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Executive Summary

L'Occitane International S.A is a manufacturer and retailer of skincare, body and home products. Its products are natural and organic ingredient-based.

In Chapter 1, it will be depicted the Company background and structure, and the business operational review.

In Chapter 2, author analyze various financial ratios of the Group, the ratios includes its financial structure index, short-term and long-term liquidity ratios, asset management ratios, inventory control index, credit/debit control analysis, the Company's profitability analysis and the stock market prospective. The Company's performance also is used to predict the probability of bankruptcy happen in short term by the Altman's Z-Score. The calculation shows that the chance of bankruptcy is low. DuPont Diagram is also listed out to analysis how to raise up the Return-On-Equity for the Company.

In Chapter 3, author comments on the L'Occitane's current practices against with the Listing of Securities set by The Stock Exchange and also recommend how to manage the Company's financial risks.

In Chapter 4, four capital investment appraisal: NPV, IRR, payback period and ARR were used to evaluate if the Company's proposal project should be proceed or not. If the project launches, how will the Company raise fund? In Chapter 5, author suggested several ways to do it and proposed the best method for L'Occitane according to its financial performance.

Author ended this paper with an annual operational audit and a conclusion.

Key Words: Skincare industry, Z-Score, CIA, Du Pont Diagram, NPV, IRR, Payback, ARR

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1. Introduction

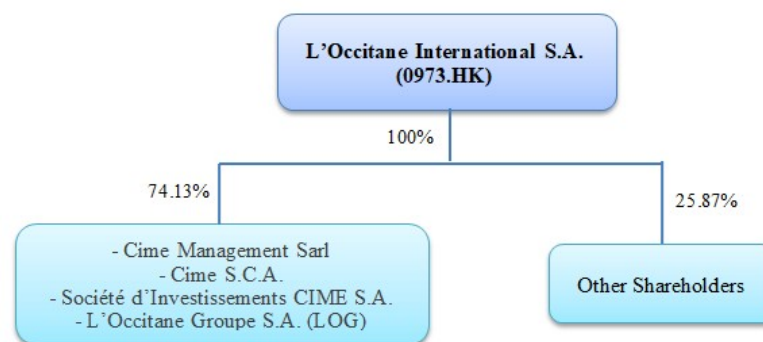
1.1. Company Background

L'Occitane International S.A. (the group) is a listed company in Hong Kong (Stock Code: 00973.HK). It also known as L'Occitane en Provence (L'Occitane) originated in France in 1976. The group is a manufacturer and retailer of skincare, body and home products. It is a global, natural and organic ingredient-based company. The Group's founder, Mr. Olivier Baussan created its first line of products in 1976 and opened the first L'Occitane store in 1978 in Provence. Now, it employs 8,672 employees as at 31 March 2018. With 5 natural brands including L'Occitane en Provence, L'Occitane Eau bresil, Erborian, Melvita and LimeLife by Alcone, L'Occitane products are in presence over 88 countries through more 3,285 store locations in which 1,555 stores operated directly by the group, which sell its products exclusively with standardized L'Occitane decoration and design. It also sells its products through online. (L'occitane International S.A., 2018a)

The Company was incorporated in 8 May, 2000 and the head office is located in Luxembourg City. L'Occitane International S.A. is a subsidiary of L'Occitane Groupe S.A, with initial authorized shares 1,500,000,000 and the number of issued shares was 1,476,964,891 as of 20 March, 2018, Market Capitalization of €3,111 million and stock price was ranged from €1.347 (HKD 13.00) to €1.915 (HKD18.48) in the period from 1 April, 2016 to 30 March, 2018 (Appendix).

As of 30 March, 2018, the total issued ordinary shares was 1,460,682,471, the shareholding percentage illustrated in figure 2;

Figure 1: L'Occitane Shareholding Structure



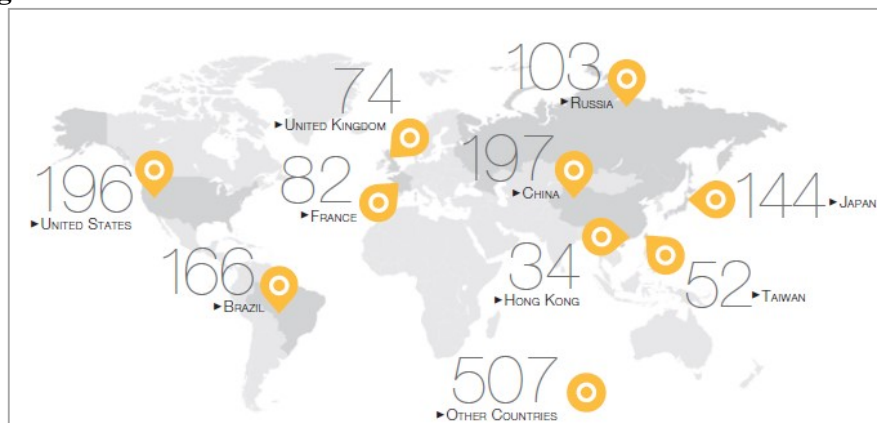
(Source: Created by the Author)

1.2. Operating Business Overview

1.2.1. Geographical Perspective

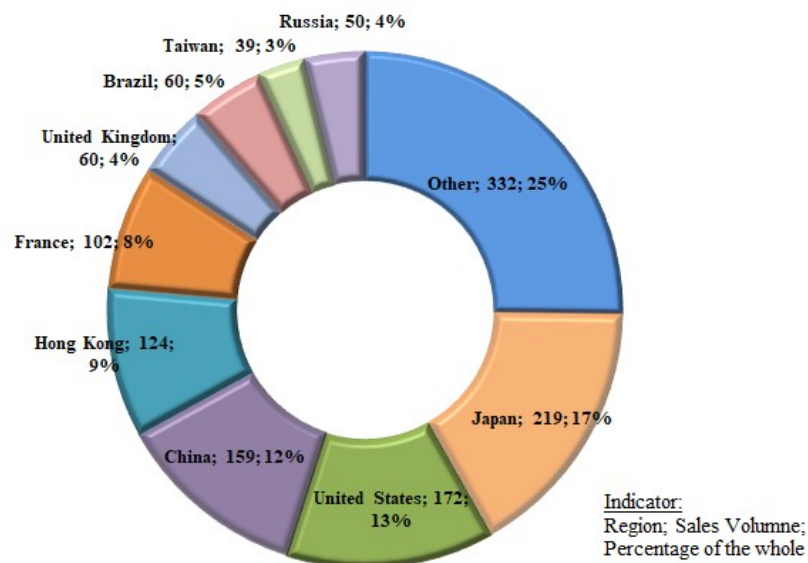
L'Occitane has operations internationally, covers Hong Kong, Japan, France, the United States, China, the United Kingdom, Luxembourg, Brazil, Russia, Taiwan and other areas. The Company's net sales was €1,319.4 million in FY2018, year-on-year growth 4.6%. Geographically, Japan (17%), the United States (13%), China (12%), and Hong Kong (9%) (figure 3) are the key markets to contribute the group's overall financial growth. (L'Occitane, 2018)

Figure 2: L'Occitane's Stores Worldwide



(Source: L'Occitane, 2018)

Figure 3: Sales Per Region in FY2018 (€ in Millions)



(Source: Created by the Author)

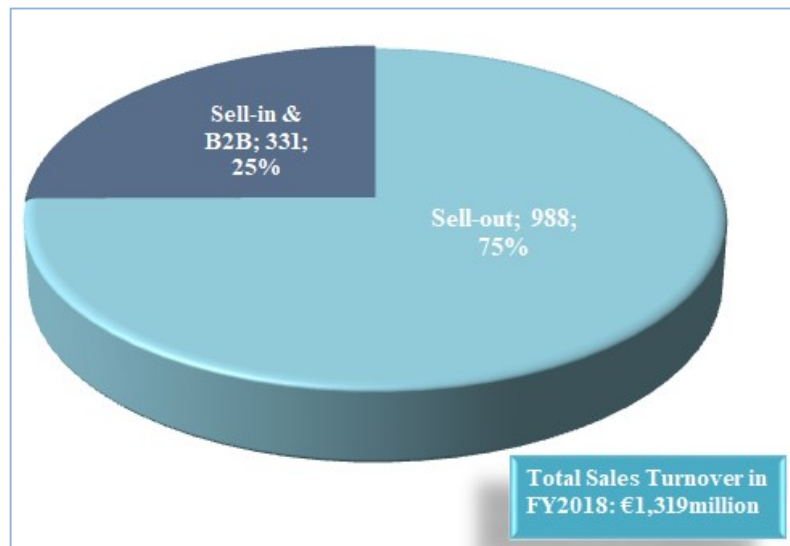
1.2.2. Business Segment

The L'Occitane's business separated into two segments, (1) Sell-Out, and (2) Sell-in and Business to Business (B2B):

- Sell-out is the sales of products to the final customers directly via the chain stores on the Company's online platform.
- Sell-in segment is the sales of good to the intermediates are mainly wholesalers, distributors, TV program channels and travel agencies. Or sales to corporate customers who will then give the products out as souvenirs, for instance to their employees or guests;
- B2B is the segment of sales of the Group's goods to intermediates, who are hotels and airlines companies, they provide L'Occitane's products as free amenities in their companies.

In FY2018, the sales of Sell-out segment was 75%, €988 million of the overall sales whereas sell-in & B2B segment contributed 25%, €331 million (figure 4).

Figure 4: Sales Turnover by Business Segment in FY2018 (€ in Million)



(Source: Created by the Author)

1.3. Company Structure

The Board has general powers over the Company's management and the certain information of the Board is shown as below table:

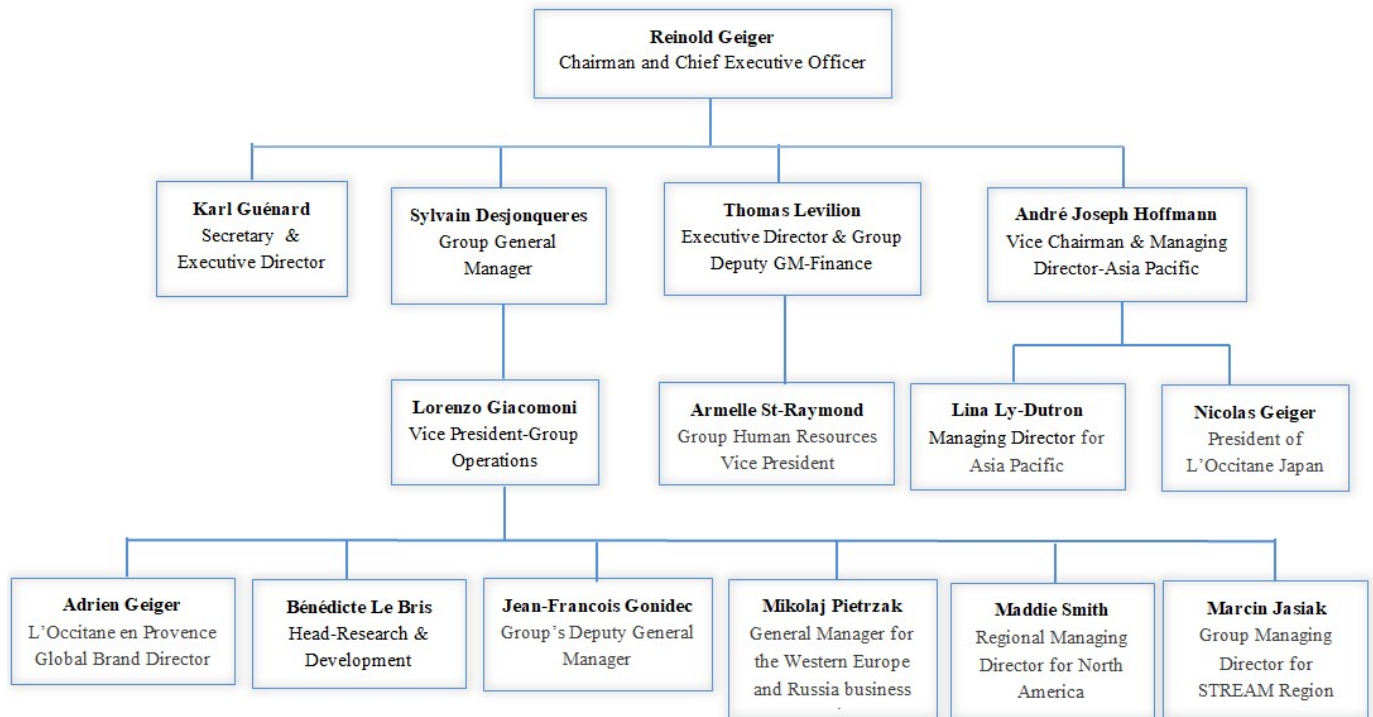
Table 1: The Board's Information

Name	Age	Since	Title
Reinold Geiger	71	1996	Chairman & Chief Executive Officer
Lorenzo Giacomoni	50	2012	Vice President-Group Operations
Thomas Levilion, MBA	59	2008	Executive Director & Group Deputy GM-Finance
Bénédicte Le Bris	53	2012	Head-Research & Development
André Joseph Hoffmann	63	1995	Vice Chairman & Managing Director-Asia Pacific
Karl Guénard	52	2003	Secretary & Executive Director
Martial Thierry Lopez	59	2000	Non-Executive Director
Pierre Maurice Milet, MBA	76	2010	Independent Non-Executive Director
Charles Mark Broadley	55	2008	Independent Non-Executive Director
Chik Sum Ng MBA, CPA	58	2010	Independent Non-Executive Director

(Source: L'Occitane, 2018)

Reinold Geiger was appointed as the Company's Chairman and Chief Executive Officer with effect from December 2000 and this position's primarily responsibility is managing the Group's overall strategic planning and the management of the Group's business. André Hoffmann was appointed as an executive Director with effect from May 2001 and has been further serving as Vice-Chairman since April 2016. He is primarily responsible for the Group's strategic planning as well. Thomas Levilion, the Group Deputy General Manager, Finance and Administration, is primarily responsible for the Group's finance functions worldwide, serving this position since September 2008. Below figure depicted the Company's organizational structure.

