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Half Year 2023 L'Oreal SA Earnings Call

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PRESENTATION

Operator
Welcome to the conference call regarding L'Oreal's 2023 Half Year Results. I now hand over to Ms. Françoise Lauvin. Ms. Lauvin, please go ahead.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
Thank you, Alicia. (foreign language) Good morning to all, and welcome to this webcast and conference call for the release of L'Oréal's first half 2023 sales and results. Let me introduce today's participants on the call. We are together with CEO, Nicolas Hieronimus.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Good morning, everyone.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
CFO, Christophe Babule.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
Hello. Good morning.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***

And Global Head of Corporate Finance and Financial Communication, Laurent Schmitt.

Laurent Schmitt -
Good morning.

Françoise Lauvin *L'Oréal S.A. - Head of IR*
The agenda of today's meeting is as follows: Christophe Babule will start with the presentation of the financial figures of the past semester. After this financial review, Nicolas will cover the main developments of our business in the first half and share with you his views and strategic perspectives. After these presentations, you will be able to raise your questions.

The press release, which was sent out yesterday, and the slides shown this morning can be found on our website, loreal-finance.com and on the L'Oréal Finance app. You will be able to access a replay of this call on the same website later today, and the French and English versions of the half year financial report will be available at the beginning of the next week. Timing-wise, we expect to close this call by around a 10:15. I wish you a good conference.

And let me now hand over to Christophe.

Christophe Babule *L'Oréal S.A. - Executive VP & CFO*
Thank you, Françoise. Ladies and gentlemen, good morning. L'Oréal showed another remarkable performance in the first half on top of a high 2022 base of comparison in a globally buoyant beauty market. If I had to summarize the past first half in 3 key figures, I will highlight, first, the continued strong like-for-like growth of 13.3%; the operating margin of 20.7%, an increase of 30 basis points; the 11.2% increase in earnings per share, excluding nonrecurring items to EUR 6.73.

Sales increased by 12% and exceeded EUR 20 billion for the first time over the half year. Foreign exchange had a negative 2.4% impact over the period, with currencies evolving differently. The Mexican peso and, to a much lesser extent, the U.S. dollar and the Brazilian real appreciated against the euro, whereas most other invoicing currencies were down. More detail on our invoicing currencies and their evolution against the euro can be found in the appendix of this presentation posted on our website, loreal-finance.com.

The change in scope of consolidation was a positive 1.1%. It is mainly due to the acquisition last October of the American dermocosmetics skincare brand, SkinBetter Science, and of the impact of hyperinflation accounting in Argentina and Turkey.

On a like-for-like basis, growth came to a strong 13.3%. As you can see on those 2 charts. Like-for-like growth accelerated from 13% in the first quarter to 13.7% in the second quarter. However, the currency impact, which was still slightly positive in Q1, turned negative to minus 5.5% in Q2. Therefore, on a reported basis, sales were up 14.6% in the first quarter and 9.5% in Q2. Note that extrapolating end-of-June currency rates or EUR 1 at around $1.09 until year-end would lead to a negative impact on full year sales of around 5%.

On this chart, you can see the different components of growth. Units rose almost 5%, contributing slightly more than 1/3 to growth. In a more inflationary environment, particularly in developed economies, the significant value component, which combines price increases and mix improvement, therefore, had no impact on volume. The increase in volume is all the more remarkable as it follows an increase of nearly 7% in the first half of last year, a pretty unique position amongst our peers.

Let's take a look at sales by division. Like-for-like, they all grew strongly. The Professional Products Division continued its momentum, up 7.6%, driven by the success of its omnichannel strategy. The Consumer Products division, with growth accelerated to 15%, achieved its best half year on record. L'Oréal Luxe accelerated quarter after quarter and posted growth of 7.6% at the end of June. And lastly, L'Oréal Dermatological Beauty continued to lead the pack with an increase of 29%.

Momentum remained very dynamic in all regions compared to the year 2022, which was already showing very strong growth. With an 80.2% like-for-like increase, Europe, which is our largest region in size, recorded remarkable growth. L'Oréal strengthened its position in the vast majority of markets. Business grew by more than 10% in the major markets, in particular in the German-Austrian-Swiss cluster, the U.K., France, Italy, as well as in many other countries, such as Poland, the Nordics and Turkey.

In North America, momentum remained very strong at plus 13% in the volume market. In North Asia, growth came to plus 3.9% with contrasted trends. In Mainland China, growth in the second quarter returned to mid-teens, ending the first half at more than 7% in a market that is gradually recovering.

In Travel Retail, momentum slowed under the actual effect of a high-comparison basis in the second quarter last year, due to early invoicing and this year of a drop in sales in certain markets such as Korea and Hainan. In emerging markets, L'Oréal continued its very dynamic pace of plus 23.6%, both in SAPMENA and in Latin America.

Let's now look at categories. Skincare, our largest category, which represented more than 41% of our sales and grew 14.6%. Makeup continued to rebound at plus 11.1%. It accounted for 20% of our sales. Haircare was very dynamic at plus 15.8% growing in double digits, both in Professional and in Consumer Products. Growth of perfumes remained remarkable at plus 21.8%, and hair coloring advanced by 7.2%.

Let's move to the profit and loss account. Gross profit increased by 13.8% to EUR 15.3 billion. Gross margin improved by 120 basis points to 74.3% of sales. The objective of restoring the gross margin to its 2021 level was therefore achieved in the first half. The change in the scope of consolidation had a negative 20 basis point impact on gross margin.

Currency effects, including conversion and transaction, were positive by 60 basis points. The underlying improvement in gross margin, therefore, stands at plus 80 basis points. The positive value effect, which combines price increases and mix improvement, more than offset the additional increase in input cost.

Research and innovation expenses advanced by more than 15% to EUR 622 million. They now represent 3% of sales versus 2.9% in the first half of last year. Advertising and promotion expenses also increased strongly by 15.3% or more than EUR 900 million in value. They amounted to 32.5% of sales, 100 basis points above last year's level. We have, therefore, continued to invest significantly in media, advocacy and influence at point of sales and in consumer experience to support the growth of our brand.

SG&A expenses were up 10.9% in absolute value, but continued to decline by 20 basis points as a percentage of sales. This demonstrates the continued strict cost discipline and increased efficiency of our organization, thanks to the creation of clusters and of shared service centers.

In total, operating profit increased by 13.7% to over EUR 4.2 billion. The operating profit margin reached a new record for a first half at 20.7% of sales, 30 basis points higher than that of H1 2022. So you see our virtuous circle is in full swing. At this stage, every year, we point out that the L'Oréal Group is managed on an annual basis and that the division's profitability in the first half cannot, therefore, be extrapolated for the full year.

By division, at the half year stage, the profitability of the Professional Products division was unchanged at 21.2%. The Consumer Products division improved its profitability by 100 basis points to 21%. L'Oréal Luxe margin came out at 23.2%, down 80 basis points. And L'Oréal Dermatological Beauty increased its margin by 70 basis points to 28.4%.

