

L'ORÉAL  
FINANCE

# *The letter*

TO SHAREHOLDERS

No. 74-AUTUMN 2019

*PERFORMANCE  
AND NEWS / p. 3*

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*LOOKING TO THE FUTURE / p. 4*

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*REPORT / p. 6 & 7*

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*Find out more about the share price  
and your shareholder meetings / p. 8*



L'ORÉAL

# Message from the Chairman

“ WE ARE FULLY DEDICATED TO BEAUTY. ”

**JEAN-PAUL AGON**

*Chairman and Chief Executive Officer of L'Oréal*



## **L'Oréal is a unique company. Why?**

First of all, because we are fully dedicated to beauty.

L'Oréal is also unique because of the stability of our shareholding structure. This gives us long-term visibility. We benefit from a very dynamic market and we are outperforming this beauty market.

**Three strategic choices** allowed us to achieve this.

**The first choice that we made is that we want to win on the six most powerful growth engines of the beauty market.**

Number one is **Asia Pacific**. For a few years now, it has been the booming region in the beauty industry. We have become the #1 player in Asia.

The second growth engine is definitely **luxury**, which has been the booming channel in the past four years, with the success of our big brands: Lancôme, Yves Saint Laurent, Giorgio Armani and Kiehl's.

The third one is **skincare** where we overinvest and overperformed the market in the first semester 2019.

The fourth one is **Travel Retail**, which is a channel that will grow as the number of passengers increases year after year and airports expand everywhere in the world.

The fifth growth engine is **dermo-cosmetics**. It is growing because there is a global appetite for safety, health, authenticity, naturalness, and well-being.

The sixth growth engine is **e-commerce**. Distribution networks have long struggled to develop in some countries, like India or China. E-commerce allows us to leapfrog this distribution difficulty and to reach every consumer.

**The second strategic choice that we made at L'Oréal is to drive six powerful pillars to maximize growth and sustain long-term leadership.**

- **Innovation.** Our success today and tomorrow will be driven by our permanent obsession with innovation and superior quality which are, in this world of algorithms, ratings and reviews, more important than ever.
- **The power of big brands.** Our global, diverse flotilla of 36 powerful and trusted brands: we nurture them and keep them highly desirable, connected and relevant. And when we want to harness a new beauty desire, we enrich our flotilla with acquisitions that generate even more organic growth. Last year, we enjoyed the best year ever in terms of growth of our big brands.
- **Digital.** Digital has completely revolutionised the beauty world. It enhances consumer engagement and creates amazing new services and experiences.

## • Our **culture and organisation.**

We have a unique approach, based on a long-term vision but with a very strong short-term pragmatism. We believe that victories are won on the battlefield, and so that is why we empower local teams and attach a lot of importance to agility and excellence.

## • Our **universal footprint.**

We cover the whole beauty market: all categories, all geographies, all channels, all prices, all psychographics, all tribes... Being multi-dimensional allows us to detect consumption shifts early, wherever they may start.

## • Our **sustainability** leadership.

We have decided to become an exemplary leader in terms of sustainability, and we have delivered an outstanding extra-financial performance. As the leader of the beauty industry, L'Oréal has the duty to sustain the beauty of the world.

**The final strategic choice is our business model that we have chosen to be able to deliver consistent and reliable growth over the long term.**

Our commitment is to outperform the market year after year. In our value creation strategy, we firmly believe in top line growth combined with operational discipline.

# Performance

**Sales at 30 September 2019**

**€21.99 Bn**

**+7.5%**

like-for-like<sup>(1)</sup>

**+10.7%**

based on reported figures

More information on [loreal-finance.com](https://loreal-finance.com)

"L'Oréal achieved an excellent third quarter at +7.8% like-for-like<sup>(1)</sup>, the highest level of growth in more than a decade, and continues to outperform the beauty market, which is still proving highly dynamic. The high growth rate was maintained in an environment which remains contrasted.

All of the Divisions are growing, especially L'Oréal Luxe and Active Cosmetics which are particularly dynamic. Performance was mixed in the Consumer Products Division with strong growth in Asia on the one hand, but on the other, a context that remains difficult in the United States, as announced. The Professional Products Division continues to improve. Across the geographic Zones, Asia Pacific maintained its powerful momentum, particularly in China, India, South-East Asia and Japan. Eastern Europe is accelerating and the improvement in Western Europe is ongoing.

The Group's other powerful growth drivers – skincare, e-commerce and Travel Retail – continue to fuel performance. E-commerce<sup>(2)</sup> posted growth of +47.5%<sup>(1)</sup>, and represented 13.5% of sales. Travel Retail meanwhile grew by +20.8%<sup>(1)</sup>.

Overall, L'Oréal's strong performance during the quarter and in the first nine months reinforces our confidence in the dynamism of the cosmetics market, despite a volatile and contrasted environment, and in our ability to outperform it, in order to achieve another year of growth in our sales and profit."

