PRESS RELEASE

Spread Research assigns its SR2 short-term rating to the NEU CP instrument of L'Occitane International with a Positive outlook

Lyon, September 12, 2019 – Credit rating agency Spread Research assigns its SR2 short-term rating to the planned €300m NEU CP program of L'Occitane International with a Positive outlook.

Rating rationale

Spread Research has analysed the credit profile of L'Occitane International in order to assign its short-term rating. The outcome is an SR2 short-term rating.

Credit profile

L'Occitane 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 6 different brands, the main one being L'Occitane en Provence. The company has been listed on the Hong Kong Stock Exchange since 2010 and is majority-owned by Reinold Geiger, its CEO and chairman.

Our rating factors in the historical good cash generation of the company, its attractive margins, the company's good diversification by geography, and its impressive growth track record.

Furthermore, we see skincare, and more generally the cosmetics industry, as an attractive market with positive long-term trends driven by rising middle classes in emerging markets, and still favorable prospects in mature economies. We also believe the company is well-positioned in an even more attractive growing market, the natural/organic skincare products area. However, we would note that although the company was a pioneer in this market the landscape is now more crowded and competitive. We believe the vertical integration of the business is a positive, giving the company the possibility to own information on its customers.

However, our rating is constrained by the limited size of the company vs bigger peers which are penetrating the natural/organic cosmetic market. The company generates a substantial part of its revenue through the brand L'Occitane en Provence. The company has made a number of acquisitions over recent years which should further diversify this brand mix. Finally, the company's credit ratios have been negatively impacted with the acquisition of ELEMIS in March 2019. We understand the acquisition price for ELEMIS was €792m (equivalent to c.20x FY18E EBITDA multiple).This acquisition was financed through a mix of cash and debt (RCF and term loan) which significantly increased the leverage profile of the company with reported leverage jumping from -1.5x in FY18A to 1.7x for FY19A (on a pro forma basis).

Liquidity profile

Although the liquidity profile of the company is negatively impacted by the reimbursement of its acquisition debt in March 2022, we consider the liquidity profile of the company to be strong and we assigned a score of "3 years" which is our higher score

Credit outlook

We have a Positive outlook over the next 12 months. This reflects our view that credit metrics will improve over the short term. Credit ratios have deteriorated with the recent acquisition of ELEMIS but we believe that the company will deleverage over the coming year thanks to a strong cash generation despite stable margins.

Our methodology for short-term ratings is available at:

https://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf

L’Occitane International

Founded in 1997 by Reinold Geiger, after the acquisition of L’Occitane en Provence brand, the L’Occitane group is an international group that manufactures and retails beauty and well-being products that are rich in natural and organic ingredients. The company mainly sells skincare products, with perfume, haircare and other products completing the mix. L’Occitane group sells its products through 6 different brands (L’Occitane en Provence, L’Occitane au Brésil, Melvita, Erborian, LimeLife and ELEMIS), to address different markets, but which all have in common the use of natural/organic ingredients. Due to history, the majority of the group’s sales are concentrated towards the L’Occitane en Provence brand. L’Occitane International is present in 90 countries through a network of more than 3,420 stores of which 1,572 are directly operated by the company, the remaining stores are operated by distributors

Spread Ratings

Spread Ratings is the trademark under which Spread Research operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Spread Research itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Spread Research capitalizes on over fifteen years of experience in assessing corporate debt financial instruments.

Our analysts are sector specialists and the team produces credit opinions for investors as well as private and public credit ratings. Our ratings are recognized by the EU banking (EBA) and insurance (EIOPA) regulators. Spread Research is one of the few rating agencies approved by the Bank of France to provide financial ratings for NEU CP (short-term) and NEU MTN (medium-term) programs.

Spread Research is a brand of the group Qivalio which is a merger between Spread Research and EthiFinance, two French agencies respectively involved in financial and ESG rating activities for the past 15 years. Qivalio provides its services to a wide range of leading international clients mainly under the brands Spread Research, Spread Ratings, EthiFinance and Gaïa Rating.

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L’Occitane International

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L'Occitane International S.A. – €300m NEU CP instrument – Rating Report Initiation – Short Version

Company: L'Occitane International S.A.
Sector: Luxury & Cosmetics

SR Rating	Outlook
SR2	Positive

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Rating Rationale

We assign an SR2 rating to L'Occitane International (L'Occitane or the company) for its anticipated NEU CP program of up to €300m.

L'Occitane 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 6 different brands, the main one being L'Occitane en Provence. The company has been listed on the Hong Kong Stock Exchange since 2010 and is majority-owned by Reinold Geiger, its CEO and chairman.

