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

Company Participants

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

Other Participants

- Chris Gao, CLSA
- Anne Ling, Jefferies
- Timothy Er, Whitefield Capital Management
- Ken Siazon, Southeastern Asset Management
- Amanda Wang, CICC
- Tsurue Kai, Cecil Street Capital Management
- Benjamin Ng, Whitefield Capital Management
- Ivan Su, Morningstar
- Joseph Shaw, Mondrian Investment Partners
- Richard Huang, AceCamp

Presentation

Janis Lai

Welcome, everyone. Thank you for joining L'Occitane International's presentation today on the FY2023 annual results. With me here today in Hong Kong is our Vice Chairman and CEO, Mr André Hoffmann, and joining us on the line is our Chairman, Mr Reinold Geiger. First, we will start with the financial highlights, and then André will go over our strategic review and outlook.

Today, we are taking questions from both the onsite event and online. For those who are joining online, there is a raise-hand function, or the hand icon, on the top right-hand corner. So you can go ahead and press that any time during the presentation to submit your question. We'll be reading them out at the event after the presentation.

So first, I start with the financial highlights. The Group had strong sales momentum in FY2023, with net sales exceeding the €2 billion mark, representing a growth of almost 20% at reported rates. This is considered a strong result amidst the macro challenges. Gross profit margin remained high, at above 80%. It fell by 1.7 percentage points compared to last year. This was mostly due to a brand-mix effect because our newer brands, ELEMIS and Sol de Janeiro, are mostly wholesale.

Operating profit decreased by 23% to about €239 million, while the operating profit margin decreased to 11.2%. This was largely due to impairments we took on the two underperforming brands, LimeLife and Melvita. Note that on a management basis, the operating profit margin remained healthy at 15.8%. We will explain more in the following slides.

As a result of the impairment and several exceptional factors, profit for the year and earnings per share essentially halved. Meanwhile, the net debt fell slightly by 2% to €647 million.

Looking at the sales breakdown by brand, L'OCCITANE en Provence remains the core brand, at two-thirds of our sales, while the other two newer brands, Sol de Janeiro and ELEMIS, grew much faster and accounted for about 12% each.

By region, our regional split remains quite balanced. APAC was about 42% of the Group's sales, the Americas at 33%, and EMEA the remaining 25.5%. By single markets, the US was the largest at 27% of overall sales, followed by China at 14% and Japan at 8.5%.

Sales by channel is also quite balanced, with each of Retail, Wholesale and Online accounting for roughly a third each.

When we look at the sales by quarter, we ended the year quite strongly with 21% growth in Q4, and this was thanks to the contribution of the newer brands and also the improvement in the core L'Occitane brand with the better conditions in China, along with very strong travel retail.

Sales growth by brand - L'OCCITANE en Provence was slightly negative, 0.5% decline for the year, mainly due to the difficult conditions we had in China for most of the year and also the Russia exit. If we excluded the markets China and Russia, L'Occitane had decent growth of about 6.8%.

ELEMIS ended the year with 9% growth. This was contributed by 34% growth in the US and the 29% growth in APAC as we continued to ramp up in the region. The UK, on the other hand, showed a sales decline due to our strategic decision to reduce sales to certain promotion-driven partners.

Sol de Janeiro more than doubled its sales to become our second-largest brand, with €267 million in sales for the year. In local currency terms, it grew by 135% in the year.

The other brands together posted a growth of about 7% at constant rates. Within the other brands, Erborian and L'OCCITANE au Brésil performed particularly well, with 33% growth and 41% growth, respectively.

Next, we look at the sales growth by region. APAC returned to a slightly positive growth in the final quarter, and for the full year it grew by 0.5%. Again, we were helped by travel retail and also the improved conditions in China in the final quarter. If we had excluded China for the full year, APAC grew by 8%. Americas led the growth by 63% growth in the year and the growth was mainly driven by the acceleration of Sol de Janeiro and ELEMIS's solid performance in the US. EMEA slightly declined by 0.7% at constant rates for the full year and this was mainly due to the exit of Russia. If we had excluded Russia, EMEA grew by 10% at constant rates.

