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EDITED TRANSCRIPT

L'Oreal SA Fireside chat Nicolas Hieronimus with JP Morgan
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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Celine Pannuti *JPMorgan - Analyst*

PRESENTATION

Operator

Welcome, and thank you for standing by. I would like to inform all participants that this conference call is being recorded and will be available to clients of JPMorgan. Parts of this conference call may also be reproduced in JPMorgan Research. If you have any objections, you may disconnect at this time. Press participants are not permitted on this call and should disconnect now.

Unless otherwise permitted by internal JPMorgan policy, members of JPMorgan Investment and Corporate Banking are not permitted on this call and should disconnect now. I would now like to turn the call over to Celine Pannuti from JPMorgan.

Celine Pannuti *JPMorgan - Analyst*

Thank you. Good morning, good afternoon, everyone. I'm Celine Pannuti, and I head consumer staple research at JPMorgan. As part of our CEO fireside chat series, I am delighted today to welcome Nicolas Hieronimus, CEO of L'Oreal. Nicolas, bonjour. Thank you so much for being with me today.

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

Hello. Good afternoon or good morning, everyone.

QUESTIONS AND ANSWERS

Celine Pannuti *JPMorgan - Analyst*

So Nicolas, we have 60 minutes to go through the world of beauty with you. And I'm going to start with a very usual question. Last, I think it was a month ago, you did a presentation and you talked about your confidence around the market growing at around 5% for the year, a bit stronger in H1, so in H2 as pricing all over. So I just wanted maybe if you give us a bit of a checkpoint on what you see right now in the marketplace.

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

Well, I still am confident about the beauty market, which will continue to grow. Unfortunately, I think it may be slightly slower than I expected. I was betting with my CFO that it would be above 5%. For this above 5%, I was really counting on the rebound of the Chinese market, which is unfortunately, and I can't comment upon, that is not materializing. China remains quite gloomy right now.

So if I had to make a guess today, I would say it's probably going to be more between 4.5% and 5% and above 5%. So it's a slight correction. But unfortunately, the latest news of the Chinese market confirmed the absence of growth of this country. Last year, Q2, the second quarter was actually the only quarter that showed some growth in China. All the other quarters were slightly negative.

And the comparison with this quarter this year is not great. So I think the Chinese market compared to last year in -- so in 2024 is slightly negative. So overall, we see that the Chinese market remains pretty slow and pretty not growing. So that affects my -- not my optimism, but my assessment of the global beauty market growth in 2024. So I think it's probably going to be around 4.5% rather than more than 5%.

Celine Pannuti JPMorgan - Analyst

Right. Well, thank you for that. Anyway, we will come back to China more specifically in the course of this interview. Maybe if I talk about the change of the beauty trends over the period, I think you recently put a slide where you talked about the different subcategories outperforming at some point or the other. Obviously, skincare has been a great category in terms of performance.

Now we see that fragrance, it is doing better. I just wanted to understand how you see the shape of the beauty market from a category's perspective as we look in the next couple of years, how you prepare as well yourself for that.

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

Yes, I will try to give you some insights. Just to finish on the market growth because I spoke about China, which is unfortunately not taking off. But the good news is that we see that emerging markets remain very dynamic, that Europe remains very dynamic. And that in the US market, you've got some, I would say, channels that are slowing down a bit, like mass mainly driven by makeup. But on the other hand, Luxury is accelerating. So it's made a bit of a mixed bag.

So overall, in all parts of the world, the market is growing. And indeed, it's driven by different categories and different segments. Clearly, the post-COVID, strong rebound of the beauty market was very much driven by makeup. It was the return of social life, makeup and fragrance. Now makeup is normalizing a little bit, but we see that hair remains very dynamic.

Fragrance continues to be spectacular, and we are more spectacular in fragrance than the market. And skincare, I think, will remain a very sure bet long term, both because the population is aging. And clearly, skincare is the category that you can use and should use until the very last day of your life. And at the same time, you've got more Gen Zs entering the skincare market to protect their skin against UV.

So overall, I think that if you take a long-term vision, skincare is a sure bet, but all categories will be growing. Haircare's growth is driven by a stronger mixity of the population. So longer hair, more mixed hair that requires more care. Fragrance continues to grow and even makeup, which is more cyclical. We see that in every -- very regularly, it -- and increases. And as it's a very offer-driven market, I sit in my

business right now.

