



# Equity Valuation L'Oréal Paris

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Abstract

Title: Equity Valuation- L'Oréal Paris

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This dissertation presents a valuation of L'Oréal Paris the largest company in the beauty industry. A company listed in the CAC 40 under the symbol OR.PA. At the time of this dissertation, the share price was 350\$ on 19/04/2022. This dissertation has the goal to provide an investment recommendation based on my estimate of the equity value of the company. First is analyse the external environment of the company and his financial performance in the last decade. The methods used to determine the share price were DCF and multiple- Relative Valuation. In the DCF models were used some Sensitivity analyses were to complement the model. The DCF final price was 411€. The multiple average prices was 311€. The final part is made a comparison between my forecast and the JP report about L'Oréal's share price. To sum up, is expected that the company increases its revenues and improve its efficiency in terms of costs during the next years despite the effects of higher inflation and war in Ukraine. The target price recommended is 402€

**Keywords: L'Oréal Paris, Beauty, Discounted Cash Flow, Relative Valuation, Target Price**

## Resumo

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A tese que apresento faz uma avaliação a empresa L'Oréal Paris, a maior empresa da indústria de beleza. A empresa está cotada na CAC 40 em Paris sob o símbolo OR.PA. Durante o período da em que era feito a tese o preço da ação da empresa era 350€ (19/04/2022). O objetivo desta tese é de dar uma recomendação de investimento sobre esta empresa com base na minha avaliação da empresa. Em primeira análise é analisado o ambiente externo da empresa e a sua performance financeira na última década. Os métodos utilizados foram o DCF e os múltiplos-Avaliação Relativa. No modelo DCF foi acrescentado uma análise de diferentes cenários para complementar a avaliação. O preço final no modelo DCF foi de 412€. No modelo do múltiplo a preço medio foi de 311€. Na parte final é feita uma comparação entre a minha análise e do relatório de investimento da JP Morgan. Para finalizar as minhas estimativas indicam que empresa irá continuar a aumentar as suas receitas e a sua eficiência de custos apesar da guerra na Ucrânia e de uma inflação superior ao esperado. O meu preço alvo é de 402€

**Palavras-Chave: L'Oréal Paris, Beleza, Fluxo de Caixa Descontado, Avaliação Relativa, Preço Alvo**

### Acknowledgments

This dissertation represents the end of a period in my life as a students. I would like to thanks to all my family, colleagues and friends that help to growth and reach this important mark in my life. A special thanks to my parents and brother. Finally a special thanks to professor José Tudela Martins for supervised and review my thesis, his sincerity enable me to improve my last work as a student.

### List of Abbreviations

APV- Adjusted Present Value

CAGR- Compounded Annual Growth Rate

CAPEX- Capital Expenditures

CAPM- Capital Asset Pricing Model

L'Oréal Equity Valuation

D&A-Depreciation and Amortization

DCF-Discounted Cash Flow

EBIT-Earnings Before Interests and Taxes

EV-Enterprise Value

FCFE-Free Cash Flow to Equity

FCFF-Free Cash Flow to Firm

PER- Price-Earnings-Ratio

PP&E- Property, Plants and Equipment

ROA-Return of Assets

TV- Terminal Value

SAPMENA-SSA- South Asia Pacific, Middle East, North Africa and Sub-Saharan Africa

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## Introduction

The main goal of this dissertation is to estimate a target price per share of L'Oréal (OR.PA) listed in CAC 40 of Paris Stock Exchange, a French company belonging of beauty industry. The company is the world leader of his industry. In the final part of this dissertation, I will give an investment recommendation about this company.

L'Oréal was founded in 1909 in France. The company is a pioneer in his area leading the industry in many areas. The year of 2021 was a year of recovery, after 2020 where the whole world suffers from the effects of covid, in 2021 the company return to the levels pre-pandemic. This pandemic changes a lot of how the work is do it right now with the remote work and the digital platforms gaining more importance in our life. The company know how to adapt and surpass the logistic problem this pandemic brought to us. The company despite all this challenges and the strong competition manage to outperform the industry and improve his financial performance. This dissertation is made in a moment where a new tragic event in the world, the war in Ukraine which will harm the world economy.

This dissertation is divided into 4 sections. The first section is the literature Review, which I will explain the best methods to evaluate the firm. The second is analysis of the external/internal environment of the company. The third is the most important where I will do the valuation of the firm and where I will explain my assumptions and forecasts the financial performance of the company and finally, I will give my investment recommendation. The last part a will do a brief comparison between my valuation estimate and the investment report of the JP Morgan, where we can see the differences between my target price and theirs.

## Literature Review Valuation

The valuation area is one of the most relevant fields in the financial industry, due to its complexity and demand for many skills from different business areas like accounting, finance, investment, or economy in general and because of his importance to this industry, “valuation can be considered the heart of finance” Damodaran (2006). This is a topic that catch industry attention since long time ago,” Today valuation is the financial analytical skill that general managers want to learn and master more than any other.” Luehman (1997). This is a field that has the objective of evaluating the value of a company or a business unit of the company with the perspective of the present value of the company and also its future value and performance which is one of the hardest things to analyse and predict. This area is fundamental for every type of investor institutional or private to have the best information possible in the moment of investment and to the companies to understand the perception of the market to his performance and after adapting to correspond to investors and market expectations. As we know valuation is not an exact science because there are many approaches to evaluating a company. The two most important factors that we cannot control are the managerial decisions efficiency and the world economy.

As we know there are different types of companies, companies that are more capital-intensive, companies in a mature stage, or companies that don't pay dividends, so analysing the characteristics of the company we must decide on the best model and assumptions to evaluate this stock. So new valuation models and assumptions must be made based on the characteristics of each asset according to Damodaran. So, we can say that different models of evaluating a company can produce different results but if they use common assumptions, they will be closer in the different models but if valuers use variants in assumptions will result in different final values Damodaran (2006).

There is a consensus among analyst on many models that can be used to value companies. These models differ from each other in how are calculated and the type of data they use, and they must adjust for the companies and industries they are working on.

According to Damodaran (2006) exist 4 groups of valuation models. The first one is the Discounted cash flow valuation, where the valuation values the present value of the company and forecasts the future cash flows of the company. The second one is the liquidation and accounting valuation, using the value of existing assets of the company to build the model, the

third is the relative evaluation, in this model we value the model by comparing the performance of the company with its peers can be earnings, cashflow or sales. The final model is the contingent claim valuation, which “uses option price models to measure the value of the assets that are option characteristics” Damodaran (2006), the most common is the Black and Scholes.

L'Oréal is a company that is a leader in the market, and it is right now in a mature phase with stable growth and distributed dividends in the past years, for this reason, the method more suited is the DCF. Next, I will describe better the models used by the analysts and explain the reason to select some of the models to evaluate L'Oréal stock.

## DFC

The discounted cash flow method is the most used in valuation in the corporate and academy world due to being more accurate and flexible: “This approach gets the most play in academia and comes with the best theoretical credentials” Damodaran (2006). This model evaluates the present value of a company, or an asset based on the expected cash flows in the future discounted at a risk-adjusted rate (Damodaran 2006). This model can value an asset, a business unit, or the entire company. The standard model used in the DFC is presented in Fernandez (2007):

$$V = \frac{CF_i}{1+k} + \dots + \frac{CF_n + VR_n}{(1+k)^n}$$

Where

CF<sub>i</sub>=cash flow generated by the company in the period i

V<sub>n</sub>=Residual Value of the company in the year n

K=appropriate discount rate for the cash flows' risk

This equation shows two-time horizons, the first one is the forecast of the cash flows for a certain number of years and the final fraction shows us a cash flow in a perpetuity time. The VR is classified as the residual value in the year, but it can also be called a terminal value and the formula is  $VR = CF(1+g)/(k-g)$  where g is the growth rate after this period (Fernandez, 2007).

The analyst will have to study many fields to use this model like industry analysis, world economy, risk-free rates, future revenues of the company, and make several assumptions. In the DFC models, the most used are Dividends, FCFE (free cash to equity) FCFF (free cash flow to the firm), and APV(Adjusted Present Value). We will talk on FCFE, FCFF and APV. The Dividend model will be excluded because is a model where exist many politics involved that we cannot predict like per example some shareholders demand a bigger percentage of the profits than other, so this makes our model a less accurate.

### FCFE vs FCFF

These two are similar but have some differences “This firm valuation model, unlike the dividend discount model or the FCFE model, values the firm rather than equity” (Damodaran, 2006), so the FCFF have the objective to value the entire value of the firm which is better for our dissertation because give us the value to all stakeholders of the company : shareholders and debtholders, also have another advantage “of using the firm valuation approach is that cashflows relating to debt do not have to be considered explicitly, since the FCFF is a pre-debt cash flow, while they have to be taken into account in estimating FCFE” (Damoradan,2006). The FCFF represent the totality of the cash flows produced by the company detained by debtholders and shareholder giving a clear vision of the performance of the company. The formula to calculate is:

$$FCFF=EBIT(1-tax\ rate)+\ Depreciations-Capex-\ \Delta\ Working\ Capital$$

### Discount Factor

After we calculate the FCFF we need to discount this value, so if we use FCFF we need to use as the discount factor the WACC (weight of the average cost of capital) (Fernandez 2004).

### WACC

As we say before the next step is to calculate the WACC, which is one of the most important elements in this valuation model because a small difference will have a tremendous impact on the results. “But consider a more intuitive explanation: the WACC represents the expected

return on an alternative investment with identical risk” (Koller, et al 2010) so represents the opportunity cost. The capital of a firm combines debt and equity with that WACC is calculated by the cost of getting the capital firm by the sum of the (Kd) cost of debt and the cost of equity (Ke) with the respective weight in the capital firm Fernandez (2013). The calculation is also represented in Fernandez (2013).

$$WACC = \frac{EKe + DKd(1-T)}{E+D}$$

Where:

E-Equity

D-Debt

T-Tax rate

Ke- Cost of Equity

Kd-Cost of Debt

### Cost of equity

The cost of equity represents the required rate return expected by the market for that amount of equity. Damodaran The most used model to calculate the cost of equity is CAPM Damodaran (1999). The CAPM approach requires the risk-free rate, the beta and the market risk premium. The cost of equity has the following formula.

$$E(ri) = R(f) + \beta * (R(m) - R(f))$$

### Risk free rate

A risk-free asset only can be issued by an entity with zero default risk, so an investor of a risk-free asset knows that the returns are guaranteed and “there can be no reinvestment risk” for an investment to have the expected return equal to the actual return Damodaran (2008). The risk-free assets are government Bonds with risk-free, zero-coupon Bond Damodaran (2008). The most used to international companies are US treasury rates and in European companies is used

Germany treasury rates. The government bond must be in the same currency as used by the firm to eliminate the inflation factor only when we consider government bonds that can be considered risk free Damodaran (2008).

### Market risk Premium

The Market risk premium is the difference between the expected rate return demand by the market and the risk-free rate. This provides us the amount of return the market demand for the extra risk in comparison to risk-free rates. The most common way to calculate is: “to look at the premiums earned historically by investing in stocks, as opposed to risk-free investments” using a long period of time Damodaran (2008). In Damodaran website are already calculated the Equity Risk premium by region.

### Beta

The Beta is mostly calculated using a linear regression between the asset stock returns against a stock index Damodaran (1999). The Beta represents the systemic risk of a market. The betas used in a financial model have to have two characteristics: “The first is that they measure the risk added on to a diversified portfolio, rather than total risk” and the second “The second characteristic that all betas share is that they measure the relative risk of an asset, and thus are standardized around one” Damodaran (1999).

### Cost of Debt

The pre-tax cost of Debt is the sum of the risk-free rate and the default spread of the company Damodaran (2012). The risk-free rate is the same as mentioned before. The default spread of the company is resulting in a rating. When companies hold long-term bonds, and they are very liquid we can just use the yield to calculate the cost of debt. When a company doesn't have long term bonds or them are not very liquid the default spread we can use the interest coverage ratio to giving a rating to the company and after give the default spread Damodaran (2012).

$$\text{Cost of Debt} = (\text{RF} + \text{Default Spread}) * (1 - \text{taxe rate})$$

### Terminal Value

The terminal value is the final step in a DCF model. The analyst doesn't calculate infinite FCFF so have to reach a final year to reflect the value of the company. There is no specific number of years to forecast a company's performance depending on the industry and the type of company, at least 5-7 years according to (Koller, et al., 2010) to represent a business cycle.

$$TV = \frac{FCFFn*(1+g)}{Wacc-g}$$

This terminal value added with the remaining present value cash flow calculated results in the value of the company.

### Growth Rate-g

The growth rate is the rate that is expected for the company grows in perpetuity and must be lower than the growth of the world economy because if was bigger will become the valuation unrealistic (Koller, et all 2010).

### Adjusted Present Value Model (APV)

This is an alternative model to DCF used for companies that are changing a lot the capital structure of the company. In this model is separated the effects on the value of debt financing like tax shield and bankruptcy costs from the value of the assets of a business Damodaran (2006). The approach to value a company is to start the value of the firm unlevered then added debt to the firm, consider the net effect having into account the benefits and cost of borrowing, and final minus the expected bankruptcy costs Damodaran (2006).

$$\text{Value of business} = V_u + PV_{tx} + PV_{bc}$$

The  $V_u$  is the value of the firm with no leverage, so we must estimate the value of the company as if it had no debt, “by discounting the expected free cash flow to the firm at unlevered cost of equity” Damodaran (2006).

$$\text{Value of Unlevered Firm} = \frac{FCFF(1+g)}{\rho u - g}$$

Where the FCFF is the cash flow of the company at a certain period, the  $g$  is the expected growth rate and the  $\rho u$  is the unlevered cost of equity. The next step is to calculate the tax shield. The formula is the following.

$$\text{Value of the tax benefits} = (\text{Tax rate}) * (\text{Debt})$$

The approach used to calculate the tax benefits is not consensual. Fernandez(2004) argues that should be calculated with the difference between a levered company and an unlevered company resulting in higher tax benefits than the conventional approach, instead, Cooper and Nyborg (2006) argue that the value of the tax benefit is the present value of interest tax savings, discounted at the cost of debt.

The final step is to calculate the present value of the expected bankruptcy cost. This means the effect of a level of debt on the default risk of the company and the expected costs of a bankruptcy Damodaran (2006) .

