Financial Analysis of Loreal Company 2019-2021

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L'Oréal S.A. is a French company, with its registered office in France. It performs a sales activity that is specific to France. At the same time, L'Oréal S.A. acts as a holding company and provides strategic coordination on the one hand and scientific, industrial and marketing coordination for the L'Oréal Group throughout the world on the other. The subsidiaries operate the Group's business activities in the country or region in which they are located. To do so, they define the strategy specific to their market, make the most suitable choices, and manufacture, directly or indirectly, and market the products they decide to sell on their market. Almost all of the subsidiaries are owned by L'Oréal S.A. which has a holding or control percentage equal or close to 100%. The financial statements set out in this report present the results of the L'Oréal Group as a whole.

5.1. COMPARED CONSOLIDATED INCOME STATEMENTS

€ millions	Notes	2021	2020	2019
Net sales	3.1	**32,287.6**	**27,992.1**	**29,873.6**
Cost of sales		-8,433.3	-7,532.3	-8,064.7
Gross profit		**23,854.3**	**20,459.8**	**21,808.9**
Research & Innovation expenses		-1,028.7	-964.4	-985.3
Advertising and promotion expenses		-10,591.0	-8,647.9	-9,207.8
Selling, general and administrative expenses		-6,074.2	-5,638.5	-6,068.3
Operating profit	3.1	**6,160.3**	**5,209.0**	**5,547.5**
Other income and expenses	4	-432.0	-709.0	-436.5
Operational profit		**5,728.3**	**4,500.0**	**5,111.0**
Finance costs on gross debt		-38.0	-79.2	-75.4
Finance income on cash and cash equivalents		18.5	19.8	28.7
Finance costs, net		-19.4	-59.4	-46.7
Other financial income and expenses	9.4	-40.2	-36.5	-16.0
Sanofi dividends		378.3	372.4	363.0
Profit before tax and associates		6,046.9	4,776.5	5,411.4
Income tax	6	-1,445.4	-1,209.8	-1,657.2
Share of profit in associates		0.6	0.9	1.0
Net profit		**4,602.2**	**3,567.6**	**3,755.2**
Attributable to:				
• owners of the company		4,597.1	3,563.4	3,750.0
• non-controlling interests		5.1	4.2	5.2
Earnings per share attributable to owners of the company (euros)		8.24	6.37	6.70
Diluted earnings per share attributable to owners of the company (euros)		8.21	6.34	6.66
Earnings per share attributable to owners of the company, excluding non-recurring items (euros)	11.4	8.86	7.33	7.78
Diluted earnings per share attributable to owners of the company, excluding non-recurring items (euros)	11.4	8.82	7.30	7.74

5.3. COMPARED CONSOLIDATED BALANCE SHEETS

ASSETS

€ millions	Notes	31.12.2021	31.12.2020	31.12.2019
Non-current assets		**30,937.6**	**29,046.8**	**29,893.3**
Goodwill	7.1	11,074.5	10,514.2	9,585.6
Other intangible assets	7.2	3,462.8	3,356.3	3,163.8
Right-of-use assets	3.2	1,507.6	1,525.3	1,892.3
Tangible assets	3.2	3,266.2	3,225.2	3,644.3
Non-current financial assets	9.3	10,920.2	9,604.8	10,819.1
Investments accounted for under the equity method	8	9.9	11.1	10.9
Deferred tax assets	6.3	696.5	809.9	777.3
Current assets		**12,075.8**	**14,560.1**	**13,916.5**
Inventories	3.3	3,166.9	2,675.8	2,920.8
Trade accounts receivable	3.3	4,021.0	3,511.3	4,086.7
Other current assets	3.3	2,037.9	1,732.7	1,474.9
Current tax assets		136.2	234.4	148.1
Cash and cash equivalents	9.2	2,713.8	6,405.9	5,286.0
TOTAL		**43,013.4**	**43,606.9**	**43,809.8**

