L'Occitane 2014/2015 Interim Results Announcement

24 November 2014

Start of Transcript

Emcee: Hello everyone. Welcome to L'Occitane International's 2014/2015 interim results announcement. Here today with us is Mr Thomas Levilion, our Chief Financial Officer and on the left is Mr André Hoffman, our Managing Director and Executive Director. First off, Thomas will give us the highlights of the interim results followed by a Q&A session.

Now I would like to pass the platform to Thomas.

Thomas Levilion: Thank you very much. Good evening ladies and gentlemen. So we can start with the highlights, we move on to the slides for the highlights here. Maybe what I would like to say is that from a difficult first half of last year, we achieved clear progress in our top line growth and profitability as well, whilst pursuing our investments in our future developments. Several external reasons that impacted our numbers, such as the sales tax hike in Japan in April, the political situation in Russia with Ukraine and the World Cup in Brazil.

The growth at actual rates was 8.9%, but at constant rates we grew double digits at 11.9%, so close to 12%. Our overall same store sales growth increased to 6.1% compared to 0.9% last year. So overall we are seeing a strong performance in Brazil, in Hong Kong, in China, Russia and Japan. Europe was soft in a tough retail environment, but most other key countries delivered double-digit growth.

We continue to invest for future sales growth, particularly in store innovations, digital, marketing, e-commerce and R&D. We benefited from positive contributions from the brand's positioning in terms of product mix, prices and general mix and we achieved significant gains from our productivity efficiency efforts, which was supplemented by leverage on higher sales. As a result, our operating profit improved by 1.7 points of net sales to 6.5%.

The stronger USD - other currencies against the euro, at the end of the period allowed us to achieve significant exchange gains which more than offset the losses incurred last year. It should be noted however, that the majority of the FX gains were unrealized, therefore our exchange rates results in the coming months will depend on the volatility of the foreign currencies. Including the exchange rate gains, the net profit margin gained 4.4 points at 7.7% of net sales.

Just a quick reminder on our seasonality and you know that we are very seasonal. The second half is much higher in terms of sales and therefore of profit than the first half. As an example, H1 operating profit was only 16% of the full financial year, the operating profit of the full financial year. So again, the second half is much stronger than the first half, we did benefit from a better operating leverage, notably due to the holiday season sales. However, the second half of FY2014 was clearly stronger than the first half and therefore the second half of this year will be compared against a stronger base.

Net sales breakdown. The sell-out business segment again continued to drive our growth, it's representing 72% of our growth, and our online retail sales maintained a very strong pace with 34% of sales growth in local currency during the first half. This was about, or more than 8% of our retail sales. The sell-in business grew by 18.1% at constant rates, with the benefit of an acceleration in our travel retail business notably but also good results with our wholesale activities.

From a geographical perspective, we had good performances in Hong Kong, in China, in US and UK, so they increased their share in total sales as compared to September 2013, while the share of Japan remained almost stable but decreased a little bit to 17.3%. The group of the other countries also increased its share of the total sales by 0.7 points and this was driven by Canada, Australia, and Germany notably.

The non-comparable stores were the primary contributor to the growth and the same store sales growth for the first half was 6.1%. The sell-in business activity 29% of the overall growth and grew by 13%, excluding again exchange rate effects. This came from notably the travel retail as mentioned before. Finally, the impact of the currencies on our overall growth was a negative three points, which was clearly less than before, still slightly negative and primarily related to the weaker Yen than in the same period last year.

Looking at our growth by geography, starting with Americas and Europe. So France grew by 1%, in sell-out we had a very healthy 5.7% growth, but this was driven by the non-comparable stores and the e-commerce and this was partly offset by the reduction in wholesale and this was a consequence of switching the traditional Melvita sales from the traditional organic network to more dynamic network of pharmacies.

The UK market has become more challenging, but our comparable stores performance remains ahead of the market. We also benefited from very good e-commerce sales, successful recent store openings and store renovations, and also the launch of Sell-in at new customs.

