

LEVEL 7 ASSESSMENT SPECIFICATION

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Programme:	MBA		
Module:	Finance for Business Managers		
Module code:	HKBM7008	Contribution to Overall Module Assessment (%):	100%
Lecturer:	Dr Katherine Mo	Internal Verifier:	Dr Arion Wong
Assignment Title:	Assignment 1	Word count (or equivalent):	5,000 words +/- 10%
Submission deadline:	23 August 2021	Return date of provisional marks & written feedback:	Within 10 days after submission
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) Alternative submission method (if applicable): Late submission of the assessment will result in a late penalty mark. Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.		
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Company review: A study of L'Occitane International S.A.

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August 2021

Executive Summary

Nowadays, there are various numbers of challenges resulting from different elements influencing the business environment. This includes economics and hazards resulted from the external surrounding as well as the restricts and deficiencies of the internal organization. The company can be further developed through its strengthen and opportunities.

Way of lives of people was changed in a very short time due to the outbreak of COVID-19, the global economic was seriously injured and causing widespread of panic. L'Occitane's business was impacted due to the pandemic.

In this report, we perform financial review of L'Occitane International S.A. and compared with the market peers, Sa Sa International Holdings Limited and Bonjour Holding Limited through analysis of various financial ratios and bankruptcy ratios to understand the company's liquidity, operation and profitability. We also studied and reviewed the corporate governance of L'Occitane to understand the company's internal control and risk management. Finally, a proposed investment appraisal on investment in Capsum was suggested and exanimated with net present value (NPV), internal rate of return (IRR), payback period (PB), profitability index (PI) and accounting rate of return (ARR). Recommendation and audit plan was provided to ensure its business continuity.

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1. Introduction

L'Occitane International S.A. is a well-known international company in Hong Kong offers premium sector cosmetic and personal care products. During the past decade, the company position themselves to bring effectiveness and pleasure to their customers. The appearance of COVID-19 pandemic has damaged the worldwide economies and impacted the business of L'Occitane.

This report will perform financial review of L'Occitane through various financial ratios and bankruptcy ratios. Corporate governance of L'Occitane was studied and reviewed to understand its internal control and risk management. An investment appraisal and recommendation on business continuity will be provided.

2. L'Occitane's business analysis

In this section, we conduct a business analysis on L'Occitane's cosmetic and personal care business with the start of a brief background of its company profile and further discuss the current market challenges.

2.1 Company background of L'Occitane

L'Occitane International S.A. is a renowned international company engages manufacturing and offering retail beauty and high-quality cosmetics products that are made with natural and organic ingredients (L'Occitane International S.A., 2021b). The company is a leader of the premium sector in the cosmetic and personal care industry in Hong Kong by offering new and extraordinary beauty experience through their licensed brand of L'Occitane en Provence, ELEMIS, LimeLife, Melvita, Erborian, L'Occitane au Brésil (L'Occitane International S.A., 2010).

L'Occitane was founded in 1976 by Olivier Baussan, the business was started by his own by selling distilled rosemary essential oil in French local market (L'Occitane En Provence, 2021). Their production expanded from oils to soaps and creams by the inspiration of the nature. In 1994, Reinold Geiger invested into the company and became the Chairman and executive Director, as well as controlling shareholder (L'Occitane International S.A., 2010). L'Occitane started its internationalization strategy under the leading of Reinold Geiger, the company expanded its footprint from France to worldwide, including US, Asia and Europe. Nowadays, L'Occitane's offers natural cosmetics and high-quality products around the world which are rich in natural and organic ingredients.

2.2 Overview and Challenges

L'Occitane is an international brand with their client segment of beauty and status conscious female. The company aims to target middle, upper class young and adult female by offering premium price products. The company position themselves to bring effectiveness and pleasure to their target clients.

L'Occitane's headquarter offices locate in Europe with more than 3000 retail locations, including over 1500 owned stores (L'Occitane International S.A., 2021a). Their products were sold in over 90 countries with various wholesales and retails distribution channels, total net sales of the company for the financial year 2021 is EUR 1,551 million (L'Occitane International S.A., 2021a).

In 2010, L'Occitane sold 364 million shares at HKD 15.08 and raised USD 708 million in a public offering in Hong Kong, since then, it is listed and traded on Hong Kong Stock Exchange as SEHK: 973 (Chim, 2010). This skincare company was the second non-Asian company with its primary shares listed in Hong Kong at that period of time (Chim, 2010). In In referencing to the end of its financial year in 2021, the company was trading at HKD 21.65 on 31st March, 2021 with market capitalization of HKD 31,976.29 million, brief company information of L'Occitane will be illustrated in the Table 1.

Table 1: Brief company information of L'Occitane

Company name	L'Occitane International S.A.
Stock Code	973.HK
Year of Establishment	1976
Year of Listing	2010
Listing Price ¹	15.08
Registered Office	Luxembourg
Year ending date of FY 2020/2021	31-Mar-21
Stock Price ²	21.65
Market Capitalization (in million HKD) ²	31,976.29
PE ²	22.33
Number of Stores in Hong Kong	33

Note 1: See appendix 1

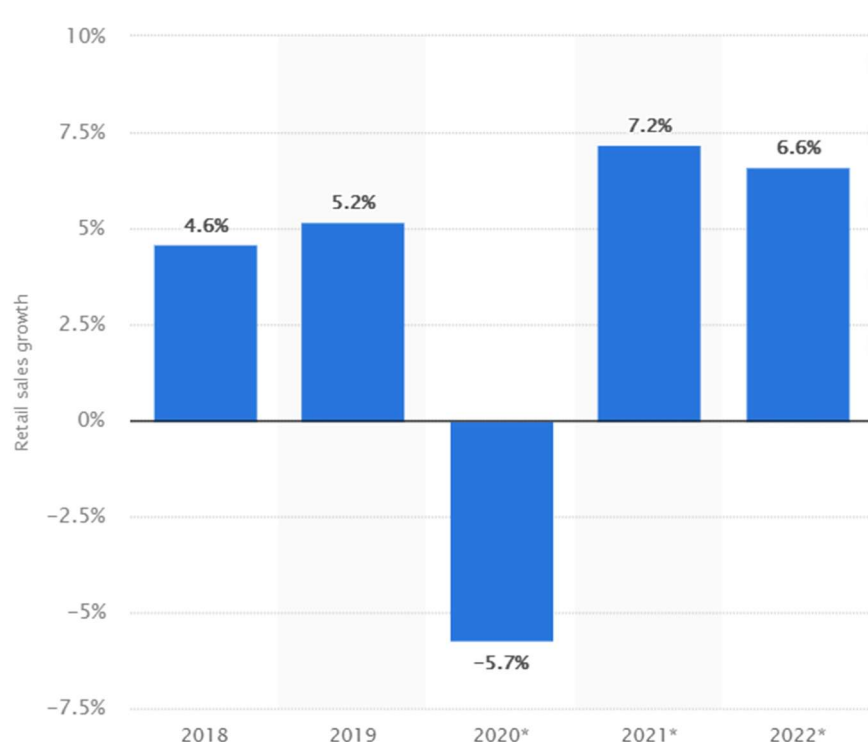
Note 2: Adjusted closing price for year ending of 2020/2021 applied. Sources: Yahoo!Finance, 2021

Sources: ET Net Limited, 2021 and L'Occitane FY2021 Annual report, 2021

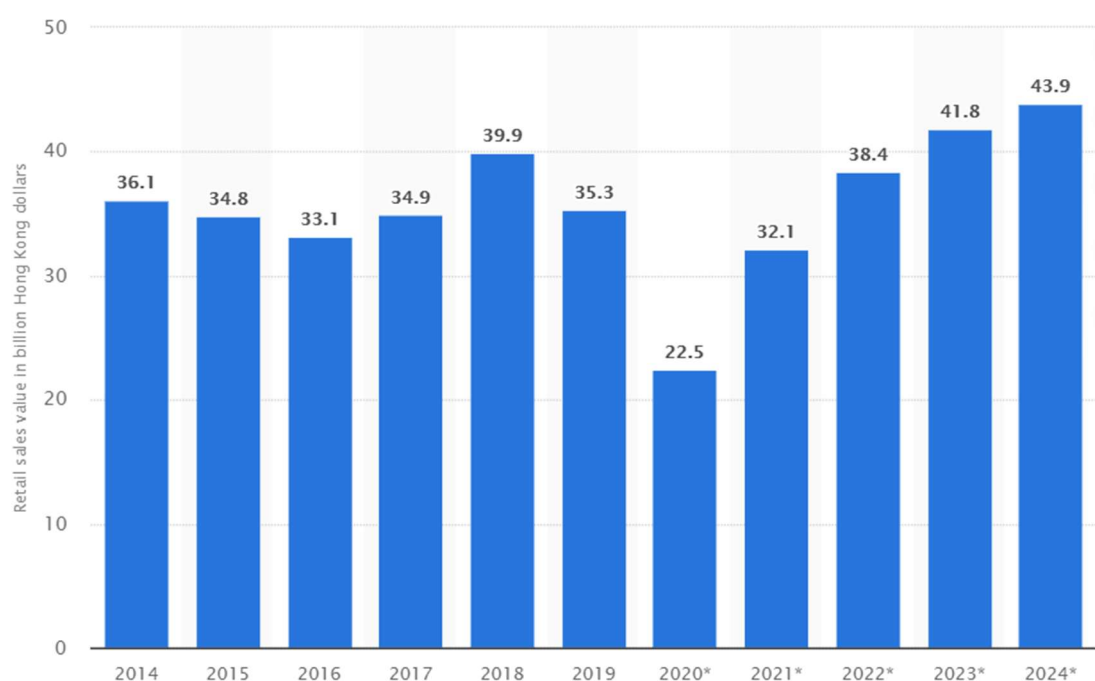
Hong Kong is the principal place of business of the company, it is being one of its operation and sales region, it has about 33 retail stores in Hong Kong with net sales of EUR 94.59 million for the financial year of 2021 (L'Occitane International S.A., 2021a). In the end of the financial year 2021, L'Occitane had around 8,733 employees worldwide (L'Occitane International S.A., 2021a).

The outbreak of COVID-19 pandemic caused a sudden change in the daily lives of people while hardly damaged global economy. The pandemic outbreak results in city lockdown leading to huge contraction in the retail industry. Graph 1 and graph 2 shows the forecast for retail sales growth rate worldwide from 2018 to 2022 and the total retail sales value of beauty products in Hong Kong from 2014 to 2024. It notes there was a remarkable decrease in sales in 2020 due to the effect of COVID-19 and this industry shows a upside trend in coming future.

