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EDITED TRANSCRIPT

L'Oreal SA Let's talk beauty with Alexis Perakis-Valat

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Unidentified Company Representative -

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PRESENTATION

Unidentified Company Representative -

Good afternoon, and thank you for joining us for the first installment of Let's Talk Beauty, a series of calls that will allow us to meet senior members of our investment -- of our management team, and hear from them how their businesses are forever evolving to secure and strengthen their competitive edge. I'm delighted that in the spirit of seizing what's starting, Alexis Perakis, the Head of our Consumer Products division has agreed to host this first call.

Before I hand over to Alexis, a quick organizational point. (Operator Instructions) and with that, over to you, Alexis.

Alexis Perakis-Valat *L'Oréal S.A. - President of Consumer Products Division*

Thank you very much, Eva. Very happy to be with you and to talk to you about the Consumer Products division. So in my speech, I'm going to do 3 things. First, I'll give you some insights about the mass beauty market. Then I'll explain to you our transformation over the last years and the results of our transformation. And then I'll share with you our vision and our optimism for the future of mass beauty and of the Consumer Products division.

But before we go into the presentation, just let me share with you a few facts about CPD. So last year, our revenue was EUR 14 billion. It's 37% of the group's total revenue. Our operating profit in 2022 again was at EUR 2.7 billion, operating margin at 19.8%. We sell every year a bit more than 5 billion units. So it's about 70% of the group's annual units sold. We have the chance to have 23,000 extremely enthusiastic employees and we have great beauty brands, among which 3 are billionaire brands, L'Oreal Paris, Garnier and Maybelline.

Now let's talk about -- more generally about the mass beauty market that we see as a very interesting opportunity for the future. On this slide, you see the growth of the market over the last years, and you're seeing that the mass beauty market is clearly accelerating since 2022 and is projected in 2023 to end in the high single-digit area.

Of course, part of this acceleration is inflation led and will ease. But there's another part that is here to stay and that is much more structural. Why so? Because we're seeing a very powerful phenomenon, which is the fact that social media fuels consumer savviness and really spreads beauty expertise all across the world. So here, you've got some images to illustrate this phenomenon, but you also have

some data points on the right that are quite interesting because as you see, the beauty queries in 2022 were up 9%. That's 1.5 even more beauty queries than the year before. And what's even more spectacular is the increase in video views, the number of video views almost doubled in '22 versus '21, and we're talking about 100 billion of videos. And this has a very strong impact on consumer behaviors -- to knowledge and behaviors towards beauty.

Let me just give you a very personal example. When we got married, my wife was 25 years old. And at the time, what she knew about skincare is that some creams were more adapted to normal, to greasy skins and others to dry and sensitive skins. Today, we have a daughter who is the same age, 25 years old. And she knows about retinol, AHA, BHA. She knows that when you use retinol in the night, you got to put that SPF in the morning. And she is not at all a beauty junkie. So -- and what's interesting is that it's true in Paris, it's true in New York, but it's also true in Hyderabad, in Bogota or in Bangkok. And it's also true among all social classes. So that's a massive phenomenon. And this has 2 consequences. The first thing is that the more you know about the category, the more you're willing to pay more for products and -- for products that give you more, that offer you more and for brands that make you dream. And that's what I would call kind of a natural premiumization of the market powered by this beauty expertise on the rise.

And the second phenomenon, which is specific to beauty is that this knowledge is developing new beauty gestures and new consumer habits that before were more reserved to, let's say, the upper part of the population or to the selective beauty users. Here, I've put you some examples. Everywhere in the world, we see the serum skincare category exploding. It's true in very developed markets like the U.S., but it's also true in Indonesia, where serums have tripled since 2020.

Same thing, we see that in haircare, the growth of treatment is very fast everywhere in the world. Why? Because people know more about haircare treatment, they're looking for more and they're looking for the most cutting-edge treatments. In makeup, 20 years ago, we used to do most of our business with mascaras, foundations and [central core] lipsticks. And then we had other categories that at the time we were calling ancillaries. Today, these categories like brows, like setting sprays, like highlighters are exploding because every -- thanks to social media, everybody knows how to use them and how they can take advantage for them to be even more beautiful.

And the last example on this slide is UV -- is daily UV photoprotection. We are seeing this category exploding everywhere. It's true in countries where you have a lot of sun. But it's also true in, I would say, more western countries where women have understood that the best way to have a great skin throughout their life is to protect it all year long against the sun. So that's one side of the phenomenon, which is a structural market accelerator.