The performance in the USA was driven by the new stores that were opened this year and last year and also the strong performance in wholesale and B2B. Traffic remains a challenge in the malls and we've seen softer sales at the moment but we managed to more than offset the softness by our e-commerce sales. Brazil we said before, was impacted by the World Cup notably in June and July, but the turnout much more positive in August and September notably. So we had 19.5% growth in local currency and this was the highest growth within our key countries. This was thanks to the contribution of L'Occitane au Brésil and also L'Occitane en Provence, which had a positive same store sales growth and also growth in the non-comparable stores.

In Russia the economy was impacted naturally by political tensions, like the oil prices, also the sanctions that are imposed on the country, but in this context our operation maintained vigorous growth of 13%. This was driven by both the non-comparable and the comparable stores. This resulted from active marketing, media campaigns, so the traffic continued to grow, and this combined also with an increase in the average ticket value.

Looking at Asia and other countries, Japan first, so as you all remember, we had a weak first half last year. But this year it was much stronger and despite the tax hike in April, we had a 13% growth in Japan in local currency which was driven by retail with the comparable and non-comparable stores and e-commerce. So the performance of Japan was explained by a combination of actions, so successful product launches, higher average ticket values, store openings and renovations and also very dynamic e-commerce and also Melvita sales in this country.

In Hong Kong and Macau the growth accelerated to 19% and that was driven again partly by the travel retail sales and also the sales to distributors. However, in talking about retail in Hong Kong, the environment was soft and we have seen a decrease in spending and traffic but our retail sales remained positive. It was growing by more than 10%, with a strong contribution of the stores opened in 2013 and 2014, particularly in Macau.

In China the market in department stores and shopping malls remained soft, so our strong performance in this context is due to continued healthy same store sales growth and the contribution of the non-comparable stores. In Taiwan, excluding Melvita which you remember we transferred to a distributor in the second half of last year, our growth was in the mid-single digits, so it was pretty positive. So performance again driven by the same store sales growth and the non-comparable stores and the strong increase in e-commerce. In addition we benefited in Sell-in from positive developments in B2B and distributors.

Around the other countries, as I said before, Canada; Canada achieved an outstanding performance, growing by more than 35% and also key contributions from Germany, Australia and Korea.

Our store network, so we had a total of 2,715 points of sales, own and non-own, a slight increase of 6% over March 2014, and our own store network now has 1,340 doors, that's an increase of 45 from March 2014, including seven stores that we acquired from our distributor in Norway.

Looking at this by region, so we were getting more selective, if we exclude the acquisitions we opened 38 stores, net 38 stores, which compares to 76 net openings last year for the same period. Asia continued to lead the store expansion with 18 openings and that includes nine in China, also three each in Australia and Hong Kong and two in Japan. In the Americas, we added net 11 stores in the US and two in Brazil. The net openings in Europe were a mix of openings both in France and the UK principally. This was combined with some closing in other countries. Last but not least, during the first half we renovated or relocated 73 stores, so that's well ahead of what we did in the same time last year and we remain committed to the acceleration of the renovations and relocations throughout FY2015.

Same store sales growth profile, we start with Hong Kong. So it was negative in Q1, but this was partly offset by the positive second quarter. I think that this is not totally representative of the situation in Hong Kong, as a large proportion of stores are being renovated or we have had also a lot of openings. So the overall retail growth in Hong Kong is probably more representative of the situation. Then I remind you that we have a gross of more than 10% in Hong Kong and Macau combined together.

France, after a soft Q1, was back to positive and this despite a very tough retail environment with heavy discounting from the other cosmetics retailers in France. In the UK it's a bit of the contrary, the performance was softer in the second quarter but remain positive in other reportedly flat markets. So France and UK more or less reflect a tough environment in Europe, but still we have seen also on our side clear improvements in the Southern European countries, Spain and Italy, and Germany remains quite strong.

In Brazil we were impacted by the World Cup, but we have been recovering since and notably thanks to successful product launches. Just for you to understand, in this matter of the same store sales growth it's only L'Occitane en Provence, because L'Occitane au Brésil is new and not yet the same store.

