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EDITED TRANSCRIPT

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PRESENTATION

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Good morning, everyone. Please join me in welcoming L'Oreal back to CAGNY this year and thanking them for sponsoring our breakfast this morning. Joining us today are CEO, Nicolas Hieronimus; and CFO, Christophe Babule. L'Oreal has an enviable position of being the world's beauty leader over the past 110 years.

The company has focused on top line growth and has invested in R&D, innovation and technology to drive superior top line growth in beauty. With that, we're excited to hear more about the company's plans as they further build upon their leadership gap in the global beauty market. So I'm going to turn it over to Nicolas to hear more about their efforts. Thank you.

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

Thank you very much. Thank you so much. Good morning, everyone, and very happy to be back to CAGNY for the second year and to tell you about L'Oreal. But as you've been, probably over the week, evolving from one category to another, just a quick reminder about beauty because it's a very unique category, and we've been doing this for 115 years now.

And a reminder that beauty has always existed in every civilization. There's no civilization that's survived without beauty, whether from the Egyptians that were using beauty to protect their eyes, they were using coal or the Chinese that were using it for decoration.

So it's always been there, in the past, in the present and in the future. And beauty is very important because beauty is a social need. It's a we thing. It's not just the me thing. It's not just how do I look good, but how do I belong to a group? How do I make myself part of society?

And that's why it's very important, even more today when people tend to be even more isolated. Beauty is also reflecting societal changes. It's always accompanied from the liberation of women to the expression of different versions of genders. Beauty has always been there to reflect social changes. And that's why beauty has always been, and I guess, will always be a growing category. If you look at the

trajectory of beauty over the last 20 years, it's been more than doubling its size to reach EUR 270 billion with an average growth of probably 4% to 5%, never stop growing except the COVID year where the stores were closed and it's bounced back since then with high single-digit growth numbers over the last couple of years.

So this is the category we are part of. This is the category we are leading. And today, I'm going to try to show you 4 parts in my presentation. One, presenting L'Oreal, for those who don't know it; second, tell you about our record year in 2023, why we're confident for 2024 and more importantly, how we prepare the future for the next 115 years to keep L'Oreal, this leading company and this growing company you know of.

So to start with, we are the #1 leader in beauty and rather than a long speech at L'Oreal, we like beautiful images. So I will start with a video to show you, tell you a bit more about L'Oreal.

(presentation)

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

So you know a bit more about us with this video. As you saw, well, we are the world leader in beauty with over EUR 41 billion sales in 2023, EUR 6 billion net profit. We sell around 7 billion units in 150 countries. So a lot of people are discovering and trying the L'Oreal quality. We have over 90,000 employees and EUR 230 billion approximately market capitalization.

And we've been always doing beauty for 115 years. We're going to be celebrating 115th anniversary in 2024. And it started with a hair color invented by Eugene Schueller, the founder of L'Oreal. Now we are partnering with Louvre with our Lancôme brands and already exploring the future of beauty in the metaverse with our L'Oreal Professional division.

And this passion for beauty acknowledges -- this focus on beauty acknowledges that beauty is a very unique expertise. It's a blend of science, of retail experience, of creativity, of fashion, of colors, of craftsmanship, of artistry. And it's a very, very unique thing. We've been doing this for 115 years. 115 years of research, we were founded by a chemist, researchers. And as you'll hear later, research has always been at the heart and will always be at the heart of L'Oreal. It's 115 years of consumer knowledge, and I have to say it's been accelerated over the last decade with the possibility to capture data.

And it's 115 years of creativity because science doesn't work without creative and beauty. So we do only beauty, but we do all of beauty at all price points from EUR 4 to EUR 5 shampoos to EUR 400 skin care creams, and that allows us to speak to all consumers around the world.

And that -- to do that, we have a fantastic portfolio of 37 international brands. We'll have 38 early 2025 when we get the new Miu Miu license back. And we used to say we have the best brand portfolio in the industry. These are words. But the reality is that if you look at the details we have in L'Oreal Paris, the #1

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beauty brand in the world. These are images of our catwalk under the Eiffel Tower celebrating diversity and worth and women's worth over EUR 7 billion of sales.

We have in Maybelline, an American brand, the #1 makeup brand in the world. Then if we switch to luxury, we have with Lancôme, the #2 luxury beauty brands for women in the world; number 1 in China, and that's been one of the strong growth drivers in the last decade. And we have a fantastic portfolio of couture brands.