And then the second thing is that we're witnessing all over the world, high potential consumer groups that offer new opportunities for growth. Clearly, Gen Zs are more experimental than before, they are more in the know and they're a big accelerator of the market. But it's true also that we have more and more boomers in many economies that want to live longer, healthier and more beautiful. Men are not immune to this rise of beauty savviness and especially young men across the world develop more

sophisticated beauty routines. And of course, in the emerging world, this new youth of the emerging world, super connected, super in the know is a very strong accelerator of the mass beauty market.

Now against this backdrop, our division today, we strongly believe is stronger than ever. And what I'd like to share with you, to explain to you the transformation that we've gone through in the last 3 to 4 years. We call it the CPD 3.0 transformation. It's actually based on 2 very simple ideas. The first idea is that in our job, we have 2 big value-added activities.

First, we have creation. This is what you see on the slide. Creation is really the job of our global brand teams. It's about crafting super desirable brand equities, about inventing very innovative new products. And it's about communicating very well with great content and assets to express their brand. Here, this is -- this has always been our forte, but we worked a lot on being even better with teams that are -- international brand teams that are stronger than ever and that are particularly obsessed about seizing what is starting and about being always at the cutting edge of trends and of beauty. So that's one part.

But then there's another very important value-added activity, which I call activation. And here, you've got 3 buckets in activation. First, activation strategy. And that's really -- activation is the responsibility and accountability of the countries and the regions. It's about activation strategy. Activation strategy, it's about putting your money on the right bets in terms of brands, categories, channels, that's really the role of the countries and the regions. It's about consumer activation in this new world that is not where you've got many ways to -- many ways to communicate with consumers. So it's basically getting the most of your marketing bucks.

And then it's about sales and retail activation. And here, I told you that creation is and was our forte. We feel that sales activation, which is building a partnership with retailers, executing flawlessly in store was clearly not our forte. And we worked very hard to improve on that front. And here, as you can see on this slide, you see the yin and the yang. Here, what we wanted to symbolize for the yin and the yang, is that success is 50% creation and 50% activation, and our ambition is to be the best in both. So that's the first idea.

Then the second idea is that we've, in a way, divided our strategy across 3 worlds of beauty. First, you've got what we call the developed world, which is mostly Europe and North America. This is where we were born, and which is very important for us, of course. Then you've got the Chinese world that requires a strategy on its own because it's a very different world, more premium, very good in skincare. So that's the Chinese world. And then you've got the emerging world. And by emerging world, we mean Latin America, Sub-Saharan Africa, North Africa, Middle East -- and the Middle East, and of course, a very big opportunity in Southeast Asia, in Southeast Asia and in India.

And what is interesting there in this world is, of course, it's the future, we were underdeveloped in this part of the world. And also what is interesting in beauty versus food is the word transversality. Because Indians don't eat the same thing than Brazilians. But in terms of beauty, there is a lot of transversality in the needs and in satisfaction of consumers that most -- for most of them live in hot and humid climates,

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that have a darker skin, darker hair. So there is a lot of transversality in beauty needs, and that's why we've developed a transversal yet relevant strategy for the emerging markets.

So what are the results of this transformation? First, if we talk of creation in this period, we've launched great innovations. Here are 2 examples. Sky High Mascara from Maybelline, it's the greatest mascara launch of all times. It's a fantastic technology, a fantastic name and a fantastic mix. And on the right, you've seen a new hyaluronic acid serum for the eyes from L'Oreal. These are 2 examples of the best we can do in terms of innovation powered by the incredible L'Oreal research and innovation. Then the second thing that we've improved in terms of creation is we've made big ideas travel much faster. Two examples, the Hyaluron Plump shampoo that was born in China, then launched in Brazil, then rolled out around the world and Garnier vitamin C serum, that was born in Southeast Asia and then that traveled around the world. And what's coming also in these 2 examples is that everywhere we've launched these products. And of course, every time we adapt the formulas, they have the concept, the idea is the same, and everywhere these ideas were a big hit. So that was on the creation part.

Then in terms of activation, what I want to talk to you about is sales activation. Here, there is an independent company called Advantage that every year asks retailers about their suppliers, their FMCG suppliers across categories, food, home care, beauty, et cetera. And as you can see, in 2019, in this ranking, we were not good. We were in the bottom tier, #14 across all categories. And that's why we worked extremely hard to be seen as from our retailers as partners of choice. And you'll see that it only 3 years, we've moved from the bottom tier to the top tier. And again, it's not just top tier beauty, it's top-tier FMCG.