EQUITY & LIABILITIES

€ millions	Notes	31.12.2021	31.12.2020	31.12.2019
Equity	11	**23,592.6**	**28,998.8**	**29,426.0**
Share capital		111.5	112.0	111.6
Additional paid-in capital		3,265.6	3,259.8	3,130.2
Other reserves		19,092.2	18,642.5	16,930.9
Other comprehensive income		5,738.6	4,304.5	5,595.8
Cumulative translation adjustments		-279.1	-889.2	-99.2
Treasury shares		-8,940.2	—	—
Net profit attributable to owners of the company		4,597.1	3,563.4	3,750.0
Equity attributable to owners of the company		**23,585.7**	**28,993.0**	**29,419.3**
Non-controlling interests		6.9	5.8	6.7
Non-current liabilities		**2,837.6**	**3,478.0**	**3,515.3**
Provisions for employee retirement obligations and related benefits	5.4	360.6	1,013.5	772.9
Provisions for liabilities and charges	12.1	63.8	56.8	56.9
Non-current tax liabilities	6	344.8	397.9	310.2
Deferred tax liabilities	6.3	810.3	706.6	737.7
Non-current borrowings and debt	9.1	10.7	8.5	9.6
Non-current lease debt	9.1	1,247.5	1,294.7	1,628.0
Current liabilities		**16,583.2**	**11,130.1**	**10,868.5**
Trade accounts payable		6,068.1	4,764.5	4,658.4
Provisions for liabilities and charges	12.1	1,223.3	1,224.7	1,117.8
Other current liabilities	3.4	3,980.8	3,682.5	3,508.5
Income tax		268.9	215.1	334.8
Current borrowings and debt	9.1	4,619.4	856.4	841.2
Current lease debt	9.1	422.8	386.9	407.9
TOTAL		**43,013.4**	**43,606.9**	**43,809.8**

5.5. COMPARED CONSOLIDATED STATEMENTS OF CASH FLOWS

€ millions	Notes	2021	2020	2019
Cash flows from operating activities				
Net profit attributable to owners of the company		4,597.1	3,563.4	3,750.0
Non-controlling interests		5.1	4.2	5.2
Elimination of expenses and income with no impact on cash flows:				
• depreciation, amortisation, provisions and non-current tax liabilities		1,781.0	2,028.1	1,958.3
• changes in deferred taxes	6.1	83.6	-10.1	-42.5
• share-based payment (including free shares)	5.5	155.2	129.7	144.4
• capital gains and losses on disposals of assets		0.5	3.6	-14.0
Other non-cash transactions		16.5	5.8	1.9
Share of profit in associates net of dividends received		1.3	-0.6	-1.0
Gross cash flow		**6,640.4**	**5,724.1**	**5,802.3**
Changes in working capital	3.5	88.0	729.2	460.5
Net cash provided by operating activities (A)		**6,728.4**	**6,453.3**	**6,262.8**
Cash flows from investing activities				
Purchases of tangible and intangible assets		-1,075.2	-972.4	-1,231.0
Disposals of tangible and intangible assets		14.5	26.6	16.6
Changes in other financial assets (including investments in non-consolidated companies)		-117.3	-66.5	-65.9
Effect of changes in the scope of consolidation	2.2	-455.7	-1,626.8	-9.3
Net cash from investing activities (B)		**-1,633.7**	**-2,639.1**	**-1,289.6**
Cash flows from financing activities				
Dividends paid		-2,352.1	-2,190.6	-2,221.1
Capital increase of the parent company		5.8	129.7	60.0
Disposal (acquisition) of Treasury shares		-10,060.9	—	-747.3
Purchase of non-controlling interests		—	—	—
Issuance (repayment) of short-term loans		3,939.4	-74.8	-354.9
Issuance of long-term borrowings		—	—	—
Repayment of long-term borrowings		—	-3.6	-0.6
Repayment of lease debt		-396.4	-451.8	-425.8
Net cash from financing activities (C)		**-8,864.2**	**-2,591.1**	**-3,689.6**
Net effect of changes in exchange rates and fair value (D)		77.4	-103.2	10.5
Change in cash and cash equivalents (A+B+C+D)		**-3,692.1**	**1,119.9**	**1,294.0**
Cash and cash equivalents at beginning of the year (E)		**6,405.9**	**5,286.0**	**3,992.0**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (A+B+C+D+E)	**9.2**	**2,713.8**	**6,405.9**	**5,286.0**

