EthiFinance Ratings

L'OREAL SA

632012100

CORPORATE

AA

ISSUER RATING
Long term

OUTLOOK
Stable

EF1+

ISSUER RATING
Short-term

Initiation date	29/11/2022
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Rating Action and Rationale

- EthiFinance Ratings affirms L'Oréal SA's long-term rating at AA, maintaining a Stable outlook. EthiFinance Ratings also affirms the short-term rating at EF1+.
- Headquartered in Paris (France), L'Oréal was created in 1909 and is currently considered the world's leading group within the beauty market.
- These ratings remain supported by L'Oréal's solid and robust competitive position in its sector, being the world's leading company in the cosmetics industry. The group benefits from strong recognition of its brands, with 8 among the top 50 brands in the world (o/w #1 L'Oréal, #5 Lancôme, and #9 Garnier). L'Oréal also covers different segments of the beauty industry: consumer market, luxury, dermatological market, and professional market. In addition, its sales are geographically well spread: 33% of FY24 sales in Europe, 27% in North America, 24% in North Asia. Finally, the group invests heavily in R&D and tech, which supports its competitive positioning.
- We assess the group's credit profile as excellent, with solid credit metrics. In FY24, L'Oréal delivered revenues growth of 5.6% on a reported basis and 5.1% like-for-like. Excluding the change of scope following the acquisition of Aesop in August 2023, the growth was driven by price effect (2.1%), mix effect (1.5%), and value effect (1.4%). Although the growth was in line with our expectations, the results underlined the challenging environment in China as the group posted a decrease of 3.4% in revenues in North Asia (on a reported basis). For FY25, we expect slightly lower growth of 4.0-4.5% (excluding perimeter effects) as the market environment in China remains uncertain. Profitability, which was already around the upper end of the range of the cosmetics players, improved in FY24 supported by lower cost of sales. The adjusted EBITDA margin for FY24 was 23.5% (vs 23.1% in FY23). At end-2024, the EthiFinance Ratings-adjusted net leverage ratio stood at 0.5x, despite the acquisition of Aesop in August 2023, the largest in L'Oréal's history (c. €2.4bn). Over our forecast period (2025-27), we expect the adjusted net leverage ratio to further improve, supported by strong cash-flow generation, the disposal of 2.3% of Sanofi shares for €3bn, and despite new acquisitions (€1bn/year) and share buybacks.
- However, the ratings are constrained by the sector's only intermediate barriers to entry, especially for small players, and by its limited growth prospects. Moreover, the competitiveness among players inside the sector is high, with prices, image and marketing budgets being significant factors.
- Under our methodology, the consumer goods sector has medium ESG risks (sector heatmap score between 3 and 3.5) given its impact on the environment. This results in a sector assessment which is not impacted by industry-related ESG considerations. Regarding environmental factors, the sector presents a low impact on climate issues (not heavy manufacturing industry, which limits GHG emissions) and resources (moderate use of resources). However, it has a high impact regarding pollution, due to the huge amount of waste generated, and a medium impact on biodiversity linked to goods production and transportation. It involves a medium impact over suppliers and consumers, and a low impact over communities.
- Our assessment of the company's ESG policy is advanced (company ESG score of between 0 and 1), positively impacting our financial assessment. Regarding social and governance factors, L'Oréal stands out with a high number of women in its workforce, many of whom hold managerial positions, with the separation of the roles of chairman and CEO, and the prioritization of ESG issues. Environmental considerations are excellent, the group being committed to reach carbon neutrality across the value chain by 2050, as aligned with the 1.5-degree trajectory, validated by the SBTi. In the short term, the group is committed to reducing greenhouse gas emissions on its scopes 1 and 2 by 57% by 2030 (vs 2019) and scope 3 emissions by 28%. However, as of 2023, L'Oréal's emissions (scope 1, 2 and 3) had increased by 7% (vs 2019) mainly linked to higher scope 3 emissions.

Issuer Description

The group operates through 38 plants located around the world, with 20 cosmetics research centres (with spending of €1.3bn on research & innovation in 2024), and around 40 international brands.

