L'Occitane International S.A.
FY2024 Interim Results Webcast

Company Participants
- Reinold Geiger, Chairman
- André Hoffmann, Vice Chairman & Chief Executive Officer
- Samuel Antunes, Chief Financial Officer
- Janis Lai, Investor Relations Director

Other Participants
- Lizzy Liu, CLSA
- Vivi Huang, Morgan Stanley
- Lynn Wu, Bank of America

Presentation

Janis Lai
Welcome, everyone. Thank you for joining L'Occitane International's presentation today on the FY2024 Interim Results.

With me here today in Hong Kong is our Vice Chairman and CEO, Mr André Hoffmann. We are also joined on the line by Chairman, Mr Reinold Geiger and our CFO, Mr Samuel Antunes.

First, Samuel will start with the financial highlights, and André will then go over our strategy review and outlook before we go into Q&A.

Today we are taking questions from both the onsite audience and our online audience. For those who are joining online, you can see the raised-hand icon on the top right-hand corner of the webcast page. You can feel free to submit your questions even during the presentation, and we'll read them out at the end during our Q&A session. Now I would like to pass it over to Samuel. Thank you.

Samuel Antunes
Thank you, Janis. Good morning, good afternoon, everyone. First, we start with the financial highlights.

The Group had strong sales momentum in the first half of FY2024 with net sales exceeding €1 billion, representing a growth of almost 19% at reported rates. This is considered a solid result amidst the macroeconomic challenges.

Gross profit margin remained high at 78.3%, although it fell by 1.9 points as compared to the same period last year. This was mostly due to a brand mix effect as our last-acquired brands, ELEMIS and Sol de Janeiro, have a higher wholesale mix.

Operating profit decreased by 11.8% to €76.8 million, while the operating profit margin decreased to 7.2%. This was largely due to a significant increase in marketing expenses and some non-operational items. Note that on a management basis, the operating profit margin was 8.4%. We will explain more in the following slides.

Profit for the period was roughly €40 million. Meanwhile, the net debt decreased 10.7% to €735.2 million.

Now we have a look at our sales breakdown. Our brand mix is now much more diversified. L'OCCITANE en Provence's sales mix was 56%, down from two-thirds last year due to the continued development of Sol de Janeiro and ELEMIS. Sol de Janeiro's rapid growth boosted it to account for a quarter of our sales.

In terms of sales by region, the Americas continues to be our largest region at 41% of the Group's sales, mainly contributed by Sol de Janeiro. APAC was second at 35%, while the EMEA accounted for 24%. By single markets, the US was the largest single market, accounting for around 36% of overall sales, followed by China at 13% and the UK at 7.6%.

Our channel mix was skewed slightly more to wholesale at 41%, thanks again to Sol de Janeiro, while the remaining 59% was split basically evenly between online and retail channels.

Looking at our sales performance by brand, L'OCCITANE en Provence's sales were slightly negative at reported rates but grew 3.5% at constant rates in the first half. This was mainly contributed by China's good sales momentum, where the core brand grew 22% at constant rates. Excluding Russia, which we exited last year, L'OCCITANE en Provence grew 4.8% at constant rates in the first half.

ELEMIS grew 7.6% in the first half, slower than the double-digit growth in Q1. This was due to a sales decline in both the US and the UK in Q2, in line with management's expectations, as it continued to execute the premiumisation strategy.

Sol de Janeiro continued its impressive trajectory and grew by 189% at constant rates. It showed triple-digit growth in all geographies. The other brands together posted a growth of 10.7% at constant rates in the first half.

Sales growth by region. APAC saw H1 growth of 9.2% at constant rates, mostly driven by L'OCCITANE en Provence's decent growth in China and ELEMIS's continued development there. In the first half, China grew by 28% at constant rates.

Americas was the fastest-growing region with 63.6% growth at constant rates, mainly driven by Sol de Janeiro in the US.

