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# EDITED TRANSCRIPT

Q3 2023 L'Oreal SA Corporate Sales Call

EVENT DATE/TIME: OCTOBER 19, 2023 / 4:30PM GMT

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## PRESENTATION

### Operator

Hello, and welcome to the L'Oréal 9 Months 2023 Sales Call. (Operator Instructions) Please note, this call is being recorded. Today, I'm pleased to present Françoise Lauvin. Please begin your meeting.

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

Thank you. Good evening. Bonsoir à tous. Welcome to this conference call for the release of L'Oréal Sales at the end of September 2023. On behalf of L'Oréal, I'm pleased to welcome today, Chief Executive Officer, Nicolas Hieronimus.

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

Good afternoon.

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

Chief Financial Officer, Christophe Babule.

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

Hello.

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

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

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### **Laurent Schmitt** *Business Opportunities for L'Oréal Development - President & CEO*

Good afternoon.

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

And of course, Eva Quiroga, Director of Investor Relations.

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**Eva Quiroga -**

Good afternoon.

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

We hope you received and read our press release, which was sent out a short while ago. Let me briefly share with you the highlights of this release, before we move to the Q&A session.

At the end of September, sales increased 9.4% to EUR 30.57 billion. The change in scope of consolidation was positive by 1.4%. It is mainly due to the acquisition of SkinBetter Science in October last year, and to the impact of hyperinflation accounting in Argentina and Turkey, to which one should add the acquisition of Aesop on August 30.

Foreign exchange impact was negative by minus 4.6% as all major currencies, but the Mexican peso were down or at best stable against the euro.

On a like-for-like basis, growth came to a strong 12.6%.

Turning to third quarter figures. Sales increased 4.5% to slightly above EUR 10 billion. The change in scope of consolidation was positive by 2.4%, mainly due to Aesop, and currencies had a usually negative impact of minus 9%. If it was another quarter of double-digit like-for-like growth at plus 11.1%.

Looking at our track record versus 2019, we have stayed on course with a CAGR above 8% in the third quarter and the 9 months, a truly remarkable performance among our peers.

By division at the end of September, on a like-for-like basis, Consumer Products and Dermatological Beauty both posted outstanding performance, with growth of plus 14.5% and plus 28.7%.

Sales of the Professional Products division accelerated in Q3 to 8% growth over 9 months. Our L'Oréal Luxe sales increased 6.1%.

All regions posted double-digit growth, except North Asia. In Europe, momentum remained very strong with outstanding growth of plus 17.6%. In North America, sales advanced 12.6%. The emerging markets were once again highly dynamic with growth of plus 23.6% in SAPMENA-SSA and plus 24.4% in Latin America.

In North Asia, the continued remarkable outperformance of L'Oréal in Mainland China was offset by the reset of Asian travel retail, growth came to plus 1.3%. A few remarks to help you in your forecast for the

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end of the year, extrapolating end of September currency rates until year-end or EUR 1 at around USD 1.06 would lead to a negative ForEx impact of minus 4.7% over full year sales. With regards to changes in the scope of consolidation, the impact is likely to be positive to the tune of 1.8% over full year.

In conclusion, we are conscious of the economic and geopolitical uncertainties. However, the strong performance, both in the third quarter and over the first 9 months, gives us confidence in our ability to continue to outperform a dynamic beauty market, and to achieve, in 2023, another year of growth in sales and profit.

On a more personal note, I would like to tell you that this is my last conference call. It has been exciting and fascinating 14-year journey in such a thriving company that is constantly reinventing itself. I wish to thank all amazing L'Oréalians for their patience and passion. They have all helped build and relentlessly raise L'Oréal's profile within the global financial community.

I also wish to thank you, who are listening to this call, for our sometimes challenging yet always enjoyable conversations, our memorable interactions and above all, your unwavering support.

I'm very pleased to hand over the keys to Eva Quiroga, who many of you already know. I have no doubt that you will be in very good hands, and I'm sure that everything is in place for her, together with all the team, to drive the group to new heights.

I thank you for your attention, and we will be taking your questions.

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

Well, first of all, a few words. First of all, I'd like to thank Françoise, also for her incredible contribution. We're going to try to make this call -- live up to your expectations as your last call. And before answering your questions, maybe just a few words of introduction, which will be consistent with what I wrote in the press release. But I have to say that some I'm very pleased with the results of our last quarter as well as the year-to-date.