Graph 1. Forecast worldwide retail sales growth rate from 2018 to 2022



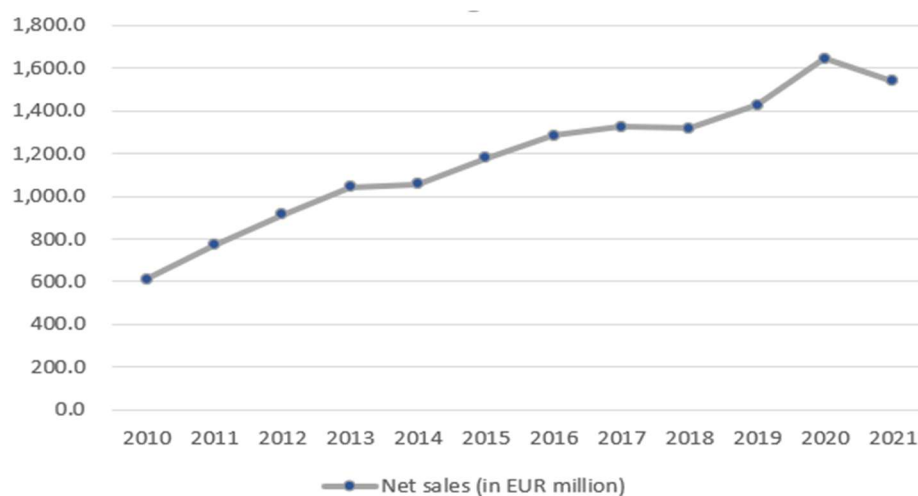
Graph. 2 Forecast total retail sales value of beauty products in Hong Kong from 2014 to 2024



Sources: Statista Research Department, 2021

Graph 3 shows steady increment of net sales since company listed in 2011. In 2020, there is a significant increase in net sales due to the acquisition of ELEMIS which became one of the profitable drivers.

Graph 3. Net sales of L'Occitane from financial year of 2010-2021



Sources: L'Occitane International S.A. Annual Report

However, the company's net sales slowed down for the financial year in 2021. The business of L'Occitane was impacted and this reflects a decrease in the demand for the company's products and services.

3. Company review on L'Occitane

In this section, L'Occitane International S.A. will be compared with Sa Sa International Holdings Limited and Bonjour Holding Limited. The mentioned three companies are listed in Hong Kong stock exchange within the cosmetic and personal care industry. Table 2 shows the basic information of the three companies.

Table 2. Company information of L'Occitane, Sa Sa and Bonjour

Company name and stock code	L'Occitane (973.HK)	Sa Sa (178.HK)	Bonjour (653.HK)
Year of Establishment	1976	1978	1991
Year of Listing	2010	1997	2003
Registered Office	Luxembourg	Cayman	Cayman
Year ending date of FY 2020/21	31-Mar-21	31-Mar-21	31-Dec-20 ²
Stock Price ¹	21.65	1.78	0.15
Market Capitalization (in mio HKD) ¹	31,976.29	5,523.68	511.89
PE ¹	22.33	-15.37	-1.98

Note 1: Adjusted closing price for year ending of 2020/2021 applied. Sources: Yahoo!Finance, 2021

Note 2: Although the year ending date of FY is different, the company is covering the same period of time

Sources: L'Occitane FY2021 Annual report, 2021; Sa Sa Annual Report 2020/2021, 2021; Bonjour 2020 Annual Report, 2021

3.1 Financial analysis

L'Occitane's financial analysis will be studied to analysis its financial structure and compare with Sa Sa and Bonjour. Financial statement analysis can help understand the company's health and performance through calculation of variety of financial ratios and compared with the industry norms (Danzil and Boom, 1998). Table 3 indicated the basic financial figures of the mentioned companies (see Appendix 3-9 for financial information of L'Occitane).

Table 3. Basic financial figures of L'Occitane, Sasa and Bonjour.

	L'Occitane			Sa Sa	Bonjour
HKD in million / Financial Year	2018/19	2019/20	2020/21	2020/21	2020
EUR/HKD exchange rate ¹	8.8142	8.5164	9.1193	-	-
Net current assets	2,636.56	739.83	(722.19)	2,024.81	(116.55)
Total assets	17,673.24	20,510.55	22,769.80	3,406.48	1,027.55
Retained earnings	6,382.64	6,798.11	8,395.78	2,177.05	138.04
EBIT	1,342.39	1,578.27	2,007.35	582.30	(217.30)
Stock Price ²	14.11	11.13	21.65	2.54	0.15
Number of stock (in million shares)	1,476.96	1,476.96	1,476.96	3,095.60	3,412.57
Total liabilities	8,002.09	10,500.93	11,107.33	919.87	859.00
Sales	12,576.75	14,001.67	14,024.07	8,156.60	538.79

Note 1: Average price of the year end date is used (refer to Appendix 2)

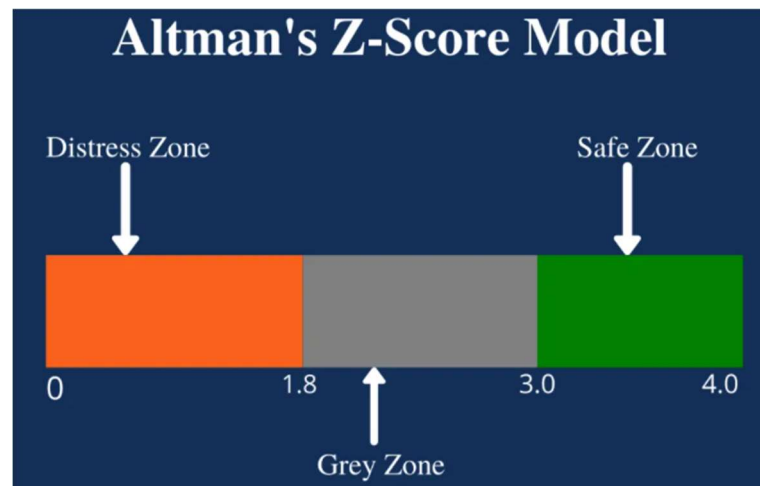
Note 2: Adjusted closing price for year ending of 2020/2021 applied. Sources: Yahoo!Finance, 2021

Sources: L'Occitane FY2021 Annual report, 2021; Sa Sa Annual Report 2020/2021, 2021; Bonjour 2020 Annual Report, 2021

Altman E.I developed the Z-score model in 1968 (CFI, 2021). Altman, Iwanicz-Drozowska, Laitinen and Suvas (2017) evidenced the Z-score model in predicting the bankruptcy and company distress. The Z-score formula of public listed companies

is written as: Altman's Z-score = $1.2A + 1.4B + 3.3C + 0.6D + 1.0E$. Figure 1 shows the indicator of the Z-score model.

Figure 1. Altman's Z-score model



Sources: CFI Education Inc, 2021

The Z-source of the companies are formulated in Table 4.

Table 4. Z-score of L'Occitane, Sa Sa and Bonjour for the period of 2018 to 2020.

Financial Year	L'Occitane			Sa Sa			Bonjour		
	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
A	0.15	0.04	-0.03	0.29	0.28	0.59	0.03	-0.16	-0.11
B	0.36	0.33	0.37	0.41	0.41	0.64	0.41	0.26	0.13
C	0.08	0.08	0.09	-0.15	-0.16	0.17	-0.01	-0.05	-0.21
D	2.61	1.57	2.88	4.68	2.25	8.54	0.89	0.26	0.60
E	0.71	0.68	0.62	1.21	1.75	2.39	1.29	0.95	0.52
Z Score	3.21	2.38	3.11	4.43	3.48	9.69	2.38	1.12	0.24

Note 1: A = Working Capital/Total Assets ratio; B = Retained Earnings/Total Assets ratio; C = Earnings Before Interest and Tax/Total Assets ratio; D = Market Value of Equity/Total Liabilities ratio; E = Total Sales/Total Assets ratio

Sources: From this research

Through analyzing the insolvency index of Z-score, L'Occitane and Sa Sa have a score of 3 and above for the recent years, this mean the company is in a safe zone to demonstrate its financially sound. However, Bonjour falls into distress zone and there

is a risk of insolvency.

Table 5. Liquidity ratios of L'Occitane, Sa Sa and Bonjour for the period of 2018 to 2020

	L'Occitane			Sa Sa			Bonjour		
Financial Year	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
Current Ratio	2.16	1.19	0.91	3.34	1.87	1.86	1.07	0.57	0.85
Quick Ratio	1.37	0.75	0.69	1.71	0.93	0.96	0.62	0.26	0.72
Cash Ratio	0.56	0.36	0.47	0.64	0.53	0.59	0.45	0.17	0.03

Sources: From this research

Further looking into the liquidity ratio of the companies, shows in Table 5, there is a decreasing trend of the liquidity ratio, this shows liquidity of the companies decreased recent years due to the difficult business environment as a result of the pandemic.

L'Occitane's current ratio of FY2021 is slightly below 1, this could indicate that a company might struggle to meet its short-term obligations. The cash ratio is less than 1 this means the company has not enough cash on hand to pay off short-term debts.

L'Occitane is fully aware of this situation and it has prepared a cash projection for the next year and showed no liquidity risks (L'Occitane International S.A., 2021a).

Overall, L'Occitane is in market norm in the industrial level when compare with Sa Sa and Bonjour.

The leverage ratios evaluate the utilization of borrowed money and define the solvency and capital structure of the company, see Table 6 for the comparison for the three companies.

Table 6. Leverage ratios of L'Occitane, Sa Sa and Bonjour for the period of 2018 to 2020

Financial Year	L'Occitane			Sa Sa			Bonjour		
	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
Total Debt Ratio	0.45	0.51	0.49	0.27	0.49	0.47	0.57	0.72	0.84
Debt/Equity	0.83	1.05	0.95	0.37	0.96	0.89	1.32	2.54	5.10
Long Term Debt Ratio ¹	0.53	0.32	0.03	-	-	-	0.21	0.51	-
Equity Multiplier	1.83	2.05	1.95	1.37	1.96	1.89	2.32	3.54	6.10

Note 1: In reference to L'Occitane's annual report showed long term liabilities with interest bearing. Since Sa Sa has no interest-bearing loan, non-current liabilities are not calculated in long term debt ratio

Sources: From this research

Leverage might increase risks but it also creates business investment opportunities.