Here, I have some of our -- 4 of our licenses, on only to be ours from January 2025. But if I look at the list index, which is published every quarter and which list the hottest brands in Couture. You can see that we have 4 of the top 10 brands with Prada, Miu Miu, Yves Saint Laurent and Valentino. So a very strong luxury brand portfolio.

Then we have in Professional, the #1 hair care professional brands in the world with Kerastase and the #1 personal hair care brand in the U.S.A. with Redken, one of our strong American brands because we have a very strong portfolio of various American brands.

Then one of, I would say, of our major growth engines has been over the last few years our dermatological beauty division, and that's owning some of the brands you see here. And we have 3 of the top 4 most prescribed brands by dermatologists, La Roche-Posay, #1; Vichy, #2; and the very fast-growing CeraVe being #4. So that's a very strong asset in today's world where consumers are wanting brands that they can trust. This brand portfolio has been built over the years with acquisitions, and we started in 1967 with Lancôme and Garnier. And then as you can see, it's never stopped acquiring brands, which we've rolled out globally after sporting brands that had something that was the complementary of our own portfolio in a given country and we're making them global.

L'Oreal Paris, L'Oreal Professional and Kerastase are the only brands that were actually created by L'Oreal, all the others were acquisitions. And the last one, clearly, was one of our very happy and big acquisitions of 2023 is Aesop, which is this fantastic luxury brand which is EUR 0.5 billion when we acquire it.

And clearly, our intention is to make this a billionaire brand to have it joined the billionaire brand club, which you can see on the screen, all these brands are billionaires in euros. You saw that L'Oreal Paris was EUR 7 billion. Some are really very big, big brands.

But all of this are above EUR 1 billion and growing very fast: CeraVe, La Roche-Posay, YSL and the latest member of the club is the one on the bottom of the chart, Helena Rubinstein, which is a brand that was, I would say, pretty on a slow burn for many years and now has very much accelerated and has become both a very big, growing and profitable brand.

So we make our brands bigger and we globalize them, thanks to a very complementary set of divisions. We have 4 divisions, consumer products, luxury, professional products and dermatological beauty, and

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they all play a very important part in our strategy. The L'Oreal Consumer Products, which is our mass market operation has a very clear mission which I think kind of unique in the mass market environment, which is both to democratize and to premiumize.

Democratize means reaching as many people as possible, but premiumize means doing it at a price point which not only allows us to have a good gross margin, but also to continuously generate fuel to support the brand. It's a EUR 15 billion brands, and it reaches over 1 billion consumers. And of course, it's our main weapon to conquer new markets. I'm talking about emerging markets, and we can see here some examples of Garnier, which is the particularly the leading beauty brand in Indonesia and which is rolling its products across the whole emerging world, where we are making very, very strong inroads over the last couple of years.

Then we -- when we say we premiumize, we bring up products that have superior quality, higher price points but also we work with our partners, retailers, to elevate the vision of beauty in their stores because if you create premium products in an ugly environment, consumers are not going to buy. So not only do we create the products, but we work with our partners.

This is an example in -- somewhere in Europe where we truly work at elevating the beauty experience. Elevation is the story of L'Oreal Luxe. L'Oreal Luxe has become in 2023 is one of the milestones of this year, the #1 luxury beauty player in the world with close to EUR 15 billion in sales and a very high level of profitability compared to its peers with over 22% profitability.

And here, the name of the game is really to win in all categories. So we are the #1 worldwide in fragrance, which is an extremely dynamic category since COVID, and you see some of the products that are in the top 10 worldwide today. But we also are a strong player in skin care.

I was telling you about the fantastic performance of Helena Rubinstein. There's brands like Lancôme or like Kiehl's and (inaudible) Aesop are contributing to our performance in skincare, and we continue to accelerate also in makeup through our Couture brands. But what we do also is to try to work both at elevating again the brick-and-mortar experience, but at the same time, to create this new online experience, and you can see here some examples of Lancôme on Amazon where you can see a true luxury experience of a luxury brand on Amazon benefiting to both parties.

Professional is about bringing the best of professional beauty to all. It's EUR 4.6 billion in sales. We work with 400,000 salons and more, I would say, more interestingly because it's a new phenomenon or I'd say new for the last 5 to 6 years, the rise of independent stylists. So we work directly with 3 million independent stylists, and we've done that by really going truly omnichannel.