We had the beginning of the year in makeup that was just okay-ish, I would say. Now we have a lot of initiatives coming on a brand like Maybelline, for example, and we see the instant acceleration as soon as you come up with interesting products. So I think that's -- for us, what's very important is the strength of our multiple model, whether it's around our capacity to offset a difficult moment in one region with the growth of others. It's the same on categories.

We are -- we have right now, for example, benefiting a lot in Luxury of the growth in fragrance for -- it's been a while since we were hoping to beat the market again in Luxe in the USA. I said several times that I was not very happy with our performance. And now as the makeup -- as the fragrance market is really driving the growth of the US and as we are the leaders in fragrance, we are gaining market share at last in the US in luxury. So that's very positive.

So overall, I do not see major shifts, just a long-term bet that is right to do on skincare and the need for a lot of agility because you never know when the trends are going to shift, and it's very important for a company like ours to be able to always seize the ascending currents when they materialize, which is what we are doing year in, year out.

Celine Pannuti JPMorgan - Analyst

I mean that's -- brings me maybe to the next question on premiumization. You mentioned that Luxe in -- you're still doing quite well and you are performing in the US. I think what we've seen across many categories is that industries have put on prices and now we see maybe consumers are shifting to lower price point or even some categories really in prices, but it's not been the case in beauty.

How do you explain that premiumization is still going on strongly in that category? Equally, I wanted to just touch upon some of the panel data that we are seeing in mass market, where we see that volume is becoming negative. I just wanted to know whether that's a source of concern.

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

Well, , let's start with the very positive news, is that if we look at last year and even the first quarter of L'Oreal, our growth has been very balanced between volume and value, which seems to confirm that we've managed to strike the right balance between valorized innovations, controlled price increases on our catalog and overall. That has allowed us to gain share and to grow our volumes. But what's true is that for the category is that the category has been quite immune to [unit] drops as long as price increases were decent. We've seen that at a global level.

I was looking -- recently had a meeting this afternoon where I was looking at the difference between the overall FMCG evolution in Europe versus Beauty. And it's true that in other categories of FMCGs, we've been -- we've seen quite quickly some unit drops to offset the price increases, which we haven't seen in beauty. And if I look ahead, by the way, at Europe, which is going to be -- which is one of the highlights of our growth right now, we can predict that the value effect will wear off progressively in the second half

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of the year, but we see units very, very solid and very stable.

So when you talk about [panels] or Nielsen that have shown the unit price increase, it's mainly mass in the US, and it's really driven mainly by makeup. And that's related to what I was telling you before, which is this makeup market, which was like super strong after COVID and which is going down a bit. In the end, color, hair color and makeup really accelerated in mass post-COVID and are calming down right now. But overall, we are confident in the fact that consumers remain very attractive to this beauty category, which gives them -- I call that the dopamine in effect, some called it the lipstick effect, this -- a little bit of happiness in troubled times. The products are not that expensive.

And we make sure that's very important also that we use our brand portfolio to be able to satisfy every consumer.

So we will not be in the entry price points because that's not our model, our business model. It's a higher gross margin. So we leave this space for others to thrive on it, but it does not prevent us from growing. And in the end, we can offer products that are very affordable and at the same time, seduce the most demanding customers with our Luxury Products, and that's what allows us again to be able to continue to beat the market.

Celine Pannuti JPMorgan - Analyst

Yes. Maybe thinking about price point, one category where price point have clearly gone up a lot is fragrances. So you mentioned the buoyancy of the category. Is there a bit of a -- it has been like 4 years now that the category has been growing double digits. I know you are quite bullish about the structural driver by the fragrance market.

But what should we expect from this category in the next 1 to 2 years? When we see instances where sometimes categories can slow down quite fast. And then you -- can you talk about what L'Oréal -- I mean, you are already the leader globally, how your shares have been developing? And what do you think are the interesting point of development for you in this category geographically or maybe from a price point standpoint?

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

Well, first of all, the thing you should -- we should expect from this category is growth, continued growth because I mean all the drivers of the category are green light -- a green light. Of course, the growth of the market will not always be double digit, but I think at the first part of the year, it was mid- to high single digits, and we are double digit on that market. But it's driven by luxury status aspirations. The couture brands, by the way, are often the ones that are growing the fastest, is driven by Western and Chinese Gen Z that create more and more fragrances.