Figure 5: The Organizational Structure



(Source: Created by the Author)

2. Financial Analysis

To analysis L'Occitane's financial performance, the financial data from the Company's annual reports of FY2016 to FY2018 will be used in this paper. Other two companies from the same industry were selected for comparison purpose: The L'Oréal Group (L'Oreal) and The Estée Lauder Companies Inc. (Estée Lauder). L'Occitane is listed on The Stock Exchange of Hong Kong Limited (The Stock Exchange) while L'Oreal and Estée Lauder are listed companies in France's and New York, the United States' stock market respectively. Although they are listed in different regions of stock markets, these three companies are classified as the same sector - "Consumer Defensive" and the industry - "Household & Personal Products".

Figure 4 depicted the companies basic information, from the perspective of L'Occitane with comparison against the other two companies in the same period with different aspects, includes Bankruptcy Prediction, Financial Structure, Short-term Liquidity, Long-term liquidity, Asset Management, Inventory Management, Credit/Debit Control, Profitability & Stock Ratio Analysis.

Table 2: Research Companies' Information Summary

Company	L'Occitane International S.A.	The L'Oréal Group	The Estée Lauder Companies Inc.
Name in Short Form	L'Occitane	L'Oréal	Estée Lauder
Headquarter Located at	Luxembourg City, Luxembourg	Clichy, France	New York, US
Stock Number	0973.HK	OR.PA	EL
Nature of Business	Manufacturers and marketers of skin care, makeup, fragrance and hair care products		
Fiscal Year Ended	30 March 2018	31 December 2018	30 June 2018
Authorized Shares	1,500,000,000	N/A	1,604,000,000
Issued Shares (as of the End of Fiscal Year)	1,476,964,891	559,625,527	578,465,655
Market Value (€)	1.50	201.20	121.93
Earning Per Share (€)	0.066	6.96	3.01
P/E	22.74	194.24	73.84
Number of Stores	1,555	-	2,150
Number of Brands	5	36	30
Number of Employees	8,672	86,030	46,000

(Source: Created by the Author)

In term of number of employees and number of brand names, L’Oreal is the largest scale company among the three organizations. L’Oreal has more than 83,000 employees and operates 36 brand names while L’Occitane employs more than 8,600 employees and operates 5 brands. It is the least company scale among them.

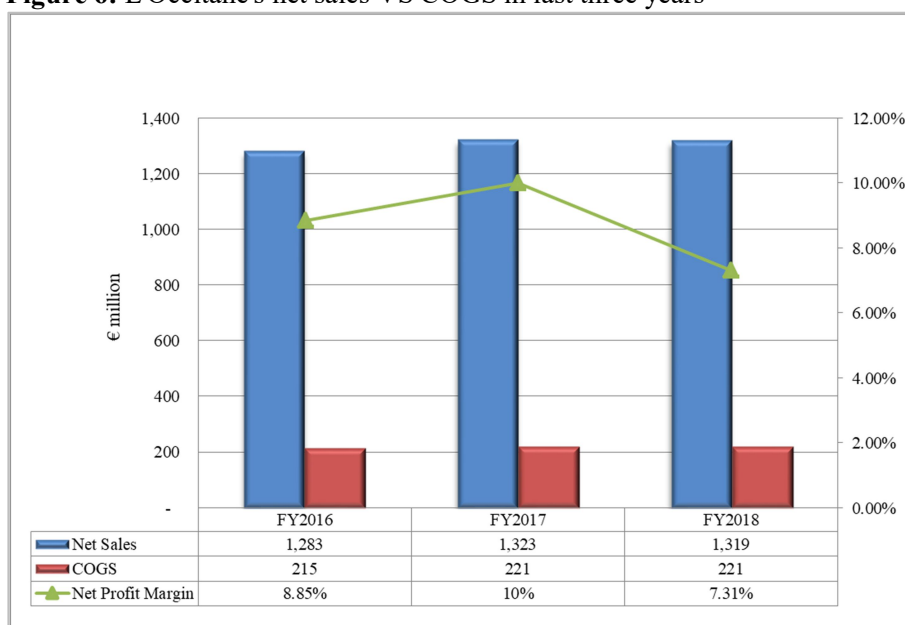
2.1. Financial Ratio Analysis

2.1.1. General Financial Overview

L’Occitane’s net sales in FY2018 reached €1,319.4 million, an increase of 4.6% by using the constant exchange rate. However, because of the unfavorable foreign exchange (FX) rates, net sales reduced by 0.3% at reported exchange rates over last year.

From figure 6, the Company’s maintain similar sales volume and same COGS level. However, the net profit margin declined sharply in FY2018 due to the unfavorable FX, - 484%.

Figure 6: L'Occitane's net sales VS COGS in last three years



(Source: Created by the author)

During FY2017, one of the brands – Le Couvent des Minimes is disposed (gained €2.2 million) and the Group obsoleted L’Occitane au Brésil products in one-off deal manner in FY2016. In addition, LimeLife by Alcone (“LimeLife”) became a subsidiary of L’Occitane since the beginning of 2018, with the Company’s like-for-like profit growth

was healthy at 3.7%, excluding Le Couvent des Minimes, the one-off deal and LimeLife. (L'Occitane, 2018)

2.1.2. Bankruptcy Prediction

Altman (2000) depicted a best known bankruptcy predictor which is a statistical model that comprising five financial ratios to produce a value named a Z-Score. This scoring model is used to predict the likelihood that a company will go bankrupt in the coming two years. The predictor is calculated as:

$$Z = 1.2A + 1.4B + 3.3C + 0.6D + 0.999E$$

The above letters designate the below measures:

A = Working capital / Total assets	► Measures the relative amount of liquid assets
B = Retained earnings / Total assets	► Determines cumulative profitability
C = EBIT / Total assets	► Assess the earnings away from the effects of taxes and leverage
D = Market value / Total Liabilities	► Incorporates the effects of a decline in market value of equity
E = Sales / Total assets	► Determines the asset turnover

The company that its Z-score is greater than 2.99 means that it is safe from bankruptcy. While the Z-Score value is less than 1.81 means that a business is at considerable risk of going into bankruptcy. And if the Z-Score is in between 1.81 and 2.99 it should be considered as grey area the possibilities of bankruptcy are comparatively low in short term.

The Altman's Z-Score model has been used to assess the companies' past 3 year's financial performance to reveal their potential risk on bankruptcy, the Z-Score values illustrated in the below table:

Table 3: Altman's Z-Score of the Three Companies

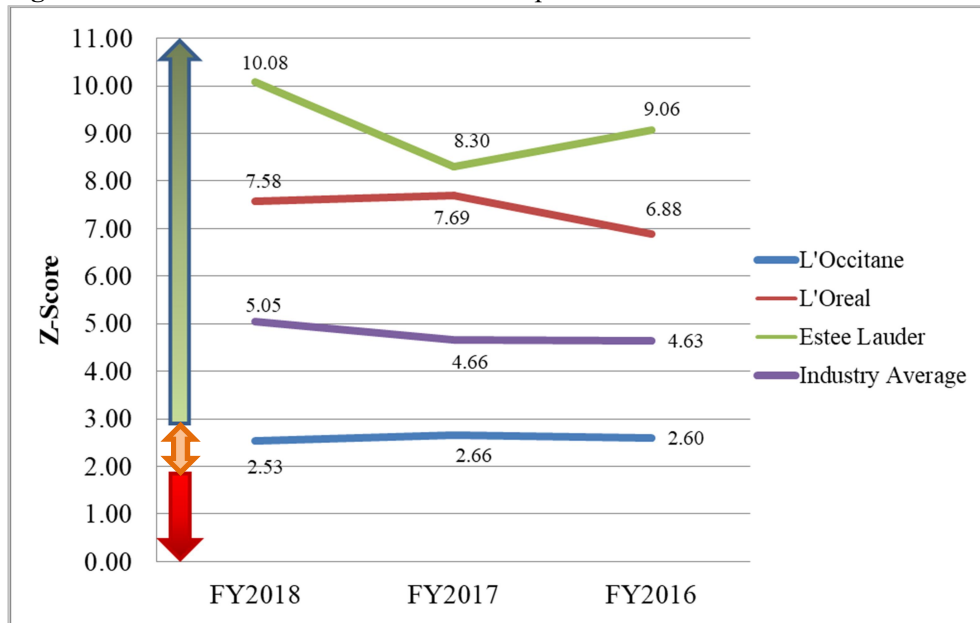
€ in million, except Market Value	L'Occitane			L'Oréal			Estée Lauder		
	FY2018	FY2017	FY2016	FY2018	FY2017	FY2016	FY2018	FY2017	FY2016
Sales	1,319	1,323	1,283	26,937	26,024	24,916	11,692	9,645	10,146
Total Assets	1,302	1,243	1,188	38,458	35,339	35,630	10,739	10,251	8,309
Net Current Assets	486	543	509	2,354	1,846	839	1,082	1,746	1,391
Total Liabilities	364	323	333	11,524	10,520	11,126	6,714	5,845	5,077
Retained Earnings	649	599	509	15,953	14,762	13,962	9,040	9,040	6,931
EBIT	133	166	153	5,171	4,724	4,285	1,583	1,583	1,337
Market Value per FY End	1.50	1.91	1.58	201.20	184.95	173.40	121.93	78.29	82.00
HKD/EUR Exchange Rate	0.1036	0.1208	0.1133	1.0000	1.0000	1.0000	0.8545	0.8157	0.9009
Number of Share Issued (Million)	1,461	1,463	1,469	560	564	565	578	567	568
Z-Score Calculation									
A) 1.2 x (Net Current Assets/Total Assets)	0.37	0.44	0.43	0.06	0.05	0.02	0.10	0.17	0.17
B) 1.4 x (Retained Earnings/Total Assets)	0.50	0.48	0.43	0.41	0.42	0.39	0.84	0.88	0.83
C) 3.3 x (EBIT/Total Assets)	0.11	0.14	0.14	0.13	0.13	0.12	0.15	0.15	0.16
D) 0.6 x [(Market Value x StockNo.)/Rate]/TL	0.04	0.07	0.06	9.78	9.92	8.81	12.28	9.31	10.18
E) 0.999 x (Sales/Total Assets)	1.01	1.06	1.08	0.70	0.74	0.70	1.09	0.94	1.22
Altman's Z-Score:	2.53	2.66	2.60	7.58	7.69	6.88	10.08	8.30	9.06
	Z-Score <1.8 indicates high probability of bankruptcy								
	Z-Score Between 1.81 and 2.99 is a grey area the possibilities of bankruptcy are low in short term								
	Z-Score >2.99 indicates a low probability of bankruptcy								

(Source: Created by the Author)

L'Occitane's Z-Score are ranged from 2.53 to 2.66 in last three years. That values are the much lower than its competitors, L'Oreal's value was 7.58 while Estee Lauder's Z-Score was 10.08 in FY2018. It is predicted that the possibilities of bankruptcy L'Occitane will happen in short term, i.e. in the coming two years, is relatively low.

Although L'Occitane has the lowest Z-Score among the others, from the Table 3, we learnt that L'Occitane had managed very well in the liquid assets, that it can be revealed from the highest value of (A) from the above table.

Figure 7: Altman's Z-Score of the Three Companies



(Source: Created by the Author)

By computing all the Z-Scores on graph (figure 6), the scoring of the L'Occitane is comparatively stable from FY2016 to FY2018 that may due to the stable sale turnover and total assets. Estee Lauder's Z-Score dropped dramatically because of the decrease of sale turnover in FY2017.

2.1.3. Financial Structure Ratio Analysis

Table 4: Capital Structure Ratios of the Three Companies

Capital Structure Ratio	L'Occitane			L'Occitane	L'Oréal	Estée Lauder
	FY2018	FY2017	FY2016			
Fixed Asset to Long Term Liability Ratio	0.17	-0.78%	0.17	-17.84%	0.21	0.19
Current Liabilities to Net Asset Ratio	0.25	8.82%	0.23	-3.48%	0.24	0.37
Current Liabilities to Stock Ratio	1.50	-2.04%	1.53	3.00%	1.49	3.56

(Source: Created by the Author)

Table 5: Industry Average of Capital Structure Ratios

Capital Structure Ratio	Industrial Average			
	FY2018	FY2017	FY2016	
Fixed Asset to Long Term Liability Ratio	0.17	10.43%	0.15	-27.46%
Current Liabilities to Net Asset Ratio	0.41	9.22%	0.37	-12.79%
Current Liabilities to Stock Ratio	2.28	0.98%	2.25	-0.65%

(Source: Created by the Author)

Figure 8: Fixed Asset to Long Term Liability Ratio



Figure 9: Current Liabilities to Net Asset Ratio

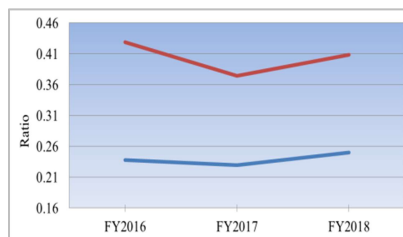
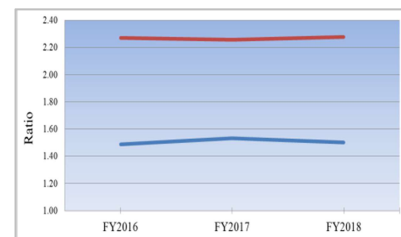


Figure 10: Current Liabilities to Stock Ratio



(Source: Created by the Author)

— L'Occitane — Industry Avg

The fixed-assets-to-long-term-liabilities (LTL) ratio is a measurement of a Company's solvency ability. LTL is often secured with fixed asset and that is the reason why the creditor is always interest in the ratio. (Blanchard, 2019)

The fixed-assets-to-LTL ratio of L'Occitane was slight higher than the industry average from FY2016 to FY2018, which ranged from 0.17 to 0.21. It shows L'Occitane controls the pleasant liabilities scale and the structure. However, the ratios were consecutively dropping for two years due to the increase of LTL amount.

