ISSUER RATING	
AA	Long-Term
Outlook	Stable

ISSUER RATING	
EF1+	Short-Term

Initiation date	29/11/2022
Rating date	29/11/2023

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Rating Action and Rationale

- EthiFinance Ratings reaffirms L'Oréal "AA" rating, maintaining its Stable outlook. EthiFinance Ratings has also reaffirmed a short-term corporate rating of EF1+.
- These ratings are supported by several qualitative and financial aspects that strengthen the group's credit profile. Among these, we highlight the following: i) L'Oréal is active in a sector characterised by high levels of profitability (EBIT margin 16-20%) and resilience to economic cycles, ii) a solid and robust competitive position in the global market, which places the company as a leader in the sector with a 14% market share (source: Statista), iii) favourable geographic diversification, with 30% of 2022 sales in Europe, 27% in North America, 30% in North Asia, 8% in SAPMENA – SSA, and 6% in Latin America, iv) we assess the management team's financial policy as prudent, taking into account L'Oréal's excellent track record and robust economic-financial profile, and v) the company has a high ESG score (89/100), with a positive impact on the rating.
- Additionally, the group shows a strong liquidity ratio (>2x), along with for 2022 and 1H23 stable and favourable ratios such as NFD/EBITDA < 1x, FFO/NFD > 130%, interest coverage ratio > 50x, and high levels of solvency (equity/TFD ratio greater than 250%). We consider the outlook for the group's business in the coming years to remain stable.
- However, the rating is constrained, first, by the sector's only intermediate barriers to entry, especially for small players, and second, by the high competitiveness of players inside the sector, one in which prices, image and marketing budgets are important factors. Additionally, in August 2023, the group completed the acquisition of Australian luxury skin care brand Aesop for $2,525m, which will be funded by a €2,000m bond issue. This acquisition, the largest in L'Oréal's history, will no doubt strengthen the group's business profile and results; however, it also constitutes a risk as it could increase the company's financial leverage and slightly deteriorate the company's ratios. In this sense, the lack of information regarding the acquisition, as well as the current environment of economic uncertainty, makes us cautious about and the net impact of the Aesop acquisition.
- In line with our methodology, the household and personal products sector, in which L'Oréal operates, has a medium ESG risk (sector heatmap 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 over biodiversity linked to goods production and transportation. It presents a medium impact over suppliers and consumers, and a low impact over communities.
- For its part, the company has a favourable ESG score (89/100), with a positive impact on the rating. It stands out in terms of environmental, L'Oréal is committed to reducing greenhouse gas emissions on its scopes 1, 2 and 3 by 25% in absolute value by 2030, versus 2016. By 2025, 100% of the group's plastic packaging will be refillable, reusable, recyclable or compostable. By 2025, it aims to reach carbon neutrality for all its sites by improving energy efficiency and using 100% renewable energy. It also stands out in the area of governance, with 7 independent directors, separation of the roles of chairman and CEO, and prioritisation of ESG issues.

Issuer Description

Headquartered in Paris (France), L'Oréal was created in 1909 and is currently considered the world's leading group within the beauty market. The group operates through 38 plants located around the world, 20 cosmetics research centres (with spending of €1.1bn on research & innovation in 2022), and 36 international brands.

In 2022, the group generated revenues of €38.3bn and EBITDA of €8.9bn (EBITDA margin of 23.3%). The leverage ratio (NFD/EBITDA) stood at 0.5x. At the end of June 2023 (YTD), the company is performing well with revenues of €20.6bn and EBITDA of

€5.0bn. L'Oréal is listed on the Euronext Paris stock exchange, is included in the CAC 40 and Euro Stoxx 50 indices, and in October 2023 had a market capitalisation of around €216.1bn.