And we see that there is an increase of both of the frequency of usage and the number of fragrances that these generations use, I was looking at data that show that consumers have an average today of 3.3 different fragrances. It was 2.7 in 2021. So it increases very fast. And pre-COVID, it was probably closer to

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-- it was below 2. So there is this idea that fragrance is a way to express your personality and the high-quality fragrances, they can't be copied, they can't be duped and neither the luxury aspiration of the brand.

So I think it's both a category that's going to continue to grow and where we are going to continue to thrive.

There's also going to be valorization. You mentioned it because in reality, we see that the fastest-growing subsegment of fragrance are what we call the premium collections, which can be either specialized brands, like Atelier Cologne or Jo Malone or a few others like that. And at the same time, the collections within the couture brands like Armani Prive, for example. And when, I would say, a blockbuster fragrance sold around 100 -- between EUR 100 to EUR 150 per 100 ml, these collection fragrances are sold over EUR 250, and this is the part of the market that's growing the fastest because -- why? Because again, it's about uniqueness.

When a product fragrance enters the top 10 worldwide, the odds are that you may smell it on somebody else. And then the most sophisticated consumers, they want to be sure that they wear a fragrance that nobody else is wearing. So that drives the market growth, too. And we have still lots of opportunities. The market is still small in China, in North America, we know that the ethnic minorities that are now ethnic majorities among the Gen Zs, Latinos, Black consumers use more fragrance than others.

So all this is going in the right direction. So we are happy that we have increased our market share and fragrance from around 16% to above 20% in 2023, 21% precisely. But we still have some room because precisely in the collection fragrances that we are underpenetrated. So it's clearly an area of focus for us.

Celine Pannuti JPMorgan - Analyst

And I think another strong engine of growth, and you mentioned it earlier, is the Derma division, and Dermatology market has grown the strongest, I think within skin. Can you talk -- so obviously done quite well. I think you doubled your business in 3 years, [CeraVe] is close to EUR 2 billion. So can you talk about the growth of the market? Is it normalizing?

What's the kind of -- I mean, should it be -- I think it has been growing double digits. What's the kind of trends that you are seeing there? And then what is still the whitespace opportunity that you think you have? I think you are launching CeraVe in India soon, but trying to understand really whether we can put in our number EUR 1 billion every year extra from this category.

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

Well, I think it's the objective I gave to the President of this division. So whether she will achieve it or not. But the EUR 1 billion a year seems like a good objective for her. And as far as the market is concerning, of course, as I've always said, at some point, size matters. And so the growth rates is bound to normalize, and the market will not always grow at double digit, but still for me, there's a huge potential for many reasons.

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First of all, as we've already discussed in prior conversations, there's a global concern around health, well-being, wellness.

And at the same time, there's an increase in skin pathologies. You have 2 billion people on the planet that have real skin issues, and whether it's because of the UV, the pollution, the stress of life, it's not going to go down. I was in China not so long ago, and everybody was telling me about health, health, health. So I think this part of the beauty market in skin care, but we can talk about it in a minute, in hair, too, is bound to grow. When I -- if you look at the weight of dermo in the total skin care market -- or total beauty market, sorry, it's 9% globally, but it's 15% in the most advanced countries.

So it means that there are a number of countries that are still in the early stages of their dermo adventure.

And you mentioned emerging markets, clearly, India, but also China, Southeast Asia are still in the early days of their adventure whereas other countries like in Brazil, it's one of the biggest markets because they started with the importance of dermatologists already a few years ago. So there is -- the only place where I've seen a slowdown of the market is North America, where there's whether it's because of the lack of sun, which we also see in Europe, which affects the suncare market because many other channels are trying to have their share of the dermo story. So it has slowed down a bit in North America, but it remains very dynamic in Europe. And as I said, it's accelerating in emerging markets. So still very ambitious for L'Oreal Dermatological Beauty.

La Roche-Posay is growing very fast. I was in Chicago for the Consumer Goods Forum not so long ago. And we met the Ulta teams, and they told us that La Roche-Posay had become the number one skincare brand at Ulta, which frankly, was an unbelievable achievement for me. And still, it has the size of CeraVe in the US So we have brands -- and it's the opposite in Europe, where CeraVe is much smaller than La Roche-Posay.

And then there are, as I said, for us, very exciting prospects around hair. Actually hair, it's the number -- is the second reason to consult dermatologists, whether it's to consult around hair loss issues or dandruff that can be a pathology. They are very much, as I said, the second reason to visit a derm. So we've embarked on that -- on growing that part of our business, first, with Dercos, which is the sub-brand for Vichy, which is doing really great right now, has become the most prescribed antidandruff by dermatologists, launching -- about to launch a new anti-hair loss product, which I hope will -- according to clinical results, I hope that I will see some result on my own hair. And even for a brand like CeraVe, which is something we've just announced, but I think will be a great growth driver for next year.