2.1.4. Short-Term Solvency / Liquidity Ratio Analysis

Table 6: Short-term Solvency / Liquidity Ratio of the Three Companies

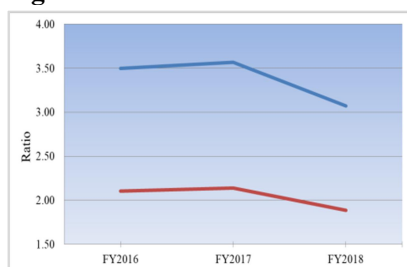
Short-term Solvency/Liquidity Ratio	L'Occitane			L'Occitane	L'Oreal	Estee Lauder
	FY2018	FY2017	FY2016	FY2016-FY2018 Average		
Current Ratio	3.07	3.57	3.50	3.38	1.18	1.57
Quick Ratio	2.40	2.91	2.83	2.71	0.89	1.08
Cash Ratio	1.64	2.14	2.09	1.96	0.31	0.47

(Source: Created by the Author)

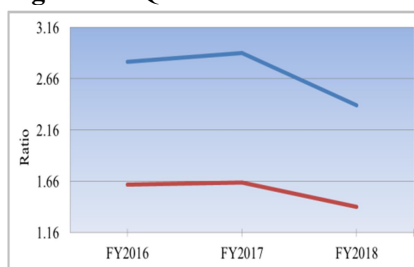
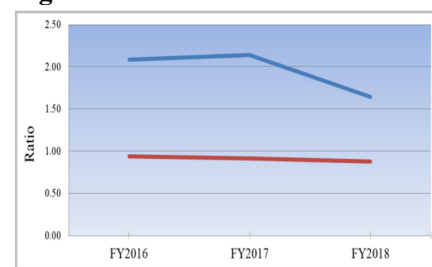
Table 7: Industry Average Values of Short-term Solvency / Liquidity Ratio

Short-Term Solvency / Liquidity Ratio Analysis	Industry Average			3 Years' Average
	FY2018	FY2017	FY2016	
Current Ratio	1.88	2.14	2.10	2.04
Quick Ratio	1.41	1.65	1.63	1.56
Cash Ratio	0.88	0.91	0.94	0.91

(Source: Created by the Author)

Figure 11: Current Ratio

(Source: Created by the Author)

Figure 12: Quick Ratio**Figure 13: Cash Ratio**

— L'Occitane — Industry Avg

From FY2016 to FY2018, L'Occitane maintained its cash ratio higher than 1, ranged from 1.64 to 2.14, that is generally higher than the industry average value. The ratio indicates the Company's liquidity, the percentage of total cash and cash equivalents to its current liabilities. If the ratio above 1, it means L'Occitane's current liabilities can be covered by cash and cash equivalents, and have funds left over.

As at FY2018, L'Occitane had cash and cash equivalents of €385.7 million, remained in high net cash position, amount is decreased compared with FY2017. This was due to net cash outflow to investing activities^{Note1}, such as flagship stores investment, share acquisition for LimeLife, etc., and the higher drawing of revolving banking facilities.

2.1.5. Long-Term Liquidity Ratio Analysis

Table 8: Long-Term Liquidity Ratio of the Three Companies

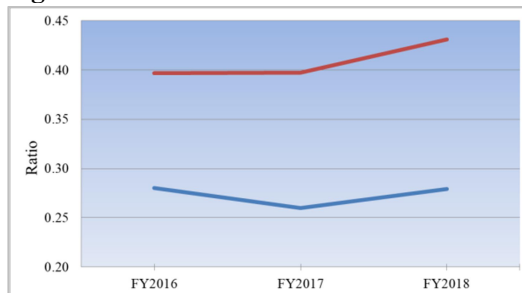
Long-Term Liquidity Ratio Analysis	L'Occitane					L'Occitane	L'Oréal	Estée Lauder
	FY2018		FY2017		FY2016	FY2016-FY2018 Average		
Stock Credit Index	-2.10	-28.23%	-2.93	7.97%	-2.71	-2.58	0.37	-0.15
Total Debt Ratio	0.28	7.48%	0.26	-7.23%	0.28	0.27	0.30	0.65
Debt / Equity Ratio	0.09	11.96%	0.08	2528.37%	0.0029	0.06	0.0008	0.67
Leverage Ratio	1.39	2.70%	1.35	-2.74%	1.39	1.38	1.44	2.70
Long Term Debt Ratio	0.08	11.01%	0.07	2348.30%	0.0029	0.05	0.0008	0.40
Total Debt / Fixed Asset Ratio	0.39	10.38%	0.35	-9.77%	0.39	0.38	0.44	1.62
Time Interest Cover Ratio	60.24	-19.16%	74.52	45.98%	51.05	61.93	230.41	59.96

(Source: Created by the Author)

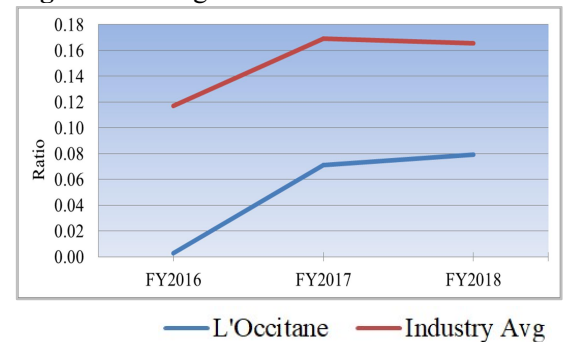
Table 9: Industry Average Values of Long-Term Liquidity Ratio

Long-Term Liquidity Ratio Analysis	Industry Average					3 Years' Average
	FY2018		FY2017		FY2016	
Stock Credit Index	-0.54	-39.55%	-0.90	-2.93%	-0.92	-0.787
Total Debt Ratio	0.43	8.50%	0.40	0.06%	0.40	0.408
Debt / Equity Ratio	0.27	-5.49%	0.28	57.95%	0.18	0.242
Leverage Ratio	1.83	-2.60%	1.88	3.98%	1.80	1.84
Long Term Debt Ratio	0.17	-2.17%	0.17	44.51%	0.12	0.150
Total Debt / Fixed Asset Ratio	0.83	1.91%	0.81	1.88%	0.80	0.811
Time Interest Cover Ratio	91.67	-6.27%	97.80	-39.94%	162.84	117.437

(Source: Created by the Author)

Figure 14: Total Debt Ratio

(Source: Created by the Author)

Figure 15: Long Term Debt Ratio

L'Occitane's total debt ratio was ranged from 0.26 to 0.28 which were lower than the industry average ratio that around 0.408 in last three years. For the long term debt ratio, the Company's maintain the ratio between 0.0029 and 0.08 while the industry average is 0.15.

Benge (2018) mentioned the lower debt-to-asset ratio indicates a stronger financial structure while a higher ratio suggests higher operation risk. To general, the ratio equal to or lower than 0.4 would be considered a good debt ratio. L'Occitane's debt-to-asset ratio is in the good range.

2.1.6. Asset Management Measurement

Table 10: Various Asset Turnovers of the Three Companies

Assest Management Measur	L'Occitane					L'Occitane	L'Oréal	Estée Lauder
	FY2018		FY2017		FY2016	FY2016-FY2018 Average		
Net Asset Turnover	1.41	-2.25%	1.44	-4.10%	1.50	1.45	1.02	2.91
Fixed Asset Turnover	7.50	-2.31%	7.68	8.73%	7.06	7.41	8.05	7.23
Current Asset Turnover	1.83	4.41%	1.75	-2.55%	1.80	1.80	2.33	2.68
Total Asset Turnover	1.01	-4.81%	1.06	-1.41%	1.08	1.05	0.71	1.16

(Source: Created by the Author)

Table 11: Industry Average Values of the Various Asset Turnovers

Asset Management Measurement	Industry Average					3 Years' Average
	FY2018		FY2017		FY2016	
Net Asset Turnover	1.77	2.67%	1.72	-8.55%	1.89	1.79
Fixed Asset Turnover	7.48	-9.69%	8.28	19.40%	6.94	7.57
Current Asset Turnover	2.33	7.46%	2.17	-6.45%	2.32	2.27
Total Asset Turnover	0.99	4.87%	0.94	-5.90%	1.00	0.98

(Source: Created by the Author)

Figure 16: Fixed Asset Turnover

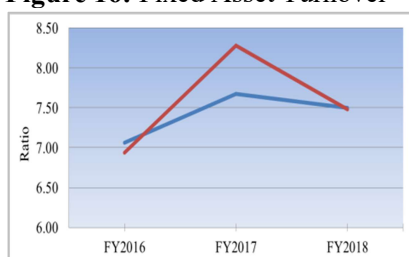
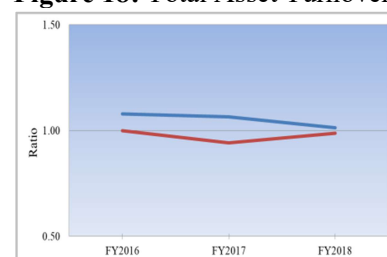


Figure 17: Current Asset Turnover



Figure 18: Total Asset Turnover



(Source: Created by the Author)

— L'Occitane — Industry Avg

L'Occitane's current assets turnover ratio ranged from 1.75 to 1.83 in last three years, which were much lower than the industry average value around 2.27. However, the total asset turnovers were between 1.01 and 1.08 that were a bit higher than the industry average values.

The asset turnover ratio indicates the Company's sales value compared the assets values. It is a measurement of efficiency that the sale is generated from the company's assets. This gives investors and creditors an idea of how a company is managed and uses its assets to produce products and sales. (Kenton & Hayes, 2019)

2.1.7. Inventory Management Measurement

Table 12: Inventory Management Measurement of the Three Companies

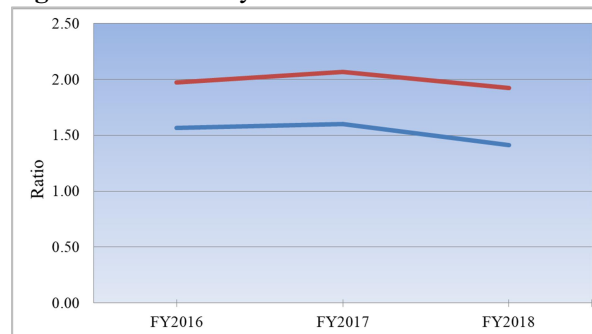
Inventory Management Measurement	L'Occitane					L'Occitane	L'Oréal	Estée Lauder
	FY2018		FY2017		FY2016	FY2016-FY2018 Average		
Inventory Turnover	1.41	-11.66%	1.60	2.02%	1.57	1.53	2.72	1.71
Average Collection Period (Day)	30	1.61%	30	7.36%	28	29.27	56	41
Days' Sales In Inventory (Day)	258	13.20%	228	-1.98%	233	239.92	135	214
Payment Period (Day)	207	22.36%	169	8.24%	156	177.69	215	132

(Source: Created by the Author)

Table 13: Industry Average Value of the Inventory Management Measurement

Inventory Management Measurement	Industry Average					3 Years' Average
	FY2018		FY2017		FY2016	
Inventory Turnover	1.92	-6.91%	2.07	4.81%	1.97	1.99
Average Collection Period (Day)	41.30	-3.11%	42.63	1.28%	42.09	42.00
Days' Sales In Inventory (Day)	202.21	5.76%	191.20	-1.75%	194.61	196.01
Payment Period (Day)	195.15	17.14%	166.60	2.01%	163.32	175.02

(Source: Created by the Author)

Figure 19: Inventory Turnover

(Source: Created by the Author)

— L'Occitane — Industry Avg

L'Occitane's inventory turnover ratios were 1.57 in FY2016, 1.6 in FY2017 and 1.41 in FY2018. The year-on-year percentage was decrease 11.66% in FY2018 that is partly alleviated by FX effect thus the impact on the value of goods of sold. And the industry average value was 1.99 for the FY2016 to FY2018. The value is higher than L'Occitane's ratio.

Inventory turnover ratio measures the number of times the entire inventory has been sold during the fiscal year. This indicates how the Company manages well on its inventory levels. Generally, a higher inventory turnover ratio is better because inventory is the least liquid form of asset. (Wilkinson, 2013)

2.1.8. Credit/Debit Control Measurement

Table 14: Receivable and Payable Turnover of the Three Companies

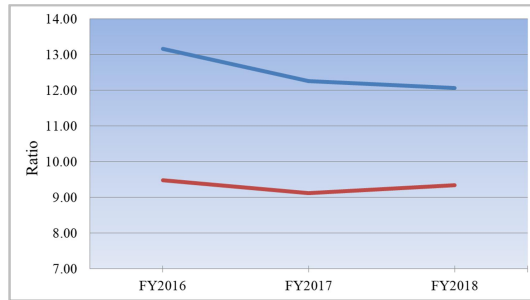
Credit / Debit Control Measurement	L'Occitane					L'Occitane	L'Oréal	Estée Lauder
	FY2018		FY2017		FY2016	FY2016-FY2018 Average		
Receivable Turnover	12.06	-1.58%	12.25	-6.86%	13.16	12.49	6.57	8.88
Payable Turnover	1.76	-18.27%	2.16	-7.61%	2.33	2.08	1.70	2.79

(Source: Created by the Author)

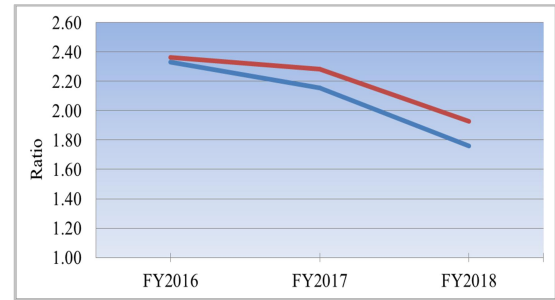
Table 15: Industry Average Value of Receivable and Payable Turnover

Credit / Debit Control Measurement	Industry Average					3 Years' Average
	FY2018		FY2017		FY2016	
Receivable Turnover	9.34	2.42%	9.12	-3.75%	9.48	9.31
Payable Turnover	1.93	-15.65%	2.28	-3.31%	2.36	2.19

(Source: Created by the Author)

Figure 20: Receivable Turnover

(Source: Created by the Author)

Figure 21: Payable Turnover

— L'Occitane — Industry Avg

A high receivables turnover ratio indicates that the company's customers pay their debts quickly and the collection of the accounts receivable is efficient. L'Occitane's receivable ratio was average 12.49 in last three years, which is much higher than the average industry value, 9.31. That shows L'Occitane manage the customers' debts very well.

Meanwhile, payable turnover is a ratio measuring the speed with which the Company pays to its suppliers. L'Occitane's payable turnover ratio had been continuously dropped since FY2016 to FY2018, Y-O-Y% decreased -7.61% in FY2017 and -18.27% in FY2018 due to an increase in trade payables at the factories in China, the US and France.