So we go omnichannel, to sell our professional hair care products to consumers, be it in selective retail or online, but also we have gone omnichannel to reach this independent stylist with our e-commerce platforms with our distribution networks of salon centric and has been really working for this division on a professional market that has not been growing a lot over the last couple of years.

And finally, we have our rocket ship, which is Dermatological Beauty, which is truly surfing on the quest of consumers for healthy, trustable products, EUR 6 billion in sales, but more importantly, it's doubled its sales in 3 years. So it's moved from EUR 3 billion to EUR 6.4 billion, reaching 100 million consumers more in 3 years.

And more importantly, the success of this division really relies on the proximity and the relationship with doctors. We interact directly with 290,000 doctors, derms, but also GPs, pediatricians, and that gives a lot of credibility to our brands because we work with these professionals to develop the product and to assess them. And of course, it's medical, but it's also medical boosted by social.

And a brand like CeraVe has done a fantastic work, leveraging the strength of dermatologists and the partnership with dermatologists on the social network. And I have to say, I'm pretty proud of the work they've been doing over the last couple of months, building on a few mentions that were found on the social network that CeraVe might have been developed by Michael Cera, and we decided, the team decided to play on that story. And there was 2 months of building up that fake news. And of course, the truth was revealed over the Super Bowl, so I invite you to discover if you haven't seen it, the CeraVe ad for the Super Bowl this year.

(presentation)

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

So it was actually ranked by Advertising Age, AdNews and a few others the best Super Bowl advertising this year. So it was a first for us, but I have to say it's always good to bring a little bit of humor in the serious world of dermatology.

Going back to the presentation of L'Oreal, this is how our business is split between different categories. You see that skin care is our main category and followed by hair where we've been making a lot of progress, makeup and fragrances and very little hygiene. So they are mostly valorized category, high gross margin and that has allowed us to thrive on the market.

We have a very global footprint. As you can see here, we do -- we have 3 major zones, Europe, North Asia and North America, which are close to 30%. But the interesting factor is that emerging markets and for us, China is not part of the emerging markets now account for 15% of our business when they were just at 10% like 3 or 4 years ago and really a major contributor to growth, as we'll see. So that's what we call multipolar.

We are multipolar by design, and that's very important in the world of today because the world is so unpredictable. There are so many geopolitical tensions, so many things that happen on one part of the world or the other that didn't unfold as expected, our ability to have both a balanced footprint and autonomy in our regions to seize opportunities is what has allowed us to be agile and to deliver our results.

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And agility is really at the core of L'Oreal. So that's -- you see my friend, Christophe Babule, the CFO, here is my copilot. We flew in yesterday from Paris. But that's how we work every month to try to reallocate resources to make sure that we do never miss an opportunity to bet on ascending currents in one part of the world and to make sure that Air L'Oreal continues to fly high.

We used to have 1 major growth engine which was China. Now as you will -- you have seen and you will see, we have several and that's why we try to leverage with Christophe. So now that you know a bit more at L'Oreal, let's talk about 2023. You may have read -- most of you have read the results, so I'm going to try to go fast.

But we are happy to celebrate the fact that if you except the year 2021, which was a post COVID rebound, it's our best comparable growth in 20 years at plus 11%. And frankly, it was not the best world in 20 years to work in. Despite that, the teams of L'Oreal did a fantastic job, demonstrated their agility and I really want to praise them for their -- these results because it's their work, it's the results of their work.

And we grew, of course, faster than a very dynamic beauty market. I think that if there was -- if we need 1 demonstration of the resilience of the beauty market, this growth at plus 8% in 2023, again, in a very difficult world is the demonstration that this market is resilient and the demonstration that we can beat this market year after year. This growth, which we achieved, this 11%, was very balanced between volume and value.

Of course, the market and L'Oreal was boosted by inflation and there were price increases in the market but we managed through our pricing policy, which I think was very measured to continue to grow. And this plus 4% in unique -- is quite unique in the industry, and also a demonstration, a good omen for the future because it means that there have been more people using the L'Oreal quality. And hopefully, these people will remain loyal customers of L'Oreal.

So a strong premiumization through a better product, but still a growth in units. All categories are growing, all growing double digit, and Fragrances continuing to be the leader of the pack in terms of growth. The Fragrance market continues to be very, very dynamic all around the world as you can see, all 4 categories are double digits. All divisions are growing.