We are launching -- we're entering the anti-dandruff market with CeraVe, and when you see the power of that brand with younger generations with both male and female, I think it's going to be at least for next year and the years to come, not this year, it's a -- it's really like a November or December launch, it's going to be an accelerator. So yes, normalization of the growth of the market will happen. But in

absolute value, it will continue to be a fantastic growth driver both for the market and for L'Oreal.

Celine Pannuti *JPMorgan - Analyst*

Right. So that's great to know given that -- I now would like to move to what you said at the beginning in China, probably maybe a bit of more of a headwind than you expected since the beginning of the year. So just to double check, did you say that the market was down in Q2 or year-to-date? But overall, I think if you could put -- give a bit more color of what exactly is happening in terms of mass doing well versus maybe premium price point? Is it an issue of volume?

Is it an issue of mix and promotion that is impacting this market? And I think if you could comment, there's been some ranking on [618] that were released last week, and we saw the rise of the local players, taking the top right there. So if you could comment on how the June month has been developing at 618 and as well how L'Oréal is faring versus maybe a more prominent local competition?

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

So first of all, I'm going to reassure you, we are still gaining share in China, and you'll see it when we publish our results for the first half. But what is true is that the market has been disappointing. I think the number one issue and then we'll enter into all the details you mentioned. But the number one issue is consumer confidence, is that the confidence level of consumers in China remains low because the economical situation, the economic situation is not the best. And instead of indulging in this purchasing frenzy, where they were stocking up on products during festivals, we've seen in -- during 618 as we've seen in Double 11 last year that people are there, they come, they buy, but they buy less in terms of number of products than they used to.

So the -- when I said that the market was negative, it's the second quarter, and it's because last year, the second quarter of last year was actually pretty positive, it was over plus 6% when the global year was flat. So cumulative, we don't have the full, full number of June. So it's hard to give you a precise number, but it means that the Chinese market remains globally pretty flat. There's no real growth. And then within this, there are -- there are some, indeed, some variations.

First the -- it's a bit the opposite of the US In the US, you have mass slowing down a bit and Luxury accelerating.

And here in China, it's the opposite. The mass market is more dynamic, whereas Luxury, which is typically the product category where people were stocking up during promotional times, which is more negative. By the way, dermo is very dynamic, but it remains quite small. So overall, it's not as nice as we'd hoped. And indeed, 618, if you take the net sales, i.e., once you remove all the cancellations of consumers, has been slightly negative versus last year, 618, which was the post-COVID rebound.

So in that -- in this ranking, we have brands that do great. And we've -- overall, typically, we are gaining a lot of share in luxury again. And there are brands that are doing a bit less well. So indeed, based on the results we have, the number one brand in 618 was a Chinese brand, but number two and number three

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are, like in Double 11, were L'Oreal Paris and Lancôme. And we have brands like SkinCeuticals that are growing high double digits.

So it's -- and overall, when you look at the equation between Chinese brands and foreign brands, we continue to see some very dynamic Chinese brands, which are exclusively mass brands, some declining Chinese brands and most of the volume they take at least in share is coming more today from Korean and Japanese groups than from the sum of all the Western players. But it's a market that we continue to bet on. We have lots of initiatives and a few interesting successes, like we have with Yves Saint Laurent or SkinCeuticals. So stable market fluctuations, a bit less Luxury, a bit more mass. And within this, overall, L'Oreal managed to gain share.

Celine Pannuti JPMorgan - Analyst

Another part of that China ecosystem market in the Travel Retail in Asia, which has been under pressure last year because of (inaudible). Can you explain or can you talk about what's the growth of that -- the sell-out growth of that market in Asia? I understand that [Hainan] has probably been a bit disappointing.

And if you could explain a bit what is happening in this market, and it feels to me that maybe Hainan is disappointing, but other parts of the market probably are doing a bit better, like Hong Kong, Japan. So it would be interesting to hear about this? And are you still expecting a very strong bounce back in Travel Retail Asia for you in the second half of the year?