And the results -- to make it simple, we've gotten better in creation, and we've also gotten much better in activation -- marketing activation. You know L'Oreal, you know our digital expertise, but also sales activation. Thanks to that. We've been accelerating. As you can see, since 2021. And our first half '23 was the best -- our best on record, and what's interesting about this plus 15% is that it was very balanced, very balanced between volume and value. Our growth was 1/3 volume, 2/3 value. Very balanced between the categories. Actually, all our big categories were up double digit in the first half. Very balanced across the brands. Our 4 major brands were all up double digits in the first half and a -- very balanced between online and off-line.

So now what's next? What's your vision for the future? What are the -- what is at stake? The first thing is maybe to ground you in the strategy of our group beyond the Consumer Products division. As you can see a bit the role of the different divisions of the group across consumer groups. So you can see that L'Oreal Luxe is very much skewed towards the upper-middle class, professional products as well. Dermatological beauty, a bit more upper mid. And clearly, the Consumer Products division is the specialist of the middle and the upper-middle class, I would say, the upper half of the middle class. And as you can see here, and it's a strategic choice. We're not overrepresented in the bottom of the pyramid because it's not our strategy, and it's not our forte.

And actually, to be even more concrete, we are determined to increase our penetration among this

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target, which is the upper half of the middle class. It's not the upper middle class. It's the upper half of the middle class. So it's today, it's 2.4 billion consumers that will become above 3 billion by 2030. And what's interesting, coming back to emerging, that today already 38% of this 2.4 billion living in the emerging markets that I described to you before. And the share of these upper middle -- these upper half of the middle class living in emerging will increase in the years to come.

Now our strategy is extremely clear, and it's summarized by these 2 concepts and by the and between these 2 concepts. It's about democratizing and premiumizing at the same time. And the and is very important because we deeply believe that given the insights I shared with you about the mass beauty market and also given our brand portfolio, what we're good at, our R&D capabilities, we can -- and by the way, we've proven it already in the recent quarters, we can, at the same time, democratize and premiumize our business and mass beauty.

Talking about brands because this is our most precious assets. We've got 4 very powerful, but also very complementary global brands. It's -- and what is great, what I told you is that they're all growing double digits in the first semester of this year. So the #1 beauty brand of the world is L'Oreal Paris, it is a brand that is a luxury brand that happens to be sold at mass. If you think about it, mass is universe of category killers and L'Oreal Paris is a global brand with different categories.

It's a very unique brand grounded on 3 pillars: first cutting-edge science. It bears the name of the group, and it's at the forefront of our scientific innovation. Second, it's feminine and feminist. And Because I'm Worth It, is a feminist tagline. And it embodies this little (foreign language) that makes Paris unique. And to -- just to illustrate that, actually, next Sunday, we're going to hold the L'Oreal Paris Défilé with Kendall Jenner, which is the latest spokesperson of the brand right under the (foreign language) in -- at the heart of Paris.

Our second brand is Garnier, and Garnier has found really its purpose as the champion of green beauty, addressing these consumers that are really looking for products that are both super efficient and very sustainable, all that powered by the green science efforts of the group.

Maybelline is the world's #1 makeup brand. There also, it's great to see how dynamic -- all these brands are not only big, they're also super dynamic. And this, Maybelline is very dynamic, thanks to many things. Thanks to a fantastic innovation streak. You've seen Sky High. That's the latest mascara called Surreal that they're just launching, that is a big hit. And also thanks to an imagery and an equity that is very in tune with today's youth all across the world.

And as part of our big global brands, we've got NYX Professional Makeup, which is a brand which is rooted in professional makeup artistry but that is also the brand of entertainment, and that's why this is embodied by the many partnerships that they've done with -- they had a partnership with Avatar and the latest super successful partnership that they had was with Barbie, the movie last summer, and it was a great hit.

And to complement these 4 global brands, we've got regional growth driver brands that are completing our setup regionally like Mixa, which is a mass medical expert that was born in France and was only in France until a few years ago, and we've just launched it in Germany, and it's a very big success in Germany, and it's entering very well to this mass medical rise. Then you've got essie, which is a very premium skincare brand. We've got 3CE by Stylenanda, which is a Korean makeup brand, incredibly successful in Korea and in China. In China, it's among the top brands online across selectivities, both mass and luxury. And Thayers, which is an American brand that is completing our setup in the U.S. and which is ascending because it's at the intersection of 2 very extending trends, nature and health.

