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# EDITED TRANSCRIPT

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## PRESENTATION

**Tom Sykes** *Deutsche Bank - Managing Director, Head of European Consumer Research*

Thank you, everybody. We shall now start this session. It's my great pleasure to announce in this afternoon's session, and welcome to the stage, Nicolas Hieronimus, Group CEO of L'Oréal and, of course, Christophe Babule, Group CFO of L'Oréal. So, Nicolas, over to you.

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

Thank you. Good afternoon, everybody. Happy to have you all in the room and to tell you a little bit about L'Oréal and how we fare. As always, because at L'Oréal everything often starts with images, we would like to start with a little video introducing the latest update on L'Oréal, and then I'll go on with my presentation before taking questions.

(presentation)

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

Thank you. So well, this sums it all up, but I'm going to go back to a few elements that some of you may know about L'Oréal. As you know, we are the worldwide leader in beauty with, in 2022, EUR 38 billion sales, EUR 6 billion net profit. We sell 7 billion units approximately in the world in over 150 countries. We have 87,000 employees. And our market cap is around EUR 200 billion. So L'Oréal is, of course, a company that focuses a lot on financial performance, and we're going to be talking about it today, but also extra financial performance is at the heart of our pledge and our sense of purpose to create the beauty that moves the world.

As you know, we've -- we're the only company in the world that has been awarded AAA by CDP for 7 years in a row; it's going to get always harder. And there are many of the other awards that you saw in the video or on the screen that are rewarding the other part of our performance, which is extra-financial and which is equally important.

I think one of the important messages that I want to convey, as we come out progressively of 3 years of crisis with COVID, is that we truly come out much stronger from the crisis than when we entered it.

If we look at the numbers and the comparisons between 2019 and '22, you see that we've increased our

reported numbers [sales] (added by company after the call) by 28% over these 3 years, our operating profit by 34%, our operating margin by 90 basis points, which is kind of consistent with the 30 basis point annual average that we try to deliver. We've been increasing, over the 3 years, our A&P spend by 31% in value up to EUR 12 billion, and by 70 basis points. And at the same time, with the scale and the growth of the business, and also some productivity efforts, we've reduced the weight of our SG&A by 190 basis points to 18.4, so a very virtuous P&L.

I think one of the important facts, what happened over the last 3 years, is the strong rebalancing of our business. We used to be mainly growing through the Chinese growth engine. And as you can see, this is our 2022 growth contribution and as you can see, of course, by division, you had a strong growth from L'Oréal Luxe and actually, right now, CPD, our Consumer Products Division or mass market, is leading the charge. Dermatological Beauty continues to be a very strong driver: it's contributing 1/4 of our growth.

But what's very striking is regionally. I remember one of my first speeches as CEO said that emerging markets would be a growth relay for L'Oréal. And you can see here that Europe has a very strong 32% growth contribution and that emerging markets are the same size as North America, whilst North Asia, which was impacted in 2022 and in the beginning of 2023, by the COVID lockdowns or COVID pandemic is only at 19%, but still very balanced.

And finally, that was last year's growth composition. It was really very balanced again between volume, pricing and mix effects between divisions. So it was a very balanced performance, and we intend to continue to do so.

If we look at the beginning of the year, you know the results as they were published for Q1. The strong performance continues with 13% like-for-like [growth] (added by company after the call), with 2 divisions that are double-digit, Consumer Products, which are really accelerating and Dermatological Beauty, which continues to be an incredible growth rocket and gaining share all over the world. So a very strong performance of our divisions.

And again, you see that the regions, again, has the Q1 growth, you can see that we have 3 big regions growing at double digits: North America at plus 17%; Europe, our biggest region, at plus 16%, and that's despite the impact of Russia; and our emerging markets, much smaller still, if we aggregate all the emerging zones at plus 24%. [In China] (added by company after the call), our first quarter, as we had announced it, was lower, particularly in sell-in, in invoicing at plus 1.9% as China was still struck by COVID reopenings in December and January, where the market was very negative.

And clearly, that's one of the questions for looking ahead is what's happening with China. So, as I did last year, I'm trying to answer some of your short-term worries. I'm sure you have many more and we have a Q&A for you to dig more into other worries. This is -- I'm sure everybody has got lots of worries. But the 2 that we got most questions about were the first one of course was about the rebound of the Chinese market. What's happening there?

