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Q1 2023 L'Oreal SA Corporate Sales Call

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PRESENTATION

Operator
Welcome to the Conference Call regarding L'Oréal sales at 31 March 2023. The conference is about to begin. I now hand over to Mrs. Francoise Lauvin, Mrs. Lauvin, please go ahead.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
Good evening to all, Bonjour. The L'Oréal team is pleased to welcome you to this Conference Call for the release of our First quarter 2023 sales. Together with me today are CEO, Nicolas Hieronimus.

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

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
CFO, Christophe Babule.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
Hello. Good afternoon.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
Global Head of Corporate Finance and Financial Communication, Laurent Schmitt.

Laurent Schmitt ***L'Oréal S.A. - Global Head of Corporate Finance and Financial Communication***
Good afternoon.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
And of course, Eva Quiroga, whom you all know and who joined our team earlier this year.

Eva Quiroga ***L'Oréal S.A - Deputy Head of IR***
Good afternoon.

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
We hope you read our press release, which was issued a short while ago and which can be found on our website, loreal-finance.com. Let me share with you the highlights of this release before we move to the Q&A session.

In the first quarter, the beauty market remained very dynamic in the vast majority of countries with the exception of China that continued to be disrupted at the beginning of the year. In that context, L'Oréal is off to a very good start.

Sales advanced 14.6% to EUR 10.38 billion. Foreign exchange impact was positive by a limited 0.6%. On the positive side, the U.S. dollar appreciated against the Euro, but this was largely offset by the depreciation of the Chinese Yuan, the pound Sterling, the Canadian Dollar and the Japanese Yen. The change in the scope of consolidation had a 1% positive impact, partly linked to the first-time consolidation of SkinBetter Science. Like-for-like growth came to a strong 13%.

By division, on a like-for-like basis, Professional Products grew 7.6%, driven by Kerastase and L'Oréal Professional. Consumer Products delivered an exceptional performance, up 14.7% with our 4 international brands firing on all cylinders. L'Oréal Luxe grew 6.5%, slightly accelerating over the previous quarters, thanks to the continued success of fragrances of our Couture brands and solid growth in skin care. L'Oréal Dermatological Beauty, formerly Active Cosmetics, continued to lead with growth of plus 30.6%, driven by a brand portfolio that is perfectly aligned with consumers' quest for health globally.

With the exception of North Asia, all regions accelerated over last year. Sales in North Asia increased by 1.9%. Chinese consumption was under significant pressure in December and January as new health measures were implemented mid-December. But the good news is that consumption has started to recover from February. On the other hand, the Western markets were very dynamic with growth of plus 16% in Europe and plus 16.6% in North America. L'Oréal has further strengthened its leadership in both regions. With growth of plus 26.7% in SAPMENA-SSA and plus 22.3% in Latin America, Emerging markets continued to reaffirm their role of key growth drivers.

Performance was broad-based across all Divisions and all countries. With 13% like-for-like growth, 2023 has gotten off to a strong start.

Short term, the currency environment is becoming a headwind. Extrapolating end of March currency rates against the euro or EUR 1 at around USD 1.09 for the remainder of the year would lead to a negative currency impact of around minus 4% over full year sales.

We are mindful of the current uncertainties, but remain optimistic about the outlook for the beauty market, which has yet to benefit from China's reopening.

The first quarter performance gives us confidence in our ability to continue to outperform the market and to achieve another year of growth in both sales and profits.

I thank you for your attention. We are now ready for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question from Guillaume Delmas from UBS.

Guillaume Gerard Vincent Delmas ***UBS Investment Bank, Research Division - Analyst***

So 2 questions for me, please. One is on pricing and the second one on China. Let's start with the contribution from pricing. What was it in your first quarter this year? Basically, wondering if you could quantify it and maybe provide some color on where you took some incremental pricing so far this year. I would assume in Europe, given the strong acceleration between Q4 and Q1. And also wondering if you've seen some pushback maybe from retailers or from consumers on these price increases?