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

Yes. Yes, I am. First of all, as a reminder, for our -- our audience, Travel Retail accounts now between 6% and 7% of the L'Oreal group sales and 75 of this is Asia, basically. And by the way, I must say that -- we have -- we see a strong dynamism again in the Western world in Travel Retail in Europe, in particular. Europe continues to be very dynamic.

But to go back to your question, we've seen indeed different trends in Asia. We see, let's take it whatever the order, but we see Japan, Japan Travel Retail being very dynamic because they benefit -- I mean, the travelers and those who want to buy products, see both -- there is lots of tourism, but also there's a very weak yen. So there are lots of interesting opportunities.

So Travel Retail in Japan is very dynamic. Same as Hong Kong, where probably a certain part of the daigous that have been a bit less welcome in Hainan are going to do some deals. So Hong Kong is very dynamic. Korea is quite dynamic, too. And Hainan is disappointing, indeed, where -- I've been to Hainan.

I was in Hainan probably, I don't know, 1.5 months ago, something like that. Spectacular expression of the brand. So it remains a fantastic way to expose our brands to consumers. Hotels were full. More hotels are being built, and malls are being built.

But what is true is that the profile of consumer has changed. They're more lower-tier cities. They also buy across several other categories than just duty.

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So overall, the conversion in Hainan is not as good as we'd like. So it's partially offset by the good news we have on the other parts of Travel Retail. But still, we were hoping a bit more consumption in Hainan, which will not prevent again our second part of the year to be very positive for Travel Retail because as last year, we've been destocking very significantly. We will indeed have very positive numbers in selling in the second half of this year. And long term, we continue, of course, to be both optimistic and ambitious for Travel Retail first because the traffic continues to increase.

It will be -- it will go above 2019 at global level this year. We have more and more Chinese traveling and domestically in the airports. So it's both a great way to expose our brands to present them to consumers and to do business with, I would say, true individual travelers that will be hopefully [loyalize] to our brands, including in the domestic market.

Celine Pannuti JPMorgan - Analyst

Maybe I'll switch to -- move to where I am today at the US If you could talk about that market, which has been quite buoyant over the past couple of years. So we are expecting a bit of a normalization of that market. Could you help us understand what our normalization looks like in terms of, are we talking mid-single-digit market growth, low single digits, which we add up 3 (inaudible). And then within that in terms of your different categories there how L'Oreal is faring in this market.

I must say there seems to be a bit more of an acceleration of small brands coming back to this market. Is that something you also see? So how are the competitive dynamics and your capacity to outgrow this market?

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

Well, first of all, we're very happy. Overall, I'm very happy with the US It's been, for me, an area of concern at some point because we like winning and particularly on Luxury, it was a bit of a challenge. And overall, our performance is, I think, globally, there are always areas of opportunities, but it's globally better today than it was 2 years ago. And this is happening on the market that continues to grow.

So indeed, last year, it was more of a double-digit growth because, again, there was this fantastic makeup rebound. So we think we have seen and thinking more mid-single digits, not lower than that. There's still a little bit of pricing. And as I said, within this growth, we see that there are shifts of channels. And right now, mass is slowing down a bit, and it's particularly driven by makeup -- but on the contrary, Luxury is accelerating.

So we'll see, as always, this Father's Day, Mother's Day, there's lots of opportunities to buy fragrance, but we see the luxury market dynamic, and we are winning shares of overall. And we see, by the way, on the hairdressing market or the professional market, we see very strong growth in haircare. And as far as salons are concerned, I think we've now reached the right level and the right normalization. April and May were positive in the salon industry, and we'll see what June looks like. So -- and as I said, Dermatological Beauty has slowed down a bit.

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So in all this, we gained share in the US We are slightly behind the market in mass, and it's very related to makeup because in haircare, for example, we are gaining share. We are beating the market in professional, seriously beating the market still in Dermatological Beauty. So it's not -- the market may slow down, but we continue to beat it. And as I said, the good news is that a lot thanks to fragrance, but also a great acceleration of -- it's not all makeup.

We are gaining share in Luxury. We're beating the market year-to-date.

So overall, I think there -- I think this market will remain dynamic. The economics -- economic prospects for the US remain positive. They have an election coming, but I don't think this election will affect consumption in one way or another. And our teams, they are really determined to continue to bring exciting innovations there.

And often -- we just launched our new hair color device on the US market, Colorsonic, which I presented at VivaTech at CES and again here at the Consumer Goods Forum.