Clearly, L'Oreal Luxe, which is the one that was most dependent upon China and Travel Retail, which are 2 parts of our business that have been less dynamic than expected in 2023 has a growth of only plus 4.5% in invoicing, more in sell-through to consumers. The other divisions are particularly strong. And I have to say that Consumer Products has had its best growth in 20 years, and the dermatological beauty continues to have very impressive scores at plus 28%.

So as we said, consumer products, as I said, 20 years is the best growth in 30 years for consumer products with a very strong innovation policy, a lot of products that came out at higher price points,

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allowing to keep our catalog very affordable, and that's how we manage to keep our consumers existing consumers in and to bring new consumers at a higher price point and improve our gross margin.

For Luxe, 13th consecutive year beating the market, and that's what allowed them to get to the leading position. For Dermatological Beauty. 6th consecutive year of double-digit growth, as you can see the track record of this division in million -- in billion euros is just impressive.

We -- I remember celebrating in 2017 the EUR 2 billion landmark and it was major event, and it was at the time, but now it's -- this division is clearly on route to EUR 10 billion, and that's clearly that's the objective of the teams there.

And finally, L'Oreal Professional Products, double -- grew twice the size of the market and reached a market share of 25%, so 1/4 of the total market.

By region, you see the performance. It's interesting to look at '23 versus '22 where we see the strong contribution of emerging markets of Europe and North America and the lackluster performance of North Asia but that's mainly due to the growth of the market. If you look on a 4 years like-for-like basis versus 2019, so pre-COVID, you can see that the 4 regions are pretty much balanced in terms of their [growth]contribution, once again demonstrating the very balanced footprint of L'Oreal. Europe grew double digit, plus 16%. Fantastic performance. Frankly, we did not expect this to be as good, but we've gained share and products, all the innovations have been -- have gotten traction on the market.

North America reached EUR 10 billion for the first time. North Asia, as we saw, was not dynamic in sell-in, but we managed to, again, gain significant market share, 80 basis points market share gains in the Chinese ecosystem. And L'Oreal Luxe reached the highest ever market share with 31.8%. So almost 32% of the luxury Chinese markets held by L'Oreal.

And you see that in Mainland China, we grew plus 5% on a market that was flat and plus 7.7% in sell-out. Finally, the emerging markets, which has really been a focus of mine to try to generate a new growth engine for L'Oreal. And these markets are now ripe for the added value products that market -- that L'Oreal has. They weigh 50% of our sales but contributed to 30% of our growth. That allowed us, all in all, to have a record operating margin at 19.8%, as you can see, a very regular delivery of margin improvement on average, 30 basis points every year. And that allows us to have a very -- sorry, this is allowed by a very virtuous P&L, which we like to remind, we have a very good gross margin at L'Oreal. And this year was particularly strong with an increase of 150 basis points. So we compensated the impact of input cost inflation that we had for the previous year. So we went back to our historical high gross margin.

As we control our SG&A, they are 10 basis points higher, but this is the impact of the Aesop acquisition. In reality, it will be 10 basis points lower without Aesop that allowed us to, at the same time, deliver the 30 basis points of extra operating margin, whilst increasing the investment behind our brands by 90 basis points.

So it's a very virtuous P&L where we fuel growth with our brands with our media, deliver high gross margin and therefore, deliver good profit improvement and therefore, reward our shareholders with regular increases of dividends. And this year, we announced an increase of 10% of our dividend to EUR 6.6.

So that's for the financial performance. And of course, we continue to focus on the extra financial performance with our L'Oreal for the future journey. I'm not going to comment on all these numbers, but they all followed. We are mostly on track on our objectives, even though the last mile is getting the hardest but we continue to be a company that's totally focused on transforming its business to make it more sustainable. We were awarded -- we're the only company in the world that's been awarded AAA by CDP for 8 years in a row.

There were 10 companies worldwide that got the AAA this year, but we are the only one that got it 8 years in a row. I have to say it's getting harder. The stakes are rising, but we work hard at staying true to our pledge to creating the beauty that moves the world.

So overall, 2023 was a great year for L'Oreal. A record year. It did not happen the way it was planned, but we managed through our agility to be -- to fall back on our feet to deliver both the growth, the improvement in profitability and in dividends and more importantly, to gain market share and to strengthen our position as the #1 beauty player in the world. Now we're entering 2024. Actually, we have entered 2024. We are here in February, almost in March, and we are confident for this year. We are confident for many reasons.