Non-allocated expenses, consisting mainly of corporate and fundamental research costs, were stable at 2.3% of sales. Overall, the operating margin improved 30 basis points to 20.7%. From operating profit to net profit, excluding nonrecurring items, the net financial result was negative by EUR 45.3 million. For the full year 2023, you should expect net financial expenses to the tune of EUR 100 million, all other things being equal.

Sanofi dividend amounted to EUR 421 million, down 10% compared to 2022. It should be recalled that in 2022, Sanofi had paid an additional dividend in kind in the form of EuroAPI shares for an amount of EUR 74.5 million. The ordinary dividend, therefore, increased by almost 7%.

Income tax amounted to EUR 1 billion, representing a tax rate of 21.9%, slightly below that of H1 2022, which stood at 22.5%. For the full year 2023, all other things being equal, we can anticipate a tax rate slightly below 24%. Net profit, excluding nonrecurring items, amounted to EUR 3.6 billion.

Diluted EPS, excluding nonrecurring items, stood at EUR 6.73, up by 11.2%. No doubt, you have seen that we are launching a share buyback program for an amount of EUR 500 million. To help you in estimating your EPS for the full year and taking into account the share buyback, I will recommend that you base your calculation on a diluted number of shares of around EUR 537 million.

We will now complete the review of the P&L account. Nonrecurring items, net of tax, amounted to a negative EUR 257 million compared with a negative EUR 31 million in H1 2022. This year, the other income and expenses of EUR 321 million mainly included asset impairments of EUR 270 million, including EUR 250 million for goodwill on IT Cosmetics business and EUR 20 million for the Decleor brand; limited restructuring cost of EUR 25 million mainly related to Ambition France, our project to reorganize entities in France; and philanthropic donations and costs related to acquisitions for a total amount of EUR 24 million.

After taking into account all nonrecurring items, net profit after noncontrolling interest came out at EUR 3.33 billion. Gross cash flow increased by 14.5% to EUR 4.4 billion. As every year, during the first half, the working capital requirement increased this year, less than in H1 2022. Capital expenditure of EUR 724 million represented 3.5% of sales. For the full year, it should be reached around 4% of sales.

Net operating cash flow exceeded EUR 2 billion, up more than 50% year-on-year. And after payment of dividends, acquisitions and reductions of the lease debt, receivable cash flow was negative to the tune of EUR 1.7 billion. The balance sheet remained robust with shareholders' equity of EUR 28 billion or more than half of the total balance sheet.

In May 2023, the group issued a bond for a nominal amount of EUR 2 billion in 2 tranche of EUR 1 billion each, with maturities of 2 and 5 years. The proceeds of this bond will be used for the acquisition of Aesop, which is presently being finalized.

At the end of June, net debt amounted to EUR 4.8 billion and to EUR 3.3 billion, excluding financial lease debt. The gearing ratio stood at 17.3% and the financial leverage of net debt over 12 months rolling EBITDA at 0.5x. The financial situations remain healthy.

I thank you for your attention.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***

Good Morning, everybody. As you've seen, we've delivered a very strong first half, and I'd like to walk you through some of my personal highlights before I share with you why we remain confident for the rest of the year and beyond. In the first half, our sales increased by 13.3% like-for-like and we crossed the EUR 20 billion threshold for the first time in a half year.

Since the beginning of 2019, our organic top line growth has amounted to 8.2% on a compound annual basis. That puts us well ahead of the global beauty market over that same period. In an environment still mired by considerable inflationary pressures around the world, our growth was driven by a strong contribution from volume, up 4.9%, and value, up 8.5%. We estimate that the beauty market grew by close to 10% in the first half.

So we outperformed again, which is obviously fantastic news. But what makes me especially proud is that this comes after not 1 but 2 years of exceptionally strong share gains. In terms of channels, both were dynamic. Offline staged a strong comeback. We grew 14% in the market that was up 9%. Our online sales grew 12%, slightly ahead of the market.

Let us take a look at our divisions. All 4 were growing, but 2 were in what I would like to call hyperdrive, the Consumer Products division and L'Oréal Dermatological Beauty. Consumer Products achieved its best half year on record. It grew 15% like-for-like and significantly outperformed the dynamic mass market. Growth was not just strong but also well balanced.

All major brands grew in double digits, all categories advanced, boosted by strong innovations. All regions were up, with Europe and emerging markets especially impressive. Illustrating the division's ability to, at the same time, democratize and premiumize, I want to emphasize the contribution from both volume and value.

With 29% like-for-like growth, Dermatological Beauty delivered another outstanding performance, well ahead of the dermocosmetics market. All regions advanced strongly, with a particular shout out to emerging markets and Europe. Growth in Mainland China was 3x that of the market.

As you know, our brand portfolio is highly complementary, and all global brands recorded double-digit growth. The 2 billionaire brands, La Roche-Posay and CeraVe, remained extremely dynamic. The newly acquired SkinBetter Science was off to a very strong start. L'Oréal Luxe was up 7.6% and has been improving quarter after quarter.

My key takeaways are the remarkable bounce back in China with high-teens growth in the second quarter and the double-digit growth in all other regions. It is worth mentioning that year-to-date, the division's market share in China is equal to that of the #2 and #3 combined.

By category, we continue to outperform a very dynamic fragrance market, thanks to many of our designer brands. In skincare, Helena Rubinstein continued to grow at high speed. Professional Products grew 7.6%, cruising ahead of the market. Particularly remarkable was the strong momentum of the 2 leading brands, L'Oreal Professional and Kerastase, which were supported by successful innovations like Metal Detox, the new INOA and Symbiose.

Mainland China and India continue to be very dynamic. Sales were up in all channels, salons, SalonCentric, e-commerce and the selective channels.

Now let's talk about categories. They all grew double digits, led by fragrances at plus 22%, skincare at plus 15%, haircare, hair at plus 13% and makeup at plus 11%. When it comes to the regions, I'm pleased to say that all 5 grew in the first half, making for a very broad-based performance.

Another way to look at the power of our balanced geographical footprint, the top 5 growth contributors by country: the U.S.A., China, the Germany-Austria-Switzerland cluster, France and Mexico represent each one of our regions. Our 2 emerging markets were particularly strong, with identical growth of plus

24% in SAPMENA and Latin America, growing around 1.5x faster than the market. They represent 15% of our business but contributes 25% to our growth.

Our business in Europe advanced by an impressive 18%, 5 points ahead of the market. The region contributed over 40% of our total growth. Momentum was broad-based, including in some of our key markets. In North America, we grew plus 13%, with a strong contribution from both price and mix. All divisions advanced, growth was in double digits in Consumer Products and Dermatological Beauty.

As you may know, we launched Lancôme on Amazon earlier this year, redefining luxury beauty on the platform. In North Asia, we grew plus 4%, implying a very encouraging acceleration from plus 2% in the first quarter to plus 6% in the second quarter. As you can imagine, there are many moving parts behind the second quarter performance, most of them linked to what we call the Chinese consumption ecosystem, which includes notably Mainland China, Hainan and Hong Kong, 3 markets between which consumption is becoming increasingly fluid.