Financial Statement Analysis

Liquidity & Working Capital Ratios

- **Current Ratio**

  Current Ratio = $\frac{\text{Current Assets}}{\text{Current liabilities}}$

2021	2020	2019
$\frac{\mathbf{12{,}075.8}}{\mathbf{16{,}583.2}}$ = 0.73%	$\frac{14{,}560.1}{11{,}130.1}$ = 1.31%	$\frac{13{,}916.5}{10{,}868.5}$ = 1.28%

Analyzing the trend of L'Oreal's current ratio over the three years provided (2019, 2020, and 2021) reveals some insights into the company's liquidity position and potential financial performance. A current ratio above 1 indicates that a company has more current assets than current liabilities, suggesting that it can cover its short-term obligations comfortably. A ratio below 1 implies that a company may have difficulty meeting its short-term obligations with its current assets alone.

- L'Oreal's current ratio decreased from 2020 to 2021, indicating a decline in its ability to cover short-term liabilities with short-term assets.
- However, in both 2020 and 2019, the company's current ratio was above 1, suggesting that it had a relatively healthy liquidity position during those years.

- **Quick (Acid-test) Ratio**

  Quick Ratio = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

2021	2020	2019
$\frac{\mathbf{12{,}075.8 - 3166.9}}{\mathbf{16{,}583.2}}$ = 0.53%	$\frac{14{,}560.1 - 2675.8}{11{,}130.1}$ = 1.06%	$\frac{13{,}916.5 - 2920.8}{10{,}868.5}$ = 1.01%

The quick ratio has fluctuated over the three-year period. A quick ratio of 0.53 in 2021 indicates that L'Oréal had only 53 cents of liquid assets (excluding inventory) available to cover each dollar of its short-term liabilities. This may raise concerns about the company's ability to meet its immediate financial obligations without relying on the sale of inventory or additional financing.

Similarly, a quick ratio of 1.06 in 2020 and 1.01 in 2019 indicates that L'Oréal had more than enough liquid assets (excluding inventory) to cover each dollar of its short-term liabilities during those years.

- **Operating Cash Flow Ratio**

  Operating cash flow ratio = $\frac{\text{Cash flow from operating activities}}{\text{Current Liabilities}}$

2021	2020	2019
$\frac{\mathbf{6728.4}}{\mathbf{16{,}583.2}}$ = 0.4%	$\frac{6453.3}{11{,}130.1}$ = 0.5%	$\frac{6262.8}{10{,}868.5}$ = 0.5%

The operating cash flow ratio has decreased from 0.58 in 2019 and 2020 to 0.40 in 2021. This decrease indicates that L'Oréal generated less cash from its operating activities relative to its current liabilities in 2021 compared to the previous two years.

A lower operating cash flow ratio may raise concerns about the company's liquidity position and its ability to meet its short-term obligations solely from its operating cash flows. It may suggest that L'Oréal needs to rely more on external financing or other sources of cash to cover its short-term liabilities.

- **Days Sales Outstanding (DSO)**
  DSO = $\frac{\text{Accounts Receivable}}{\text{Average daily sales}}$

2021	2020	2019
$\frac{\mathbf{4021.0}}{\mathbf{32287.6/365}}$ = 45.4 days	$\frac{3511.3}{27992.1/365}$ = 45.7 days	$\frac{4086.7}{29873.6/365}$ = 49.9days

The DSO ratios have ranged from 45.4 days to 49.9 days over the three-year period. This suggests that L'Oréal takes an average of approximately 45 to 50 days to collect payments from its customers after making sales.