**JEAN-PAUL AGON**

*Chairman and Chief Executive Officer of L'Oréal*

<sup>(1)</sup> Like-for-like: based on a comparable structure and identical exchange rates.

<sup>(2)</sup> Sales achieved on our brands' websites + estimated sales achieved by our brands corresponding to sales through our retailers' websites (non-audited data).

# News

## **L'Oréal signs an agreement for the acquisition of Mugler and Azzaro fragrances from Clarins Group**

On 21 October, following consultation with employee representatives of both parties, L'Oréal and Clarins Group signed an agreement for the sale of the Mugler brands and Azzaro fragrances. The acquisition is subject to the standard conditions precedent and should be completed within the first quarter 2020 after customary regulatory approvals.

## **L'Oréal recognized as Global Compact LEAD by the United Nations and steps up its climate action**

L'Oréal announced its decision to aim zero-net CO<sub>2</sub> emissions by 2050 and was recognised as a Global Compact LEAD participant for its ongoing commitment to the United Nations Global Compact and its 10 Principles for responsible business.

## **Partnership for a breakthrough innovation for responsible cosmetic packaging**

L'Oréal and Albéa announced their partnership to develop the first carton-based cosmetic tube, where plastic is for the most part replaced with a bio-based and certified paper-like material. This new technological solution should launch shortly, with first industrial production planned in 2020.

## **L'Oréal receives the 2019 Transparency Grand Prix All Categories**

Since 2009, the *Grands Prix de la Transparence* award French SBF 120 companies for the quality of the regulated information provided. Among the eleven winners recognised in 2019, L'Oréal received the Transparency Grand Prix All Categories.



# Looking to the future \_\_\_\_\_

## TRANSFERRING SHARES

***What is the advantage of donating shares and how is it done?  
This relatively little-known subject raises a number of questions.  
We asked Stéphanie Gaillard-Serougne, associated notary,  
to answer the most commonly asked questions on this topic.***

### **What is the advantage of donating shares?**

For beneficiaries such as children, a donation of shares allows them to immediately access liquid assets.

Donors can avoid tax on latent capital gains, insofar as the shares are sold by the beneficiaries.

In general terms, a donation of shares is flexible as shares may be easily split between beneficiaries. However, such action should be planned in advance.

### **How should a donation of shares to children be planned?**

There are two solutions available: a gift by hand or a notarised donation, to the extent that the donation is made to an only child or to one of the donors' children.

There are no specific formalities for gifts by hand. However, to protect this type of gift, it is generally recommended that you declare it to the authorities.

Such a declaration effectively makes the gift certain and precisely dates it. You are then able to benefit from tax exemptions.

A donation made before a notary offers you greater security, particularly on an inter vivos distribution of assets.

A notary can advise you if, for example, you do not wish to bequeath full ownership of the share or if you wish to add specific conditions to the donation.

### **Are tax exemptions available on a donation of shares?**

You may obtain tax benefits by planning the transfer of bare ownership of your shares in advance.

Any donation by a grandparent to a grandchild is exempted from inheritance tax up to a maximum of €31,865 per grandparent and per grandchild.

This exemption is renewable every 15 years. In respect of donations to children, the tax exemption is even more significant, with each parent being able to give shares with a value of up to €100,000 to each of his/her children. This exemption too can be renewed every 15 years.

These two exemptions can be combined in the case of a grandchild whose parent has died.

*This article meets the specific requirements of French legislation and taxation.*



**Stéphanie GAILLARD-SEROUGNE**  
Associated notary

### Can you still receive dividends once you have donated shares?

It is possible to transfer the bare ownership of the shares while conserving the usufructuary right.

A shareholder may, for example, make a gift of the bare ownership of the shares to their children or grandchildren and conserve the usufructuary right and thus continue to receive dividends.

This separation between the different attributes of share ownership must be documented by a notary. It allows the shares to be transferred in an advantageous manner insofar as the taxable base subject to transfer duties on gifts is fixed by reference to a scale that varies based on the age of the holder of the life interest (i.e. the older the usufructuary, the greater the value of the bare propriety).

When the usufructuary passes away, the bareholder is, subject to certain exceptions, not liable to pay succession duties and will be granted full and complete ownership of the shares.

As such, the further in advance the donation of bare ownership is planned, the greater the reduction in gift tax.



## BECOME A REGISTERED SHAREHOLDER

and take advantage  
of the loyalty bonus  
on your dividend

# +10%

### WHAT ARE REGISTERED SHARES?

Registered shares are registered **in your name** in the company's books, which enables you to receive information from L'Oréal directly.

### YOUR LOYALTY IS REWARDED

If you register your shares, L'Oréal offers you an additional dividend of **+10%** <sup>(1)</sup>.