And then my second question is on China. Can you maybe shed some color on your exit rate, so your like-for-like sales growth towards the end of the quarter in China? And also still on China, can I ask about your market share development because 2022 was exceptionally strong in terms of share gains. So are you seeing some early normalization of your pace of share gains as a result of tough comps and maybe some of your competitors fighting back.

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

Okay. I will take the first question regarding the pricing. I have to say that we are very happy with the Q1 sales because it is still very well balanced. We have valorization total at 7.8%, remaining is volume. So a strong growth in volume as well, 5.2%. And in terms of value, it's mainly to price increase because we have not only those that we put on the market beginning of this year, but we have, of course, the one of last year. And I have to say that this valorization is a split in all divisions. So this is driving quite nicely the growth in the Q1.

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

So it's not particularly overweighted in Europe. We took both valorized innovations because that's our #1 way to valorize and price increases across the board, across divisions and across regions. As far as China is concerned, I think indeed, the market is -- what happens is exactly what we described in our yearly call is that because of December, I would say, brutal reopening and the consequences on Chinese consumers' health, our sellout was very negative in December, in the early part of January, which led to a slow invoicing, because we had to de-stock during the month of January. I was in China months ago, a bit less than a month ago, 3 weeks ago, and I was -- I have to say, very impressed by the normalization of the situation in China, people in malls, shopping some with mask, some without, but with a clear desire both from consumers and from the authorities to boost growth, and that is materializing. If we look at our -- clearly, our month of January in sell-through was flat, and it was like minus 20 in invoicing because we had this inventory. But if we look at Feb, March and April, we've been consistently at a double-digit evolution on both. So it's a good sign for us that we've absorbed our extra inventory and now we are back to a pretty, pretty dynamic growth.

And if we look at our market share, actually, we've gained share in the Q1 overall versus the market, we keep a significant overperformance in consumer offtakes versus the market. And therefore, we are continuing to gain share including in luxury where we again broke a few new records, whether we're going to keep the same pace of overperformance versus competition, it's hard to predict but the good news is that despite a top line number that was not great in Q1 as forecasted, our offtakes were still gaining market share.

So that leaves us very confident for the rest of the year in China. And I must say that what makes me even more confident is that I spent the full week with the teams there and the level of energy, of ambition, the new brands we've launched because for the first time, I could see some of the brands that we launched in China during this period when I couldn't go there, whether it's Valentino, whether it's Prada, Takami, our Japanese skincare brand, the reopening of Carita and all these are bringing a new -- both new business and new consumers to L'Oréal. So it is pretty exciting. And I could also visit a Tier 3 city, which is part of our growth plan in China and I could see also the power of attraction of our brands. So we continue to be very bullish on China.

Operator

Next question from Bruno Monteyne from Bernstein.

Bruno Monteyne ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

I wonder if you can comment on both Hainan and Travel Retail, but in a few different ways. So how much were they growing year-on-year in quarter 1? How big are they today? And how much more catch-up potential do we have to pre-COVID? So are already well ahead? Are we still below that?

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

Okay. So on -- I mean, Travel Retail, first of all, if we look at -- and I'll go back, of course, to focus on Hainan and Travel Retail Asia, which is the essence of your question. But overall, Travel Retail, what's important is that we continue to see a strong acceleration of the market in Western Europe and in North America with the bounce back of traffic. So there, the market is very positive and that is great. And as far as North Asia is concerned, the market was slightly positive over the quarter in Hainan. But again, it's the same phenomenon as China. It was very low in January because the Chinese consumers or travelers were not traveling to Hainan. They were unfortunately fighting the COVID and it has started bouncing back a bit in February. And again, strong increase in traffic in March, which was around plus 20% in

Hainan.

By the way, we saw also a big acceleration of tourism back into Hong Kong, Macau and even Thailand. So this is positive. The negative effect that we had on Travel Retail Asia this quarter, which is more or less equivalent in size as Hainan for us -- is Korea, where the overall travel retail market was estimated at around minus 30% because of the change of policy of the operators there vis-à-vis Daigous.