Russia, there is a much stronger same store sales growth than last year, as you see on the chart. This was due to the strong marketing and media activities which improved the traffic and also we improved and enhanced our capabilities in e-commerce.

Japan continued to deliver a stronger same store sales growth from last year, with the success of the new products that we've launched - that they launched with several windows, with Divine, notably in September, also increased average ticket value notably with the VIP customers.

Taiwan and China, we've maintained a very healthy same store sales growth and generally improved the performance from Q1, and other countries in general benefited from the strong performances already mentioned of Canada and Germany. So as a result, the same store sales growth at group level exceeds 6%, which compares to the soft 0.9% achieved last year.

We're now switching to our profitability, so first our general approach is that we had a strong first half. We benefited from efficiency and productivity efforts combined with operational leverage, and this despite a challenging environment and despite our continued investment for our future growth.

A little more detail, we'll look at the gross margin first, so the gross margin decreased by 0.9 points. This was essentially due to unfavourable exchange rates effects for 0.4 points, slightly increased production costs for 0.3 points and this was totally due to the new depreciation of the CapEx that we had last year in the factory and the ERP implemented. We also had a slightly higher obsolescence costs for 0.3 points. This is in relation to the renewal and extension of our product ranges and notably for new brands.

We managed to mitigate this by continuing favourable prices and product mix effects. This accounted for 0.1 points and we also benefited from a reduction in our freight and duties relative to sales. This resulted from tighter inventory management and also global renegotiation of our freight rates.

Distribution expenses, they decreased by 0.8 points to 50.8% of sales. This improvement was obtained even though we continued to invest in store openings and renovations, which impacted the rent and depreciation ratios. We also invested in the strengthening of our sales organisation, notably for wholesale, so the total investments impacted for 0.6 points.

The lower distribution expenses ratio overall was driven by first efficiency gains, so this means that we had a better productivity at our stores, it's not only leverage, it's productivity. We also had the productivity and restructuring that impacted favourably our warehouses at different places in the world and this in total represented 0.5 points.

We also had a favourable channel mix effect notably from the development of travel retail and also e-commerce. We had leverage on higher sales for 0.3 points, this was clear, and for 0.1 points it was one-off spending last year and other effects.

Our marketing expenses also decreased by 1.1 points to 11.7% of net sales. We maintain our investments in digital resources and CRM and other marketing resources that this accounted for 0.4 points. This was more than compensated by leverage again, on higher sales for 0.3 points, tighter management on inventory and this impacted the promo goods, mini products and pouches, and so on, and also we had the positive channel mix effect that plays for 0.1 points. One other thing is that we benefited from a phasing of our advertisement, the mailing activities and sampling for 0.9 points. So this is expenses that we will have incurred in the second half more than the first half, this is compared to last year, so this is a temporary effect.

Just a few quick words about our research and development expenses, so in accordance with our strategy we continue to expand in this domain and our R&D expenses increased increased by 0.2 points as a percentage of net sales. The increase can be explained naturally by investments in our new product ranges and notably for our new emerging brands.

G&A, we had a slightly unfavourable exchange rate effect of 0.1 point, but still we decreased our G&A expenses ratio by 0.8 point of net sales, with savings of 0.2 points, leverage on higher sales is 0.1. We also had one-off costs last year for 0.2 and non-recurring gains for 0.3 this year, a little bit of phasing effect as well. So just for your better understanding, the one-off costs that we had last year were essentially fees, so related to the implementation of SAP at our factories, related to our back office efficiency program and also some trainings and the non-recurring gains that were achieved this period were due to the reversal of unused provisions that we booked last year, notably for example, taxes in Brazil and some administrative fees.

So in short, the increase in our operating profit margin by 1.7 points can be explained by investments in our future sales growth for 1.3 points and this was primarily the store network, marketing and R&D capabilities. We also had unfavourable exchange rate effects of 0.6 points, this was balanced by one-offs, partly recurring, and we benefited from the phasing of our marketing strategy.