$PV \text{ of Expected Bankruptcy} = (\text{Probability of Bankruptcy}) * (\text{Present Value of Bankruptcy cost})$

This model is not so used by the majority of analyst because is very difficult to compute with a certain degree of certainty the bankruptcy costs. Some of the costs are easy to calculate like the direct ones and are small relative to firm value, but the indirect costs like the loss of customers or suppliers are very hard to compute and have much more impact on the firm valuation because of their dimension Damodaran (2006).

## Relative Valuation

The relative valuation is good model to complement a previous model Fernández (2001) like DCF model. The relative valuation allows us a better comparison with the peers of the company. This is a model used by the generality of analyst because it is easier to do and understand So the first step to do is to build a peer group that belong at same industry and have similar cash flow, risk, and growth rate according to Damodaran.

After this we must select the multiple to analyses the peer group and our firm. The multiple can be divided into 3 groups: capitalisation, company value and growth reference multiples Fernández (2001).

In the capitalisation we have the multiple most used by analysts the PER (Price Earnings Ratio).

$PER = \text{Market Capitalisation} / \text{Net Income} = \text{Share Price} / \text{Earnings per Share}$

## L'Oréal Equity Valuation

This ratio is most used for being the multiple that can show easier the profitability of the company. This ratio cannot be interpreted alone because higher growth companies will have higher PER than slower companies, but also companies that invest less will have higher PER so we have to analyse more multiples to have a knowledge about the company performance. Other multiples broadly used in this section are P/B and P/Sales.

Price to Sales=Share Price/ Sales per share

Price to Book Value=Market Capitalisation/Book Value of Shareholder Equity

The other section of multiples are the company value multiples and the most used are the EV/EBITDA but have some limitations: does not consider the working capital requirements and the capital investment Fernandez (2001). This is still one the multiple that give a better picture of the performance the company and depend on the company in the case of L'Oréal make more sense to use the EV/EBIT because they incorporate the depreciation and amortization in the operations expenses.

## L'Oréal valuation Process

After analysing the different process to valuate a company I decided to evaluate L'Oréal using a DCF using FCFF with a complement of the Relative Valuation with the multiples like mentioned before.

## Company Analysis

### L'Oréal

L'Oréal is a company founded in 1909, it is a French beauty and cosmetic company with 35 brands, and more than 85000 employees and is present in more than 150 countries. The company has more than 30 labs and 39 plants all over the world and the firm spends over 1

billion euros on R&D having more than 500 patents. The company is the number one in its market for more than 30 years with a relative distance from its nearest competitor.

The L'Oréal stock is CAC 40 on the Paris Stock Exchange with 232,5 billion euros of capitalization with a total of 535,41 million shares outstanding with 43% of these shares free float. The price of a share is 350€ on the date of 19/04/2022. The main shareholders are the Meyers family (33,3%) and Nestlé (19,30%) and institutional investors (37%).

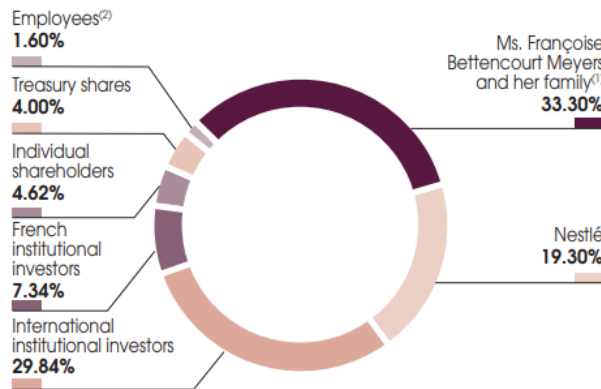


FIGURE 1: L'ORÉAL SHAREHOLDERS; SOURCE: L'ORÉAL

The company has a stable shareholders assembly with two main shareholders representing more than 50% of the equity that ensure that the company can follow the long-term strategy and support the company in the different business strategies.

The company revenue in 2021 was 32288 million euros already surpassing the year of 2019 (29874 million), so the firm has already recovered from the covid effect. L'Oréal segments are divided into 4 product segments: consumer products, professional products, L'Oréal Luxe, and Active cosmetics. But we can divide it into 5 business segments: Haircare, Others(Hygiene), Fragrances, Make-up, and Skincare. The company is geographically divided into 5 regions: Europe, North America, North Asia, Latin America, and Sapmena-SSA.

In the previous paragraph, I told that the company is already above the pre covid revenues in the next pages I will explain the financial/operation situation of the company and also of the beauty industry. I will also make an analysis of the world economy and the recent events.

### Business Model

The company has mentioned before has already recovered from the covid impact and in the last year has reached its best performance, In the last 10 years, the company had steady growth with an average of 4,29% annual growth of revenues. The two years that we should highlight are 2019 with a growth of over 10% and 2021 the year of the recovery of covid when the firm registered a growth of 15,35% after a decrease of 6,30% due to the pandemic situation. So we can see that firm surpass the covid crisis and this was just a negative event in the positive trajectory of the company.

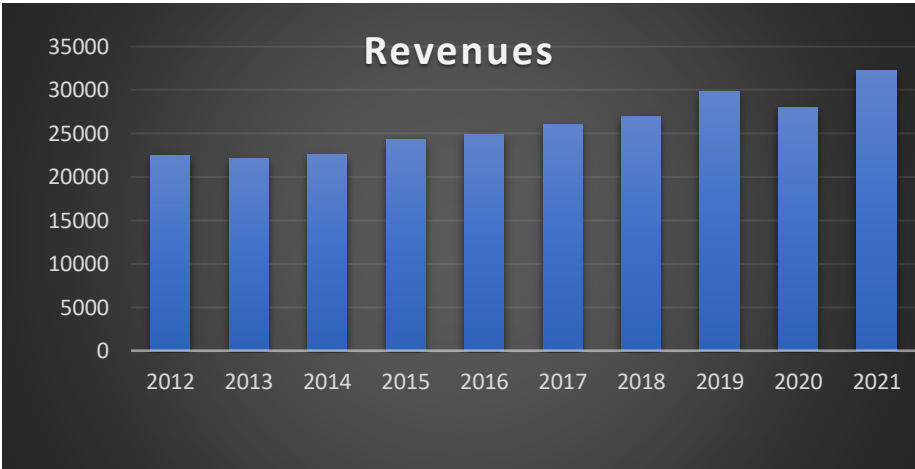


FIGURE 2:REVENUES; SOURCE L'ORÉAL

The company has four business segments that have specific targets: consumer products, professional products, L'Oréal Luxe, and Active cosmetics.

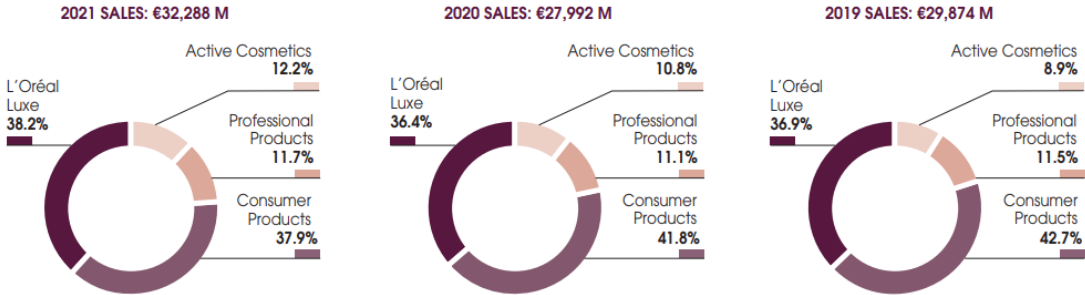


FIGURE 3: BUSINESS SEGMENTS REVENUES; SOURCE: L'ORÉAL

### L'Oréal Luxe

This is one of the most important segments of the company representing 38,2% of the total sales of the group having an operating margin of 22,8% remaining stable like in the previous years. This segment has brands like L'Oréal and Giorgio Armani Beauty. In this segment, the group offers products of high quality that the target is higher-income customers that sell in specific shops or online. The group has partnerships with different luxury brands like Ralph Lauren and Yves Saint Laurent that give more credibility to the group. This segment is fundamental to the strategy of the group because the quality and credibility of these luxury products will give more credibility to the remains products of the group. We can see an increase the percentage in the total sales. The operating margin profit have been increased in the last 5 years.



FIGURE 4:L'ORÉAL LUXE REVENUES AND OPERATING MARGIN; SOURCE: L'ORÉAL

### Consumer Products

This is the second most important segment of the group with 37,9% of the total sales of the firm with a gross margin profit of 20,2%. This is a segment dedicated to a bigger range of consumers selling. The channel sales are more diversified in more types of stores like supermarkets, cosmetic stores, or online. This segment as before mention gains more customers and can benefit more due to the credibility and notability of L'Oréal. We can see that it was the segment

that lost importance in the total sales having a decreasing trajectory showing that the consumers are switching his needs preferring more quality products, here we can see some effects of covid in customers habits having fewer total sales compared with the period pre covid. The operating margin remains constant in the last 5 years.

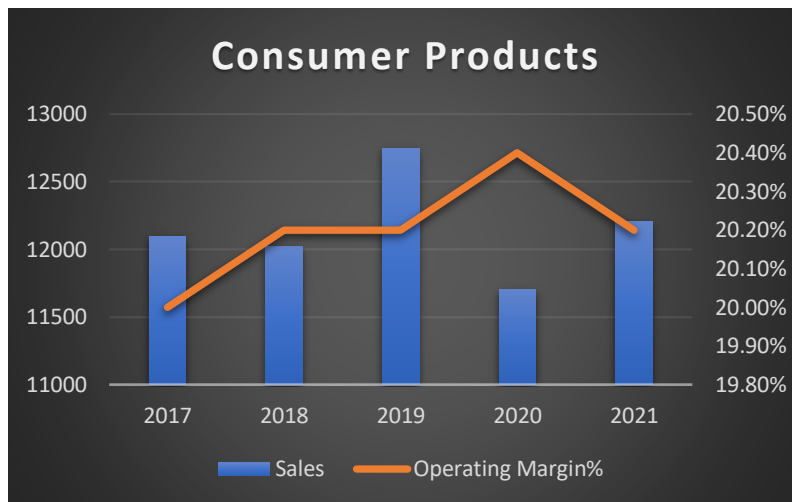


FIGURE 5: CONSUMER PRODUCTS REVENUES AND OPERATING MARGIN; SOURCE: L'ORÉAL

### Professional Products

This is a specific segment where the company sells directly to professionals in the beauty and cosmetic field representing 11,7% of the total sales with a operating margin profit of 21,3%. L'Oréal makes intensive marketing in this segment because here they can capture more individual customers that buy products used by their hairdressers or other professionals. The operating margin has increased in the last 5 years



FIGURE 6: PROFESSIONAL PRODUCTS REVENUES AND SALES; SOURCE: L'ORÉAL

### Active Cosmetics

This is a segment where the firm has spent a lot of resources in the past years because is an area with substantial growth. Representing 12,2% of the total sales with a gross margin profit of 25,2%. The group has important brands in this sector like Vichy or La Roche Posay. This is a field with great potential due to the new necessity of the customers that demand has more careful with their health, the distribution channels of these products are the typical healthcare channels like pharmacies, drugstores, beauty clinics, or online. This is a segment where the company was able to increase its profitability.

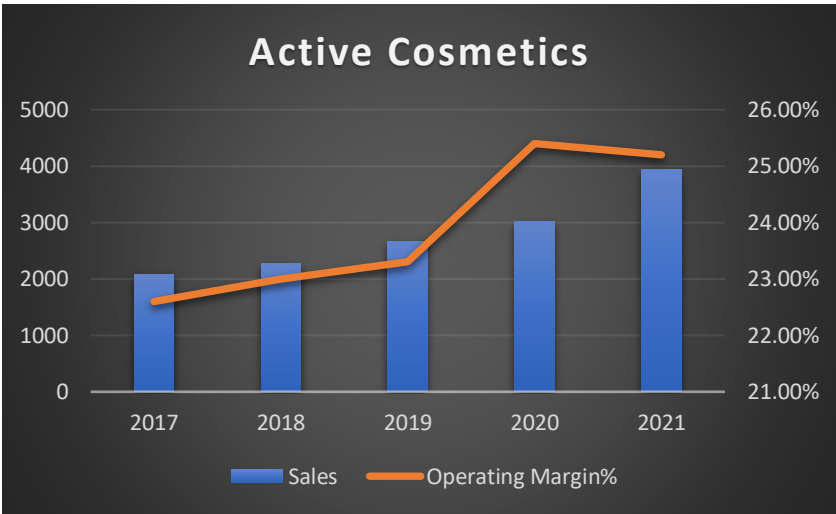


FIGURE 7; ACTIVE COSMETIC SALES AND OPERATING MARGIN; SOURCE:L'ORÉAL

### Geographic Zones

The three major markets for the company are Europe, North America, and North Asia which are the regions with bigger income and desire for this type of product. We can see that Europe lost 2,6% of the total sales and we that north Asia gained more importance to the company, in fact, Europe was the continent that was more affected by covid and doesn't fully recover yet from the covid effects, and also North Asia have a better economic dynamic.

Analysing the currencies more used by firms we see the dollar (23,4%), euro(19,6%), and Chinese yuan(19,6%) this final number allows us to see the importance of the Chinese market

for the L'Oréal and if we analyse that have a negative demographic dynamic, but we see that have a great economic potential still ahead meaning that is a market that will continue to grow in the future.

To sum up we can see that the company is not heavily dependent on one region reducing the risks for the company in general and is already in a market with a great potential of growth like South Asia and Sapmena-SSA due to their positive demographic and economic dynamic that will tend to represent bigger shares in the firm revenues so is important an early presence in the market to gain confidence from the consumers.