So they stopped ordering, I think they are renegotiating some terms with Daigous. We are less affected than the market. So our performance was better than that. But still, overall, Travel Retail Asia was like China flattish with the pluses and minuses. And again -- we see -- as we see traffic picking up, we are confident for the remainder of the year. I take this opportunity because --- as you -- I don't know if we're going to be talking about Travel Retail again, to remind everybody that last year, we had a very positive, a very strong positive effect on Travel Retail in Q2 because we had shifted EUR 90 million worth of sales from Q3 to Q2 because of our move to Singapore. So this will be a bad guy for Q2 this year and a good guy for Q3 this year. So just a reminder of that.

Overall, we see the same pattern as in China. I think people going back out, traveling and wanting to buy products. And by the way, in Hainan, we continue to gain share with very beautiful exhibitions of our brands and the new brands I mentioned in particular. So same story, slow start and potential acceleration.

Operator
Next question from Celine Pannuti on JPMorgan.

Celine A.H. Pannuti ***JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst***
I have a few questions, if I may. So my first question is your volume was quite good, strong whatever in the first quarter. I wanted to know whether there was any positive benefit from, I don't know, reopening of some travel retail destination or easy comparative from last year or replenishing? And also, could you comment from a category perspective, where are we now on makeup versus 2019? Are we back to where we should be? Or is there still more to come into makeup? So maybe at the same time, maybe if you could comment on the category performance for the quarter, that would be great.

And my second question is on market growth. I think you said at the beginning of the year, we're expecting a market growth at mid-single digit depending on what China does. Do I understand well that you're talking about 20% growth in sellout now in China? Is that what we should be looking at?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
I didn't say that -- I said the double-digit, 20% was the traffic in Hainan over the month of March. So it's not exactly the same thing.

Celine A.H. Pannuti ***JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal***

Care & Tobacco and Senior Analyst
All right. Okay, fine. So -- but maybe if you could comment on whether you still feel confident with mid-single digit? Or is it a bit better than that for the year, given what you've seen?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Yes. Well, I start with the latter because I think it's -- for me, it's one of the most important information of our results and of the call is the fact that the beauty market, as Francoise said it, is very dynamic, and it's more dynamic even than expectations because indeed, despite China being still very slow, at least in invoicing, but even we know that Jan-Feb were slow. It's the rest of having a market, a global beauty market, which is today in high single digits. And if you exclude China double digits, in the other parts of the world, It's really a great news. It's the demonstration of the resilience of the beauty market, our beauty consumption and that's probably following up on one of the earlier questions which we did not answer completely.

In terms of volume impact, we see globally that overall, the value or the valorization of the market is way superior to any type of drops in volume, which we see very little of, except a few countries. But overall, the market is accelerating in the beginning of the year. So that's a great very positive news.

So does it mean that it will remain on the same rhythm for the full year. Frankly, it's very difficult to say. On the positive side, you'll have China accelerating. On the negative side, we'll probably reach the peak of the valorization effect at the end of Q2. But overall, I think it's fair to say it's already a question you ask me in the yearly call, when I said 4 to 5% for the year, my guess is that it will be a bit better than that this year; by how much, we'll see. But I will have to agree to increase my forecast for 2023, which doesn't mean that the 4% to 5% compounded annual growth on a long-term period doesn't remain the vision.

As far as other -- your other 2 questions, yes, makeup has already caught up its 2019 numbers everywhere. Now the last continent or region that was below -- that had remained a bit below '19 was Europe and now it's above. And it's true that the makeup category is very dynamic. It's a super dynamic category. We're -- and we see typically, if I take Europe, it's one of the categories that pulls the growth and we see it everywhere. Remember, what we're talking about the Roaring 20s. They have been a bit slow, but it's happening now and really women are enjoying the pleasure of wearing makeup again. So the category is in mid-teens right now. So it's very positive. But other categories and fragrance, by the way, follows along the same pattern. So we have this category growth, which is very positive.