EMEA grew 4.1% at constant rates, thanks to the new contribution of Sol de Janeiro in Europe and the very nice results of Erborian, particularly in France. Excluding Russia, EMEA grew by 8.7% at constant rates.

Finally, sales growth by channel. Retail sales were slightly negative at reported rates but saw a 3.7% increase in constant rates, once again due mostly to the better conditions in China. Excluding Russia, the retail growth was 5.5% at constant rates. Wholesale and others was the fastest growing channel with 44.9% growth at constant rates. Online channels posted a solid 26.9% growth at constant rates, mainly driven by Sol de Janeiro and ELEMIS, as well as China's newly launched marketplace channel.

Now we have an overview of the profitability. Our gross profit margin decreased by 1.9 points due mainly to a brand mix effect. We significantly increased our marketing investments, especially for the core brand L’OCCITANE en Provence, but we were able to partly compensate that with a better distribution expenses ratio also due mostly to brand mix.

In the “others line”, it includes share of profit/loss from associates and joint ventures and some other exceptional items. As a result, our reported operating profit margin declined by 2.5 points to 7.2%. Note also that our profitability in the first half has historically been lower due to the seasonality of our business, as we invest and prepare for the peak holiday season in the second half of the year. We will go into more details in the following slides.

The gross profit margin decreased by 1.9 points to 78.3%, due mostly to the following factors: unfavourable brand mix for 2 points, mostly from Sol de Janeiro as it has a higher wholesale mix; unfavourable FX impact for 0.5 points; and channel mix and industrial costs and other impacts for 0.5 points. The decrease was partly offset by improved commercial conditions with our sell-in customers for 0.8 points and price increase for 0.3 points.

Distribution expenses had a nice improvement of 2.7 points to 36.5% of net sales, due mainly to: favourable brand mix effect for 5.6 points, mostly from Sol de Janeiro and Erborian, which have a lower level of distribution costs; higher sales leverage, channel mix and FX for 0.7 points; and efficiencies thanks to network rationalisation and fewer renovations and a decrease of freight costs for 0.5 points.

This improvement was partly offset by: higher investment in organisation and staff, including progressing to become a living wage employer, IT and others for 1.5 points; cost increase linked to a rise in commission rate to sell-in partners for 1.2 points, mostly due to the sales growth in marketplace channels, Sol de Janeiro and additional livestreaming activities in China; increase in travel and entertainment and other one-off effects for 0.8 points; and finally, reclassification of sales commission from gross profit for 0.6 points.

Marketing expenses increased significantly by 4.4 points to 22.2% of our net sales. This increase was mostly due to: higher strategic marketing investments to capture growth opportunities for all of our brands for 4 points, of which 3.6 points went to L’OCCITANE en Provence, of which 2.2 points were allocated to China and 1.4 points to other strategic markets and channels; and 0.4 points went to the other brands, including 0.2 points that went to ELEMIS in China.

We have also higher investment in staff, salary increase and fees for 0.7 points and brand mix effect for 0.7 points. This increase was partly offset by higher sales leverage for 0.8 points and FX and channel impact for 0.2 points.

General and administrative expenses decreased slightly by 0.1 points to 10.6% of net sales. On the favourable side, we had better sales leverage for 2.1 points and favourable brand mix and phasing for 0.3 points. This improvement was offset by 0.7 points from each of: higher bonuses and incentives; higher operating costs such as salaries, T&E and recruitment fees; higher investments in organisation, staff, IT and others, and lastly, 0.2 points from FX.

All in all, the operating profit margin decreased by 2.5 points to 7.2% of net sales. This decrease is explained by: increase in marketing and organisational investment for 7 points; one-off items, phasing, unfavourable FX and others for 2 points; cost increase and inflation for 1.6 points; and non-operational items mainly from Good Glamm Group and CAPSUM for 0.7 points.

This increase was partly offset by: higher sales leverage and favourable brand mix for 6.4 points; Russia impact last year for 1.6 points; and channel mix, efficiencies on retail network, freight and price increase for 0.8 points.