The beauty market remains very dynamic. We estimate this growth at circa 9% after 9 months. So it demonstrates its incredible resilience considering the context. And more importantly, I would say, once again, L'Oréal demonstrates its capacity to overperform 1.3x the market year-to-date to gain share, and more importantly, demonstrates its capacity to compensate or offset temporary pockets of weakness; thanks to its balanced footprint, in terms of regions of divisions and its agility to reallocate resources, where ascending currents are the strongest. And that's what allowed us to have this plus 11.1% Q3 to stay on course with this as announced plus 8% over plus 8% CAGR over 4 years quarter after quarter.

And we discussed we're going to discuss the highlights of this quarter. Of course, there's incredible performance of CPD, record growth over 9 months. We don't have higher growth in record. L'Oréal Dermatological Beauty, which continues to strive at plus 28%.

And as far as regions are concerned, it's true that all regions kept the pace they had on the first half, except one, which we had announced, and I guess we will discuss, which is Travel Retail Asia. But overall, as we titled the press release, L'Oréal stayed its course to deliver another year of performance and of growth in sales and profits, pending all the uncertainties of this world, but we feel confident about the remaining part of this year.

So thank you, and we are ready for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from the line of (inaudible) from UBS.

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### Guillaume Delmas UBS -

First of all, Françoise, a big, big thank you for all your help. And I think when dealing with me all your patience over the years. So I love you very much. And of course, congrats to Eva.

So 2 questions for me, please. The first one on China. I mean, maybe if you can provide a bit more granularity on your performance there, because it seems you're doing very well in Mainland. It's a soft market that you're doing well. But at the same time, you're also facing this Travel Retail reset. And on this, I mean, do you have good visibility on how long it is going to last, and whether the peak of this adjustment is now behind you or not? And I guess, looking at Q4, how should we think about the upcoming 11/11 festival?

And then the second question on one topic. And then -- the second topic, I mean, actually, like, it's a highlight. North America, because there's been a sequential acceleration of an already quite strong base in the quarter. So any light you can shed on the drivers behind this strong performance? And I guess, should we see your Q3 growth in North America as a clear, clear evidence that you are not seeing any signs of changing consumer behavior? So no trading down or consumers going less to hair salon.

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

Okay. So let's take -- let's try to take things one after the other. On the Chinese market, indeed, I think there -- I just come back from China. But the two things we can say is that I was not super impressed by the market, but I was super impressed by the L'Oréal teams and their performance.

I mean the market is, as everybody says, a bit slow to recover. It's flattish after 9 months, but L'Oréal continues to really outperform. We have a 10-point gap with the market. We're gaining share in all divisions. And that's really the result of great online activity, good offline come back on the market where consumers are still a bit shy in their spending. But we are achieving record shares. I'm thinking about L'Oréal Luxe in particular, where we are at the 33% market share lately, and that's really kudos to the teams to the performance of our existing brands, of course, Lancôme, L'Oréal Paris, YSL that have

continued to perform very well, SkinCeuticals. But also the first contributions of new brands like Takami, like Prada, which we've just launched in China. We also have a very solid performance of Helena Rubinstein. So everything premium in skin care continues to do great.

So it's -- the market is a bit soft, but I have to say that our teams are really on the attack and gaining share. So that's the picture of China.

As far as Double 11 is concerned, it's too soon to tell, obviously, because the presales are starting in late October. So we'll see. Let's say that might take on this at this point is what I see in the Chinese consumption pattern since the beginning of the year, is that the shy consumers are less shy during the big events, and we have seen that whether it's during Valentine's Day, whether it is 6/18. The market has had its best peaks of growth during this moment, as if, I would say, the consumers were waiting for the moment when there are promotions or new offers to build their own inventory.

So -- and usually, we do overperform on these big events. So frankly, I have lots of hopes for Double 11, but it's too soon to tell. But usually, and so far, as we've seen this year, events have been successful, and we've been overperforming on these events. So that's my answer to the second point on China.