L'Occitane has stringent control on its leverage ratio, as stated in their annual report, the company has a financial covenant in 2019 for three years related to the ELEMIS acquisition in which stated that the leverage ratio must be lower than 2 (L'Occitane International S.A., 2021a). L'Occitane is able to manage its leverage ratio and comply with the covenant in 2019 and 2020. The equity ratio measures the portion of the company asset financed by the shareholder's stake. Both L'Occitane and Sa Sa with equity multiplier is near to 2 which indicates half of their company's assets are financed with debts and the other is from shareholder's equity.

3.2 Operational Review

Table 7 shows the comparison on the operating efficiency of three companies. When computing the average collection period, we assume all the revenue generated from credit sales.

Table 7. Operating efficiency of L'Occitane, Sa Sa and Bonjour for the period of 2018 to 2020

	L'Occitane			Sa Sa			Bonjour		
Financial Year	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
Days' sales in Inventory	308.59	245.82	278.41	106.61	101.01	140.43	74.31	70.85	97.13
Average Collection Period	36.68	29.21	32.12	5.04	3.87	9.23	5.64	4.08	5.06
Day's of Payable Outstanding	214.90	175.95	226.32	35.56	22.02	53.20	39.67	31.33	23.69
Operating Period	345.27	275.03	310.53	111.66	104.88	149.67	79.95	74.93	102.19
Cash Period	130.37	99.08	84.21	76.10	82.86	96.46	40.29	43.60	78.50
Total Asset Turnover	0.71	0.68	0.62	2.39	1.75	1.21	1.29	0.95	0.52

Sources: From this research

The total asset turnover of L'Occitane is around 0.67 which is lower than the companies in the same industry. It seems L'Occitane has a large amount of fixed assets resulting the total asset turnover is less than 1.

From Table 7, we noted that L'Occitane has longer days' sales in Inventory, collection period and days' of payable outstanding. This reveals the stock of inventory will last for more than 277 days in average and it takes 205 days to pay its bills and invoices. L'Occitane clarified this is due to the development of COVID-19 and rapid growth of the companies after acquisition of ELEMIS (L'Occitane International S.A., 2021a).

As L'Occitane has a long inventory period, this increases the company's operating period and takes longer time to change their goods into cash through sales. It is recommended L'Occitane to strengthen its management on inventory and enhance marketing tactics to drive sales. Also, optimize accounts payables through strengthen corporate cost management and reduce the complexity in account processing can help to lower the payable outstanding ratios. However, L'Occitane maintains a good control on collection of account receivable with average collection period of 33 days.

3.3 Profitability and market shares review

In this section, we will further analysis the profitability and stock market prospects of L'Occitane, see Table 8 and Table 9 for the respectively ratios. It notes that L'Occitane maintain its gross profit margin at 80% these few years and its profitability ratios is higher than the market peers. Net profit margin of L'Occitane increases from 8% to 10% from 2018 to 2020, this shows the company is more efficient at cost structure and pricing margin which able to convert sales into actual profit effectively.

L'Occitane has the highest and increasing ROE among the companies, this evidence L'Occitane is profitable and the management's ability to generate income is considerably good.

Table 8. Profitability of L'Occitane, Sa Sa and Bonjour for the period of 2018 to 2020

	L'Occitane			Sa Sa			Bonjour		
Financial Year	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
Gross Profit Margin	83.19%	81.58%	83.05%	40.66%	36.42%	34.57%	35.45%	33.62%	32.13%
Net Profit Margin	8.24%	7.01%	10.21%	6.02%	-8.31%	-11.81%	-2.21%	-8.95%	-47.96%
EBITDA Margin	15.15%	23.49%	26.12%	8.45%	5.77%	4.28%	-3.51%	-13.01%	-55.60%
Return on Assets (ROA)	5.86%	4.79%	6.29%	14.41%	-14.54%	-14.31%	-2.84%	-8.48%	-25.15%
Return on Equity (ROE)	10.72%	9.80%	12.28%	19.74%	-28.55%	-27.01%	-6.61%	-30.00%	-153.32%

Sources: From this research

Table 9. Stock market prospects and growth ability of L'Occitane, Sa Sa and Bonjour for the period of 2018 to 2020

	L'Occitane			Sa Sa			Bonjour		
Financial Year	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
Market-to-book Ratio	2.16	1.64	2.74	3.16	2.16	4.15	1.17	0.67	3.04
Earning per shares	0.71	0.68	0.96	0.15	-0.17	-0.11	-0.01	-0.04	-0.08
PE ratio	20.12	16.75	22.33	16.01	-7.58	-15.37	-17.75	-2.22	-1.98
Self-Sustainable Growth Ratio	66.00%	67.92%	71.99%	87.55%	81.35%	76.67%	94.31%	92.36%	81.90%
Dividend yield	1.91%	2.27%	0.93%	6.00%	-	-	-	-	-

Sources: From this research

L'Occitane has a higher PE ratio when compare to the industry average, this implies

the investors are expecting the company to grow revenues faster in the future. However, the self-sustainable growth rate is around 68% and lower than the market peers, it may be due to the dividend payout along the years. Considering L'Occitane has provide stable returns to their investors, its stock is at reasonable level.

4. Corporate Governance and its importance

Gompers, Ishii, and Metrick (2003) show there is a strong correlation between the corporate governance and stock return. Hong Kong Stock Exchange has introduced a series of guidance on corporate governance since 2004 (Cheung, Stouraitis and Tan, 2010).

The Board of L'Occitane also implement and reviews on the company's corporate governance practices which aims to demonstrate their commitment to comply the regulatory requirement and meet the expectation of its shareholders. The company targeted to demonstrate a high level of corporate governance practices and business ethics in the company which opines as a critical element to maintaining shareholders' return. L'Occitane embedded their corporate governance and ESG consideration in their business strategy for long term and sustainable business success.

4.1 Corporate governance structure of L'Occitane

L'Occitane purses 'The Corporate Governance Code and Corporate Governance

Report’ issued by Hong Kong Stock Exchange as provisions of their corporate governance practice. The company announced their Corporate Governance Report annually and published in their annual report. The composition of the Board, responsibilities, Committees established, risk management and internal control, investor relations and communication with shareholders are clearly documented and covered in the Corporate Governance Report. Figure 2 illustrated the corporate governance structure of L’Occitane. Their structure is flat and efficient.

Figure 2. Corporate governance structure of L’Occitane



Sources: L’Occitane International S.A. FY2021 Annual Report, 2021

The report is transparent it also disclosed the deviations from the code provisions of ‘The Corporate Governance Code and Corporate Governance Report’ as set out in the Listing Rules (L’Occitane International S.A., 2021a).

The Company is leading by Reinold Geiger as Chairman and Chief Executive Officer, he was appointed as an executive Director since 2000 (L’Occitane International S.A., 2021a). This arrangement aims to provide a strong and consistent leadership to the company. Reinold Geiger is not involved in any of the committees and each of the committee is composed of independent non-executive Directors (L’Occitane

International S.A., 2021a). L'Occitane restated the balance of power and authority is adequately ensured by the operations of the Board which comprises with the four independent non-executive Directors (L'Occitane International S.A., 2021a).

Reinold Geiger is also the controlling shareholder of L'Occitane (L'Occitane International S.A., 2021a). The company operates independently of the controlling shareholder, however, Cheung, Stouraitis and Tan (2010) found out that company with concentrated ownership structure affected the effectiveness of the company's corporate governance.

Another deviation from code provisions is company secretary of L'Occitane is reported to the Executive Director and the Group's Deputy General Manager who is primary responsible to oversee the company's finance globally (L'Occitane International S.A., 2021a). The company believes they work closely together to adhere their duty related to the corporate governance and the Board (L'Occitane International S.A., 2021a).

4.2 Improvement and recommendation on corporate governance

L'Occitane is a leading company which demonstrated its commitment in corporate governance. However, in referencing Appendix 14 to the Listing Rules and Guidance, 'Corporate governance code and corporate governance report' issued by Hong Kong Exchange and Clearing Limited, the code provides the principle of good practice. It is noted that the corporate governance of L'Occitane is still with opportunities for further enhancements.

First of all, the role of Chairman and Chief Executive Officer should be separated to ensure the balance of power and authority. Their responsibilities should be clearly established and documented.

Secondly, the company secretary of L'Occitane should be reported to the Chairman for ensuring that board procedures are adhered and followed. The Chairman can react immediately if there is any discrepancy noted on the corporate governance practices and procedures.

Furthermore, internal control should be tightened. Risk committee can help to oversee the internal control on financial report and assessing its overall effectiveness.

L'Occitane only relies on the company's Internal Audit Department and Audit Committee as an independent reviewer. It is unable to monitor whether the departments are running effectively as their internal controls and responsibilities are unclear. The control panel function has to be strengthened and more transparent on their risk assessment.

Finally, Honey, Tashfeen, Farid and Sadiq (2019) evidenced effective corporate governance plays an important role in credit risk management. L'Occitane should enhance their credit risk management to hire a credit agency to evaluate their credit rating to increase the transparency and independency of the company's credit assessment. It will help their investors and shareholders to understand the company's financial operations and hence to strengthen the financial costs control of the company.

5. Investment project appraisal for L'Occitane

L'Occitane actives in investment and takes part in global joint venture, the company planes to leverage this international exposure to expands its global business. In early Jan 2021, the company planned to invest in beauty products manufacturing company in Europe, Capsum. Capsum is an inventor of beauty products leveraging of science and technology to achieve and special experiences for beauty (Allured Business Media, 2018).

L'Occitane has invested EUR 27.95mio for 27.73% ownership of Capsum in early Jan 2021 (L'Occitane International S.A., 2021a). A company can take the control of the acquired company for purchasing more than 50% of its company shares, this allows the acquirer to make decisions on the newly acquired assets without the approval of the company's shareholders (Kenton, 2020). Assuming L'Occitane increases its shareholding on Capsum to 51%, the investment amount in Capsum will be increased to EUR 18.54mio, this acquisition can allow L'Occitane to ride on Capsum's specialized technology to co-develops and expand their product variety by manufactures products with tailor-made formulas.

5.1 Investment project information

In this section, Capsum's financial information will be used and analyzed to determine the financial ratio and future cashflow for this investment project.