There were several items considered to be exceptional that impacted the operating profit margin this year. These are: the share of losses of Good Glamm and CAPSUM, and the net loss from CAPSUM's disposal. Hence, in this slide we also provide a management version of our operating profit for a more representative view. On a management basis, the operating profit margin decreased by 3.1 percentage points, from 11.5% to 8.4%.

Now we look at the operating profit by brand. L'OCCITANE en Provence's OP margin was almost flat at 0.1%, due mainly to the significant increase in strategic marketing investments in key markets and channels. We are also affected by the seasonality of the business, given that we invest in the first half to prepare for the peak holiday season in the second half. Some non-operational items, such as the share of losses from Good Glamm Group and CAPSUM, were also allocated to the core brand. Excluding these items, the management operating profit margin of L'OCCITANE en Provence was 2.3%.

Sol de Janeiro had a stellar operating profit margin at 28.9% and was the largest contributor to the first half's operating profit. ELEMIS's operating profit margin decreased from 10.8% to 6.5% as a result of accelerating marketing investments. The other brands together ended the first half with an operating loss of €9 million.

Capital expenditures amounted to €28.7 million for the first half of FY2024, an increase of €7.5 million as compared to the same period last year. This is related to a resumption of store openings and refurbishments after emerging from COVID in most markets, investments in production line, warehouses and offices, as well as IT equipment. Yet, the CAPEX remains quite low as compared to pre-COVID levels.

Cash cycle increased by 6 days to 67 days of net sales, as a result of slightly higher trade receivables being more than offset by inventory and trade payables turnover. Inventory value as at end of September this year increased by €81.5 million to €391 million as compared to the same period last year. Average inventory turnover decreased by 15 days to 278 days, due mainly to lower finished goods and mini products and pouches for 12 days, favourable FX impact for 10 days, and this improvement was partly offset by raw materials and work in progress for 7 days.

Trade receivables turnover days increased by 1 day, mainly attributable to the increase in sell-in sales. Trade payables turnover days decreased by 12 days.

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

André Hoffmann

Thank you, Samuel. In the first half of FY2024, we had solid sales growth of almost 25% at constant rates, driven by our two largest brands, L'OCCITANE en Provence and Sol de Janeiro.

When we last met in June for our annual results announcement, we shared that we decided to significantly increase our marketing investments to allow all our brands to fully capture growth opportunities and protect market share in an increasingly competitive market.

I am pleased to report that we are seeing some early results, evident in the core brand's growth of 22% in China, considerably outstripping the growth of the overall premium beauty market. Although the increase in marketing investments is dilutive on our margins short term, we are convinced it is necessary to take the development of all our brands to the next level.

As Samuel shared, our management operating profit was 8.4%, still a decent result thanks to the strong contribution from Sol de Janeiro.

Delivering a healthy profit only represents one of the Ps of our 3P model to balance profit, planet and people. A few months ago, the Group celebrated becoming B Corp™ certified. We are extremely proud of this achievement, as B Corp is a globally recognised standard that measures and verifies a company's entire social and environmental performance, and ensures transparency and accountability.

During our two-year journey to certification, we used the B Corp framework to rigorously evaluate our impact on all stakeholders across five pillars: our governance, on our workers, the environment, the community, and with our customers.

Our brand mix is now much more diversified thanks to our recent M&A activity, with our second- and third-largest brands, Sol de Janeiro and ELEMIS, now taking up more than a third of our total sales.

Of the other brands, Erborian and L'OCCITANE au Brésil stood out and grew 44% and 36% at constant rates, respectively. Erborian maintained a very high operating margin of close to 30%, one of the highest in the Group. L'OCCITANE au Brésil was still in a loss position but narrowed losses considerably to just over €1 million.

For the underperforming brands that we took impairments on last year, Melvita narrowed its sales decline to a single-digit percentage in the first half, while LimeLife continued to be sluggish, declining by over 20%.