2.1.9. Profitability Analysis

Table 16: Profitability Analysis of the Three Companies

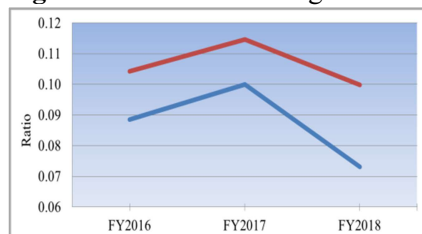
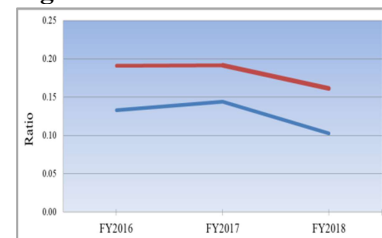
Profitability	L'Occitane					L'Occitane	L'Oréal	Estée Lauder
	FY2018		FY2017		FY2016	FY2016-FY2018 Average		
Net Profit (€ millions)	97	-27.08%	132	16.55%	114	114	3,531	996
Net Profit Growth						-5.26%	12.05%	-2.69%
Gross Profit Margin	83.25%	-0.08%	83.32%	0.06%	83.26%	83.28%	48.14%	79.75%
Net Profit Margin	7.31%	-26.87%	10.00%	12.99%	8.85%	8.72%	13.58%	9.58%
EBITDA Margin	15.41%	-14.47%	18.01%	2.49%	17.58%	17.00%	22.48%	17.00%
Leverage Ratio	1.39	2.70%	1.35	-2.74%	1.39	1.38	1.44	2.51
Self-sustainable Growth Ratio	69%	6.28%	65%	9.28%	60%	70%	59%	210%
Retained Yield	6.73	48.68%	4.52	0.86%	4.49	5.41	5.25	7.69
ROA (After Tax)	7.58%	-29.98%	10.82%	10.36%	9.81%	9.40%	9.73%	10.63%
ROE (After Tax)	10.28%	-28.52%	14.38%	8.35%	13.27%	12.64%	13.87%	27.83%

(Source: Created by the Author)

Table 17: Industry Average Value of Profitability Analysis

Profitability	Industry Average					3 Years' Average
	FY2018		FY2017		FY2016	
Net Profit (€ millions)	1,650	4.39%	1,581	12.06%	1,411	1,547
Net Profit Growth	-8.39%	-175.48%	11.11%	NA	NA	1.36%
Gross Profit Margin	78.42%	0.35%	78.14%	-0.47%	78.51%	78.36%
Net Profit Margin	9.98%	-12.93%	11.47%	9.97%	10.43%	10.63%
EBITDA Margin	18.73%	-2.14%	19.14%	2.78%	18.62%	18.83%
Leverage Ratio	1.83	-2.60%	1.88	3.98%	1.80	1.84
Self-sustainable Growth Ratio	118%	11.51%	106%	-4.36%	110%	113%
Retained Yield	7.64	45.29%	5.26	-0.35%	5.28	6.11
ROA (After Tax)	9.03%	-13.34%	10.42%	1.06%	10.31%	9.92%
ROE (After Tax)	16.16%	-15.49%	19.12%	0.26%	19.07%	18.12%

(Source: Created by the Author)

Figure 22: Net Profit Margin**Figure 23: ROA****Figure 24: ROE**

(Source: Created by the Author)

— L'Occitane — Industry Avg

Net profit margin is the percentage of profit left after all the expenses have been deducted from entire sales volume. L'Occitane's net profit margin dropped from 10.00% in FY2017 to 7.31% in FY2018, Y-O-Y% is -26.87%. This is due to the distribution expense, marketing expenses and research and development (R&D) expenses increased ^{NOTE 2}, and unfavorable FX in FY2018. Compare to the industry average, L'Occitane's net profit margin is 1.91% lower than the market.

Return on Assets (ROA) and return on equity (ROE) are the ratios reveal the percentage of profit a company gains in relation to the overall resources, assets or equity. The higher the ratios, the better are the management's abilities. In general, ROA over 5% and ROE of 15%-20% are considered as good. In FY2018, L'Occitane's ROA and ROE dropped to 7.58% and 10.28% respectively, whereas the industry average dropped as well. The industry average of ROA and ROE were 9.03% and 16.16% respectively. L'Occitane had a similar ROA and ROE trends as the market's.

2.1.10. Stock Market Prospects

Table 18: Stock Market Prospects of the Three Companies

Stock Market Prospects	L'Occitane					L'Occitane	L'Oréal	Estée Lauder
	FY2018		FY2017		FY2016	FY2016-FY2018 Average		
Market Capitalization (€)	2,195	-21.50%	2,796	20.33%	2,323	2,438	104,985	57,157
Earning Per Share	0.07	-26.99%	0.09	17.03%	0.08	0.08	6.27	1.75
Price-Earning Ratio	22.74	7.66%	21.12	3.24%	20.46	21.44	180.24	57.69
Enterprise Value (€)	1,919	-21.18%	2,435	21.15%	2,010	2,121	106,967	58,606
EV Multiple	9.44	-7.58%	10.21	14.59%	8.91	9.52	18.29	32.69
Dividend Yield	48%	48.61%	32%	-60.74%	82%	54%	57%	42%

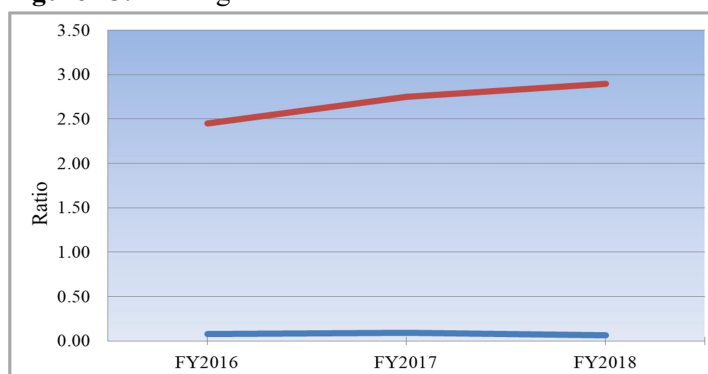
(Source: Created by the Author)

Table 19: Industry Average Value of the Stock Market Prospects

Stock Market Prospects	Industry Average					3 Years' Average
	FY2018		FY2017		FY2016	
Market Capitalization (€)	61,780	14.74%	53,843	9.98%	48,957	54,860
Earning Per Share	2.89	5.16%	2.75	12.19%	2.45	2.70
Price-Earning Ratio	96.94	15.02%	84.28	7.83%	78.16	86.46
Enterprise Value (€)	64,843	20.62%	53,761	9.52%	49,090	55,898
EV Multiple	21.28	2.09%	20.85	13.50%	18.37	20.17
Dividend Yield	56%	30.32%	43%	-18.47%	53%	51%

(Source: Created by the Author)

Figure 25: Earning Per Share

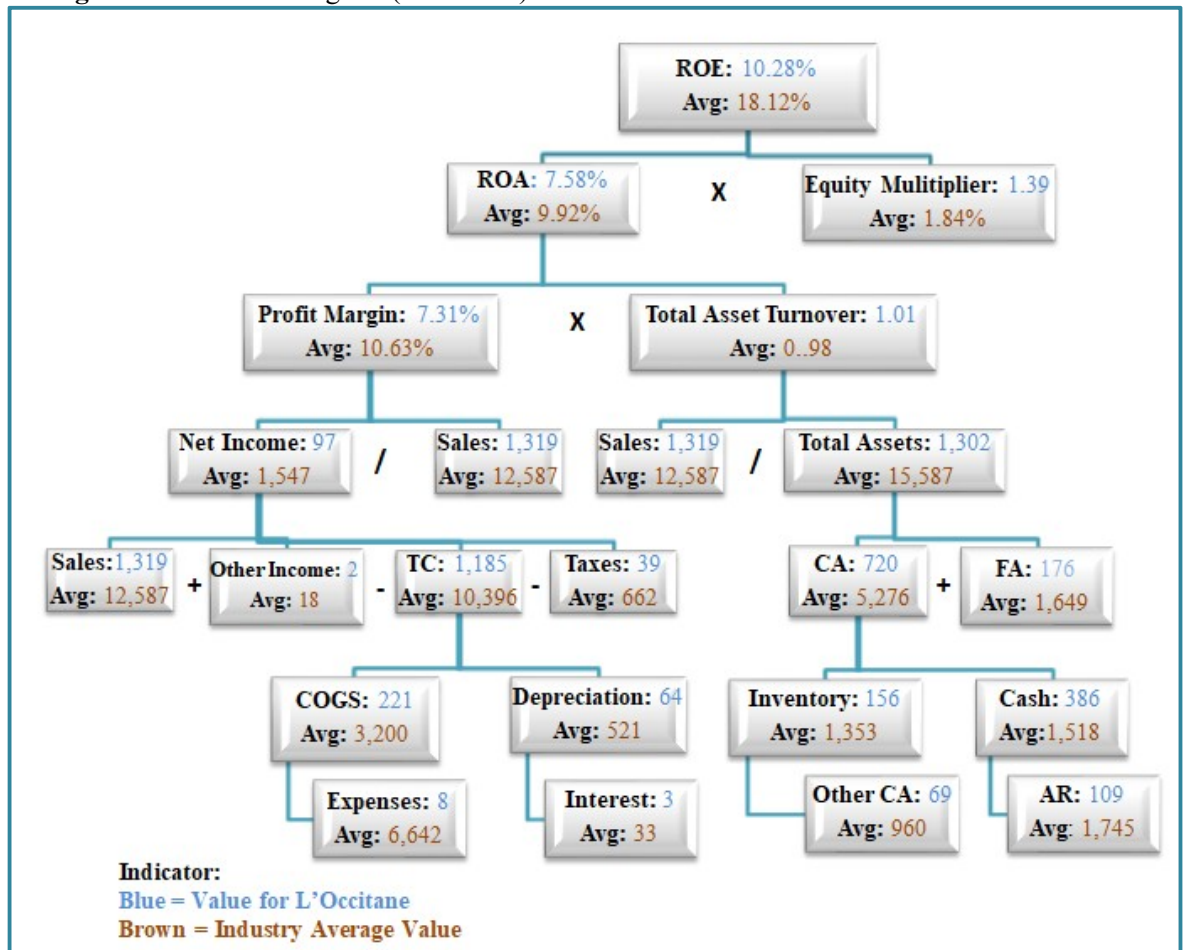


(Source: Created by the Author) — L'Occitane — Industry Avg

L'Occitane's earning per share was 0.066 in FY2018 (Y-O-Y % is -26.99%) while the industry average in FY2018 was 2.89. The higher the earning per share ratio, the better is its probability.

2.2. Du Pont Diagram

Figure 26: Du Pont Diagram (€ Millions)



(Source: Created by the Author)

In order to improve the Company's ROE, the top priority is raise up the profit margin, 7.31% (Industry average is 10.63%). As the total asset turnover was 1.01% which was higher than the industry average. Once L'Occitane improved its profit margin, ROA will be higher and then the ROE will be significantly improved.

3. Internal Control and Risk Management

3.1. Corporate Governance

As set out the Listing of Securities (List Rules) on The Stock Exchange on the Listing of Securities, “The Corporate Governance Code and Corporate Governance Report” (the “CG Code”), there are 2 parts of corporate governance practices, namely:

- 1) Listing the practices that recommending a listed company to comply with but need not disclose in the case of noncompliance, and
- 2) Listing the code provisions that all listed companies must comply with them or justifications should be given if non-compliance.

Table 20: List of Code Provisions and L’Occitane’s Practices

Code Provisions		Comply With	L’Occitane’s Practices
A. DIRECTORS			
A.1	The Board	Yes	Ten Board meetings were held in FY2018, only five of the directors attended all ten Board meetings. The Joint Company Secretary keeps those minutes of the Board meetings. <u>Recommendation</u> The attendance rate of Board meeting is quite low, even CEO only attended 7 out of 10 meetings. Appropriate rules should be set out, such as the number of attendees lower than certain number, the Board meeting should be re-scheduled so that to ensure all the Director’s opinions are gained during the meeting.

(To be continues)

(Cond't)

Code Provisions		Comply With	L'Occitane's Practice
A.2	Chairman and Chief Executive Officer	NO	The role of CEO and Chairman should be separate and not to be performed by the same individual. (CGC A.2.1) Mr. Reinold Geiger is performing both positions of CEO and Chairman in L'Occitane. <u>Justification Given by the Company</u> (L'occitane International S.A., 2018a) The Board believes it is more efficient to have one single individual to perform both positions. The balance of authority and power is adequately to assure the sufficient protection of the Company interest. Mr. Reinold is not a member of any of Company committees, Nomination Committee, Audit Committee, or Remuneration Committee <u>Recommendation</u> Employ an individual to perform either CEO or Chairman, instead of Mr. Reinold takes these two positions simultaneously. And it is recommended that the CEO and Chairman's responsibilities should be established clearly and be written on document.
A.3	Board Composition	Yes	The Board should have diversity of perspectives appropriate with a balance of experience, and knowledge and skills to meet requirements of the business operations. L'Occitane adopts this concept by consideration of these aspects: background, gender, race, regional and industry experience, and other skills and qualities.
A.4	Appointment, Re-election and Removal	Yes	The Annual Reports depict the procedure for Shareholders to propose an individual for election as a Director.
A.5	Responsibilities of Directors	Yes	Directors must certainly know their responsibilities as a director of the Company and the organization's business activities and development, and conduct. Their roles and responsibilities are clearly listed on the Annual Reports. All directors had participated in continuous training activities to refresh and enhance their skill and exposures So that to ensure their contribution to the board remains relevant and informed.

(To be continues)

(Cond't)

Code Provisions		Comply With	L'Occitane's Practice
B.	REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT		
B.1	The Level of Make-up of Remuneration and Disclosure	Yes	A written terms of references is in place, clearly specify the authority and the duties for the members of the Remuneration Committee. The committee comprises with three members, one was Executive Director (ED), and two were Independent Non-Executive Directors (INEDs). There's no director involved in the determination of his/her own remuneration. During FY2018, one meeting was held and all committees attend all the meeting. <u>Recommendation</u> Although there is no guide on the number of members needed to form a Committee. It is recommended to appoint one or two ED/INED to be the Committee member(s) in order to gain more advices from individuals.
C.	ACCOUNTABILITY AND AUDIT		
C.1	Financial Reporting	Yes	A balance sheet and detailed financial reports are released on the Company's website bi-yearly. The public can retrieve the reports anytime anywhere.
C.2	Internal Controls	Yes	An annual internal control review plan is established by the Board to monitor its major control systems, in which cover the range from operation control, compliance control, financial control to The Company establishes an annual internal control review plan to cover its major internal control systems covering areas including operational control, financial control and compliance control guarantee the effectiveness of the internal control systems and monitor the risk management procedures.