So I think that's interesting, by the way, if I may elaborate a minute on that thing because I think it shows our hair color strategy on a category that has been a bit sleepy. It's very interesting. We are launching a device that is quite expensive. It's -- the machine itself is \$125, and we sell the cartridges that are around \$20 that have multiple use. And that's a product that allows women to color their hair at home in the easiest ever possible way, and it's so different from the traditional hair color boxes.

It's more sustainable, it's more economical and it's [real tech]. So that's on the upper hand of the market and we're really disrupting the category. But at the same time, inspired by our successes in emerging markets, we're launching on Garnier Hair Color, a hair color in sachet that is called Color Sensation, which is sold around EUR 3. So as you can see, we are truly catering to the both ends of the market with consumers that can probably that need entry products, but also we are premiumizing with a true innovation that I hope is going to disrupt the hair color market. So lots of ambition for the US

And we hope that we see now on the mass, which was the only, I would say, parts -- division that was not beating the market this year. We have lots of new launches in makeup, new Maybelline Mascara called Firework, new blushes. I'm not going to list you all the innovations, but it should deliver on the second half. So I think that the US market has to remain a growth driver.

And right now, as I said, the market is mid-single digit.

Celine Pannuti JPMorgan - Analyst

I think another market that's a surprise on the positive side is Europe, which seems to be doing still quite well at the beginning of this year, you mentioned that there may be a bit of a -- I mean, a normalization of pricing. But can you talk about -- is it just a question of a matter of time when we get this normalization? Or is it something different that is happening in Europe. And it seems that the mass

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market may be slowing already. Are you seeing that as well?

Or if you could elaborate why do you think that you are seeing such a strong momentum in the European market?

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

Frankly, and we said it, we've been positively surprised by the performance of the European market last year and this year because as we said previously, we've been valorizing mostly through innovations. But -- and units haven't really suffered. So of course, there are differences from one category to another. One country to another. But the big picture is that there has been an addition of value from innovation and premiumization and a good units have been holding in the plus 2s or 3s or stuff like that.

And I think it's -- there are several reasons to that. First of all, as I said, Beauty is this positive well-being category that people go to when interest rates are high, and they're not going to buy cars or houses, and they already have 2 iPhones, or even 1, and these small pleasures that they can indulge with and that has proven so true.

I mean, one of our strongest-growing market last year and still is doing fantastic was the U.K., where the impact of energy on the purchasing power of the people was the highest. So there is this indulgence part. I think another reason is that Europe was also a bit underpenetrated in e-commerce, and we've seen a lot of acceleration in e-commerce on the European market, both from pure players or players like Amazon. And of course, that increases the access to products. There's also a fact -- and I wouldn't want this to sound arrogant, but it's true that as Beauty is an offer market, I think we have a stronger leverage in the country in parts of the world where we weigh more.

And our share of the European market is 20%, when it's 15% on average globally, 8% in India, et cetera. So when we put our weight into stimulating the market in Europe. It has probably more leverage and more effect than in other parts of the world where we are smaller. And all this put together has given these great results.

So as we said, I think the second part of the year is we're going to see a normalization, both of the market growth and ours because the pricing effect will disappear, will be at least much smaller because clearly, inflation has reduced, and we've all reduced our own price increases. But we continue again to gain share in the European market, and we clearly have the intention to continue to animate it as we've done it before.

Celine Pannuti JPMorgan - Analyst

Maybe to finish, the (inaudible) that we've been embarking on emerging markets, a platform that has done very well for you. I think, 4 key markets that we have in mind, India, Indonesia, Mexico and Brazil. I think you did sound a bit more cautious, if I remember about South Asia at the Q1 stage. But overall, if you could talk about (inaudible) you see there.

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

Okay, it's clear that the emerging markets are a big growth opportunity for L'Oreal and they remain one. In 2023, there were 15% of our business and they contributed to 30% of our growth. When I took the -- my position as CEO of L'Oreal, there were 10% of the business. So it's been a strong growth driver and will remain a strong growth driver. Today, they remain -- the markets remain very dynamic in these parts, whether Latin America or SAPMENA region, which I created, which is Southeast Asia Pacific and Middle East, North Africa.

The markets remain dynamic. A bit more volume in Latin America, a bit less in SAPMENA, and we continue to outperform.

So clearly, the growth rates again here are bound to normalize because as they get bigger, but they are still growing double digits. And still, when I look at the countries that are growth contributors in this part, we see that, for example, Mexico is in the top 5 of our countries, contributor to growth year-to-date. So we continue to see a very positive momentum, then everything is not easy. There is strong competition. We have a few areas.