Now we will have a closer look at the key strategic initiatives of our three main brands.

The core brand's growth was mostly driven by China and the encouraging 22% growth can be attributed to our increased marketing investments. We focused marketing campaigns on the strategic product categories of face care, body care and hair care. This strong marketing push helped build awareness, engagement and ultimately our outperformance against the overall premium beauty market.

One of the major campaigns was for the *Almond* range that featured lifestyle content marketing and the use of KOLs on social media platforms, including Little Red Book, to drive awareness and build relevance. The campaign resulted in a 36% sales increase in the *Almond* range in the January to September period and established the *Almond Shower Oil* as the number 1 most searched shower product on social media platforms.

For the launch of the *White Lavender* range, we utilised an omnichannel campaign to bring a Provence vacation story to life, including the use of celebrity and KOL content to drive social media buzz, an immersive experience at a physical PR event with a pop-up café, and livestreaming sessions during Tmall's Super Brand Day. This campaign resulted in 430 million online impressions and more than 100% growth in both Tmall's and Little Red Book's search index.

Finally on L'OCCITANE en Provence, we held a campaign on our iconic face care product, the *Immortelle Divine Cream*, featuring strong KOL engagements to generate product-focused content and build word of mouth. We invited one of China's top livestreamers to Corsica this summer to trace and discover the uniqueness of the Immortelle flower, and he held a livestreaming session from one of our Paris boutiques. We also had extensive content on Little Red Book and highly visible outdoor advertising.

In the July to September quarter, this campaign helped drive a 200% sales growth for the *Immortelle Divine Cream* and a three-place improvement in sales ranking in the Beauté Research face cream category and an over 400% increase in social media buzz.

As we have already mentioned, Sol de Janeiro continues to exceed management's lofty expectations, delivering triple-digit growth. In the first half, they grew 189%, driven by both their home market in the US and in international markets.

In the US, they held a highly successful pop-up campaign, where they toured multiple US cities that further boosted their popularity. For the launch of the limited edition fall fragrance mist, called *After Hours*, we held a PR event and conducted extensive KOL seeding, driving strong media buzz, incremental sales and of course customer acquisition. It reaffirmed our belief that Sol de Janeiro is not just a summer brand but has year-round appeal.

Outside of the US, Sol de Janeiro also deployed the summer brand campaign across the UK, France and the Middle East, via retailers, national media and an out-of-home campaign. We also amplified its brand awareness with the use of billboards, branded taxis, pop-up stores in the run-up to Black Friday and the holiday season. In the coming quarter, we expect to be expanding our brick-and-mortar presence in the UK with key retail partners.

Another important point for Sol de Janeiro was in the travel retail channel. During the summer, we were able to secure best-in-class retail podiums in key airports, including Paris, London, Frankfurt, New York and Sao Paulo. We have also recently launched in travel retail in Australia with a very strong domestic market that is just booming.

The brand's unmatched popularity and strong execution not only allowed it to grow in terms of sales, but they were able to expand operating profit margin to 29% of net sales.

ELEMIS progressed along the plan with 7.6% growth at constant rates in the first half. We continued to execute our premiumisation strategy such as through consciously reducing investments with certain web partners to drive traffic to our own website. Looking at the sell-out growth, which is a much better indication of the brand strength, ELEMIS grew by over 40% in the US and double-digit in both the UK and cruise ship business.

Elsewhere, ELEMIS in China is gaining traction with sales growth of over 200% in the first half as we accelerated marketing investments on social media channels, highlighting one of our global bestsellers, the *Pro-Collagen Cleansing Balm*. Douyin also made an important contribution to our sales thanks to an impactful KOL livestreaming, which we will continue to do in Q3.

Heading into the second half of FY2024, we are cautiously optimistic as macroeconomic uncertainties remain in major markets. We are highly focused to deliver a strong holiday season, while staying committed to protecting brand equity by reducing discounting depth and frequency. Our continued marketing investments in targeted campaigns and strategic product categories should also help underpin our performance during this critical quarter.

