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EDITED TRANSCRIPT

L'Oreal SA Investor Call

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PRESENTATION

Nicolas Hieronimus *L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director*

Good morning or afternoon, everyone. Thank you for joining us here and apologies for those who have been forced to interrupt some well-deserved holidays for this call, but we'll strive to make it efficient. So we have to talk about the decision we made with the agreement of our Board of Directors to take a 10% minority stake in Galderma that was pure play dermatology leader and one of the world's largest players in injectable aesthetics.

I'm truly convinced that consistent with our mantra sees what is starting, it is the right time for L'Oreal to explore the growing and strategic territory of injectable aesthetics. As for the past 115 years, L'Oreal has been dedicated solely to beauty, but to all of beauty and throughout this time, we have constantly put our science and innovation at the service of beauty to develop the best product and services for our consumers.

In today's world where life expectancy is rising, people of all ages are increasingly starting to adopt more holistic approaches to care for their well-being and their well aging. As a result, consumers are now incorporating additional elements into their beauty routines, including diagnostic tools, dermocosmetics and of course, the aesthetic treatments.

Thanks to our leadership in R&I and beauty tech, we have already made great progress in developing high-performance topical products in addition to award-winning diagnostic tools and devices. And of course, we have seen the extraordinary growth of the dermocosmetics sector and of our own LDB division, which demonstrated a plus 29% CAGR between 2020 and '23 alone.

This growth has in part been fueled by our unique and long-term partnership with thousands of dermatologists around the world and our complementary portfolio of brands, including three of the four most dermatologic prescribed brands. But consumers are increasingly tapping into adjacencies to our current portfolio, in particular injectable aesthetics.

However, as an adjacency, it's important to remember that many of these consumers already use L'Oreal brands as part of their beauty routine and that we also have a clear leadership in medical topical skin care with a range of products designed to prolong the effect of aesthetic treatments with brands like SkinCeuticals of skin, better science.

The numbers speak for themselves. The total market in injectable aesthetics has reached EUR9.3 billion in 2023, having shown a CAGR at 12% in the past five years. The penetration rates of these procedures already stand at mid-single digits and looking at the number of considers, i.e., people who consider using these procedures, penetration rates could double in the next decade.

This clearly demonstrate the law potential for growth in the injectable aesthetics market. Our investments will be complemented by a Strategic Scientific partnership, which we believe will open up new possibilities for the future as we leverage the world-leading expertise of both companies.

[Gallium] has know-how in the field of injectable aesthetics and therapeutic dermatology and L'Oreal's expertise in skin biology, diagnostic tools and evaluation methods. This partnership will also help us to further explore the synergies between injectables and topical treatments, which have always been at the heart of the business model of a number of outlet [LDB] brands, including SkinCeuticals and skin better signs.

So I thank you for your attention, and I'd like to move on to your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. This is the operator, we will now begin the question-and-answer session. (Operator Instructions)

Bruno Monteyne, Bernstein.

Bruno Monteyne Bernstein Autonomous LLP - Analyst

(inaudible) as you rightly outlined, but the 10% stake without a board seat is so kind of a halfway house. So I'm trying to understand your rationale of doing this transaction and that does is, is it that you think that L'Oreal is a better owner of that Galderma stay because you'll give them the science to grow faster. So it's about Galderma growing fast given your stake or it is about buying optionality for the future in cases really is more long lasting than you see today, as I'm just trying to get my head around why you would just want to take 10% stake in there.

And then the second one is you talked a lot about the science that L'Oreal we do have them, but obviously got them as a strong company with strong track record as well, which bits of signs would you

say are most you need that L'Oreal can contribute to Galderma? Thank you.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

Okay. So first on the 10% stake, we're very happy with the long-term minority investments we are making in Galderma. As we say -- as we said, it's a company which model and the vision we believe in, we have strong respect with the management and it's a good investment. And as I said, it's an opportunity for us to explore and learn this market of injectable aesthetics, which is the part of Galderma that has developed the most over the couple of years and being - in this being a shareholder of Galderma.

And at the same time, having this scientific partnership allows us to learn to see as the development of this category and to keep our options open for the future. And as far as the R&D is very important to understand that, of course, we've continued to maintain two independent R&D organizations, but we'll build a bridge between our teams, which have a very specific expertise, the MOU around these scientific partnership is currently being worked down.

So again, we are still discussing, but there are obviously other areas like the synergies between injectables and topicals as we know most of the other 300,000 derms that use our products that is do practice aesthetic procedures systematically complements the injections with topicals and using our science to work to discover even further synergies between these products is very important, both for both companies and I think the fact that we have the strong expertise in skin biology in diagnostic tools.

So in the evaluation methods, which allow to demonstrate the efficacy of products is something that is interesting to Galderma. So I think there are strong synergies. And at the same time, the two companies will remain very independent as it relates to R&D as it should be.

Bruno Monteyne Bernstein Autonomous LLP - Analyst

Nicola, if I can rephrase my first question differently, I'm sure you consider taking out all of Galderma. What would be the biggest reason for not having gone much bigger than the 10%. Is it down? Do you have about the size of the injectables? Is it fear about the kind of risk of medical procedures and litigations. What will be the biggest consideration of the border at this stage?