As far as Travel Retail, I think it's -- as in the last call, I had announced that following the reset of the policy regarding Travel Retail and the crackdown on Daigou, the market has very significantly reduced its sellout, a slowdown. And because it's a new consumption paradigm, we have inventory to reduce, and we've been focusing over the summer to -- in reducing significantly our stock in trade. We've actually gained a little bit of share in sellout, but it's in a lower sellout.

So what I would say on the Travel Retail impact on our business is that, one, it's circumscribed. It's limited to Travel Retail Asia. And even within Travel Retail Asia, it's limited to Hainan and Korea, which, together, are weighing a bit less than 5% of the L'Oréal Group's turnover, which means that it's limited. So circumscribed, limited and temporary.

So as far as your question about how long will it take, I think the inventory reduction will probably last until the end of the year. And that will set up -- set us up for a better pattern in 2024, particularly, of course, in the second half of the year. So that's globally the picture of China.

And clearly, we are all still very ambitious for this country, because we have many cities to conquer. We are opening new cities this year, but we have a very ambitious plan for next year. It's important to remind that in China, our brands are not totally fully distributed, and we have only the top brands that are like L'Oréal Paris and Lancôme, who are in 150 cities, but a lot of other brands can open new doors and including Lancôme.

So we remain -- of course, we'd like the market to be more dynamic, but what we've proven so far is that we don't need the market to grow, and that's what we intend to continue to do.

As far as North America is concerned, I must say indeed that I'm pleased with the results of the teams. And to answer your question in terms of seeing signs of reduction of consumers' appetite for beauty, we don't see major deceleration. We see small deceleration here and there. But overall, it remains very dynamic. And we continue to see our growth in all 4 divisions being very positive.

So again, the confidence is high. We are entering the holiday season in North America, and holiday season is fragrance season and it is true that in our L'Oréal Luxe business today, the one part of the catalog that the most performing is fragrance. So we have -- we are ambitious for the end of the year.

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**Operator**

And our next question comes from the line of Celine Pannuti from JPMorgan.

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**Celine A.H. Pannuti JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst**

My first question is maybe to come back on that developed market performance, which clearly was quite strong, both in North America and Europe. So obviously, these are 2 different regions. But could we, maybe if take one by one, understand what happened in North America in terms of that performance, selling to sellout market share gains and if you could give us a bit more granularity in terms of the divisions performance from North America?

And I would say Europe, if you could as well call out what has driven that strong number. I mean I know it was already 20% in Q1, but still remaining quite strong despite the comp that you had called out, by the way, on the higher pricing in the second half of the year. So that would be my first question.

And just maybe if I could add as well a second question on China, Mainland. I get from what you said at 9 months that China growth was about 5% to 6% in the third quarter in the Mainland. Is that more or less correct? And you said that you outgrew the market. So what is the market growth? And what do you think -- if you could tell us what has been the difference in market growth between mass market and luxury in Mainland?

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

Okay. So let's take them one after the other. So first, North America, I'll get back to this. So the market in North America remains very dynamic over 9 months, and it's particularly driven by makeup and fragrances, but good contributions, which are both growing double-digit at market level and good contribution from skin care and hair. And we have had strong performance across all 4 divisions.

So just to give you more granularity, as you said, Dermatological Beauty is in the high 20s in growth. Luxury is in mid-teens. The Mass Market is in very high single digits and Professional is in mid-single digits. So we have actually 3 divisions that I would say, if CPD is so close to double digit, we could almost consider it as such. So all divisions are growing.

And of course, it's a blend of innovation, of digital activation of pricing, and it's true for all developed

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markets. I have to say that because we didn't get the question, but it was mentioned in the press release that overall, our third quarter growth remains with the same pattern in terms of volume-value split. So we have slightly over 1/3 of our growth coming from volume, which means that L'Oréal continues, despite valorization, continues to grow in units, and that's been a driver, of course, for the U.S. as it has been and it is for Europe.

If I go back to the European market now. Europe is also very dynamic. It's a "grand cru" as we said, a great vintage because it's very broad-based, the growth. So first of all, every quarter was up in strong double digits. Every country grew in double digits, of course, except Russia. And in most countries, we are well ahead of the market. And every division grew, of course, it's led by the Dermatological Beauty and the Consumer Products division. But Luxury is also growing at double digits. So -- and in Q3, all divisions grew in double digits in Europe. So that's -- it's positive.