Finally, by channel, retail fell slightly by 2%, and this was affected by the exit of Russia, the store closures in China during the COVID outbreaks, and if we had excluded these two markets, retail grew by about 7% in the year. Wholesale and others was the fastest growing at 51% at constant rates, contributed mostly by wholesale chains and travel retail. Online channels had a nice growth of about 5% for the year and this was mainly due to Sol de Janeiro. If we had excluded Sol de Janeiro, online sales declined, as expected, due to the return of traffic to offline channels and also the poor performance of LimeLife.

Next, we look at the profitability analysis. As I mentioned, gross profit margin still remained high at above 80% despite a 1.7 percentage point decline due to a brand-mix effect. We increased our marketing expenses by about 1.4 percentage points, but we were able to more than offset this by the improvement in distribution expenses by 2.4 percentage points. As you can see here, our operating profit margin on the reported basis was heavily impacted by the others line, which consisted mostly of exceptional items, including the impairments for LimeLife and Melvita. Again, if we had excluded those exceptional items, the management operating profit margin remained healthy at 15.8%.

Now, we look at the margins and also the expenses line by line. The gross margin fell to 80.5%. On the negative factor side, we had an unfavourable brand-mix effect for 1.3 percentage points. Again, this was mostly due to the newer brands because it's mostly wholesale. We had a production cost increase, especially on raw materials and products packaging for 0.8 points. We also had an unfavourable channel mix because we had a higher sell-in portion for 0.7 points, and other factors were 0.4 points. On the positive side, we had a positive effect from the Chapter 11 last year in the US for 0.6 points, positive FX for 0.3 points, price increase for 0.3 points and last year one-off items for another 0.3 points.

Now, we look at the distribution expenses, which improved quite significantly by 2.4 points to 36.8% as a % of net sales. On the positive side, we had a favourable brand-mix effect, mostly coming from Sol de Janeiro, but also from Erborian, which have a lower ratio of distribution expenses. The one-off impairment of the cafe on the Champs-Élysées last year contributed a positive 0.9 points. We had a more efficient retail network, fewer renovations and also a higher sales leverage on fixed costs together for 0.7 points. We also had a favourable channel mix and FX effect for 0.3 points each, for a total of 0.6 points.

On the negative side, we had a combination of cost increases, including on salaries, warehousing, freight costs and also on travel and entertainment, and also a rise of commissions to some sell-in partners for a total of 1.7 percentage points. The US deconsolidation last year accounted for roughly 0.7 points. We had some one-off subsidies from COVID, from governments and also some rent concessions, which accounted for 0.5 points, and the Russia exit's unfavourable impact accounted for 0.2 points.

On marketing expenses as a whole, we increased by 1.4 percentage points to 17.2% of net sales. Firstly, we had a brand-mix effect because we had invested more into marketing, especially for the brands Sol de Janeiro and Erborian. We had strategic investments behind also the core L'Occitane brand, ELEMIS, Erborian, Melvita for 0.4 points, and together with the staffing, or the increase in headcount for the marketing organisation for both L'Occitane and ELEMIS, together accounted for 0.6 points. We had some other minor factors, including some reclassification of costs, the Russia exit and the US deconsolidation last year for a total of 0.4 points. On the positive side, we had a positive channel mix effect for 0.3 points and some phasing of promotional tools for another 0.3 points.

On G&A, we also improved this expense ratio by 0.3 points to 9.4% of net sales. Firstly, we had a decrease in long-term incentives for positive 0.5 points, a positive brand-mix effect for 0.4 points, sales leverage on fixed costs for 0.3 points and other one-off factors for 0.2 points. This was partly offset by IT investments and staffing as well for 0.5 points, US deconsolidation for 0.4 points and the exit of Russia for 0.2 points.

So again, we were heavily impacted by the others line. We went from a positive 1% of net sales last year to negative 4.8% this year. So as you can see, the impairments on LimeLife and Melvita accounted for most of the decline, accounting for 2.3 points and 1.1 points each. A capital gain arising from the change of our percentage of interest last year on Good Glamm accounted for one point, and then the Russia exit for 0.7 points, and then the share of loss in associates for another 0.5 points, and this was mostly coming from Good Glamm and also from L'Occitane Middle East. Finally, 0.2 points coming from the US deconsolidation last year.