(1) After two years of continuously holding registered shares, up to a maximum of 0.5% of the capital for the same shareholder, at the closing date of previous financial year.

## BEFORE THE END OF 2019

Register your shares.

### 2020 / 2021

Hold your registered shares continuously for two full calendar years.

### FROM 2022

For the financial year 2021, receive for the first time the +10% loyalty bonus for your shares continuously held in registered form since 2019.

You will be entitled to receive the +10% loyalty bonus in subsequent years if you hold your shares continuously for two full calendar years.

**TO BECOME A REGISTERED SHAREHOLDER**  
consult the Shareholders section at

[www.loreal-finance.com](http://www.loreal-finance.com)

# Report

## “INVESTIR DAY” TRADE-FAIR: IN-DEPTH LOOK AT L'ORÉAL'S CORPORATE SOCIAL RESPONSIBILITY PROGRAMME

***The first “Investir Day” trade-fair was held on 3 October 2019 at the Carrousel du Louvre in Paris. This gave participants, shareholders and individual investors the opportunity to learn about the stock market and financial markets and to talk to a large number of company representatives. L'Oréal sponsored the event and many of its experts, including the Individual Shareholder Relationship team, were on hand.***



**Christophe BABULE**, L'Oréal's Executive Vice President - Chief Financial Officer, gave a presentation in a plenary session on L'Oréal's performance, followed by a discussion with participants.

## OVERVIEW OF L'ORÉAL'S COMMITMENTS AND THEIR RESULTS

### SUSTAINABLE INNOVATION

By 2020, 100% of L'Oréal's products will have an improved environmental or social profile. Reducing the environmental footprint of our formulas, protecting biodiversity through a sustainable and responsible sourcing policy for raw materials, eco-designed packaging and a zero deforestation commitment are all levers used by L'Oréal to support sustainable innovation.

### SUSTAINABLE PRODUCTION

L'Oréal has set itself a target of reducing the environmental footprint of its plants and distribution centres by 60% by 2020, compared with 2005. Reducing greenhouse gas emissions in absolute terms, lowering water consumption and waste generation per unit of finished product and limiting the impacts of transportation have all become fundamental criteria for industrial performance at L'Oréal.



**Frédéric HEINRICH**, Sustainable Development Operations Director, and **Paul ARSAC**, Extra-Financial Performance Manager, ran a master class on “Sharing Beauty With All”, L’Oréal’s corporate social responsibility programme, a strategic pillar for the Group.

## SUSTAINABLE CONSUMPTION

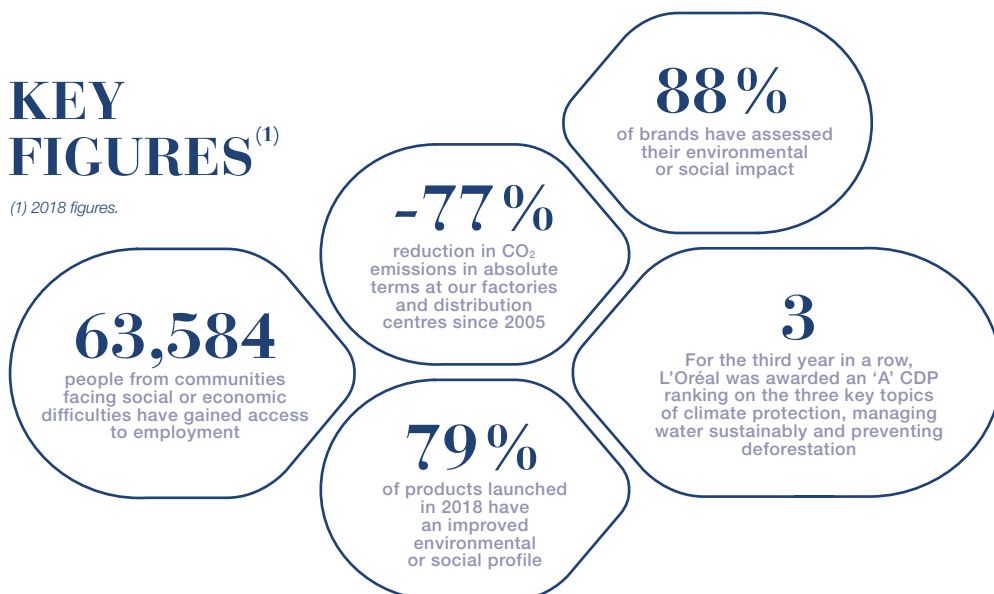
L’Oréal is committed to helping its customers make sustainable choices. The Group is using a multi-faceted approach to achieve its objective: aggregating information on the environmental and social impact of its products, evaluating the footprint of each brand, raising awareness among consumers and making sustainable development desirable.