Of course, there is a price effect like in North America, which, in both cases, is going to progressively level off as we enter the comparative of last year's price increases. But what's important is that volumes remained positive in every quarter. So even though in some markets in Europe, volumes are decreasing a bit, but we continue to be -- our consumers, which are upper middle class consumers in most cases, are attracted to our products to our -- and to our innovation. So that's the situation in Europe.

And Christophe wants to add something.

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

Sorry, I will add in fact because it was part of your question, constitute of the growth is that the same as the whole group. So we have more than 1/3 is volume, which is quite incredible for Europe. 1/3 is volume, a little bit more than 1/3 and the rest is value.

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

So -- and you -- so your other question was on the growth of Mainland China. So as we said, China has been growing at plus 7.7% in Q3. On the market that was year-to-date, it was flat.

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

So year-to-date in China is at 7.7%.

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

Yes.

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

In Q3, it is even a little bit higher, it is 7.9%.

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

Sorry.



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

So just to be.

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

7.9% and the market is flattish year-to-date. So end of summer was made of high-end lows. Bad July, great August, average September. So it's -- it remains overall on this kind of mute growth situation, which again, as you can see, does not prevent our brands from growing.

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

Meaning that all the growth has been done on a gain of market share, and what is more remarkable is that this is with volume in all 4 divisions in China.

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**Celine A.H. Pannuti JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst**

Okay. Just can you clarify (inaudible) the market is flat year-to-date, what is a Mass Market versus Luxe in China in terms of market growth?

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

I'm trying to find that. If the market is flat, the market is in mid-single digits on the Luxury, slightly negative on Mass, mid-single digit on the Dermatology and slightly negative on Professional. And in each case, we are significantly above the market with, of course, the biggest gap on Dermatology and Professional, but that's not currently expected. But Luxury continues, as I said, to be really impressive in its capacity to gain share. So again, kudos to the team there.

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**Operator**

And one moment for our next question, please. And our next question comes from the line of Iain Simpson from Barclays.

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**Iain Edward Simpson Barclays Bank PLC, Research Division - Analyst**

I'm very sorry that this will be Françoise's last result call is like everyone are saying, I've hugely enjoyed our exchanges over the years, but I wish you all the best for the future.

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

Thank you.

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**Iain Edward Simpson Barclays Bank PLC, Research Division - Analyst**

A couple of questions from me. First, would you be able to have a go at quantifying how much of the destock headwind in Asia Travel Retail we had in the Q3 and whether we should expect a similar level of headwind in the Q4, before that kind of dropping out as we look into first half of next year?

And secondly, just thinking a little bit about operational near-term dynamics in the U.S., some of the sort of scanner data there suggests a bit of a slowdown in the Color Cosmetics category through September

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and October. I just wanted if you could comment in terms of what you are seeing in U.S. Color Cosmetics and how that trended through the Q3 and what the exit rate looked like, please?

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

You want to take the second question, Christophe?

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

Yes. So in Travel Retail if we look at the overall market, we see a market that has been in the Q3 at roughly minus 12%. And of course, regarding our sellout, we've been following more or less the market pattern but we've been, of course, slowing down the sell-in. And this is to significantly reduce our level of stocks. So this is already visible in end of September. And we do believe that we still have to do a part of the job in Q4.

I don't have the precise figures of how much stock, but the objective is to come back to the normal level of stock at the end of this year. So usually, in that kind of business we stand between 3 to 4 months of stock, which is the regular level of stock. So this is our objective to make sure that as soon as January 1, if the market is up, of course, we'll be able to catch all the growth. So as usual, we will adjust the stocks accordingly every quarter.

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

And as far as the U.S. are concerned, on the makeup market -- actually it's a bit of the tale of 2 cities because on the one hand, we've seen a slowdown of the mass makeup market in Q3, but in -- we've seen also an acceleration of the luxury makeup market during the same quarter.

So of course, it's very hard to predict, looking ahead. But -- and more importantly, we are -- which is an area where we can improve, but we are progressively improving our performance in luxury makeup, with a good comeback of Armani, good results of YSL, the performance of Lancôme on Amazon, which, as you know, we've opened Amazon for Lancôme, and it happens to be a very successful, both in terms of sales, but also in terms of recruitment of new consumers, thanks to the media we are spending on the platform. So it's positive for the future of L'Oréal Luxe in North America.