First of all, we think the beauty market will continue to grow. There's lots of questions about what's the growth rate? I would say, our consensus is that the market should grow around 5%, which is on slightly on the high side of its average compounded growth. Last year, it was 10% in the first half, 6% on the second half, there's a bit less pricing this year. Very hard to predict. But what I'm sure of is that it will remain a growing market and a market that we, of course, will thrive at work at gaining share on. It will grow because we've had the demonstration of what I call the dopamine effect of beauty.

Dopamine is the hormone of happiness. And I can tell you that when we listen to consumers, when we do focus groups, when we see consumer behaviors, we see that they use beauty to feel good, to feel better about themselves, not just to look good, but also to feel good in this world where every day on the news they hear things that are not so nice to hear. So this is part of the secret recipe of beauty and why this market continues to grow. It's the #1 category online.

Here, you have a few examples. You see all these influencers. The beauty video views across platforms were 442 billion in 2023. They've doubled versus 2022, whether it's on search, whether it's on TikTok, whether it's on Instagram, beauty is the category that speaks to everyone and that everybody speaks about, and that's the best demonstration that it will continue to grow. And of course, we will make sure that it continues to grow because beauty is an offer-driven market.

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You have to constantly stimulate the appetite of consumers with new exciting products. You see here a few examples of the product we are putting on the market right now, and we will continue to stimulate that growth with our innovation. Beauty is premiumizing. And that's very important for our P&L. It's very important for our gross margin.

Consumers all around the world are looking for better quality. There's been lots of discussions, and I'm sure we'll have questions about if they are down trading. Actually, there has been up-trading mostly around the world. If you look at hair care, this category has gone up in a price per milliliter because people want better products. And of course, we deliver better products at higher price points. Our multiparty, which I've already explained, provides us multiple growth engines. And we'll continue to make sure that we use all these engines to grow whether it's the emerging markets where we have a lower market share versus our average. Our global market share is around 15%.

And in emerging markets it is below 13%, 11% and 12%. And these markets are growing fast. So there's lots of room for growth there. That's going to be one of our important focus on the years to come. But we still believe that there is more to conquer, first of all, because there will be new consumers.

You see here that India and Indonesia will have 250 million extra consumers entering the middle classes by 2030. These are people that are striving for -- they want quality, they want good products. They are very connected, and they will benefit from our very strong and well-established global footprints.

We have subsidiaries in all the countries. I was telling you about Garnier in Indonesia, but we are in Saudi Arabia, of course, in Latin America, in India. And in all these countries, we have very strong dedicated teams. And in most of them, we have research centers that allow us to create products that are very specific to the needs of these regions, whether in terms of climate, UV exposure, the use of veil for your hair. So this capacity to adapt to the local needs gives us a very strong competitive advantage in these parts of the world.

And we are just at the beginning. Typically, we launched CeraVe in India in October 2023. So this is one of the seeds that will grow in the years to come. India is only today, I would say, already, but only our top #15 country in terms of contribution to growth. So it's good, but it's not good enough.

We think that India will enter the top 10 of our growth contributors in the years to come because the market is really booming, distribution is modernizing and e-commerce is allowing us to reach more consumers. China will remain a powerful growth engine. The market is slow now. But overall, we still have a strong belief in China. If the market grows only 6% a year, which is not a fantastic growth objective, it has happened in Italy to my business every year.

So it remains a very positive and interesting growth engines, and we have lots of opportunities. We only sell to 100 million out of 400 million consumers there that have the purchasing power to buy our products. So we have lots of recruitment possibilities.

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And I've put on that chart our estimating market share by city tier, Tier 1, Tier 2 and there are 3, 4, 5. And as you can see, we have a very strong market share in Tier 1 cities, but we can do better. Tier 2 is okay and Tier 3, 4, 5, is just the beginning of the adventure, and we see that we've opened new counters in the cities that we were only reaching through e-commerce before that we really accelerate our business.

Consumers are sophisticating. The brands that have had the best growth in 2023 in China are our most expensive brands, and building brand love is really one of the things we're good at. And here you have a few -- an example of one of the 5 Aesop stores in China that's just being opened with a lot of interest of Chinese consumers, modern Chinese consumers and probably will be a strong growth driver for Aesop.