Our rating factors in the historical good cash generation of the company, its attractive margins, the company's good diversification by geography, and its impressive growth track record.

Furthermore, we see skincare, and more generally the cosmetics industry, as an attractive market with positive long-term trends driven by rising middle classes in emerging markets, and still favorable prospects in mature economies. We also believe the company is well-positioned in an even more attractive niche market, the natural/organic skincare products area. However, we would note that although the company was a pioneer in this market the landscape is now more crowded and competitive. We believe the vertical integration of the business is a positive, giving the company the possibility to own information on its customers.

However, our rating is constrained by the limited size of the company vs bigger peers which are penetrating the natural/organic cosmetic market. The company generates a substantial part of its revenue through the brand L'Occitane en Provence. The company has made a number of acquisitions over recent years which should further diversify this brand mix. Finally, the company's credit ratios have been negatively impacted with the acquisition of ELEMIS in March 2019. We understand the acquisition price for ELEMIS was €792m (equivalent to c.20x FY18E EBITDA multiple).This acquisition was financed through a mix of cash and debt (RCF and term loan) which significantly increased the leverage profile of the company with reported leverage jumping from -1.5x in FY18A to 1.7x for FY19A (on a pro forma basis).

Capital Structure

In order to finance the acquisition of ELEMIS in March 2019, the company draw on its RCF, put in place a new term loan and used part of its cash. As a consequence, reported net leverage increased and stood at 1.7x FY19PF EBITDA (including the contribution of ELEMIS) as of March 2019. Adjusted for the non-cancellable part of the operating leases, which we consider to be a reasonable proxy of future lease liabilities that will appear on the company's balance sheet next year following the implementation of IFRS 16, net adjusted leverage stood at 2.7x FY19PF EBITDAR (including only the non-cancellable part of the rents).

We believe the capital structure of the company is appropriate with the majority of the debt maturing in 2022, which should leave time for the company to deleverage. The company also has a reasonable amount of cash on the balance sheet and committed but undrawn RCF facilities.

We understand from our discussions with the company that the €300m NEU CP will be issued at L'Occitane International level in order to refinance part of the funds drawn by the company in order to finance its acquisition of ELEMIS. We understand the average amount drawn under this program will be around €150m (i.e. 50% of the program).

The company will start implementing IFRS16 from H1 2020 (i.e. September 2019). The company expects to recognise right-of-use assets and lease liabilities of c.€408m. EBITDA is expected to increase by c.€118m. Reported leverage as of March 2019 would have been of 2.3x should IFRS 16 have been implemented at this date.

Liquidity Profile

Although the liquidity profile of the company is negatively impacted by the reimbursement of its acquisition debt in March 2022, we consider the liquidity profile of the company to be strong and we assigned a score of “3 years” which is our highest score.

Credit Outlook

We have a Positive outlook over the next 12 months. This reflects our view that credit metrics will improve over the short term. We believe credit ratios have deteriorated with the recent acquisition of ELEMIS but that the company will deleverage over the coming year thanks to a strong cash generation despite stable margins.

Rating Sensitivity

An upgrade to SR1 could be triggered if the company deleveraged significantly to historical levels through margin improvements and cash generation. An upgrade could also be anticipated should the company scale up or further diversify its brand mix.

The company is in the high-end of the SR2 rating category and as such we do not anticipate a downgrade in the foreseeable future. However, a downgrade could happen if the company’s credit ratios deteriorate due to lower cash generation, margin contractions, and / or makes a large debt-funded M&A operations. We note this is not our base case.

Regulatory Disclosures

SPRR/2019/00346/12/09/2019

Rating report initiation on planned NEU CP program

Rating initiation: 12 September 2019

Last rating action: N/A

Rating nature: Solicited short-term instrument rating (the rating was issued after having been reviewed by the issuer)

Name of the rating committee chair: Anthony Giret, Senior Credit Analyst

Material sources used to support the rating decision:

- Consolidated financial statements 2015, 2016, 2017, 2018 and 2019
- EUROPP Investor Presentation
- L'Occitane Presentation Groupe
- Project Glory Confidential Information Memorandum
- Project Glory FDD Report
- Meeting and calls with L'Occitane Director of Group Cash Management

Limitation of the Rating action:

- Spread Research believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating
- Spread Research has no obligation to audit the data provided

Our methodology for short-term ratings is available at: https://www.spreadresearch.com/uploads/pdf/user/methodo/SRshorttermratingsmethodology-08jan16Public.pdf

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