A- ISSUER RATING
Long-Term

Outlook Stable

A- INSTRUMENT RATING
Neu MTN

EF1 ISSUER RATING
Short-Term

EF1 INSTRUMENT RATING
Neu CP

Initiation date	28/11/2022
Rating date	26/09/2023

Contacts

Director
Thomas DILASSER
thomas.dilasser@ethifinance.com

Senior associate
Anne Guy
anne.guy@ethifinance.com

RATING ACTION AND RATIONALE

- EthiFinance Ratings has reaffirmed its long-term corporate rating of A- for L'Occitane International SA with an unchanged Stable outlook, as well as a rating of A- for the envisaged €300m NEU MTN programme. EthiFinance Ratings has also reaffirmed a short-term corporate rating of EF1 for L'Occitane International SA and for the existing NEU CP programme of €500m.
- Our ratings are supported by strong, resilient financial metrics despite some deterioration over the past year owing to the inflationary environment, as well as consequences of the significant M&A in FY22 (Sol de Janeiro). Over our three-year forecast period (to end-March 2026, corresponding to the end of the company's financial year), we expect credit metrics to gradually return to the levels of FY21, which also supports the reaffirmation of current ratings. Assuming no further significant M&A, the EthiFinance Ratings-adjusted net leverage ratio is projected to improve from 2.4x as of end-March 2023 to 1.5x by end-March 2026. In addition, the L'OCCITANE Group has improved its product diversification since FY19, by reducing the weight of its main brand, l'Occitane en Provence, from 90% to 67%.
- However, our ratings remain constrained by the cosmetics industry as a whole (rating of BBB+), as well as the presence of larger peers in the market, with their eyes on the natural and premium segment in which the L'OCCITANE Group operates. Diversification, albeit improving, remains a constraining factor.
- In line with our methodology, the cosmetics and luxury industry has medium ESG risks (heatmap score between 2 and 3.5), which is neutral for our industry assessment. Our assessment of the company's ESG policy is advanced (company ESG score between 0 and 1), which weighs positively on our financial assessment and therefore slightly improves our rating.

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.67% of company revenues for FY23) – through 2,774 stores, of which 1,362 are operated by the group, in 90 countries. The company has been listed on the Hong Kong Stock Exchange since 2010 and is majority-owned by Reinold Geiger (72% indirectly), its chairman and former CEO. As of September 19th, the market capitalization of L'Occitane International SA was around HKD36.1bn. For FY23, L'Occitane International SA reported consolidated revenues of €2.1bn for EBITDA of €466m. The EthiFinance Ratings-adjusted net leverage ratio was 2.4x at end-March 2023.

FUNDAMENTALS

BUSINESS RISK PROFILE

INDUSTRY RISK ASSESSMENT

- **Good growth prospects for the cosmetics industry, especially through the online channel, which has limited volatility in revenues and profitability**

The overall cosmetics industry has been growing over the past decade, driven by the emergence of a middle class in developing countries, especially China, and a growing desire for body care. The industry was quite resilient during the pandemic as online sales limited the losses from bricks-and-mortar shops and sales related to the travel industry (duty free shops and partnerships with airlines and cruise ships). The proportion of online sales continues to increase as consumers' habits have shifted towards more flexibility and 'click and buy'. Within the industry, the natural and organic products niche is also expected to continue to grow as more and more consumers show environmental sensitivity and are therefore more careful in their product selection.

- **Rather strong barriers to entry**

Becoming a significant player in the field of cosmetics requires know-how, strong brand image, and ultimately significant R&D expenditure, which can only be achieved over time. Consequently, we consider there to be strong barriers to entry.

COMPANY'S COMPETITIVE POSITIONING

- **The L'OCCITANE Group is a well-known player in the niche market of natural cosmetics, but remains a small player in a market of larger peers.**

In a market traditionally filled with larger peers, the L'OCCITANE Group (€2.1bn revenues for FY23) remains a medium-size player, albeit one which has achieved global recognition. The group's products –

focused on the premium natural and organic niche – are valued for their high natural ingredients-based concentration and affordable premium pricing, especially in Asia where foreign brands are usually expensive.