Besides this or further to this, we continued of course to benefit from the long-term strategies that we have in terms of brand positioning and distribution channels, which allowed us to gain 0.7 points from the prices effects, product mix effects and channel mix effects and also despite the slightly higher production costs, we benefited from our productivity and efficiency efforts combined with leverage on higher sales and this finally allowed to compensate for the investments that we have made for future growth.

Quick stop on the exchange gains that we had this year and losses that we had last year. I think this will require some explanation. So you remember that in the first half last year we incurred significant exchange losses. This was due at the time to the strengthening of the euro against most currencies and as we underlined last year, most of these losses were unrealized.

During the second quarter of this half year, the USD and several other currencies actually showed more resistance against the euro and in this context we achieved - this allowed us to achieve these exchange gains of €8.9 million, which compares to the loss of €7.4 last year. Part of the gain was realised, notably essentially on the USD and the Japanese Yen, but out of the €8.9 million gains, €8.5 million was unrealised and most of the unrealised gains are related to balances that are denominated in USD, other currencies linked to the USD and not so much the Japanese Yen.

Of course we have hedging policies and we will continue to manage the exchange rate risks. Of course, the exposure to foreign exchange volatility remains and we may be impacted in the second half by the situation like Ukraine, Brazil or in Japan.

Working capital now, so our cash cycle in days of net sales increased to 62 days, that's a slight increase of 56, but you have to keep in mind that as at September, this number is higher than normal and this is due to our seasonality. The increase was primarily driven by a lower turnover days of trade payables and this is basically due to a higher level of productivity at the factories and purchase accounting department, so side effect of implementation of SAP.

But this was partly balanced by a decrease in our inventory, a decrease in our inventory turnover days by 17 days, which is not negligible, which resulted from better management of our inventories at the factories in terms of raw materials, of products, work in progress and also finished goods. We also have some positives coming from the exchange rates, and also higher allowances.

In terms of capital expenditures, which is much lower than last year, we still spent €28 million which compares to €47 million last year. Last year, we had the bulk of the investment in our new factory and also in SAP for the factory which we did not have this year. So as you can see, investment in IT and factories and R&D are much lower than last year. Still we had in stores €18.5 million CapEx, even though we have been more selective in terms of store openings. We have on the contrary accelerated our renovation and relocation program. This more or less balances or offsets, the decrease in terms of CapEx in store openings, so that in the end this caption only decreased by €5.8 million.

So it's interesting to keep in mind that this CapEx has been also totally financed by the cash flow from operations and this despite the slight increase that we mentioned in the working capital. So the operations allowed to finance the CapEx. So in addition in other words we financed the acquisition of the distributor in Norway and of course, which was much more significant, also our minority interest in Russia. That's why our net cash decreased from March to €150 million from almost €200 million. This is the explanation, but our net cash at the end of 2014 remains comparable to what it was at the end of September 2013 and we expect, actually, with the seasonality of the business, it will increase significantly at the end of the second half.

Our balance sheet ratios, profitability ratios for the period increased as compared to the same period last year. The return on capital employed rose to 6% as compared to a low 2.9% for the same period last year. Again, keep in mind the seasonality when you look at these ratios. This increase from almost 3% to 6% was mainly explained by the 142% increase in the net operating profit after tax and despite the increase of 16% in capital employed. Similarly return on equity was 4.8% for the period, which compares to 2% last year. As always, the Group's liquidity and capital adequacy ratios remains strong as a result of our high net cash position.

So in terms of conclusion on this first half, we have seen a jump in our profits due to higher sales growth, lower expenses to sales ratios across the various expense categories and exchange gains. What we did in this first half, we consistently pursued our strategy in investments, we focused on the digital innovation and e-commerce business through own sites and third party websites. We emphasised R&D and product development for the emerging brands. We expanded with select store openings but we also accelerated key retail upgrade projects. We leveraged the strength of our brands to boost customer engagement, both offline and online and we capitalised on the favourable travel retail sector with both our brands, L'Occitane and Melvita. In the meantime we enhanced our global infrastructure efficiency, we improved our productivity, we improved our logistics flow and we optimised our operating costs and investments.