So you've seen our brands setup. You understand how with this brand, we can, at the same time, democratize and premiumize. In terms of regions, here, you've got our market share in the big regions of the world. You see that we have opportunities everywhere. Even in Europe, which is our founding base, we only have 25% market share. So we can still gaining market share -- gain market share in Europe. Same in the U.S., where we have less than 20% market share. In North Asia, we have 5% market share. Of course, that's a blend of China, where we have a slightly higher market share, and Japan and Korea were which are markets that are mostly dominated by local brand.

And coming back to emerging we only have 15% market share in this very high potential emerging markets that I talked to you before. And we really feel that we have a once-in-a-lifetime opportunity to accelerate in emerging markets for many reasons. First, because before the distribution in these countries used to be very traditional, but e-commerce is changing the game and is allowing us to step change in terms of brand expression and reach.

Second, because these consumers are extremely young and because of that extremely prone to the explosion of social media. Third, and I think that's an interesting point is that in some of these regions, and especially in Latin America, you've got a very big weight of door-to-door. And thanks to social media, thanks to e-commerce, these consumers are really interested by our brands, and we think that we see in door-to-door a great reservoir of recruitment for us. And this is a picture of Riyadh Boulevard in Saudi Arabia. You can see -- and I see it wherever I travel, there is a rise of sophistication and of beauty desire all across emerging.

And the other thing is that in emerging, what I was telling you about the positioning of our company on the upper half of the middle class -- it's particularly true in emerging. For example, you can see that in India, it's on the upper left of the slide. 76% of the beauty mass market is done by consumer in the middle and upper socioeconomic class. But first, is it's 85%. So you see that we're overweight on the upper half of the middle class, and you see that it's true in India, in Brazil and in Mexico. Then we talked about our brands. We've talked about our regions.

Let's talk about our innovation strategy. Three things I wanted to share. First, our first objective when we innovate is to be really new, different, better, more disruptive than ever before. We've got 2 examples of this slide, the vinyl lipstick. It's a groundbreaking technology from the L'Oreal labs before if you had long wear lipsticks, they were always matte. For the first time, we've achieved to bring to the market lipstick,

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which is both long wear and shiny. So that's one example. And then the second example is a skincare product from L'Oreal Paris that is hitting the shelf right now, which is a groundbreaking technology against spots of all kinds.

Then the second idea about our innovation strategy is what we call the +1 strategy. I've talked to you about these new beauty habits brewing all around the world. And we want, through our innovation plan, to keep fueling this acceleration and this rise of new beauty habits. That's why we're launching new serums that have SPF 50. We're launching a new very interesting brow product that -- its role is to democratize the use of brow products, and we're continuing to develop the serum category, which remains very low in terms of penetration all across the world.

And the third role of innovation is to premiumize because precisely, if you come up with products that are truly new, different and better, you can price them higher. In the case of Good, the hair color that we've just launched, that is 2x more expensive of a regular Garnier color. And it's also the case of Elvive bond repair which is a very big success from Elvive and which costs -- per mL of this regimen is 3x more expensive than the average price of -- as of haircare today. So that's a way for us to premiumize, it's to premiumize through really innovative and -- innovative products.

Now we talked about products. We've talked about brands, about regions. Let's talk about our partnership with retailers. We strongly believe that there is an opportunity to step change the way mass is presented in stores because it has not changed much since many years. Here, you've got an example of an Italian drugstore, that's the before. And now that's the after. It's the same drugstore, it's the same products, the same prices, but we've totally step changed the shopping experience. And that we are doing at scale all across the world. Again, because our consumers have changed, they're more demanding, and we've got to make sure that they can shop in much more elevated environments.

Beauty tech is extremely strategic for the Consumer Products division because there is one very important function of beauty tech, is to bring service in a self-service environment. In a way, how do you define mass? Mass is defined by self-service. Mass is products where you go and you pick your product yourself. But now thanks to tech, our ambition is to put a beauty advisor in the pockets of billions of consumers across the world. This is why, for example, we've partnered with Teams to give the chance to millions and millions of Teams users to try new makeup products, new makeup looks that makes them look better in their Teams scope, but also, of course, by trying them at scale, they're going to be -- they're going to find the right product for them and then go and buy it. So that's a tremendous opportunity.

And on the right, you're seeing a more premium example of beauty tech, it's Colorsonic. Think of it as the Nespresso of hair color that will be launched in mid next year in the U.S. and was presented at CES in Las Vegas. And it's a very interesting device because it's not at all a gadget. It's actually answering to 2 very key consumer tensions in hair color. First, the fact that hair color is a bit messy. And thanks to that, it's super clean, super easy to apply. And second, the fact that when you use color, when you do your kit, then you can always only use it once. But there, thanks to this device, you can use color a bit your hair

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and then put it away and then 1 month after recolor. So it's a very new vision of hair color.

