L'Occitane Annual Results Announcement for Year Ended 31 March 2015
1 June 2015

Start of Transcript

Emcee: Good afternoon everyone and welcome to L'Occitane's presentation for FY2015 and the results for the year ended 31 March 2015. With us here today are Mr Thomas Levilion, our Group CFO and also Ms Winnie Chin, our Investor Relations Director. Joining us via teleconference today, we have Mr Reinold Geiger, our Chairman and CEO and also Mr Andre Hoffman, our Group Executive and MD for Asia Pacific, as well as our Investor Relations Director, Ms Olivia Wang.

First, Thomas will walk us through the presentation to discuss the annual results and we'll open the floor for questions. With that, I would like to pass it on to Thomas.

Thomas Levilion: Thank you very much, good afternoon. So as a matter of introduction to this series of numbers and slides, I would like to say that from a difficult FY2014, we have achieved clear progress in our top line growth and profitability, whilst pursuing our investments in our future developments. We developed strong top line growth of 11.7% at actual exchange rates, or 10.3% at constant exchange rates and this was achieved in a challenging context and despite several external events such as the sales tax hike in Japan, the crisis in Russia and the protests in Hong Kong. Overall, we've seen a strong performance in China, in Hong Kong, Russia, Brazil and Japan.

The growth in sell-outs benefited from the strong same store sales growth of 5.7% and was supported by the continued strong performance in e-commerce. For sell-in, the growth was mainly boosted by an acceleration in travel retail. We maintained our selective retail expansion with 82 stores opened, excluding acquisitions and we continued to upgrade our retail network through renovations or relocations. We continued to invest for our future sales growth, particularly in our store network, in digital and more traditional marketing, in CRM and R&D for our L'Occitane and emerging brands.

We benefited from positive contributions from the brand's positioning in terms of pricing and product mix and we achieved significant gains from our productivity and efficiency efforts, supplemented by leverage from higher sales. As a consequence of the above, the operating profits improved by 1.3 points of net sales to 13.9%. Below the operating profit the situation in Russia resulted in a one-off loss with the bank there and in the context of intensifying pressure and increased risks, we have booked a provision for tax audit in France.

On the other hand, the stronger US dollar and other currencies against the euro at the end of the period allowed to achieve significant exchange rate gains, largely offsetting the losses incurred last year. As a result of the above, the net profit margin gained 1.9 points at 10.7% of net sales and we significantly improved our net cash position at €285 million. In this situation, the Board is pleased to propose a combination of the dividend based on the usual 35% payout ratio, plus an exceptional dividend of €15 million.

So we will be reviewing the net sales components. First the net sales breakdown. Sell-out business segment continued to drive our growth and accounted for 72% of our overall growth. Our online retail sales maintained a strong pace with a 31% growth in local currency. The online retail sales now represents more than 8.7% of retail sales.

The Sell-in business grew by 11.6% at constant rates, benefiting from an acceleration in our travel retail business, particularly in Asia and the USA. From a geographical perspective with good performances and the currency movements, China, Hong Kong, the US and the UK increased their share in our total sales as compared to March 2014 and the other countries increased their share in our total sales by 0.4 points to 25.6%, driven by Canada, Australia, Germany and the addition of Norway to our portfolio of countries.

The non-comparable stores were again the primary contributor to our growth, but the comparable stores including e-commerce, contributed 28% to the growth from 20% last year, reflecting the healthy same store sales growth of 5.7% again. The 12% growth in sell-in was driven by the very strong growth in travel retail in Asia and the USA and we are seeing quality return from our first media campaign in some key airports. The impact of the currencies on our overall growth finally turned positive on a full year basis as the euro was less strong against the USD and currencies linked to the USD.

Sales growth by geography, in a very tough environment, France delivered strong growth during the third and fourth quarters and achieved 5% growth over the year. This was driven by a very good performance in retail and e-commerce with the L'Occitane brand and an acceleration of the sales at wholesale of both L'Occitane and Melvita. In the UK, after a strong Christmas, the fourth quarter was more challenging, but overall, we maintained a very decent 7% growth, driven by very strong e-commerce sales, successful store openings and renovations as well and the expansion of our wholesale and department stores activities.