We have new brand opportunities. I've talked about Aesop. Takami, a Japanese branch has just been launched and Prada has been launched last year, again a very promising start.

Now if we move to -- before -- sorry, before moving to the developed countries, just a few words on the fact that we keep an eye on the emerging Chinese brands, even though in the world of luxury, most Chinese brands are mass brands, but there are a few brands that are popping up in luxury, still quite small.

But we are investing. We're taking minority shares in these companies. And this is the example of these 2 brands, Documents and To Summer, which we've recently taken share of. So I wanted to move to North America and Europe. We've been growing fast in these 2 parts of the world.

So it means -- it shows that they can be growth engines. And they have a very interesting potential for us is that the aging population, what we call boomers, which I'm part of, have turned 60 this year, are really a new generation of beauty consumers. They are 21% of population in North America, 18% in Europe, and they've been raised with our products.

And they want to be true to the say that 60s are the new 40s or 50s or what have you, and they buy a lot of skin care, more makeup, and that's a true opportunity for us. We have an unparalleled expertise on aging and longevity. And we really want to focus on this part of the consumption groups in Europe and in North America. We also have consumers in this part that have lots of purchasing power. And again, that's an opportunity for L'Oreal.

So as you can see, we have great ambitions for the mature world, a developed world and particularly with our dermatological beauty division. I think one of the biggest phenomenon in beauty over the last 5 years or 7 years is really the medicalization of beauty, i.e., the percentage of dermatological prescribed products on total Beauty has not stopped increasing. If I take in Europe, the total skin care market, 1/3 is dermatological beauty and growing.

And as you know, we've got the 3 out of 4 most prescribed brands. So that's a major opportunity, again, for L'Oreal in Europe. So as you can see, we've got opportunities all over the world and we're going to be

focusing at gaining market share and beating the market.

Now to finish, I'd like to say a few words because '24 is an important year, of course, but as we are celebrating 115th anniversary, it's very important that L'Oreal stays ahead of the race. So we invest and we transform ourselves to be a company that's fit for the future. We do it through 3 reasons: innovation, digital leadership and beauty tech leadership.

Innovation, well, it's at the heart of L'Oreal. As you see the picture of Eugene Schueller and one of our latest inclusive innovation presented at CES. It's really the heart of L'Oreal. We invent new products with a blend of science and creativity, and that's really our unique recipe. We are consistent in investing in R&I. As you can see, we've spent over EUR 1.2 billion in R&D in 2023, and we continue to do it. And that's the heart of the L'Oreal model, constantly bringing added value products to consumers. We leverage AI and data in our innovation. I was telling you about 115 years of acquiring consumer data.

Clearly, now our research is not just great biologists and chemists, they are supported by AI and data that have them invent faster. And I think we're entering a fascinating era for research and of course, for the L'Oreal research. We will bring out groundbreaking innovations.

A few examples of this year's launch, and I'm not going to elaborate on them. Just the Mela B3 Serum from La Roche-Posay has a new molecule that's been presented at the World Congress of Dermatology, which is probably the -- I think, the best molecule in the world to remove sunspots and age spots. And I think it's going to be a major success for the years to come in La Roche-Posay and a few other brands of the L'Oreal Group.

But it's not just about innovating in products. We also make sure we want to keep our digital leadership strong. We've become a digital-first company. We've embraced our digital transformation in 2010. And you can see here a few examples of the inroads we've been making with gaming, with roadblocks on a few of our brands. And that's clearly something we want to continue to leverage. I showed you the power of beauty on social networks.

We've been one of the first companies to be investing strongly on TikTok and to leverage the power of TikTok to seduce consumers. And we continue to do that. And we continue to do that. It's more important than ever because digital gives us direct access to consumers. This picture is a bit scary.

But I guess all those who've got teenagers, they know the feeling. I think a group of people that don't talk to each other, but are together, strange, but when you're talking about emerging markets, that's also a fantastic way to engage consumers that we couldn't reach before. So we truly have to leverage that. And there again, AI will be an important tool in our creativity. We are being recognized by several awards.

I'm going to pass quickly on that because what I think is very interesting is this -- the fact that AI will transform the way we engage our consumers, the way we create and the way we spend our money. And

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there are 2 examples that I'd like to share with you.