So all in all, our operating profit margin fell by about 6.2 points to 11.2%. As you can see in this slide, the factors of the impairment losses this year, the Russia exit, Good Glamm and also the deconsolidation of the US last year are all exceptional items, and together, these accounted for about 5.2 percentage points. In addition, we had a general inflation in costs, namely in salaries, raw materials, packaging, freight, for 2.5 points. We also invested higher in marketing and also in our IT function for 1.2 points, share of losses in associates for 0.5 points, and channel mix and others for 0.5 points. On the positive side, we had a positive brand-mix effect for 1.5 points, FX and leverage on higher sales 1.2 points, and lastly efficiencies in our network, price increases for 1.1 points.

So on slide 16, we have a bridge, a summary between our management and the reported operating profit. So as you can see here, our management operating profit margin was 15.8%, a decrease from last year's 17% but still remaining quite healthy.

Next, we look at the operating profit margin by brand. L'OCCITANE en Provence still contributed most to the overall operating profit of the Group, with over €208 million in OP and a margin of 14.6%, and this was affected by some exceptional items again including the Russia exit, the US deconsolidation last year and also the impairment of our cafe in Paris last year. If we excluded these items, the management operating profit margin of L'OCCITANE en Provence fell from 19.2% to 16.2% this year. The decrease of 3 points was mainly driven by an inflation in production cost, salaries, T&E, warehousing and also investments in marketing and IT.

Sol de Janeiro, a very exceptional OP margin of almost 25% due to its very strong top-line growth and a lean structure.

ELEMIS stayed above 20% operating profit margin, and the decrease of about 2% was mainly due to an increased marketing investment, particularly in the US, with influencers, an increase in headcount for the travel retail and department store channels and general cost inflation.

For the other brands, we ended up with a loss of about €86 million, mostly due to the impairments.

On CapEx, we increased by about €8 million to €46 million this year, and we had a resumption of store openings and refurbishments, continued to invest in IT and also upgraded some of our factories and offices around the world. Lastly, working capital, our cash cycle increased by 10 days. Inventory days decreased by about 10 days. So this concludes my section of the presentation. I will now pass it to André to go over the strategic review and outlook.

André Hoffmann

Thank you, Janis. So the macroeconomic landscape continued to be challenging in fiscal '23, marked by global inflation, recession fears and a COVID-related consumer pullback in China. However, we remained steadfast in implementing our long-term strategy to drive sustainable and profitable growth.

Specifically, we invested in key channels and product categories in a measured and targeted manner, supported our fast-growing new brands and stayed agile in allocating our resources as we navigated the market uncertainties.

Thanks to the resilience of our core brand and the robust performance of the newer brands, our sales grew by 13% to exceed the €2 billion milestone for the first time.

In terms of profitability, we explained earlier that our results were impacted by certain exceptional items, in particular, the sale of our Russian subsidiary and the impairments on the underperforming brands, LimeLife and Melvita. Excluding these impacts, the operating profit margin remained healthy at 15.8%, and just to remind everybody, our guidance for the full year was 16%.

Across the Group, we share a commitment to the triple bottom line - our people, the planet and profit. By delivering healthy profit, we can invest in our people and the planet, in line with our mission to positively impact people and regenerate nature.

In taking care of our people, we make it a priority to offer training and development opportunities to all 9,000 of our staff and to promote their well-being in the workplace. In 2022, we were Great Place to Work certified in 16 countries around the world. We rolled out an inclusive parental leave policy at the global level and became a real living wage employer in the UK, a first step in our goal to become a real living wage employer worldwide by 2025. We also achieved gender parity in our executive committee.

In protecting the planet, we announced our climate strategy to lay down a roadmap towards becoming science-based net zero by 2050. So far, we have made great progress in reducing our Scope 1 carbon emissions by 42%, well ahead of our schedule to reach our 46% reduction target by FY2031. Our efforts in sustainability have been recognised by EcoVadis Gold Medal, placing us in the top 5% of assessed companies, and after celebrating ELEMIS B Corp certification in January this year, the whole Group is well on track to become B Corp certified in 2023.

The accelerated M&A activity in recent years has transformed us into a truly multi-brand Group. Our brand mix is now much more diversified, with two of our newer brands, ELEMIS and Sol de Janeiro having grown to take up nearly a quarter of our sales in aggregate.