- **Strong presence in Asia and very good geographic diversification support our ratings**

With c. 42% of FY23 revenues generated in Asia, then the Americas (33%), then Europe (26%), the L'OCCITANE Group has strong geographic diversification and a very solid presence in the Asian market. Despite a temporary setback in FY23, especially in China, the Asian market is still expected to be a strong driver of growth in revenues in the years ahead. In FY23, the well-balanced geographic diversification enabled the group to display solid growth thanks to a strong performance in the Americas whereas the Chinese market was still impacted by Covid for most of the year.

- **Brand diversification is still average, but it has been improving since FY19**

Five years ago, the l'Occitane en Provence brand accounted for more than 90% of total group revenues. In FY23, the brand only represented c.67% of consolidated sales, following the acquisitions of Elemis (FY19) and Sol de Janeiro (FY22). While there is still strong dependency on the main original brand, which constrains our rating, product diversification therefore continues to improve. In addition, the large range of products within the l'Occitane brand is a mitigating factor.

GOVERNANCE

- **Management has a sound track record for growth; ESG considerations are more and more factored in**

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. In that context, management has a sound track record. With respect to ESG considerations, the environmental question is factored in 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 responsible practices with precise, measurable targets to achieve by 2025 (FY26).

The group also introduced social and environmental commitments. In particular, it committed to become carbon-neutral by FY50 with a first set of goals to be reached by FY30. That will imply reducing scope 1 & 2 emissions by 90% and scope 3 emissions by 97% by FY50. As of FY23, the group had already succeeded to reduce scope 1 & 2 emissions by 69% (vs FY20) while scope 3 emissions increased by 3% (vs FY20).

- **The group remains majority-owned by chairman and former CEO**

With an indirect interest of some 72% in L'Occitane International SA through L'Occitane Groupe SA, Reinold Geiger remains the main shareholder of the group. Despite having contemplated a potential offer to take the firm private this summer, L'Occitane Groupe SA finally decided not to proceed with the transaction. Governance is good and characterized by a separation of the Chairman and CEO positions, which balances the majority ownership by Reinold Geiger.

FINANCIAL RISK PROFILE

RESULTS AND PROFITABILITY

- **Solid revenues growth while profitability decreased**

In the 12 months to end-March 2023, the group generated revenues of €2.1bn, 19.8% growth vs FY22. The growth mainly came from the Americas (102.4% vs FY22) thanks to the strong sales of recently acquired Sol de Janeiro. However, adjusted EBITDA (adjusted for operating leases) was broadly unchanged at €557m (vs €554m in FY22). As a consequence, adjusted EBITDA margin decreased to 26.1% (vs 31.1% previously). For 1Q24, the group reported an increase in revenues of 24.5% at constant rate. Growth was particularly sound in China (35.7%).

CASHFLOW AND LEVERAGE

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

Regarding cash generation, free cashflow (adjusted for dividends paid and lease payments) was again positive, albeit significantly down, in FY23 at €31.9m (vs €122.8m for FY22). This was the result of a deteriorated change in working capital, an increase in capex, as well as higher dividends following the solid performance in FY22. At end-March 2023, the EthiFinance Ratings-adjusted net leverage ratio was 2.4x, up from 2.2x as of end-March 2022, resulting from a combination of a slight deterioration in adjusted EBITDA and an increase in net adjusted debt. The increase in put options to non-controlling interests for Sol de

Janeiro was the main reason for the deterioration in net adjusted debt. Going forward, we expect FCF to remain strong over our three-year forecast period as the group continues to expand. This will probably lead to a gradual return of credit metrics to the levels of FY21. In particular, we forecast our adjusted net leverage ratio to return to 1.5x by end-March 2025, providing there is no significant M&A.

SOLVENCY AND LIQUIDITY PROFILE

As of end-March 2023, L'Occitane International SA had some €795m of consolidated gross financial debt, including a €300m term loan maturing in less than two years, €276m of lease liabilities, and €187m of NEU CP. The company also had c. €600m (of which c. €200m acting as a back-up for the NEU CP programme) of undrawn, committed, sustainability-linked credit lines maturing in March 2027 (with an option for one additional year), in addition to cash available. The group's refinancing profile is considered by us to be 'superior', driven by investment grade rating and good cashflow generation, even under a stressed scenario.

MODIFIERS

- **Country risk**

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

- **Controversies**

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

CREDIT METRICS EXPECTED EVOLUTION (CMEE)

- **CMEE: Stable**

While the net adjusted leverage is expected to slightly improve by end-March 2024, the rise in interest rates will inevitably weigh on the interest coverage ratio, leading to broadly unchanged credit metrics overall in a year's time.