In terms of prospects, we will simply continue to build for long-term growth and profits. We have very strong growth drivers, we have our brands, we'll continue to expand L'Occitane and further develop our new brands. In terms of geography we have room to grow in the emerging countries of many under-penetrated markets. We'll bring more product innovation and more product development, we're bringing new ingredients, and textures and freshness. Our product categories will continue to push the face care and the fragrances, we'll have new offerings. In terms of channels, as we did already in the first half and recently, we'll continue to grow the travel retail, the e-commerce channels and also all the virtual marketplaces that we can exploit with partners.

In terms of marketing, we continue to bring innovation in media and digital communication.

We'll strive at improving productivity, efficiency, the cost effectiveness and therefore profitability to create long-lasting value to our shareholders. This more precisely in H2 will go live with SAP Brazil. We will finalise the preparation of the launch of Melvita in China.

We'll continue to optimise our back office, streamline our supply chain processes and will implement the first step of our central inventory management.

This concludes my presentation. Thank you very much for your attention.

Emcee: Thank you, Thomas. We will now move onto the Q&A session. Could you please raise your hand and identify yourself by name and firm and we'll pass the microphone to you. First question comes from Erica in the front.

Erica Poon Werkun: (UBS, Analyst) Thank you. Erica Poon Werkun from UBS. The questions is whether Thomas and Andre can talk about what you've seen so far in the third quarter, October and November, in some of your key markets like Japan. Are you seeing better or worse momentum in Hong Kong? How has Occupy Central affected you in Brazil? If you could just share some update.

Also, what is your expectation for Black Friday in the US?

Andre Hoffmann: I'll talk about Asia. For Hong Kong, clearly we have been impacted. We were trending, I think, with some very strong momentum thanks to the Divine face oil launch. Then we had China national holidays and the business was very soft. In fact, for the first week of October, we had strong negative growth. It has improved but it's still - we still feel the impact.

In Mong Kok, where we have stores, in Causeway Bay and obviously in the Admiralty area but as I say, it seems to have - the impact has lessened. I'm not sure if it's because there's less people protesting of just people are fed up and they want to shop anyway. But I have seen growth over, let's say, the past two weekends.

Concerning Japan, the business has been a little bit slower in the second half but this was planned. Now we're heading into a holiday and the initial results from the new Arlesienne holiday collection have been quite good. The whipped shea - we launched a new shea butter texture has been a fabulous success. That has given a lot of momentum to the business heading into holiday.

So all in all in Asia, I think we're in line with where we want to be. Thomas do you want to comment?

Thomas Levilion: A few words about the other countries. So Europe was pretty satisfactory in October. Despite the environment and global feelings that are very positive in Europe. We were pretty happy with the results. It was a bit softer in the USA. But one month is not very significant. So the question was also what our expectations are for Black Friday. We expect a lot but then we cross our fingers because we don't really know.

What I can tell is that we are doing - we have been doing everything that we could in terms of products and Andre was mentioning some positive signs in terms of our holiday offers, which are always going to be quite exciting and it's very strong, I think. We did as much as we could in terms of e-commerce. The USA is very key. Then we will see. As soon as we have some information, we'll share it with you.

Erica Poon Werkun: (UBS, Analyst) Thank you.

Emcee: The next question was from Erwan.

Erwan Rambourg: (HSBC, Analyst) Hi, thanks. So I actually have three questions. So if you look at the margin evolution and you strip out a one-off gain and delayed spending, it seems that the EBIT margin, if you want to be a bit cautious, would be relatively aligned, all things being equal, H1 over H1. So the gross margin was down in H1 but you had very good operating leverage. All things being equal, again, if you look at the current spot rates, should we expect a reverse in H2, meaning gross margin being maybe a bit more supportive and maybe less operating leverage?

Thomas Levilion: Okay, I can answer this one.

Erwan Rambourg: (HSBC, Analyst) Yes.