Well, we can say that the Chinese market is definitely rebounding at a pace that's a bit less steep than some were expecting, but steadily. If I look at this official data from the Chinese National Bureau of Statistics, you see the market growth very negative in December, again, very negative in April 2022 and in March, going back to plus 9.6%. If we look at our estimate of the sellout, so consumer purchase sell-through in April/ May, we are in low double-digit growth. So we see that the market is indeed picking up progressively, mainly through brick-and-mortar: people are going out and they want to enjoy life, and we see this consumption picking up in China.

And it goes with the consumer sentiment, which I think is a very interesting data because it also shows that we're going in the right direction, but we have some way to go. This shows the consumer sentiment index in China. And you see that it was for years in the 100 and 120 index. It's gone down very negative towards the 80s in 2022 and at the end of the year. And you see that it is picking up, so around 95, not yet at the pre-COVID level, but clearly picking up. So it's another good indication that Chinese consumers want to leave COVID behind. It will take a little bit of time to regain full confidence. But as it's progressively happening, the market is progressively accelerating. And by the way, recent news, and we can't comment so much, but we in this bouncing market, we continue to outperform the Chinese market across the board, whether in brick-and-mortar with the re-openings, or even with the festivals: we are in the early days of the famous 618 festival, which climaxes on the 18th of June, and the start of this festival sounds good for L'Oréal, again outperforming the overall market. So, China, one message: it's picking up progressively but steadily, and I am very confident that '23 will be a good year for China and '24, a great year for China.

The other question is the resilience of the other markets. So these numbers are, depending on the regions, end of March or end of April. So it's the data we have. They are consolidated omnichannel beauty market sellout. As you can see, Europe, U.S.A., and I have taken 2 emerging markets, India and Mexico, are all double-digit growth, so strong double digits.

It's likely that these levels of growth will slow down in the second part of the year for 2 reasons. One is the base, the comparatives are not the same; and the second is that most of the price increases that were taken by all the operators of the market happened in the second half last year. So the first half is benefiting from a stronger value effect. But overall, the consumption remains very dynamic. And if there are some slowdowns in volumes here and there, they are more than compensated by the value [component].

And if I look at the split between mass and luxury in some of these parts, so again, you have a mass market at the end of April, and Luxe at the end of March, and you see that both markets globally are at double digits and with a very strong and very good resistance of Europe, and also a pretty good performance of North America. So overall, the business remains and the appetite for beauty remains very strong, and our performance equally strong. And I think one of the interesting trends aside from the appetite for beauty, which I'll comment on once again in a couple of minutes.

The other great fact is this constant premiumization. All the new initiatives, and you see here the new

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Good hair color from Garnier or Elvive Bond Repair are launched at premium prices, which is the best way for us to offset our input increases and consumers want these better products. They invest in, at least our consumers, invest in higher-quality products and these -- all these launches are very successful.

And I have highlighted, Helena Rubinstein, that is our most expensive, our most premium skin care brand, which continues to fly off the shelves in China and it's probably our next billionaire brand.

So overall, we are operating in a pretty resilient environment so far.

We see a gradual easing of inflationary pressures, although there are a few pockets that remain. And as you've seen, the activity remains sustained in the Western world, very dynamic in emerging, gradual recovery in China and the appetite for beauty remains very strong.

So L'Oréal, a few reminders. I guess you all know this, there are 6 pillars to success are the ones you see on screen, which I'm going to comment quickly afterwards. But they are really -- they define both who we are and the recipes for our success.

We are a pure player of beauty. We do Only Beauty, and we know everything about beauty. But we do All Beauty at all price points, all distribution channels, whether medical beauty or luxury beauty, and that gives us a pretty good understanding and a 360-degree vision of the market and understanding and allows us to adapt either shifting to categories that are hotter than others or just satisfying all consumers around the world.

And we have made that choice to be pure players in beauty because we know we've seen that beauty since the dawn of time, is an essential beauty need from prehistory, the Egyptians, to today. Men and women want to feel good and want to feel beautiful. And that translates into a category that the only year that you see on that chart where it stopped growing was when stores were closed, it was 2020. But aside from that, this market has always been steadily growing. And as you could see, it's happening at an increased pace even more this year.

