher than what you originally anticipated? Thank you.

André Hoffmann
Hi, Jamie. What I can say is we're obviously all very happy with the fantastic results of Sol de Janeiro. They have exceeded their own business plans. Their growth, both in North America and their international growth have been truly spectacular. I think they're a brand

that goes through this cycle - they're very hot, they're very much in demand, and they're able to leverage their demand with a lot of social media content which is generated by the customers, but also their business partners are funding some of the marketing. They're co-investing.

They have a very lean structure. They're, I could say, asset-light business distribution strategy with online and wholesale and soon-to-be travel retail, because there's been enormous demand from major travel retail operators around the world to be able to have Sol de Janeiro. Those margins are really spectacular, we agree. I'm not going to guarantee we'll sustain them for the full year, but I think we can come pretty close.

Janis Lai

Thank you, André. I'll make a last check on any questions from the on-site audience here. Yes, Lynn.

Lynn Wu

Thanks a lot for allowing me the chance to ask questions. I have two questions. The first one is also related to the one asked before about investment in China next year. As you mentioned, of all the macro uncertainties heading into 2023, what's your current plan in terms of our future promotional intensity and discounting? Are we seeing the industry overall inventory level going down already, or do we expect the competitors still going for more aggressive discounting into next year?

Second part of that question is, in terms of our CAPEX plan or other resource allocation into China next year, are we thinking of more leaning towards the cautious side, or in terms of allocating resources across different channels, are we thinking of maybe allocating more into online versus the offline stores? That's the first set of questions in terms of investment in China next year.

The second question is on our G&A costs. I noticed that we have quite a bit of cost adding to staff recruitment. I'm wondering if you can elaborate a bit more on that and if we are expecting to add more in the near future. Thank you.

André Hoffmann

Thank you for the questions. They're very good questions. It's a little bit hard to predict what other companies will do in terms of their discount promotional strategy, but I can say for this year, based on research reports and competitor sales information that we have access to, the first half of the year was pretty challenging. I think a lot of companies decided to try and catch up with their volumes and they went very promotional in the [Double 11] campaign.

Is it going to continue into next year? As I said, it's very hard to know. Everybody is chasing business, so we don't really know. In the case of L'OCCITANE en Provence and ELEMIS, we're trying to be very disciplined. We know there's a big impact on our margins, the more we discount. We don't want to lose our customers to other brands, but we have to put a line in the sand in terms of how much we're willing to give. I think we've already put the line in the sand, and I don't see us increasing the discount levels or intensity or frequency for any of our brands in China for next year.

The second part of your question was concerning our CAPEX investment and investments in general. We don't see a big increase in the number of retail stores for L'Occitane next year. There could be a handful. I think we're already at close to 206, 205 stores. We think that if there is an opportunity to open stores, it would probably be in tier 3, tier 4 cities, where many of our competitors have started to enter. But since we have such a great online coverage between TMall, JD, Little Red Book, maybe it's not necessary for us to open physical stores.

ELEMIS is in a slightly different position. We have a brick-and-mortar, multi-brand retail partner, which gives us approximately 300-plus stores with distribution across maybe 100 different cities. We have today three flagship stores for ELEMIS in Shanghai, Chengdu and Nanjing. We need to grow those. We need to continue to grow our online presence in China. So, I don't see a big expansion in the number of stores in China. Could be a few, a handful.

What's very exciting is we will be launching both Sol de Janeiro and Grown Alchemist in China next year, but both of those launches will involve Sephora, so they won't be big CAPEX investments initially.

In terms of G&A costs...

Janis Lai
It was about whether we are increasing staff or recruitment investments.

André Hoffmann
Obviously, we're building up our teams. One of the big focuses of our Group for the coming few years will be to expand our travel retail presence. As a Group, travel retail, we are underweight, partly because it's only really L'OCCITANE en Provence that has a global presence. ELEMIS is strong in the UK, its home market, and has a few counters in China with Hainan Island and in Macau. But Sol de Janeiro, Grown Alchemist, ELEMIS will be significantly expanding their travel retail presence next year, and we've had to hire people to manage this expansion. We couldn't do it with the existing teams, so there has been an increase in people. I think that's the main explanation for the hiring - new brands will require new people. It's pretty straightforward.

Janis Lai
Thank you, André. I think we have an online question.

Operator (on behalf of Sunny Chow)
Firstly, Sunny Chow from Macquarie is asking, can the management possibly give us an update on the medium-term revenue growth and OPM targets by brand? Thank you.