INSTRUMENT RATING

- **A- 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 an A- 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. Millions of €.	FY21	FY22	FY23	23vs22
Turnover	1,538	1,781	2,135	19.8%
EBITDA adj.	489	554	557	0.6%
EBITDA Margin	31.8%	31.1%	26.1%	-5.0pp
EBIT	220	311	239	-23.0%
EBIT Margin	14.3%	17.4%	11.2%	-6.2pp
EBT	202	296	186	-37.3%
Total Assets	2,497	3,009	2,816	-6.4%
Equity	1,279	1,315	1,187	-9.7%
Total Financial Debt	1,191	1,579	1,481	-6.2%
Net Financial Debt	770	1,218	1,334	9.6%
Equity/TFD	107.4%	83.3%	80.1%	-3.1pp
NFD/EBITDA	1.6x	2.2x	2.4x	0.2x
Funds From Operations	455	493	483	-1.9%
FFO/NFD	59.1%	40.5%	36.2%	-4.2pp
EBITDA/Interest	19.2x	26.4x	22.2x	-4.3x

EBITDA is adjusted for operating 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, operating lease expenses not covered by IFRS 16 (variable leases), and put options to non-controlling interests.

RATING SENSITIVITY

- **List of ratings:**
  - **LT corporate rating: A-**
  - **NEU MTN rating: A-**
  - **ST corporate: EF1**
  - **NEU CP rating: EF1**

- **Positive factors which could influence the ratings (↑)**

We may upgrade our long-term ratings 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 close to 1.5x on average through the cycle could entail an upgrade of our long-term ratings.

An upgrade of our short-term ratings would be contingent upon an upgrade of the long-term rating used as a reference.

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

Conversely, more brand diversification could also mean more acquisitions, which in the event of significant cash outflow could also entail some deterioration in the credit metrics and a less conservative financial policy, leading to potential downgrade. L'Occitane International SA being positioned at the lower end of the A- category, it is particularly sensitive to a deviation from our forecast credit metrics. For instance, stability of our adjusted net leverage ratio around 2.5x on a sustained basis could trigger a rating downgrade. All things being equal, a downgrade could also result from a deterioration of the ESG company score above 1.

A downgrade of our short-term ratings would result from a significant downgrade of our long-term rating used as a reference, and therefore seems improbable at present.

CREDIT RATING

Credit Rating	
Business Risk Profile	**BBB+**
Industry Risk Assessment	*BBB+*
Sector ESG Adjustment	*Neutral*
Competitive Positioning	*BBB*
Governance	*BBB+*
Financial Risk Profile	**A**
Cash flow and leverage	*A-*
Solvency	*BBB*
Company's ESG Adjustment	*Positive*
Anchor Rating	**A-**
Modifiers	*-*
Rating	**A-**

REGULATORY INFORMATION

LEI: 549300TLZP9DZV3ROI47

Initiation report: No

Rating initiation: A- for the LT corporate rating and envisaged NEU MTN programme, and EF1 for the ST corporate rating and the existing NEU CP programme, on November 28, 2022.

Last rating action: Initiated at A- for the LT corporate rating and envisaged NEU MTN programme, and EF1 for the ST corporate rating and the existing NEU CP programme, on November 28, 2022.

Rating nature: Solicited, public, long-term corporate rating, long-term NEU MTN instrument rating, short-term corporate rating and short-term NEU CP instrument rating

With rated entity or third-participation: Yes, the ratings were issued after having been reviewed by the issuer

With access to internal documents: Yes

With access to management: Yes

Ancillary services provided to the rated entity: 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.

Name of the rating committee chair: Marc PIERRON, Senior Director

Material sources used to support the rating decision:

- Consolidated financial statements 2021, 2022, 2023
- FY23 results presentation and press release
- Call with CFO

Limitation of the rating action:

- EthiFinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating

- EthiFinance Ratings has no obligation to audit the data provided

Our methodologies used for this rating

https://files.qivalio.net/documents/methodologies/CRA_190_V3.CorporateRatingMethodology_Long_Term.pdf

https://files.qivalio.net/documents/methodologies/CRA_191.Corporate_Rating_Methodology_Short_Term-202303.pdf

https://files.qivalio.net/documents/methodologies/CRA_127_V2.Corporate_Rating_Methodology_Instruments.pdf

EthiFinance Ratings SL

Calle Velázquez nº18

28001 - Madrid

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