

## CORE HOLDING\*

Recommended since 05.06.15

03.08.2022



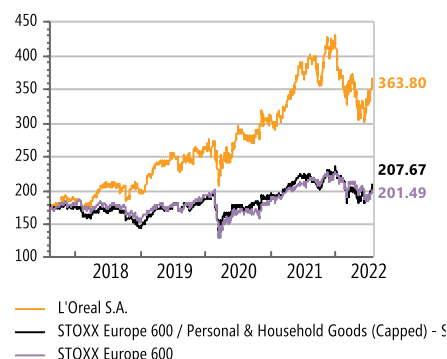
Country	FR	Market capitalization (bn)	EUR	195.3	Perf. since reco. (%)	
Sector	Personal & Household Go	Free float		43.6%	L'Oreal S.A.	118.3
Factset	OR-FR	Closing price	EUR	363.80	Sector	36.3
ISIN	FR0000120321	ESG Risk score*	17.1	Low risk		



\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

L'Oréal is the global leader in cosmetics, operating across all segments (skin care, hair care, make-up, perfume, and hygiene products) and historically outpacing industry growth rates. The group, whose sales are geographically well balanced, operates across all distribution channels (consumer, selective, professional, pharmacies, online, etc.).



Source: Factset

## Market - competition - positions - barriers to entry

The cosmetics market (10-year average annual growth: 4%) was worth over \$220bn in 2019, dominated by international groups (P&G, Unilever, Estée Lauder, Shiseido). L'Oréal is the only player positioned in all channels/segments/key countries, with leading market positions (Europe/USA). Barriers to entry: strong brand identity/high pricing power/R&D (3.5% of sales)/marketing (30% of sales).

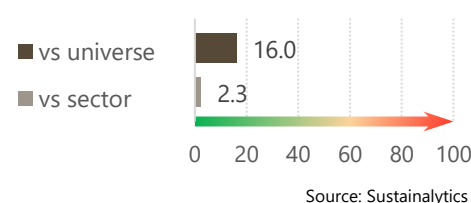
## Investment case

- ⊕ L'Oréal is a sustainable growth stock riding the wave of a golden age in beauty thanks to an explosion in the use of digital (millennials), the appearance of a new middle class in emerging countries, the ageing population and increasing urbanisation. The global cosmetics market grew 5.5% a year in 2018-19; beauty is the category experiencing the fastest rate of premiumisation. With 20% of the group's sales coming from new products launched in the past year, L'Oréal outperformed the market. The double-digit growth of the Active Cosmetics and Luxury Goods divisions in 2018-19 was the result of its investments (launches, market share gains, barriers to entry) behind its major brands (L'Oréal Paris, Lancôme, YSL, La Roche Posay, Vichy). The group knows how to take advantage of emerging beauty trends, which lowers the cost of its growth, while precision (digital) marketing boosts its operational efficiency: margin +400bp in 10 years.
- ⊕ The aggressive Back to Beauty marketing plan of new product launches and e-commerce actions initiated at the start of the pandemic in 2020 to stimulate the return of beauty product consumption has paid off. In 2021, L'Oréal's sales grew twice as fast as the Beauty market (vs. 1.5x in 2019) with a remarkable performance in all divisions / regions and record levels of organic sales growth, EBIT and margin.
- ⊕ And the group accelerates in 2022 in H1 -> Sales +21% / EBIT +25% / record margin 20.4% / EPS +31% at €6.05. Such a performance leads to an unprecedented situation: market expectations for 2022 would be exceeded with EPS stable in H2. Management is cautious due to the geopolitical / economic / pandemic context but confident in its ability to outperform the beauty market, aiming for another year of strong sales and earnings growth. L'Oréal is pursuing its new product offensive while investing in relevant growth drivers with a continuous brand support in order to fuel the market share gain momentum. Relays are there: 1/ structural improvement for Professional Products (e-commerce -> new market outside hair salons) and in Active Cosmetics (expansion of CeraVe); 2/ recovery of the make-up market in Europe; 3/ operational leverage (better volumes + savings achieved in 2020/21) that is boosting margins. All of these elements allow L'Oréal to offer visibility on good profit growth prospects for the period 2022-23.

## ESG - risks and key points

- ⊕ Thanks to its average exposure and very strict management of key issues, L'Oréal is very much in the medium range when it comes to the risk of significant financial impacts linked to ESG factors.
- ⊕ Despite its recognised policy stance (employee diversity, environmental friendly purchasing, human rights, sustainable farming), L'Oréal has been the subject of controversy. Although innovation in beauty is linked to the development of organic/natural products that reduce environmental footprints, L'Oréal attracted criticism for buying mica and palm oil.