Janis Lai
Hi, Sunny. We maintain the mid-term guidance. We had shared previously that our FY26 ambition was to reach a top line of roughly €3 billion in sales. By brand, that translates into L'OCCITANE en Provence growth of about 7% or a CAGR, ELEMIS 25% to 30%, Sol de Janeiro 25% to 30%, LimeLife also double-digit growth, and the others combined also double-digit growth.

Operating profit guidance, or margin guidance, we maintain at around 16%-plus. By brand, L'Occitane core brand plus or minus 18%, ELEMIS plus or minus 22%, LimeLife mid-single-digits, Melvita, au Brésil break even in FY2025, and Sol de Janeiro around 20%.

Operator (on behalf of Benjamin Ng)
Thank you. Benjamin Ng of Whitefield Capital is asking, are we expecting any more one-offs from the US deconsolidation and the Russian divesture in the second half? Thank you.

Janis Lai
For the US deconsolidation, there shouldn't be too much of an impact. Before the Russia divestiture, it really depends on the valuation of the receivables. There should be a further financial impact, but we cannot quantify it at the moment.

André Hoffmann

Just to clarify on that, we've sold our business. We've exited Russia. We're not shipping into Russia. But we have a debt from the company that acquired the business and depending on the value of the ruble against the euro, there could be further impact, and it's impossible to predict at this point what it could be.

Operator (on behalf of Pratik Agrawal)

The final question online, Pratik Agrawal of HSBC is asking about ELEMIS's operating margin. It has come in lower than expected. You mentioned something about higher marketing investments in the US and UK. Is there anything more you can share about the impact that is coming from China for that? Thank you.

André Hoffmann

As I said, the US, we've put a significant investment in the first half of the year, and we're expecting to fully get it back with a return in the second half of the year. If you understood what I was explaining earlier about earned media value, to have the ranking and to have the incredible growth from #32 to #3 in the US in such a short period of time - sales usually follows awareness of a brand. So, we're fully confident we're going to get the return in the second half of the year.

Concerning China, ELEMIS is a new brand in China. It takes time to build it up. We will need to continue investing in China, but we want to do it in a very smart way. We had a little bit of an issue because we had some campaigns that were booked from some of the top KOLs, but due to political issues they couldn't go ahead with the campaigns. It threw us off a little bit, but still for China medium term and long term it's going to be a very significant market for ELEMIS.

Janis Lai

We have a final follow-up question from Lynn.

Lynn Wu

Thank you. Two final questions from me, more thematic questions. One applied to global, another China-specific. In terms of global, a lot of similar questions were probably asked around consumption trading up or down. Do we observe any changes both in the Asian markets versus Europe and the US? In China, people are worried about all the disruptions from COVID and macro challenges in the US and Europe. It seems like in the first half, things are doing pretty okay, but are we worried about more recession risk down the road? In terms of trading up or down, what are we expecting?

The second part is regarding China. You talked about Double 11. We do see that some of the local brands are delivering faster growth. Is it more of a function of just heavy promotions? Or do we see some underlying structural trends of consumer preference shifting? Or is that not really our concern right now? Thank you.

André Hoffmann

I'll deal with the second question straightaway. I don't see a big structural change. When you look at the rankings on TMall, the foreign brands still represent a very significant part of premium beauty. The local brands are more focused on the mass area. Some of them are trying to inch up to the masstige category, but it's really centred on the mass with significantly lower price points than the foreign premium brands. So, I'm not sure that's really a factor in the business. I just think that there is a general decline in consumer confidence in China. There's a lot of people that have lost their jobs. I think all these factors have contributed to the tough trading conditions. And then the tough trading conditions caused people to miss their sales targets, so they started to discount even more to try and catch up. It was really a vicious downward cycle for that.

Concerning globally, there is inflation in the world. There is, in some markets, risk of recession. But I think it's been pretty well demonstrated that L'Occitane has managed to be, I don't say recession-proof, but recession-resistant. I think that we've managed to deliver growth since we listed in 2010, and we've had a couple of challenging years globally with the economy. I think people are still going to want to wash their hair and moisturise their skin and take a nice shower. So, I'm not so worried about the impact of recession today, but of course it will impact consumers' confidence if things don't rebound soon enough.

Janis Lai

Thank you, André. This concludes our analyst presentation today. Thank you for your participation both on-site and online. Have a good evening. Thank you.

André Hoffmann

Thank you.

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