- **Days Payable Outstanding (DPO)**
  DPO = $\frac{\text{Accounts Payable}}{\text{Average daily COGS}}$

2021	2020	2019
$\frac{\mathbf{6068.1}}{\mathbf{8433.3/365}}$ = 262.6 days	$\frac{4764.5}{7532.3/365}$ = 230.8 days	$\frac{4658.4}{8064.7/365}$ = 210.8 days

The DPO ratios have increased over the three-year period, ranging from 210.8 days in 2019 to 262.6 days in 2021. This suggests that L'Oréal has been taking longer to pay its suppliers over time.

An increasing DPO ratio could indicate improved cash flow management or negotiation leverage with suppliers. However, it's important for L'Oréal to strike a balance between extending payment terms to optimize cash flow and maintaining positive relationships with suppliers.

- **Days Inventory Outstanding (DIO)**
  DIO = $\frac{\text{Inventory}}{\text{Average daily COGS}}$

2021	2020	2019
$\frac{\mathbf{3166.9}}{\mathbf{8433.3/365}}$ = 137 days	$\frac{2675.8}{7532.3/365}$ = 129 days	$\frac{2920.8}{8064.7/365}$ = 132 days

The DIO ratios have ranged from 129 to 137 days over the three-year period. This suggests that L'Oréal takes approximately 129 to 137 days to sell its inventory on average. DIO ratio can help evaluate the efficiency of L'Oréal's inventory management practices. While a higher DIO ratio may indicate excess inventory levels or slower sales, it could also be influenced by factors such as seasonality, production cycles, and product demand fluctuations in the cosmetics industry.

- **Cash Conversion Cycle (CCC)**
  CCC = DSO + DIO − DPO

2021	2020	2019
45.4+137-262.6 = -80.2 days	45.7+129-230.8 = -56.1 days	49.9+132-210.8 = -28.9 days

A negative CCC across all three years indicates that L'Oréal's operating cycle is shorter than its cash cycle. This suggests that L'Oréal is able to collect cash from sales and convert inventory into sales more quickly than it takes to pay suppliers for inventory.

A negative CCC can be a positive sign, as it implies that L'Oréal is effectively managing its working capital and has sufficient cash flows to operate its business without relying heavily on external financing. However, it's important to note that negative CCC values can also result from aggressive payment terms with suppliers or extended credit terms with customers, which may have strategic implications.

<u>Activity Ratios</u>

- **Accounts Receivable Turnover**

  Accounts Receivable Turnover = $\frac{\text{Net sales}}{\text{Accounts Receivable}}$

2021	2020	2019
$\frac{\mathbf{32287.6}}{\mathbf{4021}}$ = 8.02 times	$\frac{27992.1}{3511.3}$ = 7.97 times	$\frac{29873.6}{4086.7}$ = 7.3 times

The Accounts Receivable Turnover ratios have ranged from 7.3 to 8.02 times over the three-year period. This suggests that, on average, L'Oréal is able to convert its accounts receivable into cash approximately 7.3 to 8.02 times per year.

A stable or increasing Accounts Receivable Turnover ratio over time may indicate effective credit management and collection practices, which can improve cash flow and liquidity. However, it's important to analyze the ratio in conjunction with other factors such as industry benchmarks, customer payment terms, and economic conditions to assess L'Oréal's overall financial health and credit risk.

- **Accounts Payable Turnover**

  Accounts Payable Turnover = $\frac{\text{COGS}}{\text{Accounts Payable}}$

2021	2020	2019
$\frac{\mathbf{8433.3}}{\mathbf{6068.1}}$ = 1.38 times	$\frac{7532.3}{4764.5}$ = 1.58 times	$\frac{8064.7}{4658.4}$ = 1.73 times

The Accounts Payable Turnover ratios have ranged from 1.38 to 1.73 times over the three-year period. This suggests that, on average, L'Oréal is able to pay off its suppliers approximately 1.38 to 1.73 times per year through its COGS.

A stable or increasing Accounts Payable Turnover ratio over time may indicate effective cash flow management and favorable payment terms negotiated with suppliers.

