L'OCCITANE INTERNATIONAL SA

B80359 CORPORATE

BBB+	ISSUER RATING Long term
	OUTLOOK Stable
BBB+	INSTRUMENT RATING Neu MTN
EF1	ISSUER RATING Short-term
EF1	INSTRUMENT RATING Neu CP

Initiation date	28/11/2022
Rating Date	26/09/2024

Contacts

Lead analyst
Anne Guy
anne.guy@ethifinance.com

Committee chair
Marc Pierron
marc.pierron@ethifinance.com

Rating action and rationale

- EthiFinance Ratings downgrades L'Occitane International SA's (the L'OCCITANE Group or the group) long-term rating from A- to BBB+, with a Stable outlook. The rating of the envisaged €300m NEU MTN programme is also downgraded to BBB+. However, EthiFinance Ratings affirms that for both L'Occitane International SA's short-term rating and for the existing NEU CP programme of €500m at EF1.
- The downgrade of our long-term rating is notably a direct consequence of the lower profitability observed in the company's FY24 (to end-March 2024, corresponding to the end of the company's financial year) with EBITDA margin decreasing to 20.1% (vs 26.1% in FY23) primarily the result of higher marketing expenses. Our net adjusted leverage also deteriorated, to 3.4x vs 2.4x at end-March 2023, as a consequence of lower EBITDA and a higher adjusted debt mainly linked to the increase of Sol de Janeiro put-options linked to the strong performance of the brand. In addition, our ratings are constrained by L'OCCITANE Group's competitive positioning (it remains of modest size in the cosmetics sector with the presence of larger peers), and its brand diversification (which although improving is still average). The cosmetics industry as a whole (rating of BBB+) also slightly constrains the ratings.
- However, despite the deterioration of the figures in FY24, the financial profile of the group remains strong, and we expect some improvement over our three-year forecast period (FY25-FY27). In particular, we expect the profitability to improve gradually. In addition, assuming no further significant M&A, the EthiFinance Ratings-adjusted net leverage ratio is projected to improve from 3.4x as of end-March 2024 to be close to 2.0x by end-March 2026.
- The consumer goods sector has medium ESG risks under our methodology (sector heatmap score between 3 and 3.5). This results in a sector assessment which is not impacted by industry-related considerations. Regarding environmental factors, the sector has a low impact on climate issues (not heavy manufacturing industry, which limits GHG emissions) and resources (moderate use of resources). However, it has a high impact regarding pollution, due to the huge amount of waste generated, and a medium impact on biodiversity linked to goods production and transportation. It involves a medium impact over suppliers and consumers, and a low impact over communities.
- Our assessment of the company's ESG policy is advanced (company ESG score between 0 and 1), positively impacting our financial assessment. The L'OCCITANE Group stands out in terms of governance with the separation of the roles of chairman and CEO, and established governance policy in terms of bribery and ESG issues prioritization. Regarding social factors, our rating of the group has improved thanks to lower staff turnover, increase of training hours, and decrease of the accident frequency rate. In addition, environmental factors are well factored in with the decrease of GHG emissions (scope 1 and 2) and waste.

Issuer description

The L'OCCITANE Group is an international manufacturer and retailer of body, face, fragrance, and home products using natural and organic ingredients. The company mainly sells skincare products through 8 different brands - the main one being L'Occitane en Provence (c. 55% of company revenues for FY24) – through 3,040 stores, of which 1,363 are operated by the group, in 90 countries.

The company has been listed on the Hong Kong Stock Exchange since 2010 and was majority-owned by Reinold Geiger (72% indirectly), its chairman and former CEO. In April 2024, Geiger, with other concert shareholders, made an offer to take the group private. At the end of the offer period, the acceptance threshold was reached and L'Occitane International SA will be delisted in October 2024. It is now around 95% owned by Geiger and the concert shareholders with some minority shareholders remaining.

For FY24, L'Occitane International SA reported consolidated revenues of €2.5bn for adjusted EBITDA of €511m. The EthiFinance Ratings-adjusted net leverage ratio was 3.4x at end-March 2024.

Fundamentals

Business risk profile

Industry risk assessment

- **Satisfactory growth prospects for the cosmetics industry, with a good level of profitability**

The beauty market has good growth prospects, with some disparities between regions and segments, driven by an increased focus on wellbeing and personal care and the expansion of the middle classes in developing countries. China will probably remain a buoyant market, despite the current slowdown in its economy. Within the industry, the high-end segment is expected to grow faster than the consumer market (+8% over the period 2022-27 vs +5% for the consumer segment), fueled by the increasing customization of products and consumer demand for high-quality products with natural ingredients. Consumers are also paying particular attention to organic and natural cosmetics.

Profitability and volatility levels are fairly good for the beauty industry as a whole. In particular, the sector held up well during the Covid crisis, thanks to online sales. This distribution channel continues to develop as consumers change their habits, seeking greater flexibility, access to a wide range of products and the ability to compare products easily.