On the other brands, Erborian and L'OCCITANE au Brésil performed well, with 33% and 41% sales growth, respectively, last year. Erborian remains highly profitable and L'OCCITANE au Brésil has narrowed losses and is well on the road to profitability. The underperforming brands, LimeLife and Melvita, which we have taken impairments on, have new management teams in place to lead branding and distribution model revamps. We remain convinced of the long-term potential of Melvita, whereas for LimeLife, we continue to work pragmatically with its founders to seek the best way forward.

Our multi-brand strategy of enabling the new brands to operate autonomously while identifying synergies under the Group umbrella has proved to be highly effective. This model also boosted our commercial strength in negotiating for better locations and visibility for all our brands with key partners. For instance, at this year's global travel retail conference, we showcased our full travel retail offer and expect to grow this channel significantly this year, having already opened the first travel retail counters for Sol de Janeiro and Grown Alchemist in recent months.

Looking at our three main brands, results were mixed. L'OCCITANE en Provence ended fiscal year '23 with a slight sales decline of 0.5%, mainly due to the tough conditions in China for most of the year and our divestiture of the Russian business. Excluding these two markets, the brand grew by 7%, a very respectable figure.

We already see the first positive signs in China in the new fiscal year and plan to significantly increase our marketing investments there. We recently ran a campaign on one of our global bestsellers, the *Almond Shower Oil*, together with a brand-new body care range that has detoxifying and firming properties, and more recently launched an anti-hair-loss scalp treatment. We believe our efforts in offering real benefits using natural and sustainably sourced ingredients will help us capture the new premiumisation trends in product categories we believe we have a right to win – namely face care, body care and hair care.

ELEMIS grew a respectable 9% in fiscal year '23. In the second half of the year, we took a strategic decision to reduce sales to certain promotion-driven web partners in the UK to protect brand equity. Although sales in the UK declined as a result, ELEMIS continues to show strong momentum and customer engagement, evident by its ranking as the #1 skincare brand in earned media value in its two largest markets, the UK and the US.

Sol de Janeiro delivered above management's expectations and grew by a very impressive 135% last year, becoming our second-largest brand. At the same time, they achieved an operating profit margin of nearly 25%. The brand ranking remains #1 for the skincare category in both Sephora USA and Canada, year to date.

Sol de Janeiro's strong performance was supported by both its iconic core products and new launches. They have shown a clear talent in launching bestsellers, as following its iconic *Brazilian Bum Bum Cream*, their popularity reached new heights with their perfume mist collections which are currently generating strong buzz with the limited edition summer fragrance mists. Their first eco-friendly refill product for the *Brazilian Bum Bum Cream*, which uses 89% less plastic compared to the standard jar and the limited edition *Rio Radiance* body cream have also been incredibly successful.

We are cautiously optimistic as we head into fiscal year '24, in light of the opportunities but also the uncertainties in major markets. In fiscal '24, we expect to achieve approximately 17% sales growth and an operating profit margin of around 12%. This operating margin represents a decrease compared to fiscal year '23's management operating margin. This is driven by the significantly higher marketing investments for the core L'OCCITANE en Provence brand, as we are allocating an additional €100 million in key markets and channels to capture the growth opportunities that we have outlined and to protect our market share amid the hyper-competitive environment and the expected arrival of many new entrants.

Of course, we are also investing in our fast-growing new brands as they enter new markets. We are convinced that these investments will not only allow us to capitalise on the clear opportunities this year with the gradual return of international travel and a rebound in China but also propel our development as a multi-billion-euro group in years to come.

Thank you for your attention, and I now suggest we start the Q&A session.

Janis Lai
First question from Chris.

André Hoffmann
You had your arm up very quickly, Chris.

Chris Gao
Thank you. Thank you, André. Thank you, Janis. So this is Chris Gao from CLSA. I have three questions. So the first question is as we are close to the end of the first quarter of this year, can you share more about the trends that we are seeing for the first quarter by brand and by region, especially for the China market including June 18? How are we doing in this promotion period? Maybe this question first.

Janis Lai
Sure. So for the first quarter of FY2024, we had strong double-digit growth for the whole Group of close to 30%. If we look at the core L'Occitane brand, roughly mid-single digits. ELEMIS, close to 25% growth and Sol de Janeiro, close to triple-digit per cent.

For 618, we had roughly 11.5% growth on the Tmall platform compared to last year, and then on JD, it was roughly 21% growth. So both platforms combined, we were roughly a 15% growth. Oh, okay. I think we can continue.

