Qivalio reaffirms its SR2 short-term rating for the NEU CP instrument of L'Occitane International

Lyon, September 11, 2020 – Credit rating agency Qivalio reaffirms its SR2 short-term rating for the €300m NEU CP program of L'Occitane International.

Rating rationale

Qivalio 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, unchanged from a year ago.

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 primary 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 historically good cash generation, attractive margins, good geographic diversification, and sound growth track record, albeit temporarily affected by the pandemic and its consequences.

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 stress 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 for the company, giving it the possibility to own information on its customers.

However, our rating is constrained by the limited size of the company compared to bigger peers which are penetrating the natural/organic cosmetics market. The company generates most of its revenue through the brand L'Occitane en Provence but has made a number of acquisitions over recent years which is helping to diversify the brand mix. The company's credit ratios were negatively impacted with the acquisition of Elemis in March 2019 and significantly improved as of end-March 2020 on the back of a strong increase in EBITDA. The current pandemic is expected to temporarily weaken l'Occitane's financial performance, as evidenced by a 22.2% decrease in sales for the first quarter of FY2021. Qivalio's net adjusted leverage ratio is expected to increase slightly but credit metrics will remain commensurate with l'Occitane's short-term rating of SR2.

Liquidity profile

The liquidity profile of the company has been weakened compared to last year, because of the upcoming debt wall of 2022, even though the company was recently able to secure a French-state guaranteed loan and signed some new credit lines, which have not yet been drawn.

Credit outlook

We have a Stable outlook over the next 12 months, which reflects our view that credit metrics will slightly deteriorate over the short term, on the back of the consequences of the pandemic, and then start to recover in 2021.

Our methodology for short-term ratings is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrShortTermCorporateRatingMethodology.pdf

Our methodology for long-term ratings is available at:

https://www.spreadratings.com/wp-content/uploads/2019/12/SrLongTermCorporateRatingMethodology.pdf

L'Occitane International

Founded in 1997 by Reinold Geiger, after the acquisition of the L'Occitane en Provence brand, 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 all have in common the use of natural/organic ingredients. Due to its 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 3,486 stores of which 1,608 are directly operated by the company; the remaining stores are operated by distributors.

Spread Ratings

Spread Ratings is the trademark under which Qivalio operates as a Credit Rating Agency, registered and regulated by the European Securities and Markets Authority (ESMA). Qivalio itself is a pioneer in European credit research. Founded in 2004 and based in Lyon, Qivalio (formerly 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. Qivalio 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.

Qivalio 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 - Reaffirming our short-term rating at SR2

Company: L'Occitane International SA
Sector: Luxury & Cosmetics

SR Rating	Outlook
SR2	Stable

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Rating Rationale

We reaffirm our SR2 rating for L'Occitane International (L'Occitane or the company) for its existing 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 primary one being L'Occitane en Provence (c.79% of company revenues in FY20). The company has been listed on the Hong Kong Stock Exchange since 2010 and is majority-owned by Reinold Geiger, its CEO and chairman.

Despite the pandemic that hampered its performance in Q4 (January-March 2020), due to store closures in China for most of the quarter and in Europe and North America for the last 15 days of March, the group reported FY20 total sales of €1.6bn at end-March 2020, equivalent to 12.8% growth at constant exchange rates. This increase was mainly driven by the acquisition of Elemis, which brought additional revenues of €165m. With respect to operating profit, l'Occitane reported EBIT of €187m, equivalent to 24% growth year-on-year. Free cashflow was strong at €168m (excluding IFRS 16 impact, €303m post-IFRS 16). Going forward, we expect FY21 (ending March 2021) to be a down year for l'Occitane both in terms of revenues and EBITDA as most store closures continued between April and July in Europe and the Americas, and the pace of recovery of the global economy and world trade remains uncertain, especially with a potential second wave of the pandemic before the end of 2020. As of end-June 2020, l'Occitane reported global 1Q sales down by 22.2%. On a positive note, Asian sales were especially good with China, Korea, and Taiwan registering growth rates of 24.9%, 27.4%, and 11.5% respectively. L'Occitane also managed to take advantage of its online channels which helped to compensate for the lack of revenues from its brick and mortar shops: online sales grew by 95.9% in 1Q2021 and accounted for 52.6% of net sales compared to 20.9% in 1Q2020.