- **Inventory Turnover**

  Inventory Turnover = $\frac{\text{COGS}}{\text{Inventory}}$

2021	2020	2019
$\frac{\mathbf{8433.3}}{\mathbf{3166.9}}$ = 2.66 times	$\frac{7532.3}{2675.8}$ = 2.81 times	$\frac{8064.7}{2920.8}$ = 2.76 times

The Inventory Turnover ratios suggests that, on average, L'Oréal is able to sell and replace its inventory approximately 2.66 to 2.81 times per year.

A stable or increasing Inventory Turnover ratio over time may indicate effective inventory management practices, such as accurate demand forecasting, efficient production processes, and appropriate inventory levels.

- **Fixed Asset Turnover**

  Fixed Asset Turnover = $\frac{\text{Net Sales}}{\text{PPE}}$

2021	2020	2019
$\frac{\mathbf{32287.6}}{\mathbf{3266.2}}$ = 9.88 times	$\frac{27992.1}{3225.2}$ = 8.67 times	$\frac{29873.6}{3644.3}$ = 8.19 times

Fixed Asset Turnover ratios have increased from 8.19 times in 2019 to 9.88 times in 2021. This indicates that L'Oréal has been able to generate more revenue per dollar of fixed assets over the three-year period.

Higher and increasing Fixed Asset Turnover ratio like L'Oréal's is generally considered positive, as it indicates efficient utilization of fixed assets and effective deployment of resources to drive revenue growth and profitability.

- **Total Asset Turnover**

  Total Asset Turnover = $\frac{\text{Net Sales}}{\text{Total Assets}}$

2021	2020	2019
$\frac{\mathbf{32287.6}}{\mathbf{43013.4}}$ = 0.75 times	$\frac{27992.1}{43606.9}$ = 0.64 times	$\frac{29873.6}{43809.8}$ = 0.68 times

Total Asset Turnover ratios have increased from 0.64 times in 2020 to 0.75 times in 2021. This indicates that L'Oréal has been able to generate more revenue per dollar of total assets over the three-year period. Higher and increasing Total Asset Turnover ratio like L'Oréal's is generally considered positive, as it indicates efficient utilization of assets and effective deployment of resources to drive revenue growth and profitability.

- **Total Asset Turnover**

  Total Asset Turnover = $\frac{\text{Net Sales}}{\text{Total Assets}}$

2021	2020	2019
$\frac{\mathbf{32287.6}}{\mathbf{43013.4}}$ = 0.75 times	$\frac{27992.1}{43606.9}$ = 0.64 times	$\frac{29873.6}{43809.8}$ = 0.68 times

Total Asset Turnover ratio has shown improvement over the years, increasing from 0.64 times in 2020 to 0.75 times in 2021. This indicates that L'Oréal has become more efficient in generating revenue from its total asset base over this period. An increasing Total Asset Turnover ratio is generally a positive sign, as it suggests that the company is effectively using its assets to drive sales growth.

- **Trends and Comparison**

	2021	2020	2019
A/R turnover	4,021.0	3,511.3	4,086.7
A/P turnover	6,068.1	4,764.5	4,658.4
Inventory turnover	3,166.9	2,675.8	2,920.8
Fixed Asset turn over	12,075.8	14,560.1	13,916.5
Total Asset turn over	43,013.4	43,606.9	43,809.8

Leverage Ratios

- **Debt Ratio**

Debt Ratio = $\frac{\text{Total Liabilities}}{\text{Total Assets}}$

2021	2020	2019
$\frac{\mathbf{19420.8}}{\mathbf{43013.4}}$ = 0.45%	$\frac{14608.1}{43606.9}$ = 0.33%	$\frac{14383.8}{43809.8}$ = 0.32%

Debt Ratio has increased from 32% in 2019 to 45% in 2021. This suggests that L'Oréal has relied more on debt financing over this period, possibly to fund expansion, acquisitions, or other strategic initiatives. While a higher Debt Ratio can magnify returns on equity when profitability is high, it also increases financial risk, especially during economic downturns or when interest rates rise.