And as far as the unit growth that was commented upon by Christophe, it doesn't come from particular replenishment. It's just that consumption is really holding very well. Our innovations are getting fantastic results. We just launched this new Elvive or Elseve Bond Repair shampoo, which is a very valorized 150 index versus the average of Elseve because it's a great formula and a great innovation, It's going through the roof. And we have also whether it's a makeup or skin care, like the Vitamin C from Garnier. We have many products that are doing great. So overall, it's not a replenishment. It's just a dynamic consumption.

Operator

Next question from Olivier Nicolai from Goldman Sachs.

Jean-Olivier Nicolai ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***
I got 2 questions, please. So first of all, L'Oréal Luxe had a very strong performance in North America, but also in Europe in Q1. You mentioned fragrances and as well as makeup in the press release. But I am just wondering what do you think is the driver behind this acceleration? How sustainable is it -- and is it driven by tourism or is it more like local premium consumer? And then second question, if I may. In the Dermatological Beauty Division, La Roche-Posay was the main growth driver this time and not Cerave. That feels like it was helped by Suncare, is this performance sustainable into Q2? Or has there been some inventory built?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
So on L'Oréal Luxe, I mean, the division is accelerating progressively. To be honest, I think we can do and should do better on L'Oréal Luxe. Of course, L'Oréal Luxe is of all divisions, is the most impacted by the Chinese technical slow quarter that we had. But we are really doing fantastically on fragrance. First of all, as I said, the market continues to be really very dynamic mid-teens and we are growing significantly faster than this market. We have Libre and Yves Saint Laurent fragrance that has entered the top 5 or top 6 worldwide where La Vie est Belle was already there and is #1, it's becoming our #1 fragrance, by the way. So it should be even higher soon. So it's really a great fragrance performance with good acceleration in skin care. And I would say, a decent performance on makeup but not totally where it should be. So there was a little bit of buying from American retailers. So it should sell through in Q2.

But overall, I feel confident that L'Oréal Luxe will accelerate again, mainly driven by the rebound of China, where the division on L'Oréal Luxe has over 31% market share. So it should benefit very strongly from this rebound. As far as dermatological beauty is concerned, it continues to be -- you're right to say that La Roche-Posay is doing fantastic. Part of it is Suncare because it is the shipping of the season. But we had a good Suncare season last year, so there's not a huge comparative difference. It's really the acceleration of the brand in the U.S.A. The brand continues to do fantastically. But I must say I'm really impressed by the acceleration of the brand in the U.S. And the great thing is that it shows the success of our strategy of combining the forces between CeraVe and La Roche-Posay to visit derms in North America. And both brands now are really doing great. And because as far as CeraVe is concerned, even though it's in absolute value, it drove a little bit less of the growth than La Roche-Posay, It's still -- I think it's plus 44%. So it's still doing -- is still doing great.

And we had the fantastic news that it just became the #1 skin care brand in the U.S.A. All channels included ahead of the long leader -- long-time leader Neutrogena. So it's doing great too. So the thing with dermatological beauty is the fact that, as we commented upon during the analyst call, there is this incredible appetite of consumers for safe, efficacious products that are prescribed by dermatologists and it's working for all brands because Vichy is doing good. SkinCeuticals is doing good. And SkinBetter Science, which we just acquired is also doing phenomenal. So I'm very happy about that.

Operator

(Operator Instructions)

Next question from Robert Ottenstein from Evercore.

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

So 2 questions, 1 kind of bigger picture and then 1 more fine-tuned. So you've thrown out a lot of impressive numbers and I think overall, you were saying that the market so far this year is up high single digits, double digit without China. Could you please give us a breakout by categories. So we have a sense by category either globally or without China, whatever is most helpful. So we have a sense of what the growth is by area?

And then my second question is more specific to Hainan. When we talk to Travel Retail operators, we sense that there may be some pricing issues between Hainan and the Mainland some sort of arbitrage, some sense that perhaps prices need to go higher in Hainan to prevent cannibalization, if you will, in other areas. How do you see -- how do you manage kind of the price gaps? And do you believe that at this point, you need to raise prices in Hainan.