Thomas Levilion: Well of course you can put everything negative and say it’s phasing, it's leveraged so … I think - and I try to make it clear that we have made significant efforts and progress in productivity - that's not leverage, that's, productivity. It's cost savings, it's more efficiency. So like this, I told you, represented 1.3 points.

Erwan Rambourg: (HSBC, Analyst) Yes.

Thomas Levilion: So the same as the investments, okay? So it's pretty significant. So I think this is - and we did not say this before, if you were present at our previous presentations, I was talking about our programs to make progress. So these are some of the results I hope we can provide more in the future. So that's one thing.

Also, just one precision about the one offs, the one-time thing is that I tried to give you the breakdown, and it's about half coming from last year. So it's exceptional costs that we have last year, we don't have any more. So this is a recurring gain, if you prefer. The rest, okay, is exceptional or one-time gain that we have this year that you cannot consider as recurring.

So my message to your question is, okay, look at things not only the bad way but also the good way, and realise that we are making progress. I hope we continue to make progress in the second half so that all in all, we can deliver these incremental gains we have been talking about in terms of bottom line.

Erwan Rambourg: (HSBC, Analyst) So my further two questions. So travel retail, high performing and you seem to imply that there are good - that's a positive margin mix. So can you mention what you think about an outlook for travel retail continuing to outperform and why? Is it margin accretive? So that's the first of the second - the two follow-up questions.

The second one is, can you give an update on the other brands outside of L'Occitane en Provence, how much they're contributing and when do you think it will start to move the needle?

Andre Hoffmann: I'll just talk about travel retail. Obviously travel retail was very strong in the first half of the year. I remember earlier meetings with you earlier, remember when I told you that you can expect a very strong performance. I think I also told that to Erica and anybody else that was willing to listen to me. I knew it would be very strong because (1) we were trending off of weak numbers of the previous year but (2) we had a very strong product pipeline.

We knew that these products were going to be very strong because travel retail, we have the customers' orders in advance. We have their forecast well in advance, whereas in our own shops, sometimes you don't know until the customer comes in. So it's not 100% fool proof, but when you have very strong order pipeline in travel retail, it's a good sign. The second thing, for the first time ever, we committed to do a global launch for the Divine campaign.

So we had a JCDecaux campaign in Hong Kong, Shanghai, Paris, London, and Dubai. We had tremendous results. We're so excited about the prospects. We never did this type of investment before. I can say that without crunching all the numbers, the first numbers we've looked at are very, very encouraging. We're thinking to even expand this for next fiscal year.

So these factors were really the main ones driving the business. Plus there has been a recovery in travel, which we didn't - last year was very soft for travel. So I think all these factors contributed. Travel retail as a channel is more profitable than many of our other channels. So it is absolutely margin accretive to be growing travel retail as compared to some of the other channels we operate in.

The second was concerning the emerging brands. What I can tell you is that we're still very much in a start-up mode for Erborian. We're in the process of developing about 90 to 100 new products which will start being launched from, I think, spring 2015. We've had some delays on the timing but it's on track. Melvita has done exceptionally well in travel retail. That's another factor that contributed to our travel retail. I shared with you the great success we had on Japan Airlines, on Cathay and other airlines.

For Japan Airlines, the Argan oil duo set is selling about the same amount of quantities as the L'Occitane hand cream sets, which is a - which was the number 1 selling SKU. So obviously we're very, very pleased. We're pushing very fast. We went from initially three airlines to six. Now we have nine signed up. We've confirmed two counters at Narita Airport. We're in the process of finalising with Canada. We're very optimistic about Beijing and Shanghai.

So we're going very, very fast to get Melvita out there. Melvita will be launched in China in March 2015. We have about nine stores, both free standing boutiques and shopping - department store counters confirmed. We hope to have 10 to 15 for the full fiscal year. So Melvita is doing - making great progress.

Our growth in Japan year to date, same store basis, is about plus 37% for Melvita. Once again, we want to go very fast and get a very rapid store expansion plan. We have about six stores confirmed for next fiscal year in Japan. We hope to get it up to 15. We could obviously open 15 if we accepted the offers we're getting but we want to get really strong locations if possible.