This is fueled by the rise of middle classes and they are growing all around the world, and that's why we are betting on emerging because out of this 100 million new middle classes, a lot of them are going to come from Indonesia, India, Latin America, and of course, China. And this goes with a quest for better quality and premiumization, which is definitely playing in our belief that investing in science and in research to provide superior products is the way to win in beauty.

Our second growth driver is our portfolio of brands. We have 36 international brands. You know most of them, and they allow us to satisfy all consumers around the world. And this portfolio has both like super big [and smaller] (added by company after the call) brands. We have our billionaire brand club. These are the 11 billionaire brands of L'Oréal. Some have entered this year. Like CeraVe, for example or Kérastase. So these brands are really the biggest ones, and they're both big and driving profitability and they allow us to invest in the young, smaller ones that we are going to develop. And of course, our business model

is always to make acquisitions and to support supercharge them.

So the famous example of CeraVe. But for me, it's -- I have to say it's one of our best examples, but it's a very impressive one. We acquired this brand in 2017. It was around \$140 million, and it's gone way above EUR 1 billion in 2022. So a 10x multiplier in 5 years; I hope they can do all the same. But this is our strategy. This is about buying brands that are different and complementary to our portfolio and roll them out.

And if you look at the history of L'Oréal, you see the years; the horizontal bar is the size of our business, and you see all the acquisitions. In the end, L'Oréal has 2 self-made brands, L'Oréal, Paris and Professional and Kérastase, all the others were acquired across history. Of course, the most recent one, even though the acquisition is not finalized yet, pending the competition authorities' ruling, is Aesop. That should hopefully join the L'Oréal roster in the middle of the year.

So brands, pure player brands, digital. Digital, that really helped us accelerate during the crisis. We are and intend to remain an undisputed digital champion, that's really a strong focus even today in this year of technology for L'Oréal. We lead in E-commerce, and we are growing in e-commerce. Last year, it was 28% of our sales, probably a bit less this year with the reopening of brick-and-mortar. And we have an e-commerce share globally that's above our brick-and-mortar share. So the more we accelerate in e-com, the better it is for L'Oréal.

We lead in services. You remember our acquisition of ModiFace. And since then, we've continuously developed new services from makeup try-on to skin care diagnosis that allow to make -- to give consumers prescriptions about their daily routine. Last year -- this year, we are at plus 25% in service traffic, a number of people who opened one of our online services to either try a product or get diagnosed, 40 million-plus sessions in 2022, and every time somebody uses these services, it multiplies by 2 their purchase intention as it relates to our products. So it's a very profitable investment.

We lead in advocacy. That's probably one of the new games that we've had to learn because, as you know, traditional advertising remains a very important way to create the image of the brand, which we live in a world of advocates where consumers want to hear about people like them, peers, influencers, mega influencers, smaller influence. And this is a game you have to master, and I have to say we have become pretty good at this game and our share of influencer, the share of L'Oréal brands in the overall influencer game is 26%, which is more than 10 points above our market share. So it's really an area where our teams are focusing.

And of course, we explore the metaverse and generative AI. We explore the metaverse with -- we have some projects with the NYX Professional Makeup brand, where we created a DAO or it's called Gorjs. We have these tokens with Maybelline. And every time we have -- and of course, generative AI. We start exploring creating, like this image has been created by Gen-AI for L'Oréal Professional.

We have this, what we call the SMS strategy as it relates to digital: Seize what is starting, a good old

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L'Oréal mantra; Measure because we want to make sure it works. And when it does, we Scale. And that's -- the previous ones you saw, services, e-commerce or even advocacy, we're in the scale phase.

On this, we are in the test and learn and measuring phase. And of course, that says that we're not going to be doing stupid things and spending millions on something that doesn't work. But if we get traction, we'll be able to accelerate and scale it.

Our fourth key to success is research and innovation. You know the numbers. We spend EUR 1 billion, a bit more every year in research, 3% of our turnover. And last year, we patented. We have 561 patents, which allows us to, of course, to make discoveries that are not accessible to our competition, which is super important in an offer driven market like beauty. This is really the market and makeup is a perfect example where you have to stimulate the consumer's appetite with new products and innovation is key.