Table 10 shows the projected cost for increasing the acquisition of Capsum. In order to increase the ownership of Capsum to 51%, L'Occitance has to pay additional amount of EUR 23.45 million and the total acquisition cost will be EUR 51.40 million.

Table 10. Projected cost for acquisition of Capsum

Percentage of acquisition	27.73%	51%
Acquisition cost pay (in million EUR)	27.95	51.40

Sources: Illustrated by writer

Annual income of Capsum in the end of its financial year in 2020 and its financial ratios used for the assessment. Table 3 illustrates the annual income of Capsum as of 31st December 2020. Table 4 shows the financial ratios of Capsum and the reference economic data. The financial ratios of Capsum are calculated based on the average annual income of the company for the period of 2016 to 2020.

Makker and Wicherts (2014) found out removal of outliers to acquire a significant result appears to be commonly used and transparent reporting is important for statistical analyses. In order to avoid the increase in variability of data, extreme outliers were removed from the calculation of average financial ratios and economic data, details information can be found in the note stated under Table 12.

Table 11. Annual income of Capsum

in million EUR	31-Dec-2020
Net Sales	36.36
EBITDA	6.75
Depreciation and amortization	2.54

Sources: Factiva Inc. cited in D&B, 2021

Table 12. Financial ratios of Capsum and economic data

EBITADA margin	18.56%
Average sales growth rate ¹	40.64%
Average return on asset (ROA) ²	1.67%
Average depreciation and amortization rate ³	25.81%
Average France GDP growth rate ⁴	1.45%
France Corporate Tax rate ⁵	26.50%

Note 1: Average sale growth rate of Capsum from 2017 to 2020. Sources: Factiva Inc. cited in D&B, 2021.

Note 2: Given extreme ratio noted for the year of 2015, 2016, 2019 and 2020, average ROA is calculated based on the year of 2014, 2017 and 2018. Sources: Factiva Inc. cited in D&B, 2021.

Note 3: Average depreciation and amortization rate of Capsum from 2017 to 2020. Sources: Factiva Inc. cited in D&B, 2021.

Note 4: Given extreme ratio noted for the year of 2022, average France GDP growth rate is calculated based on the forecast from 2023 to 2026 (See Table 13).

Note 5: It is noted that the corporate tax rates in France are gradually reducing recent years with latest corporate tax rate in France lowered to 26.5% (Graph 4).

Sources: Illustrated by writer

Table 13. France GDP growth rate forecast from 2022 to 2026

Real GDP growth (annual percent change)	2022	2023	2024	2025	2026
France	4.2	1.7	1.5	1.4	1.2
Advanced economies	3.6	1.8	1.6	1.5	1.5

Sources: International Monetary Fund, 2021

L'Occitane stated in its annual report that estimated useful lives for equipment and machinery is between 5 and 10 years (L'Occitane International S.A., 2021a).

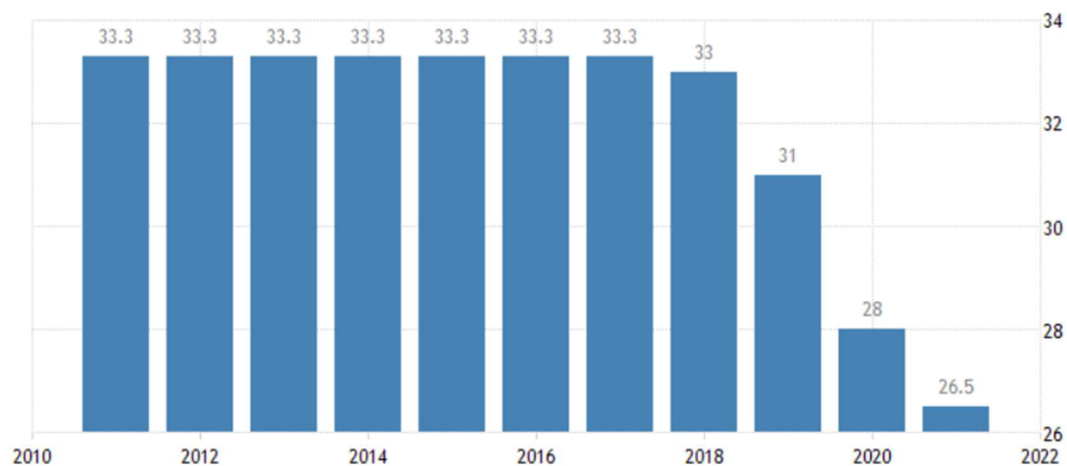
Considering Capsum is an inventor of beauty products leveraging of science and technology, the depreciation on equipment and machinery should be fall between 5 and 10 years. Hence, this project is calculated based on a 10-year investment term.

Table 6 shows the future cashflow for the investment project of Capsum. Given L'Occitane will acquire 51% shareholding of Capsum, the annual income of Capsum will be discounted by 49%.

Capsum has an average annual growth of 40.64%. This reputable technological gem company in French cosmetics industry achieved this ambitious growth rates of high-tech companies (Gallon, 2020). Although Capsum is able to achieve this satisfactory average annual growth rate, a conservative approach is applied on this investment project assessment. Jahangir (2017) implies there is a strong correlation between variation in company growth and the country GDP growth. Assume Capsum cannot maintain its high sale growth rate after 5 years due to the depreciation of equipment and machinery and the change of market situation. France GDP growth rate is applied after the year 6 of this investment project. The estimated sales of Capsum for the year 1-5 are calculated with its average sales growth rate, i.e. 40.64 %. For the year 6-10, the estimated sales are calculated based on average France GDP growth rate, i.e. 1.45%.

France imposes the heaviest tax in the Europe countries (Greenacre, 2021). Capsum resides in France and hence the company is subjected to corporate income tax in France. For the company turnover less than EUR 250 million, the corporate income tax rate in 2021 is 26.5% (PWC, 2021). Graph 4 shows the recent years corporate tax rate in France.

Graph 4. Corporate tax rate in France from 2011 to 2021.



Sources: tradingeconomics.com, 2021

Based on the above assumption, profit of Capsum and future cashflow of this investment project is projected as shows in Table 14.

Table 14. Future cashflow for the investment project of Capsum

in million EUR							
Year	Sales	EBITDA	Deperation and Amorization	EBIT	Tax expense	Profit after tax	Cashflow
0	18.54	3.44	1.30	2.14	0.57	1.57	-
1	26.07	4.84	1.64	3.21	0.85	2.36	3.99
2	36.67	6.81	2.06	4.75	1.26	3.49	5.55
3	51.57	9.57	2.59	6.99	1.85	5.13	7.72
4	72.53	13.47	3.26	10.21	2.71	7.50	10.76
5	102.01	18.94	4.10	14.84	3.93	10.91	15.01
6	103.49	19.21	5.16	14.06	3.73	10.33	15.49
7	104.99	19.49	6.49	13.01	3.45	9.56	16.04
8	106.51	19.77	8.16	11.61	3.08	8.54	16.70
9	108.06	20.06	10.27	9.80	2.60	7.20	17.46
10	109.63	20.35	12.92	7.44	1.97	5.47	18.38

Sources: From this research

The future value (FV), present value (PV), cumulative (CUM) of cashflow are projected for the coming 10 years. These projected figures are analyzed along with the profit of Capsum and illustrates in Table 15. Average return on asset of 1.67% is used for calculating the present value of cashflow.

Table 15. Projected cashflow (FV, PV and CUM) and profit of Capsum for 10 years

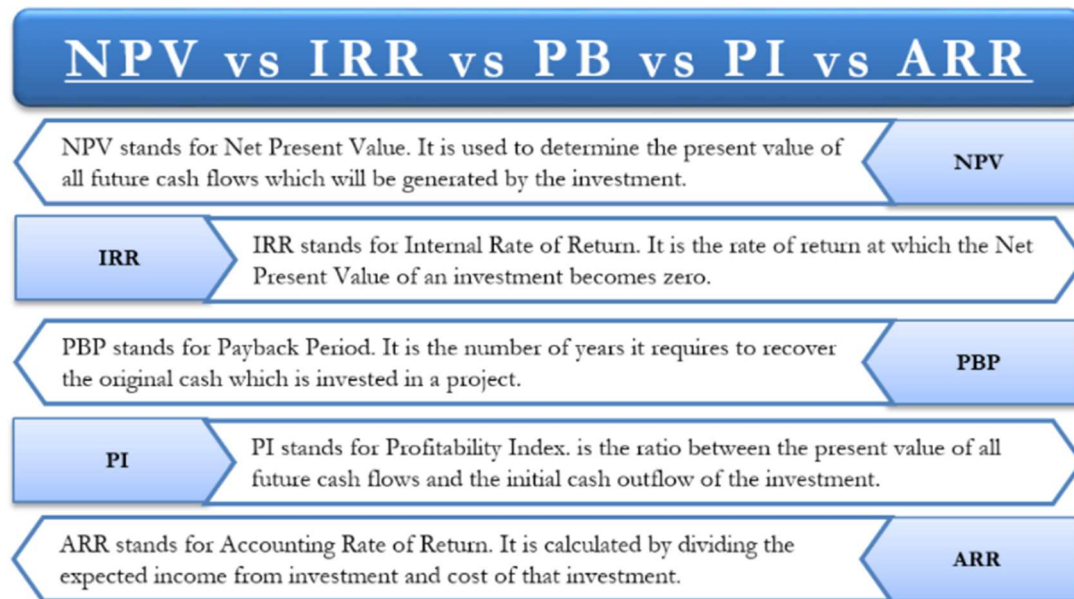
Year	Cashflow in/(out)	Present value cashflow	Cumulative Cashflow	Profit after tax
0	-51.40	-51.40	-51.40	-
1	3.99	3.93	-47.41	2.36
2	5.55	5.37	-41.86	3.49
3	7.72	7.35	-34.14	5.13
4	10.76	10.07	-23.38	7.50
5	15.01	13.81	-8.37	10.91
6	15.49	14.02	7.12	10.33
7	16.04	14.29	23.16	9.56
8	16.70	14.62	39.86	8.54
9	17.46	15.05	57.32	7.20
10	18.38	15.58	75.70	5.47

Sources: From this research

5.2 Investment project assessment

Capital budgeting is a fundamental process for planning the company's long-term and short-term investment. Capital investment appraisal of net present value (NPV), internal rate of return (IRR), payback period (PB), profitability index (PI) and accounting rate of return (ARR) will be examined in this assessment for evaluating the investment project on Capsum.