So what is happening in the Chinese ecosystem? In Mainland China, we are seeing clear signs that consumption is recovering, consumer confidence is improving, restaurants are full, local travel is resuming. The recovery has been a bit slower than expected. But let's be honest, 3 years of COVID will take a bit of time to be fully digested.

Appetite for beauty remains strong, both offline and online. In the second quarter, beauty growth recovered to plus 6.5%. As you remember, it was still negative in the first quarter. And how did we do?

Our growth accelerated strongly from broadly flat in the first quarter to mid-teens in the second quarter. Our innovations resonated well with consumers. We introduced new brands like Valentino, Prada and Takami, and we entered lower-tier cities. We significantly outperformed the market and continued to gain share.

In itself, that's very impressive, but I'm particularly proud of this achievement by our Chinese teams as it comes after 2 years of very strong share gains, further cementing our clear leadership position. We had a very successful 6.18. Lancôme and L'Oreal Paris were the #1 and #2 brands, and we had another 6 brands in the top 20. I want to highlight that our growth outside 6.18 was equally strong, signaling that the market is gradually getting back to normal.

In Hainan, however, there's been a clear deterioration between the first and the second quarter. As you know, in mid-May, the authorities started to exercise much tighter control over the daigou trade to preserve what they call Hainan's golden brands, and Travel Retail operators have consequently refocused on the individual traveler. This has had a severe impact on industry-wide sell-out.

We're obviously not immune to this. We estimate that if the current policy remains the same, it could lead to a couple of months of inventory reduction, keeping in mind that our absolute priority is the protection of our brands' equity within the Chinese ecosystem.

To put our exposure into context, Hainan represents less than 3% of our business, the total Chinese ecosystem around 23%. So Mainland China has always been our focus, and we believe that the new paradigm in Hainan should have a positive impact on sell-outs in the domestic market. This plays in our favor even how strong our market share is in Mainland China.

As we have seen on Douyin recently, there has already been a partial transfer of purchases to the domestic market. All in all, our first half sell-through in the Chinese ecosystem amounted to plus 10% and was indeed well ahead of the market at plus 2.6%.

With this, let's now move to our financial performance. You have heard me speak about our virtuous circle many times, and we have really seen it in action in our first half. Our operating margin increased 30 basis points, and that was after we spent an additional 100 basis points on our brands.

To me, what makes our virtuous circle so unique is that it's constantly fueled by our obsession with valorization. Every time we launch a new product, we do it at a premium to the existing range. Why? Because our unrivaled R&I backbone ensures that we make it better for the consumer and that the consumer is willing to pay for the added value.

Let me share with you 2 examples. You might be surprised that they are both from our Consumer Products division, which most of you probably least associate with valorization. Well, you're wrong. The first one is Garnier GOOD. It is 2x more expensive than our existing color ranges. The second one is Elvive Bond Repair. Its price per milliliter is 3x above that of our existing haircare products, and they are both very successful.

I would like to highlight that our financial performance came with a solid extra financial performance. In early July, L'Oreal was recognized by Standard & Poor's Global for its sustainability performance with an ESG rating of 85 points out of 100. L'Oreal ranked among the world's most gender equitable companies by Equileap. More than ever, we are focused on our sustainability transformation and committed to our net-zero trajectory.

So you've seen that in the first half, our growth engine fired on all cylinders, and our virtuous circle was in full swing. Of course, we can't deny it that we are facing a few headwinds for the second half. Currencies will be less favorable, as mentioned; Hainan, which we addressed earlier; and price will make a smaller contribution to total value growth as last year's increases are starting to roll over.

Despite that, we are very confident in our ability to maintain very good momentum in the second half, and let me give you 5 reasons why. First, we really believe that consumer demand for beauty remains and will remain very solid. You saw how strong the markets were in the first half of the year. And as we are entering the second half, we do not see any sign of down-trading in the Western world.

Our consumers are relatively affluent and always on the lookout for high-quality indulgent beauty products. emerging regions remain equally dynamic. Another way to gauge consumer interest in the beauty category is through the level of search queries and social conversations around the word beauty. On Google, we saw an increase of 14% across all categories and regions. Fragrance was up as much as 26%. And on TikTok, beauty is the #1 topic.

Second, our 36 international brands have strong innovation plan for the second half and the holiday season. This will allow us to keep winning in the beauty market that is forever premiumizing. Some of the launches that I'm particularly excited about include the new male fragrance from YSL and the extension of Prada in makeup and skincare, SuperStay from Maybelline, Absolut Repair from L'Oreal Professionnel, the daily UV protection from CeraVe and much more, particularly in makeup. Needless to say, they will all come with strong valorization.

Third, we continue to reinforce our digital leadership, which has always contributed to our outperformance. Let me give you 3 examples. We are the global #1 in beauty share of influence last year and managed to increase our lead by 5 points to over 26%. And we were the first-movers on TikTok in China and the Western world.

You may also have seen that in cooperation with Microsoft, we debuted Ready-In-A-Click 3 weeks -- 2 weeks ago. This is a virtual makeover from our brand Maybelline, New York, which gives 300 million Microsoft Teams users access to a digital makeup bag that contains all the must-have products needed to create up to a dozen different looks. We're confident that the users will want to buy the looks in the real world. And of course, we're exploring the possibilities of GenAI and the Metaverse.

Fourth, we stayed true to our R&I routes. R&I is at the very heart of L'Oreal and has been for the last 114 years. Last year alone, we spent over EUR 1 billion on R&I and continued that trend in the first half of 2023. In the spirit of seizing what is starting, we have built a unique biotech and green ecosystem for beauty over the last 2 years. In the first half alone, we invested in Debut, a U.S. biotech company, through our VC fund, BOLD, and announced a partnership with Bakar Labs, the biotech incubator at Berkeley.

Earlier this month, in cooperation with Verily, we launched the world's largest and most diverse skin and hair health study, and there's more to come. Hand in hand with our digital transformation, R&I has extended it into what we call Beauty Tech. As we showed at VivaTech, this will allow us to serve 4 major trends: personalization, sustainability, inclusivity and improved company-wide efficacy.

Last, but definitely not least, our engaged teams. Our strong performance in the first half would not have been possible without them, and I want to say a big thank you for all the hard work. I'm glad to share that in our yearly employee satisfaction survey, our engagement rate has reached 78%, 6 points ahead of the industry norm. L'Oreal's culture and the commitment and agility of our teams are a truly fantastic competitive advantage in today's world.

Before I conclude, let me remind you that our brand portfolio will soon be enriched by Aesop. In the global luxury market, Aesop is uniquely positioned. The brand stands out with its sensorial product, distinct packaging and unique retail philosophy. We expect the acquisition to be completed in the second half. Let me remind you that the first-time consolidation should have an estimated dilutive impact of around 25 basis points on L'Oreal's operating margin on a 12-month running basis.