### Business Segments

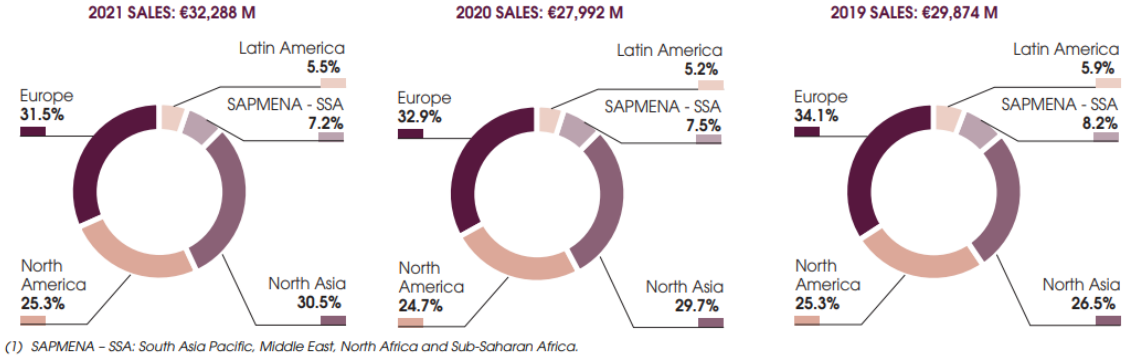


FIGURE 8: GEOGRAPHICAL DIVISION OF SALES; SOURCE: L'ORÉAL

As we mention before the company has four divisions of products that can be divided into 4 main business segments: Skincare, Make-up, Perfumes, and Haircare. If we analyse the haircare and perfumes maintain a similar share of the sales in the past 3 years, the major change we see is the makeup that was transferred to the skincare. Due to the pandemic, the consumer changed some habits and because of the masks we used less make-up, but in the contrast with this pandemic the consumer give more importance to the skincare, an area that L'Oréal has invested heavily in the past years, in this past year have a growth like-like of 17,1%. We have also highlighted the perfumes area performance with a growth of 38%. As we can see the company

has a diversified portfolio of products in the beauty and cosmetic market giving them a leadership advantage in that products in different business segments can profit from each other from the brand notoriety and credibility.

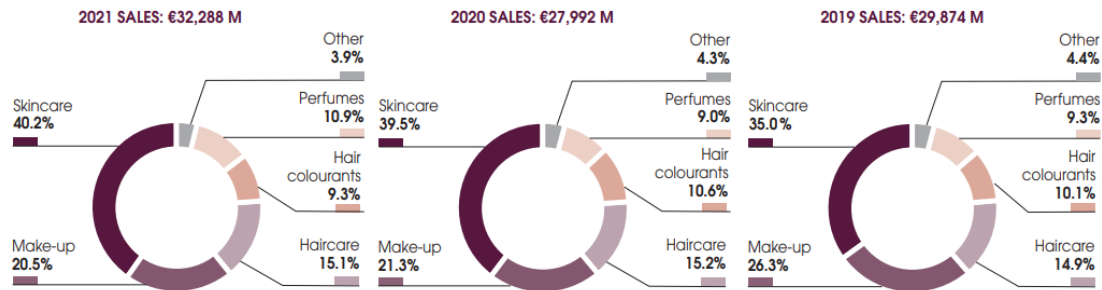


FIGURE 9: BUSINESS SEGMENTS DIVISION; SOURCE: L'ORÉAL

## Strategy

As we mention before L'Oréal is the Leader in this market. The company knows that to keep its leadership must continue to invest in R&D, in 2021 spend over 1 billion euros on R&D. The company has 20 research centres to develop new products and to improve the current products of the company.

The company follows an enterprise strategy of strategic alliances like the one we mentioned before like Ralph Lauren or Giorgio Armani, and also a horizontal and vertical integration with a purpose to increase the brand awareness and credibility in the different geographies they are present. L'Oréal is present in more than 150 countries and wants to follow a strategy of globalisation this means having global brands but adjusting locally to adapt to the needs and desires of the different geographies they are present, they want to contrast the standardization and respect the difference between consumers.

The company is the 4<sup>o</sup> largest advertiser worldwide across all industries, with 35 diversified brands that are complementary to each other, and it is a priority for the firm to continue to have a strong media investment. The pandemic crisis shows the company that should put more focus on e-commerce, and this is one of the priorities of L'Oréal due to facing the needs of the customers but also to respect the sustainability goals of the company.

To sum up, the company will continue to invest heavily in R&D to maintain its position in the market and reinforce its online presence to keep up with the needs of customers. The firm in

the last year extended its e-commerce presence growing 25,7% representing 28,9% of the total sales.

## Stock and Dividend Performance

L'Oréal stock is well-known in the European market belonging to CAC 40 ( the biggest French companies index). The stock had a growth of 437,5% in the last decade with a price on the day of 19/04/2022 being 350,95€. If we compare it with CAC 40 we can see that the stock outperform the index almost by double having a fantastic performance in the last decade even with the pandemic situation the stock manage to recover the losses during this period. The firms distribute dividends for more than 20 years consecutive showing the strong performance of L'Oréal. This good performance added to the credibility of the firm and enables the investors to rely on the stock and make a long investment. In the last year, the stock has been volatile with the highest point at 428€ but come back to the value of last year's at 350€, having in the last 4 months a negative performance because the correction after reaching his highest price ever and due to omicron variant and more recently because of the War in Ukraine. The stock price is 38% higher than pre covid. The company debt historical remains low having a increase in the last year due to the operation to repurchase 4% of Nestle shares costing almost 9 billions euros, the company have to increase rapidly his debt in more than 4 billions euros which is expected to decrease back to the levels of previews years.

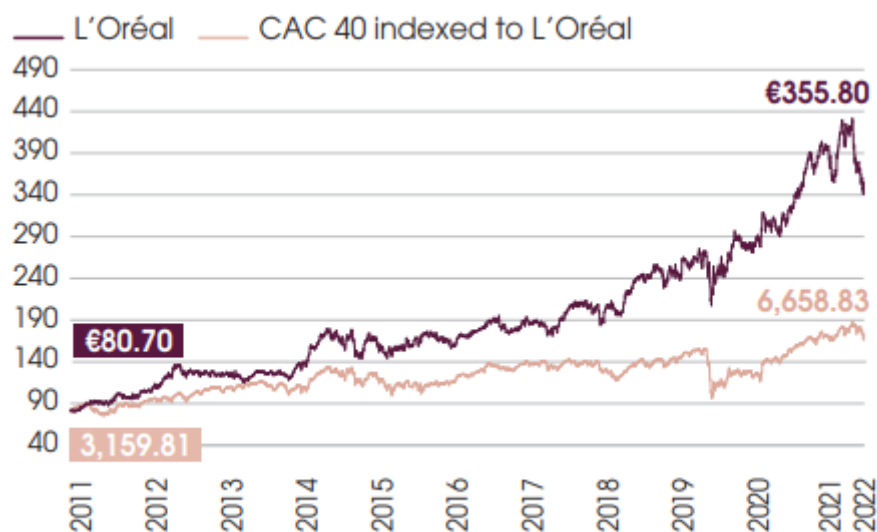


FIGURE 10: L'ORÉAL & CAC 40 PERFORMANCE IN THE LAST 10 YEARS

The dividends of L'Oréal have multiple 4,1 times in the last 16 years with a forecast of dividend for this year of 4,8€ with an increase of 20% compared with last year. Even in 2020, the firm manage to continue to grow its dividend compared with 2019. The net profits of the company follow up this increase in dividends showing the strong financial performance of the company. The dividend yield had remained stable with a slight decrease in the last year due to the tremendous performance of the stock price. In 2022 the dividend yield was 1,46%.

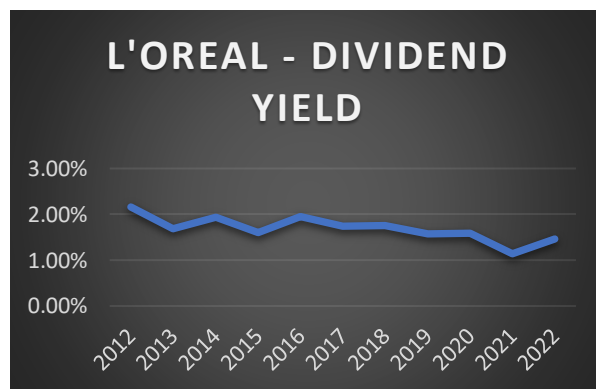
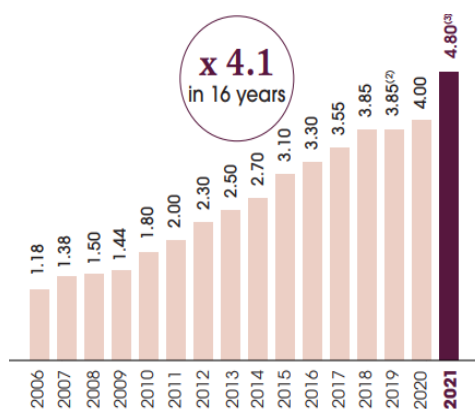


FIGURE 12:L'ORÉAL EPS; SOURCE: L'ORÉAL

FIGURE 11:DIVIDEND YIELD

The EPS in 2021 was 8, 21€. The pay-out ratio of dividends has been stable in the last 6 years around 53%. The firm to reward the shareholders that hold shares for more than 2 years (up to a maximum of 0.5% of the capital for the same share hold) giving a loyalty bonus of 10%. In the last year, the firm repurchased 4% of the shares of one of main shareholders Nestle. The firm spend 524 million in acquisitions last year representing around 110 million in additional sales.

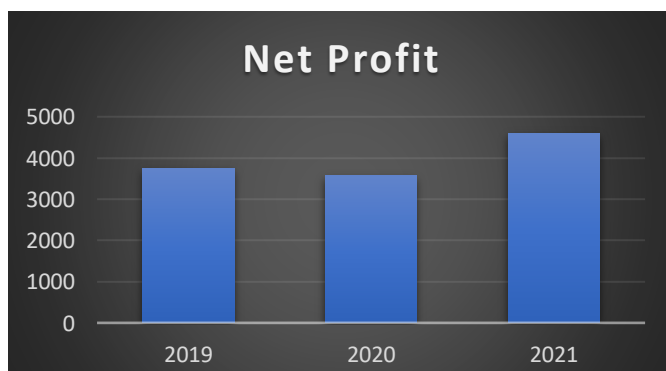


FIGURE 13:NET PROFIT OF L'ORÉAL; SOURCE: L'ORÉAL

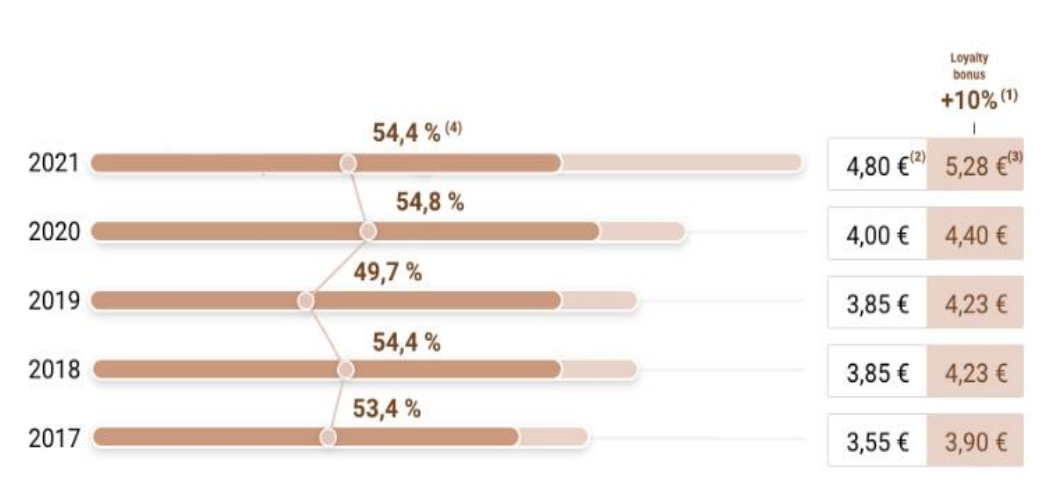


FIGURE 14: PAYOUT RATIO OF EPS AND DIVIDENDS PER SHARE; SOURCE: L'ORÉAL

### World Economic Analysis

The world economy is still recovering from the covid crisis, despite most the countries have already passed the pre covid numbers many still are behind this period. The IMF in January of 2022 downsized the forecast of global growth from (4,9-4,4%) due to the omicron variant the continuation of high inflation and disrupted chain supplies. The projection for every institution is that 2022 will continue the growth of 2021 but at a slower pace. This projection is made the base that vaccines become more accessible all around the globe and more effective and in this way becoming more difficult for new variants to disrupt the healthcare systems of the countries and with a continuation of higher inflation that will make Central Banks hikes up the interest rate having a negative impact in the economy. In this way is essential a continue the investment by the nations in health and social expenses to help the economy.

As we say before the global growth will reduce due to weaker performances compared with the initial forecasting are Western Europe, North America, Mainland China, and Japan. The regions that will improve its growth are North Africa and the Middle East due to higher revenues from oil due to the increase in oil prices. Southern Asia will maintain a positive economic dynamic benefiting from trade liberalization. As we already mention the three regions are the most important for the L'Oréal group with a reduced impact on the group this slower growth.

Inflation will be at higher levels compared with the last decades in many countries due to the increase in energy prices and the disruption of chain supplies. The cost of transportation had a tremendous increase during the last year and in some countries, we see labour shortages and

that are slowing down the growth and contributing to a lack of supplies leading to bigger inflation. The labour shortage for example in the USA is notorious with the labour force not reaching levels pre-covid, but also in Europe have this problem and more recently China with the negative demographic dynamic reducing the labour supply.

The US in the IMF projection will grow by 4%, the growth was reduced by 1,2% due to supply and labour force and due to the high inflation that will make the FED reduce the expansionist monetary policies and hike up the interest rates having an impact on the economy but necessary to control inflation that estimates over 5%.

Mainland China has projected a growth of 4,8%. The IMF reduce 0,8% the growth of China due to his zero covid policy which can bring some lockdowns in some cities. China has also his growth reduced due to the deceleration of real estate and construction activities with some of its biggest companies in this area with financial problems.

In Europe, IMF expects a reduced growth (3,9%) due to inflation that is hitting the continent, especially in energy. These record prices in energy will restrict the growth, especially in countries with a strong industry sector. It is expectable that the southern countries can have an increase in tourism during this year.

At the end of February, happened an event that will reduce the world economic growth- the invasion of Russia in Ukraine. The Western countries respond to this invasion by sanctions to Russia affecting the Russian economy but also the world economy. As a result of the war, the gas and oil prices rise, which will deteriorate the inflation situation in the Western countries. To worsen the situation Ukraine is one of the biggest producers of cereals in the world leading to increase of price in the food sector all around the globe with some institutions forecasting shortage of some food products.