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**Operator**

And our next question comes from the line of Bruno Monteyne from Bernstein.

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

My first question is about emerging markets ex China. I think in the past, you sort of discussed how the e-commerce penetration is helping you grow quite fast. It's driven by the brands in the consumer division, quite different from other regions. So you've been growing at 20% or more for quite a while now, and that region isn't that much smaller than China. So what I'm trying to lead up to, it's driving more growth than China, even if China was to normalize somewhat. Am I fair to expect that emerging market exciting will be as big and bigger as a growth contribution for you than China will be? That's the first question.

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And the second question is, you were talking about the market growth trend in China Mainland. And I was a bit confused. I thought you said that premium beauty in the market, not for L'Oréal, was growing faster than mass market. Did I hear that correctly? Because most of the online data seem to suggest the opposite, that premium is declining versus mass market doing better? And is there any reason why e-commerce would be so different?

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

Okay. So the question on emerging markets. It's true that, frankly, the performance of our emerging markets are -- is extremely strong. There are both Latin America and our SAPMENA-SSA region are growing in the area of 24%. And there's a little bit of a race between the two to know who's going to be the fastest for the year.

And it's really -- what I have to say, first of all, is the incredible resilience of these markets overall. They are growing double digits. We said that both are between the 12% and 13% type of growth. And we often get the question about whether we feel confident that it is going to last. And I have to say that if there's one positive effect for some parts of the world of the overall geopolitics, it's for emerging markets, because you see both India getting a lot of investments and developing its economy and you see the market accelerating. And a country like Mexico is also booming and has a strong currency, because a lot of industries are being developed, there is lot of American investments in Mexico. And we see also Brazil benefiting from its ability to trade both with China and North America. So this market, the economy overall and consumptions are very solid.

And it's true that at least in Southeast Asia, we are behind in terms of market share. Our market share in India is only 8% when it's 15% at global level. So we are accelerating and growing very significantly, with a growth of over 20% in India at the end of 9 months.

So as far as contribution to growth is concerned, yes, this year, considering the growth of the different regions and the impact of both Travel Retail and the slower market in China, the sum of the 2 emerging markets will be the biggest growth contributor to the group than North Asia. But the biggest growth contributor to the group this year will also be Europe, which is something we are very happy about.

And as far as your question on China, yes, the premium part of the market is the fastest growing year-to-date. I think we have a significant contribution to that growth, because we do animate the market with our innovation, with our new brands. And it's true also that -- as you know, e-commerce is also -- and the success of the big events, such as 6/18 or Valentine's Day is always favoring first the big brands, which is why L'Oréal Paris is very successful, too. But also more premium products, because that's both more interesting for the algorithm of the platform, but also that's where the promotions have a more significant impact for the consumer. So we see great results for Lancôme at their super brand days or 6/18, same for our Helena Rubinstein or Yves Saint Laurent.

And as I said, our 2 premium skin care brands in China, Takami, our Japanese skincare brand and Helena

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Rubinstein are having really spectacular growth in Mainland China.

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

It's true in each division because it's not only true for Luxury, but the same for our PPD Division with Kerastase skyrocketing or SkinCeuticals for our Dermatological Beauty.

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

In fact, the Chinese consumer is -- has become -- that's one of the things, the evolutions we see post-COVID has become, I would say, even more pragmatic, even more demanding on the quality of the product, on the functional benefit, as they say, of the product. And so when you have brands or products that really do perform in terms of efficacy and also in terms of brand aspiration, they can thrive on the Chinese market.

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**Operator**

And our next question is coming from the line of Olivier Nicolai from Goldman Sachs.

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**Jean-Olivier Nicolai Goldman Sachs Group, Inc., Research Division - Equity Analyst**

Thank you again, Françoise, for your help throughout all these years. 2 questions, please. First of all, on Aesop has been part of the L'Oréal, I mean now for the last 6 weeks. So I know it's still early days, but would be great to hear. If you could give us your first impression of the brand and kind of the ambition for the brand, how quickly it could become a big other brand? And when can we expect this EBIT margin, which on the numbers from the previous order was quite low to be in line with the rest of L'Oréal Luxe?

