

In a difficult context, L'Oréal is proving resilient, continues to grow and prepares for the future

In 2008, in a difficult environment, L'Oréal has demonstrated its resilience and continued to grow in terms of sales, net earnings per share and market share.

Annual sales grew by +3.1% like-for-like and by +6.6% at constant exchange rates, including the acquisition of Yves Saint Laurent Beauté, outperforming the growth of the cosmetics market. L'Oréal's worldwide market share continued to expand, reaching +15.8%⁽¹⁾.

The group strengthened its overall positions, even though the market slowdown affected us as a result of our high exposure to businesses more sensitive to the economic climate, such as luxury and hair salons, together with our substantial presence in categories where inventory reductions hit harder, such as make-up, colourants and fragrances.

Differentiated trends across the divisions

The Consumer Products Division outperformed the growth rate in its market with a strong performance in the Rest of the World zone that will drive future growth. Its performance in the strategic markets of skincare and make-up was particularly strong.

The impact of the economic climate was greater on the Luxury Products Division, which was handicapped by distribution channel difficulties. The event of the year was the strategic acquisition of Yves Saint Laurent Beauté, an ideal addition to the division's brand portfolio, in particular with the legendary global brand YVES SAINT LAURENT. By making this acquisition, the division has now become the world leader in luxury cosmetics in its distribution channel.

In a channel which is particularly sensitive to the consumer mood and is thus affected first by economic slowdowns, the Professional Products Division once again increased its global leadership, thanks to its unrivalled technological expertise and its optimum brand portfolio, tailored to meet the needs of each kind of hair salon.

The Active Cosmetics Division continued to grow globally, but its channel was less dynamic than in previous years.

THE BODY SHOP, a brand positioned on highly contemporary trends—natural products, respect for the environment, and an ethical approach—proved resilient despite its high exposure to British and American markets, where the retail sector was hit hard, particularly in the final quarter.

Lastly, Galderma, the world leader in dermatology, had an outstanding year with high sales growth and increased profitability, while successfully integrating its acquisition of Collagenex.

High growth in the Rest of the World zone

In North America, where the crisis had a severe impact on consumers and distributors, the group held its positions, maintained its advertising and promotional investments, and ended the year in the best possible conditions so as to prepare for 2009. North America will bounce back, as it always has done, and return to growth. We will be there to reap the benefits.

In Western Europe we held on firmly to our market share. While held back by the slowdown in France and Spain, where our positions have always been very strong, we made good advances on the other hand in the Anglo-Saxon countries and in Northern Europe.

We continued to record strong growth in the Rest of the World zone, with spectacular breakthroughs in Eastern Europe and Asia, where L'Oréal this year became number one in skincare in China, all channels combined. Our growth in Latin America was hampered by temporary problems in Brazil, which have been gradually solved. Lastly, we placed our businesses in the Africa, Orient, Pacific zone under a single command structure, to speed up growth and move into new markets.

⁽¹⁾ Excluding soap, toothpaste and razors. 2008 provisional estimates with YSL Beauté over a full year. Source: L'Oréal estimates.



Operating profit proves resilient

In a year of maximum adversity—negative currency effects, rise in price of raw materials, market slowdowns and major difficulties in North America—our operating profit held up well and we strengthened our business drivers.

Thanks to spectacular advances in purchasing and productivity, gross profit proved resilient despite the sharp rise in the price of raw materials.

Our expenditure on Research and Development, more than ever a strategic priority for the group, rose as did sales. In 2008, the group filed an all-time record of 628 patents.

We strengthened our investments in advertising and promotion, especially during the second half of the year, to support our brands despite the deteriorating economic climate. In 2007 L'Oréal became the third largest advertiser in the world, and its share of voice increased further in 2008.

Finally, on a comparable structure and exchange rate basis, selling, general and administrative expenses were practically stable as a percentage of sales.