Operations play a very important role in L'Oréal's success and it was very obvious in our performance in China last year where it was a bit harder to reach consumers. We have a very powerful and agile operations footprint. First of all, I'm very happy that this year, Gartner put us in the top 10 in the supply chain global ranking. Our service levels, by the way, are improving. They are not perfect yet, but they are getting closer to the numbers we used to have in most parts of the world.

We have 38 factories, 152 distribution centers. And what's important is that 110 of our sites globally are carbon neutral of which 22 factories. So it's, if I can pay tribute to our operations team, they have been very, very agile in these very troubled times for full supply.

And finally, one of our key -- the secret sauce of our success is our L'Oréal culture. It's hard to describe if you've never worked at L'Oréal, which I've done for 37 years. But there's this blend of passion for beauty, of determination to win, of capacity to change and to embrace new disciplines or new trends, which is quite spectacular, and I'm going to talk about it in a minute, but it's probably the thing that is the most -- the hardest to replicate for any competitor because it's very powerful and high-quality crowd and culture.

So these are the, I would say, globally, our 6 recipes for success.

I would like to finish with -- we're telling you why I think we are really fit for this new future we're embarking on, which requires, by the way, a lot of work and adaptation. If I had to describe this new era we're entering, there are many things that we could present. But for me, the 3 big overarching trends are: One is this fragmented world, geopolitically, economically; I mean, we all live in it, and we read the news every day. More than ever, the sustainability emergency makes the headline and it's a real emergency. And third, clearly, when you see the incredible speed of technology and the adoption rate of ChatGPTs and the likes, we are entering an era where technology is going to be playing an even bigger part.

So for L'Oréal, as I said, we are fit for this future. There are things, I think we're ready. And typically, we

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are multipolar by design. From the very beginning, we've always said that L'Oréal was strategically centralized, but operationally decentralized with a lot of entrepreneurial power in the countries that makes us particularly equipped for this new world.

And each of my regional managers can operate in their parts of the world with a good degree of autonomy and adapt to whatever constraints there are. And that's, I think, very powerful in today's world.

And next to that, we are always transforming. We have many transformations undergoing. The 3 major ones right now are sustainability, tech and culture.

Sustainability because there's an emergency. You know the L'Oréal For The Future program that has been announced after the first wave of our sustainability transformation and we publish regularly our road map. Today, 65% of our sites have achieved carbon neutrality. On plastic, we have 26% of our plastic that's either recycled or from bio-based sources, 70% as it relates to PET. So we are progressing and the whole company is really determined to make it happen, including influencing consumer behavior with a strong focus, for example, on refills for many of our products, including Fragrances. So that's clearly at the heart of the L'Oréal transformation. And of course, being so invested, if I may say, in science allows us to really transform from the petrochemical ingredients to natural-derived ingredients. And today, with our green sciences focus, 61% of our ingredients are already bio-based; our target is 95%. As always, the last mile is the hardest, but the way we are, the teams are really determined to make this sustainability transformation.

We have the tech transformation, and that's something we don't communicate a lot about, but we invest also EUR 1 billion -- a bit more than EUR 1 billion every year in tech. We have 2,000 beauty tech and IT dedicated experts, 800 data analysts. And we have a lot of partnerships with external partners, such as Verily, to fuel our own AI with data and combine our own biological understanding with big cohorts from Verily and others that makes our data even more powerful and increases our ability to deliver better products for consumers.

And finally, we are adapting our culture because I said that culture is the secret source of the success of L'Oréal. Probably one of the biggest changes imposed by COVID is the relationship to companies, to work; this idea of work from home or work in the office. And we are making sure always to protect our culture within this changing landscape. I'm happy to report that our engagement rates, which we measure every year is at 79% stable and 4 or 5 points above the norm. We had last year 1.3 million job applications, increased by 7%, which shows that the company continues to attract students from all around the world despite being 115 years old dinosaur. And we are in the top 5 universal companies for business students.

So we are changing. We're always learning, testing and learning, but we are protecting that culture.