André Hoffmann
Chris, did you have more questions?

Chris Gao
Yes. So secondly, as regarded to SDJ's strong performance, actually, we noted still a very robust growth rate heading into the first half of this quarter of 2024, so could you please share more about your outlook on the brand's growth trajectory going forward? What kind of growth profile are we expecting, maybe in the short term, say this year, and then in the midterm that we have more sustainable growth? What are the key drivers behind such a strong growth profile so that it could support the sales short-term robustness, as well as the midterm sustainable growth. Thank you.

André Hoffmann
Well, of course, we are trying to be very reasonable with our growth projections. Unfortunately, they keep exceeding the performance. As Janis mentioned, for the first quarter, the growth will be very close to triple digits. For the full year, I think very strong, high-double-digit growth is very realistic in view of (1) new market expansion, (2) new channel expansion, as I mentioned with travel retail, and (3) new product launches. So the future looks bright for Sol de Janeiro, but there are always market uncertainties, and we prefer to be cautious with the growth numbers that we share.

Chris Gao
Thank you very much. So the third question is related to the OP margin guidance. We just guided around a 12% OP margin, and this is mainly attributable to a higher marketing investment, as mentioned, so we have more investment in L'OCCITANE en Provence, and we also have investments in other smaller brands, emerging brands. So could we have a brief breakdown about how our marketing budget allocation is in the coming year?

André Hoffmann
Well, I - do you have the - Janis will give you the breakdown.

But I would just like to say it's not only marketing. We need to invest in IT, in upgrading our platforms, upgrading data privacy, security, upgrading talent, so it's marketing investment is the big highlight, but in fact, we're just investing to have a much bigger-size company.

Janis Lai
So in terms of the marketing investments, we mentioned that we are investing an additional €100 million in marketing. Roughly 80% of that is going to the core brand, and then 15% into ELEMIS and then the remainder on the newer brands.

Chris Gao
Yes, understood.

Janis Lai
This is additional compared to the previous year.

André Hoffmann
So this is - that's not the total investment. Each brand has its own marketing investment. This is the Board of Directors deciding to put the additional €100 million to support the growth of these different brands.

Chris Gao
Understood. I have a small follow up. Since we are also expanding channels for ELEMIS and we are also seeking for expansions for - selective expansions for other brands - so actually, in terms of distribution expense, do we have other allocation plans for distribution expense expansion?

André Hoffmann
Well, what's important to see, and I think it's evident from last year and also the year before, as ELEMIS and Sol de Janeiro take on a bigger percent of the Group's sales, distribution expenses should come down as a percent because they're mainly sell-in or what we call wholesale sales. They don't have all the operating expense as L'Occitane, which has mainly been up to now a retail business model. So I hope we can make further improvements in distribution expenses, in lowering them.

Chris Gao
Understood. Thank you very much.

Anne Ling
Hi, hello, André. Long time, no see. This is Anne from Jefferies.

Just a couple of questions here. Just to follow up, regarding the operating margin guidance, of this 12%, maybe you can share with us the breakdown by brands, if you could.

Then, secondly, I remember the Company has a more midterm target of €3 billion in terms of sales for FY26. Also, with a mid-teens operating margin, as well. So maybe based on the current trend, would you share with us any update regarding that midterm target?

André Hoffmann
Sure.

Anne Ling
What does it look like in terms of by product category? Sorry, no, by brand mix.

André Hoffmann
By brand.

Anne Ling
Yes, thank you.

André Hoffmann
Janis has the exact breakdown for you.

Anne Ling
Okay, thank you.

Janis Lai
Hi, Anne. So for FY24, the brand breakdown in terms of OP margin guidance, L'Occitane core brand, around a low to mid-teens, ELEMIS, mid-teens, Sol de Janeiro, high teens to 20%, and then the others together being positive, so the total coming to roughly 12%.

Our midterm guidance, which is by FY26, we remain committed to reaching that €3 billion in sales, and in terms of brand breakdown, we expect roughly 55% of sales to be coming from the core L'Occitane brand, ELEMIS, roughly 15%, Sol de Janeiro, above 20%, and the others for the remaining 12% to 13%.

André Hoffmann
As a per cent of total sales.

Janis Lai
Yes, per cent of total sales.