- **Debt to Equity (D/E) Ratio**

Debt to Equity Ratio = $\frac{\text{Total Liabilities}}{\text{Total Shareholders Equity}}$

2021	2020	2019
$\frac{\mathbf{19420.8}}{\mathbf{23592.6}}$ = 0.82	$\frac{14608.1}{28998.8}$ = 0.5	$\frac{14383.8}{29426.0}$ = 0.48

Debt to Equity Ratio has increased from 0.48 in 2019 to 0.82 in 2021. This indicates that L'Oréal has relied more on debt financing relative to equity financing over this period.

A high Debt to Equity Ratio may indicate that a company has a high level of financial leverage, which can amplify returns on equity when profitability is high but also increase financial risk, especially during economic downturns or when interest rates rise.

- **Equity Multiplier**

  Equity Multiplier = $\frac{\text{Total Assets}}{\text{Total Shareholders Equity}}$

2021	2020	2019
$\frac{\mathbf{43013.4}}{\mathbf{23592.6}}$ = 1.82	$\frac{43606.9}{28998.8}$ = 1.5	$\frac{43809.8}{29426.0}$ = 1.48

Equity Multiplier has increased from 1.48 in 2019 to 1.82 in 2021. This indicates that L'Oréal has relied more on debt financing relative to equity financing over this period.

A high Equity Multiplier can increase the return on equity when profitability is high, but it also amplifies financial risk, especially during economic downturns or when interest rates rise.

- **Times Interest Earned (TIE) Ratio**

  TIE = $\frac{\text{EBIT}}{\text{Interest expense}}$

2021	2020	2019
$\frac{\mathbf{6160.3}}{\mathbf{38}}$ = 162	$\frac{5209}{79.2}$ = 65.7	$\frac{5547.5}{75.4}$ = 73.5

TIE ratio has increased significantly from 2019 to 2021, indicating an improvement in the company's ability to cover its interest expenses with its operating income. A strong TIE ratio is generally viewed positively by investors and creditors, as it indicates that the company is financially stable and has a lower risk of defaulting on its debt obligations. TIE ratio like L'Oréal's is a positive indicator of the company's financial health and ability to manage its debt obligations effectively.

- **Cash Interest Coverage Ratio**

  Cash Interest Coverage Ratio = $\frac{\text{CFO+Interest paid+Tax paid}}{\text{Interest expense}}$

2021	2020	2019
$\frac{\mathbf{6728.4+38+1445.4}}{\mathbf{38}}$ = 216.1	$\frac{6453.3+79.2+1209.8}{79.2}$ = 97.7	$\frac{6262.8+75.4+1657.2}{75.4}$ = 106

Cash Interest Coverage Ratio has shown significant improvement from 2019 to 2021, indicating a strengthening ability to cover interest expenses with cash flows from operations and other financial sources. Overall, a higher and improving Cash Interest Coverage Ratio like L'Oréal's is a positive indicator of the company's ability to manage its debt obligations effectively and maintain financial stability.

<u>Profitability Ratios</u>

- **Gross Profit Margin**

  Gross Profit Margin = $\frac{\text{Gross Profit}}{\text{Net Sales}}$

2021	2020	2019

$\frac{\mathbf{23854.3}}{\mathbf{32287.6}}$ = 0.73%	$\frac{20459.8}{27992.1}$ = 0.73%	$\frac{21808.9}{29873.6}$ = 0.73%

L'Oréal's Gross Profit Margin has remained relatively consistent at around 73% over the three-year period. This suggests that L'Oréal has been able to maintain a stable level of profitability, with a consistent proportion of revenue remaining after deducting the direct costs associated with production. Overall, a consistent Gross Profit Margin like L'Oréal's indicates effective cost management and pricing strategies, contributing to the company's sustained profitability over time.