And last, but definitely not least, we want to democratize sustainable beauty. We see it -- you've seen that we are 5 of the 7 billion units sold by the group. Therefore, we have a tremendous responsibility in the L'Oreal for the future road map, and we want to play our role as much as we can. Play a role in educating with the consumers here, you've seen our initiative around helping consumers finding the right product in terms of environmental impact.

Also democratizing, reducing packaging intensity. So it's about delivering as much product with as little packaging. So here, you're seeing the restage of Elvive, where we're going to reduce 20% of plastic for the same amount of product. And the refill in haircare that we really have the ambition to sell because when you use a refill, you use 60% less plastic than when you use a finished product, a full bottle.

And we're also very determined to have for our brands, social causes because brands have a role in society. And so you see 2 examples I'd like to -- this is maybe on the L'Oreal Paris one because it's an initiative to train people against street harassment. It's a training program that shows you how to react when you see street harassment or harassment at the office. And the Loral Paris teams has already trained more than 2 million people across the world with this training, and it's a long-term commitment for the brand, and there's another example of Maybelline around mental health.

So that's it. As a conclusion, you understand that we're extremely confident and optimistic in the future of the mass beauty market, and also in our ability, given everything that you've seen to leverage and augment the unlimited potential of beauty democratization and premiumization. Thank you.

QUESTIONS AND ANSWERS

Unidentified Company Representative -

Thank you very much, Alexis. As I said in the opening remarks (Operator Instructions).

I got 1 question, and it's quite long and has many different parts, so I will read it out. If Alexis could speak to another structural change that could be covering emerging markets growth, e-commerce which can expand L'Oreal's addressable market given the lack of retail development has been an obstacle in the past. How much is the penetration of e-commerce for CPD? How does it compare with other divisions? And are there any local retailers that have to invest in power, to invest in logistics, the same way China did a decade ago?

Alexis Perakis-Valat *L'Oréal S.A. - President of Consumer Products Division*

Okay. So that's a great question. This transformation of e-commerce is very important. And you have to understand that it's beyond e-commerce, there is also digital marketing. If you take a country like India, for example, I've been traveling to India every single year since more than 10 years. And in 2013, 2014, I remember nothing much was changing in India. It was mom-and-pop stores, the same established

brands.

Now with the rise of e-commerce in India, not only you have -- it gives you access to products, but it also gives you access to knowledge. You know more about brands, about subcategories. So it has a double impact and it's definitely changing the market, making Indians ready to pay more for products because they demand more. So it's a tremendous opportunity for -- it's a tremendous opportunity for us.

So our weight of e-commerce is slightly lower than the other divisions because it also depends very much also of categories. For example, haircare is less penetrated in e-commerce than say skincare. So because of our category weight, we're a bit underdeveloped versus other divisions. However, within mass, we are clearly winning in e-commerce which is normal in a way because we play on the premium on the upper half of mass and because our products are more premium, these other products that when you are an e-commerce retailer, you have an interest to push because it's all about -- I was in China from 2010 to 2016. So I witnessed the explosion of e-commerce, you make money in e-commerce if you sell products that are expensive. And because of that, within the mass arena, we're seeing our e-commerce partners really pushing us. And also because of our mastery of digital marketing, it really helps us gain market share.

And Indeed, I think it's only the beginning. And we're seeing retailers, local retailers and global retailers. It depends. It's -- sometimes it's a global pure players (foreign language), but in India and in Southeast Asia, you've got more regional retailers. And there is a business model that can work as long as you have a minimum ordering value.

Unidentified Company Representative -

Great. Thank you very much. I think a couple of people are wondering about your initial comments on pricing, pricing having played a bigger role in '23 than historically. How do you think about pricing in the second half and as we are going into 2024?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

No. I think pure pricing will play a smaller role in the months and quarters to come first because we were lapping last year's price increases. And second, because the most likely scenario, is that inflation will ease, although clearly not disappear and certainly not in beauty because, for example, just our green transformation has an impact on our costs.

However, I think that mix -- it's about volume, it's about price, it's also about mix, and we're very focused on this mix component. And we -- I believe that mix will continue to play a very important role because of everything that I've explained to you about what you -- the launches that we're doing because there is this what I call this natural premiumization of the market because consumers are more savvy. So we're seeing pure pricing play a lesser role, but we see mix staying very dynamic. And of course, we also want to keep the volumes going because it's about democratization and premiumization.