The overall growth in the USA of 8% still outperformed the market. The continued good performance in the US was driven by the internet, the new stores and wholesale with web partners. The traffic remains a challenge, which we managed to offset thanks to our e-commerce sales and better average ticket value.

Brazil struggled in a weak environment in the second half. In this context, L'Occitane au Brésil was a strong contributor to the growth thanks to new products and also the first steps of an expansion of the distribution network. The Russian economy was impacted by political tensions, lower prices and the depreciation of the ruble. Operation in Russia still maintained a healthy growth of 10% driven by our comparable, non-comparable stores and web. At retail, traffic continued to grow healthily, despite our price increase in December and also in January to compensate for the depreciation of the ruble.

Looking now at Asia with Japan first. Japan confirmed its recovery throughout this year, thanks to the combination of successful product launches, store openings and renovations, media investments and very dynamic e-commerce and Melvita sales. The 13% growth in Hong Kong and Macau was primarily driven by an acceleration of the travel retail. Retail sales in Hong Kong and Macau were significantly more dynamic in Q4 and on a full year basis, retail sales grew by 6% in local currency. In a soft retail environment, which was marked also by the Occupy Central protests and a decrease in spending and traffic, including from PRC customers, this performance in retail, again a growth of 6%, was due to a strong contribution from the stores opened in FY14 and FY15 and as well as strong product launches in Q4.

China achieved an overall growth of 20% with very strong performances in Q3 and Q4 and this was achieved thanks to product launches, to the strong online launch of L'Occitane on Tmall and of course the extension of our store network. In Taiwan, actual growth was 4.1%, excluding Melvita, which was transferred to a distributor last year. The growth was achieved from healthy same store sales growth and a strong increase in e-commerce and web marketplace sales.

Just a quick look at some other countries, so the 12% growth in the other countries was driven by Canada, Australia, Germany and Korea, travel retail in Europe and the Americas and the addition of Norway, as I said before.

In terms of our store network, the total stores network reached almost 2,800 points of sale, so an increase of 9% over March 2014 and our own stores network now has 1,384 doors, an increase of 89 from March 2014, including acquisitions.

In more details about the openings, so we are getting very selective, as you know, in our store openings, so we opened net 82 stores during the period as compared to 91 last year, excluding acquisitions this time. Asia continued to lead the stores network expansion with 41 net openings, including 25 in China, but also openings in Japan, in Hong Kong, in Malaysia, Korea and Australia. In the Americas, we added a net 23 stores, primarily in the USA, but also in Brazil, Mexico and Canada. In Europe, the net openings were principally in France, UK and Germany, while we rationalised our network with a few closings in Russia, Italy and Central Europe. During the year we renovated or relocated 108 stores, which compares to 121 stores last year, but in addition, we intensified what we call light renovations, that means store or renovations whereby the store is closed less than seven days.

Same store sales growth, first with Hong Kong, so in Hong Kong the same stores sales growth was affected in Q3 by the protests. The slightly negative same store sales growth on a year-to-date basis is not fully representative of the situation as a large number of stores are excluded from the computation due to openings or renovations. Overall retail growth in Hong Kong again was 6%.

France and the UK in a tough retail environment maintained a healthy performance on the full year, thanks to the success of our products, strong CRM activities generating strong growth in e-commerce and also more creative promotions and partnerships.

Performance in the USA remained healthy thanks to the growth in e-commerce sales while the traffic remained soft. Brazil maintained a positive same store sales growth and benefited from positive and promising developments in e-commerce which is, however, still small in Brazil. It should be noted, of course, that this only reflects the L'Occitane en

Provence brand. As mentioned before, we were pretty satisfied with the development of L'Occitane au Brésil throughout FY2015.