(To be continues)

Code Provisions		Comply With	L'Occitane's Practice
C.3	Audit Committee	Yes	“Audit Committee Terms of Reference” is in place, that is clearly specified the Committees’ responsibilities, authority and duties. The Committee comprises with three INEDs and, one of them possesses related qualifications in financial management expertise, to ensure the objectivity and credibility of financial reporting and make recommendations to the Board for appointment, re-appointment or removal of the Group’s external auditor. During FY2018, four Audit Committee meetings were held and all committees attended the meetings.
D. DELEGATION BY THE BOARD			
D.1	Management Functions	Yes	The responsibilities of the Senior management are clearly listed on the Corporate Governance section in the Annual Reports.
D.2	Board Committees	Yes	The responsibilities of the Board Committees are clearly listed in the Corporate Governance section in the Annual Reports, their reserve the rights to review and approve the strategic direction , objectives, strategies and business developing plan; review the effectiveness of Company’s internal control system. They are also monitoring the performance of the CEO and the group of senior management.
E. COMMUNICATION WITH SHAREHOLDERS			
E.1	Effective Communication	Yes	The Board is required to keep regular dialogue with its shareholders in term of general meetings or other form of meetings. L'Occitane’s “Shareholders Communication Policy”, Annual Financial Results or Announcements are in place and its shareholders can access that information via the Investors sector of the Company’s website to understand the Company business performance and direction.

(Source: Created by the Author)

3.2. Financial Risk Management

The Board of L'Occitane put the top priority on assessing the efficiency and effectiveness of all internal controls over the Group's financial reporting (L'Occitane, 2018) to avoid the financial crisis break out.

To enhance financial risks resistant abilities, L'Occitane must control the reasonable debt scale and the structure and suggested to set up a Financial Risk Early Warning Mechanism:

Table 21: L'Occitane Financial Risk Management

Potential Risks	Recommended Actions
Decreasing of Corporate's Solvency	The liabilities should be coordinated with repayment ability. The Company should control the scale of the liabilities so that to insure the money using for repaying. The borrowing amount, generally, should not exceed the amount of the net assets.
Financial Crisis Management	L'Occitane should establish a dynamic and comprehensive, financial risk early warning system, which monitors the real-time business operation and potential financial risks. Once there is financial risk, it sent timely warning message will be sent out if there is risk that covered the Group's financial position, from the size of profitability, assets, solvency, asset utilization efficiency to other related indicators, so that the management can take effective actions to avoid and reduce losses.

(Source: Created by the Author)

4. Capital Investment Appraisals (CIA)

L'Occitane has opened an Asian Central Distribution Centre in Singapore in earlier year. The operations there have allowed better product allocation to regional markets, more agile distribution to distributors and subsidiaries. To more enhance the efficiency, it is proposed to introduce a brand new robotic packing system in the Central Distribution Centre. The Group assumed to use this system for five year. This is a pilot project for the Asian hub.

Before we assess the project, we made below assumption that bases on the following rationale behind / calculation:

Table 22: Assumption Table (€ millions)

Assumption	Rationale / Calculation
Investment amount, 5% of FY2018's sales turnover	FY2018 sales turnover = 1,319 5% of sale turnover = 66
EBITDA	FY2016-FY2018's average EBITDA = 17.00%
10% is used as discount rate	The Company's loan fixed interest rate is 10%
Depreciation rate	The Company's current practices for equipment and machinery depreciation is between 5 years to 10 years, i.e the rate is from 10% to 20%, in straight line method Assume the useful life for the robotic packing system is 7 years, the depreciation rate is 14.29%
Predict the first year cash flow with average ROA	FY2016-FY2018's average ROA = 9.40% FY2016-FY2018's average assets = $(1,302 + 1,243 + 1,188) / 3 = 1,244$ FY2016-FY2018's average net profit = 114
Average sale growth rate 2nd to 5th years	Since the growth rate for FY2018 is negative, it is assume L'Occitane at least can meet the industry average growth rate instead = 1.36%
Tax Rate	Luxembourg Standard Tax Rate of 26.01% as at 31 March 2018 (Source: L'Occitane 2018)
Working Capital Movement	Operation period Day = (Collection Period + Days' Sales In Inventory) - Payment Period FY2018 – 82 Days; FY2017 – 89 Days; FY2016 – 104 Days Average Operation Period = 91 Days The Working Capital Movement = EBITDA x Operation period / 365 = EBITDA x 91 / 365 = EBITDA x 24.93%

In order to appraise the feasibility of the proposed project to Board, the project will be assessed by Net Present Value (NPV), Internal Rate of Return (IRR), Payback Period and the Accounting Rate of Return (ARR)

4.1. NPV

Based on above assumptions, NPV for the proposed Robotic Packing System is calculated:

Table 23: NPV Calculation (€ millions)

Initial Investment	66	$\text{Profit} = \text{EBIT} - \text{Tax Expenses}$ $\text{Dep'n} = \text{Initial Investment} \times \text{Dep'n Rate}$ $\text{Net Cash Flow} = \text{Profit} - \text{Working Capital Movement}$ $\text{Present Value} = \text{Cashflow} / (1 + \text{Discount Rate})^{\text{Year}}$								
First Year Projected Sales	9.40%									
Sale Growth Rate	1.36%									
EBITDA	17.00%									
System Useful life	7 Years									
System Depreciation Rate	14.29%									
Tax Expense	26.01%									
Working Capital	24.93%									
Discounted Rates	10%									
Year	Sales Growth Rate	Sales	EBITDA	Dep'n	EBIT	Tax Expenses	Profit	Working Capital Movement	Free Cashflow	Present Value
0									-66.00	-66.00
1	9.40%	123.99	21.08	9.43	11.65	3.03	8.62	5.25	3.36	3.06
2	9.53%	125.67	21.36	9.43	11.93	3.10	8.83	5.33	3.50	2.89
3	9.66%	127.38	21.65	9.43	12.22	3.18	9.04	5.40	3.65	2.74
4	9.79%	129.11	21.95	9.43	12.52	3.26	9.26	5.47	3.79	2.59
5	9.92%	130.87	22.25	9.43	12.82	3.33	9.48	5.55	3.94	2.44
6	10.06%	132.65	22.55	9.43	13.12	3.41	9.71	5.62	4.08	2.31
7	10.19%	134.45	22.86	9.43	13.43	3.49	9.93	5.70	4.24	2.17
8	10.33%	136.28	23.17	0.00	23.17	6.03	17.14	5.78	11.37	5.30
9	10.47%	138.14	23.48	0.00	23.48	6.11	17.38	5.85	11.52	4.89
10	10.62%	140.01	23.80	0.00	23.80	6.19	17.61	5.93	11.68	4.50
Profit							45.24	IRR	-31.22%	
								NPV		-52.28

(Source: Created by the Author)

It can be simply presented like below formula:

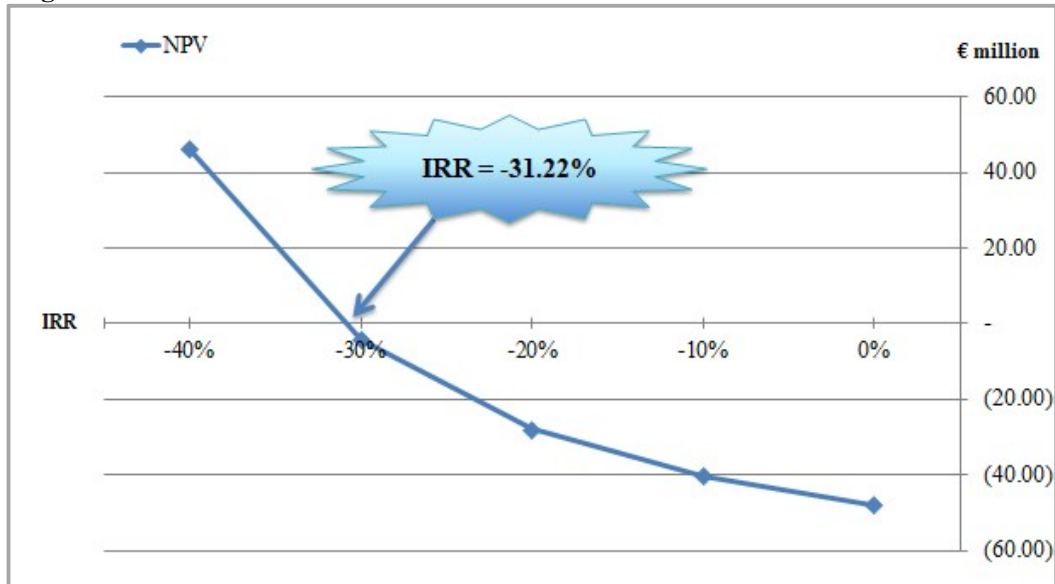
$$\text{NPV} = (\text{Today's value of the expected future cashflows}) - (\text{Today's value of invested cash})$$

If NPV is positive, the project is profitable, otherwise, it is loss-making and the Board should not take the proposal.

According to the assumption on the cashflow and book value of the fixed assets, the NPV for L'Occitane's Robotics Packing System is - €52.28 million. The investment should not be acceptable as the value is less than 0.

4.2. IRR

Figure 27: Internal Rate of Return



(Source: Created by the Author)

IRR depends on the cash flow from the investment and closely related with NPV (Table 22), according the illustration in figure 25, the IRR is -31.22%. Based on the IRR rule, the investment is not accepted because it does not exceed the Company's average ROA 9.40%.

4.3. Payback Period

Cash flow of the project with the first 14 year of the project =
4 years with a remaining balance to be paid

The 15th year cash flow / the remaining balance to be paid

$$= €5.41 / (€5.41 + €0.1) = 0.98 \text{ years}$$

Therefore, the period for payback of the investment is
(14 + 0.98) = 14.98 years, based on the payback rule, an
investment is not accepted because the calculated payback
period is longer than the project's duration, i.e. 5 years. Thus,
the project should be rejected.

Table 24: Payback Period

Year	Net Cashflow	Playback Period
0	-66.00	-66.00
1	3.36	-62.64
2	3.50	-59.14
3	3.65	-55.49
4	3.79	-51.70
5	3.94	-47.76
6	4.08	-43.68
7	4.24	-39.44
8	11.37	-28.08
9	11.52	-16.56
10	11.68	-4.88
11	11.84	6.95
12	12.00	18.95
13	12.16	31.11
14	12.33	43.44
15	12.49	55.93
16	12.66	68.59
17	12.84	81.43
18	13.01	94.44

PBP= 10.41 Years

(Source: Created by the Author)

4.4. ARR

The above capital investment appraisal methods, NPV, IRR, Payback method, all are the methods that focus on cash flows. But, ARR method uses expected net profit to be generated in the investment proposal rather than focusing on cash flows to evaluate the proposed project.

ARR is the method that expresses the expected average annual profits as a percentage of the initial investment. From table 22, the profit of 5-year project is €45.24, thus:

$$\begin{aligned}\text{ARR} &= (\text{Average annual profit} / \text{Initial investment}) \times 100\% \\ &= (45.24 / 5 / 66) \times 100\% \\ &= 13.71\%\end{aligned}$$

If the ARR is greater than or equal to the management's desired rate of return, the proposed project is acceptable. Otherwise, it is rejected. For this case, it is assumed that the desired rate is equal to ROA, i.e. 9.04%, and thus, this investment proposal should be accepted as the ARR is higher than ROA.

Limitations of ARR:

- The discounted rate, that means the time value of money, is ignore.
- The net profit may vary from year to year, ARR is using the average of income for calculation, this may not able to reflect the actual situation.
- The desired rate of return, or namely predetermined threshold percentage by the management is very subjective.

4.5. Conclusion on the Capital Investment Appraisal (CIA)

From the above assessment, it can be summarized as below:

Table 25: CIA Summary

Assessment Method	Assessment Result	Accepted or Rejected?
NPV	NPV is negative at the end of the project	The proposal should be rejected.
IRR	IRR is -31.22%, lower than ROA	The proposal should be rejected.
Payback	The payback period is 10.41 years that is longer the project duration	The proposal should be rejected.
ARR	ARR is 13.71% which is higher than ROA, if the management set the threshold is equal to ROA, than it is accepted	The proposal should be accepted.

(Source: Created by the Author)

Cash flow is important for the business operations, such as to support the payment of rent, employees, raw materials, etc. Thus, it should be put into consideration during we are assessing the investment proposal. And the above 3 methods, NPV, IRR & Payback, which are involving the net cash flow in the calculation, show the proposed project should not be accepted. Thus, the Board should reject such investment.

5. Working Capital Management

To raise fund to finance a project, assumed 1-time a significant extra cash equivalent to 3% of total assets is needed. Below are the options L'Occitane's management can consider:

Total Assets in FY2018: €1,302 millions

Fund Raising (3% of Total Assets): €39.02 millions

Table 26: Fund Raising Options

Fund Raising Options	Cost of Capital Rate	€M	Recommendation
Issue New Shares Currently 1,500,000,000 shares are authorized for trade. The Company can issue extra shares to raise funding.	-	-	If issuing additional share, it will dilute the current shareholders' interest.
Sell Old Shares 1,500,000,000 shares are authorized for trade, the issued share is 1,476,964,891 shares, so 23,035,109 shares is available for sales.	-	-	<u>Advantage:</u> Selling old shares would not make the Company take on a new debt. Loan or debt is required finance charges until the loan is repaid. <u>Disadvantage:</u> Loss ownership and control: that you also give up some level of ownership. Decreasing the number of share may lead to losing of ownership or/and relinquish some control over the business.
Equity Injections Requesting shareholders to further invest, the interest rate should be based on FY2018 ROE.	10.3%	4.0	<u>Advantage:</u> It is less burdens as it is no loan to repay. <u>Disadvantage:</u> • Profit shared with shareholders. • The Company may loss of control. Sharing ownership may also lead conflicts with the shareholders.