- **A competitive market with rather limited barriers to entry**

We consider that the market is competitive as price, image and marketing budgets are key success factors. However, we consider that the barriers to entry are rather low for a small niche player, but become more significant for a global player because of the marketing budgets and R&D and industrial skills required, among other things. For instance, the marketing expenses of the L'OCCITANE Group have grown significantly (+57% in FY24 vs FY23).

Company's competitive positioning

- **The L'OCCITANE Group is a well-known player in the natural cosmetics segment, but remains a medium-size player in a market of larger peers**

In a market traditionally filled with larger peers, the L'OCCITANE Group (€2.5bn revenues for FY24) remains a medium-size player, albeit one which has achieved global recognition. The group's products – focused on the premium natural and organic segment – are valued for their high natural ingredients-based concentration and affordable premium pricing, especially in Asia where foreign brands are usually expensive.

- **Strong geographic diversification**

In FY24, the Americas became the most important region for the group, representing c. 43% of FY24 revenues thanks to the solid growth of Sol de Janeiro. The Asian market remains important (c. 35%). The group has benefited from an historic solid presence in this market but the current setback for the Chinese economy had slightly lowered its weighting in group revenues. Europe is still the third market of the group with c. 22% of FY24 revenues. Overall, the well-balanced geographic diversification has helped the group to display good growth.

Governance

- **Management has a sound track record for growth**

The L'OCCITANE Group became a global group under the influence of its former CEO and still current chairman, Reinold Geiger, who took over the brand L'Occitane en Provence in 1997. Since 2008, the group has acquired several additional brands (Melvita, Erborian, ELEMIS, Sol de Janeiro...) while containing leverage. In that context, we assess the management's track record as sound.

- **Delisting of the group which will remain owned by chairman and former CEO**

On April 2024, L'Occitane Groupe SA, the controlling shareholder of the group indirectly owned by Geiger, made an offer to take the group private. Following the offer period, Geiger and other concert shareholders, which then represented c. 73% of the share capital, reached the threshold to exit the public market. L'Occitane is now around 95% owned by Geiger and the concert shareholders; some minority shareholders, representing no more than 5% of the equity, remain following the delisting. L'Occitane International SA will be delisted from the Hong-Kong Stock Exchange in October 2024.

The taking private of L'Occitane International SA was funded by PIK notes and senior debt at the L'Occitane Groupe SA level. We expect only a limited impact on the financial policy of L'Occitane International SA except for an increase in dividends to address the rising needs of the holding L'Occitane Groupe SA. Governance will also remain unchanged, characterized by a separation of the chairman and CEO positions, which balances the ownership by Geiger.

- **ESG policy: ESG considerations factored in with first targets to be reached by FY26**

With respect to ESG considerations, the L'OCCITANE Group has incorporated environmental issues through the group's products – The L'OCCITANE Group has for instance introduced its 'clean charter' label (in-house commitment to sustainability practices) on its most recent products – and overall through responsible practices with precise, measurable targets to be achieved in 2025 (i.e. the end of its FY26). In 2023, the group became certified B Corp.

The group is also committed to become carbon-neutral by FY50 with a first set of goals to be reached by FY31 as validated by SBTi. That will imply reducing scope 1 & 2 emissions by 90% and scope 3 emissions by 97% by FY50 (vs FY20). As of FY24, the group had already reduced scope 1 emissions by 51% (vs FY20), scope 2 emissions by 92% (vs FY20), and scope 3 emissions by 18% (vs FY20). Like for many companies in the cosmetics sector, scope 3 emissions are the larger part of the group's carbon footprint, representing 99.3% of its GHG emissions in FY24. These emissions mainly come from packaging and consumer use of products.

Financial risk profile

Results and profitability

- **Solid revenues growth while profitability decreased**

In the 12 months to end-March 2024, the group generated revenues of €2.5bn, up 19.1% vs FY23. Growth mainly came from Sol de Janeiro (+156.9% vs FY23) whereas L'Occitane en Provence and ELEMIS sales slightly decreased. By region sales in the Americas grew significantly (+57.2% vs FY23) thanks to Sol de Janeiro. However, adjusted EBITDA (adjusted for variable leases) decreased to €511m (vs €557m in FY23), driving the adjusted EBITDA margin down to 20.1% (vs 26.1% previously). For our forecast period (FY25-FY27), we expect revenues growth to remain high but at a slower pace compared with that for FY24. Regarding profitability, we forecast a progressive improvement in EBITDA margin compared to FY24, but for it to remain below the level of FY23.

Cashflow and leverage

- **FCF expected to remain strong, leverage to improve over our forecast period**

Regarding cash generation, despite lower profitability, cash generated internally (adjusted for dividends paid and lease payments) increased in FY24 to €54.6m (vs €31.9m for FY23). This was the result of an improved change in working capital, slightly lower capex, as well as lower dividends. At end-March 2024, the EthiFinance Ratings-adjusted net leverage ratio had deteriorated to 3.4x (vs 2.4x as of end-March 2023), resulting from a combination of lower adjusted EBITDA and an increase in net adjusted debt. The latter was mainly linked to the revalorization of the put options to non-controlling interests for Sol de Janeiro and the acquisition of Dr. Vranjes Firenze brand. Going forward, we expect FCF (before dividend payments) and cashflow generated internally (after dividend payments) to remain strong over our three-year forecast period as the group continues to expand. This will probably lead to a gradual improvement of credit metrics. In particular, we forecast our adjusted net leverage ratio to be close to 2.0x by end-March 2026, provided there is no significant M&A over that period.