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

So I will take both but I'll ask for Christophe's help potentially on the valorization of our brands and our products in Hainan. I will start with the categories. I will give you broad because it's super hard to assess the market after 3 months. So basically, you have 2 categories that are in mid-teens, which are makeup and fragrance. And you have 2 categories that are in mid-to-high single digits, which are hair and skin care. So I would say is that the 2, what I would call, social -- the most social categories, which are fragrance and makeup are really continuing to bounce back and accelerate. And hair and skin are also dynamic but to a lesser extent.

As far as the Hainan situation is concerned, we get a lot that question, especially after comments that are made here and there on the situation with Daigous. We have -- for a while now, we've set up a very specific organization between our Chinese domestic team and our Travel Retail team to make sure that the value of our brands, our prices are protected both in terms of image, and usually Hainan is a fantastic showcase for our brands, but also in terms of economic value because in the end, it's value that matters which means that the growth in Travel Retail over the past years has been exclusively value growth, and Christophe will give you the numbers in a minute.

And so we've taken prices up. We've sold more expensive items and there is a very tight -- and I must say I'm very proud of the way the teams work together, tight cooperation between our Travel Retail and our Chinese teams because our priority is, of course, the equity of our brands and the domestic market.

And probably one of the reasons why we constantly gain share on the domestic market is that we've been able, of course, to protect the brand equity and not only to protect it but to reinforce it through its exposition, both in Chinese stores and Hainan stores. But also to avoid creating disruption with discounts or bad pricing happening in the Travel Retail world. Christophe you want to elaborate maybe a little bit on Travel Retail?

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

That's a very good question because that it's a very sensitive matter. So it's highly controlled at L'Oréal. We have a dedicated team that is based in Shanghai to monitor constantly on a daily basis, the prices between Mainland market and Travel Retail and specifically, not only Hainan, but also Hong Kong. And it's true that to make sure that the value is kept in Mainland China: When I look back in the last 3 years, we have been valorizing the products by a bit more than 30%. So this gives you the magnitude of the price increase that has been done and the efforts that have been done just to make sure that the prices in Hainan or overall in Travel Retail are under control.

Operator

We have a new question from Guillaume Delmas from UBS.

Guillaume Gerard Vincent Delmas *UBS Investment Bank, Research Division - Analyst*

Thank you for allowing me a follow-up; actually, 2 follow-ups. The first one, probably for Christophe, is going to be on the shape of your P&L this year, because we should see a marked recovery in your gross margin, with some commodity cost recovery FX probably becoming a tailwind after being a headwind last year. And you said your top line is stronger than initially anticipated. So that should mean some nice operational leverage as well. So if we were to think about your 2023 margin bridge, is 2023 going to be a year of strong reinvestments, particularly in A&P? Or would you be tempted to let some of that benefit flow through to the operating profit line?

And then my second question is on your recently announced Aesop acquisition. I mean maybe if you could flesh out the opportunities you see for Aesop, particularly in China, where the brand was just launched in Q4 last year. And just looking at the disclosures provided by Natura, it seems Aesop would be initially at least accretive to your gross margin but quite dilutive to your operating margin. Question here is, do you think you can over time bring Aesop's operating margin in line with L'Oréal? Or structurally, is it a business with lower operating margin?

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

Okay. So I will take the first question. Regarding the shape of the P&L, you know very well what will be the answer. I mean the strategy is still always the same. Priority will be, of course, to sustain the growth. You see that the market is very dynamic, so it's a good time to keep investing. We've not been into the details of all the innovations that we have ready for this year, but we still have many of them to put in the market. We still have a lot to do to keep CeraVe growing in many geographies and keep pushing the development of Prada, Valentino, et cetera. So yes, we will be investing, and you know that our main objective is to overperform the market in terms of sales, and that's really what we will be focusing on on the next quarters.