Unidentified Company Representative -

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A question that puts CPD into the broader L'Oreal spectrum. What are the synergies with and the competition from the other L'Oreal divisions?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

No, that's a great question. And I have to say that we're really working as a team under the leadership of Nicolas Hieronimus, and that we're sharing many, many things. And if you think about it, the strength of L'Oreal is that we're a beauty pure player. And when you're a beauty pure player, we've got the chance to play on all channels where beauty is sold and all that across the world. That's our strength. The strength is that we're a global beauty pure players.

And clearly, to play on this strength, we've got to share. So of course, we are sharing R&D. We've got to a common R&D, but there are lots of other capabilities that we're sharing around e-commerce, around digital, of course, about -- around beauty insights. What I'm talking to you about new gestures, very often these new gestures, they start in selective -- not always, but they start in selective divisions. So understanding them early enough to be able as a division to democratize them, it's very powerful.

And then the other way around, I talked to you about emerging markets. The role of the Consumer Products division within L'Oreal is to open these new markets. Normally, when you set up L'Oreal in a country, you start with CPD. And then you -- and this is what happened in China. I was in China. You learn a lot through CPD, you establish yourself. And then the other divisions come. So it works both ways, and we're really leveraging the power of one L'Oreal.

Unidentified Company Representative -

Great. We're going back to e-commerce in emerging markets for a minute. What's the minimum viable SKU price points for single item e-commerce in emerging markets. A large competitor of yours previously said that single item e-commerce doesn't work on SKUs below \$10.

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

It's difficult to give a number because it depends on the countries, on the cost structure of the country. The cost of delivery in India has nothing to do with the cost of the delivery in France and even in the -- with the cost of delivery in Mexico. So giving a price is -- but clearly, you've got a minimum price. In some countries, it can be \$10. I believe in some countries that have really low cost, it can be less. And in sum, it can be more than \$10. But the great thing is that we're really working around that because of our products.

And the second thing is you're talking about single product. Clearly, what's interesting in what is happening is that people more and more have more sophisticated beauty routines. So when you are an e-commerce retailer, you have an average transaction value. And then within this transaction, you can put multiple products.

Unidentified Company Representative -

Question is, Alexis, can you help us understand if there are any big differences in the margin profile of

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the 4 large brands and also how much the margin of these 4 compared to the CPD division overall? Is there a rule of thumb that helps us understand at what revenue level the margin dramatically improves? And are there any brands that are close to this threshold?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

Our 4 big brands are very big. So you see from the margin of the division. We cannot afford to have a brand that is not profitable, that is not at the right margin threshold because these brands are all big. So it's -- all our brands are profitable. So we're managing in terms of profitability and in terms of mix between brands, it's a blend of many things. It's about brands, but it's also about categories. Clearly, the -- and it's also about regions.

And at the end of the day, we are very focused on improving gradually our gross margin. Because in our business, what really matters is the gross margin that you generate with your net sales because then the percentage has to be as high as possible because then you can decide what you do with the money. If you want to invest on one brand, on A&P, on this brand, then you put A&P, if -- and same thing on a region or in a category, if you want to invest on people, on this capability, you invest on people, and if you want to put it in profit, you put it in profit. But the most important is to have what we have strategically available money. And this strategically available money comes from gross profit maximization.

Unidentified Company Representative -

Great. The next person has managed to squeeze 2 questions. In -- the first one is in the U.S. L'Oreal CPD's performance has been much stronger in recent years, part of the edge has been your ability to capture signals early on in social media, coordinate with R&D and launch products quickly, which often become viral. How did you build this capacity? And how do you keep your edge versus competition and replicate this in other geographies?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

Yes. Thank you for the question, and thank you for your analysis, which is flattering. Yes, it's a bit what happened everywhere in the world because you're right, it's about social listening, it's about digital. And here, we're -- I think we're really good. It's also because we're a beauty pure player because then we know a lot about beauty. And clearly, the U.S. is interesting because not all beauty trends start in the U.S., but in categories like makeup, a lot of beauty trends start in the U.S. So clearly, we have on the ground a lot of capabilities. We've got great American brands. We've got Maybelline, we've got NYX, and that really has helped us win there.

And then in the U.S., where we've improved also on top of everything you said, it's precisely on activation. We've really step changed our relationship with retailers, and we've got very big retail partners in the U.S. And they've -- we've really focused with them on helping them grow, helping them grow their categories. They've understood what I call this +1 strategy, which is adding a product on the basket. And because of that, they are seeing us as a very strategic partner to help them grow their business. And of course, if we can grow share within this growing pie, it's good for everybody. So it's

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really -- in the U.S., it's really -- it's a good example of the step change both in terms of creation, what you were referring to, but also a step change in activation.