(To be Continuous)

(Cond't)

Fund Raising Options	Cost of Capital Rate	€M	Recommendation
Corporate Bonds Issuance of convertible bonds, public investors buy bonds are effectively investing money to the business per the terms set up in the bond offering or prospectus.	6%	2.3	<u>Advantage:</u> • The value of existing shareholders would not be diluted. • More cash is retained in the business as bondholders may redeem the bonds several years later. <u>Disadvantage:</u> • Regular interest payments is needed to bondholders even if the business make a loss • Share value may be reduced if the profits decline because the payment of bond interest takes precedence over dividends.
Private Placement / Funding The Company sells corporate bonds or shares to private investors, but not to open market. The cost of the private placement is around 25%-30%	30%	11.7	<u>Advantage:</u> • The Company would choose its own investors who may have similar objectives with the Company • The return on the investment is over a longer time of period <u>Disadvantage:</u> • Only limited number of potential investors the Company can find. • At substantial discount is need to compensate investors for their greater risk and longer-term returns
Bank Loan Bank loan's interest rate is 5% per annum The total debt ratio of L'Occitane in FY2018 is 28% and the industry average is 43%	5%	2.0	<u>Advantage:</u> The Company pays the loan interest but does not need to give the lender a percentage of the Company's profits or a share. <u>Disadvantage:</u> • The Company could be paying for the interest even the fund is not using by the Company. It is not that flexible. • The Company has to make the monthly repayment, cashflow issue may be incurring if the customers' payment defers.

(To be Continuous)

(Cond't)

Fund Raising Options	Cost of Capital		Recommendation
	Rate	€M	
Sell Assets Selling Company's existing assets to raise fund The cost of capital is equal to the ROA in FY2018	7.6%	3.0	<u>Advantage:</u> • intangible assets such as patents and copyrights can be used for security to raise cash • The share of the shareholder would not be diluted by the Company. <u>Disadvantage:</u> Fewer assets will restrict the ability of the Company to raise money from bank in the future, and decrease in the asset will incur higher total debt ratio

(Source: Created by the Author)

According to the above table and the cost of the capital, borrow the bank loan is the lowest cost method to raising fund for the Group. As the earning per share is very low, it is not suggest issuing any new shares to affect the share value in the future. Also, comparing with the industry average, L'Occitane's debt-to-asset ratio is low and the solvency ratio is good. It is suggested to borrow money from the bank.

6. Audit Plan and Recommendation

Clements (2019) stated auditing is a means to evaluate the effectiveness of internal controls in an organization. It is important to maintain the internal control system, it enable a company to obtain and achieve various business objectives and pursue reliable financial reporting on the operations.

Different aspects listed below are recommended for L'Occitane's management to audit its operations and policy in regular period:

Table 27: Proposed Audit Action Plan for L'Occitane to Improve its Profitability

Audit Action Plan	Frequency	Q1	Q2	Q3	Q4
Cash Flow Management -To calculate the breakeven point of every project and every product. -To maintain cash reserves -To collect account receivable: with net-30 days in the contracts	Quarterly	*	*	*	*
Profit Margin Control -To keep reducing the cost of goods by negotiating a lower price from the supplies -To review the cost with alternative suppliers to ensure the lowest cost of goods -To reduce the inventory waste	Quarterly	*	*	*	*
Operating Cost Control -To review the expense on the business operations -To maintain the staff turnover rate at low level, review meeting is needed for the increasing turnover rate	Quarterly	*	*	*	*

(To be Continuous)

(Cond't)					
Audit Action Plan	Frequency	Q1	Q2	Q3	Q4
Account Payable Control -To review the payment terms with the current suppliers to ensure the working capital utilize in smooth way	Bi-yearly	*		*	
Account Receivable Control -Payment term is kept under net-30 days, longer payment day if upon Management approval -The Company credit policy should clearly state on the contract -To review the customer's credit rating and payment schedule to avoid unforeseeable risk	Bi-yearly		*		*
Inventory Control Management -Review meeting is needed to evaluate the effectiveness of forecasting performed at the beginning of the year -Regular auditing: physical inventory, spot checking and cycle counting should be performed per schedule	Bi-yearly		*		*

* Action taken place

(Source: Created by the Author)

7. Conclusion

L'Occitane is a skin care products manufacturer and marketer. Its business separated into sell-out and sell-in business. And the chain store spreads over the world. Due to unfavorable FX, net sales reduced slightly in FY2018. Also, the Group invested for new skin care brand name and also expand its emerging brands, simultaneously, put a lot of resources on developing the on-line for their customers, providing distribution and logistics service, the distribution expenses, marketing expenses and the R&D expenses were sharply increase that directly impact the net profit margin in FY2018. The Company's net profit has been decreased sharply while the market trend is going upwards in the last three years.

Under the fierce competition in the skin care product industry, the group will have better performance, if tighten the control on the COGS which will directly affect to net profit for the Company.

The Company's management should able to identify financial risks per certain kinds of financial index and then adjust business strategy accordingly. It would gain more benefit if the Company establishes a Financial Risk Early Warning System. The Group should also need to balance between investment returns and risks so that its stakeholder will earn a favorable return and enhance the Group's sustainability.

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Appendix

Note 1:

Negative free cash flow generated for the FY2018 was €32.4 million, due mainly to net cash outflow from investing activities, which increased from €52.0 million last year to €202.7 million this year. The sharp increase was explained by the shares acquisition in LimeLife, the investments in flagship stores, factory production lines and various IT projects.

In FY2018, net cash outflow from financing activities amounted to €35.1 million, €75.4 million lower than in FY2017. The decrease was explained partly by the increase in borrowing in FY2018, by the payments to purchase shares back from non-controlling shareholders of Taiwan subsidiary as well as net repayment of borrowings in FY2017.

(Source: L'Occitane, 2018)

Note 2:

The decrease in the operating profit margin is explained by:

- unfavorable FX effects
- lower leverage from softer retail sales
- strengthening investments in celebrities, influencers and advertising in key countries for new product launches and during festive seasons
- one-off pre-opening costs for new flagship stores; and
- Investments in infrastructure including IT and Asia central warehouse

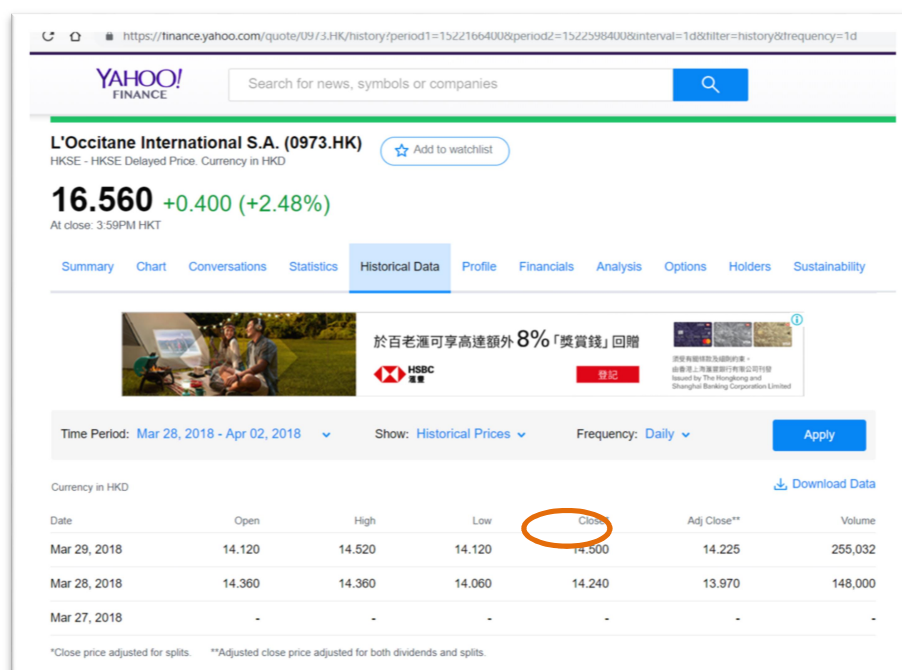
(Source: L'Occitane, 2018)

Figure 28: L'Occitane's Stock Chart From 1 Apr, 2016 To 30 Mar, 2018



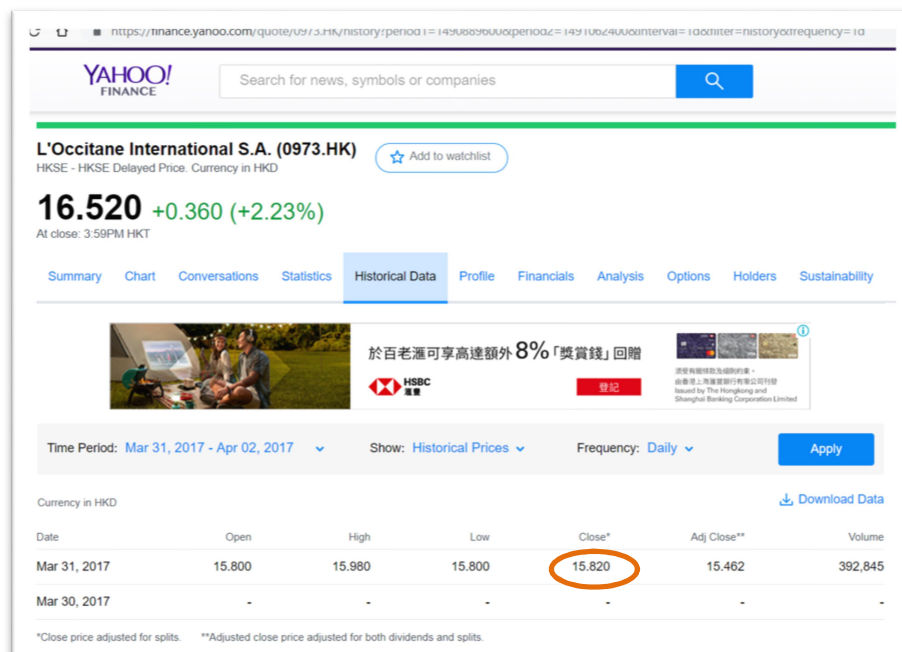
Source: Yahoo Finance (2019)

Figure 29: Stock Value of L'Occitane International S.A. (973.HK) as of 29th March, 2018



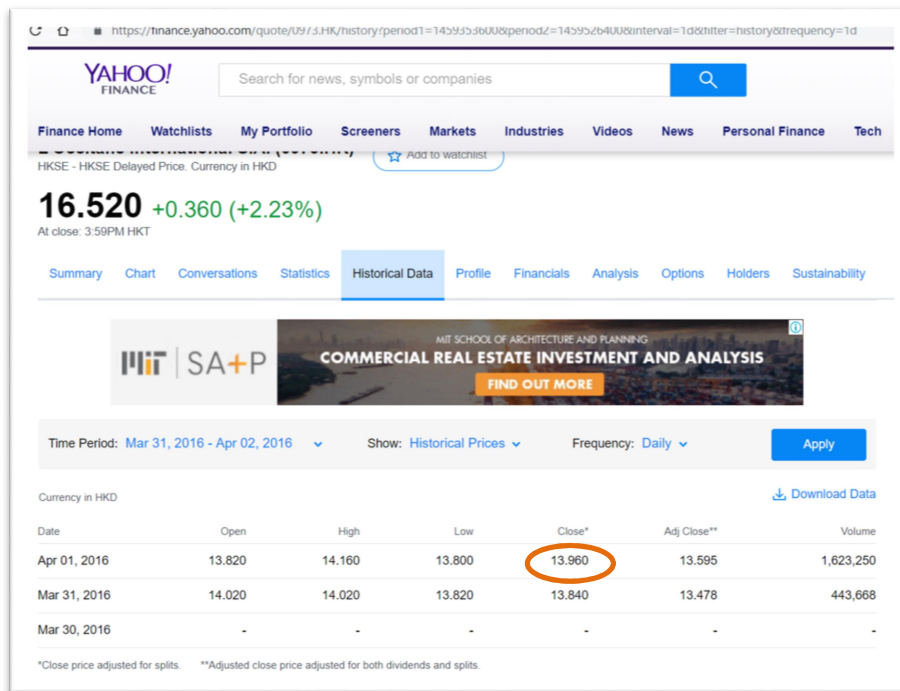
Source: Yahoo Finance (2019)

Figure 30: Stock Value of L'Occitane International S.A. (973.HK) as of 31st March, 2017



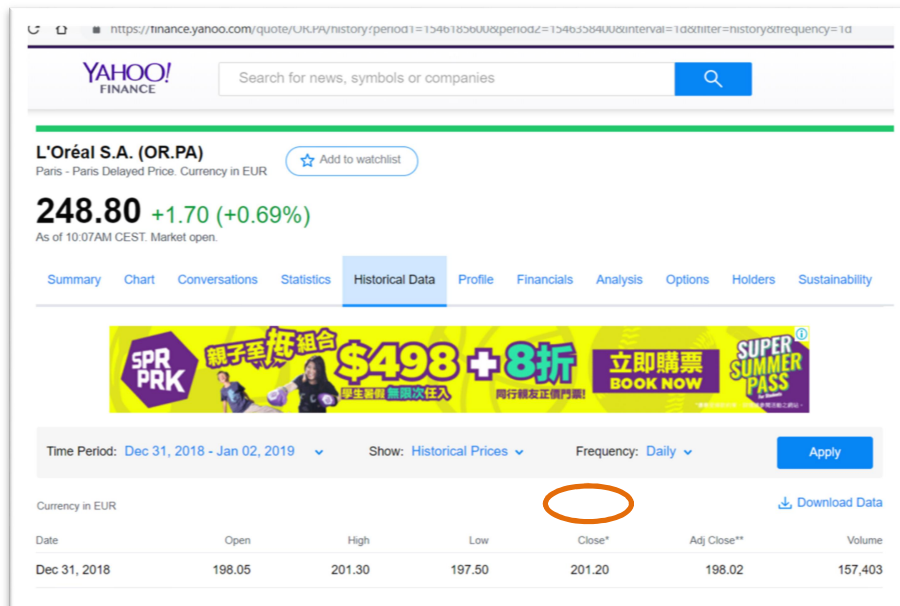
Source: Yahoo Finance (2019)

Figure 31: Stock Value of L'Occitane International S.A. (973.HK) as of 31st March, 2016