And talking about dinosaurs, I can't resist the pleasure to reintroduce our famous Unicornus Rex, which

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is this incredible breed within Tyrannosaurus Rex, powerful, old, big scale, but at the same time, a unicorn that adapts to this new world of data, digital and tech. So it's our mascot. We all have T-shirts of the Unicornus Rex, but it describes pretty well what L'Oréal is: a big, old, strong company with the agility of a unicorn.

So to conclude and before taking questions.

Today, we reaffirm our confidence in the future. Beauty is a timeless value, and it continues to grow, and it's always valorizing, which is very positive and good for the market and for us. We are the world leader in this market, and we've come out of this crisis stronger than before. We are in constant improvement of profit, and that remains a commitment whilst investing strongly behind our brands because growing the top line is at the heart of our model.

And of course, I hope you see that we are at least doing everything in our power to be fit for this new era and fit for this future. So I'm happy now to take questions with Christophe. Thank you very much.

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## QUESTIONS AND ANSWERS

**Tom Sykes Deutsche Bank - Managing Director, Head of European Consumer Research**

Many thanks, Nicolas, and please do put your hands up. There are microphones that will come to you, so you can ask your questions. Perhaps, I'll -- let's kick off with one of the questions. You obviously gave some comments on China reopening. How would you say other than just the pace, are there any other changes in this reopening or differences compared to previous ones in buying patterns or behaviors of consumers?

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

Well, I think -- yes, I was in China like two months ago, visited a couple of cities, 3 cities Tier 1, Tier 4 to see how things were going. A few things struck me. First of all, the Chinese consumers were out. They really wanted -- you could feel, and this was very true for my teams, by the way, that they - like all those who have been under lockdown situation like us a couple of years before, they wanted to enjoy life to go to shopping malls. They were not wearing masks most of the time. So there is this desire to go out, and that's why there is today a very strong pickup of brick-and-mortar versus e-commerce that had become the sole channel for them to purchase.

The second thing that struck me is that this market hasn't been in China since November 2019, the market has -- and the consumers have tremendously sophisticated. They are even more demanding on the product quality, on the ingredients. They are getting more and more interested in sustainability topics. And I was, by the way, struck by the number of electric cars. I was in Shenzhen, I couldn't hear the noise of a car. So it was pretty astounding, the silence was astounding, but they are most sophisticated, and they are clearly open to new experiences.

The rise of Fragrance, for example, which is one of these categories that has begun to grow before COVID, but there's a very strong acceleration, and it's accelerating not through basic fragrance, but through more premium, high-end collections that are the most expensive fragrances on the market. So more sophistication, probably more pragmatism and a very -- and a strong desire to live and probably, as you could see in the chart I showed, some time needed to regain the full confidence to feel totally confident about the situation, particularly for the middle classes.

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**Tom Sykes Deutsche Bank - Managing Director, Head of European Consumer Research**

Perhaps just continuing. Maybe please, could you update us on your views on travel retail trends? And do you expect this to be the same growth and returning business as it was pre-pandemic and any geographic changes that may have seen that?

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

Well, here again, that's a bit the tale of 2 cities. On the one hand, you've got the Western world that has really reaccelerated and gone back to almost to 2019 levels. And there was a very, very -- for example, this -- the summer of 2022 and the second part of 2022. And even now the Western world, traffic -- the air traffic is really super dynamic, a lot of Americans flying to Europe and benefiting from the good exchange rates and Europeans are traveling.

Travel Retail in China and in Asia, in North Asia remains on a slower burn. It's mostly internal travel in China, a little bit of -- a good acceleration of Hong Kong and Macao. A few visitors going now to Japan and Thailand. But it's still significantly below the 2019 travel. But again, it is picking up.

With the Golden Week, we begun to see more people going to Hainan. We start seeing apparently more Chinese tourist reservations in hotels in Paris for the summer. So it's a bit like the internal market. It's a progressive pickup. But overall, there's a very strong desire to explore and to travel.

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**Tom Sykes Deutsche Bank - Managing Director, Head of European Consumer Research**

I have a question from the audience there, please?