Argentina is a concern, and it weighs on our -- it's been moved to hyperinflation, so there we are working more at protecting our bottom line and our margins rather than trying to gain share, absolutely. If I take the other side of the world, the Southeast Asia, like all the Western countries, we've been hit moderately, but impacted still by the effect of the Israeli-Palestinian conflict and some boycott calls on Western brands. So that has some impact. But overall, we continue to grow to gain share and to have these parts contributors to the L'Oreal performance.

Celine Pannuti JPMorgan - Analyst

You mentioned a bit more competition. An area where I think there could be a bit more competition given the dynamic of the Beauty industry's M&A, where many of your peers are trying to as well grab assets. So can you talk about how you see the consolidation of the Beauty market's update. And one of the big acquisition that you've made is Aesop. So if you could as well let us know how is that developing?

And I think China, by the way, has to be a good growth driver for this acquisition. So how that is being executed in the market?

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

So there are 2 questions in your question. On the market consolidation, it's clear that everybody loves Beauty, investors and, of course, competitors. So we see clearly that there's been lots of declarations and a few small acquisitions, but we have 37 international brands. As you heard, aside from Aesop, we've been granted by the Bertelli family, the license of Miu Miu as a complementary to product from 1st January 2025. And as always, we are assessing every opportunity on the market as long and true to our mantra.

It has to be brand that is accretive in terms of growth. That is a brand that we can deploy internationally

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and that is complementary in terms of positioning to our portfolio. So we look at everything and when there are opportunities, if 1 day an opportunity arises, you will be the first to know.

As far as Aesop is concerned, everything is working according to plan. The integration is going well. The -- as you can imagine, there's a lot of back-end work to integrate the IT systems, HR systems. So that requires a lot of work, but it's going well according to plan. We see that still the brand has a lot of traction.

We see people love this brand. And as far as China is concerned, the good thing is that we do not have comparative numbers of the pre-COVID period. So we are in the early days of that brand. But still, we are moving because when we acquired the brand, there were 4 stores in China. Now there are 10.

So we've already opened 6 more doors that were in the plants of Aesop or of course, we've helped them do it with our own know-how and then we have now stores in Beijing, Chengdu, Guangzhou, [Shenzhen]. So we're progressively introducing Aesop to the Chinese consumers.

We're also at the very early stages of our Travel Retail adventure. When I was in Hainan months ago, one of the topics of discussions with the operators would be -- that was the location of the Aesop store in Block C of Haitang Bay. So I think we have a nice location for Aesop. So yes, early days, working according to plans, and we're still very ambitious for that brand. As we are, by the way, with one acquisition that wasn't -- that we don't often mention in our discussion that we acquired just before Aesop, that is dermatology care -- dermatologist's brand called skinbetter science, which is a brand of high efficacy, even more premium than SkinCeuticals that's sold exclusively by dispensing doctors or derms and clinics in North America.

And the brand is doing absolutely fantastic, which is another -- it's another aspect of the dermatological beauty success is that, on the one hand, we talked about health and about skin pathologies. But there's another part of the market, which is clearly accelerating a lot, which is the aesthetics medicine boom. And even though we do not play in that area, our products are designed, whether it's SkinCeuticals or skinbetter science to work in synergy with procedures, and we see great momentum in both brands for that reason. So this is a recent acquisition that's so far much smaller, of course, than Aesop, but so far doing great.

Celine Pannuti JPMorgan - Analyst

Maybe switching to margin. I think as you said investors like Beauty and I think the beauty of the L'Oreal model is that you have had this progressive margin expansion. Now looking at gross margin, I think it's all-time high. You continue to support a very high level of A&P. So can you talk about how we should be looking at how the model evolves?

I mean, is there more opportunity for gross margin or whether the fact that China maybe is a bit more (inaudible), could limit somehow that premiumization opportunity from that region. And yes, whether it's all down to SG&A, where you have to be more fast focusing on efficiencies to deliver the margin

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expansion.

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

No, I think, first of all, the model doesn't change. It's clearly about continuing to improve our gross margin and gross margin continues to have opportunities of improvement. And that's not going to change. And the fact that the weight of China in our overall business is lower today, doesn't change the ambition. And so we continue to work hard, and it's true for every division at improving the gross margin.