This war will reduce the growth that I mentioned before because many countries are reducing their economic links with Russia, which is putting great pressure on the prices that will lead to bigger inflation that will reduce the income power of populations and reducing the growth, especially in Europe that is very dependent of the Russian gas and oil. The fitch reduced the global growth by 0,7% and the more affected is the eurozone with reduced growth passing of (4,5%) to 3% as they predict inflation being higher than in the last three decades as high inflation will remain more common in the future.

To sum up, this will continue to be a year of growth for the global economy that will be lower if the war in Ukraine continues longer with the consequences of disrupting supply chains, raising prices, and other problems because of this war.

(real GDP, annual percent change)	ESTIMATE	PROJECTIONS	
	2021	2022	2023
<b>World Output</b>	<b>5.9</b>	<b>4.4</b>	<b>3.8</b>
<b>Advanced Economies</b>	<b>5.0</b>	<b>3.9</b>	<b>2.6</b>
United States	5.6	4.0	2.6
Euro Area	5.2	3.9	2.5
Germany	2.7	3.8	2.5
France	6.7	3.5	1.8
Italy	6.2	3.8	2.2
Spain	4.9	5.8	3.8
Japan	1.6	3.3	1.8
United Kingdom	7.2	4.7	2.3
Canada	4.7	4.1	2.8
Other Advanced Economies	4.7	3.6	2.9
<b>Emerging Market and Developing Economies</b>	<b>6.5</b>	<b>4.8</b>	<b>4.7</b>
Emerging and Developing Asia	7.2	5.9	5.8
China	8.1	4.8	5.2
India	9.0	9.0	7.1
ASEAN-5	3.1	5.6	6.0
Emerging and Developing Europe	6.5	3.5	2.9
Russia	4.5	2.8	2.1
Latin America and the Caribbean	6.8	2.4	2.6
Brazil	4.7	0.3	1.6
Mexico	5.3	2.8	2.7
Middle East and Central Asia	4.2	4.3	3.6
Saudi Arabia	2.9	4.8	2.8
Sub-Saharan Africa	4.0	3.7	4.0
Nigeria	3.0	2.7	2.7
South Africa	4.6	1.9	1.4
<i>Memorandum</i>			
Emerging Market and Middle-Income Economies	6.8	4.8	4.6

FIGURE 15:IMF GROWTH PROJECTIONS IN 01/2022; SOURCE: IMF

### Industry Analysis

The Beauty industry's global revenues in 381 billion dollars and is forecasted that reach 473 billion dollars in 2028 with a CAGR of 5,5% according to Zions Bank. We can see in the graphic above that this industry had a solid performance in the last twenty year. As we can see the industry had a solid performance in the last twenty with a average growth rate above 4%.

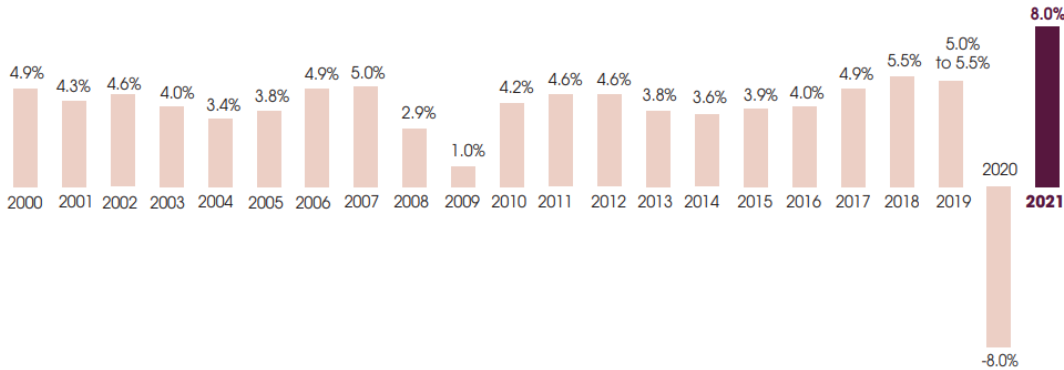


FIGURE 16:BEAUTY INDUSTRY GROWTH; SOURCE: L'ORÉAL

The cosmetic industry is predicted to rise in the next years due to a bigger awareness of the consumers to his health and appearance of all ages and genders. Men are more willing to use skincare and other types of products to improve their appearance and health. All consumers regardless of their working/economic situation give more importance to their appearance and health.

Also, consumers are willing to spend more money on products that improve their long-term beauty and health and this with the increase of disposable income and urbanization in many regions of the globe like Asia or the Middle East will allow the industry to continue to grow in the future.

This will intensify with the millennial and Z generation represent more than a third of consumers, that give more importance to this type of product. We can see that the share of luxury products is slowly increasing his share in this market representing 28% of the total sales.

The pandemic situation forced the industry to focus more on e-commerce and to invest heavier in digital influencers to capture their consumer target. This distribution channel will allow the industry to have better margins and reach more consumers. In the year 2017, the online sales represented 15,8% of the beauty and personal care market, and according to Statista is

forecasted that in 2025 represent more than 33%. In some areas very important to L'Oréal like cosmetic and hair care this sales channel will have more importance.

As we can see the industry market share by geographic zone is different when compared with L'Oréal. The region of Asia is the most important region and the main driver of

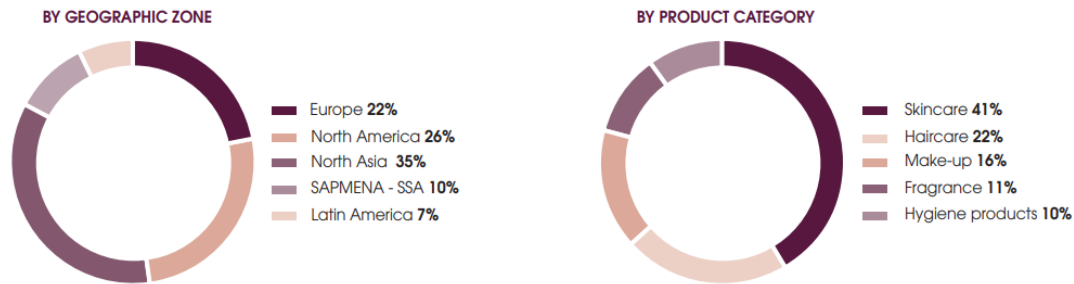


FIGURE 17:INDUSTRY REVENUES BY PRODUCT CATEGORY AND GEOGRAPHIC ZONE; SOURCE: L'ORÉAL

growth in the industry. We can see in the past years growth in the developing areas like the Middle East, and Africa and that this industry follows the positive dynamic of these economies. The most important country in the industry remains the United States, but we can see Asian countries like China or India had tremendous growth and potential. We now face a period the United States is already at levels exceeding 2019 and also North of Asia, Europe was the most affected and don't recover yet and Latin America and SAPMENA-SSA are pretty close to the levels pre-covid according to L'Oréal.

The business segment distribution worldwide is similar compared to L'Oréal's business segments division. The segments have the following performance worldwide: the hair care segment grew over 7% the last year, and the skincare with a growth of over 10% is the segment that contributes more to the growth of the beauty industry, the fragrance had a growth of 10%, the makeup has a growth bigger than 6% with some particularities coming from the covid habits with the lips and face products growing more than 10% (according to Statista). These are the main segments in the industry with bigger importance in the general growth of the industry.

### L'Oréal Position in the market

As we say before L'Oréal is the leader in the market. The company estimated the market at 230 billion euros (only include the areas of company action and estimate these values in net manufacturers prices). The company registered a growth of 15,3% compared with 8% of the

industry which consolidated its position as a leader in the market. The data from 2020 show the dominance of L'Oréal in the market with a relative distance in the market that continues to increase in 2021. In the graphic above we can see the main rivals of the firm in the industry where we have giant companies like Unilever or P&G with many different business areas or also companies that only focus on the beauty and personal care industry. The firm outperform the industry in financial performance with a gross margin of 73,88% vs 53,28,% operating margin of 17,74% vs 15,75% ,the net margin 14,25% vs 9,95% and in ROE 17,49% vs 11,74% consolidating his position of leader in the industry according to Thomson Reuters.

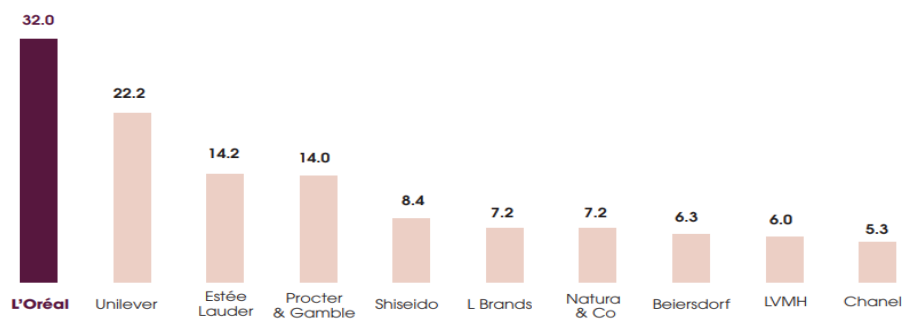


FIGURE 18: 2020 SALES IN BILLION OF \$ OF MAIN WORLDWIDE PLAYERS; SOURCE: L'ORÉAL

The market share of L'Oréal is bigger in Europe compared with the other regions. This is because of the maturity of the company in this region and longer relationships and being recognized as a credible brand. North America is lower due to bigger competition and the fact of not being so well implanted in the region compared to Europe.

In North Asia, Latin America, and Sapmena/SSA region the market share is reduced due to being a newer market, and bigger competition from local brands as a result the company is investing to adapt the products more to this type of consumer reducing the importance of western habits in these regions.

L'Oréal Equity Valuation

The company expected the last three markets to be the major drivers of growth in the future because of the adoption of consumption habits that make more people use L'Oréal products and because of the positive economic dynamic that will increase the middle class.

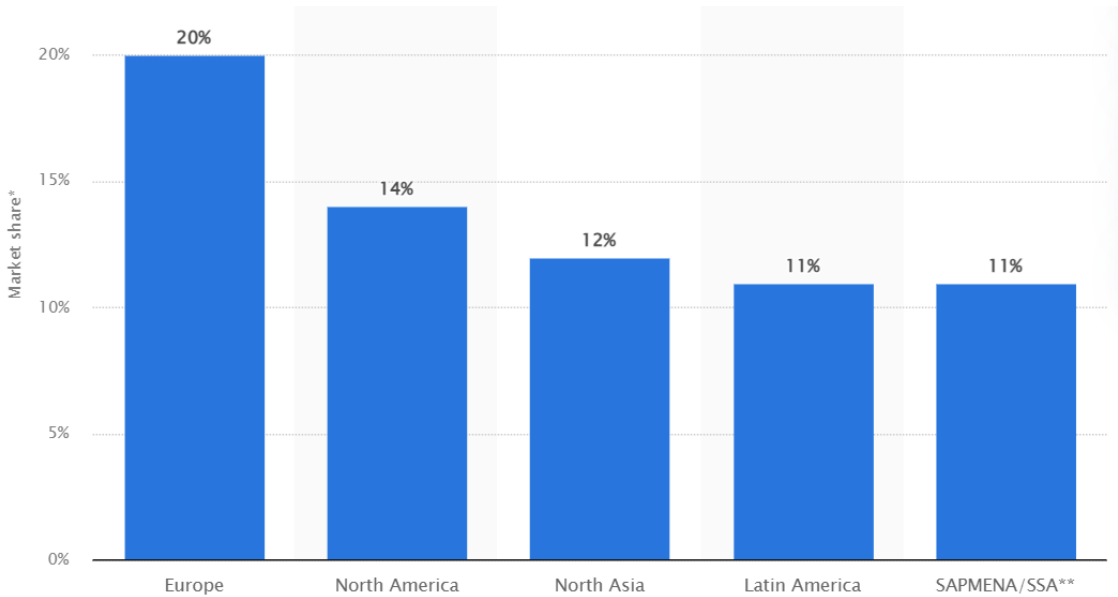


FIGURE 19: MARKET SHARE OF L'ORÉAL IN DIFFERENT REGIONS; SOURCE: STATISTA

### Valuation

#### Revenues

The company estimated that the beauty market had a growth of 8% last year which doesn't compensate for the loss in 2020. In comparison, L'Oréal had an incredible year with growth of over 15% vs -6,30% in 2020. In the last ten years, the firm had a CAGR of 3,7% in revenues, having a similar performance compared with the industry according to Statista. In 2019 the year before covid their revenues grew 10,9% showing the good performance of the company. For making the forecast I divided the revenues into 5 business segments: Skincare, Make-up, Hair, Perfumes, and other products. For that, I made some assumptions, own calculations, and used some data from Statista to forecast the period between 2022-2028 in these 5 business segments. To make the revenue forecast I create 4 assumptions to build my model.

The first one is the War between Ukraine and Russia which will continue to impact the world economy slowing down its growth. The most affected will be the Western World where the firm has around 55% of its total sales. In this assumption, I will assume that the world will

continue longer than expected until the end of the year. The Russia and Ukraine market represents 2,4% of the firm revenues (2% and 0,4% respectively) and the firm announces that will shut down its operations in Russia and for obvious reasons, its operation in Ukraine will have a big decrease this year. So, I will decrease 2% of the total sales of the firm in 2022, and because of the impact on the rest of the world, I will add to the 2% by another 2% due to the impact on the world economy using data from IMF and Fitch. To sum up, in this assumption I will take out 4% of the total sales of the group due to this war.

The second assumption in the revenues will be the inflation situation due to covid recovery and the war between Russia and Ukraine. L'Oréal production is based on 70% in Europe and North America where the inflation impacts are more felt due to the years of lower inflation. According to Eurostat the inflation in the eurozone is 7,5% so it will put pressure on the firm to raise their prices. The company will have to assume a share of the increase in the costs but is also expected that the governments implement measures to reduce the inflation so because of that we will consider that L'Oréal will have a raise of 3% in the revenue due to the increase of prices in 2022. This is assumption I made of an increase in the sales based on the inflation higher than usual. The 3% don't represent the yearly inflation. In the cost of sales, we will have a growth bigger than revenues in 4% in 2022 because of a higher inflation.