At this stage, we continue to maintain the FY2024 guidance with a sales growth of 17% and an operating profit margin of 12%. We currently have an early view of the holiday performance with both Double 11 and Black Friday; however, given the uncertainty in many major markets, we find it more appropriate to also have a view of December before reassessing the annual guidance.

With our portfolio of strong and unique premium brands and our commitment to invest for the long term, we are well-positioned to drive sustainable growth and profitability as a multi-billion euro, multi-brand group.

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

Janis Lai

Thank you, management. We now move into the Q&A session. First, we'll take questions from our live audience before moving to the online questions. So, first question from the online audience, please. You can raise your hand. Lizzy in the front.

Lizzy Liu

Hi, management. This is Lizzy from CLSA. Thanks for taking my question. I have three questions.

My first question is related to our key observations during recent promotion events. We have Double 11 this month, and we also have Black Friday and the Christmas season coming. We also see some preliminary data saying that Black Friday in the US was quite strong this year, so I was wondering, what is our Group's observation during those events? Can we have some colour by brand and also by region.

André Hoffmann

I'll do Double 11 and Janis can do Black Friday. Double 11, overall sales for our company in China online were plus 6%, but Tmall was negative 7%. Our negative 7% on Tmall was one of the better performers as the market was very negative and very heavy on the discounts and promotions.

We balanced that with a very strong performance on Douyin, which now represents approximately 15% of our online business. JD was also slightly negative, but we found that the Double 11 campaign this year was very very promotional, and we didn't really want to jump into that game as much as some of our competitors did.

Overall, we're quite pleased with our performance. As I said earlier in my presentation, and as Samuel mentioned, we believe our marketing investments were a big help to protect the level of sales.

Janis Lai

On Black Friday, I'll share some results - because Cyber Monday is still going on in some markets, so I'll just share some earlier results from Black Friday on major markets.

In the US, Black Friday was single digit up, roughly 2% up on sell-out sales, and we actually shifted our promotion strategy slightly this year to one day earlier, so instead of starting on the day of Black Friday to Cyber Monday, we shifted it for it starting on the Thursday, which many of our competitors are doing, and we actually saw a pretty decent growth on retail but slightly down on web. So, overall, Black Friday in the US was up around 2%.

In the UK, faring slightly better, kind of like a high single digit. Again, it was actually driven by both growth in the retail market and also in our online channels.

For France, also a mid-to-high single digit up. So, overall, Black Friday seems promising, but as André said, we need to have a look at Cyber Monday, as well as the December results.

André Hoffmann

I think you also wanted perhaps to have some information for the other brands. I can just say that for ELEMIS, the October results and the November results were very strong, and of course Sol de Janeiro continued to deliver triple-digit growth for the month of October and will also deliver triple-digit growth for the month of November.

Lizzy Liu

I will ask the second and third questions together. Just now we shared that we would maintain our Group guidance. I was wondering, how do we see sales growth by brand in FY2024? Do we have any updates on the sales growth guidance by brand, and also the OP margin by brand?

Janis Lai

I can take this question. Maintaining the guidance, we're basically maintaining all of the brands' sales and also the OP margin guidance. Just to reiterate, we expect for the core L'Occitane brand mid single-digit growth in terms of sales, a high single-digit for operating profit margin. For ELEMIS, we expect mid-to-high teens sales growth, with a low-teens operating profit margin. Sol de Janeiro definitely triple-digit growth, with an operating margin of close to 20%, so overall 17% sales growth with a 12% operating profit margin.

We'll take the next question from the floor.

Vivi Huang

Thank you so much for taking my question. This is Vivi from Morgan Stanley. I have two questions from my side.

Firstly, is on the selling expense. In the first half, it was up 4.4 percentage points. How do we think about the second half in terms of marketing expense, especially the fact that we have Double 11 and also Black Friday during this period?