Russia delivered much stronger same store sales growth than last year with strong marketing and media activities, better average prices and improved capabilities in e-commerce and all this despite the crisis in the second part of the year.

Japan, despite the higher base in Q3 and a very high month of March last year, Japan continued to deliver healthy same store sales growth. This was primarily driven by the success of several product launches, notably Divine and Whipped Shea Butter and a pickup in the number of new customers. Taiwan maintained solid same store sales growth with an acceleration in Q4 thanks to the Chinese New Year and Reine Blanche campaigns. China's very strong performance accelerated again in Q3 and Q4 on the back of the success of our product offers, Chinese New Year and even stronger execution at retail. As a result, same store sales growth at Group level was 5.7% as compared to the softer 3.7% last year.

Now moving to the profitability analysis, the Group developed solid profitability in FY15. The operating margin benefited from efficiency and productivity efforts, combined with operational leverage and this allowed us to continue our investments in our future growth and capabilities. This will be detailed in the following slides.

Gross profit margin rose by 0.7 points to 81.8%. It was impacted by higher investment in promotional goods, mini products, pouches, gift boxes. On the other hand, it benefited from a reduction in freight and duties of 0.3 points as a result of the tighter inventory management, notably in countries with high level of freight in and custom duties and a global renegotiation of freight rates. The favourable pricing and product mix effects also for 0.3 points and finally, finally, positive exchange rates effects for 0.2 points.

Our distribution expenses decreased by 0.5 points to 46.2% of net sales, with an improvement which was attained even though we continued to invest in our sales organisations for a total of 0.3 points, notably with more resources in e-commerce, digital and wholesale. We also had one-off costs fall 0.3 points primarily linked to the set-up of our new warehouse in the USA. This was more than compensated by leverage on higher sales and also efficiency gains due to productivity efforts in our stores and warehouses for a total of 0.4 points, a favourable channel mix effect from the higher share of sell-in our total sales of 0.3 points and a favourable exchange rate effects and other gains of 0.4 points.

Our marketing expenses increased by 0.3 points to 11.1% of net sales. We maintained our investments in digital resources, CRM and other marketing resources of 0.4 points and we dedicated more resources in H2 to advertise L'Occitane and enhance brand awareness. The total investments impacted for 0.5 points, this included the travel retail advertising campaign in September/October 2014 and also more advertising in countries like Russia, Japan, the US and Europe, largely in digital but also partly broadcasted on TV.

Besides slight brand mix and exchange rate effects, investments were partly offset by a greater efficiency primarily from a tighter management of our inventory of promotional goods and MPPs, mini products and pouches, for 0.2 points.

At this stage I would like to also briefly mention our research and development expenses. In accordance with our strategy, we continue to expand in this domain and our R&D expenses increased by 0.2 points of net sales and by 19.2% in euros, with the increase being primarily explained by investments in our new products and also the development of our emerging brands.

General and administrative expenses decreased by 0.5 points of net sales due to savings and efficiency for 0.5 and leverage on higher sales for 0.3 so that the 0.8 you see on the right of the table, but also had one-off gains from unused accruals for 0.1 points and positive exchange rate effects for 0.1 point as well. But at the same time, we also invested for a total 0.3 points of net sales, principally in our IT systems and resources and also in our management in some countries and brands.

So in short, the increase in our operating profit margin by 1.3 points is explained by a combination of investments for future sales growth in our sales channels, R&D, marketing and human resources for a total of 0.9 points, an unfavourable brand mix effect for 0.2 points which is illustrative of our efforts at developing our emerging brands. This was more than compensated by the positive contribution from our strategies and actions with a more profitable channel mix for 0.3 points; favourable price and product mix effects for 0.3 points; strong savings, efficiency gains and leverage for 1.4 points. In addition we benefited from the slightly more favourable exchange rates and other effects for a total of 0.4 points.