## ESG risk vs. universe &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in EUR

Current price	Value Bordier Scenario
364	400

Our scenario incorporates 10-year interest rates in Europe at 2%, with sales that, after a strong rebound in 2021, aim to grow by +6% in 2025 and a margin that appreciates by 190bp over this horizon to normalize at 21% over the long term.

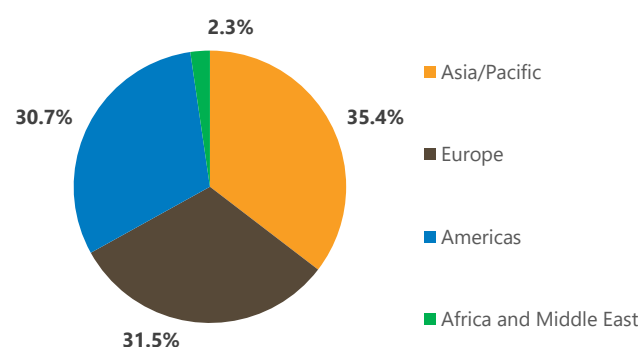
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

## "Bordier Core Holding" indicators

In millions of EUR	2020	2021	2022e	2023e	2024e
<b>Sales revenue</b>	<b>27'992</b>	<b>32'288</b>	<b>37'460</b>	<b>40'260</b>	<b>40'260</b>
<b>Sales growth %</b>	<b>-6.3%</b>	<b>15.3%</b>	<b>16.0%</b>	<b>7.5%</b>	<b>6.0%</b>
o/w organic	-4.0%	16.1%	10.0%	8.0%	6.0%
o/w perimeter	0.5%	0.8%	1.0%	1.0%	1.0%
o/w forex	-2.8%	-1.6%	0.5%	0.0%	0.0%
<b>EBITDA</b>	<b>6'340</b>	<b>7'360</b>	<b>8'660</b>	<b>9'500</b>	<b>10'270</b>
<b>% of sales</b>	<b>22.6%</b>	<b>22.8%</b>	<b>23.1%</b>	<b>23.6%</b>	<b>24.1%</b>
<b>EBIT</b>	<b>5'209</b>	<b>6'160</b>	<b>7'370</b>	<b>8'080</b>	<b>8'730</b>
<b>% of sales</b>	<b>18.6%</b>	<b>19.1%</b>	<b>19.7%</b>	<b>20.1%</b>	<b>20.5%</b>
<b>Adjusted EPS</b>	<b>7.3</b>	<b>8.8</b>	<b>10.7</b>	<b>12.0</b>	<b>13.0</b>
<b>Adjusted EPS growth</b>	<b>-5.7%</b>	<b>20.9%</b>	<b>21.8%</b>	<b>11.7%</b>	<b>8.3%</b>
<b>FCF/Sales</b>	<b>12.6%</b>	<b>15.6%</b>	<b>15.2%</b>	<b>15.5%</b>	<b>15.9%</b>
<b>Dividend yield</b>	<b>1.1%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.8%</b>
<b>ROCE - WACC</b>	<b>17.9%</b>	<b>26.6%</b>	<b>30.6%</b>	<b>29.7%</b>	<b>27.4%</b>
<b>ROE (%)</b>	<b>13.0%</b>	<b>20.9%</b>	<b>22.1%</b>	<b>21.4%</b>	<b>20.6%</b>
<b>Net debt/Ebitda</b>	<b>-60.9%</b>	<b>48.7%</b>	<b>10.9%</b>	<b>-19.4%</b>	<b>-49.3%</b>

Source: Factset, Bordier estimates

## Sales breakdown - 12/2021



## Ratios

	L'Oreal S.A.	Stoxx Europe 600	
	Pers. & Household Goods	Secteur	Marché
<b>PE (x)***</b>			Stoxx 600
2021	41.2	22.3	15.4
2022e	33.9	20.2	12.8
2023e	30.3	18.4	12.3
<b>P/B (x)***</b>			
2021	8.3	4.3	2.0
2022e	7.3	4.0	1.8
2023e	6.5	3.7	1.7
<b>Beta (2Y, daily) vs market:</b>			0.75

\*\*\*) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premiums representing the quality of the company's business model.

## Governance and ownership structure

Since 2006 CEO JP Agon; CFO Ch. Babule.

## Key shareholders (if any):

Bettencourt family 33.2%, Nestlé 23.2%.

## Agenda

3Q Revenue on 10/20/2022.

## Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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## Glossary

## ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

## b-Digital, b-Transition &amp; b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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