In conclusion, we had a very good first half. As always, there were many good surprises, a few not so good ones. But with our 13.3% like-for-like growth, our continued market share gains, our new record operating margin, we have proven that we know how to make the most of the good surprises and how to swiftly deal with the not-so-good one. Despite the remaining uncertainties of the economic landscape, we are confident that we will deliver another very good performance in the second half, and we look beyond 2023 with great conviction.

We operate in an incredibly dynamic market. We have created for ourselves an unrivaled well-balanced footprint by category, channel or region. It is this balance that has allowed us to weather turbulences in our industry well many times over. Our virtuous P&L will continue to fuel our growth while helping us improve our margins.

Thank you very much for your attention, and I would like now to open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Bruno Monteyne from Bernstein.

Bruno Monteyne ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

Some of your numbers are obviously fantastic, but it's confusing, right? Historically, we were used to Luxe growing very fast, China and the U.S. And now it's good old Europe, but it's mass market Consumer division. So it's a bit of a world upside down in terms of what's driving growth, but the end result is always the same. It's high growth.

So my question really is, is this kind of rapid shift into new -- of where you're getting your growth driven by the market? Or would you say it's really driven by L'Oreal itself in the way it deploys its A&P and growth resources? So is it the market that caused this shift to where the growth income is or really you guys optimizing wherever you can get the growth?

And the second related question to that is, Nicolas, you sort of talked in the past about how you manage A&P on a global basis to be able to go and chase the growth wherever the growth is. Could you explain a little bit more the frequency and the speed at which you redeploy A&P growth, let's say, if you do certainly see China going in lockdown, how long does it take you to react?

And can you explain a little bit how you're able to activate growth so quickly? Is it brand advertising? Is it activating more new innovations, more new launches? I'm just confused about how quickly you can redeploy resources to keep finding that growth.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Well, thank you for this great question. I think as you pointed out, the strength of the L'Oreal model is precisely its balance and something that we've worked hard on. You mentioned Europe, but it's also -- we also announced that we will accelerate in emerging markets, and they now represent 25% of our growth.

We are trying to be as balanced as possible so that we can seize all ascending currents and be a bit more prudent when the weather is a bit tougher in some parts of the world. So we do that constantly. And clearly, when we see the appetite for consumers for Dermatological Beauty, we are ready to overinvest there. When we see that the emerging market economies remain extremely dynamic and their currency is very strong, we can accelerate there.

And so we try to see the opportunities. I think that's the magic of the L'Oreal model, and we try to make the most of it. We see that, if you remember back a few years ago, Consumer Products, the divisions were struggling a little bit. So it also took some time to fix the brands, the innovation portfolio, the footprint.

And now we see -- when we see that it's ready to roll, we invest behind it. And the way we do it, to answer your questions about flexibility is that we have, without entering into too many secrets, but we have monthly meetings between Christophe Babule and myself and our Head of Business Finance. And we look at the evolution of the markets, and we either increase or drop the expected profitability of some parts of the business to give more fuel or less fuel to others.

So that -- and clearly, we can do it very quickly. If I -- even if we take this year, we saw that -- we knew that the first quarter of China was going to be difficult because of the inventory we had and because people were sick. So we cut and the decision was done very quickly to cut media investment or social media investment from our Chinese team.

And on the flip side, because we were seeing that the Chinese market was indeed going to be accelerating in Q2, with [X] 6.18 approaching, we reincreased the President of China of L'Oreal China, reincreased its investment on second half.

So a lot of our fuel is media, it's social media, and it's very flexible. I have to say, even that social media is even more flexible than the good old TVs, where you had to commit long in advance. So it gives us a lot of flexibility, not 100%, because you have some point-of-sale materials that you can't just eliminate. But we are very flexible. And that allows us to indeed to accelerate where the growth is.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
And if I may complement, regarding the growth by region. I have to highlight that today, the region that

is growing the fastest, I mean the market, is still Europe at 13%. So ahead of America. The market is growing as well, but at 11%. And in North Asia, only at 4%. So that's also the reason why our growth is in Europe.

Operator
The next question is from Celine Pannuti from JPMorgan.

Celine A.H. Pannuti ***JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst***
My first question would be on North Asia, a few moving parts there. So could you please -- I think you said in Q1 that the Asia Travel Retail was flat. What was Asia Travel Retail in Q2? And could you give us, with the moving parts in terms of South Korea and Hainan, and should we expect the sell-out and the sell-in both to be negative in the second half of the year?

My second question is on -- sorry, and following just on China to Mainland, you said was accelerating from minus 2% to plus 6.5% in Q2. What is your best guess for the second half? Just I saw in one interview that you alluded to the middle class being a bit more regarding in terms of the price points. Just how you feel about the Mainland China demand unfolding in the second half?

And my second question is North America. You mentioned that the market was still quite good at 11%. We saw that your performance decelerated from, I think, 16.5% to close to 10% in Q2. I just want to understand whether this is really what we see in terms of the [fading] of the price points? Or what's going on there that led to such a deceleration quarter-on-quarter?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Okay, Celine, I'll start with North America because, indeed, it's quite easy. But we do not see any slowdown in America. The difference of sell-in between our 2 quarters is very simple, is that in Q1, the comparative for last year was a COVID-lockdown comparative. We still have lots of stores that were not reopened. So there was an extra boost.

Plus, there was, as I said in the previous call, a little bit of reloading from luxury retailers, notably in fragrance, in North America. But if we look at our sell-out performance, it's pretty consistent. We had a great Prime Day recently in North America. And we overall see a very -- pretty good optimism in America.

I think yesterday, the GDP for Q2 was announced and higher than expected. The level of employment is really high. So it means that people are confident that they will not lose their jobs. Level of employment is 66%. For women, it's 77%, which is knowing that our #1 prime target are women. So of course, we don't have a crystal ball to predict the future, but North America, in our products, we do not see a slowdown. And we see consumers that want to buy beauty, whether they're Gen Z or working people.

As far as North Asia is concerned, you are right to say there are lots of moving parts. On the one hand, you've got a change of -- I would say, a change of paradigm in Travel Retail. As you rightly pointed out, in the first quarter, the Korean operators reduce their buying and particularly their trade with daigous. And as I explained, in May, the authorities in China decided to put a strong control over daigous.

And of course, that has a strong impact on sell-out, particularly because during the years of lockdown where there was barely any traveler that was going to -- real traveler that was going to Travel Retail, that was probably the way to keep the retailers in shape. So there's a change of paradigm.

Short term, it will be negative. But midterm and long term, it's very positive because in the end, this is a market that's going back to Mainland China and will contribute to the acceleration, I believe, of Mainland China, where we have both better shares, lots of fuel.

I mentioned the share we have in L'Oreal Luxe, which is above 30 -- close to 33%. So it's -- yes, it's going to be a different profile for the months to come. So a slowdown in Travel Retail, probably a couple of months of destocking. But I guess there will be continued acceleration on the mainland Chinese market.