Overall, net profit excluding non-recurrent items after minority interests grew by +1.2%, and net earnings per share, by +3.8% based on published figures and by +6.8% at constant exchange rates.

Progress in every area

In 2008, L'Oréal continued to make advances in all the areas that constitute the pillars of success of a modern company.

In Human Resources, the launch of the "L'Oréal & Me" programme, whose aim is to build a clear, transparent and unified policy on hiring, induction, training, remuneration and career development across the world, once again demonstrated our ambition to be a great place to work.

We continued to develop and extend our initiatives in all aspects of Sustainable Development, such as environmental protection and the promotion of business ethics and diversity, so that L'Oréal is acknowledged as a genuinely "Corporate citizen" company. Indeed, the group was ranked by an independent jury as one of the world's 100 most sustainable companies.

Finally, the L'Oréal Corporate Foundation developed its initiatives in its three priority areas—education, science and solidarity—in particular by organising the tenth anniversary of the "For Women in Science" programme in partnership with UNESCO, which has already granted 52 laureate awards and 619 fellowships to women from 85 countries and 5 continents.

2009: realism, confidence, resolve

We are tackling 2009 with realism, confidence and resolve.

Realism because the economic environment will still be very difficult. We are prepared for this.

Also confidence; firstly, because cosmetics markets have always demonstrated a certain resilience at times of crisis, although it will probably vary considerably between different categories and channels. Confidence also because the group has a quite exceptional portfolio of diversified and complementary brands, which is fully equipped to weather the crisis, with substantial potential for increasing market share, moving into new categories, and expanding into new geographical areas. Confidence finally, because L'Oréal's fundamentals are healthy and sound, and our financial situation is robust.

And also resolve, to ensure that the L'Oréal engine is firing on all cylinders, while pragmatically seeking every way of adapting the group's strategy and business model to this crisis, to seize all opportunities.

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Innovation, our best anti-crisis weapon

L'Oréal research laboratories are mobilised to create the most spectacular innovations which will truly make a difference.

By launching product lines at more accessible prices in several of our brands, we will not only cover all distribution channels but also all price segments. This will enable us to target all consumers, attracting customer groups we had not reached before now.

Similarly, we will intensify the presence of our brands in categories such as styling, bodycare and men's products, where there is still considerable market share to be conquered.

We will optimise our business drivers by refocusing them on the advertising and promotional investments that have proven to be the most efficient and productive.

Accelerating our geographical expansion

We are also determined to accelerate our geographical expansion. Firstly, by making faster inroads into new markets in which we already operate, and where positive consumption growth should continue. Secondly, by accelerating our moves into markets where we have little or no activity today but which offer a very high potential for our brands, such as countries in the Middle East and Africa, together with Pakistan.

Lastly, we are adapting to the crisis by making every effort to optimise operations and costs. We are very aggressively reducing the cost of sales by optimising our industrial facilities, maximising savings on purchases, and continuing productivity efforts. We have also taken major steps to reduce selling, general and administrative expenses. As part of our “permanent restructuring” policy, which we are accelerating, we are striving in all departments of the company to make our organisational structures more efficient and responsive, to pool services and optimise procedures.

We are fortunate in that L'Oréal is highly diversified, in terms of brands, channels and countries. We will be able to make the most of this to seize all opportunities. This is what gives us confidence in the group's ability not only to weather the adverse economic climate successfully, but even to emerge stronger than before.

All L'Oréal's teams, whom I would like to congratulate for their tremendous commitment, are determined to make sure that whatever the economic conditions, L'Oréal will continue to grow and strengthen its leadership of the global cosmetics market.

In this centenary year for L'Oréal, we believe more than ever in L'Oréal's spirit of adventure, and in our mission: to offer consumers all over the world the highest possible quality in each product category, each distribution channel, and each price level, to meet beauty needs and aspirations in their infinite diversity.

Jean-Paul Agon
Chief Executive Officer