So I think that Melvita has some legs on it. That's my conclusion. We have to deliver the numbers. Today, we're not anywhere near where we want to be. The good news is we have a very, very strong product pipeline for Melvita. One of our big challenges at Melvita, as you know, is we had to discontinue about 50% of all the SKUs because they didn't meet our margin requirements.

This was one of the things Thomas talked about is increased obsolescence. So we had to basically write off some of the packaging of some of these products. The good news is the margin differential from the new products we're launching and what we discontinued is enormous. So I think for Melvita, we're not there yet but we look like we've made great progress in the past 18 months.

Au Bresil, it's moving forward. By March 2015, I think we plan to have something like 15 to 20 own stores and kiosks and probably...

Thomas Levilion: I think about 15 franchises.

Andre Hoffmann: Yes, and we'll have about 100 SKUs for au Bresil by then. So we're moving forward with au Bresil, this is clear.

Erica Poon Werkun: (UBS, Analyst): What's the timing for it?

Andre Hoffmann: March 2015, by the end of the fiscal year, all this is in progress. In terms of the Le Couvent des Minimes, we've just started, very early days, the partnership with Boots, which I mentioned earlier. Today it is small but if we go nationwide with Boots, it will be big. Just we have to wait until after Christmas and see the numbers.

Emcee: Thank you, we can take the next question from the floor. In the back.

Mariana Kou: (CLSA, Analyst) Hi, this is Mariana from CLSA. Congrats on a strong set of results. I just have a follow-up question on the travel retail. You mentioned that travel retail is a very profitable channel but I just notice that year on year the sell-in there's a margin decline at a GP level. Just wondering if that's purely FX, because the travel retail...

Andre Hoffmann: Definitely not related to travel retail. I don't know what that is...

Thomas Levilion: It's partly related to FX and timing issues.

Mariana Kou: (CLSA, Analyst) Okay. Just two small questions. On the FX, can you just remind us if you’re just doing six months rolling on all the FX, including the Japanese yen?

Thomas Levilion: It's not our policy - I want to mention with our policy that we try to have 40% to 60% of our exposure being hedged. We continue with this policy. At the moment, we are talking maybe some new hedges have been taken on the Yen because there are some opportunities right now. But yesterday we had a level of hedging in general exposure that is about 52%.

That's in general, but maybe before you even ask you the question, I wanted to mention that we need to switch a little bit in our minds about our exposure to the currencies. Because one of the good things of the Japan decrease of our business is that we are far less exposed to the Japanese Yen by now than we were before.

So if you look at - the exposure is now much more with the US dollar. The US dollar with the currencies that are linked with the dollar or even tied to the dollar, it's 35% of our sales now. The yen is 17%. So half of that.

If you can show slide number 17, you would see on this - gives you the feel of the gains we have and also the losses compared with the previous year by major group of currencies. You see that clearly there is - we still have the Yen there with a relatively small gain this year. Yes, if the Yen continues at not 150 as it was last week, about 146 - I'm talking the Euro/ Yen now, 146 it is today, we have - we may have a slight loss.

But at the same time, you see that we have a significant gain of the USD and the currencies that are linked to the USD, and this was based on the USD at the time of the closing. It was - the euro/ USD was 1.26. Today it's more like 1.24, 1.25. So we may at the same time, continue to increase our gains on this group of currencies.

So I'm not saying that this is what's going to happen, just if we were to close the books today, this is probably what you would see. But of course nobody knows. Unless you know guys, let me know what the currencies will be in the next few even days or weeks. Because it’s extremely volatile. The good thing about the volatility by the way is that it gives more opportunities for hedging options which we did not have in the past with the Yen where it was 140.

But it's now moving up and down so it gives some opportunities to play.

Mariana Kou: (CLSA, Analyst) Thanks, and just one last question. On e-commerce could you give us an update on China, I think here you mentioned partnership with Tmall, did you have any initial expectations just to share with us?

