EthiFinance Ratings

L'OREAL SA

632012100

CORPORATE

AA

ISSUER RATING
Long term

OUTLOOK
Stable

EF1+

ISSUER RATING
Short-term

Initiation date	29/11/2022
Rating date	04/03/2024

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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+.
- These ratings are supported by several qualitative and financial aspects that strengthen the group's credit profile. Among these, we highlight: i) L'Oréal is active in a sector characterised by high levels of profitability (EBIT margin in the range16-20%) and resilience to economic cycles; ii) a solid and robust competitive position in the sector, with a 14% global market share in 2022 (source: Statista); iii) favourable geographic diversification, with 32% of 2023 sales in Europe, 27% in North America, 26% in North Asia, 8% in South Asia, Middle East and North Africa, and 7% in Latin America; and iv) strong credit metrics, in particular an EthiFinance Ratings-adjusted net leverage ratio of 0.6x at end-2023, despite the acquisition of Aesop in August 2023, the largest in L'Oréal's history. We expect the adjusted net leverage ratio to improve over our forecast period and to become negative as the cash-flow generation of the group will be strong, and we do not forecast further acquisitions or 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 of players inside the sector is high, with prices, image and marketing budgets being significant factors. L'Oréal's governance is also assessed as adequate for a company of this size.
- The consumer goods sector has medium ESG risks according to our methodology (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. L'Oréal stands out in terms of environmental considerations, being committed to reducing greenhouse gas emissions on its scopes 1 and 2 with a targeted carbon neutrality of all its sites by 2025 vs 2016, using 100% renewable energy (as of 2022, 65% of the sites have been carbon-neutral). L'Oréal is also committed to reducing its scope 3 emissions by product by 25% by 2030 vs 2016. However, it's important to note that most of L'Oréal's GHG emissions are indirect (scope 3) and represented c. 99.8% of its emissions in FY22. As of 2022, L'Oréal had already reduced its emissions (scope 1, 2 and 3) by 5% vs 2016. Regarding social and governance factors, L'Oréal also stands out with a high number of women in its workforce, many of whom hold managerial positions, and with the separation of the roles of chairman and CEO, and the 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 €1.3bn on research & innovation in 2023), and 38 international brands.

In 2023, the group generated revenues of €41.2bn and adjusted EBITDA of €9.7bn (adjusted EBITDA margin of 23.4%). The adjusted net leverage ratio ratio (NFD/EBITDA) stood at 0.6x at end-2023, despite the acquisition of Aesop. L'Oréal is listed on the Euronext Paris stock exchange, is included in the CAC 40 and Euro Stoxx 50 indices, and in February 2024 had a market capitalisation of around €240bn.

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	FY22	FY23	FY24e	FY25e	FY26e	23vs22
Turnover	38 261	41 183	44 104	46 970	49 648	18,5%
EBITDA	8 845	9 651	10 364	11 085	11 766	17,2%
EBITDA Margin	23,1%	23,4%	23,5%	23,6%	23,7%	-0,3pp
EBIT	7 215	7 694	8 344	8 940	9 505	26,0%
EBIT Margin	18,9%	18,7%	18,9%	19,0%	19,1%	1,1pp
EBT	7 371	7 551	8 197	8 775	10 055	25,9%
Total Assets	46 844	51 855	55 170	59 052	62 811	8,9%
Equity	27 187	29 082	32 113	35 394	38 843	15,2%
Total Financial Debt	6 705	9 735	8 699	8 828	8 698	-7,3%
Net Financial Debt	4 087	5 447	2 671	469	-1 932	-9,5%
Equity/TFD	405,5%	298,7%	369,2%	400,9%	446,5%	79,1pp
NFD/EBITDA	0,5x	0,6x	0,3x	0,0x	n.a	-0,1x
Funds From Operations	7 290	8 000	8 480	9 066	9 612	9,8%
FFO/NFD	178,4%	146,9%	317,5%	1934,7%	-497,6%	31,3pp
EBITDA/Interest	125,6x	42,6x	30,9x	34,1x	36,1x	-73,7x

Adjusted net financial debt at end-2023 has been estimated by EthiFinance Ratings as some elements we adjust in our net financial debt were not yet disclosed.

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 string financial profile. Consequently, a rating upgrade to AA+ would derive from an improvement in the business risk profile.

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 - Long Term : https://files.qivalio.net/documents/methodologies/CRA 190 V3 Corporate%20Methodology 2023-10-06.pdf
  - Corporate Rating Methodology - Short Term : https://files.qivalio.net/documents/methodologies/CRA 191.Corporate Rating Methodology Short Term-202303.pdf
- 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.