Main Financial Figures

Main financial figures. Millions of €. (1)	2021	2022	2023E	2024E	2025E	22vs21
Turnover	32,288	38,261	41,533	44,360	47,312	18.5%
EBITDA	7,620	8,931	9,838	10,623	11,502	17.2%
EBITDA Margin	23.6%	23.3%	23.7%	23.9%	24.3%	-0.3pp
EBIT	5,728	7,215	8,264	8,894	9,572	26.0%
EBIT Margin	17.7%	18.9%	19.9%	20.0%	20.2%	1.1pp
EBT	6,047	7,611	8,582	9,250	10,055	25.9%
Total Assets	43,013	46,844	49,930	53,289	56,735	8.9%
Equity	23,586	27,179	30,276	33,289	36,819	15.2%
Total Financial Debt	7,229	6,705	7,419	5,778	2,458	-7.3%
Net Financial Debt	4,515	4,087	2,273	-1,208	-4,443	-9.5%
Equity/TFD	326.3%	405.4%	408.1%	576.1%	1497.9%	79.1pp
NFD/EBITDA	0.6x	0.5x	0.2x	n/a	n/a	-0.1x
Funds From Operations	6,640	7,290	7,707	8,309	9,020	9.8%
FFO/NFD	147.1%	178.4%	339.1%	n/a	n/a	31.3pp
EBITDA/Interest	200.5x	126.9x	69.3x	75.6x	92.8x	-73.7x

(1) 'n/a' is reflected when the value of the ratio is negative because the company has more cash than financial debt (negative NFD).

Credit Rating

Credit Rating	
Business Risk Profile	**A+**
Industry Risk Assessment	*A+*
Sector ESG Adjustment	*Neutral*
Competitive Positioning	*AA-*
Governance	*A-*
Financial Risk Profile	**AAA**
Cash flow and leverage	*AA+*
Solvency	*AAA*
Company's ESG Adjustment	*Positive*
Anchor Rating	**AA**
Modifiers	*No*
Rating	**AA**

Rating Sensitivity

- **Long-term rating positive factors (↑)**

Continuation of the positive revenue growth trend, with better operating and final results, including improving operating margins (EBIT margin above 21%). Positive evolution of the cash position and a reduction of debt, obtaining a negative net financial debt position with favorable impact on the ratios. The acquisition of Aesop (sales of $537m in 2022) is going to have a material impact on L'Oréal's turnover and EBITDA.

- **Long-term rating negative factors (↓)**

Significant decrease in the group's turnover and profits, worsening EBITDA margins to below 17%. In addition, ratios such as NFD/EBITDA above 1x, FFO/NFD <100%, interest coverage <40x, and equity/TFD below 300%. Poor integration of Aesop could negatively affect the efficiency and performance of both organizations, deteriorating their ratios in the future.

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 not likely to be reflected.

REGULATORY DISCLOSURES

LEI: 529900JI1GG6F7RKVI53.

Follow-up report of the long-term corporate rating.

Last rating action: "AA" and "EF1+" rating with a Stable outlook to L'Oréal (November 29, 2022).

Rating nature: Unsolicited long-term rating (this report is paid by investors, not the issuer).

With rated entity or related third party participation: No - The report was published without having been reviewed by the issuer.

With access to internal documents: No.

With access to management: No.

Ancillary services provided to the entity: *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.*

Name of the rating committee chair: Thomas Dilasser, Head of Corporate Ratings France.

Material sources used to support the rating decision:

* 1Q23 trading update, 2Q23 Results.

* 2022, 2021, 2020 annual reports.

* Company presentation.

* Bloomberg.

Limitation of the Rating action:

- EthiFinance Ratings believes that the quality and quantity of information available on the rated entity is sufficient to provide a rating.
- EthiFinance Ratings has no obligation to audit the data provided.

The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 S eptember 2009, on credit rating agencies, and in accordance with the Corporate Rating Methodology and Outlook Methodology that can be consulted on https://www.ethifinance.com/en/ratings/methodologies and according to the Long-term Corporate Rating scale available at https://www.ethifinance.com/en/ratings/ratingScale.

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