

CORE HOLDING*

Recommended since 05.06.15

10.02.2023



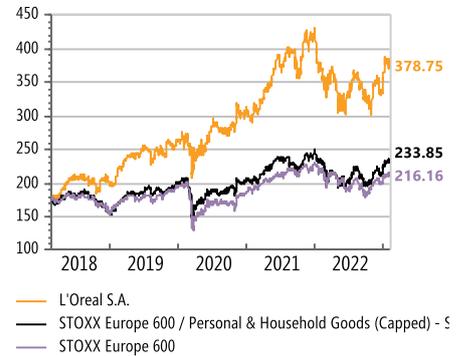
Country FR	Market capitalization (bn) EUR 202.7	Perf. since reco. (%)
Sector Personal & Household Go	Free float 43.5%	L'Oreal S.A. 127.3
Factset OR-FR	Closing price EUR 378.75	Sector 44.1
ISIN FR0000120321	ESG Risk score* 19.1 Low risk	



*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%) is worth over \$250bn, 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).

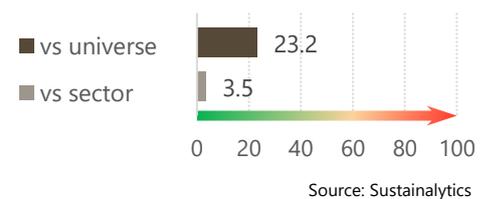
Investment case

- ⊕ 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 during the pandemic in 2020 to stimulate the return of beauty product consumption has paid off. In 2022, for the 3rd consecutive year, L'Oréal's sales grew twice as fast as the Beauty market (vs. 1.3x and 1.5x in 2018 and 2019). It should be noted that its organic growth at +10.9% is perfectly balanced in its composition (1/3 volumes, 1/3 price effect, 1/3 improvement in product mix) and that the group maintained its commercial momentum despite high bases of comparison and the marked slowdown in China in Q4 (Covid restrictions). Its performance was remarkable in all divisions and regions with record levels of sales, EBIT and margin.
- ⊕ Although cautious due to the geopolitical/economic/pandemic context, management is confident in its ability to outperform a buoyant beauty market and to achieve, in 2023, another year of strong growth in sales and results. It is true that L'Oréal is pursuing its offensive product launch strategy while investing in relevant growth drivers, which we believe indicates a continued strengthening of brand support to fuel the momentum of market share gains. In addition, its "balanced growth" approach should pay off this year, with a rebound in China and stronger demand for consumer/mass market products offsetting a potential slowdown in the US.

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 & sector (percentile)*



Valuation** in	EUR
Current price	Value Bordier Scenario
379	410

Our scenario incorporates 10-year interest rates in Europe at 2%, with sales that, after a strong rebound in 2021 and 2022, aim to grow by +10% in 2026 and a margin that appreciates by 140bp over this horizon to normalize at 20.5% over the long term.

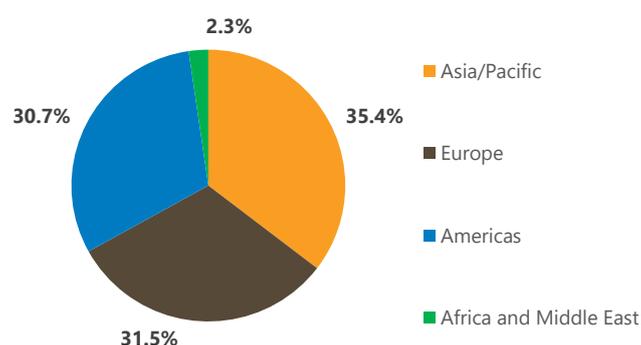
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2020	2021	2022e	2023e	2024e
Sales revenue	27'992	32'288	38'261	40'000	40'000
Sales growth %	-6.3%	15.3%	18.5%	4.5%	7.5%
<i>o/w organic</i>	-4.0%	16.1%	11.5%	5.0%	6.5%
<i>o/w perimeter</i>	0.5%	0.8%	1.0%	1.0%	1.0%
<i>o/w forex</i>	-2.8%	-1.6%	5.0%	-1.5%	0.0%
EBITDA	6'340	7'360	8'757	9'280	10'085
% of sales	22.6%	22.8%	22.9%	23.2%	23.5%
EBIT	4'500	5'728	7'216	7'910	8'625
% of sales	16.1%	17.7%	18.9%	19.8%	20.1%
Adjusted EPS	7.3	8.8	11.3	11.8	12.8
Adjusted EPS growth	-5.7%	20.9%	27.7%	5.0%	8.3%
FCF/Sales	13.2%	15.7%	18.1%	15.4%	15.5%
Dividend yield	1.1%	1.3%	1.6%	1.7%	1.8%
ROCE - WACC	16.1%	26.0%	31.2%	30.9%	28.7%
ROE (%)	14.1%	20.9%	22.3%	21.0%	20.4%
Net debt/Ebitda	-63.6%	51.0%	10.2%	-19.4%	-46.5%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Stoxx Europe 600		
	L'Oreal S.A.	Secteur	Marché
PE (x)***	Pers. & Household Goods		Stoxx 600
2021	42.9	22.4	15.3
2022e	33.6	22.4	13.5
2023e	32.0	20.8	13.4
P/B (x)***			
2021	8.6	4.3	2.0
2022e	7.5	4.4	1.9
2023e	6.7	4.1	1.8
	Beta (2Y, daily) vs market:		0.74

***) 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 premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2021 CEO N. Hieronimus; CFO Ch. Babule.

Key shareholders (if any):

Bettencourt family 33.2%, Nestlé 23.2%.

Agenda

Shareholders meeting on 04/21/2023 - H1 results on 07/27/2023

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 & 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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