The third assumption is the fact that the vaccination for the covid 19 will continue to spread allowing the countries to have economies totally open, so in many countries like Europe, it will be the year that they come back to economic values pre- pandemics. The zero-covid policy of China could lead to a slower pace of its growth reducing the world economic growth. It is assumed that 2022 will be the year where the covid is surpassed and with the reduction of restrictive measures like a mask, that will allow some products of makeup to have a strong performance. My assumption is that the effect of covid will be residual so I would not take this in account in my forecasts.

The fourth assumption will be that L'Oréal will continue to have a strong performance due to the positive economic dynamic in regions like Asia, Latin America, the Middle East, and Africa that ensure constant growth for the firm and the industry.

To make the forecast the growth rates for each segment we use data from Statista and historical data. In the following chapters I will explain the growth in each business segments. In terms of geography distribution, the company change recently his geographic division so in this part will

be more summarised the focus on the revenue forecast is in the business segments. To distribute the revenues by region I gave growth rates to each region having in account forecast from IMF and Statista. The firm changed their geographical division in 2020 so is more complicated to have historical data about this region. In this way the forecast of revenues will have as base the business segments growth.

## Business Segments

### Skincare

Skincare is the most important segment of the beauty market representing 41% of the total sales. This is a segment that which the firm have a CAGR of 9,46% in the last ten years. This is a segment that will continue to have a strong growth in the future since the new generations and also men have more awareness of their health and beauty, so they are willing to spend more money on these types of products.

The main driver of growth will be the developing countries where the population have his income increased in the past years and have bigger rates of urbanization allowing the firm to reach more consumers. When we compare by geography, we see that Asia dominates the market representing 45% of the market. The country that contributes the most is China where a positive dynamic economic and demographic ensure that will continue to have a steady growth in the future in line with the projection of Statista. Other countries that will contribute to the growth will be Japan and India. The last one is due to the fact of the increase in disposable income and urbanization rates.

The firm will continue to lead the market in this segment due to its strong brand and strong R&D investment. In the year 2022, I forecast that the growth will be 11,34% already with the assumption of the war and inflation that go into the line of the market forecast according to Statista. In the years 2023 I used the historical growth rates of the last ten years (9,46%), in the years 2024-2025 the growth rates are 5%, and the growth rates for the remaining years will be constant and the value is 4% having the base of Statista forecast, own calculation, and assumptions.

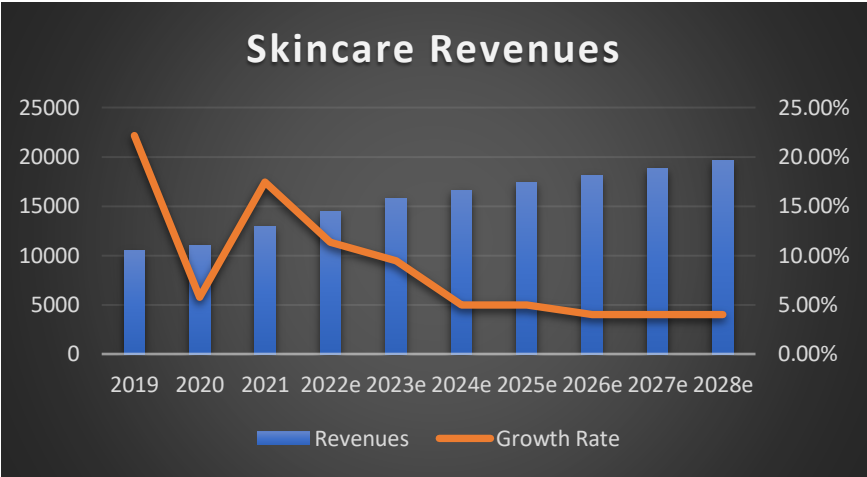


FIGURE 20:SKINCARE REVENUES FORECAST; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Make-up

Make-up was the business segment that suffers the most during the pandemic crisis. L'Oréal in 2021 doesn't recover yet the levels pre-pandemic. The year 2022 is expected as the year when the company and the market recover from the pandemic situation. In the forecast is indicated that the year 2022 will return to have values pre-pandemic. Some of the different segments in these areas are forecast to have extraordinary performance in 2022 the lipsticks are predicted to grow 65% this year, face products the growth is over 27%, the eyes and nails products will grow by more than 10%. The sale channels of this segment will change dramatically with online sales passing from 26,5% (2021) to 35,3% (2025) allowing the industry to improve its margins. These products will benefit from the lift-off of the covid restrictions.

The Asian region will be the main driver of growth in this segment representing almost 50% of the global sales, it is expected a CAGR of 7% vs 3,6% and 3,89% of Europe and North America respectively. Africa and South America will have good performance with a CAGR above 8%% but have little weight in the market.

So, in the year 2022, our forecast is that the revenues of L'Oréal in this section will grow 13,85% in the line with the Statista forecast. In the year 2023, I forecast a growth of 8% and in the remaining years a constant growth of 3,5% in the line with Statista forecasts.

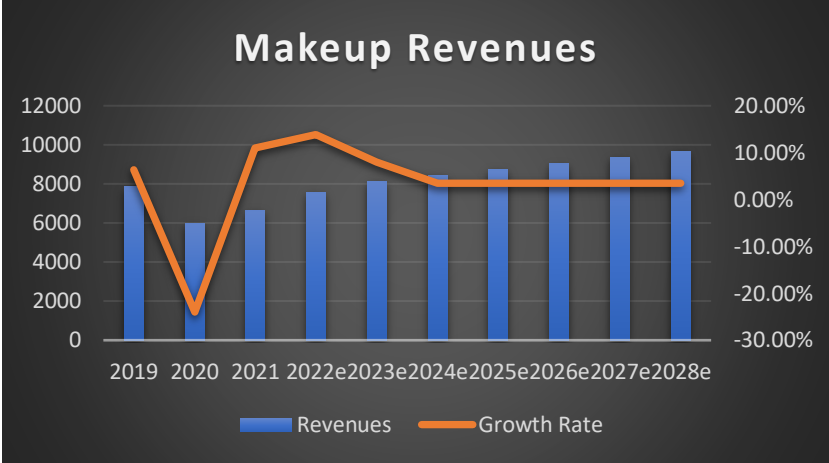


FIGURE 21: MAKEUP REVENUES FORECAST; SOURCE: L'ORÉAL AND OWN CALCULATIONS

Perfumes

This business section had a good performance in the last decade with a CAGR of 6,68%. This area had a tremendous growth last year with a growth of almost 39% while the market only grew by 3,9%. The company made an acquisition in this area but it was insignificant when we look at the growth in the area (representing 100 million in sales).

In this segment, the Asian region doesn't have such importance compared with the two before mentioned with Europe leading this segment by far. In terms of growth is expected a poor CAGR for Europe until 2026 by only 0,89%, instead, Asia is expected to grow annually by 3% until 2026, North America has a similar weight in the market as Asia they have an expected CAGR of 1,19% for the year 2022.

I forecast growth of approximately a third of 2021(11,18%). In the year 2023, I forecasted the growth in line with the last ten years (6,68%). In the remaining years, I put the growth rates closer to the market growth rates according to Statista (3%).

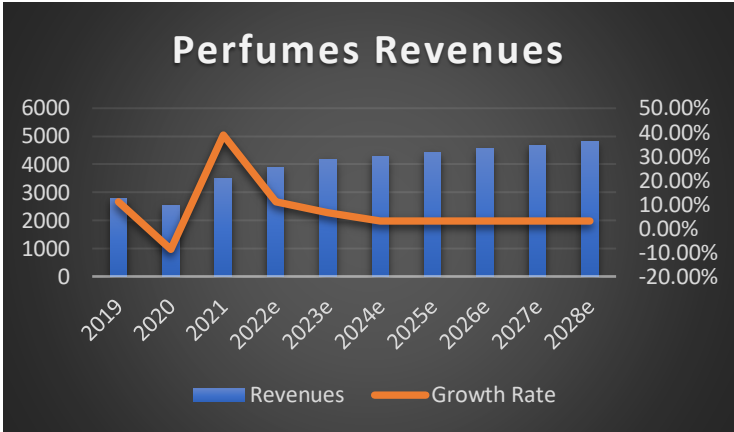


FIGURE 22: PERFUMES REVENUE FORECAST; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Hair

This is the segment that had the worst performance in the last ten years. This was a segment that was able to recover quickly from the covid effects but when we look to the last decade, we see a CAGR of 1,48%.

This segment can be divided into hair care and hair colour both having had modest performance in the last decade (1,86% and 0,89% of growth respectively). At the beginning of the decade was the most important business segment for the firm. Nowadays is the second but is a matters of years to be surpassed by the makeup.

So, in 2022, I forecast a growth of 7,4% in the line with the forecast for the industry, in the year 2023 I forecast a growth of 3% and for the remaining years, I use the CAGR of the last 10 years (1,48%). This market is expected to grow annually by 2,19 (CAGR 2022-2026). It is expectable that in the next two years the professional products improve the market performance.

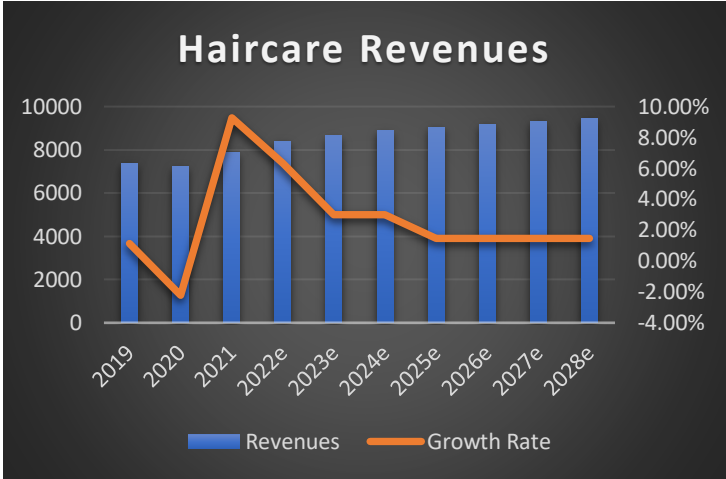


FIGURE 23: HAIRCARE REVENUES FORECAST; SOURCE: L'ORÉAL AND OWN CALCULATIONS

Total Revenues

In the total revenues, we have an average annual growth of 4,28% f % in these 7 years. I have to say that the growth rates that I mentioned before in the year 2022 were already adjusted with the assumption made before. In the other products business (hygiene products) segment, I forecast a constant growth equal to the last 10 years (3,2% annual). This strong growth forecasted for the firm is supported by the heavy investment of the firm in R&D and advertising and the positive trend of the industry ensuring that will continue to grow in the future.

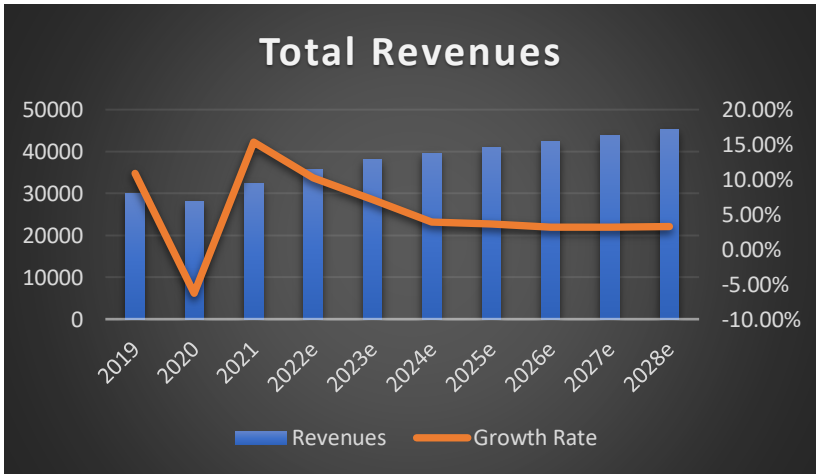


FIGURE 24: TOTAL REVENUES FORECAST; SOURCE: L'OREAL AND OWN CALCULATIONS

## Geography

### Europe

The main market for the firm is Europe representing 31,5% of the company's sales. This is a market that doesn't recover yet from the covid situation. Despite being the number one market for the firm, the beauty market only represents 22%. This is a mature market with a slower growth rate compared to regions around the globe. The firms benefit from being well-known and recognized in the market allowing them to sell all types of products to every range of income consumers. The forecasted revenue growth for this region is 1,52 in the next 5 years according to Statista. I forecast a 2.5% growth in this region for the firm's sales. We expected that this region will lose its first position as the main market to the firm.

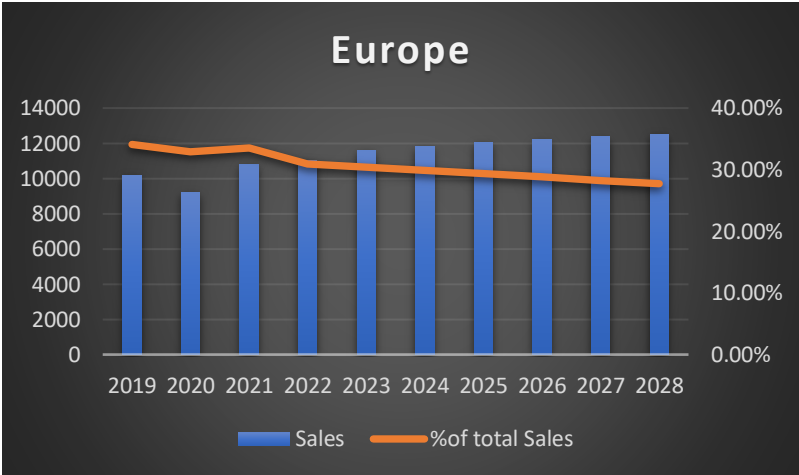


FIGURE 25:EUROPE SALES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

North Asia

This is the market that has been the main driver of growth in the industry. This was the only market where the company did not decrease the revenues in 2020 and continued with an extraordinary performance with a growth of 18,6% in 2021. This will be soon the main market of the firm as happens in the beauty market. The incredible economic dynamic that the region had in the last decades allowed to hundreds of million people to reach middle-income status allowing them to expand the range of products they can buy like beauty and personal care. This allied with an increased awareness of health and beauty issues allow this market to explode in the last decades. The company has a market share of 12%. During the years 2015-2019, the Asia pacific represent around 75% of the firm growth. I forecasted a 6% annual growth rate for this region

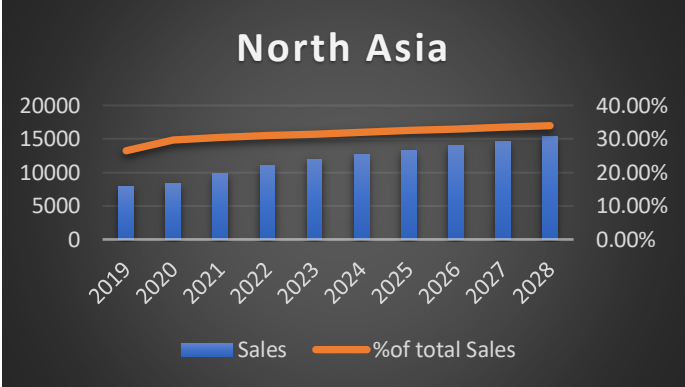


FIGURE 26:NORTH ASIA SALES;SOURCE: L'ORÉAL AND OWN CALCULATIONS

North America

In this market, we have the country with more importance in the global market- USA. This market represents 25,3% of the firm sales. This is also like Europe a mature market but has in the last years had a better growth compared with Europe. The period of 2015-2019 represents around 20% of firm growth is the second most important market in terms of growth. The company has a market share of 14%. In my forecast the firm' revenues growth 3% yearly.