The second question is on China. There is a consistent downgrade going on in this market. How do we position our brand, and what is our strategy for this region?

Also on the competition landscape, how do you think or observe for both online channel and the travel retail channel? That's mostly it from my side. Thank you.

André Hoffmann

I'll jump into the China question. As we've shared before - and I think all beauty brands have the same long-term vision - China represents a tremendous growth opportunity. We don't believe by any stretch of the imagination that we have a saturated distribution, and in fact, in our five-year plan, we think we can be opening up between 15 and 20 new stores a year for the core L'OCCITANE en Provence brand.

But China right now is soft. Consumer confidence is not so strong. There are many sectors of the economy which are challenged and struggling, so we have to be cautious. But as we believe long term, we've decided to invest, and our investment level in China has never been higher. As I said, it's something that we believe in very strongly, and the initial results - because some of our investment is more for long-term branding and some of it is for tactical campaigns for our key categories - but we're getting great results from it, and we feel that the 22% growth that China delivered is largely due to the additional investments that we have spent.

China is a long-term play. You have ups and downs in a market like that, and I think that now is challenging, but in the long term we absolutely believe in it. What was your third question?

Vivi Huang

[How will the marketing spend look in the second half?]

André Hoffmann

I think it will be maintained, perhaps slightly increased. We started our additional investments compared to what we previously spent in the first half of this year, but much of it was to influence consumers' behaviour heading into the holiday season and Double 11. But I don't see it going lower; I see it slightly increasing if anything.

Janis Lai

Thank you. Do we have any more questions from the onsite audience? Let's move on to - no questions from the online. We'll take Lynn's question.

Lynn Wu

Hi, thank you. This is Lynn Wu from Bank of America. I have a few questions.

The first one, I want to clarify on the holiday sales. The Double 11 numbers are across all brands, but for Black Friday, is it only for core brand or is it across different brands as well?

Janis Lai

Everything was for L'OCCITANE en Provence only. The Double 11, that was for China and for L'OCCITANE en Provence, so it was up 6% across three platforms: Tmall, plus JD, plus Douyin.

Lynn Wu

Got it. Thank you. Also in terms of the marketing investment, you mentioned that China's very strong 20% growth was largely driven by marketing investment. What's the outlook for the - or underlying assumption for the future market growth in China?

Also, just in case that demand gets further deteriorated, how should we think about our marketing investment because one concern that people have is that in, especially the online platforms, it's getting increasingly competitive, and some brands are seeing lower return on investment in terms of investing on these platforms. Should the cost continue to go up? Are we going to also further increase marketing investment in order to sustain that level of growth or might we reassess in terms of our investment strategy in the market?

André Hoffmann

I think any company would do a review every year on their investments and the type of return they got. As I said earlier, much of our investment has been on long-term brand building. The market has become increasingly competitive. Online, as you say, the cost of marketing online has probably gone up 5X compared to a few years ago, so, yes, we have to evaluate that, but we feel that we need to be present where our shoppers want to shop and where the consumers want to educate themselves.

They don't learn about brands the old way. They learn online, and this is very important if we want to grow our business. But we don't feel, by any means, that we have tapped out or we're ex-growth in China. In fact, we still believe we have tremendous opportunity thanks to an incredible pipeline of new product launches, some which we've launched in other markets, but due to product registration and FDA approval - because we want to make strong claims about these products, specifically for hair care - they haven't yet been launched in China.

We're still very optimistic about China, but people need to be patient. China, like any big market, has down periods, and then they'll have very strong boom periods and recovery. But for us, we remain firmly committed to growing the business in China.

Lynn Wu
Got it, thank you.

Janis Lai
Thank you. Just a reminder for our online audience, there is a raise-hand icon on the top right-hand corner if you'd like to submit your question.

Any last questions from the onsite audience? If there are no further questions, I will conclude our presentation for today.

If you have any follow-up questions after the presentation, feel free to reach myself. Thanks again for your participation. Goodbye.

André Hoffmann
Thank you.

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