A few words about exchange rates gains, so you will remember that last year we incurred significant FX losses due to the strengthening of the euro and we underlined at the time these losses were largely unrealised. This year, during the second half year, the USD and several other currencies were stronger against the euro, so in this context, we achieved a total FX gains of €8.9 million versus the loss of €12.2 million last year. Out of the total gain of €8.9 million, the majority, i.e. €5.7 million, was realised. The gains were achieved essentially under USD and other currencies linked to the USD and the losses in Brazilian real and Russian ruble are unrealised and related to our financing of these entities.

In terms of working capital, our cash cycle in days of net sales increased slightly to 49 days. This was primarily due to a lower turnaround days of trade payables linked to an increase of productivity at the factories purchase accounting department. The inventory turnover days was unchanged at 262 days. There was a combination of unfavourable exchange rate effects, also increased inventories of MPPs and boxes and L'Occitane au Brésil ahead of forecasted sales. This was offset by a significant reduction of raw materials at the factories and finished goods at the central warehouse and also several key countries like Hong Kong, the US and Taiwan.

CapEx, we used €63 million of CapEx in FY15 as compared to €79 million in the previous year and this all excluding investments in our network of subsidiaries. As anticipated, the decrease was due to lower CapEx in our IT systems and factories following the efforts achieved in the recent years. The selective new store openings, combined with continued high level of store renovations, resulted in a slight decrease of €4.2 million in capital expenditure for store networks. In addition to the CapEx that we just mentioned, we acquired our distributor in Norway and minority interests in our operation in Russia.

Cash flow analysis, we increased our cash and cash equivalents by €76 million in FY15 as compared to a slight decrease last year. The strong performance primarily due to the increase our profits adjusted for non-cash items by €73 million or plus 41.8%. As mentioned before, the cash used in the investing was down from last year. Cash flow from financing reflects the application of the minority interests in Russia for €41 million, compensated by the low dividend paid this year and additional borrowings in relation to our policy of "natural hedging" of currency risks in the balance sheet.

Talking about balance sheet, we have the balance sheets ratios next. So our profitability ratios for the period increased as compared to last year, due of course to the increase in net operating profit after tax. The return on capital employed rose to 22.4% as compared to 16.6% last year and similarly, return on equity was 14.3% for the period compared to 11.8% last year. Of course the Group's liquidity and capital adequacy ratios remain strong as a result of our high net cash position.

The strategic review and then the outlook, as we have already have said, we pursued our investments in our business platform and our efforts to improve operational efficiency resulted in strong financial performance in FY2015. The continued investments means innovation, digital and CRM of course, marketing and sales. We continued investments in our emerging brands. We continued upgrading and selectively expanding our store network and we made further steps towards a new online and offline customer experience. The results of our strategies and actions were excellent. E-commerce was 8.7% of sales, we launched on Tmall, we expanded in wholesale and travel retail, we achieved a turnaround in Japan, we accelerated Melvita and we generated significant leverage of our expenses base. We pursued operational excellence through further roll-out of SAP and of our core retail and CRM systems. We increased operational capacity and productivity and we achieved significant savings in logistics and back-office structures.

In terms of outlook, we'll obviously continue to expand our product portfolio in the natural cosmetics, in particular in the higher margin categories such as perfume and face care and with our new brands. We'll strengthen the worldwide positioning of our brands, we'll grow the emerging brands with the momentum of Melvita, with the first Erborian retail stores, with the acceleration of L'Occitane au Brésil and in addition, we are planning a specific program to enhance L'Occitane brand awareness, notably with digital, sampling, flagships for example.

We will push the multi-channel approach with online and offline combined experience, travel retail and we will leverage wholesale. At the same time, we will pursue sustainable growth with greater efficiency, which means investing in people and systems for operational efficiencies. The outlook remains challenged, but the management continues to focus on this strategy, in a disciplined approach, to create lasting growth and value.

Thank you very much.

Emcee: Thank you Thomas. I will open the floor for Q&A. We'll first take the questions from the floor and then some online questions if there are any. Please raise your hand and identify yourself also by the firm you represent and we will take questions from the floor.