And then secondly, on Lancôme on Amazon in the U.S. has been a tremendous success since the launch. I was just wondering if it's a different consumer that you're recruiting there, are you gaining share from other luxury brands? Or are you actually pushing your mainstream consumer to premiumize to some extent? And would you consider doing the same thing in Europe, having Lancôme being sort of on Amazon in the U.K. or in France and in the rest of Europe?

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

Okay. So Aesop. We've been trained by Aesopians, who are the employees of Aesop to say that you have to say Aesop and not Aesop, which is a mistake I was making. So I'm happy to share that with you.

Aside from that, first of all, the first impression, I will start with the numbers in September, Aesop did a plus 17-point-something growth. So it's a very good top line growth, first of all.

Second, we met the teams, and we welcome them, and we brought them in. We brought with us the CEO of Aesop to our China trip, because obviously, China is the #1 growth opportunity for Aesop. We have 4 stores in Shanghai, which are beautiful, but only 4 stores in Shanghai. So it's the very beginning. We are about to work with them and to make them benefit from our clout and from our R&D support. But frankly, this is the moment where we're getting to know the teams. But we are very frankly, very exciting at the prospect and about the growth opportunities.

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On the specific topic of profitability, the first thing -- 2 things to say. First, as we said, and it's important for me to remind it is that based on our -- on the numbers we have, and we are still really fine-tuning them, but the -- we know that Aesop will have a 25 basis points dilution effect on the 12-year rolling period for the group. 12 months, sorry, 12 months period for the group, so -- which is something we have to take into account for next year.

And overall, even though the objective is also to progressively improve this profitability, we must not forget that as it's a retail brand, the profitability is calculated on consumer pricing, consumer price numbers, not on wholesale prices. So of course, in percentage point, it's always going to be lower. But considering the growth potential, I think it will be very beneficial to the earnings per share of L'Oréal in the years to come. So just the beginning, and truly excited about it. We'll see what happens next.

And as far as Lancôme on Amazon is concerned, it's true it's great. It's a great start. And by the way, what's interesting is that it's particularly good on makeup, where Lancôme probably a bit -- tiny bit more facilities in the environment of a [Sephora] to speak to its consumers.

First of all, I want to say that there would -- there have been a fantastic work done by the American teams along with the brand team to create a shopping experience which is truly worthy of the brand equity of Lancôme. And if you go to the Lancôme page on Amazon, you will see that it's really as good as our own D2C brand site.

And regarding consumers, we see that the first numbers are that, around 75% are new to the brand. So maybe they were buying somewhere where we did not compute them. But overall, so I'm not sure the 75% is 100% accurate, but it's a good proxy of the fact that through a new distribution channel, with a brand that's already quite known, you can truly reach new consumers and increase your penetration.

So it's good news. And I think it's -- I can't say whether it's taking from other brands on Amazon, because not yet many luxury brands are present on Amazon. We have more, I would say, accessible luxury brands such as Urban Decay or Youth To The People right now. And -- but I think for me, it's more a penetration tool than necessarily trying to steal from brand A or B.

So very promising. And of course, we have to continue and to make sure that Lancôme continues to develop on this platform.

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#### **Operator**

(Operator Instructions) And our next question comes from the line of Ashley Wallace.

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#### **Ashley Wallace BofA Securities, Research Division - MD & Equity Analyst**

I have 3 questions, please. The first one is a follow-up question on Asia Travel Retail. I guess the destocking in Korea started right at the beginning of the year, so 4 or 5 months ahead of Hainan. I was wondering if you feel that Korea Travel Retail has already ended its destocking, and if you can help us

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understand if you're seeing better trends there or not? And connected to that ends with the Hainan weakness, can you help us understand the potential margin implication of the weakness in Asia Travel Retail on the second half EBIT margin for the Luxe division?

My second question is actually on Europe. A little bit of a follow-up. I know you spent a bit of time on it. But in some of the consumer categories like luxury and retail, and we've already started to see size of weakness playing out with the European local consumer. Obviously, you've had great Q3 results overall, but is there anything that worries you in the European market, for example, trends towards the end of September, signs of downtrading or volume weakness?