Graph 5. The focus of keys capital investment appraisal of NPV, IRR, PB, PI and ARR.



Sources: eFinanceManagement.com, 2021

Based on the projected cash flow and profit of Capsum for the coming 10 years formulated in Table 15. Given there is different limitation and assumption during inception of these indicators, an all-round assessment on net present value (NPV), internal rate of return (IRR), payback period (PB), profitability index (PI) and accounting rate of return (ARR) of this investment project will be applied. The major techniques of capital investment appraisals of this investment project are formulated and shows in Table 8. Details analysis of each indicator will be further discussed.

Table 16. Key techniques of capital investment appraisal of investment project

Net present value (NPV)	62.68
Internal rate of return (IRR)	16.03%
Payback period (PB)	5 Years 7 months
Profitability index (PI)	2.22
Accounting rate of return (ARR)	13.71%

Sources: From this research

Net present value is calculated based on the future cashflow rather than a time period.

This approach with assumption to discount the future cash flows (Žižlavský, 2014).

Žižlavský (2014) stated the strategic management can rely on the net present value

approach to analyze the present status of projects and their performance measurement. This can be used as a guide for the project management by providing indications of its potential financial value (Žižlavský, 2014). Žižlavský (2014) also evidenced the positive effects of net present value for the investment performance measurement results a benefit from its implementation. This investment project with a positive value of net present value, i.e. EUR 62.68 mio, which imply this project can be accepted based on its high net present value. However, this approach also has strong limitations as it often underestimated as time period and risk discounted rate are not considered (Žižlavský, 2014).

Internal rate of return is also calculated based on the cashflow. This is the most widely applied evaluation technique on project evaluation and most of the companies use it as one of their capital budgeting tools (Velnampy, 2005). This technique has a condition net present value equal to zero, this assumption impose constrains of its capital stream (Magni, 2011). This calculation build in reinvestment assumptions on all future cashflow are assumed to be reinvested at the internal rate of return, this will make the project with a better rate of return (Kelleher and MacCormack, 2005). In this investment project, the internal rate of return is 16.03%. Comparing with the profit margin of L'Occitane for the financial year of 2021, i.e. 10.2%, this investment project offers a better return.

Payback period is use to estimate the time need to generate cashflows to cover the initial cost of an investment (Al-Ani, 2015). Al-Ani (2015) mentioned the deficiencies of this technique, it does not consider the cash flow after the payback time and time value of money when computing cashflows. Risk and profitability variables have an impact on the use of this technique from the angle of investors. However, Al-Ani

(2015) claimed it is a simple and easy indicator for making capital budgeting investment decision. The payback period is determined based on cashflow, it can be estimated by computing the cumulative cashflow, for the investment in Capsum, it is estimated 5 years and 7 months will be used to recover the initial investment amount.

Gurau (2012) stated the profitability index is a significant indicator in assessing the performance of a project, it expresses the net present value for an initial expense equal to a monetary unit. This technique completes analysis of efficiency in relative terms, in the form of net benefit per unit of measurement relative to the cost of the investment (Gurau, 2012). The investment project is turn to be profitable if the index is above 1 (Gurau, 2012). However, this technique might not provide the correct decision to mutually exclusive investment projects (Gurau, 2012). Profitability index of this investment project is 2.22 which is higher than 1. The investment in Capsum seems to be acceptable.

The current practice is using historical accounting data to forecast future earnings for estimating the cashflow which suggest accounting rate of return has a new role (Brief and Lawson, 1992). According to Whittington (1988), accounting rate of return is a central feature of financial statement analysis and it also appears commonly in the evaluation of financial performance of a company. This technique can be used in valuation process instead of determination of profitability (Brief and Lawson, 1992). Looking into the investment in Capsum with accounting rate of return of 13.71%, it is higher than L'Occitane's current return on assets, i.e. 6.29% as of the financial year 2021. This technique is formulated based on profit, there is a constant growth and depreciate assumption. In this investment project, a constant growth rate of 40.64% is applied for the first five years and 1.45% is applied afterwards with the average

depreciation rate of 25.81%. The time value of money is ignored. However, Brief and Lawson (1992) evidenced that the accounting rate of return would be expected to be reasonably stable for a short time horizon. Considering this project with an investment term of 10 years, this technique can be a good proxy for referencing.

5.3 Financing and capital management

L'Occitane has acquired 27.73% of Capsum on 12 January 2021 for EUR 27.95 million (L'Occitane International S.A., 2021a). As mentioned in previous section, additional amount of EUR 23.45 million has to be paid in order to acquire 51% ownership of the company. Considering EUR 27.95 million has paid and already reflected in its annual report for financial year of 2021, the below section will analysis the financing of this investment through the capital management of L'Occitane.

5.3.1 Financing proposal

There are several ways to finance this investment project which including cash payments, credit financing and fund raising with issuance of share capital.

The FY2021 annual report of L'Occitane noticed with EUR 920 million of retained earnings as of 31 March 2021 (L'Occitane International S.A., 2021a). Table 17 shows the retained earnings and average cash ratio of L'Occitane and the companies in the same industry.

L'Occitane has the highest retained earnings among the industry, it has borrowings with interest bearing under current liabilities, so the average cash ratio of L'Occitane (i.e. 46.38%) is lower than Sa Sa International Holdings Limited (i.e. 58.61%).

Considering the amount reserved in retained earnings increased in recent years, the additional cost of investment in Capsum is about 2.55% of its retained earnings of financial year of 2020/21. It is believed the impact on cash payment for this investment is comparatively insignificant.

Table 17. Average cash ratio of L'Occitane and the other companies in the same industry

	L'Occitane International S.A.			Sa Sa International Holdings Limited			Bonjour Holding Limited		
	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21	2018	2019	2020
Financial Year									
EUR/HKD exchange rate ¹	8.8142	8.5164	9.1193	-	-	-	-	-	-
Retained earnings (HKD in million)	6,382.64	6,798.11	8,395.78	1,019.82	1,353.99	2,177.05	565.56	402.17	138.04
Cash Ratio ²	56.01%	35.68%	47.46%	63.82%	52.60%	59.41%	45.41%	16.61%	2.63%
Average cash ratio ³	46.38%			58.61%			21.55%		

Note 1: Average price of the year end date is used (refer to Appendix 1)

Note 2: Cash Ratio = Cash and cash equivalents/ Current liabilities

Note 3: Average cash ratio of the companies for the financial year of 2018-2020.

Sources: From this research

In referencing L'Occitane's FY2021 Annual report, the interest rate of long-term loan is 0.97% for the financial year 2019 (Appendix 7), operating profit is EUR 220.24 million with finance cost of interest is EUR 19.24 million in 2021(Appendix 8). The interest cover of L'Occitane for the financial year of 2021 is 11.45 times. Considering the low interest rate and the additional cost of EUR 23.45 million for the investment in Capsum is not high, further borrowing will not worsen the current position of L'Occitane.

For fund raising of the additional cost of EUR 23.45 million for the investment in Capsum, additional of 9.88 million shares have to be issued under this circumstance.

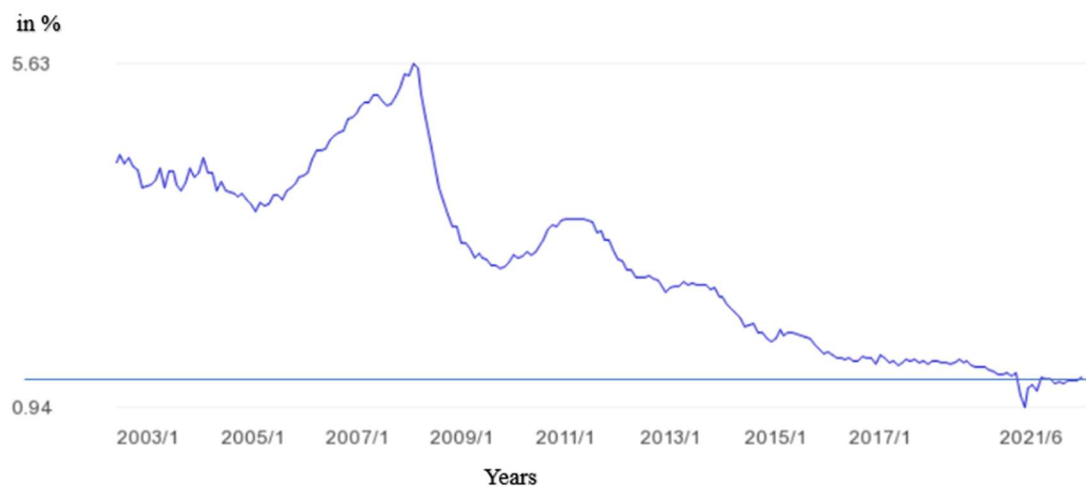
Considering the outstanding shares of L'Occitane is 1,466.67 million (L'Occitane International S.A., 2021a), the additional shares to be issued is less than 1% of its issued shares. However, issue additional shares reduce the ownership proportion and the voting power of current shareholders.

5.3.2 Financing recommendation

Gearing ratio is one of the famous ways for evaluating the company's financial fitness (Boyte-White, 2021). This ratio examine the relationship between the sources of fundings to run the business. According to the L'Occitane's FY2021 annual report, gearing ratio of the company is 32.7% (L'Occitane International S.A., 2021a), which mean 32.7% of the fund is from borrowing and 67.3% of the fund comes from the company capital or owner equity. Hence, L'Occitane is considered comparatively optimal as a leading company and it is deemed as financially healthy.

Viegi and Demertzis (2021) claimed interest rate in Europe have been turn turning down for more than fifteen years, under this low interest rate environment, the bank reduced their margin on credit application. Graph 6 shows the historical business credit interest rate in France with minimum of 0.94% in May 2020 and a maximum of 5.63% in September 2008. Considering the low interest rate environment of France and the financial ability of the company, L'Occitane should adopt to apply a long-term loan from the bank to finance this investment project. This can also help to maintain the liquidity of the company for further development or future investments.

Graph 6. Historical business credit interest rate in France from January 2003 to June 2021.



Sources: The GlobalEconomy.com cited in Bank of France, 2021.

6. Recommendation and Audit plan

L'Occitane is a financial healthy and profitability manufacturing and retail beauty company. However, the company is associated with long inventory period and their corporate governance is still with opportunities for further enhancements.