Erwan Rambourg: (HSBC, Analyst) Hi, thank you. Three questions please. First, can you tell us about how the new year has started, anything significantly changed versus the way last year ended? I'm thinking specifically about Japan where you're not liking obviously the tax hike anymore and I'm also thinking about the US where some of the consumer brands have seen a bit of softening so far this year.

Secondly, I was wondering if you could tell us about the payout ratios, so you're giving a special dividend. I'm just wondering about how we need to think about this in the future. Is it a sign that you're done with acquisitions? Can you be raising the payout more significantly in the future rather than giving out a special just to increase the sort of dividend payout in the future?

Then, at the time of the IPO you had sort of high teens EBIT margin. You've had good operating leverage last year, how do we need to think about the possibility for you to go back to high teen EBIT margin and what do you think about gross margin and expansion versus SG&A leverage? Thank you.

Thomas Levilion: Okay, I don't know if we have Reinold and Andre on the line.

Andre Hoffmann: Yes, Thomas.

Reinold Geiger: We are on the line.

Thomas Levilion: So in terms of the sales at start of the new year, I would not be too specific. I should say that generally we are satisfied, it was a bit soft, but seemed pretty good in many countries, notably Japan and the US had a good month in April, a little less in May. But maybe you prefer to comment, Andre, maybe Japan and then Reinold, on the US.

Andre Hoffmann: I think also, Erwan, hi, this is Andre, I think you also mentioned Hong Kong and I mean it's very well documented the Hong Kong retail has been very tough and we've had some issues there with traffic in the stores. But I think that for Q2 we were looking for improvements due to new product launches, but Hong Kong does remain challenging.

In terms of Japan, business is proceeding more or less according to our budget. We're very, very close to what we've targeted. We have a lot of new product launches in the pipeline. I think I mentioned to you that we've recently strengthened the management team, especially on the digital side, so we remain very optimistic for Japan, especially with the very, very strong continued growth of Melvita.

Reinold Geiger: I would say in general, it's Reinold speaking, in general the economy was difficult in the last fiscal year and we don’t expect it to booming one day from the next. But in this dynamic, in this difficult environment, with us coming up with many new products and with very strong push in digital and e-commerce, we have done pretty well last year and this has not changed in the coming year. At least today we don't see any significant change, so we are more on the trend.

Thomas Levilion: So to conclude, to say that we expect to continue to grow our sales about the same pace as we did recently and so the 10 plus 12 plus whatever will depend a lot also on the exchange rates, of course, but we are pretty confident that we are on a good track for this year.

Your second question was about the payout ratio, so we are very pleased that this year we can offer this special dividend for our shareholders. The reason basically is that we have had very strong generation of cash this year, so we believe it will be the same in the future and with ups and downs of course, but the thing is, we have discussion for the moment, the conditions for the remuneration of these cash are not very favourable, so it is a good opportunity to reward our shareholders. But it doesn't mean in the future that we will continue with such distribution of dividends. We have certainly not given up the possibility of acquisitions. We do not have an acquisition in the short term in the pipeline, so I think it was a good opportunity, but we'll continue to look for interesting acquisitions and so as a result, there can be no commitment for future dividend payout ratio.

Your third question was the tricky one about the margin which is what sort of margin do we plan for this year, I guess. Well of course at the time of the IPO or just after the IPO we delivered this 18% which is a very high number. You know very well that things have changed in the meantime, we have competition and we have a stronger brand as well, so we are coping with this competition quite well. But at the same time, our strategy involves instead of bigger acquisition that we could have had at the time, involved growing smaller brands and for this, we know we have to invest and this will continue to have an impact on our bottom line for the next few years. You should not expect to see it back to the levels of the time of the IPO.

Any comment, Reinold?

Reinold Geiger: Once more, yes, I mean concerning the smaller brands, we did not expect it to take several years when you make a start-up or you buy a company which is very small. We are not having an important company, you cannot turn around so fast, but we are on the right track and we are very happy. I mean it is very different compared to paying a big amount of money. Today any cosmetic company is sometimes, as soon as the profitability is not too bad, so obviously if we establish a €30-€50 million company and have done it only through our own investment, we create significant value. But, as I said, it takes some time.