One is a tool that we've developed inside L'Oreal, which is called BETiq. BET means Beauty, Engagement, Touch points. And it's an AI-powered engine that allows us to find the best ways to allocate our money and get the best ROI, both short term and long term, which is very important to me to build brands. And that delivers, and it's already -- it's being used in 4 countries today, it's been tested on 1 category, and it gives us a 10% to 15% improvement in productivity of our A&P clearly, that means that going ahead, we'll get either more bangs for our bucks, but more -- probably more importantly, we'll be able to continue to grow our fuel in absolute value, but probably less so in percentage a very promising tool that we are -- we'll be rolling out in 2024.

At the end of 2024, it should cover around 60% of our A&P. That's for the use of the dollars, but then there's the creative part. And I think one of the fantastic opportunities generated, provided by AI and by Gen AI is that you can push the boundaries of creativity. It's not necessary to invent new things or to show unreal beauty objectives, but to boost the creativity of our teams.

We have created at L'Oreal, a GenAI lab with a few agency partners -- and I will show you just a quick example in a video of what we can do with this [Createch] lab.

(presentation)

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

So we're getting close to the close. We are a beauty tech company because we believe that the future of beauty will be augmented by technology. Beauty will be more personalized, people will want products made for them or with the right recommendation, more inclusive and more sustainable. This is clearly what we expressed at the CES where we had the privilege to be the opening keynote of this year's CES, and it was the first time that a consumer products company was given that opportunity, not to mention a beauty company.

We presented a number of devices, of tech augmenters of beauty. We presented the first GenAI powered Beauty Genius beauty adviser, it's called BeautyGenius to help consumers get a very personalized, accurate recommendation for their beauty routine is going to be available and live in April for L'Oreal Paris.

We presented many cutting-edge beauty device tools for diagnosis for product application to augment the performance of beauty. We introduced a partnership with a start-up to create and to launch in the middle of this year, second -- later part of this year, what I think is going to be the best hair dryer in the world, Zuvi powered by infrared lights, better for the hair, better for the planet because it saves energy and very effective.

And we also announced that we acquired the start-up Gjosa that has created the shower head for hair salons and tomorrow for homes which saves 60% of the water you need to rinse your hair. And that's

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something that is very again important to our nonfinancial performance and our contribution to a better world. That's what we do. We do a lot of partnerships. This is the ecosystem of people we work with, either through acquisition, through participation or through partnerships, this is what we do with our corporate venture, Bold that we used to take participation in the Chinese startups you saw before to acquire Gjosa, but also to prepare the future of research, we invest in the microbiome with the acquisition of this Lactobio, this Chinese -- this Danish startup that has made incredible discoveries around the microbiome. We take a participation and have partnerships around biotech ingredients with Microphyt on micro algae for example, or Abolis on the biotech ingredients.

We are exploring longevity. We're all going to be living much longer. So it's about looking better and feeling better for longer years. So we've invested in this Swiss startups called Timeline that has developed a way to work and to act on mitochondria, which are the power cell of aging. And all these things are preparing us for a future of beauty, which will be indeed more inclusive, more personalized, augmented by tech, but which offers incredible possibilities because, again, it's an offer driven market. It's a science-based market. And all this partnership and this investment we put in beauty put us in the best position to invent the future of beauty.

So as you can see, I told you about beauty in the beginning, but we're not just a beauty company. We're a very unique company. We're a pure beauty company, yes, but we're also a luxury company with the #1 luxury beauty division in the world. We're a medical company with a very strong and stronger and stronger investment in science.

We're an FMCG company that allows us to reach consumers all around the world and at every price point and we are now a beauty tech company with stronger and stronger investments in tech with over EUR 1 billion spent in tech, 5,900 people working on tech and data at L'Oreal, and that makes us a very unique company.

So I thank you for your attention. We will have a session next door where you can ask all the questions you want. But I guess as we had agreed, we have time for maybe 1 or 2 questions before we break to the other room. Thank you for your attention.

QUESTIONS AND ANSWERS

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

Robert Ottenstein, Evercore ISI. Just a couple of questions, not surprisingly, on China. One, a very short term and 1 a little longer term. On the last earnings call, you noted that 11.11 was a little disappointing. We've heard that from others. You noted that the initial data in Japan looked good. So I think the question is, has the data continued to look good in China in terms of retail?

And then more structurally and longer term, do you believe that the Chinese consumer is moving away

from the big shopping holidays to something that's a steadier pace of purchase? Is that -- is the week 11.11 due to that or is it just the economy or is there anything that you and other companies are doing to make it a less promotional environment in China? So is that clear?