And then my third question is more of a modeling question. At the beginning of the call, I think Françoise mentioned an adjustment for hyperinflation? Can you just explain a little bit what that means? Does it impact anything but the FX component? Or do you make some type of an adjustment for the like-for-like also?

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

We start with the last question with Christophe and I'll -- and we'll deal with the other ones together.

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

I will start with maybe Travel Retail. I think your question was on the stocking in Korea. So I can tell you that here, the level of stocks is very healthy. So there is not much destocking to do in that part? And regarding the Hainan impact. So I just want to remind you that today, Hainan is around 2% of our sales. So maybe, yes, for Luxe, it's always more complicated because of the level of profit, but it's really manageable. So it's totally, I would say, even if it's -- it will have a small impact, but totally manageable.

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

It will have an impact for Luxury, but for the group, we can manage. That's, in the end, the principle of our compensation system between divisions, regions that we can offset, as I said, temporary pockets of weakness, and it's true for top line and it's, of course, true for profits.

As far as Europe is concerned, we don't see impact on our sales. We don't see slowdown or trading down on our sales. As I told you, all 4 divisions grew double digit in Q3. It's true that in some markets, you see negative units. But not on our brands, because I think we have a very different profile of consumers, and it's fair to say that on some, I would say, lower-end brand, there is more reduction of consumption, including some own labels, but we continue to grow in units and we have a good performance, thanks to our innovations.

I think it's important to remind always that beauty is and offer market. It's a market where, of course, some people buy a basic product for just functional results, but our consumers are looking for the best of beauty. And when I see the success and results of a brand like the new hair color, GOOD from Garnier, which is very premium versus the market of Bond Repair from Elsève, the new YSL fragrance, MYSLF from Yves Saint Laurent. Kerastase shampoos or Metal Detox from L'Oréal Professional, which are all

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sophisticated premium, high-quality products. These are flying. So there's there is a, I would say, a very specific situation where we manage to continue to grow in units and value on the market.

And you had a question on the hyperinflation.

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**Ashley Wallace BofA Securities, Research Division - MD & Equity Analyst**

Hyperinflation, exactly, yes.

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

Yes. So it's a bit technical, but basically, the like-for-like are calculated on comparatives, which are restated to reflect the variation in purchasing power between prior year and the end of the latest reporting period. So and the restatement, of course, goes into the scope impact. So that's why this effect is reported there.

Of course, happy to give you more details if you wanted them.

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**Ashley Wallace BofA Securities, Research Division - MD & Equity Analyst**

I guess the impact is if you hadn't made this adjustment, the like-for-like would be better than what you just reported Double 11.

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

Okay. It's very simple. We have -- 0.5% is related to Argentina and 0.2% is for Turkey. So it's around 0.8%.

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**Ashley Wallace BofA Securities, Research Division - MD & Equity Analyst**

Okay. Perfect.

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**Operator**

And our next question comes from the line of Javier Escalante from Evercore.

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**Javier T. Escalante Manzo Evercore ISI Institutional Equities, Research Division - Research Analyst**

Good afternoon, everyone. Goodbye, Françoise. Thank you very much. Welcome, Eva. Nicolas, Christophe. I need to come back to China, but I'm a bit confused, and I thought that it was very helpful in July when you introduced this term of the China ecosystem, right?

And if you can help us understand -- thinking of the ecosystem, how much of the market is e-commerce, how much is brick-and-mortar? And this Travel Retail daigou situation, how much would have been -- or was in the past, in whatever period you have the data readily available, how do you see that pie chart, say, 12 months from now?

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

So it's a complicated question, because I don't think I have the data to answer to you on the exact split between e-commerce, brick-and-mortar, in the overall Chinese ecosystem, particularly considering the

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changes and evolutions in the Travel Retail market, where you have orders are being placed online and then taken physically. So it's hard to make that split. We can comment on the weight of e-commerce in the Mainland Chinese market, which Christophe is currently looking for.

If I go back to the ecosystem, we continue to see, as I said, different trends. The Chinese market, where we are significantly gaining share on a muted market as we said, at a plus 7.7% growth, and we clearly grew above the market.