- **Operating Margin**

  Operating Profit Margin = $\frac{\text{Operating Income}}{\text{Net Sales}}$

2021	2020	2019
$\frac{\mathbf{6160.3}}{\mathbf{32287.6}}$ = 0.19%	$\frac{5209}{27992.1}$ = 0.18%	$\frac{5547.5}{29873.6}$ = 0.18%

L'Oréal's Operating Profit Margin has remained relatively stable at around 18-19% over the three-year period. This suggests that L'Oréal has been able to maintain consistent profitability from its core business operations, with a relatively consistent proportion of revenue remaining after deducting operating expenses.

A stable Operating Profit Margin is generally viewed positively, as it indicates efficient management of operating expenses and a sustainable level of profitability from core business activities**.**

- **Net Profit Margin**

  Net Profit Margin = $\frac{\text{Net Income}}{\text{Net Sales}}$

2021	2020	2019
$\frac{\mathbf{4602.2}}{\mathbf{32287.6}}$ = 0.14%	$\frac{3567.6}{27992.1}$ = 0.12%	$\frac{3755.2}{29873.6}$ = 0.12%

L'Oréal's Net Profit Margin has shown a slight increase from 2019 to 2021, hovering around 12-14%. This indicates that L'Oréal has been able to maintain a consistent level of profitability relative to its total revenue over the three-year period.

A stable or increasing Net Profit Margin is generally viewed positively, as it suggests that a company is effectively managing its expenses and generating a healthy level of profit from its operations.

- **Return on Total Assets (ROA)**

  ROA = $\frac{\text{Net Income}}{\text{Total Assets}}$

2021	2020	2019
$\frac{\mathbf{4602.2}}{\mathbf{43013.4}}$ = 0.10%	$\frac{3567.6}{43606.9}$ = 0.08%	$\frac{3755.2}{43809.8}$ = 0.08%

L'Oréal's Return on Assets has shown improvement from 2019 to 2021, indicating that the company has been able to generate a higher proportion of net income relative to its total assets over the three-year period.

A higher ROA indicates that a company is generating more profit from its assets, which is generally viewed positively as it reflects efficient utilization of resources to generate earnings.

- **Return on Equity (ROE)**

  ROE = $\frac{\text{Net Income}}{\text{Shareholder Equity}}$

2021	2020	2019
$\frac{\mathbf{4602.2}}{\mathbf{23592.6}}$ = 0.19%	$\frac{3567.6}{28998.8}$ = 0.12%	$\frac{3755.2}{29426}$ = 0.12%

L'Oréal's Return on Equity has shown improvement from 2019 to 2021, indicating that the company has been able to generate a higher proportion of net income relative to the shareholder equity over the three-year period.

A higher ROE indicates that a company is generating more profit per unit of shareholder equity, which is generally viewed positively as it reflects effective utilization of equity capital to generate earnings.

<u>Market (Valuation) Ratios</u>

- Book Value=Total assets

2021	2020	2019
43013.4	43606.9	43809.8

- Market Value (Market Capitalization) = Price per share × Shares outstanding

2021	2020	2019
360 × 547 = 196920	288 × 558 = 160704	243 × 558 = 135594

- Enterprise Value (EV) = Market Capitalization + Debt – Cash

2021	2020	2019
196920+6299.9-2713 = 200506	160704+2546.5-6405.9= 156844.6	135594+2886.7-5286=133194

- **Earnings Per Share (EPS)**

  EPS = $\frac{\text{Net Income}}{\text{Average Shares Outstanding}}$

2021	2020	2019
$\frac{\mathbf{4602.2}}{\mathbf{547}}$ = 8.41	$\frac{3567.6}{558}$ = 6.39	$\frac{3755.2}{558}$ = 6.72

EPS is an important metric for investors as it provides insight into the company's profitability on a per-share basis. An increasing EPS over time is generally viewed positively as it indicates that the company is growing its earnings and potentially creating more value for shareholders.

- **Price-to-Earnings (P/E) Ratio**

  P/E Ratio = $\frac{\text{Market price of common stock}}{\text{EPS}}$

2021	2020	2019
$\frac{\mathbf{360}}{\mathbf{8.41}}$ = 42.8	$\frac{288}{6.39}$ = 45	$\frac{243}{6.72}$ = 36.1

In 2021 P/E ratio could indicate optimism about the company's performance, potentially driven by factors such as successful product launches, expansion into new markets, or strong financial results.