Giving you a number is very difficult. But what is true is that we have -- you had a 6.5% growth on Q2. May and June were good. The 6.18 festival, in terms of total GMV, that's before returns, but the overall market was at plus 25%. So we see that consumers that probably take some time to get -- to see the confidence go totally back up, it's picking up, but not yet at the pre-COVID level. They want -- they're going back to beauty.

And what I can say is that the also, the Chinese consumers, are more rational about their beauty purchase than they were before COVID, and they are really looking for efficacious products for performance. And again, that's, for me, a good omen for the L'Oreal products, which, as you know, are always created and based on efficacy. I don't know if, Christophe, you want to add something to this?

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***

No, I think we can be very reassured to see Q2, I mean, the market growing at more than 6% in China. You remember that Q1 was still polluted by COVID issues. And on top of that, from what I hear and I see, at least from the political stance, there is a wish to push for more consumption. So it's now about us to keep exciting our consumers with fantastic new products and launches, which will come very soon in H2. So...

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***

And I must say I'm very happy to see that in the -- if we look at sell-out in China in Q2 were almost 2.5x the market, and it's important because I remember, Celine, we had a little conversation in CAGNY, where you were wondering whether we would still be able to keep winning share in China, considering that we had benefited from our strong e-commerce footprint when stores were closed. Well, I must pay tribute to my Chinese teams because they continue to do so, and let's hope it continues.

Operator

The next question is from Olivier Nicolai from Goldman Sachs.

Jean-Olivier Nicolai ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
Got 2 questions, please. First of all, historically on marketing spend as a percentage of sales, has been around 31%. Now you step up marketing a lot in H1 to 32.5%, that's up nearly EUR 900 million year-on-year. Is it linked to the phasing of product launch? Or is it a good proxy for the year?

In other words, essentially, should we expect an acceleration in H2 EBIT margin driven by gross margin improvement, particularly as luxury will continue to rebound in H2, and presumably, your input costs are going to be coming down?

Second question is on Europe, which was clearly the main surprise today. So could you give us, first of all, an idea of the volumes growth you had in H1 out of the 18% sales growth? And then also, can you give us a bit more details on which category was the main driver for the growth? Is it suncare, for instance, as per your comments related to the Vichy brand or La Roche-Posay?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
You want to take the first one, Christophe?

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
Yes, I will take the first one. So yes, we've been pushing hard in terms of investment. This is to the fact that, first, as you know, the market is very dynamic. So it's the good momentum to invest. And also, we have still to develop many of our brands in the new markets. This is something that we have already, in the past, the CeraVe, the Valentino, the Prada. CeraVe still is 60% of the sales are in the U.S. So there is still a lot to do and a lot of investments to do in new markets to push the brand. So that's one of the reasons, but the same for the other brands and mainly in luxury. So we are using this momentum to, yes, prepare for the growth of the future.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
And traditionally, our EBIT margin is unbalanced between first half and second half. Maybe you can comment on that?

Laurent Schmitt -
When it comes to the EBIT margin, there is a pattern, of course, as you know, there are high investments in the second half, mainly due to the promotions to Christmas to 11:11. So there is usually a gap between first semester and second semester which can be 0.5 up to 100 basis points. So we just follow the usual pattern in terms of profit share between H1 and H2.

Be reassured that, of course, we will keep -- increase our margin because this is a market that is growing at more than 10%, I have to say. There is space, of course, to keep improve our bottom line.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
And as far as Europe is concerned, in terms of value-volume components, out of the 18% there's 7.4% in

volume. So a very strong growth in volume, which means that the consumption of our categories or at least our brands in our categories has remained very very solid. So there's both a strong valorization effect, which is quite new for Europe. But great volume growth.

And of course, we've had a better sun care season this year, particularly both in mass market and in dermatological beauty, but it's really across all competition -- all categories. We have a great momentum in makeup.

Maybelline is really flying mix with whom you may have seen is -- has done a great partnership with Barbie, the movie, which is the hottest movie of the moment and has really sold off on that. We have a great performance also in hair care with the success of Elvive Bond Repair.

Hair color is a bit soft, but we intend to reignite it with Good from Garnier. And skin care is also good. So it's not just suncare, it's across the board. And I have to say it's a really good balance of innovations. We had a great vintage of innovation this year, and I hope that the second half will be as good and confident about it.

We're also progressing in fragrance. And what's interesting, I think, in the value -- volume-value strategy is that, of course, we've taken price increases across the board to offset some of our the input costs that impacted us. But we've been, I would say, using our RGM tools, we've been relatively sound and wise on the catalog of products that have been increased, but I would say, below the input costs that we took but all the new products have been really -- and as I showed in my presentation, at super premium.

So we're in this dynamic where if you want the great new product, you will pay more. and it attracts people -- novelty lovers. But if you want to stay loyal to something that you've always been able to afford, you still can do it. So that's been proven to be a pretty good recipe. And when I compare with other mass market players, I see that the balance between volume and value in mass has been pretty good.

Operator
The next question is from Iain Simpson from Barclays.

Iain Edward Simpson ***Barclays Bank PLC, Research Division - Analyst***
A couple of questions from me. Firstly, in terms of the components of Greater China growth in the second quarter, you've very helpfully given us Mainland China. I just wondered if we could have kind of Hong Kong, Macau and then Hainan just to get a sense of how those things fit together?

And then secondly, I wondered if we could dive into some of your emerging markets. So you've done a great job turning around Mexico and Brazil in recent quarters. I wondered what levers you've pulled to get those performing as well as they now are perhaps quick update on India as well would be great?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***

Okay. On Greater China or what we call the Chinese ecosystem, I have given you -- we have given you the sum of the parts, the sell-out on our sell-through, the market was at 2.6% and we're at 10%. And we're not going to break it down in little pieces, but China is very positive.

Hong Kong is very positive and on Q2 Travel Retail was negative. And that gives the total that you've seen. And I think it's -- again, I think it's a good rebalancing of the ecosystem. And by the way, I want to add to this that we continue to have very good performances in other North Asia countries. Japan is at plus 18%, which is great.

And we are at a smaller base obviously there, but we have very good performance. And as far as the emerging markets are concerned, we indeed are very happy with our performance there.

Latin America was a good. We had higher shares than in South Asia, for example, but it's true that the market was not easy. And here, it's really a win across the countries. First of all, with 2 strong countries that are Mexico and Brazil, where we are indeed gaining shares with a strong mass market performance, a very strong LDB performance. So Dermatological Beauty is doing fantastic. And I would add in terms of countries before maybe going more back to divisions, but that we also had created a new cluster.

We've regrouped countries where we had probably several subsidiaries, but little business. We've regrouped them into a cluster, a bit like what was done with Germany, Austria and Switzerland. We created the cluster that's called which is Colombia, Ecuador and Region Andina -- Andes region so which goes up to Peru. And this is becoming a strong third growth engine for the region, and that's overall very positive for Latin America.