Anne Ling
My question is what sort of growth we should be expecting for ELEMIS as well as Sol de Janeiro. I expect core brand L'Occitane possibly in the range of mid-single digit, right?

Janis Lai
Correct, correct, yes. So for a CAGR between FY23 to FY26, L'Occitane core brand, mid-single digits, ELEMIS, likely in the mid-teens, Sol de Janeiro is strong double digits, and the others also above 20%.

Anne Ling
Okay, and regarding ELEMIS, I think one of the key growth drivers possibly will be in Mainland China, so what is your plan there? Part of this marketing increase goes to the China market?

André Hoffmann
For ELEMIS, absolutely.

Anne Ling
Yes, so what is the current prospect, what we are seeing in terms of the growth in China in particular? Not just for ELEMIS but also for different brands? Yes, thanks.

André Hoffmann
China remains the single biggest growth opportunity for premium beauty brands in the world, and I think for our Company, it's no different. We have decided to invest I believe it's an additional €12 million compared to last year to support two very important marketing campaigns in China for the ELEMIS brand.

We remain very optimistic about the ELEMIS opportunity. China remains the biggest market for premium anti-aging skincare in the world, so it's the right fit for ELEMIS. Just it's a new brand to the market. It takes time to develop, but we don't want to put too much pressure on the ELEMIS teams. We want step by step to build the market. We know we have to invest more. We probably underinvested to begin with, so now we're trying to catch up.

Janis Lai
We can now move onto some online questions.

Operator (on behalf of Timothy Er)

Hi. There's two online questions. The first one is from Timothy Er at Whitefield Capital Management. He asks: the Company's net debt has dropped by 2%, but the finance cost has increased by more than 240%. Can the management provide some explanation about this? Is this solely because of the increase in the effective interest rate? Are you able to provide more colour on borrowing costs? Thank you.

Janis Lai

Hi, Timothy. I think we can provide more detail, but we believe that the debt cost has increased over the past year, but I don't think that is the sole reason.

Operator (on behalf of Ken Siazon)

The second online question comes from Ken Siazon at Southeastern Asset Management.

He's asking why would 80% of the incremental €100 million strategic investment be in the core brand, which is the slower, lower-margin profit business, versus the higher-margin, faster-growing brands such as ELEMIS and Sol de Janeiro. Thank you.

André Hoffmann

Well, Ken, I think the main reason is those fast-growing brands, they're able to finance their marketing investments from their revenue on their own. They don't need additional support from the Group, and we feel that L'Occitane has really been underinvesting in China and Japan, and we need to catch up. We have many new product launches, so it just made sense to us to support that, because moving the L'Occitane sales by 10% is going to add an additional revenue of roughly €140 million, €150 million, and this is very, very significant for the size of the Group compared to a smaller brand, where if we double the sales, it still won't equal the 10% growth of L'Occitane.

Operator

There are no more online questions. Just a reminder, if you're joining us online, you can click the raise hand icon on the right-hand corner at the top right of the console.

Amanda Wang

Thanks. I'm Amanda from CICC. I have a couple of questions regarding our major brand. The first is about the L'OCCITANE en Provence. You mentioned that we will continue the premiumisation strategy for L'OCCITANE en Provence. Would you like to give more colour regarding the direction of premiumisation, as we know that L'OCCITANE en Provence is already a very premium brand in the body care sector?

The second question is, the customer gradually cares more about the holistic skincare, both the face and also the body, so some dermatologist brands provide body care products to the customers, and are we worried of competition? I know we are a botanic-oriented brand, so any chance that we may also capture this kind of demand within the L'OCCITANE en Provence? Thank you.

André Hoffmann

Well, when we - thank you for the question. When we talk about premiumisation, we talk about all aspects of the brand's positioning, so our stores, our distribution, our packaging, our communication, so it's not just one aspect of the brand that we want to premiumise. It's the total aspect of the brand, and this will take time. It's not done overnight, and you can't tackle all aspects at the same time, but we feel that we're off to a good start, and we're going to continue this. It will probably take us a few years to get to the level where we need to be.

Concerning the competition, look, we feel L'Occitane has a right to win in the premium body care category. We want to upgrade formulas, have real performance-based body care formulas, which we've already started to do. If you're familiar with our recent *Artichoke* range, which has had fabulous results in Europe and North America, we want to also continue along that trend for delivering high-quality formulas that are both sensorial but also effective in their claims. So that's not going to change.