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**Harold Thompson Ash Park Capital - Partner**

So a couple of questions, Nicolas. On Fragrances, I think you mentioned it's kind of picking up. And that category seems to be doing very well globally as well. Why is this suddenly happening. Has it been building? And is this a super cycle?

And then my second question is on tech. You've always been very good it. there's lots of applications where you accelerated product development, applications, marketing and so on and so forth. But what are the things we can't see that tech will do to beauty?

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

I will start with Fragrance and then I will take Beauty. On Fragrance, you had an accumulation, the addition of several phenomena. One is obviously fragrance after years of lockdown and interruption of

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social interactions picked up like makeup as you want to go out, you're wearing fragrance again. But that's only part of it.

The things that strike me is that really, there's been -- during this COVID, the development of this desire to pamper yourself. And I think the fragrance market has moved partially from smelling good to feeling good. And when I wear a fragrance, I take care of myself, I pamper myself. So that has driven more penetration, particularly in the eastern world. And I would add a third variance is the fact that what we see is that people use more different fragrances.

I remember my mother, I would not say the brand because it's a competitor, but she used the same fragrance from when I was born until when she died. Today, the younger generations, in particular, they like to express different facets of their personality, of their moods with different fragrances. So they might have 2, 3 or 4 or 5 fragrances that they use or mix for different moments. So the combination of all these factors gave fragrance and gives fragrance a very strong dynamism. It's true for men and for women. And I think it's going to continue. It's going to continue because it's true -- Chinese market, Fragrance is only 10%, 11% of the premium of the luxury market overall; and only 30% at the global level. So there's still a lot of room to grow.

But we see also in the U.S. and in Europe that the market continues to be dynamic, and we are very happy because we are the world leaders in fragrance. And we've put now 5 of our female fragrances in the worldwide top 5. So it's pretty positive, only 2 for men. So we have to work a bit harder. So that's for Fragrances.

As far as tech is concerned, first of all, I mentioned generative AI. It's very early days. It's both a very fascinating, and to some extent, worrying technology. But what I'm convinced of is that it will do 2 things. If I take the positive side, on the one hand, it will eliminate a lot of low added-value tasks for many of our teams, data crunching, basic reporting and that's going to be freeing time for people to do more productive or more interesting things.

And the other thing we'll do, it will boost creativity. It can create interesting things with Gen AI. I showed you an image that was created for one of our brands, and it was really an interaction between the marketing and the technology that led to something that was pretty unique and interesting.

So it's going to be a creativity booster. Of course, they're going to be drawbacks. And amongst the things we do not see, of course, there's everything we do internally with our data, and it's really empowering our R&I, our supply chain to be much more efficient. But I think it's going to both boost the creativity of our teams and also increase the appetite for creative beauty for consumers.

There's a new aesthetics that comes both from the world of gaming and from all these Gen Ais' incredible creation, is that suddenly things that look like science fiction, hair color or science fiction makeup for us like just 3 years ago, a part of every day - the images that young people see every day on their phone or their computer. So I think it's going to be opening new possibilities. And I don't know if

we'll see a lot of blue and pink and hair colors in the years to come in the street, but we see people are trying to look like they're Avatars, which I think is an interesting possibility for us.

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**Tom Sykes Deutsche Bank - Managing Director, Head of European Consumer Research**

And then very briefly in the short time we have remaining perhaps. Please, could you give some slightly more detailed comments on perhaps on the U.S. It was heavily debated at the moment. Is there any changes in demand at all across different price points that you're seeing?

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

I've read like you that for a certain number of retailers, April had been a bit softer. Read that Dollar General had, which really addresses the lower income, had also a softer April. But on the other hand, we see that the employment market remains very hot, that the spending power is there. And if we look at our own consumption of our products, of our brands. We continue to see good dynamism. So I cannot predict what's going to happen in the second half. And anyway, as I said, the comparatives will make the growth look softer. But so far, we are, like you, we're like watching everything. So far, so good.

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**Tom Sykes Deutsche Bank - Managing Director, Head of European Consumer Research**

Well, Nicolas, Christophe, thank you very much indeed for joining us on stage. And thank you very much, everybody, for joining us today.

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

Thank you.

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**Christophe Babule L'Oréal S.A. - CFO**

Thank you very much.

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