In Hong Kong, the market has bounced back strongly, because a lot of tourists have gone back to Hong Kong. Though Hong Kong is growing very, very fast, and we are benefiting from that rebound, whilst being very careful about inventory levels. And as you know, Hainan is the opposite. Right now the market is down double-digit negative because of the change in this paradigm of the reset we've been talking about. And our own sell-out is a bit better than this number, but as we are destocking, that's why our invoicing is much lower.

But overall, if I take the total Chinese ecosystem, our sell-out, our sales to consumers have been up high single digits. And in the market, as we said, has been -- is broadly stable overall. So substantially gaining market shares. And as far as the weight of e-commerce on the Chinese market is concerned, first of all, both channels are growing for L'Oréal, whereas at the market level, it's online is slightly positive, while off-line remains slightly negative.

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

Yes, maybe on Mainland China, we see online growing very strong for L'Oréal, so double-digit growth, and offline is also growing, but mid-single-digit.

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**Javier T. Escalante Manzo Evercore ISI Institutional Equities, Research Division - Research Analyst**

And a more strategic question because you mentioned earlier, Nicolas, that something like everything premium in skin care continues to be great, right? And if there is something that is particular about China, is that these online promotions in daigou that basically -- it appears that it reaches a type of consumer that is probably not as wealthy and younger than the same products in the West. Do you think that, that is good long-term strategy? Meaning that once you say use Helena Rubinstein, you're not going to go back to something that is less. So, or the contrary, if the economy goes south, so basically, you are going to lose these aspirational shoppers. Any view when it comes to that?

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

Well, first of all, just to remind that our strategy in the Chinese ecosystem, first of all, has always been to focus privilege and always favor Mainland China. So daigou is not a strategy. Daigou was a phenomenon that we had to live with, and we're very happy that it ends, and that's the market goes back to normal.

And of course, whether on the big events or during -- or when the daigou phenomenon was prevalent, you have a number of consumers that benefit from the offers from better prices to discover our brands. And that's why, by the way, while Travel Retail will always remain a very important channel for us, not

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just for promotions, but also because it showcases our brands in a way that frankly, is absolutely second to none.

So we do recruit consumers with our big events and with our Travel Retail activities. We also have consumers that stock up that are already loyal consumers. So it's a good way.

We, of course, continue to sell outside of the big events. And what we are not at all afraid of is people abandoning our brands, because if that was the case, right now, we wouldn't see our most premium skin care brands growing faster.

Actually, people are striving for quality. They want quality and Helena Rubinstein, I don't know if you have tried one of these creams but it's the best anti-aging cream that we have in the group and consumers love it.

So today, it's actually a bit more difficult for mid-market brands than for premium brands. So our strategy is to continue to allow people to try our brands. And the way to do it, as I said, will be also to open new city.

I remind you, because that's an information we share every now and then but that our market share overall in China is extremely different between Tier 1 cities and Tier 3, 5 cities, and it's over 25% in Tier 1 cities and it's below 10% in cities in Tier 3 and 5. So right now, we see that we are opening new counters in Tier 3 cities and plus. That's where we're going to gain the largest number of consumers.

Again, today, we sell approximately to 100 million consumers in China out of an addressable target of 400 million. So we have lots of people to reach. And of course, one of the ways to do it is through the big events you were talking about, but also opening doors, presenting the brands in a very beautiful way in these new cities. And we see, that even in these Tier 4, 5 cities that we were serving already through e-commerce, would be T-Mall during Double 11, when we open a counter or a boutique, it increases both the sales offline, of course, but also the sales online, because suddenly consumers discover the quality of the brand. So it's -- I don't think there is any risk on the strategy, because Mainland China has always been our priority.

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**Javier T. Escalante Manzo** *Evercore ISI Institutional Equities, Research Division - Research Analyst*

Thank you, Nicolas. That was my base assumption that people -- when people try the good stuff, they don't go back.

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**Operator**

Thank you. And as we have no more questions registered, I now hand back to our speakers for any closing comments.

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

No. I think we are very -- again, it was the last call for Françoise. She was very moved. I can tell you, you

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cannot see her, but she was very moved by everybody's comments. So I guess, maybe some of you will invite her for a cup of tea. And in the meantime, we do thank you for your questions and your attention, and have a good evening.

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

Thank you.

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**Operator**

This now concludes our conference call. Thank you all for attending. You may now disconnect.

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