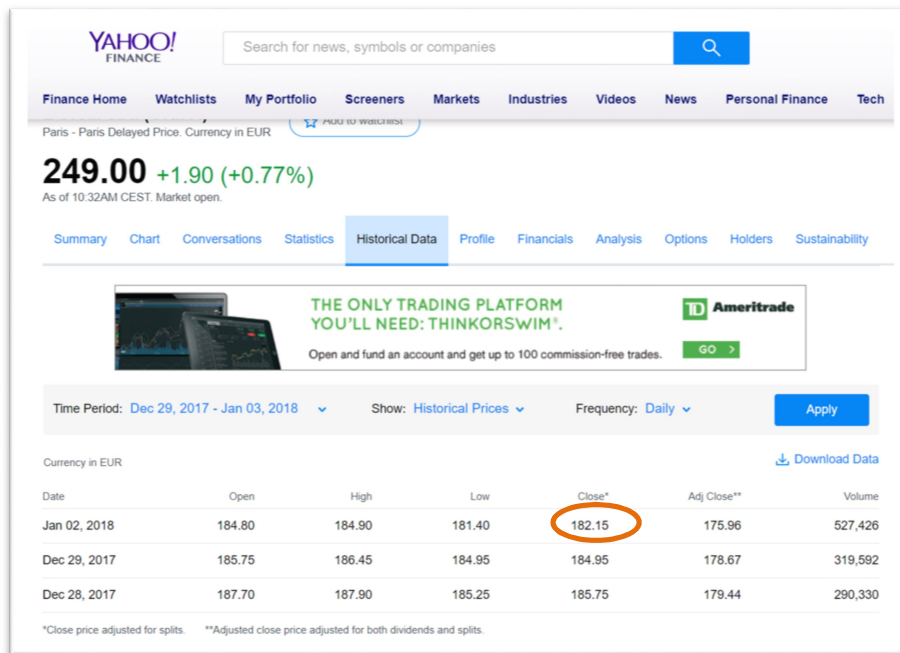
Source: Yahoo Finance (2019)

Figure 32: Stock Value of L'Oreal S.A. (OR.PA) as of 31st Dec., 2018



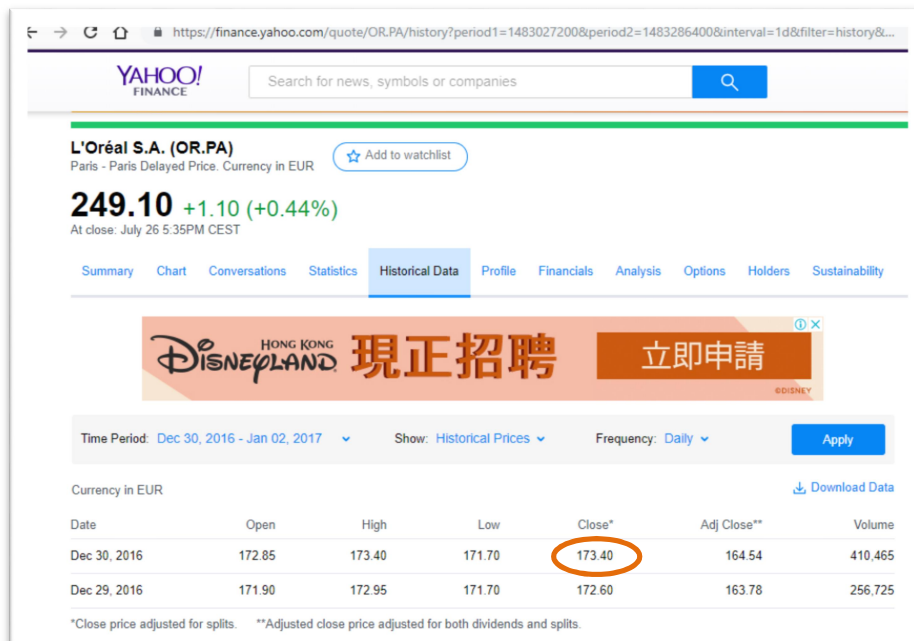
Source: Yahoo Finance (2019)

Figure 33: Stock Value of L’Oreal S.A. (OR.PA) as of 29th Dec., 2017



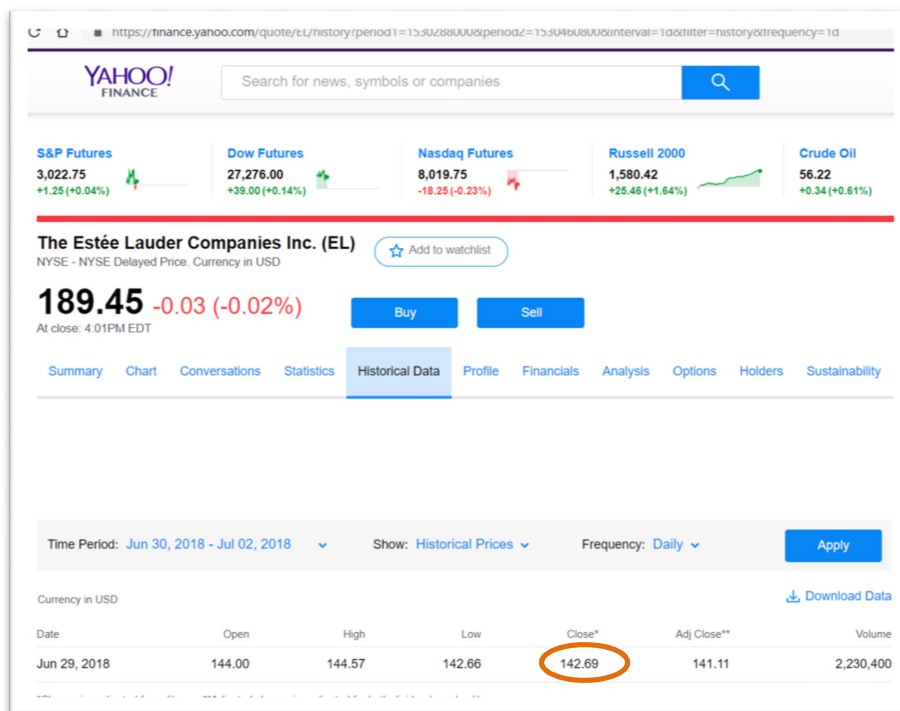
Source: Yahoo Finance (2019)

Figure 34: Stock Value of L’Oreal S.A. (OR.PA) as of 30th Dec., 2016



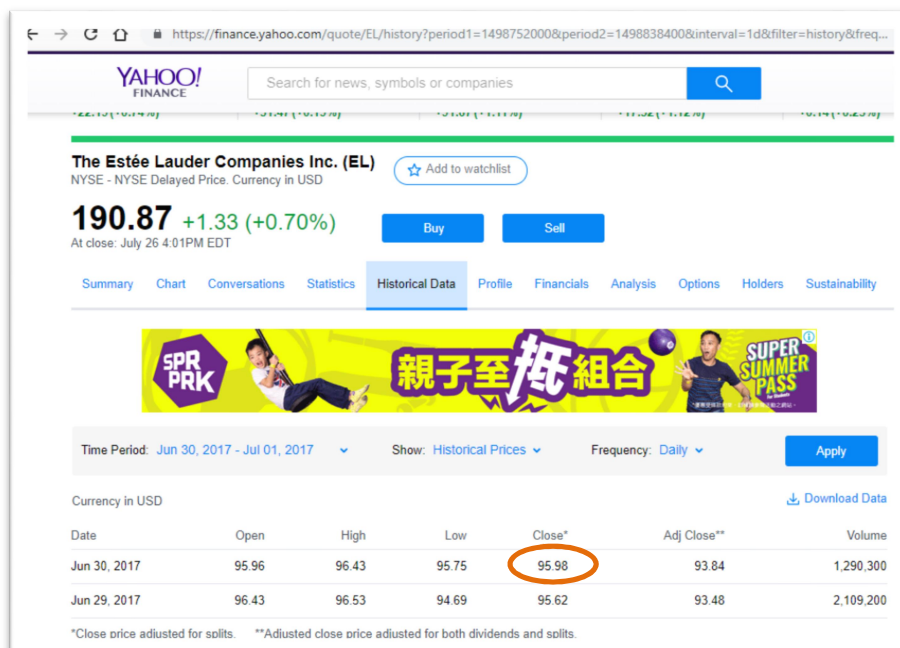
Source: Yahoo Finance (2019)

Figure 35: Stock Value of Estée Lauder Companies Inc. (EL) as of 30th Jun., 2018



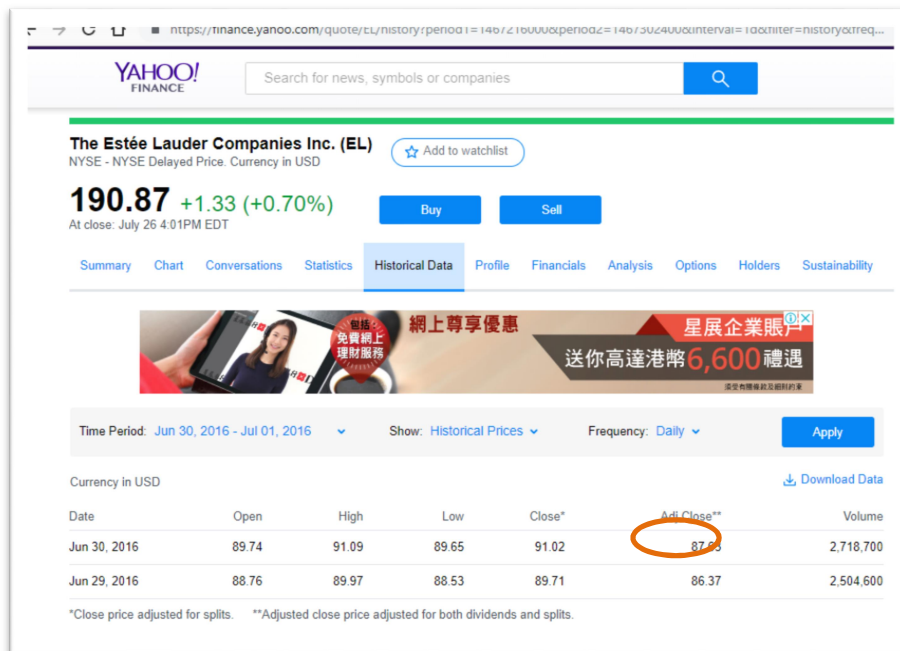
Source: Yahoo Finance (2019)

Figure 36: Stock Value of Estée Lauder Companies Inc. (EL) as of 30th Jun., 2017



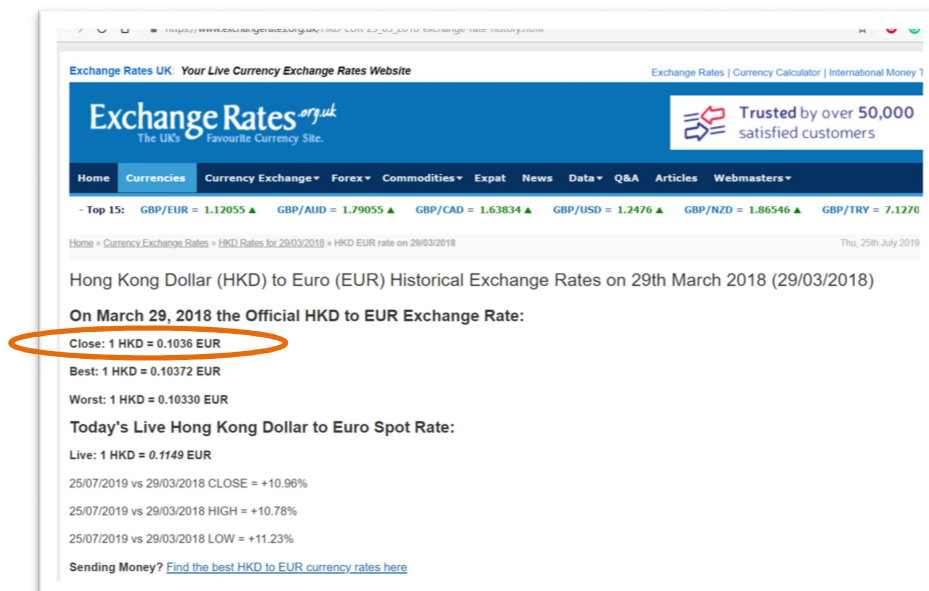
Source: Yahoo Finance (2019)

Figure 37: Stock Value of Estée Lauder Companies Inc. (EL) as of 30th Jun., 2016



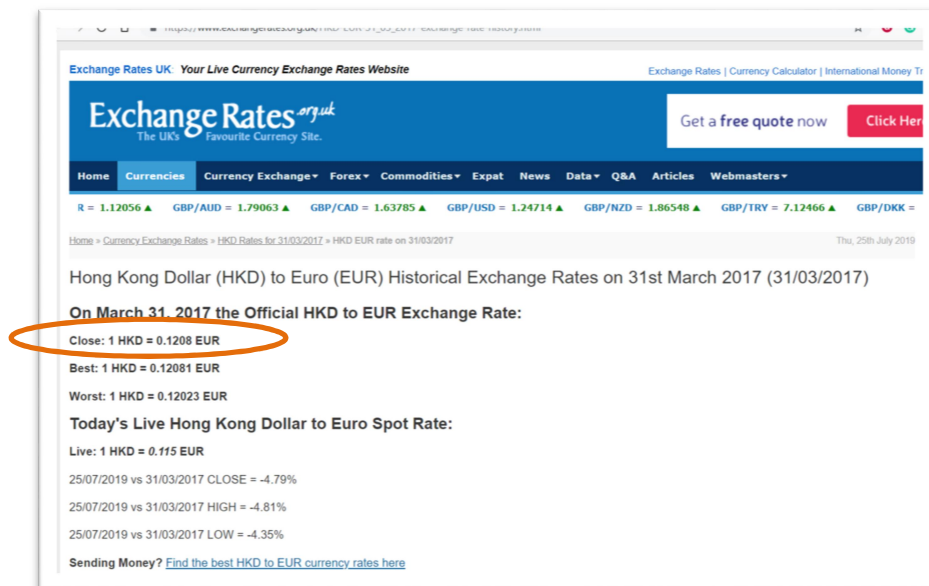
Source: Yahoo Finance (2019)