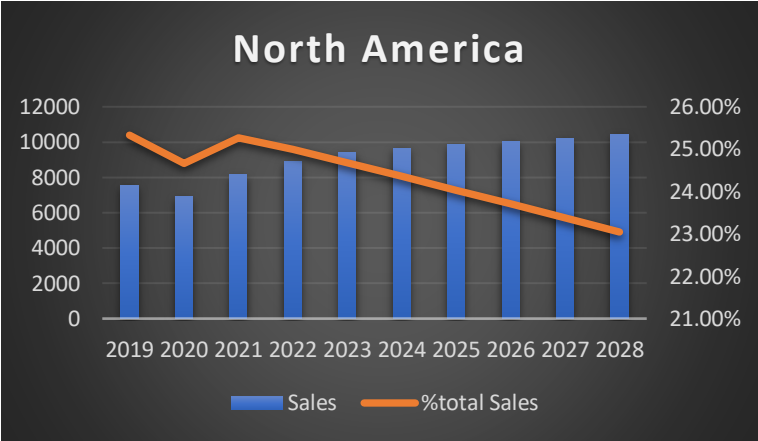


FIGURE 27:NORTH AMERICA SALES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

Latin America and Sapmena-SSA

Latin America and Sapmena-Sa are markets that have lower importance to the firm representing (5,5% and 7,2%) respectively. These are regions that don't have a good performance in the year 2015-2019 including the region of Latin America decreased its revenues. The firm is really investing in the future because these are the regions in the globe where is forecast a bigger growth in the future like Africa and South Asia. Sapmena-Sa is a new region created by the firm in 2020, this is due to the high expectations that the firm has for this region. When these regions follow the economic development in North Asia we will have similar growths, so the firm is establishing its brand for the moment that these economies increase their middle-income consumers. In this region, we have massive countries like India, Pakistan, and Bangladesh with many consumers, in this way, the firm will have more potential customers. The market share of the company in this market is 11% according to Statista. I forecast a growth of firm's growth for 6% in Latin America and 8% in Sapmena-SSA.



FIGURE 29.:LATIN AMERICA SALES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

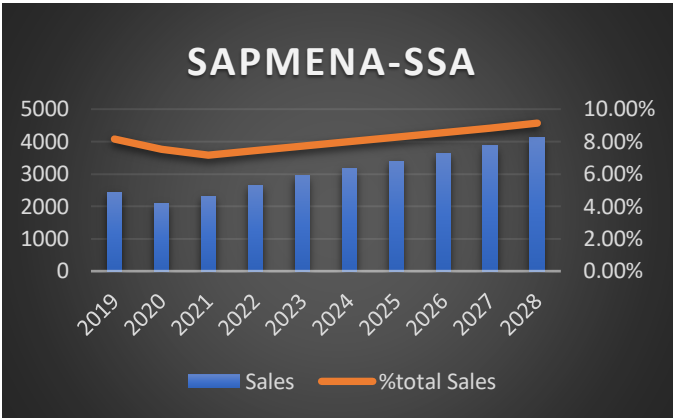


FIGURE 28:SAPMENA-SSA SALES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Operating Expenses

#### Cost of Sales

The firm was able to increase its gross margin over the years. The CAGR of COGS in the last decade was 2,5% vs 3,69% of revenues. The gross profit was 73,88% in 2021. If we compare with the peers we can see that the company is above the industry only surpass by Shiseido and Estee Lauder (74,6% and 76,4%) so the company still has space to improve.

When we compare the operating margin, we can see that the company surpasses the company before mentioned with 17,7% while Estee Lauder had 16,1% and Shiseido had a negative operation margin, only LVMH has a better performance but is a company present in more industries. So, we can see that the company still has space to improve these financial ratios in the future.

The company maintains a high investment in R&D allowing the increased productivity of the firm factories. In the last decade, the company was able to yearly increase 0,32% the gross margin. The company also take advantage of his dimension to have more bargaining power with supplier reducing their costs.

The war in Ukraine increase inflation worldwide with a bigger impact in Europe and North America where L'Oréal has 70% of production, so because of this, I forecast that in 2022 the gross margin profit will reduce by 1,1% returning to levels of 2018. In this case, the COGS will increase 14,9% in 2022 compared with the 10,3% of revenue increase because the firm will

have to assume a portion of the costs of inflation. In the years 2023 and 2024 is forecasted an increase in gross margin of 0,32% annually like in the past. During the years 2025-2027 will remain constant and in 2028 improves again by returning to the level of 2021.

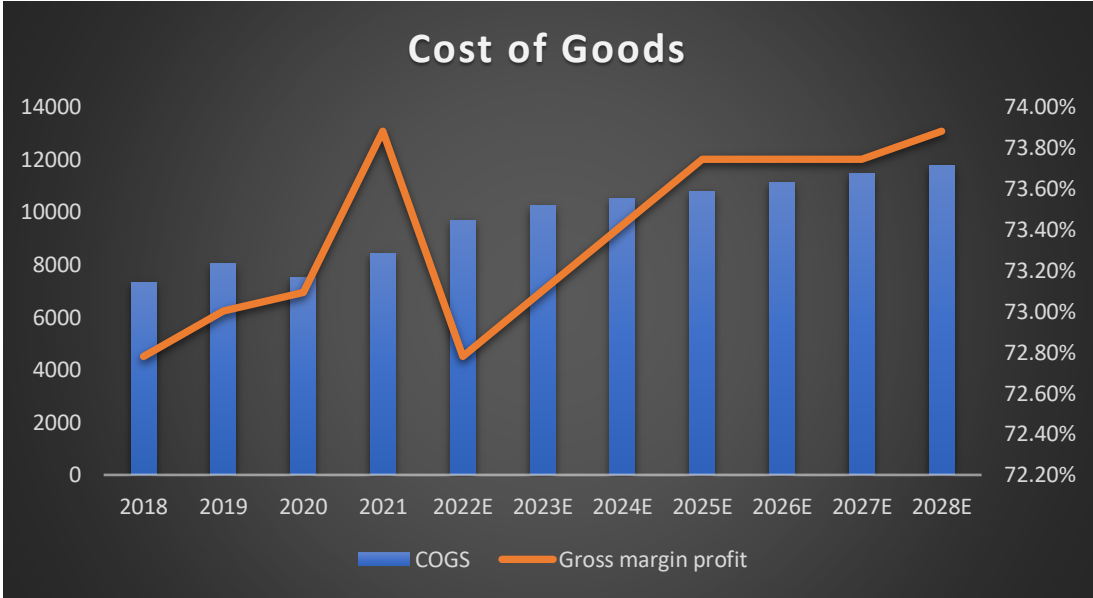


FIGURE 30:COGS AND GROSS MARGIN PROFIT%; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Selling, General, and Administrative (SG&A)

SGA represented 23% of the operating expenses in 2021. This section of expenses had a CAGR of 2,79% in the last decade. In 2021 reduced his weight in sales to 18,81%. This reduction was able because of the increase in e-commerce. In 2021 the online sales grew 25,7%, accounting for 28,9% of sales.

In the year of 2022 I believe that will have a increase in SGA because of the higher inflation with increase of 14% representing 19,50% of the sales

The company and industry are investing heavily in this new channel of sales to reduce its costs in the future. In the forecast, the SGA after 2022 will have a reduction at a rhythm of 0,17%(average yearly reduction in last decade) compared to sales remaining constant after the forecasted period.

The pandemic situation opens the minds of companies about the way the work is done allowing employees to do remote work, this hybrid way of work will allow companies to reduce the

costs. Associated to this with a bigger investment in becoming the firm more sustainable and technological will reduce the firm cost's in this area.

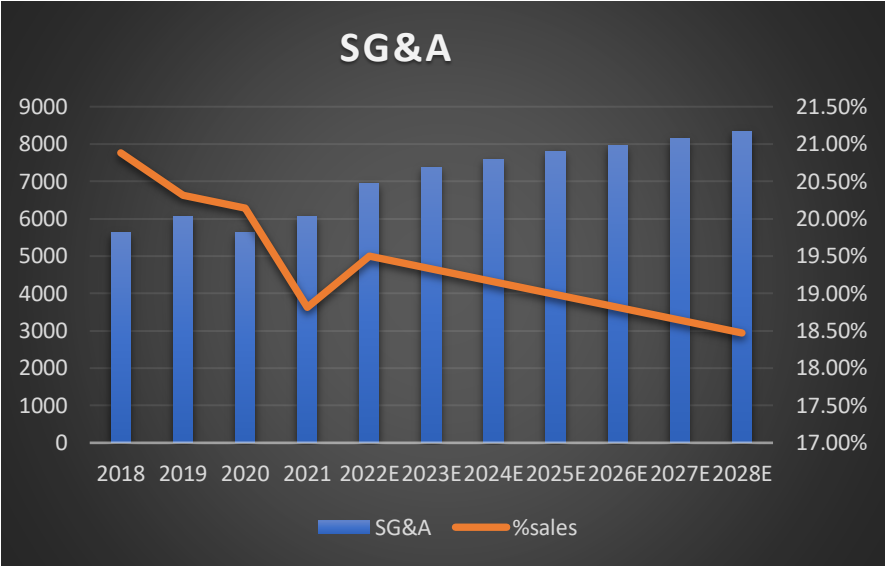


FIGURE 31: SGA AND % SHARE OF SALES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### R&D

This is one of the most important expenses of the firm because this industry is becoming much more competitive and the customers more demanding. The customers demand products with better and new features to satisfy their needs and also products that are eco-friendly. Last year the company spent over 1 billion euros. In an industry where the business segments demand more and more technology is essential that companies invest heavily in R&D to discover better ways to produce their products and also to create new products with advantages to compete in this market.

The firm filed 517 patents in 2021, has 20 cosmetic research labs and 13 assessment facilities around the globe, and has more than 4000 employees in this area. Despite in the last years have slightly reduced the weight in sales. I forecast that will remain constant and grow at the same pace as revenues. So, I forecast that will remain 3,19% of sales in the future.

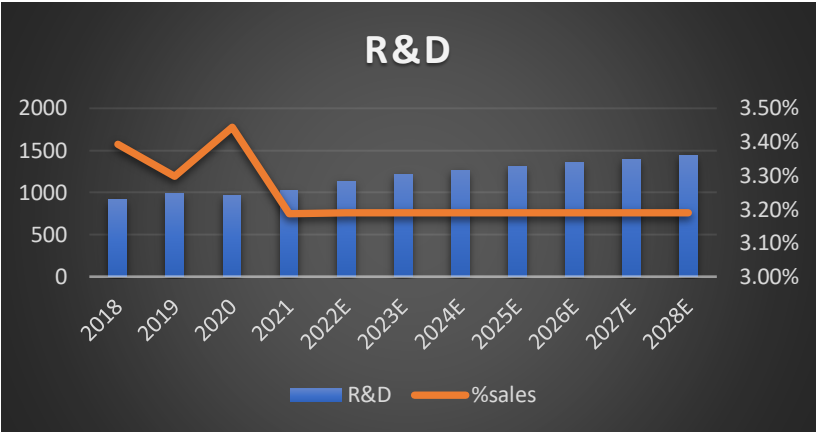


FIGURE 32:R&D EXPENSES AND SHARE% OF SALES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Advertising Expenses

The advertising expenses had a growth bigger than revenues in the last decade, representing almost 40% of operating expenses with a CAGR of 4,57%. The company is the fourth-largest advertiser in the world, it is essential this investment in marketing. During this pandemic crisis, the firm has to reallocate more resources to online marketing because there are most of its customers. During the pandemic period, online sales had a tremendous growth that is expected to continue in the future so because of that the company will have to invest more in social media advertisers and in digital influencers which will become more expensive in the future. In 2021 the costs in advertising represented 32,80% of sales the biggest ever. In the forecast, this percentage will remain constant because the firm needs to maintain this investment to don't lose market share. It is not expected a reduce this percentage because the increase in internet advertising will require more resources through the years and don't allow to company to be more efficient in these costs.

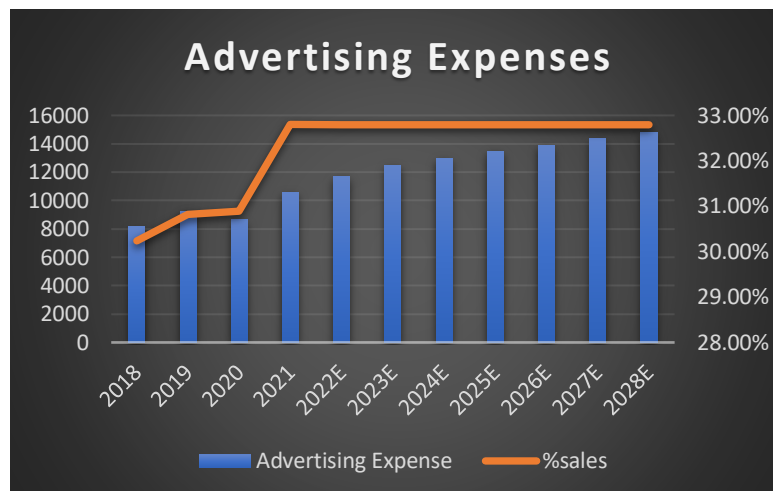


FIGURE 33: ADVERTISING EXPENSES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

## Working capital

In terms of working capital, we can see a CAGR of -3,83%. The working capital represents on average 8,36% of revenues. The company manage to improve its accounts receiving days passing from 54 days in 2018 to 45 days in 2021, which is better compared with the industry. This ratio increased due to the bigger importance of online sales in the firm and is expected to continue to improve in the future.