Emcee: Thank you Reinold. We will take the next question from the floor.

Aaron Fisher: (CLSA, Analyst) Just two questions from me. Just going on a bit more about Melvita, it seems like Melvita turned a corner during the year, so could you provide some information about the sales growth for Melvita, potentially some rough guidance and also maybe try and help us understand what was the catalyst for Melvita to suddenly perform a lot better?

The second question, just a small one, on the slide 16, operating profit margin, you talk about prices and profit mix improving the margin by 30 basis points. So could you just provide a bit more information about the change in prices during the year for various products, or just a rough idea of what happened there? Also, help us to understand what happened on the product mix as well. Thanks.

Thomas Levilion: So about Melvita, we are happy with the progress that we've made. It has taken time, we have had some issues in the past that we have fixed, but I say that today we have an excellent combination of very strong management and nice products, very good products. We have reviewed and renewed all the product offer, we have renewed the communication, the packaging, everything is new, the store concept as well and now we have a combination that seems to work pretty well. Also, the works - the brand, sorry, is very strong now in Japan. They're obviously good performances and so we continue to expand the brand in Japan and we know how Japan can bring to a brand, how far it can bring the brand.

We are also opening in China this year. We have already opened three stores in April with a plan to open up to 10 stores and so far so good. I think Andre will provide you with more details about that. So I think that the expectation for Melvita is pretty strong. We could see a growth of 30% or more this year, hopefully more, so I think all the lights are green, so we have to go forward, which doesn't mean that we'll be break even, because the additional sales and additional profits that we get, now we get, we try to invest them so that we can accelerate this growth. So pretty positive about Melvita.

Andre, you want to add a word about maybe Japan or China?

Andre Hoffmann: No, I think it's what you basically said, Thomas. I think that that the very strong growth in Japan last year, which was more than 40% on a same store basis has given a lot of momentum. We didn't open hardly any stores last year in Japan, this year we have between 10 and 12 new Melvita stores planned. I mean growth since the start of the new year is very similar to what we were trending last year. This has created awareness and has allowed us to enter travel retail. We've had a great start with our inflight sales with Japan Airlines and Cathay and that's been expanded to about 10 other airlines in the region. We've also entered with several key travel retail operators. China was launched in early April with three stores, as Thomas mentioned. There should be another half a dozen to eight stores opening in China. The initial result has been very positive.

I think it's really a production of focusing on the markets where we feel we can get the quickest growth and this is what we've done. On an industrial level, we've discontinued more than half of the SKUs and replaced them with SKUs where we have higher margins.

So I think Melvita has a lot of blue sky in front of it, but we know we have a lot of hard work still in front of us, it's still a small part of our total sales.

Reinold Geiger: What is important to mention is four years ago practically all the sales for Melvita was in France and in the channel of organic source, this channel itself has been expanding for the last four years and we think it will distribute the product in pharmacies, which is a very healthy and much more interesting channel, at least in France. We had a decline in France for three years and during the last year we had reversed this trend. Last point I would make is that when we first got involved in Melvita, it was a nice organic brand, but there was not one important product, not one best seller, but today we have several best sellers which are all different oil products and floral waters and if you want to be successful with a cosmetics company, you need a few best sellers, otherwise it's very difficult. So those are additional indications which are very positive for Melvita. We are very confident that we are on a good track to develop the sister company.

Thomas Levilion: Your second question, Aaron, was about the price changes, product mix affecting the gross margin. So it's something that you may have noticed you see year after year in our presentations. This is really the result of our strategies. We have pricing power because the brand is strong and we invest so that the brand is strong, so that year after year we manage to increase our prices selectively, not for all products not in all countries, but typically largely we increased our prices in Europe, in the USA, essentially not in Asia, but with the rest of the world, in Brazil, in Russia quite significantly. So this resulted in this price effects that you're seeing in the margin and again something that you have seen before and as well you continue to see.