And the other good thing about Latin America is that we have currencies that are holding very strongly versus the euro. So overall, in Latin America, second quarter at plus 25% after a strong Q1 at plus 22 % is very promising. And as you heard, Mexico was #5 growth contributor for the first half.

And as I've run this country a few years ago, I'm very happy and proud to see Mexico up in strong, strong performance for makeup also, I wanted to mention. Maybelline is doing great in this region.

If I take the other parts, which is the SAPMENA region, it's also doing great with plus -- again, plus 25% in the first half. All countries are growing. Very, very strong in Australia and New Zealand. India is in line with the average. India has been doing -- is already doing good, that the first half is at plus 20% and we're gaining share. And we're very excited by the prospect in this market.

The economy is very solid. There's an appetite for beauty. And e-commerce is, as we said, a good contributor to this growth. TikTok has expanded into Southeast Asia with their TikTok shop model after the Douyin model in India and China.

And of course, we've transferred all the know-how from our Chinese teams very quickly to our SAPMENA teams in Singapore, and that allows us to make strong inroads in e-commerce in these parts. Again, Maybelline, Garnier, and what's interesting in Southeast Asia is that we see luxury starting to grow strong, and particularly, again, the same very strong interest in fragrance with [Yves Saint Laurent], Prada, Margiela that seems to be having a good moment.

Operator
The next question is from Guillaume Delmas from UBS.

Guillaume Gerard Vincent Delmas ***UBS Investment Bank, Research Division - Analyst***
Two questions for me, please. The first one is on your outlook. Nicolas, you've indicated that you have not seen any changes in the consumer behavior so far. But at the same time, you're calling out the 2 headwinds of Hainan and the price effect gradually annualizing. So putting all this together, are you basically pointing towards a clear sequential slowdown in your like-for-like from the elevated 13%-plus in H1, but you still remain very confident that you will outperform Beauty market probably growing high single digits in the second half of the year? So that would be my first question.

And my second one is on A&P because you've added another EUR 900 million. I mean you're almost on track to reach EUR 14 billion in A&P spend this year, that would be double your A&P budget of 2016. And arguably, during this year using digital precision advertising, you've had far more bang for your bucks.

So what I'm wondering here is, have you considerably during this year's, increase your share of voice or is it more down to the cost of doing business that has increased? And I guess, the other question on this is, is there a glass ceiling? So I mean at a point where you would start getting diminishing returns on your incremental A&P spend?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Okay. I will let Christophe [unlock] the outlook question. So I will leave it to him, and I'll answer on the media.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
So the first question was about...

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
I'm not pointing out to a significant slowdown of...

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
No, I want to reassure you because, of course, all that we have mentioned in the presentation of Nicolas is, of course, already well embedded into our trend. So what is important is, first, I want to stress the fact that Hainan is less than 3% of the net sales of the group. So if there is a slowdown, it won't impact dramatically the growth of L'Oreal.

What we are monitoring, because there are always some one-offs that are polluting the visibility of the growth. We are still monitoring the CAGR growth over the 4 years. And if you look at the figures, you will see that we are constantly a bit above 8% growth now. And this is, I will say, our road map is to keep with this trend, the long-term trend of growth around 8%.

So of course, depending on the one-off in some markets last year, probably the growth will be a bit lower than -- what is important is to keep this CAGR above 8% in the coming quarter. So that's the first point.

Regarding the price, there will be, of course, a slight impact because part of the price increase came in the second half of last year. So meaning that in the second half, we will have, in terms of price effect, maybe a little bit less than the first half. But this is already in our trends. So it won't impact the reason of the growth of the group.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
And in the end, what's interesting, and I remember we had debates, and I guess you guys were right when I was saying the beauty market it was going to grow 4%, 5% on average. It's true that this year because there are in fact, the effect of prices and I have to say, of very strong appetite for -- from consumers for beauty. The Beauty market is growing at plus 10% at the end -- close to plus 10% at the end of 6 months. Probably will slow down a little bit, but not really much.

So I think it's going to be a great year for Beauty, which is, to some extent, explainable because on the one hand, you've got always this trends who want to have some indulgence when the times are tough, plus you're -- in the world, and we see that in several parts, including in the U.S.A., where beauty is very dynamic. When you've got high interest rates, people tend to be a bit shier or more shy and real estate, cars, expensive items and typically, this benefits Beauty.

So yes, we have a few headwinds, and I think it's important for me to flag them to you in total transparency. But overall, I remain very confident and very optimistic. As far as -- you want to add something, Christophe?

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
No, no. Regarding your second question...

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Yes, regarding the second question, that's always a tricky one because it's either too low or too high, but I'll give you my perspective. The big difference is 2016 is that we have much more brands. We have, of course, our big billionaire brands that we have to continue to support. And there is a lot of productivity happening even though there's more and more fragmentation in media, but it's better targeting. So it's okay for us. And we are really getting more and more productive on that, as I told you in the previous sequence. We have invested and we are developing our own AI-powered A&P allocation tool, which is right now in pilot mode in a couple of countries, which gives spectacular results in terms of increase in ROI, both short term and long term.

So we have these existing brands, which we have to continue to support and where the percentage of fuel related to sales is globally stable or going progressively down, thanks to productivity, but we are bringing in new brands. And these new brands, if you take Prada, you take Valentino, you take (inaudible) they need to be supported. So -- and that's what we do.

It's preparing the billionaires of tomorrow through a stronger investment and then we'll enter soon. We have a new model where -- with Aesop, which will be much less media-dependent and more a retail investment. But even for that brand, we see in the world of today that managing the influencer game is very important.

And the fact that we have a 26% share of influence, which is kind of twice the size of our global market share shows that our teams are getting better and better at mastering this game, which is not an easy one because it's constantly evolving and moving. So there are also new instruments to play with relates to media. But overall, you will see productivity over time. But as we add brands, we also have to add fuel for these new brands.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
And in H1 also, we have been investing more in the brick-and-mortar since the business now is back to high growth. So that's also an area we've been investing more than last year.

Operator
The next question is from Fulvio Cazzol from Berenberg.

Fulvio Cazzol ***Joh. Berenberg, Gossler & Co. KG, Research Division - Senior Analyst***
I've got 2. The first one is on Travel Retail. So it sounds like you think that this channel has rebase permanently. My understanding is that Travel Retail was a very profitable channel for you and also an important channel for consumers from smaller cities in China to discover products while they're traveling. So I was just wondering how would you reach some of these consumers now?

Would you need to invest more in physical presence in higher-Tier cities? And if so, could this have a dilutive effect on your gross margins?

And then my second question is on the premiumization theme. We've seen luxury brands underperform mass for a few quarters now. So I just wanted to get your thoughts if this marks a new era in Beauty and if these trends are here to stay? So my question is, has the product quality gap narrowed between mass and prestige products? You highlighted in the presentation the valorization that you had, for example, on Garnier and L'Oreal Paris? Or maybe has the cost of living and the economic uncertainty perhaps tilted in favor of mass versus prestige brands? So just interested in your thoughts on these topics as well, please.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
On Travel Retail, Travel Retail remains a fantastic channel, both for business and to showcase our brands and we'll continue to use Travel Retail as such. And it's always been by the way. There is right now, with worldwide traffic is at [plus 56%] versus 2022, very dynamic in the West, in Western Europe, and it's

beginning to pick up in North Asia with Chinese traveling to Thailand and to other parts.