In the inventory turnover, the firm still has a better performance compared with the industry. The company turnover is inventory 2,89 times per year much better if we compare with Shiseido 1,68, LVMH 1,38 or Estee Lauder with 1,68 only surpassed by Beiedsford AG with 3,05 times. This means that the firm is more efficient at running its inventory, this could be explained by the strategy of the company where L'Oréal has more mass products compared with the others that have more luxury products. As mentioned before with the e-commerce increase and the new technology in logistics is expected that L'Oréal improve this ratio.

In terms of accounting payables days, the company was 234 days in 2021 showing that the company is doing good liquidity management.

In terms of working capital, it has decreased last year due to an increase in accounts payable. The working capital remains stable at around 8% of sales and this is the value we estimate for the next years (8,36%).

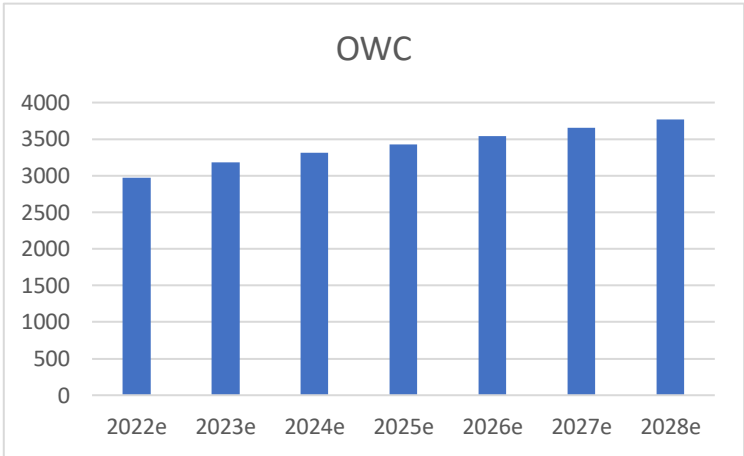


FIGURE 34:OWC ;SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Gross Intangible Assets and PP&E

The calculation of PP&E and Gross Intangible Assets are essential to then compute depreciation/amortization. The firm is one of the biggest producers in the beauty industry and has facilities around the world that are necessary for the growth of the company. The company as mentioned before allocated 3,19% of its revenues to R&D so is essential having a good PP&E. The company's average gross intangible assets and PP&E compared with sales was 54,34% in the last decade. The PP&E share of sales decreased almost 7% compared to sales last year so I forecast that it will remain constant in the future don't anticipate a bigger efficiency in the future after this decrease registered last year. To sum up I forecast that the gross Intangible Assets and PP&E will represent 54,34% of the sales in the next 7 years.

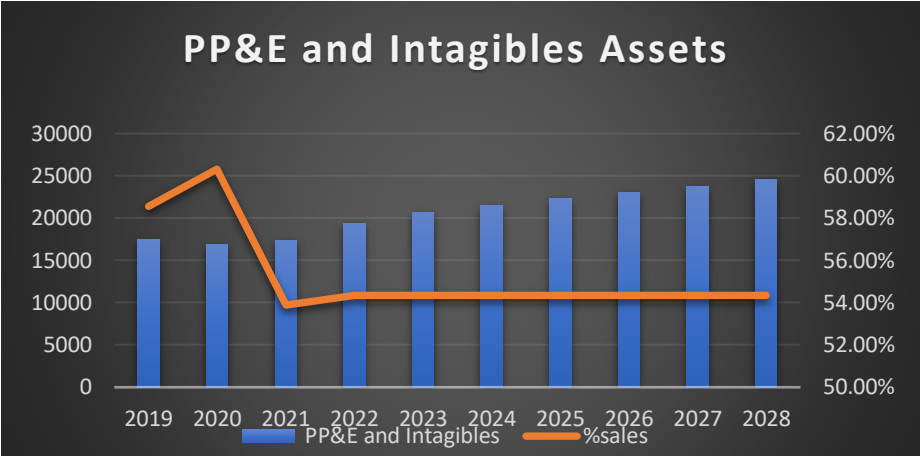


FIGURE 35:PP&E AND GROSS INTANGIBLES; SOURCE: L'ORÉAL AND OWN CALCULATIONS

### Depreciation and Amortization

The Depreciation and Amortization in the last decade have a average share in PP&E and Gross Intangibles Assets of 8,70%. So it is forecasted that will remain constant in the future with a value equal to the average of the last decade.

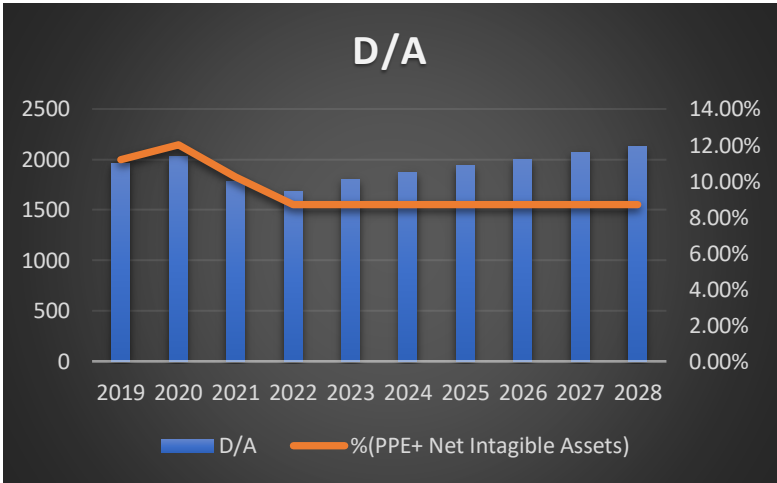


FIGURE 36:D/A AND %(PPE+INTANGIBLE ASSETS); SOURCE: L'ORÉAL AND OWN CALCULATIONS

## Capex

The Capex is the capital invested by the company that allow the company to continue to growth or maintain his business in new assets or repairing and maintain the existing assets. The company had a decrease of capex in the last years, more recently because of the pandemic situation but in the last decade have a Capex average of 8,22% of his PP&E. It is forecasted that after the company surpass covid will reinforce his investment so is expectable that in the future the be constant and equal to the average of the last decade(8,22% of the PP&E).

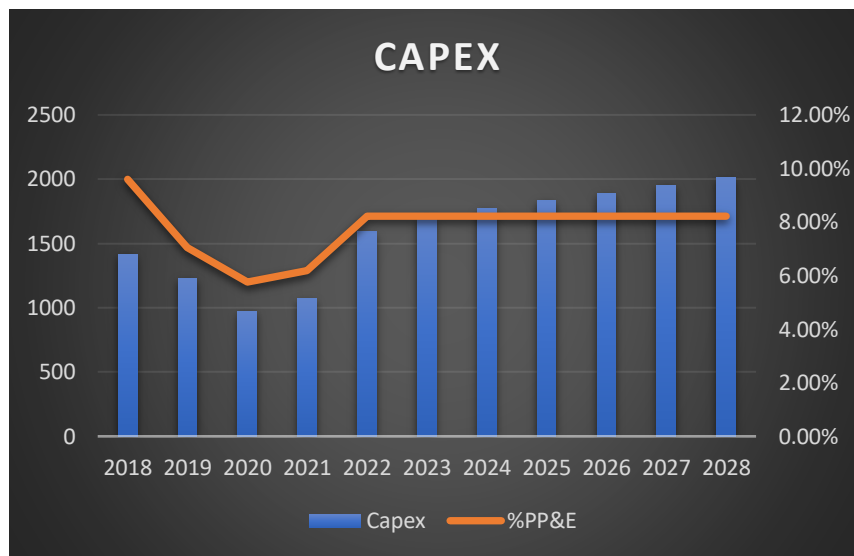


FIGURE 37: CAPEX AND %SALES; SOURCE:L'ORÉAL AND OWN CALCULATIONS

## Tax Rate

The firm tax rate had declined in the last three years passing from 30,62%(2019 to 23,90%(2022) , it is expected that will remain constant and in the values of the last fiscal year.

## Risk Free Rate

The firm is a European firm, so I used the German government bond of 10 years (0,941%)

## Cost of Debt

The French firm only start to issue bonds last year and don't have bonds with longer maturities and widely traded and liquid so I decided to getting the rating of the company by the company

interest coverage ratio and then converting in a spread . The company had last year a interest coverage ratio of 150,73 so have a rating of AAA like we can see in the appendix

Risk-free Rate	0,941%
AAA Spread	0,75%
Cost of Debt	2,53%

FIGURE 38:COST OF DEBT

### Cost of Equity

For the cost of capital as mentioned before in the Literature review we need to get the firm's beta. So I use the historical beta from Thomson Reuters and obtain a value of 0,75(I also did a linear regression to compute the beta and the value was 0,74 so I decided to use the beta from Thomson reuters) the risk free rate was the same as mention before. The equity risk premium was 5,16% to compute and the country risk premium was 0,91% to calculate both I use the database of Damodaran to extract the ERP and CRP. The database provide us regional ERP and CRP then I multiplied with a share of each region in the firm's sales. where this value was based on the weight of the regions where L'Oréal is present. More information on the Appendix.

Beta	0,75
Risk-free rate	0,941%
Risk premium	5,16%
country risk premium	0,91%
Cost of equity	5,73%

FIGURE 39:COST OF EQUITY

### WACC

The WACC have the result of 5,58%. The capital structure of the firm is 96,62% of equity and 3,38% of debt.

Total debt	6300
Market equity	186270
weight of debt	3,38%
weight of equity	96,62%
cost of equity	5,73%
cost of Debt	1,69%
Tax rate	23,90%
WACC	5,58%

FIGURE 40:WACC

### Terminal Growth Rate

To find the growth rate we calculated the worldwide economic growth with the weight of the specific regions in the firm sales using data from Statista of the year of 2026. The final result was 2,66%, with this result we believe that the firm can have a real perpetuity growth of 2,16% because is in an industry that have a positive dynamic with the reaching of new markets. Assuming a worldwide inflation of 2026 of 3,12%, I forecast a nominal growth of 2,23%. The calculations are in appendix.

### Additional Items

In the additional items we consider the minority interest that is adjusted with the peers Price-Book Ratio.

### Equity Value

After all these calculations is possible to retrieve the forecasted share price of the DCF calculations. In the DCF model we have a share price of 411,82€.

EV	224836,9
Minority Interests	-36,6428
Net Debt	4477
equity	217772,2
nr shares	535
Final Price	411,82

FIGURE 41:FINAL DCF PRICE

### Sensitivity Analysis

A DCF valuation is dependent on many assumptions, so the result is very sensitive to these assumptions. A small difference in these assumptions will have a great impact on the valuation of the share price.

In this way to make the model more accurate I defined a range of share prices. To make a range of prices I did a sensitivity analysis where is forecasted different values for WACC and terminal Growth value. These were the factors selected because are the factors that have more impact in the final share price where small changes will have a large impact on the final price. So in the end we get a range price between 371,68€ and 462,75€ on the L'Oréal share price.

		WACC				
	411,8192	5,18%	5,38%	5,58%	5,78%	5,98%
Nominal GDP Growth	1,83%	411,07	390,12	371,38	354,50	339,21
	2,03%	435,05	411,44	390,46	371,68	354,77
	2,23%	462,27	435,47	411,82	390,80	371,99
	2,43%	493,46	462,75	435,89	412,20	391,15
	2,63%	529,53	493,99	463,22	436,32	412,59

FIGURE 42:SENSITIVITY ANALYSIS

### Scenario Analysis

In the previous chapter it was mentioned that a slight adjusts in key inputs like WACC and terminal growth rate. In this section we will see the difference of share price for different situations. In the first scenario I will analyse the effect of the war in two scenarios. The first one is if the war end soon like one month, and the other extreme if the sanctions increase to Russia damaging more the world economy. In this situation I think the effects will be larger in COGS. So in the pessimistic situation I will increase Cogs in 10% in pessimistic situation and decrease 3% in optimistic.

Pessimistic	Normal	Optimistic
10%	0%	3%
386	412	430

FIGURE 43:SCENARIO ANALYSIS

The second scenario is relating to the tax rate. I estimated a tax rate at 23,90%, the result of 2022 ( the second lowest in the last decade). I will consider the tax rates in the pessimistic a tax rate of 28,25% and in the optimistic 19,06% (the lowest tax rate the company have in this decade).

Pessimistic	Normal	Optimistic
28,25%	23,90%	19,30%
388	412	436

FIGURE 44:SCENARIO ANALYSIS

### Multiples

Relative Valuation is seen in the field as a good complementary method to improve the accuracy of the final valuation. This will improve our valuation that has the DCF as the main method. The final goal is to get to a range of share prices to validate the final model, so we will do a multiples valuation.

## Peer Group

The first thing to do is to create a peer group. The base of the peer group is based on the L'Oréal report that considers the following companies as the main players in the cosmetic industry: Unilever, Estée Lauder, Procter & Gamble, Shiseido, L Brands, Natura & Co, Beiersdorf, LVMH and Chanel. In this group, we will remove Chanel because is a private company and, it is more complicated to get access to financial information. To create a final peer group will have into account these factors: growth, profitability, D/E, size, and Business markets-which every firm belongs to this market, (the factors have different importance with growth and profitability having bigger importance). In the part of the growth, we analyse the average growth in the past 5 years, we decided to extend the period because of the pandemic situation and many firms don't recover yet or have last year an unusual growth which could bias the selection. In the profitability, we use EBIT margin and ROA to analyse the financial performance of the firms. The other factors we use are D/E and market capitalization.