## SHARING GROWTH

Sharing its growth with internal and external stakeholders is a priority for L’Oréal. The Group helps people from underprivileged communities gain access to employment through multiple programmes, involves and empowers its suppliers through its sustainable development policy and offers its employees excellent benefits worldwide in terms of health insurance and welfare protection.

## 5 KEY FIGURES<sup>(1)</sup>

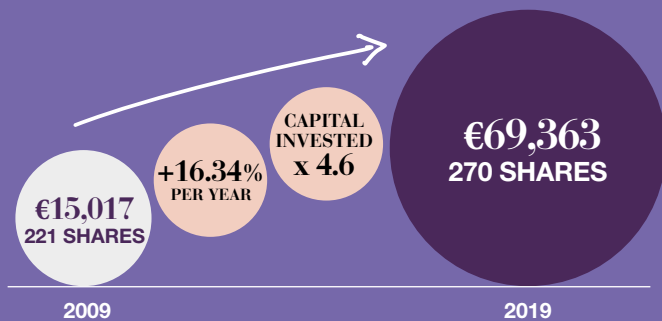
(1) 2018 figures.



# L'Oréal and you

## TOTAL SHAREHOLDER RETURN<sup>(1)</sup>

Amongst the various economic and financial measures of value creation, L'Oréal prefers Total Shareholder Return (TSR). This indicator is based on a range of criteria, including the share price and revenue received in the form of dividends (excluding taxes on capital gains and dividends, based on the closing share price on 30 September 2019).



### HYPOTHESIS

Total Shareholder Return over 10 years, for €15,000 invested in L'Oréal shares, including reinvestment of dividends, excluding bank charges and tax.

### TOTAL ANNUAL RETURN

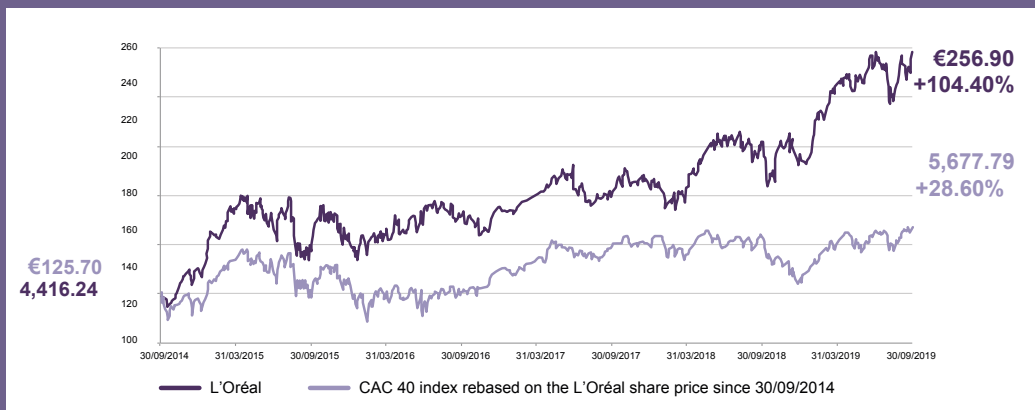
Based on the share price on the 30/09/2019, i.e. €256.90:

<b>+17.37%</b> Over 5 years	<b>+16.34%</b> Over 10 years	<b>+9.21%</b> Over 20 years
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(1) Total Shareholder Return of the investment, assuming that the shares are sold at the closing price on 30 September 2019.

## OVER 5 YEARS, THE L'ORÉAL SHARE HAS OUTPERFORMED THE CAC 40 INDEX

L'Oréal vs. CAC 40 from 30 September 2014 to 30 September 2019<sup>(2)</sup>



**+104.40%**  
Change in the L'Oréal share price from 30 September 2014 to 30 September 2019

**+28.60%**  
Change in the CAC 40 index from 30 September 2014 to 30 September 2019

Source: Thomson Reuters Eikon, share price on 30 September 2019. <sup>(2)</sup> CAC 40 index rebased on the L'Oréal share price since 30/09/2014

## A TEAM THAT IS ALWAYS ATTENTIVE TO SHAREHOLDERS' VIEWS

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## NEXT SHAREHOLDERS EVENT

**4 December 2019**

Shareholders meeting in Strasbourg, France

## INDIVIDUAL SHAREHOLDER CONSULTATION COMMITTEE

Each year, one-third of the members of the Individual Shareholder Consultation Committee is renewed.

**If you would like to join the committee,** please apply on our website:

**loreal-finance.com/eng/consultation-committee**

## THE CONNECTED SHAREHOLDER

**Download the L'Oréal Finance app<sup>(1)</sup>** and keep up to date with live news about your company.



**To receive the Letter to Shareholders** directly by e-mail, fill in your e-mail address at: [loreal-finance.com/eng/keep-informed](mailto:loreal-finance.com/eng/keep-informed)

(1) Available for free on the App Store and Google Play