Figure 38: HKD to Euro Exchange Rate as of 29th March 2018



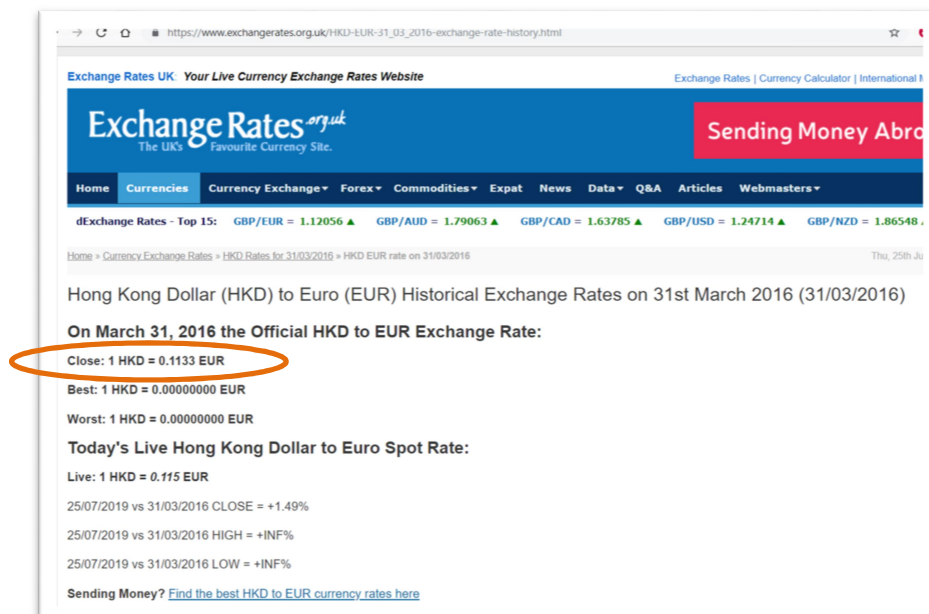
Source: ExchangeRate.org.uk, 2019

Figure 39: HKD to Euro Exchange Rate as of 31st March 2017



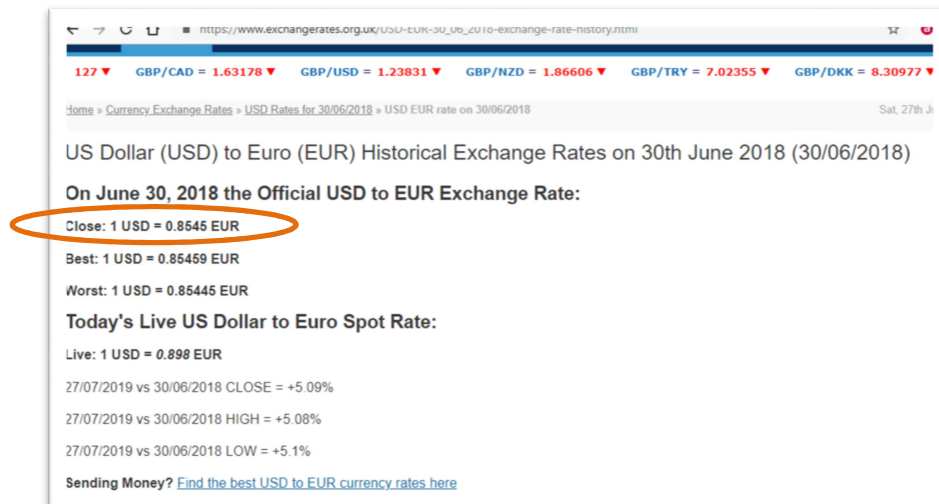
Source: ExchangeRate.org.uk, 2019

Figure 40: HKD to Euro Exchange Rate as of 31st March 2016



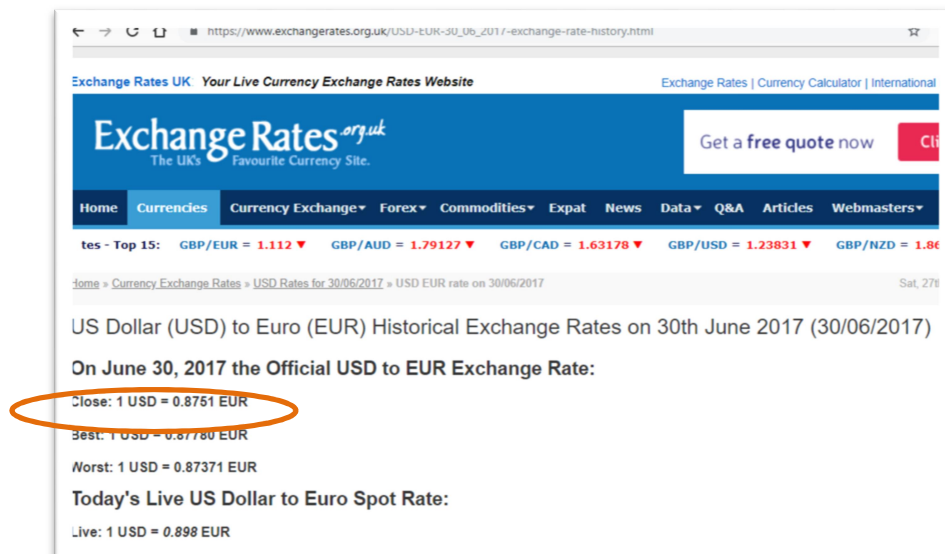
Source: ExchangeRate.org.uk, 2019

Figure 41: USD to Euro Exchange Rate as of 30th June 2018



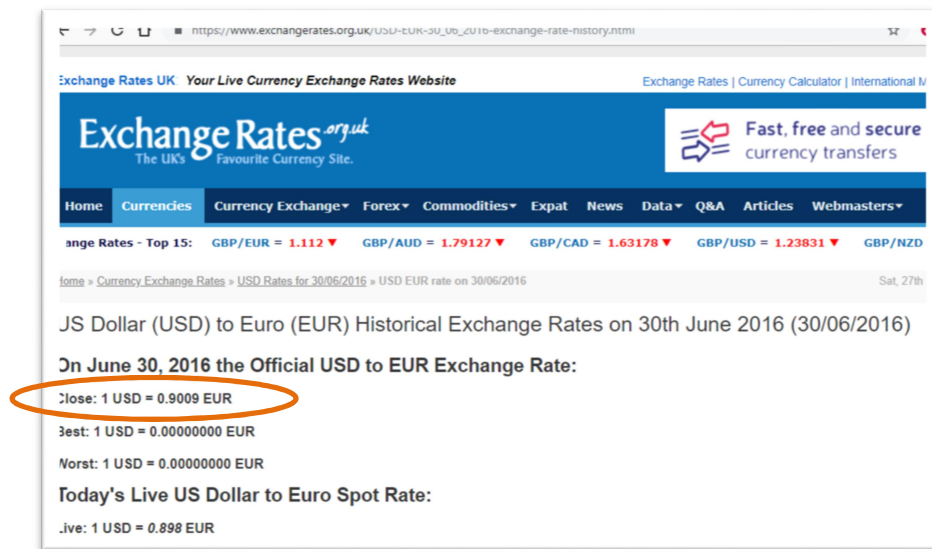
Source: ExchangeRate.org.uk, 2019

Figure 42: USD to Euro Exchange Rate as of 30th June 2017



Source: ExchangeRate.org.uk, 2019

Figure 43: USD to Euro Exchange Rate as of 30th June 2016



Source: ExchangeRate.org.uk, 2019

Figure 44: L'Occitane Corporate Governance Structure



(Source: L'Occitane International S.A., 2018a)

Figure 45: Net Cashflow and Present Value in 20 years

Year	Sales Growth Rate	Sales	EBITDA	Dep'n	EBIT	Tax Expenses	Profit	Working Capital Movement	Free Cashflow	Present Value
0									-66.00	-66.00
1	9.40%	123.99	21.08	9.43	11.65	3.03	8.62	5.25	3.36	3.06
2	9.53%	125.67	21.36	9.43	11.93	3.10	8.83	5.33	3.50	2.89
3	9.66%	127.38	21.65	9.43	12.22	3.18	9.04	5.40	3.65	2.74
4	9.79%	129.11	21.95	9.43	12.52	3.26	9.26	5.47	3.79	2.59
5	9.92%	130.87	22.25	9.43	12.82	3.33	9.48	5.55	3.94	2.44
6	10.06%	132.65	22.55	9.43	13.12	3.41	9.71	5.62	4.08	2.31
7	10.19%	134.45	22.86	9.43	13.43	3.49	9.93	5.70	4.24	2.17
8	10.33%	136.28	23.17	9.43	13.74	3.57	10.16	5.78	4.39	2.05
9	10.47%	138.14	23.48	9.43	14.05	3.65	10.40	5.85	4.54	1.93
10	10.62%	140.01	23.80	9.43	14.37	3.74	10.63	5.93	4.70	1.81
11	10.76%	141.92	24.13	9.43	14.69	3.82	10.87	6.02	4.86	1.70
12	10.91%	143.85	24.45	9.43	15.02	3.91	11.12	6.10	5.02	1.60
13	11.05%	145.80	24.79	9.43	15.36	3.99	11.36	6.18	5.18	1.50
14	11.20%	147.79	25.12	9.43	15.69	4.08	11.61	6.26	5.35	1.41
15	11.36%	149.80	25.47	9.43	16.03	4.17	11.86	6.35	5.51	1.32
16	11.51%	151.83	25.81	9.43	16.38	4.26	12.12	6.44	5.68	1.24
17	11.67%	153.90	26.16	9.43	16.73	4.35	12.38	6.52	5.86	1.16
18	11.83%	155.99	26.52	9.43	17.09	4.44	12.64	6.61	6.03	1.08

(Source: Created by the author)

Figure 46: Ratio Formula

Net Current Assets	= CA - CL
Total Liabilities	= CL + Non_CL
Z-Score Calculation	
A) 1.2 x (Net Current Assets/Total Assets)	= A) 1.2 x (Net Current Assets/Total Assets)
B) 1.4 x (Retained Earnings/Total Assets)	= B) 1.4 x (Retained Earnings/Total Assets)
C) 3.3 x (EBIT/Total Assets)	= C) 3.3 x (EBIT/Total Assets)
D) 0.6 x [(Stock Price x StockNo.)/Rate]/TL	= D) 0.6 x [(Stock Price x StockNo.)/Rate]/TL
E) 0.999 x (Sales/Total Assets)	= E) 0.999 x (Sales/Total Assets)
Altman's Z-Score:	= Sum (A-E) values
Capital Structure Ratio	
Fixed Asset to Long Term Liability Ratio	= FA ÷ (LTL + Equity)
Current Liabilities to Net Asset Ratio	= CL ÷ Net Asset
Current Liabilities to Stock Ratio	= CL ÷ Inventory
Short-Term Liquidity Ratio Analysis	
Current Ratio	= CA ÷ CL
Quick Ratio	= (CA - Inventory) ÷ CL
Cash Ratio	= Cash ÷ CL
Long-Term Liquidity Ratio Analysis	
Stock Credit Index	= (CL - (CA - Inventory)) ÷ Inventory
Total Debt Ratio	= Total Liab ÷ Total Asset
Debt / Equity Ratio	= LTL ÷ Equity
Leverage Ratio	= TA / Equity
Long Term Debt Ratio	= LTL ÷ (LTL + E)
Total Debt / Fixed Asset Ratio	= Total Liab ÷ FA
Time Interest Cover Ratio	= EBIT ÷ Interest
Assest Management Measurement	
Net Asset Turnover	= Sales ÷ NA
Fixed Asset Turnover	= Sales ÷ FA
Current Asset Turnover	= Sales ÷ CA
Total Asset Turnover	= Sales ÷ TA
Inventory Management Measurement	
Inventory Turnover	= COGS/Inventory
Average Collection Period (Day)	= Average Collection Period (OR Year End Collection Period) ÷ credit sales x 365days
Days' Sales In Inventory (Day)	= Average Inventory (OR Year End Inventory) ÷ COGS x 365days
Payment Period (Day)	= Average Account Payable (OR Year End Account Payable) ÷ COGS*4 x 365days
Credit / Debit Control Measurement	
Receivable Turnover	= Net Credit Sales ÷ Account Receivable
Payable Turnover	= COGS ÷ Account Payable
Profitability	
Gross Profit Margin	= (Sales -COGS) ÷ Sales
Net Profit Margin	= Net Profit ÷ Sales
EBITDA Margin	= EBITDA ÷ Sales
Leverage Ratio	= Total Asset ÷ Equity
Self-sustainable Growth Ratio	= Retained Earning ÷ Equity
Retained Yield	= RE ÷ EAT
ROA (After Tax)	= (EAIT) Earning after Interest Tax ÷ TA
ROE (After Tax)	= Earning after Interest Tax(EAIT) ÷ Equity
Stock Maket Prospects	
Market Capitalization (€)	= Market Value x No. of stock
Earning Per Share	= Net profit ÷ Total no. issued common shares
Price-Earning Ratio	= Mkt price ÷ EPS
Enterprise Value (€)	= Market Capitalization + Total Debt - Cash
EV Multiple	= Enterprise Value / EBITDA
Dividend Yield	= Divident ÷ Profit After Tax

(Source: Created by the Author)

Student Self Evaluation Form			
Student name:	Harriet Li	Student number:	1812208
Programme:	MBA	Year of programme	Year 2018
Assignment Title:	Assignment 1		

This section repeats in brief the common assessment criteria detailed on previous pages. The *extent* to which these are demonstrated by you determines your mark. Using these criteria, tick the box that best indicates the level of achievement you feel you have achieved with regard to each of them.

Common Assessment Criteria Applied	Level of Achievement						
	REFER			PASS		DISTINCTION	
	FAIL	FAIL	MARGINAL FAIL	SATISFACTORY	GOOD to VERY GOOD	EXCELLENT	EXCEPTIONAL
1. Engagement with literature	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
2. Knowledge and Understanding	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☒	☐	☐	☐
3. Cognitive and intellectual skills	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☒	☐	☐	☐
4. Practical Skills	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐
5. Transferable Skills for Life and Professional Practice	0-29%	30-39%	40-49%	50-59%	60-69%	70-84%	85-100%
	☐	☐	☐	☐	☒	☐	☐

PLEASE COMMENT ON AREAS IN WHICH YOU FEEL THAT YOU HAVE	PLEASE COMMENT ON AREAS YOU FEEL THAT YOU NEED TO DEVELOP
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PERFORMED WELL			
		I	
Student's Name	Harriet Li	Date	19 th August, 2019
Student's Signature			