Unidentified Company Representative -

Second question was, in the U.S., you've launched Liars on a TikTok shop, which consumer will be able to reach for that channel? Is there a risk of cannibalization in other e-commerce channels and would you consider launching TikTok shops in other countries and on other brands?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

We're not sure that -- it's very, very early days. We have a very significant business on TikTok, which is called Douyin in China. And clearly, it's very -- already a scaled business there. And by the way, we learned a lot of things and we're leveraging this expertise in our U.S. experiment. And we -- on these kind of things that are emerging, you don't -- our philosophy is not to overthink in terms of, okay, is it going to cannibalize. There is a new channel starting, we want to be at the very start, we want to be pioneers, we want to experiment, we want to understand. And then we'll see whether it scales and it's -- and everybody is happy and it's -- and if it does, it's going to be, I think, a net additional because clearly, if you ask me, it's very likely that TikTok in the U.S. will maybe allow us to recruit even more gen-Zers, and that maybe don't go to Walmart and maybe don't shop on Amazon.

So -- if you ask me, I think it can really be additional. And we'll see, but what is important for us, it's a bit like what we did in China. And when we were in China, we were the first international beauty brand to launch on Tmall. We were the first. And because of that, it gave us, in advance, an edge. In that case, it really scaled, it really worked. And that's how we think at L'Oreal.

Unidentified Company Representative -

The next question is about the balance of growth between your 3 universes, the developed world, China and the emerging markets. What has this balance been up until now? And how do you think about this mix going forward?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

If you look at this year, it's pretty balanced. And it depends on the years. Some years, we had China, which had more traction. This year, clearly, Europe in spite of our market share and the U.S., we talked about it, are really growing fast.

And the emerging markets are very dynamic. I think one structural component is that 1, we really believe in the potential of the emerging market, and they've got to be a very big engine of growth for us. In China, we are very optimistic about the midterm prospects because in the greater scheme of things, CPD in China reaches around 100 million consumers where the upper middle -- the upper half of the middle class in China is about 400 million consumers. So we have big opportunities, especially in lower-tier cities, where we're a bit weaker. So there is potential in China.

And then in Europe, it's true that we have a very high market share. It will depend also of the market. It

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will depend on the overall market context, but we're proving this year that we can grow in Europe. So we're preparing -- what is for sure is that the emerging market will be a very big engine of growth and that we still have potential in China.

Unidentified Company Representative -

Great. At a time when fragrances are the name of the game. Do you see that category as part of your democratization strategy? Or is fragrance going to stay within Luxe?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

For the time being, we're super happy to see the success of our Luxe cousins in this category, and I'm not an expert of fragrance, but the very bulk of the fragrance market is in premium, super premium and premium access. So that's the priority of the group. Short term, I have no plans to enter fragrance. Now midterm, long term, we'll see.

Unidentified Company Representative -

China, the question is -- what is the competitive landscape for your flagship L'Oreal Paris brand like? Could you give any color on recent market share trends, promotional intensity levels and rivalry versus local and global competitors.

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

Yes, China is and has always been a very competitive market. We have a tremendous asset in this market on many divisions, but one of the fantastic assets that we have actually is a brand called L'Oreal Paris, which was launched 20 years ago as the first luxury brand in China before -- when there were no luxury brands in China, but they were starting to have department stores. The leaders back then decided to launch L'Oreal Paris as a luxury brand. And since then, Chinese see L'Oreal Paris as a luxury brand. If you look at the image studies, they put or -- they put L'Oreal Paris with Chanel, they see it in this bucket. And that's a tremendous asset because of that, we're not really in a way compared and comparable with a very mass Chinese or non-Chinese brands. We were above the scrum, it's the rugby world cup, so we're above the scrum.

And actually, the brand is performing very well. The dynamic -- the market is not super dynamic right now, but L'Oreal Paris is gaining market share. Gaining market share overall and gaining market share on skincare, on haircare and on makeup in the first half of the year. So we feel good about that.

Now where you're right is that there are always new competitors that are arising. I've seen that. I've been following China very closely for the last 14 years. I remember, in 2012, 2013, everybody was talking to me about Chinese brands that now nobody talks to me about because they've been forgotten. And there is a huge churn within these brands. And what is sure is that L'Oreal Paris is there, it's still standing, it's still winning and with a lot of potential in China. And we also have -- I've talked about it, the success of 3CE, this Korean brand of makeup, which has really made a very strong entrance in China, very relevant and, of course, very complementary because beauty is all about archetypes. And L'Oreal Paris is a certain archetype of beauty, but some Chinese women don't want the L'Oreal Paris archetype of

beauty and are more interested by a more North Asian archetype that 3CE embodies.