The P/E ratio of 45 suggests that investors-maintained confidence in L'Oréal's ability to navigate through the pandemic and capitalize on growth opportunities.

However, a P/E ratio of 36.1 still indicates that investors were willing to pay a significant premium for L'Oréal's earnings relative to its stock price.

Overall, the trend in L'Oréal's P/E ratio suggests that investors have consistently valued the company's stock at a premium relative to its earnings, reflecting confidence in its business model, brand strength, and growth potential.

- **EV/EBITDA Ratio**

  EV/EBITDA Ratio = $\frac{\text{EV}}{\text{EBITDA}}$

2021	2020	2019
$\frac{\mathbf{200506}}{\mathbf{7940}}$ = 25	$\frac{156844}{7237}$ = 21	$\frac{133194}{7505.8}$ = 17

The increase in the EV/EBITDA ratio from 2019 to 2021 suggests that L'Oréal's enterprise value relative to its EBITDA increased over this period. This may indicate increased investor confidence and valuation of the company.

The EV/EBITDA ratio provides insight into the company's valuation and investor sentiment. A higher ratio indicates that investors are willing to pay more for the company's earnings, suggesting a positive outlook for future growth and profitability.

DuPont Analysis

- **ROE**

  ROE = $\frac{\text{Net Income}}{\text{Net Sales}} \times \frac{\text{Net Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Shareholders Equity}}$

  ROE = Net profit margin × Total asset turnover × Equity multiplier

2021	2020	2019
0.14 × 0.75 × 1.82 = 0.1911	0.12 × 0.64 ×1.5= 0.1152	0.12 × 0.68 × 1.48 = 0.12

L'Oréal generated a return of approximately 19.11% on its shareholders' equity during 2021. It suggests that the company efficiently utilized its equity and assets to generate profit, resulting in a relatively high return for its shareholders. The ROE for 2020 was 11.52%, which is lower than in 2021. This could indicate a decrease in profitability or efficiency compared to the previous year. The ROE for 2019 was 11.94%, similar to 2020 but slightly higher. This suggests that L'Oréal's profitability and efficiency relative to shareholders' equity improved slightly compared to the previous year. Overall, a higher ROE is generally favorable as it indicates efficient use of equity capital to generate profits.

- **ROA**

  ROA=Net profit margin × Total asset turnover

  $\frac{\text{Net Income}}{\text{Net Sales}} = \frac{\text{Net Income}}{\text{EBT}} \times \frac{\text{EBT}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{Net Sales}}$

  Net Profit Margin = $\frac{\text{Net Income}}{\text{Net Sales}}$

Net Profit Margin

2021	2020	2019
$\frac{\mathbf{4602.2}}{\mathbf{32287.6}}$ = 0.14	$\frac{3567.6}{27992.1}$ = 0.12	$\frac{3755.2}{29873.6}$ = 0.12

Total Asset Turnover

2021	2020	2019
$\frac{\mathbf{32287.6}}{\mathbf{43013.4}}$= 0.75	$\frac{27992.1}{43606.9}$= 0.64	$\frac{29873.6}{43809.8}$= 0.68

ROA

2021	2020	2019
0.14 × 0.75 = 0.105	0.12 × 0.64 = 0.0768	0.12 × 0.68 = 0.0816

L'Oréal generated a return of approximately 10.5% on its total assets during 2021. It suggests that the company efficiently utilized its assets to generate profit, resulting in a 10.5% return. ROA for 2020 was 7.68%, which is lower than in 2021. This could indicate a decrease in profitability or efficiency compared to the previous year. A lower ROA might suggest that the company's assets were not as efficiently used to generate profit in 2020. ROA for 2019 was 8.16%, which is similar to 2020 but slightly higher. This suggests that L'Oréal's profitability and efficiency relative to its assets improved slightly compared to the previous year.