After analyzing the company, we proposed the below audit plan to L'Occitane. Prior implementing the audit plan, the company has to identify the enterprise risk of which the company is currently facing, the risks involve strategic, operational, risk management and capital management. The recommended audit plan is scheduled through a Ganett chart as illustrated below (see Chart 1).

Chart 1. Work plan of the recommended audit plan of L'Occitane.

Months	1	2	3	4	5	6	7	8	9	10	11	12	Remarks
Risk identification													Various department
Risk assessment													Business
Risk prioritization													Management and audit committee
Strategic risk													Business
Operational risk													Business
Risk management													Business
capital management													Business
Review													Follow up and review after implementation

Sources: From this research

Details on responsibilities of control and risk management will be further elaborate with Table 18.

Table 18. recommendation on responsibilities of control and risk management

Strategic risk	Operational risk
- Regular review on corporate governance and response to regulatory changes - Provide mitigation and monitor its implementation on the governance risk identified, e.g. enhance internal control - Monitoring the effectiveness on the commitment of the company's corporate governance	- Review on the company's operational risk include the people, stock management, contract management and IT & control center - Identify the operational risk and provide mitigation, e.g. strengthen control on inventory to lower the days' sales in inventory
Risk management	Capital management
- Regular review and control on regulatory, legal and code of conduct - Ensure the internal control and responsibilities are performed and with proper assessment	- Actively control and monitor on cashflow management and company's financial ratios - Frequent monitor on company's credit and liquidity ratio to ensure the company are follow the agreed financial covenant

Sources: From this research

7. Conclusion

In conclusion, this report was performed through an independent study of L'Occitane International S.A. Over the past decades, L'Occitane has expanded into a global business, its financial, operation and profitability were analysis and exanimated through primary and various secondary data sources, academic and literature report and is concluded that L'Occitane is a financially healthy and profitability company.

An investment appraisal on acquisition 51% of Capsum was proposed and analysis with various techniques on capital budgeting. Hall and Millard (2010) stated capital budgeting is a decision to make investments in order to receive cash inflows in the future. Their study concluded that the more than one technique is used to evaluate the capital budgeting decisions.

Finally, recommendation with an audit plan was provided to the company on its operational control to decreased the inventory period and improvement on its risk control which aims to promote its position as an international reputable player in cosmetic and personal care industry.

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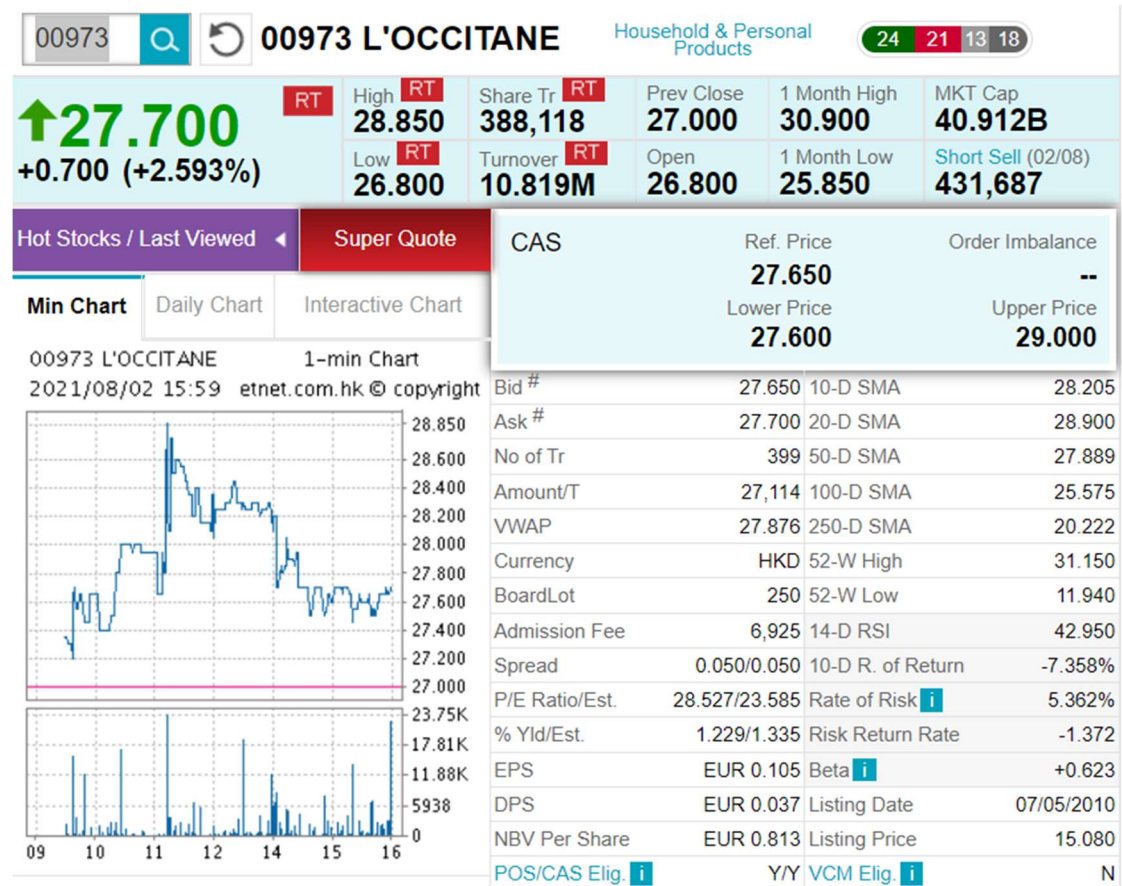
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9. Appendix

Appendix 1. Listing price of L'Occitane



Source: etnet, 2021

Appendix 2. EUR/HKD exchange rate as of the year end date of 2019, 2020 and 2021.

Historical Rates for the EUR/HKD currency conversion on 31 March 2019 (31/03/2019).

On the 31st March 2019 the spot inter-bank market saw:

Open: 1 EUR = 8.8172 HKD
 Close: 1 EUR = 8.8102 HKD
 Average: 1 EUR = 8.8142 HKD
 Lowest: 1 EUR = 8.8129 HKD
 Highest: 1 EUR = 8.8155 HKD

Today's Live Euro into Hong Kong Dollar Exchange Rate

Today's Live Rate: 1 EUR = 9.1704 HKD
 Bank Rate: 1 EUR = 8.8109 HKD
 Best EUR/HKD Rate: 1 EUR = 9.1062 HKD

Select Another Day

July 2021						
SU	MO	TU	WE	TH	FR	SA
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Historical Rates for the EUR/HKD currency conversion on 31 March 2020 (31/03/2020).

On the 31st March 2020 the spot inter-bank market saw:

Open: 1 EUR = 8.5499 HKD
 Close: 1 EUR = 8.5469 HKD
 Average: 1 EUR = 8.5164 HKD
 Lowest: 1 EUR = 8.4711 HKD
 Highest: 1 EUR = 8.5617 HKD

Today's Live Euro into Hong Kong Dollar Exchange Rate

Today's Live Rate: 1 EUR = 9.1704 HKD
 Bank Rate: 1 EUR = 8.8109 HKD
 Best EUR/HKD Rate: 1 EUR = 9.1062 HKD

Select Another Day

July 2021						
SU	MO	TU	WE	TH	FR	SA
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Historical Rates for the EUR/HKD currency conversion on 31 March 2021 (31/03/2021).

On the 31st March 2021 the spot inter-bank market saw:

Open: 1 EUR = 9.1142 HKD
 Close: 1 EUR = 9.1165 HKD
 Average: 1 EUR = 9.1193 HKD
 Lowest: 1 EUR = 9.0971 HKD
 Highest: 1 EUR = 9.1416 HKD

Today's Live Euro into Hong Kong Dollar Exchange Rate

Today's Live Rate: 1 EUR = 9.1704 HKD
 Bank Rate: 1 EUR = 8.8109 HKD
 Best EUR/HKD Rate: 1 EUR = 9.1062 HKD

Select Another Day

July 2021						
SU	MO	TU	WE	TH	FR	SA
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Sources: Pound Sterling Live, 2021

Appendix 3. Consolidated balance sheet and Income statement of L'Occitane of FY 2019 and 2020

CONSOLIDATED BALANCE SHEETS			
ASSETS			
<i>In thousands of euros</i>	<i>Notes</i>	31 March 2020	31 March 2019^(a)
Property, plant and equipment	(7)	180,505	198,662
Right-of-use assets	(8)	429,451	–
Goodwill ^(a)	(9)	761,926	750,671
Intangible assets ^(a)	(10)	341,577	366,535
Deferred income tax assets ^(a)	(27.2)	76,521	74,620
Other non-current assets	(12)	65,331	57,581
Non-current assets		1,855,311	1,448,069
Inventories	(13)	203,966	202,827
Trade receivables	(14)	131,571	143,392
Other current assets	(15)	50,565	66,307
Derivative financial instruments	(16)	604	50
Cash and cash equivalents ^(a)	(17)	166,342	144,442
Current assets		553,048	557,018
TOTAL ASSETS		2,408,359	2,005,087
EQUITY AND LIABILITIES			
<i>In thousands of euros</i>	<i>Notes</i>	31 March 2020	31 March 2019
Share capital	(18)	44,309	44,309
Additional paid-in capital	(18)	342,851	342,851
Other reserves ^(a)		(86,918)	(81,530)
Retained earnings		798,238	724,132
Capital and reserves attributable to the equity owners		1,098,480	1,029,762
Non-controlling interests ^(a)	(11)	76,855	67,461
Total equity		1,175,335	1,097,223
Borrowings	(19)	361,493	569,378
Lease liabilities	(8)	322,426	–
Other financial liabilities	(8.3)	17,978	14,011
Other non-current liabilities	(20)	22,929	34,448
Deferred income tax liabilities ^(a)	(27.2)	42,021	32,135
Non-current liabilities		766,847	649,972
Trade payables	(21)	145,994	141,247
Social and tax liabilities		72,809	70,078
Current income tax liabilities	(27)	12,270	10,731
Borrowings	(19)	113,556	8,562
Lease liabilities	(8)	99,206	–
Derivative financial instruments	(16)	208	849
Provisions	(22)	1,525	7,124
Other current liabilities	(20)	20,609	19,301
Current liabilities		466,177	257,892
TOTAL EQUITY AND LIABILITIES		2,408,359	2,005,087

^(a) Including retrospective adjustment on ELEMS goodwill due to the final fair value of the acquisition (note 6.1).