Unidentified Company Representative -

There is a question on the -- of acquisitions for CPD. What type of brands, categories and/or regions would [you] be interested in? How do you create value? And how do you measure success of an acquisition?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

The 2 main criteria for an acquisition is one, does it -- in my strategic brand equation and category, does it add something? Is it really complementary to what I can do with my other brands? So the strategic fit is about -- is really about complementarity. And am I sure that what this brand or what this acquisition offers, I cannot do it with my global brand. That's criteria #1.

And then criteria #2 is, can it accelerate my growth? And if you think about by 3CE by Stylenanda, it's exactly that. I talked to you about the fact that it was covering an archetype that we didn't cover with our brands; and two, it's growing very fast. So that's really our how we look at acquisitions.

Then we're the Consumer Products division. So size matters. So it's important to have acquisitions that can be regional, but still within the region, size matters. And then you've seen our strategic categories. You see we're playing mostly in skincare, in haircare, in hair color and in makeup, and we're looking to grow our market share in these categories.

Unidentified Company Representative -

So looping back to one of the previous questions, are local brands in emerging markets a significant threat for CPD? And in hindsight, why do you think Garnier did not succeed in China?

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

No, it's -- local brands are always interesting to look at, and at L'Oreal, we love competition because competition allows us to stay on our toes and to keep getting better. So yes, local brands can be a threat.

Clearly, in China, the local brand activity is very high. In some countries in Southeast Asia, there is a lot of very interesting local brands. As always, the game for us is to say, "Okay, what can we learn from what's happening and how can we leverage our strength and what we're good at." What are we good at? First thing that we're good at is science. We spent EUR 1 billion every year on R&D. And that's a major asset that local brands clearly don't have.

The second asset that we have is that we have fantastic, aspirational, complementary global brands. That's -- the third thing that we have is precisely because we have this multichannel and multi-region exposure. We know a lot about what's happening across the world, and we can take 1 big idea in 1 part of the world and roll it out internationally and playing with these cards, which are our cards, we're competing against local brands everywhere in the world.

In most cases, we're winning. In some cases, we don't. It was a case of Garnier in China, in hindsight, they had a lot of things that could have been done better. The name of the brand Garnier, translated in Chinese was not ideal. We attacked the skincare category, which was very competitive. And we decided that it was better to stop it, to concentrate on the building of a fantastic L'Oreal, and I think it's a great decision.

Unidentified Company Representative -

And I think we have time for one last question. And that question is about the extent of the recent outperformance of CPD. Has it been a result of consumer down trading from higher price tiers into mass as opposed to a result of L'Oreal's outperformance following the innovation and investments highlighted in the presentation.

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

The outperformance of?

Unidentified Company Representative -

Is it due to consumers trading down to lower price points from Luxe, for instance.

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

But to what extent has the rest of the performance -- of the Consumer Products division?

Unidentified Company Representative -

Yes...

Alexis Perakis-Valat L'Oréal S.A. - President of Consumer Products Division

Yes, okay, okay. Sorry, sorry, the outperformance. Yes. Listen, we don't -- I don't see trading down phenomenon anywhere in the world. I don't see at all. I don't have any fact anywhere that proves to me that there is a significant trading down on any category, in any country in the world. You always have consumers that juggle between channels, but there's not at all this kind of phenomenon. What we see is that -- what I see is 2 things, it's overall, and especially the upper half of the middle class, everybody is going up.

And there is -- the people in selected -- traditional consumers of selective brands are looking for more. Then you've got some of the top of the mass that are entering to luxury and then you've got some that come from kind of, let's say, lower mass that want more. So the movement that I see, especially among the upper half of the middle class is a movement up. Then there's another movement that you see is that in some countries, there is a polarization of the consumption.

And on the more -- on the lower part of the middle class, you can have some trading down, here and there, et cetera. But that's where I see for consumers that are struggling in countries like -- we live in France. We see that in France, not in our categories, by the way, but overall, we hear that in the media. So that I see that. But I'm absolutely convinced that there's -- the dynamic of the market on the 1 side of

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the mass market and on the other side, the dynamic of the division has nothing to do with a significant trading down from more selective channels.

Unidentified Company Representative -

Great. I think that concludes our session for today. Thank you very much, Alexis, for your time. Thank you, everybody, for joining us, and have a good rest of the day.

Alexis Perakis-Valat *L'Oréal S.A. - President of Consumer Products Division*

Thank you for your attention.

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