Capitalisation

- **Mainly short-term debt**

As of end-March 2024, L'Occitane International SA had c. €877m of consolidated gross financial debt, including a €300m term loan maturing in December 2024, €302m of lease liabilities, and €232m of NEU CP. The company also had c. €426m of undrawn, committed credit lines, in addition to cash available. Our debt adjustments amounted to €1,023m as we added back items we consider debt like, such as employee benefits, variable lease on stores not under IFRS 16 and put options to non-controlling interests. Net adjusted debt was €1.760m at end-March 2024.

Liquidity

- **Superior liquidity profile**

The group's refinancing profile is considered by us to be 'superior', driven by an investment grade rating and good cash-flow generation, even under a stressed scenario.

Modifiers

- **Controversies**

Over the course of our review, we found no significant controversies regarding the L'OCCITANE Group.

- **Country risk**

Based on the group's geographic diversification, no specific country risk has been identified.

Credit metrics expected evolution (CMEE)

- **Stable CMEE**

The net adjusted leverage is expected to slightly improve by end-March 2025 but the level of interest expenses will continue to weigh on the interest coverage ratio, leading to broadly unchanged credit metrics or an improvement not sufficient to justify a move to a Positive CMEE.

Instrument rating

- **BBB+ rating assigned to the contemplated NEU MTN programme, and EF1 for the existing NEU CP programme**

In order to diversify funding sources, the company has implemented a €500m NEU CP programme and still envisages the implementation of a NEU MTN programme for up to €300m. According to our recovery and instrument rating methodology, with the NEU MTN instrument being unsecured and unsubordinated, the rating is similar to the long-term corporate rating, which results in a BBB+ rating for the envisaged NEU MTN programme.

The NEU CP rating derives from our short-term methodology and is similar to the corporate short-term rating.

Main financial figures

Main financial figures. millons of EUR	FY22	FY23	FY24	24vs23
Turnover	1 781	2 135	2 542	19,1%
EBITDA	554	557	511	-8,4%
EBITDA Margin	31,1%	26,1%	20,1%	-6,0pp
EBIT	311	239	233	-2,5%
EBIT Margin	17,4%	11,2%	9,2%	-2,0pp
EBT	296	180	189	5,3%
Total Assets	3 009	2 816	3 115	10,6%
Equity	1 315	1 187	912	-23,2%
Total Financial Debt	1 579	1 481	1 900	28,3%
Net Financial Debt	1 218	1 334	1 760	32,0%
Equity/TFD	83,3%	80,1%	48,0%	-32,2pp
NFD/EBITDA	2,2x	2,4x	3,4x	1,1x
Adj Funds From Operations	493	483	415	-14,2%
Adj FFO/NFD	40,5%	36,2%	23,6%	-12,7pp
EBITDA/Interest	26,4x	22,2x	11,6x	-10,5x

EBITDA is adjusted for variable lease expenses not covered by IFRS 16, which are capitalized, as well as non-recurring expenses and income.

Total financial debt is mainly adjusted for employee benefits, variable lease expenses not covered by IFRS 16, and put options of non-controlling interests.

Rating sensitivity

- **List of ratings:**
  - LT corporate rating: BBB+
  - NEU MTN: BBB+
  - ST corporate rating: EF1
  - NEU CP: EF1
- **Positive factors which could influence the ratings (↑)**

We may upgrade our long-term ratings – i.e. reverse the downgrade – should the group continue to diversify its brands and improve its credit metrics at the same time. For instance, an EthiFinance Ratings-adjusted net leverage ratio below 2.0x on average through the cycle could entail an upgrade of our long-term ratings.

An upgrade of our short-term ratings would result from a significant upgrade of our long-term rating used as a reference, and is therefore improbable at present.

- **Negative factors which could influence the ratings (↓)**

Conversely, poor profitability for a sustained period, combined with additional acquisitions and/or a more aggressive dividend policy could entail some deterioration in the credit metrics. For instance, our adjusted net leverage close to 3.0x on a sustained basis could trigger a rating downgrade. As of now, we do not expect such a scenario.

A downgrade of our short-term ratings would be contingent upon a downgrade of the long-term rating used as a reference.

Credit rating

Credit Rating	
Business Risk Profile	**BBB**
Industry risk assessment	*BBB+*
Industry's ESG	*Neutral*
Competitive Positioning	*BBB-*
Governance	*BBB+*
Financial Risk Profile	**BBB+**
Cash flow and leverage	*BBB+*
Solvency	*BB*
Company's ESG	*Positive*
Anchor Rating	**BBB+**
Modifiers	-
Rating	**BBB+**

Sources of information

The credit rating assigned in this report has been requested by the rated entity, which has also taken part in the process. It is based on private information as well as public information. The main sources of information are:

1. Annual Audit Reports.
2. Corporate Website.
3. Information published in the Official Bulletins.
4. Rating book provided by the Company.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.