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

And to answer the question on Aesop. First of all, we have to say we are very happy and excited at the prospect, because it's not concluded yet, the agreement is there, to welcome this very beautiful brand into the L'Oréal portfolio and particularly into the L'Oréal Luxe portfolio because it's really a luxury brand, as we said in the press release. It's a luxury brand that really thrives on many of the current trends, this quest for well-being, for lifestyle brands that are extremely high quality with high-touch service, and of course, naturality. So -- and it's a brand that's doing great. I mean you saw from Natura's publication that it continues to have a very high growth.

And as you mentioned, it's done so far -- it's been done -- it's been built very beautifully and it's been built without China. There are 2 stores that have opened in China very recently. And of course, when we were in China a couple of weeks ago, we all went to visit them and they were packed, packed with the Chinese consumers, that seemed to be very excited by this brand, which is indeed very much in sync with their own expectations. So China is a great potential. Travel Retail and the 2 are, as we know, very correlated. So Travel Retail is a great opportunity, as is also e-commerce. They have a pretty good e-commerce activity, but they have -- there's still a lot of opportunity. Their weight of e-commerce is inferior to the average of L'Oréal. We think we can bring our own digital expertise and e-commerce expertise to Aesop. So it is something that we're very excited about, and it will be a great addition for L'Oréal Luxe. Christophe, you want to answer on the P&L shape of Aesop and our prospects about making it in sync with the L'Oréal level of profit?

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
Yes, of course. So what is important is that this is a brand that is doing not only a strong business in boutiques but also doing already a nice business in e-commerce so it's O+O model. And with a huge perspective of growth in Asia, mainly in China, in Travel Retail as well. So obviously, this is a brand that will probably have a shape in terms of P&L on the long term like a brand like Kiehl's, for example. So this is a brand that has a very strong gross margin, as you noticed. Now it's very early because we don't have yet the full visibility on the shape of the P&L.

We expect to have the closing second part of this year, probably more at the beginning of the second part of this year. And we'll see, but -- we believe that based on the recent achievements, we could have a very small dilutive impact on the EBIT margin, and it should be neutral on the earnings per share.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
And to your question, I think, I mean, clearly, our plan is to progressively improve the profitability of Aesop over the course of time, as it's being done with Kiehl's and bearing in mind that the shape of a brand that has a higher part of retail is slightly different in terms of P&L as the rest of L'Oréal, but we have good prospects of improvements on many lines.

Operator
We have a new question from Celine Pannuti from JPMorgan.

Celine A.H. Pannuti ***JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal***

Care & Tobacco and Senior Analyst
Maybe 2 questions. The first one is on Professional, which I think was growing high single digit. And it seems you did very well in emerging markets: Could you comment on what trends you've seen in Professional in developed market, usually one of the category where we see a bit more potential discretionary spending.

And my second question, which maybe is a bit along the same line. You said that there are some current uncertainties, in your actual commentary. What are, in your view, those uncertainties? And are you surprised by the strength of U.S., Europe? Are we expecting that to normalize through the year?

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
I'll start with Professional. Professional is doing great. The growth is broadly in line with the last quarter of 2022. It was plus 8.1%. So we're plus 7.6% on this quarter with a strong valorization. Our brands are doing good. The Billionaire brands are doing good, by the way. Kérastase and L'Oréal Professional are going very strongly, growing double digits in emerging markets and North Asia. It's growing strongly in e-commerce and selective channels everywhere. And in terms of categories, we see, of course, because the division has truly become omnichannel, premium or professional hair care is driving the growth. Both categories, the hair color and hair care, are growing. But this valorized hair care trend, which I described in the yearly results presentation, is confirming itself. People are investing in their hair.

And as far as the visit to salons, it's very hard to assess because if I take the U.S., the U.S. is a good example, because we see slightly lower traffic in salons. But on the other hand, we see a rise in independent stylists and home stylists. So overall, it's hard to assess whether people have reduced a bit their visits to salon or they have just shifted their habits from salons to home hair dressing or to independent stylist. But overall, we see -- we continue to see good traction from -- on the business. And we have a little bit the same in Europe, where you have, in some of the Western countries, Europe, you have a shortage in stylists, and that's part of the jobs where -- some of the people have disappeared and have vanished post COVID. But overall, we see -- we don't see a major change in consumer habits vis-a-vis salons. So slight reduction of traffic in the U.S. but the rise of independent stylists.