The product mix improvement is the fact that for years and this is also a strategy and a result of the strategy. We have been developing and testing the most effective product categories in terms of margin which are face care and fragrances, so year after year you see also this product mix effect with a slight improvement of the face care, fragrances, even body care in our total sales, in our sales mix and this provides more margin. So all these strategies of taking the brand from toiletries and partly body care brand to very much stronger brand in face care and fragrances, it's something that not only enhances the brand image with positive effects in return, but also brings this effect of margin.

Emcee: Thank you, we'll take the next question from the floor please.

Mariana Kou: (CLSA, Analyst) I just have three quick questions. The first one is on tourist spending.

Thomas Levilion: Sorry?

Mariana Kou: (CLSA, Analyst) Tourists in, I guess, Asia, if you could comment a little bit on the contribution to Japan, sales in Korea and what you expect the change in import tariffs by Chinese Government and how that would change the tourist spend.

The second question on store openings, I see that the next openings for the L'Occitane brand has been trending down because I guess the size is getting bigger and bigger. Could you comment on what's, I guess, the plan for this year, maybe for the next few years, if there's a general target?

The last question is just a small question, if you could comment on the Erborian brand. I think that you this year have a few big stores planning for Erborian, if you can comment a little bit on the updates. Thank you.

Thomas Levilion: Okay, Andre, do you want to address the question of the tourist spending in Japan and Korea?

Andre Hoffmann: Yes, sure. So good morning Mariana. What I can say is that in Hong Kong we definitely feel a slowdown in the arrivals of the mainland Chinese tourists, not only in our shops in the malls, but also with our main travel retail partner, DFS; significant decline in mainland Chinese spending. We know that it is going to Japan and Korea because we do see sort of hard evidence of increased Japanese - sorry, increased mainland Chinese in our stores in Shinjuku, Shibuya and especially in the Ginza. I think we haven't quite felt it yet in the Korean domestic market, but we know that in the travel retail stores at Incheon and also the downtown duty free stores there is significant growth which is continuing with mainland Chinese tourists. So I mean all in all, I'm hoping what Hong Kong loses is going to be picked up in other countries in Asia, but we can't predict the future on that.

Thomas Levilion: Your second question was store opening. So we, just to give you a bracket, we expect to open about 80 to 100 stores net in FY2016 and maybe more in the future. What happens is that with the acceleration of the new brands, we start to open more and more Melvita, L'Occitane au Brésil, Erborian stores and this will become a significant contribution to the total number of store openings. So next year will probably be, as I told you, somewhere between 80 and 100.

You may see an acceleration at some point after that, which by that, we mean that there will be a little more CapEx also. The CapEx is a little bit the same, I think we have been down this year and will be down again in FY16 and then you should see a re-acceleration for the very same reason. So we are pretty positive that we continue to open stores for these new brands, but also for L'Occitane we have opportunities in most countries, even in Japan, even in the USA, China of course, in Europe and even in developed, strong economies in Europe, not to mention of course Brazil and Russia.

So we are pretty optimistic that we continue to expand the network. We do that carefully because the world is different now with internet than it was even five years ago, so we have to be selective as we continue to repeat but we continue to open for sure. We need the combination of the stores and the internet and even more we have the opportunity that not so many brands have to combine the two and I mentioned this a couple of times. The offline/online experience is something that we are really working on. We are really working and developing as much as we can with IT tools of course and sharing tools, that we can maximise and leverage the physical network with the virtual network at the same time. This is an advantage that we have.

Also the last question on Erborian I think, so our brand is very small, yet doing well. It is continuing to expand at wholesale and with the distributor also that this brings, cash flow by the way and we start opening with retail. We have the first store open in Paris in May and it's worked pretty well. It's very soon of course, it's too early to say that it's a success, but we are pretty pleased with the first results; we are ahead of the targets and we are going to open two other stores this year, I think, but Andre will confirm. One should be in Seoul and one in Hong Kong, is that correct Andre?