Source: L'Occitane International S.A. FY2020 Annual Report, 2020

CONSOLIDATED STATEMENTS OF INCOME

Year ended 31 March	Notes	2020	2019
<i>In thousands of Euros, except per share data</i>			
Net sales	(5.2)	1,644,083	1,426,874
Cost of sales		(302,852)	(239,901)
Gross profit		1,341,231	1,186,973
% of net sales		81.6%	83.2%
Distribution expenses	(23)	(765,569)	(700,374)
Marketing expenses	(23)	(206,622)	(186,042)
Research and development expenses	(23)	(21,306)	(17,879)
General and administrative expenses	(23)	(159,968)	(132,542)
Other (losses)/gains, net	(24)	(503)	611
Operating profit		187,263	150,747
Finance income	(25)	2,614	479
Finance costs	(25)	(24,781)	(4,075)
Foreign currency (losses)/gains	(26)	(4,556)	1,073
Profit before income tax		160,540	148,224
Income tax expense	(27)	(45,300)	(30,655)
Profit for the year		115,240	117,569
Attributable to:			
Equity owners of the Company		116,288	118,186
Non-controlling interests	(11)	(1,048)	(617)
Total		115,240	117,569
Earnings per share for profit attributable to the equity owners of the Company during the year <i>(expressed in euros per share)</i>			
Basic	(28)	0.080	0.081
Diluted	(28)	0.079	0.081
Number of shares used in earnings per share calculation			
Basic	(28)	1,461,732,521	1,461,052,171
Diluted	(28)	1,464,509,877	1,465,920,934

Source: L'Occitane International S.A. FY2020 Annual Report, 2020

Appendix 4. Consolidated balance sheet and Income statement of L'Occitane of FY 2021

CONSOLIDATED BALANCE SHEET

FY 2021 Annual Report

ASSETS		31 March 2021	31 March 2020
<i>In thousands of euros</i>	<i>Notes</i>		
Property, plant and equipment	(7)	130,347	180,505
Right-of-use assets	(8)	301,271	429,451
Goodwill	(9)	754,843	761,926
Intangible assets	(10)	315,949	341,577
Deferred income tax assets	(29.2)	65,854	76,521
Investments accounted for using the equity method	(11)	53,636	–
Other non-current assets	(13)	66,696	65,331
Non-current assets		1,688,596	1,855,311
Inventories	(14)	198,860	203,966
Trade receivables	(15)	135,338	131,571
Other current assets	(16)	52,798	50,565
Derivative financial instruments	(17)	72	604
Cash and cash equivalents	(18)	421,216	166,342
Current assets		808,284	553,048
TOTAL ASSETS		2,496,880	2,408,359
EQUITY AND LIABILITIES		31 March 2021	31 March 2020
<i>In thousands of euros</i>	<i>Notes</i>		
Share capital	(19)	44,309	44,309
Additional paid-in capital	(19)	342,851	342,851
Other reserves		(107,642)	(86,918)
Retained earnings		920,661	798,238
Capital and reserves attributable to the equity owners		1,200,179	1,098,480
Non-controlling interests	(12)	78,699	76,855
Total equity		1,278,878	1,175,335
Borrowings	(20)	19,622	361,493
Lease liabilities	(8)	216,189	322,426
Other financial liabilities	(6.3)	18,671	17,978
Other non-current liabilities	(21)	23,256	22,929
Deferred income tax liabilities	(29.2)	52,786	42,021
Non-current liabilities		330,524	766,847
Trade payables	(22)	161,658	145,994
Social and tax liabilities		93,539	72,809
Current income tax liabilities	(29)	28,504	12,270
Borrowings	(20)	502,492	113,556
Lease liabilities	(8)	78,538	99,206
Derivative financial instruments	(17)	713	208
Provisions	(23)	1,677	1,525
Other current liabilities	(21)	20,357	20,609
Current liabilities		887,478	466,177
TOTAL EQUITY AND LIABILITIES		2,496,880	2,408,359

The accompanying Notes are an integral part of these consolidated financial statements.

Source: L'Occitane International S.A. FY2021 Annual Report, 2021

CONSOLIDATED STATEMENT OF INCOME

2021 Annual Report

Year ended 31 March	Notes	2021	2020
<i>In thousands of euros, except per share data</i>			
Net sales	(5.2)	1,537,845	1,644,083
Cost of sales		(260,711)	(302,852)
Gross profit		1,277,134	1,341,231
% of net sales		83.0%	81.6%
Distribution expenses	(24)	(666,154)	(765,569)
Marketing expenses	(24)	(213,772)	(206,622)
Research and development expenses	(24)	(17,385)	(21,306)
General and administrative expenses	(24)	(147,837)	(159,968)
Share of profit/(loss) from associates and joint ventures accounted for using the equity method	(11)	(4,136)	–
Deconsolidation of L'Occitane Inc.	(6.1)	5,756	–
Restructuring expenses	(26)	(13,246)	–
Other gains/(losses), net	(25)	(125)	(503)
Operating profit		220,235	187,263
Finance income	(27)	2,847	2,614
Finance costs	(27)	(21,186)	(24,781)
Foreign currency gains/(losses)	(28)	(2,961)	(4,556)
Profit before income tax		198,935	160,540
Income tax expense	(29)	(41,899)	(45,300)
Profit for the year		157,036	115,240
Attributable to:			
Equity owners of the Company		154,579	116,288
Non-controlling interests	(12)	2,457	(1,048)
Total		157,036	115,240
Earnings per share for profit attributable to equity owners of the Company during the year <i>(expressed in euros per share)</i>			
Basic	(30)	0.105	0.080
Diluted	(30)	0.105	0.079
Number of shares used in earnings per share calculation			
Basic	(30)	1,466,677,921	1,461,732,521
Diluted	(30)	1,470,779,165	1,464,509,877

Source: L'Occitane International S.A. FY2021 Annual Report, 2021

Appendix 5. Breakdown of depreciation, amortization and impairment of L'Occitane of FY 2019 to 2021

23.3. Breakdown of depreciation, amortisation and impairment

Depreciation, amortization and impairment include the following:

<i>In thousands of euros</i>	31 March 2020	31 March 2019
Depreciation of property, plant and equipment (Note 7)	56,506	52,109
Impairment on property, plant and equipment (Note 7)	491	1,746
Impairment reversal on property, plant and equipment (Note 7)	(1,854)	–
Depreciation of right-of-use assets (Note 8)	130,156	–
Impairment on right-of-use assets (Note 7)	1,317	–
Amortisation of intangible assets (Note 10)	14,194	11,805
Depreciation, amortisation and impairment	200,810	65,660

Source: L'Occitane International S.A. FY2020 Annual Report, 2020

24. EXPENSES BY NATURE (CONTINUED)

24.3. Breakdown of depreciation, amortisation and impairment

Depreciation, amortisation and impairment include the following:

<i>In thousands of euros</i>	31 March 2021	31 March 2020
Depreciation of property, plant and equipment (Note 7.3)	51,120	56,506
Impairment of property, plant and equipment (Note 7.4)	519	491
Impairment reversal of property, plant and equipment (Note 7.4)	(946)	(1,854)
Depreciation of right-of-use assets (Note 8.1)	113,954	130,156
Impairment of right-of-use assets (Note 8.1)	9,602	1,317
Amortisation of intangible assets (Note 10)	16,452	14,194
Depreciation, amortisation and impairment	190,701	200,810

Source: L'Occitane International S.A. FY2021 Annual Report, 2021

Appendix 6. Capital and reverses of L'Occitane of FY 2019 to 2021

19. CAPITAL AND RESERVES

L'Occitane International S.A. is a société anonyme incorporated in the Grand Duchy of Luxembourg. The Company's authorised capital is €1,500,000,000 of which €44,309,000 was issued as at 31 March 2021. At the same date, 72.28% of the Company's share capital was held by L'Occitane Groupe S.A., incorporated in Luxembourg ("LOG" or the "parent company"). CIME S.C.A. is the ultimate parent company, incorporated in Luxembourg.

All of the Company's issued shares are fully paid up and bear the same rights and obligations.

19.1. Share capital and additional paid-in capital

Changes in the number of shares, share capital and additional paid-in capital are as follows (in thousands of euros, except for the number of shares):

	Number of shares	Share capital	Additional paid-in capital
At 30 March 2020	1,476,964,891	44,309	342,851
At 30 March 2021	1,476,964,891	44,309	342,851

Source: L'Occitane International S.A. FY2020 Annual Report, 2020

19. CAPITAL AND RESERVES

L'Occitane International S.A. is a société anonyme incorporated in the Grand Duchy of Luxembourg. The Company's authorised capital is €1,500,000,000 of which €44,309,000 was issued as at 31 March 2021. At the same date, 72.28% of the Company's share capital was held by L'Occitane Groupe S.A., incorporated in Luxembourg ("LOG" or the "parent company"). CIME S.C.A. is the ultimate parent company, incorporated in Luxembourg.

All of the Company's issued shares are fully paid up and bear the same rights and obligations.

19.1. Share capital and additional paid-in capital

Changes in the number of shares, share capital and additional paid-in capital are as follows (in thousands of euros, except for the number of shares):

	Number of shares	Share capital	Additional paid-in capital
At 30 March 2020	1,476,964,891	44,309	342,851
At 30 March 2021	1,476,964,891	44,309	342,851

Source: L'Occitane International S.A. FY2021 Annual Report, 2021

Appendix 7. Interest rate of the long-term loan of L'Occitane for FY2019

FY2019 Long-Term Loan

On 4 September 2018, the Group signed a long-term loan agreement for an amount of €22.5 million with an 11-year maturity and that can be drawn by M&L Distribution France. As at 31 October 2018, the bank borrowing was fully drawn. This loan is repaid quarterly and three repayments were made in September 2020, in December 2020 and in March 2021, for amounts of €493,483, €494,680 and €495,879 respectively. In September 2020, there were also an additional repayment of €491,098 originally due in March 2020 and €492,289 normally due in June 2020, which were postponed due to the Covid-19 crisis.

The interest rate of the Long-Term Loan is 0.97% (fixed rate).

The FY2019 Long-Term Loan is secured by a pledge over business assets related to the 86 Champs-Élysées flagship store in Paris.