Andre Hoffmann: Well Tmall, the L'Occitane shop on Tmall will go live 1 December. There was some question whether we should rush it and be on live for 11 November. But frankly speaking, for us, this is a marathon, it's not a sprint. We know all of our investors are long-term, they don't share about short term-results. So we decided to get it done properly.

There's a lot of work to be done still. But we will be ready for the 1 December launch. I can say in general that our web business in - worldwide in the first six months, it grew by about 37%, which is a fantastic achievement, because already the base it was - it's now tracking about 8% of our worldwide retail sales. In some countries it was quite spectacular. Japan, which is already a very strong performer, had web growth - direct web growth of 55%. It's a phenomenal achievement. This was driven by a lot of local initiatives, partnerships with Line, who presently have more than 6.5 million friends, which is by far the leading foreign brand.

We had very strong growth in China from a very small base. Taiwan had quite spectacular growth for their web business. So we're pushing everything digital. Not just e-commerce but store digitalisation, social media. This will be a key strategy and a key thing we'll be talking about to you in the coming years. Because we still have a tremendous amount of room to grow it.

Emcee: Thank you. We can take the next question from the floor if there are any. Sure, Tina.

Tina Long: (BoA Merrill Lynch, Analyst) Thank you Thomas, Andre. Two questions. The first one is actually the sell-in actually took higher percentage in first half this year. So is this because of the higher travel retail growth? Because travel - I mean sell-in has a lower GP margin but also probably lower expenses. So what will be the net impact going forward if the sell-in continues to outgrow sell-out? That is the first one.

The second one is previously you mentioned that you were trying to work internally, trying to quantify the advantage of SAP project. So I want to know whether we have any figures to share now? And a similar question because you actually have a shorter accounts payable days in the first half. So that's definitely the result of productivity improvement but will that bring any cost savings for us because we paid earlier?

Thomas Levilion: Maybe I will try to answer all your three questions and Andre will add to this. So this is Thomas speaking. So your first question was about the mix of sell-in, sell-out, and the impacts of that on the margin. So you make - I remind that the operating margin in sell-in is actually better than in sell-out ... this, we have been asked many times, is why don't we develop the sell-in more, because this could help the profitability, and this is exactly what's happening.

So we are actually doing very, very well the two segments or channels that are most profitable for us, which are the e-commerce and the travel retail. So I think our investors and shareholders will be happy about this development. We cannot dream that one day we'll have more than half of our sales in sell-in, this is never going to happen. I mean sell-in will not exist without the brand awareness that is brought by the sell-outs. However when we can be so successful as we are, for the time being with our retail. So benefitting to the bottom line.

So that's, I think, your first question. The second question was about the benefits of SAP. It's always difficult to measure and we don't really try even to measure the benefits in terms of euros. But one thing is for sure is that first we needed to do something and we could not continue with the ERP that we had at the time. We are now a €1 billion company and the time the ERP that we have was designed for a €200 million company and it was just not possible to continue without a new system.

So SAP or another one, I think that the cost would have been comparable. But what you can already see with SAP is that we have some benefits. You have seen some improvements in our inventories management. We are not there yet, I can tell you, and there is still a lot of room to improve. But we know where we can go. So SAP is already bringing some benefits in terms of management of inventories, and it can be much more.

I don't think that in this financial year we will see all the benefits of that. It also improves our productivity, and this was your third question. We are much more efficient. Many of our departments, services, and notably the accounting department in general. Maybe Andre could give some examples about that in Hong Kong and in the other countries in Asia where we have implemented SAP. It's afterall, right, of course, it's a better tool for all the accountants. Yes, unfortunately at some point it allowed us to reduce the backlog that we have in terms of paying our suppliers.

So this is a one-time negative effect now on our working capital. But I think that with some positives also in terms of our relationships with our suppliers and of course there will be no need to increase our resources and maybe one day we can decrease a little bit our resources these type of back office functions that are not really creating value but, of course, are necessary.

Emcee: Thank you. If there are no other final questions, we would like to conclude the presentation for today. Thank you everyone for joining us. Thank you, management.

Thomas Levilion: Thank you very much.

End of Transcript