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

Yes, yes, very clear, very clear. Thank you. I would take that one and you jump in, Christophe, if you want. I'll start with end. I think that -- first of all, overall, I think today, the Chinese market is still very hard to read and to predict. We see that there is appetite for consumption. There is a desire to buy more sophisticated beauty products, as I showed you, our best-performing brands were the most expensive ones.

But the wait and the festivals or the promotional periods, which you're talking about, have very different behaviours. So it's true that 11.11 was a disappointment. But prior to that, we had 2 events that were 6/18 and one of the two Chinese Valentine, which was in August, which were both above expectations. So they don't have the size of 11.11, so to be totally transparent. But 11.11 was really over -- had been overinflated over the year. So for me, I'd rather see it as a good news is the consumption of Chinese was to be spread across more festivals. Whether they're going to move away from festivals, I don't think so because Chinese consumers love good deals.

They have the prices are a bit higher there. So they like to buy and to buy presents in these moments. So it's up to us to make sure that we come up with new ways to make them more exciting to animate them and, of course, to always control the level of promotionality which has been something at least as far as we are concerned that we've put a high level of focus on and my teams in China have very clear mandate not to overkill on this type of promotional event.

So yes, in the end, if -- as I was discussing, if having such a big event of 11.11 so close to my year-end has never been something very comfortable. So if you could spread a little bit more across the year, I'd be happier.

As far as the beginning of the year -- Christophe, you want to add something, I see you grabbing the mic? So...

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

No, I just want to highlight 1 point because it's true that we've seen over the years a multiplication of those big promotions along the year. So it's very important not to put too much attention on only one because, of course, there is a lot of comparative.

If you look, for example, at the beginning of this year, usually, we have Valentine Day that was 15 days away from the Chinese year. This year is really overlapping. So you may see big figures during the week and then suddenly -- so that's why what is important is to understand that first Chinese people, they are still pretty much interested in good deals and second, that now we have a promotional activity that is much more along the year.

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

So -- and to Christophe's point, it's -- again, it's still a bit early to read the Chinese market. Right now, we continue to see it overall flattish because we see that typically in February, you had 2 events superimposing instead of being separated. So it impacts the numbers of February.

We believe that March will be good. So it's still -- we are continuing to pilot it month by month, but we still are very positive. As I said in the earnings call, I think that the market in China will remain slow in the first half and then it will have easier comparatives in the second half. So I hope we can continue to accelerate. What's important is that we continue to gain share. I know it's a question that I'm often asked about how much share can we still gain in China, but we're still to be able to continue to do it at the beginning of the year. That we have a gender balance. We have a lady here.

Olivia Tong Cheang Raymond James & Associates, Inc., Research Division - MD & Research Analyst

Olivia Tong with Raymond James. I want to ask you about your view on the future of retail diversification, particularly as more and more moves to e-commerce and thinking about different channels, some of that are -- go across many, many different price points, Amazon, for example, and how you're thinking about expansion across these different channels in retail diversification?

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

And I guess that will be the last question before we break and everybody's waving to me. So I'll try to be not too long in the answer. But I think the example of the opening of L'Oreal Luxe on Amazon is a good answer to your question.

I think in the end, there are distribution channels where many qualified consumers shop, I guess you all Amazon shoppers. So being in this type of retail or channels depends on the quality of exposure of our brands and the quality of exposure means aesthetics, means content, means pricing. And then it's about finding ways with these retailers to guarantee that our brands, our luxury brands, in particular, are treated the way they deserve to be.

So it's been taking us a few years of negotiations and discussions where we are showing the example of where the brands were expressed on Tmall. And now with finally made the decision to open Lancôme in 2023, and the results are very good, both in terms of perception, but also in terms of recruitment of new consumers, and that's very positive for the brand.

So overall, it's -- our compass is always brand protection, long-term vision, but also consumer satisfaction and our consumers were actually complaining that they couldn't find our products or they were finding them on the grey market with an ugly look, back price, et cetera, and not a certainty that it would be a real product. So I think that's what we work on and it offers lots of possibilities for the years to come.

Thank you, ladies and gentlemen, and I guess we'll see you for those who are interested in a couple of minutes.

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Thank you, everyone. Let's move things over the breakout room. And please join me in thanking L'Oreal, again, for a great presentation and for the breakfast this morning. Thank you.

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