So no change in that. And by the way, in 2023, we hit our record high of 73.9% gross margin, which was back to the pre-inflationary peak. So it means that we've been able to absorb without killing our volumes, which was, of course, the important part to absorb the inflation of -- on our inputs through innovation and to increase our gross margin. So no change in the model.

And of course, we placed our famous [RISOTTO] where on some brands, we will go for a bit more access pricing and some other super valorization. But overall, same objective, top line growth, higher gross margin. Where the increase in profitability will come from? It's not so much. Of course, we always strive at controlling SG&A, and we have these economies of scale, the bigger we are, we're now above EUR 40 billion.

Of course, the more we absorb our SG&A. I must say that as explained, 2024 will be an exception because we have the impact of Aesop and we are integrating Aesop. And Aesop is a retail model. So the retail model of Aesop is very good for the gross margin. And it's low on A&Ps because there's no TV, no this or that, but it's lots of store staff.

So it will increase our SG&A for this year only because after that, they will enter, of course, in our virtual spiral.

But also we have areas of opportunities in our A&Ps. We discussed a lot about -- we've talked a lot about our BETiq, AI powered tool to control, monitor, predict and improve the ROI of our spending in A&P. And I think this -- and we are seeing we're progressively rolling out. And every time in every country, where we start using the tool, we see that we can spend our money better. So that's -- that, for me, is a sign that even though our A&Ps in absolute value will continue to increase because we want to put more fuel behind our brand to drive the growth, percentage-wise, I don't think we need to go to the extreme increases that we've seen in previous years.

So as you can see, we can play on all lines of the P&L and that's how we feed the spiral and increase the profitability.

Celine Pannuti JPMorgan - Analyst

We have less than 5 minutes left. So there are 2 questions I wanted to ask you. One, you already started to talk about the exciting innovation that you have with Beauty Tech. So if you could maybe leave us with

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your view about the Beauty Tech contribution and what it means for L'Oreal going forward. And then maybe rounding up our discussion, I think L'Oreal Model is one about outgrowing the market by a factor.

But traditionally has been 1.3, recently has been on 1.6 to 1.8 to 2. Do you still see that you have the engine and the power that you continue to have in the market and deliver what I think the market is expecting to be a high single-digit performance?

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

So I'll start quickly with Beauty Tech. Beauty Tech is a way to augment everything. It augments our teams. It augments our efficacy of our products. It augments the speed of our researchers through the use of AI, augments the efficacy of our R&D, augments our capacity to listen to the market.

We have this other tool called consumer loop, where we have in real time, all the feedbacks of all the consumers around the world on our products and competition. So for labs and marketeers, it's an incredible way to know where to improve and where to change the formula. It helps us improve our supply chain, improve the efficacy, as I said, of our A&P.

So in the end technology, when we say we want to lead Beauty Tech is to way to -- is a way for us to invent the L'Oreal of the future, which is L'Oreal augmented by technology, by data. We have 11,000 terabytes of data dedicated to Beauty, which is, by the way, a big protection against all the small brands and [Indies] you were talking about because in the end, we have this depth of knowledge that allows us to innovate and to continue to satisfy our consumers. But in the end, you have to summarize this. It's the L'Oreal of the future is everything augmented by technology, and it will augment, help augment our profitability.

To finish on what you call the growth algorithm, yes, we think it's true that pre-COVID, we are more in the 1.3%. There was a moment in the market where because of crisis, I would say, some of the players were particularly impacted or at least less able to overreact to react than we did. So we increased our performance to, as you said, 1.8 or even 2.

The crisis. Even though there are crises every day, but at least the markets have normalized more, but we continue to base our algorithm on the absolute desire and condition that we can. We have the power to continue to outgrow the market. And I don't know what's the right -- I know you like to ask me about the multiplier. But it's -- I think that somewhere between the 1.3 of before and the 1.6 average that we had a couple in the last 3 or 4 years, is a good indicator of what we are trying to achieve.

But as always, it does not only depend on us. So that's -- we'll see what the future holds, but that's the model of L'Oreal. It is the model of L'Oreal. It's to innovate with high gross margin products that we support with fuel to beat the market and to gain share. And once again, we only have 15% of the market.

So even though there's lots of competition out there, there are still share for us to steal and to strengthen our leadership.

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Celine Pannuti *JPMorgan - Analyst*

(spoken in foreign language) Thank you so much for sharing this insight with you and for the time. A pleasure to have you on this format. And well, I wish everyone a very good end of the day. Thank you.

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

Thank you so much.

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