So it is definitely a showcase for our brands. The only thing is that, as we said, I think this -- the COVID, the lockdowns have kind of fostered an unusual development of this daigou business, which is now being brought to normal levels. We do not know exactly what the Chinese authorities want to do in the future because the rules can change from one day to another. So we'll adapt as we always do. But very clearly, we will continue to invest in Travel Retail, which, by the way, on contrary to what you say, has a lower gross margin than the traditional business because -- due to -- it is mainly duty-free prices.

But we will indeed continue to invest. And if you go to airports, if you go -- I will go to Hainan next year again. But if you go to airports, whether it's LAX airport or whether it's the new terminals of (inaudible) or Dubai Airport. And you will see -- you should see fantastic display of our brands.

And it's indeed a way for -- as you rightfully pointed out, for China, a way for consumers of Tier 5, 6 and 4 cities to discover our brands. They are overrepresented. And also [Douyin] the same people that's why I'm saying there's a little bit of transfer within Douyin .

And we, by the way, continued to open counters or brand presence in this new -- this more remote cities and on the first half of 2023, we have opened 50 new doors in either a new Tier 4, 5 cities or in new neighborhoods in existing cities.

So there is still a lot of brick-and-mortar depths to be gained. So overall, no, Travel Retail will continue to play it's role, but now it's being, I would say, normalized. And I think it's a good thing for us. As far as premiumization is concerned, it's always been the game in -- for L'Oreal to invest in quality and to sell quality at a higher price, which doesn't prevent us to -- from having very affordable brands like -- even in Maybelline, which is [Surreal] which you have the new mascara, which is which maybe sold at EUR 13, but you still have Great Lash which is a good old-timer, which is EUR 5 less and we're trying that's the, I think, the strength of our model to be able to offer products for -- to all purchasing powers, even though the L'Oreal customers are more on the middle upper classes, and that's probably why we are more protected from the impact of inflation in our sales than others.

But what -- I think the great thing behind this is that we see -- and that's probably one of the side benefits of COVID when people have had the time to pamper themselves is that people really want -- when they're going to spend money, they really want quality. And the rise -- the development of hair of sophisticated premium hair products is a strong sign it's the results of this trend.

And it's also another interesting element is the fact that hair is longer, women have longer hair and hair is more racially mixed. If you take the U.S.A., it's spectacular to see how the -- if you take the Gen Z of the U.S.A., 50% of the Gen Z in the U.S.A. is considering itself as non-white, i.e., they have more mixed hair, curly hair, et cetera. And this segment is much more demanding.

Therefore, hair care is super important for them and among the best. So we continue, of course, to serve them. But it also applies for prestige [Kerastase]. Kerastase brand, I think, is growing at double digits. I don't remember if it's 17% or 18%. And so it's not a transfer from selective to mass everybody upping their level of demand. And so the mass consumer wants the best of mass and the professional consumer wants the best of professional, and we see it across most categories.

Operator
The next question is from Sarah Simon from Morgan Stanley.

Sarah Simon -
I've got a couple of questions. First one was on marketing. Can you give us an idea of how much of your A&P is now on social and digital versus more traditional media and how that would compare with, say, 5 years ago?

And the second one was on competitor brands. And I'm thinking about sort of the many small players that you see popping up all over the place. Are you seeing that the increase in interest rates is having any effect on the level of competition from those guys now?

And the third one was just on margins. I think the perception has been that the mass market would have a lower margin, but you've talked a lot about valorization and premiumization. Do you see the sort of mass market brands trending towards Luxe or do you think that in the end, there will still be a distinction between the 2?

Nicolas Hieronimus *L'Oréal S.A. - CEO & Director*
Okay. So social media you have the exact number, Christophe, I guess, you would try it.

Christophe Babule *L'Oréal S.A. - Executive VP & CFO*
Yes. So just to give you a broad understanding of how we spend them, but most of it is still, of course, on media advertising. And as you know, it's 75% driven by digital media. So this is still the main investment we do. When we look at what we call [advocacy] media, so which will group social media and some smaller kind of media, it's smaller, but it has been a bit increasing and it's in the range of a bit less than 20% of the total.

So it's now quite important. It's not the major one, but it's still increasing a little bit, mainly by the way, in these emerging markets where e-commerce is booming and young people, they are pretty much looking at what's happening in the social media.

Nicolas Hieronimus *L'Oréal S.A. - CEO & Director*
So overall, a bit more than 70% of our media is digital. And then we are, as always, constantly adapting and changing our strategy to adapt to the rise or fall all of different networks. And it's true that -- I mean, the big phenomenon of the last couple of years has been the explosion of TikTok which is not only a phenomenon in China, but also in Southeast Asia and of course, in North America.

If you look at the incredible success of CeraVe, a brand continuing to grow at plus 38%, it's because it's a great brand, it's a great brand that's recommended by dermatologists, but it's also the brand of L'Oreal that has mastered the codes of TikTok the best and all the other brands are trying to learn from them.

So it's really -- I have to say it's fascinating because you can -- as well our brands have very different targets getting better and better at targeting and I'm making sure we have not only the right influencer, the right channel, but also the right tone of voice to be successful is an art and I'm trying to make sure that my teams are getting better and better at that art, and that's very positive.

As far as the [indie] brands or small brands are concerned, they are always both a challenge and an opportunity. A challenge because indie and that's not new since the steep in platforms and the rise of e-commerce and social networks, we've seen the explosion of small brands.

Many do not last, a few are very successful, and they are fierce competitors. When they are -- when I say they are an opportunity, it happens that they are also the ones that are pushing us to adapt and transform. Lots of our -- when we see the first appearance of indie brand, it's first brands like Lancome or L'Oreal Paris that's where I mean the establishment to become a bit more agile, to learn to work with these influencer we're talking about, to adapt their tone of voice, and when you see some of the stuff they do now, I think they're getting better at it.

And then if you have the benefit of both scale and indie agility, you can be very, very strong. And actually, if we look over the period of the last probably 5 or even 10 years, we see that our biggest brands have often almost always grown faster than the average of L'Oreal because when you have the benefit of scale and this new -- tricks of the new trade, you can be pretty good.

And as far as profitability, we are trying to improve the overall profitability of the group. We always play. We have 4 instruments to play with. My -- of course, my aim and I'm always pushing each division to up their -- to improve regularly their profits. But as it was debated in the prior question, we always try to adapt our investments to the opportunities.

So when there's one that needs more fuel, we will allow them to either stop growing their profitability or temporarily drop it. Some others will take it up. In the end, I'm very happy to say that today, the fastest-growing division of the group is the most profitable one. It's L'Oreal Dermatological Beauty, and that's good for the overall performance of the L'Oreal Group.