Amanda Wang

Got you, thanks, André. For ELEMIS, any updates on our strategic decision regarding its performance in the UK? Like the negotiation, after it, with wholesalers? Thank you.

André Hoffmann

Well, we've been asked a lot about that question. I think there's really not much to worry about. ELEMIS in the UK, it's a very, very strong brand. We're already seeing return to performance. We're, as I said earlier, the #1 ranked brand for skincare in earned media value, which is a precursor to the recruitment of new customers, and I think that there's nothing to worry about in the UK. We made the right decision last year to stop the excess promotion of a few of the online retailers, and as they seem to be playing by the rules, we'll continue to deliver them according to their needs, but we had to send a message, and we did.

Amanda Wang

Got you. Thanks. So we guide like mid-teens CAGR for ELEMIS in the coming three years. Would you mind to break it down by regions, like US, UK and China, which one will contribute to most of the growth?

André Hoffmann

I'm not sure we have that today, but we can certainly email it to you. From memory, in terms of percentage growth, I would have to imagine China would be the highest, as it probably was last year, despite the difficult macro factors. ELEMIS has existed for 30 years, so it's a very mature brand in the UK, so it's not reasonable to expect it can have the same growth as China. The US continues to go from strength to strength. I think growth in the US last year for ELEMIS was north of…

Janis Lai

It was 34%.

André Hoffmann

…34%, which is pretty damn good. I feel we're on a very strong growth trajectory in the US. We have a lot of great initiatives, new product launches, new campaigns, and we've recently made an agreement to launch with one of the really important multi-brand beauty retailers for early next year, which will really help transform our distribution in the US. So I think the US and the UK, they're in good hands.

Amanda Wang

Got your point. We guide around 15% OP margin for ELEMIS, which is a bit lower than its historical level of around 20%-something. Do we also include the additional marketing investment of ELEMIS?

André Hoffmann

Well, there absolutely are additional marketing investments, mainly related to China.

Amanda Wang
Understood. Is it about to cooperate with KOL or is it mostly related to the promotion in our retail stores?

André Hoffmann
No. It's KOL driven. Today in China, you need to be livestreaming. You need to be selling on Douyin. These are expensive channels to operate. I think Douyin has something like 650 million daily users, so you absolutely have to be present and be in connection with your customer base.

Amanda Wang
Yes, totally understand. Thank you. So for Sol de Janeiro, we know it has quite good, stellar performance in the past year, and I just wondered to drive the income in triple-digit growth, is it mainly because of organic growth through its original market, I mean the US market? Any potential for the new - sorry, new, maybe web partner expansion or some new region expansion within the US, or it's mainly because of the customer repurchase?

André Hoffmann
I think last year, there were very few new markets that were opened. There were no new channels. We started in this new year launching, as I mentioned - Hong Kong was just launched last month for Sol de Janeiro. Travel retail was just started this year in Europe, North America. Travel retail APAC will start in the second half of this year. New countries, new markets will be opened. New product launches. As I said earlier, when we acquired the brand, the *Brazilian Bum Bum Cream* was more than 50% of the total sales. Today, fragrance mists are the number one category.

So Sol de Janeiro's ability to launch new bestsellers has been a big factor in driving the growth, but I think you can see category expansion for the future. I think you can see channel expansion, and I think you can see new country or new market expansion.

Amanda Wang
Got you. My last question is about the strategy of Sol de Janeiro. Any chance that we may also turn Sol de Janeiro from wholesale to some retail channel shift in the coming days?

André Hoffmann
In the coming days? No. We have done some pop-up stores for Sol de Janeiro in the US and also in the UK with very positive results. But still today our main channel will be wholesale, with multi-brand beauty retailers, department stores and online, both direct-to-consumer and through third parties. We need to expand the product categories a little bit more before we can do our own direct retail.

Amanda Wang
Understand. Thank you so much André. That's all for me.

Janis Lai
We'll take the next question from Anne.

Anne Ling
Sorry, just a follow up question regarding the product category breakdown. For last year, what has been the growth driver? And also for FY24 or forward, what will be the potential growth driver by product category? Maybe we can just talk about L'Occitane core brand first.