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

No, there's no fear, no, it's just that we don't do a fiction. We had the opportunity and the agreement of both the equity funds as well as the support of the management for L'Oreal to become a shareholder of this company and at the same time, allow us once again to learn about this adjacency, which is indeed very close to our business, but it's a business we do not know.

So it seems to us that 10% is a good way to learn and to keep the options open for everyone.

Bruno Monteyne Bernstein Autonomous LLP - Analyst

Thank you.

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Operator

Iain Simpson, Barclays.

Iain Simpson Barclays Bank PLC - Analyst

Thanks very much. Good morning, obviously conscious that you used to have Galderma. That's a JV. I'd just be interested to hear how much in your view that business has changed since you were last at Cigna? So I'm guessing you had a pretty good look at it during the (inaudible) about 10% decisions.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

Yeah, yeah, you're right. It's true that it's a fact that we used to be a co-owner of Galderma, which we sold in around share transaction with Nestle backing to end 2014.

And it's today a totally different company -- a totally different Galderma, a totally different market and even totally different L'Oreal because when you look at it since then if I stick to Galderma, it's more than doubled in size and it moved from [EUR1.6 billion to EUR4.1 billion], but more importantly, it has moved from being a primarily therapeutic company where Rx drugs where the number one category by far to a pure play dermatology company with a majority of its business derived from both injectable aesthetics and cosmetics and dermatological skin care to date's.

So in 2014, Galderma was 60% therapeutical prescriptions. And today there are more than 80% the sum of injectable aesthetics and dermatological skin care. In the same time, market itself has increased more than sixfold.

The market of procedures are increased more than sixfold and finally their -- size their business. And finally, it's also a different L'Oreal because, as L'Oreal has dermatological beauty, which has been renamed a couple of years ago, which is a clear indication that we want to be this number one partner to or the dermatologist around the world. We have seen this company with a 20% -- 29% CAGR of the last four years.

It's become today, the third division, the fastest growing the most profitable. So it also has heightened our interest in this field. So our strong partnership with dermatologists -- the transformation of Galderma make this investment a very relevant today, what it was less strategic 10 years ago.

Iain Simpson Barclays Bank PLC - Analyst

Thank you very much.

Operator

Jeff Stent, BNP.

Jeff Stent BNP Paribas Exane - Analyst

Good morning. Could you just explain how the science partnership will work, because you talked about

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synergies between injectables and topicals. But obviously that's something that Galderma is already very active and exploring for sources. So from a sort of competitive standpoint, how can this science partnership actually work, if it is targeted but exploring injectables and topicals/ Thank you.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

what do you, do you have also to ask the same question to Fleming the CEO of Galderma, because I think having a call on this on the side, but we've been having a very interesting discussions between, of course, the two CEOs, but the two heads of R&Ds. And we see that the we have a depth of knowledge in the skin biology of different ethnic groups, as we said, we have 115 years of experience in beauty with a strong focus on skin care.

We have invested a lot on evaluation methods, whether it's test the products to measure their efficacy. So it's part of the domains that have raised interest in the teams of Galderma. And of course, yes, they do have research that works around the combination of injectables and dermatological skin care. But today, I would say their R&D is a bit more biased of focus towards the therapeutic dermatological skin care have one big drug about to come out.

So I think we are pretty complementary, but it's something that's in the making to be honest. And we are right now, our teams are exploring the exact field that we'll be able to work on, of course, in full respect of all the non-compete clause that we have to take particular care of in the situation.

Jeff Stent BNP Paribas Exane - Analyst

Thank you.

Operator

James Edwardes Jones, RBC.

James Edwardes Jones RBC Capital Markets - Analyst

Yes, good morning, everyone. I suppose the opposite from Bruno's question really on what you get from taking this 10% stake that you couldn't get from just a conventional joint venture. And second, can I come back on that point about the rules you need to observe about having your shareholding in potentially a competitor around 30% of their sales is of dermatological skin care, what's the processes will be in place to ensure that you're both a collaboration and a competitor and the competition side isn't jeopardized?

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

Well, I will answer that one and maybe I'll let Christof jumping forward through to -- for the first question on the non-compete, it's very simple we have made and it was a mutual decision, and we've made the decision not to have a seat at the Board and which means that we will not be part of any discussion whether strategic or tactical around the development of (inaudible) in the world of dermocosmetics, we have our own brand, they have their own and they compete very healthily, both are growing by the way.

And so we --there will be absolutely no discussion or relationship on the businesses, so on which we compete, and that's why we don't have a seat at the Board. And that's why most of the cooperation will be on the science side around the understanding of the injectable aesthetics world and as well as the synergies with the topical one. So it's going to be absolutely totally separated. Does that answer your question on at least on the second one?

Jeff Stent *BNP Paribas Exane - Analyst*

Yes, Nicolas, thank you.

Christophe Babule *L'Oreal SA - Chief Financial Officer, Member of the Executive Committee*

Okay. On my side regarding, the deal and the opportunities that we had obviously taking a share of 10% on mix, something very strong in terms of cooperation with Galderma and it proves the first our commitments are to explore these new adjacencies. And that's why I think that taking a share of 10%-plus a scientific partnership makes this objective much stronger for the future.