Our rating continues to factor in historically good cash generation, attractive margins, good geographic diversification, and sound growth track record. Despite the temporary setback of 2020 owing to the pandemic, we reaffirm our vision that skincare, and more generally the cosmetics industry, is 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, although the landscape is now more crowded and competitive than it was a few years ago. We believe the vertical integration of the business is positive as it gives l'Occitane the possibility to own information on its customers.

Similar to last year, our rating remains constrained by the limited size of the company compared to bigger peers which are penetrating the natural/organic cosmetics market. The company continues to generate most of its revenues (c.79% of FY20 sales) through the brand L'Occitane en Provence although diversification has improved with the integration of Elemis (c.10% of FY20 sales). While the company's credit ratios were negatively impacted by the acquisition of Elemis in March 2019, with the net reported leverage ratio jumping from -1.5x to 1.7x proforma the acquisition (from 0.9x to 2.7x for Qivalio's net adjusted leverage factoring in operating leases), the net reported leverage improved to 1.3x pre-IFRS 16 at end-March 2020 (1.9x post-IFRS 16). The significant increase in EBITDA drove the improvement of the ratios. Going forward, we expect Qivalio's net adjusted leverage ratio to increase to 2.4x in 2021 (from

1.9x) on the back of a significant drop in EBITDA owing to the pandemic and its consequences on l'Occitane's business, and to decrease again to 2.0x in 2022, which is commensurate with l'Occitane's short-term rating.

Our ESG considerations emphasized a lack of separation between the CEO and chairman positions as well as a lack of turnover of non-independent directors. L'Occitane's social metrics are good. As for environmental metrics, they are positively driven by the company's limited size and volumes. We would emphasize good management practices with respect to energy and water consumption, as well as CO2 emissions. ESG considerations did not have a significant impact on this rating.

Capital Structure

As of end-March 2020, l'Occitane reported c.€0.9bn of financial debt, almost 50% of which related to lease liabilities under IFRS 16. Besides lease liabilities, l'Occitane had mainly €300m in term loan A and €105m in NEU CP.

Except for lease liabilities, the major part of long-term debt matures in 2022.

Liquidity Profile

Compared to our previous rating report, the liquidity profile of the company is weakened by the upcoming debt wall of March 2022, although in the past five months the company has been able to sign some new credit lines (which have not yet been drawn) and to benefit from a French state-guaranteed loan (PGE). Our liquidity score is now 2 years but could increase again to 3 if the company successfully refinances its debt maturing in 2022.

Credit Outlook

We have a Stable outlook over the next 12 months, which reflects our view that credit metrics will slightly deteriorate over the short term, on the back of the consequences of the pandemic, and then start to recover in 2021.

Rating Sensitivity

An upgrade to SR1 could be triggered if the company managed to deleverage significantly to historically normal levels through margin improvements and cash generation.

The company is still well positioned in the SR2 rating category, and as such we do not anticipate a downgrade in the foreseeable future. However, a downgrade could happen should the company's credit ratios deteriorate due to lower cash generation, margin contractions, especially in the context of the pandemic, and/or should the group make large debt-funded M&A operations.

Regulatory Disclosures

SPRR/2020/00511/11/09/2020

Rating review report on existing NEU CP program

Rating initiation: 12 September 2019 at SR2

Last rating action: 12 September 2019 at SR2

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

Name of the rating committee chair: Marc Pierron, Senior Credit Analyst

Material sources used to support the rating decision:

- Consolidated financial statements 2015, 2016, 2017, 2018,2019 and 2020
- FY2020 Results presentation and press release
- 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:

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

- Qivalio has no obligation to audit the data provided

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