Andre Hoffmann: Yes, that's correct. Possibly more.

Emcee: We'll now take the first question online. The first question comes from Deutsche Bank, Anne Ling and she would like to ask where do you see the Company five years from now and whether there are any Company targets.

Thomas Levilion: This is a question for you, Reinold.

Reinold Geiger: This is what I have explained for quite some time now. In five years from now, I mean today we are still more or less a mono-brand company because L'Occitane en Provence are doing more than 90% of our sales. In five years from now, we should be a multi-brand company. First of all, the small brands like Melvita is in the process of really jetting off and having significant growth. Erborian should take another two or three years before the growth will become very strong, but until now, everything makes us believe that we can be very successful with this brand.

We have L'Occitane au Brésil which is extremely promising for the Brazilian market. Now Brazil remains an important market despite economic problems which we encounter today. If, in addition we will have the opportunity to make a significant acquisition and as Thomas has mentioned before, we have not given up searching for one. In five years' time we should be a multi-brand company where L'Occitane en Provence is a percentage, maybe 40%, maybe 50%, maybe 60%, it's obviously difficult to say precisely today, but this is at least our goal.

In addition, we do everything to be one of the best in digital. As repeating what Thomas said, but it is so important, so unique, because we have our own stores. We have direct access to our customers which is not the case for the brands which are wholesale, so therefore we can combine the different channels to what we call multi-channel development and that is becoming so important. CRM too is becoming so efficient, we believe that we will sell online, a significant percentage. Today the percentage is 8.7% which is obviously nice growth. I think it is 31% compared to last year. I would be very surprised if in five years' time from now our internet business is not 25%. So obviously therefore our company we have a completely - a very different size than what we have today. Now at the same time, I am an entrepreneur and I am a very optimistic person.

Emcee: Thank you Reinold. We will have the second question from our online audience and it's from Erica Poon Werkun from UBS. She would like to know what drove the higher effective tax rate and what should we expect for FY2016. Also, a follow up on Q1, perhaps some additional commentary on your key markets, apart from Hong Kong and Japan. Thank you.

Thomas Levilion: Okay, so about the effective tax rate, so you've seen that it increased this year to 25% and this increase is explained by the provision we've taken with the tax audit in France as we see an expense now probable. So I think that in the future we will not be the only ones, this will be general. There will be more pressure on tax all over the place from all countries because they are all looking for money. You know that there was this initiative from the OECD which is called BPS. Sometimes what the OECD discuss get lost and so on, but this time all the countries for the same reason, they are taking this up and taking all the measures to put this in application. So there will be less and less possibilities to bring very low effective tax rates as in the past.

So I believe that it is relatively wise to bet on higher tax rates than we've had in the past years. I'm not sure exactly what it will be. It will be more pressure and of course there will be also some viability in our tax rate and this is just because it depends so much in our case on where we achieve our profits, is it in France and Switzerland, is it in the countries where the tax rates are already higher? So it depends on this, it depends on the inventories as well. But on the longer range, I think there will be more pressure so higher effective tax rates, yes.

The second question was an update on other markets than Japan and Hong Kong. Andre or Reinold, I think you addressed already this.

Reinold Geiger: No, but I think I would answer the question differently. I mean the trend of Q1, one needed to be worried that there would be a decline in business in the very difficult markets which are Russia, Brazil and the southern European countries. I mean business is now booming in those countries, but we are still doing pretty well. So therefore today there is no change in the trend in Q1.

Andre Hoffman: Erica, good morning. I would just say China continues to be very, very strong and even though we feel that the market has slowed down, travel retail is maintaining its nice performance, so in terms of the key drivers in Asia at least, we're in line with what we expected.

Emcee: Thank you. In the interest of time, we'll take any final questions from the floor. I believe the management has answered all questions and we would like to announce the end of the presentation. Thank you for joining us today.

Thomas Levilion: Thank you very much.

Reinold Geiger: Thank you very much, good bye.

End of Transcript