Sources: L'Occitane FY2021 Annual report, 2021

Appendix 8. Interest payable of L'Occitane for the financial year of 2021

27. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs break down as follows:

31 March	2021	2020
<i>In thousands of euros</i>		
Interest on cash and cash equivalents	2,847	2,614
Finance income	2,847	2,614
Interest expense	(7,707)	(8,774)
Interest and finance expenses paid/payable for lease liabilities (Note 8.2)	(11,533)	(14,032)
Unwinding of discount on other financial assets (Note 6.3)	(1,946)	(120)
Impairment of financial assets	–	(1,855)
Finance costs	(21,186)	(24,781)
Finance costs, net	(18,339)	(22,167)

Interest expense relates to bank borrowings, current accounts with non-controlling interests and related parties (excluding financing from parent) and bank overdrafts.

Sources: L'Occitane FY2021 Annual report, 2021

Appendix 9. Current stock price of L'Occitane as of 16 August 2021

L'OCCITANE (0973.HK)

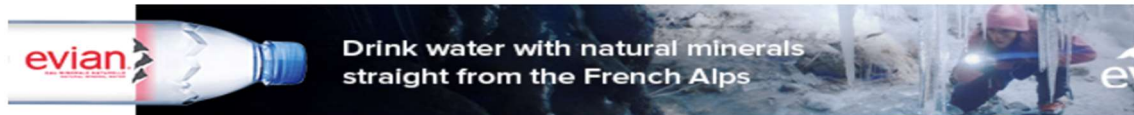
HKSE - HKSE 延遲價格。貨幣為 HKD。

☆ 加入追蹤清單

28.550 +1.000 (+3.63%)

收市價：8月16日 04:08PM HKT

內容摘要 圖表 對話 統計資料 歷史數據 基本資料 金融 分析 期權 持股人 可持



時段：2020年8月17日 - 2021年8月17日 ▾

顯示：過往股價 ▾

頻率：每天 ▾

套用

貨幣為 HKD

↓ 下載

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2021年8月16日	27.450	29.000	27.400	28.550	28.550	335,000
2021年8月13日	27.700	27.800	27.250	27.550	27.550	563,400

Sources: Yahoo! Finance, 2021

Appendix 10. Company report of Capsum

Capsum

Company Report

Capsum Chemical Preparations Nec Nsk

Selected Legal Status Categories: Corporation

Helopolis 2
126 Boulevard Bara
Marseille, Bouches Du Rhone 13013
France

Phone: 33 496130010

Ownership Type: Unlisted
DUNS Number: 260382014

Location Type: Principal Subsidiary
This company has 310 family members

Fiscal Year-End Date: 31-Dec-2020
Registration Id: 50880608000042

Primary Industry Classification

Dow Jones Industry		Chemicals
SIC	2899	Chemicals and Chemical Preparations, NEC
NAICS	325998	All Other Miscellaneous Chemical Product and Preparation Manufacturing

Source: D&B

Key Facts

Key Executives

President: Sébastien Bardon
Commercial Director: Sylvain Maur
Marketing Director: Isabelle Ricart
Finance Manager: Caroline Boullier
Purchasing Manager: Stephanie Camille Grosso

Currency: EUR
Sales: 36,36 m
Sales Growth (1 year): 9,63%
Sales Indicator: Actual
Employees: 171
Employee Growth: N/A
Employee Indicator: Estimated
Fiscal Year-End Date: 31-Dec-2020

Source: D&B

Officers and Executives

Management Team and Key Personnel

Name	Job Title
Sébastien Bardon	President
Sylvain Maur	Commercial Director
Isabelle Ricart	Marketing Director
Caroline Boullier	Finance Manager
Stephanie Camille Grosso	Purchasing Manager
Alexandre Mathieu	Data Processing Manager

Source: D&B

Key Financial Ratios

Period End Date	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Key Ratios: EUR							
Current Ratio	3,90	1,00	0,90	0,70	0,70	0,70	3,70
Quick Ratio	3,10	0,70	0,70	0,50	0,60	0,60	3,20
Total Debt	11,755,590,00	10,650,649,00	13,840,511,00	13,894,728,00	8,237,717,00	4,062,654,00	2,568,254,00
Net Debt	11,602,599,00	10,620,672,00	13,745,063,00	13,873,839,00	8,111,422,00	3,424,178,00	1,268,783,00
Return on Assets	8,40%	15,90%	5,00%	0,30%	-6,10%	-13,70%	-0,30%
Cash Conversion Cycle	48,40	58,90	80,20	136,60	64,30	15,00	64,80
Solvency Ratio (Asset Based)	64,60%	63,90%	55,00%	1,20%	1,80%	14,70%	31,90%
Total Liabilities to Total Equity	54,70%	56,50%	81,90%	8,253,30%	5,560,90%	581,90%	213,90%
Gross Profit Margin	73,90%	78,50%	79,70%	76,90%	81,90%	85,10%	88,00%
Operating Profit Margin	11,60%	21,00%	8,30%	0,90%	-6,90%	-12,30%	1,20%
Pre-Tax Profit Margin	11,10%	21,00%	8,80%	0,40%	-7,00%	-15,10%	-0,30%
Post-Tax Profit Margin	10,80%	18,90%	8,80%	0,40%	-7,00%	-15,10%	-0,30%
Net Profit Margin	9,40%	18,60%	8,10%	0,20%	-8,10%	-15,00%	-1,10%
Stock Turnover (days)	39,00	43,90	54,10	68,70	32,80	22,50	37,90
Debtors days	34,50	51,30	54,00	118,70	84,90	48,60	56,60
Creditors days	25,10	36,30	27,90	50,70	53,30	56,00	29,70
Sales Per Employee	-	231,905,80	-	-	-	-	-
Profit Per Employee	-	48,652,50	-	-	-	-	-
Assets per Employee	-	305,266,90	-	-	-	-	-
Sales to Assets	75,00%	76,00%	56,80%	83,10%	87,50%	90,60%	86,60%
Tax Rate	2,90%	10,10%	-	-	-	-	-
Return on Shareholders	12,90%	24,90%	9,10%	28,10%	-345,80%	-93,30%	-0,90%
Net Working Capital Over Sales	37,30%	0,20%	-10,60%	-31,60%	-32,80%	-20,10%	52,00%
Average Payroll	-	62,700,70	-	-	-	-	-

Source: D&B

Balance Sheet - Annual

Period End Date	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Number of Employees		143					
Annual Balance Sheet: (EUR, in millions)							
Tangible Fixed Assets	8,54	7,35	5,79	4,70	3,29	2,61	0,89
Intangible Assets	1,90	1,81	1,76	1,38	1,23	1,03	0,90
Investments and other Assets	19,75	19,52	17,97	0,44	0,43	0,22	0,14
Total Fixed Assets	30,19	28,68	25,52	6,52	4,95	3,86	1,93
Stock or Inventories	3,89	3,98	3,33	2,87	0,87	0,37	0,45
Accounts Receivable	3,44	4,66	3,33	4,95	2,24	0,81	0,67
Cash and Cash Equivalents	0,15	0,03	0,10	0,02	0,13	0,64	1,30
Other Current Assets	10,78	6,30	7,28	3,97	2,83	1,01	0,66
Total Current Assets	18,26	14,98	14,03	11,80	6,07	2,83	3,08
Total Assets	48,45	43,65	39,55	18,32	11,02	6,69	5,01
Issued Capital	0,54	0,54	0,54	0,30	0,30	0,30	0,29
Other Capital and Reserves	30,78	27,35	21,20	(0,08)	(0,10)	0,68	1,31
Total Equity Or Networth	31,32	27,89	21,74	0,22	0,19	0,98	1,60
Long-Term Debt	11,76	10,65	13,84	13,89	8,24	4,06	2,57
Other Long Term Liabilities	0,67	(9,80)	(12,44)	(12,40)	(6,64)	(2,40)	0,02
Total Long Term Liabilities	12,43	0,85	1,40	1,49	1,60	1,66	2,59
Accounts Payable	2,50	3,30	1,72	2,12	1,41	0,93	0,35
Other Current Liabilities	2,20	11,61	14,70	14,49	7,82	3,12	0,47
Current Liabilities	4,71	14,91	16,41	16,61	9,23	4,05	0,83
Total Liabilities	17,13	15,76	17,81	18,10	10,83	5,71	3,42
Total Liabilities And Equity	48,45	43,65	39,55	18,32	11,02	6,69	5,01

Source: D&B

Income Statement - Annual

Period End Date	31-Dec-2020	31-Dec-2019	31-Dec-2018	31-Dec-2017	31-Dec-2016	31-Dec-2015	31-Dec-2014
Number of Employees		143					
Annual Income Statement: (EUR, in millions)							
Net Sales	36,36	33,16	22,46	15,22	9,65	6,06	4,34
Direct Costs	9,50	7,14	4,57	3,52	1,75	0,91	0,52
Gross Profit	26,86	26,03	17,89	11,70	7,90	5,15	3,82
Net Indirect Costs	22,64	19,07	16,04	11,56	8,56	5,90	3,77
Net Operating Income	4,21	6,96	1,85	0,14	(0,66)	(0,75)	0,05
Net Non-Operating Income and Expenses	(0,17)	0,00	0,12	(0,08)	(0,01)	(0,17)	(0,07)
Profit before taxes	4,05	6,96	1,97	0,06	(0,67)	(0,92)	(0,02)
Tax Charge	0,12	0,70	0,00	0,00	0,00	0,00	0,00
Profit After Taxes	3,93	6,26	1,97	0,06	(0,67)	(0,92)	(0,02)
Extraordinary and Similar Items	(0,50)	(0,10)	(0,15)	(0,04)	(0,11)	0,00	(0,03)
Net Profit or Loss	3,43	6,15	1,82	0,02	(0,79)	(0,91)	(0,05)
Depreciation or Amortisation Charge	2,54	1,98	1,59	1,13	1,03	0,51	0,31
Total Payroll Costs	10,17	8,97	7,24	5,64	4,00	2,76	1,77
Working Capital	13,56	0,07	(2,38)	(4,81)	(3,16)	(1,22)	2,26
Tangible NetWorth	29,42	26,09	19,98	(1,16)	(1,03)	(0,05)	0,70
EBITDA	6,75	8,94	3,45	1,27	0,36	(0,24)	0,37

Source: D&B

Sources: Factiva Inc. cited in D&B, 2021