André Hoffmann

I think our key strategy, and I want to say, Anne, this is probably globally, but I know it's definitely the case in China, which means APAC - it's face care, body care and hair care. As I said earlier, we have launched some new technical haircare products, so it's not just shampoo and conditioner. It's really along the trend of skincare for your scalp, because if your scalp is healthy, then your hair will be healthy. We've launched a new anti-hair-loss serum, which has done exceptionally well. We have an overnight scalp serum, which I think has also become a bestseller.

Face care, we're working on many new product launches, and body care, as I said, we launched the *Artichoke* range earlier this year. *Almond* is a key focus. In China, it's one of the big, big success stories for our Company, and we've put a lot of effort and marketing investment behind the *Almond Shower Oil*, so those are the three main categories. But of course, we would like to do well with all our product ranges, hand cream, fragrances, men's grooming products, but those are the three strategic pillars for now, hair care, body care, face care.

Anne Ling

Do you have the breakdown of these three product categories?

André Hoffmann

Sorry, Janis certainly has it.

Janis Lai

Sure. So hand and body remains our largest, together accounting for roughly 39% of the L'Occitane brand sales. Face care is second at 20%, and then hair care at 10%.

Do we have any final questions from the online audience, please?

Operator

There's quite a few online. How much time do we have?

Maybe I'll – there's a few on the operating margin. I might just combine them.

Operator (on behalf of Tsurue Kai and Benjamin Ng)

So this is from Tsurue Kai of Cecil Street Capital Management and Benjamin Ng of Whitefield Capital. Can you provide an update on the midterm OPM target by brand? Previously, I recall it was 18% for the core brand, 22% or more for ELEMIS, 20% for Sol de Janeiro and 10% for Grown Alchemist and turning positive for the Others? So the overall Group will be more than 16%. Is that right? He'd like to also know the sustainable OPM level for brands after upfront investments.

Just to add on to that, can you share a little bit more about the longer-term OPM target, especially with the underwhelming China consumption growth at the moment? Thank you.

Janis Lai

Sure. So on the midterm plan, we expect the operating profit margin still between - to be in the mid-teens, so roughly 16%. That is intact. By brand, for the core L'Occitane brand, mid to high teens operating profit margin, ELEMIS and Sol de Janeiro, both around 20%. Yes, the other brands together, they should be positive, with Grown Alchemist being positive already in the coming fiscal year.

Operator (on behalf of Ivan Su)

There's also some question about the marketing spend as a percentage of revenue. So this is from Ivan Su of Morningstar. Do you see the increased marketing spend as a percentage of revenue to be the new norm? At what point do you see it reverting back to the low teens percentage? Thanks.

André Hoffmann

I don't see it reverting back. I think the new level will be the new norm. It's just simple fact of reality that the market is as competitive as ever, and if you don't invest, you'll fall behind. I think that was really the key catalyst in our decision to commit this additional €100 million, and it wasn't a one shot for fiscal year '24. We believe we need to sustain that for the coming years. We hope, and it is really our intention, that we can help fund this by reducing distribution expenses, and the growth in sales will help compensate - we'll get additional growth from this marketing investment.

Operator (on behalf of Joseph Shaw)

Just one more question from online. Joseph Shaw from Mondrian Investment Partners is asking for your outlook for new store openings in China, especially for the core brand.

André Hoffmann

For the core brand, we've budgeted to open 17 stores this year, and I think of those 17, probably 95% are already confirmed, so it's not like it's a speculative 17, it's really what we've targeted, and there could be a few for Grown Alchemist. Our current thinking is maybe we can do some long-term pop-up stores to evaluate the opportunity, but certainly we'll have a good few months of performance with our sell-in partner before we make that decision.

Operator (on behalf of Richard Huang)

Okay. Just quickly, this is from Richard Huang of AceCamp, just to expand on the further question, so what's your store network expansion plan for FY24, maybe for the other regions?

Janis Lai

So overall for the Group, we expect a single-digit net closing, and this is coming from a positive store opening count in Asia-Pacific, mainly for China, a negative around four to five stores in the Americas and also a net closing figure of around 10 stores in Europe combined.

So if we have no further questions, I now announce the end of the investor presentation today. Thank you all for your participation. If you have any follow-up questions, please don't hesitate to contact me. Thank you.

André Hoffmann

Thank you.

-End-