In 2024, the group's revenues grew by 5.6% to €43.5bn and adjusted EBITDA improved to €10.2bn (adjusted EBITDA margin of 23.5%). The adjusted net leverage ratio (NFD/EBITDA) stood at 0.5x at end-2024. L'Oréal is listed on the Euronext Paris stock exchange and is included in the CAC 40 and Euro Stoxx 50 indices. In February 28th 2025, it had a market capitalisation of €186bn.

Liquidity

We assess the liquidity profile of L'Oréal as "Superior" reflecting its high liquidity availability and its strong refinancing profile.

Credit Metrics Evolution Expectation (CMEE)

Our CMEE is Stable, reflecting our view that credit metrics will remain strong and broadly unchanged over the next twelve months.

Main Financial Figures

Main financial figures. millions of EUR	FY23	FY24	FY25e	FY26e	FY27e	24vs23
Turnover	41 183	43 487	45 726	48 470	51 378	5,6%
EBITDA (1)	9 529	10 231	10 791	11 487	12 228	7,4%
EBITDA Margin (1)	23,1%	23,5%	23,6%	23,7%	23,8%	0,4pp
EBIT	7 694	8 250	8 875	9 462	10 087	7,2%
EBIT Margin	18,7%	19,0%	19,4%	19,5%	19,6%	0,3pp
EBT	7 551	7 994	8 602	9 245	9 887	5,9%
Total Assets	51 855	56 353	57 991	60 802	63 404	8,7%
Equity	29 082	33 138	35 331	38 861	42 451	13,9%
Total Financial Debt (2)	9 428	9 231	8 253	7 120	5 694	-2,1%
Net Financial Debt (2)	5 140	5 178	2 979	2 123	1 223	0,8%
Equity/TFD (2)	308,5%	359,0%	428,1%	545,8%	745,5%	50,5pp
NFD/EBITDA (2) (1)	0,5x	0,5x	0,3x	0,2x	0,1x	0,0x
Funds From Operations	8 000	8 512	7 749	9 312	9 937	6,4%
FFO/NFD (2)	155,6%	164,4%	260,1%	438,5%	812,6%	8,7pp
EBITDA/Interest (1)	42,0x	27,4x	33,3x	47,2x	61,6x	-14,6x

Adjusted net financial debt at end-2024 has been estimated by EthiFinance Ratings as some elements we include in our net financial debt are not yet disclosed.

(1) EBITDA is inclusive of restructuring costs (50%), capital gains and losses on disposals, and exceptional items including in other Opex.

(2) Debt is inclusive of employee benefits, and other current liabilities.

Credit Rating

Credit Rating	
Business Risk Profile	**A**
Industry risk assessment	*BBB+*
Industry's ESG	*Neutral*
Competitive Positioning	*AA-*
Governance	*A*
Financial Risk Profile	**AAA**
Cash flow and leverage	*AA+*
Solvency	*AAA*
Company's ESG	*Positive*
Anchor Rating	**AA**
Modifiers	*n/a*
Rating	**AA**

Rating Sensitivity

- **Rating positive factors (↑)**

L'Oréal SA's long-term rating already reflects a strong financial profile. Consequently, a rating upgrade to AA+ would derive from an improvement in the business risk profile, something which is improbable in our view as it would be mainly driven by a change of the entire industry.

L'Oréal SA already has the highest short-term rating.

- **Rating negative factors (↓)**

A downgrade to AA- may come from a deterioration of credit metrics, should margins fall or should the group adopt a more aggressive financial policy, for example in the event of a large debt-funded M&A deal. In particular, an EthiFinance Ratings-adjusted net leverage ratio above 0.5x for a sustained period would probably lead to a rating downgrade.

A downgrade of our short-term rating could derive from a downgrade of our long-term rating but to a greater extent (several notches), which is improbable at present.

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Corporate Governance Report.
3. Corporate Website.
4. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, EthiFinance Ratings assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	NO
With Access to Internal Documents	NO
With Access to Management	NO

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies. Principal methodology used in this research are :
  - Corporate Rating Methodology - General : https://www.ethifinance.com/download/corporate-rating-methodology-general/?wpdmdl=35203
- The rating scale used in this report is available at https://www.ethifinance.com/en/ratings/ratingScale.
- EthiFinance Ratings publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months EthiFinance Ratings has not provided ancillary services to the rated entity or its related third parties.
- The issued credit rating has been notified to the rated entity, and has not been modified since.