Operator

The next question is from Robert Ottenstein from Evercore.

Robert Edward Ottenstein ***Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Global Beverages & Household Products Research***

Great. First, a question of clarification. You mentioned, I think, during the prepared comments that China was, I think, 23% of sales; Hainan 3%. Can you give us precisely which year or period that referred to?

And then in that year, how big Korea and daigou overall would have been? So that's the first question.

And then the second question, if you could give us a little bit more sense of your strategy in China skin care, focusing on Helena Rubinstein, the role that Aesop is going to play, Carita, and how that -- the evolution of the China's skincare strategy is going?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***

Okay. Well, on the numbers, 23% was the full Chinese ecosystem, so which includes mainland China, Hong Kong and Hainan. So it doesn't include Korea and doesn't include, of course, Taiwan or Japan. So I'm not going to break it down.

As far as the weight of daigou, frankly, it's very hard to know because many -- it's managed by the operators themselves. So it really depends on the brands, on the periods. And I think the important message here is that for us, and that's something we explained many times, and I guess, we are reaping the fruits of it today in our Chinese performance is that we have always, always, always worked at favoring and at protecting the Chinese domestic market.

We have a specific working group, which is called [CCCT] which includes our Travel Retail teams and our Chinese teams managing to make sure that the level of prices, the type of promotions in -- done in Travel Retail were never detrimental to the Chinese business, and that's why we've valorize so much our Travel Retail business.

So overall, we feel we've done the right thing for China, and that's why our share continues to increase in L'Oreal Luxe China. As far as skin care is concerned, even though there are lots of opportunities in China, in fragrance, which is booming, in hair care, that's premiumizing. It's true that skin care is by far the #1 category.

And we intend to grow it with our -- with all our divisions, well, at least through the 3 divisions that are in skin care. So clearly, and I will finish with luxury and to answer specifically your questions, we have -- Dermatological Beauty is still quite small in China, but it's growing 3x the market. And we see that La Roche-Posay has some good tractions. And we believe -- and SkinCeuticals is also very strong in China the country where the brand is sold not only by derms, but also in stores and boutiques and counters. So it's a luxury medical brand in China.

L'Oreal Paris is also very strong on skin care, including men's skin care, where we have big men expert business in China. And -- but what is true is that L'Oreal Luxe is our #1 weapon or division for skin care games. And there, it's true that we are pushing because that's what Chinese consumers want. We are pushing the most premium brands because it's about the quality of the product and it's about also the experience that you can provide at a counter. (inaudible), for example, not only -- we do not just have nice counters, we have cabins where consumers can come and have treatments like they would do in a spa.

This is either in a department store or in a separate room. That's what we do with Carita. Carita is very early days. So today, it's very, very small. But we have great ambitions because it's -- this decided to have super luxurious aesthetic inspired skin care brand is very promising.

So today, Carita just opened a couple of counters and is providing services in a few spas of hotels. I want to mention, and I'll finish with Aesop. I want to mention Takami because Takami is our Japanese brand.

It's a brand that happens to be -- Takami Serum is the #1 skin care item in Japan. And we've just begun to roll it out in China. I went a couple of months ago in China to see the first counters, first beautiful blue counters of Takami and it starts very, very well. So this is another very high-tech, premium and credible brand. And of course, Aesop, which you rightfully mentioned, which is not just a skin care brand because it's about -- they have many categories. But it's a brand that's just in its early days in China.

And again, it's very aspirational, very premium and the experience you have in stores, as I'm sure you've already been in one, are very unique. And last time we went to Shanghai with Christophe, that was before signing the deal.

We had the pleasure to visit the Aesop store in Shanghai, and it was like packed with Chinese consumers, both male and female. And I think that's one of the very interesting things, both in skin care, but particularly for a brand like, Aesop, is that it's not just for women, it's really across genders. And that, of course, doubled the market potential. So very optimistic about Aesop.

Operator
The final question is from Tom Sykes from Deutsche Bank.

Thomas Richard Sykes ***Deutsche Bank AG, Research Division - Head of Business Svcs Co. Research & Industry & Leisure & Transport Research***
Yes. So just briefly, could you remind us, please, when are the toughest sell-in comps for you in Hainan, please? Because it won't just be a sort of destocking -- a question of when you're up against the tougher comps as well.

And then just -- thank you for putting the comments about volume and number of units. Just to be clear, I suppose, on the accounting sort of -- so the units literally is that if you sell 2x 50 versus 1x 100, you'll see an increase in volume because the number of units would have gone up.

And I suppose just to that, are you seeing anywhere a trend towards smaller unit size? And is that something that may have some seasonality as well, thinking particularly about Europe, maybe travel, mini sizes and whether that sort of helps at all, please?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Okay. So these are 2 complicated questions because I'm not sure I got all the math of the second one. So I don't know if you can help me, Christophe?

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
So maybe we can start with the first question. I think it was related to the growth in Hainan and Travel Retail. It depends really on the local situation. Today, we have this problem of crackdown decided by the Chinese authorities. So of course, the overall market is down, pretty down, as Nicolas said, before, to the tune of minus 30% in the last 2 or 3 months.

So it may last 1 month, 2 months, we don't know. And obviously, it will have probably some effects in the coming months. But again, we are not that much worried because most of our business by far is Mainland China, which is the stand that we have been always defending. What is important is the Mainland Chinese consumer. And here, we have growth I think above 15%. So it won't impact the overall results that we have shown before on the Chinese ecosystem.

The second question was about...

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
About units. What I can tell you is that we are not seeing a reduction in size of units. We are aside from some emerging countries where we sell in fashion, we are managing our price/volume ratios according to the brands, according to the initiatives (inaudible) advised Elvive Bond Repair because it's a highly concentrated formula and therefore, and it's procedure. It's a smaller packaging than the traditional entity but it's a bit of an exception.

Most of the products we sell are sold at the same type and size and sold we also -- some categories bring a lot and that's probably something -- I take the opportunity to mention it, even though it might not be exactly answering your question, but we invest a lot in refills because part of our sustainability transformation and the road map is about reducing significantly the amount of plastic.

Of course, we're transferring all our plastic to recycle progressively. But also we're trying to entice consumers to shift to even lesser packaging with refill. So when it's in mass market like shampoos, you have refills that are bigger than the basic size of the shampoo.

And if I take the refills (inaudible) fragrance. All our new fragrances are refilled, therefore, less no less packing. They're also bigger size than the traditional -- the basic standard product of the fragrance (inaudible) allows consumers both to have a price saving and to be able to refill several times. So that will be the only case where I see small format differences between our, I would say, our usual business and what's happening today. But in the greater scheme of things, it's not a big -- there's no big change in our activities. It's just that our growth in units is the result of, I think, the quality of our innovations and sound pricing.

Operator
Gentlemen, there are no more questions registered at this time.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Well, thank you very much for your attention and looking forward to our next exchange.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
Thank you very much.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Thank you.

Operator
Ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may disconnect now.