And your second question was -- sorry, I forgot that one.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
About uncertainties and the strength in the U.S. and Europe.

Nicolas Hieronimus ***L'Oréal S.A. - CEO & Director***
Well, it's true that we are -- I mean there's 2 ways to look at this. If you read the news, if you listen to the television every day, yes, frankly, there are a lot of uncertainties. There's not a day when somebody is not predicting something bad to happen. But what is true, and that's what we said last time, is that even though there are still a lot of clouds in the sky above, inflation has not disappeared; the risks of recession have not totally disappeared. But we see blue patches because overall the news are a bit better, and that's probably why by the way the markets are resisting a bit better. We see consumer confidence in

the U.S. going up, which is very important. It's a good sign, and that's promising for the rest of the year. We see also consumer confidence that was low in China starting to pick up. And Europe is resisting very well. So then I'm not -- I don't have a crystal ball, but it's clear that there are many uncertainties, but so far, so good.

Operator

(Operator Instructions) We have a new question from Robert Ottenstein.

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

Fragrances has clearly been one of the great success stories over the last couple of years with a new, if you will, sort of attitude to fragrances in the U.S. consumer and the Chinese consumer. So a 2-part question. One, is that continuing? And do you see that as a durable global trend. And related to that, in the past, sometimes, let's say, skin care will be strong, makeup would be weak and vice versa, is the overall pocketbook permanently increased with an addition of fragrances? Or do you see the potential that fragrances is going to bite into one of the other categories at some point?

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

Well, there -- what is clear is that these categories are not substitutions for one another. And what is in the end, it's -- any category is going through penetration and frequency of use. And what is happening with fragrance is both are growing. Penetration is growing in new countries like China where consumers are discovering fragrance and being interested in the storytelling about fragrances.

And by the way, they're buying different fragrances than in the West, with more purchase into premium collection fragrances that are higher in price, whereas in the Western world there's a bit more purchases of blockbusters, but penetration is increasing in some countries, including also emerging markets.

And there's also the frequency of use, and that's where I must say that the post-COVID habits seem to have, as you said, generated a new attitude towards fragrance. It's not just about smelling good, it's also about feeling good, and consumers are, therefore, making this small part of their daily routine. The percentage of people that use fragrance daily has increased. It's not just the Saturday night going out thing. So -- and that's very true in America, by the way. So whether this will last, again, I don't have a crystal ball, but I do not see any reason for this to stop. And I do not see more importantly any correlation between the purchase of one category or another.

We see it also in skin care, by the way, I think it's very interesting. Younger consumers that were makeup buyers and not so much skin care buyers, except when they had acne, have also started investing into making their -- keeping their skin young, protecting themselves from the UV rays, and there's a big rise of UV protection all across the world.

So overall is just this -- I think we have -- we are lucky to be in this market, which, where people are spending money to take care of themselves, not just to feel good, but also to protect their skin, their hair. And therefore, I'm -- that's what makes me confident that the beauty market will continue to grow at this very regular pace. And this year it's helped again a little bit more than usual by valorization and by inflation.

So that's why we're a bit higher than usual. But I see no reason to think that fragrance is going to slow down because it's just the beginning for China. And as we know, there are millions of consumers to conquer there.

Good evening or good afternoon to everyone. I think it was the last question. So Francoise, any last word?

Françoise Lauvin ***L'Oréal S.A. - Head of IR***
Thank you very much. And we will hold our AGM on Friday, and we'll talk to you again in July.

Christophe Babule ***L'Oréal S.A. - Executive VP & CFO***
Thank you. Bye, bye.

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

Operator
Thank you, ladies and gentlemen, this concludes the conference call. Thank you all for your participation. You may now disconnect.