Operator

Jeremy Fialko, HSBC.

Jeremy Fialko *HSBC - Analyst*

Hi, good morning, thanks for hosting the call. Just one from me. I'm clearly you're doing this, you say to learn more about the market. Maybe you could just talk about what are the sort of milestones or things that you would want to get comfortable with in order for you to say that yes, this is definitely a business that we actually want to be in more fully than where we are at the moment?

Nicolas Hieronimus *L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director*

Well, we've been, of course, observing this market already from the outside. As I said, we -- with our LGB, a division we serve already a 300,000 dermatologists around the world. And we see, of course, the rise in the development of these practices. What is very clear when I look at it with the 10 years -- last 10 years, because this is where them but the market has accelerated is that the techniques of injections have evolved very strongly. The -- it's more and more easy to do and also less and less painful.

But we have to learn about the science about the differentiation, the capacity to differentiating technologies see what other rising trends. I see the geographical possibilities, the evolution of regulation all this is something that's a we have to discover. But the reason why we invested that overall, we are very confident that this market will continue to grow will become more and more acceptable and accepted and desired by consumers as the number of people that consider using injections or other types of technologies is increasing.

So it will be a progressive product process in the end. Again, we are here to be an investor of within Galderma for the long-term. So there's no stage gates or particular element that we need to check. It's -- as I said, it's a supportive investment in a company, we believe in and it's going to be a learning curve for us. And then with that, we'll assess at every moment we assess our options.

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Jeremy Fialko HSBC - Analyst

Okay, thanks.

Operator

Fulvio Cazzol, Berenberg.

Fulvio Cazzol Berenberg - Analyst

Yeah, yes, good morning. Thank you for taking my questions. I just wondered whether there's any other clauses or options on the rest of Galderma stock. So for example, in a scenario where another industry player was to bid for Galderma like a Procter & Gamble, Unilever. What agreement do you have with Galderma in respect of?

I mean, do you get an option to participate in a, it would have become a bidding process. I guess what I'm trying to ask how protected will be the IP that you develop with Galderma in the event that another industry player wants to come in and basically learn more about the sector as well. Thank you.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

Good question. Christoph?

Christophe Babule L'Oreal SA - Chief Financial Officer, Member of the Executive Committee

Yes, of course. So first more than with Galderma is with equity because we enter into an agreement, sell those shareholder's agreement with equity. And we have agreed to some, of course, standard provisions to demonstrate our willingness to partner in the long run and give assurance to Galderma shareholders, that just participated in the IPO.

So just to reassure you that the provisions are well well-balanced and of course, protect even of L'Oreal's best interest. And as you can understand, I cannot comment further on the health of equity.

Fulvio Cazzol Berenberg - Analyst

Okay. Thank you.

Operator

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

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

Okay.

Christophe Babule L'Oreal SA - Chief Financial Officer, Member of the Executive Committee

Okay.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

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Well, thank you, everyone, and I wish you --

Operator

We have one additional follow-up. Sorry to interrupt.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

No problem.

Operator

We have a follow-up from Iain Simpson, Barclays.

Iain Simpson Barclays Bank PLC - Analyst

Thank you so much. Sorry, I couldn't resist the follow on.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

Iain, no problem, no problem (multiple speakers) (laughter)

Iain Simpson Barclays Bank PLC - Analyst

So one of the things I noticed on that was call was you were at pains to stress that you weren't taking a board seat and you wouldn't be involved in strategic or commercial decision making. But you also, I think twice talked about optionality. And what I was wondering, as you said, we'll assess our options that gives us optionality for the future.

Would there be any potential competition concerns in the event that you which down the road makes that stake a Galderma a bigger -- take it. Take Board seats be involved in the strategic decision making may be in time even to have it back to a JV with you having 50% ownership as it used to be. I'm just trying to sort of understand the landscape and whether that's something that might be problematic. Thank you.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director

(inaudible) a nice follow up, but I don't want to comment on hypothetical scenarios right now. We are we happy with our current long-term minority investment, we're going to be a positive acquired and observing shareholders. And whatever the future holds, we'll adapt and we'll look into it, but it's a -- I don't want to come up and to comment on this hypothesis. You want to add something Christo?

Christophe Babule L'Oreal SA - Chief Financial Officer, Member of the Executive Committee

Yes, when it comes on competition, of course, we've been looking at data in case there would be any optionality's and for them being there is nothing to worry about.

Iain Simpson Barclays Bank PLC - Analyst

Understood. I have to try.

Nicolas Hieronimus L'Oreal SA - Chief Executive Officer, Member of the Executive Committee, Director (laughter) (multiple speakers) the last, free holiday question, at least for me. So I thank you for being with us in that call. And I think so it opens a new adventure (multiple speakers) chapter for L'Oreal. We're very excited about it. And we are very happy with the exchanges and relationship we've had with the Galderma leadership. So all this should be very positive for both companies.

I thank you very much and wish you a great summer.

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