Identifier (RIC)	Company Name	Revenue 5 YR Hist Growth	EBIT Margin, Percent (FY0)	D/E	ROA Total Assets, Percent (FY0)	Company Market Capitalization (usd)
OREP.PA	L'Oreal SA	5,83	19,1%	26,7%	10,6%	194 816 679 434,11
BEIG.DE	Beiersdorf AG	16,45	13,9%	2,0%	6,1%	25 848 627 951,50
HNKG_p.DE	Henkel AG & Co KG	0,90	13,5%	17,5%	5,2%	28 705 780 922,94
RKT.L	Reckitt Benckiser G	6,26%	21,6%	129,2%	-0,2%	55 630 850 225,16
LVMH.PA	LVMH Moët Henne	10,03	26,7%	73,1%	10,9%	331 028 903 666,67
EL	Estee Lauder Comp	9,66	18,7%	91,9%	14,5%	91 377 469 300,40
4911.T	Shiseido Co Ltd	0,95	4,0%	35,4%	3,8%	18 550 542 367,55
PG	Procter & Gamble C	-1,42	24,0%	69,0%	12,0%	383 383 642 223,39
BBWI.K	Bath & Body Works	-2,03	25,6%	N/A	12,2%	12 618 501 931,75
NTCO3.SA	Natura & Co Holdir	41,41	6,5%	57,0%	1,9%	10 990 225 260,47

FIGURE 45: PEER GROUP

After analysing the firms with more similarities with L'Oréal we reach the final peer group: Reckitt, LVMH, and Estee Lauder. We eliminate most of the companies because don't have the same pace of growth (the most important factor) compared to L'Oréal and these companies have similar Ebit Margins so we decided to pick these three companies. We choose 4 multiple P/E, EV/Ebit, P/Sale, and P/book we selected these multiples because are the most used in the industry. All multiples were used from the Thomson Reuters Eikon.

Companies	PER	EV/EBIT	P/Sales	P/book
L'Oreal SA	41,4	25,868	7,2	7,17
Reckitt Benckiser Group PLC	39,4	16,244	3,42	6,11
LVMH Moët Hennessy Louis Vuitton SE	25,8	16,244	8,41	6
Estee Lauder Companies Inc	29,3	23,864	5,7	13,98

FIGURE 46: PEER PRICES

Price Share-L'Oréal adjusted to peer average	Multiple
225,15521	EV/EBIT
279,954	PER
373,12254	P/S
366,57493	P/B

FIGURE 47: MULTIPLES PRICES

The multiples price range goes between 226,15 to 373,12. We can see that the EV/Ebit and P/E have a reduce value compared the actual share price, P/S and P/B are slightly above the market share price.

## Investment Note

The two valuation models approaches give us different values with DCF 407€ and in the multiples 311 (average of the four models). The DCF model used historical data and after the incredible year of 2021 and a good prospect of growth in the emerging markets, it is possible that inflate the share price of L'Oréal so because of that I will give some importance to multiple model. The DCF is a much more complex model and because of that is more accurate.

Models	Price	Weight
DCF	411,82	90%
Multiples	311,20	10%
Final Price	401,76	100%

FIGURE 48:FINAL PRICE

The final target price in the forecast is 401,76€. If we compare with the actual price of 350€ (19/04/2022) is a possible valuation of 14,8% which will outperform the market. It is estimated that reach this price in one/two years, depending on the evolution of war in Ukraine.

To sum up my analysis holds a BUY recommendation.

## Comparison With the Investment Report

To conclude the valuation process of L'Oréal in this dissertation, I will compare it with the investment report of JP Morgan published on 14 January 2021. In this report, the target price is 435€, and the current price of 379,4€ (14/01/2022). So we can see a target price is 8,5% above my target price. The bank has a rating of overweight like my recommendation.

They justified this value with a forecast of 2022/2023 that they believed that L'Oréal would continue with an outstanding performance. They project the same revenue growth as I do. My forecast already included some effects from the war in Ukraine and why the gross margin of JP Morgan is bigger than in my dissertation 74,2% vs 72,8% of mine because I already put some impacts of inflation as the result of the war. This is the main difference compared with my forecast.

To sum up, the investment report from JP Morgan is more optimistic than mine, but at the time they made this report they did not know about the situation that will happen in Ukraine and that the inflation will continue to rise affecting the world economy.

## Conclusion

The goal of the dissertation was to estimate the share price of L'Oréal Paris, the world leader in the beauty market. The dissertation starts with the literature review where is explained the methods used for estimating the value of L'Oréal share price.

The models used were DCF and Multiples (Relative Valuation). The main model that represents 90% of the final price was DCF because it is a more complex model with more variables and more accurate than multiples, so the relative valuation serve as a complement with 10% for the final price.

The values from both models were very different with DCF with 412€ compared 311€ of multiples valuation. The target price that i reach was 401,76€. My estimation is lower than the JP Morgan investment report.

I think the main difference was the fact that the investment report produced by JP Morgan was before the war, making this the biggest factor that differs my report from the investment bank.

The industry has a positive dynamic but is not consensual the speed of growth in the future. This is an industry that will relies on his growth in the development countries that will play a bigger role in this industry

My final investment recommendation if to buy the L'Oréal Paris share.

## Appendix

### Appendix 1-Capex

Column1	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Capex	955	1018,8	1008,2	1132,1	1334,9	1263,5	1416,1	1231	972,4	1075,2
%sales	4,25%	4,60%	4,47%	4,66%	5,36%	4,86%	5,26%	4,12%	3,47%	3,33%

FIGURE 49-CAPEX

### Appendix 2-FCFF

	2022	2023	2024	2025	2026	2027	2028
FCFF	6111,592	8130,071	8773,805722	9331,45	9737,926	10152,01	10585,2
PV	5655,211	6961,186	6951,386159	6841,117	6606,004	6372,634	190165,3

FIGURE 50:FCFF

### Appendix 3-Growth Rate

G-Real	2,16%
Inflation	3,12%
G-Nominal	2,23%

$$G\text{-nominal}=G\text{-Real}(1+\text{inflation})$$

## Appendix 4

L'Oréal million	(€)										Average
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
OWC	2002	1905	2213	2288	2645	2414	2379	2381	1659	1355	
%Sales	8,91%	8,61%	9,82%	9,42%	10,62%	9,28%	8,83%	7,97%	5,93%	4,20%	8,36%
Total Receivables, Net	3 209	3 023	3 298	3 628	3 942	3 923	3 983	4 087	3 511	4 021	
Total Inventory	2 034	2 085	2 263	2 441	2 699	2 495	2 822	2 921	2 676	3 167	
Prepaid Expenses	234	225	272	300	312	296	339	366	452	504	
Accounts Payable	3 318	3 250	3 453	3 929	4 135	4 141	4 550	4 658	4 765	6 068	
Accrued Expenses											
Income Taxes Payable	157	178	167	152	173	159	215	335	215	269	

FIGURE 51:OWC

## Appendix 5- Interest Rates Ratings

For developed market firms with market cap > \$5 billion			
If interest coverage ratio is			
>	≤ to	Rating is	Spread is
-100000	0.199999	D2/D	19.38%
0.2	0.649999	C2/C	14.54%
0.65	0.799999	Ca2/CC	11.08%
0.8	1.249999	Caa/CCC	9.00%
1.25	1.499999	B3/B-	6.60%
1.5	1.749999	B2/B	5.40%
1.75	1.999999	B1/B+	4.50%
2	2.249999	Ba2/BB	3.60%
2.25	2.499999	Ba1/BB+	3.00%
2.5	2.999999	Baa2/BBB	2.00%
3	4.249999	A3/A-	1.56%
4.25	5.499999	A2/A	1.38%
5.5	6.499999	A1/A+	1.25%
6.5	8.499999	Aa2/AA	1.00%
8.50	100000	Aaa/AAA	0.75%

FIGURE 52:DAMODARAN INTEREST RATES RATINGS

## Appendix 6-FCFF Calculation

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
EBIT	4826	5111	4500	5729	5678	6268	6711	7155	7457	7772	8162
Nopat	3631	3546	3360	4360	4321	4770	5107	5445	5675	5914	6211
Capex	-	-	-	-	-	-	-	-	-	-	-
	1416	1231	-972	1075	1590	1703	1770	1834	1892	1953	2016
NWC	-35	2	-722	-304	1620	211	126	120	110	114	118
D/A	1109	1958	2028	1781	1682	1801	1872	1940	2002	2066	2133
FCFF	3289	4275	3694	4762	6033	5080	5335	5671	5894	6141	6446

FIGURE 53:FCFF CALCULATION

## Appendix 6-CRP Calculation

Region	Weight in sales	countries/Regions	%of the GDP-World	country risk premium	Average CRP
Europe	31,50%	western Europe	21,65%	0,72%	0,60%
		eastern Europe	4,51%	1,82%	0,31%
					0,29%
North Asia	30,50%	China	17,8	0,70%	0,54%
		Japan	5,38	0,70%	0,16%
					0,21%
North America	25,30%	North america		0,00%	0,00%
Latin America	5,50%	Latin America		3,79%	0,00%
					0,21%
Sapmena-Sa	7,20%	India	3,1	2,18%	0,80%
		Africa	2,45	5,25%	1,52%
		Middle East	2,94	1,60%	0,55%
		Australia &NZ	0	0,00%	0,00%
<b>Total CRP</b>				<b>Weighted Average</b>	<b>0,915%</b>

FIGURE 54:CRP

## Appendix 8-ERP Calculation

Region	Weight in sales	Countries/Regions	ERP	wheight of gdp	%	Average ERP	Final
North Asia	30,50%		4,94%				1,5067%
		China	4,94%				
		Japan	4,94%				
Sapmena- SSA	7,20%						0,4606%
		India	6,42%	3,10%	30,01%	0,019266	
		Australia & NZ	4,24%	1,84%	17,81%	0,007552	
		Africa & Middle East	7,12%	5,39%	52,18%	0,037151	
						6,40%	
North America	25,30%	North America	4,24%				1,0727%
Europe	31,50%						1,6666%
		Western Europe	5,07%	21,65%	82,76%	4,20%	
		Eastern Europe	6,35%	4,51%	17,24%	1,09%	
						5,29%	
Latin America	5,50%	Latin America	8,20%				0,4510%
Total ERP							5,16%

FIGURE 55:ERP

## Appendix 10- Forecast Balance Sheet

Equity	2018	2019	2020	2021	2022	2023	2024	2025
Common Stock, Total	112	112	112	112	112	112	112	112
Additional Paid-In Capital	3 070	3 130	3 260	3 266	3 331	3 266	3 266	3 266
Other Reserves		16 931	18 643	18 092	17 944	19 713	21 038	22 369
Treasury Stock - Common	(57)	0	0	(8 940)	(7 440)	(6 440)	(5 440)	(4 440)
Net Profit attributable to owners of the company		3 750	3 563	4 597	4 559,497	5 008,895	5 345,549	5 683,802
Other Equity, Total	3 955	5 497	3 415	5 460	5 460	5 733	5 460	5 460
Translation Adjustment	(287)	(99)	(889)	(279)				
Other Equity	0	--	--					
Non controlling	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Total Equity	26 928	29 419	28 993	23 586	23 962	27 388	29 776	32 446
Liabilities (€ Millions)	2018	2019	2020	2021	2022	2023	2024	2025
Accounts Payable	4 550	4 658	4 765	6 068	5 350	5 376	5 537	5 870
Loans and notes payable	1 227	1 249	1 243	5 043	4 002	3 592	2 642	1 691
Notes Payable/Short Term Debt	1 112	738	768	2 626				
Current Port. of LT Debt/Capital Leases								
Other Current liabilities, Total	115	511	475	2 417				
Income Taxes Payable	4 334	4 961	5 122	5 473	6 051	5 718	5 944	6 158
Other Payables	215	335	215	269	239	269	269	269
Other Current Liabilities	2 713	3 150	3 163	3 341				
Total Current Liabilities	1 406	1 477	1 744	1 863	2 063	1 863	1 863	1 863
Total Long Term Debt	10 112	10 869	11 130	16 583	15 494	14 687	14 123	13 719
Deferred Income Tax	14	1 638	1 303	1 258	1 445	1 636	1 636	1 319
Minority Interest	674	738	707	810	891	980	1 029	1 132
Other Liabilities, Total	5	7	6	7	7	7	7	7
Total Liabilities	725	1 140	1 468	769	879	888	897	906
	11 529	14 391	14 614	19 428	18 716	18 198	17 692	17 083
				19 420				
Total Equity and Liabilities	38 457	43 810	43 607	43 014	42 678	45 586	47 468	49 529
Assets	2018	2019	2020	2021	2022	2023	2024	2025
Cash and Short Term Investments						2	3	
Accounts Receivable - Trade, Net	4 015	5 309	6 413	2 719	1 768	938,250	742,250	4 457,250
Total Inventory	3 983	4 087	3 511	4 021	4 682	4 795	4 965	5 164
Prepaid Expenses	2 822	2 921	2 676	3 167	3 343	3 444,96	3 552,759	3 694,8692
Other Current Assets	339	366	452	504	539	591	600	610
Total Current Assets	530	470	635	822	470	522	822	822
PP&E Net	12 466	13 917	14 560	12 076	10 802	12 292	13 683	14 748
Goodwill, Net	6 712	8 701	8 107	8 237	10 128	10 847	11 274	11 681
Long Term Investments	9 597	9 586	10 514	11 075	10 853,5	11 179,11	11 212,64	11 515,384
Other Long Term Assets, Total	9 007	10 701	9 501	10 795	10 295	10 572,97	10 601,51	10 887,753
Total Assets	573	777	810	696	600	696	696	696
	38 458	43 810	43 607	43 013	42 678	45 586	47 468	49 529

FIGURE 56: BALANCE SHEET

## Appendix 11- Forecasted of Income Statement

Income Statement	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Revenue	29 874	27 992	32 288	35 597	38 122	39 626	41 056	42 371	43 733	45 142
COGS	8 065	7 532	8 433	9 689	254	532	780	125	483	790
Gross Profit	21 809	20 460	23 854	25 907	27 868	29 094	30 276	31 246	32 250	33 352
Selling/General/Admin. Expenses, Total	15 276	14 286	16 665	19 753	21 089	21 852	22 571	23 221	23 892	24 585
Selling/General/Administrative Expense	6 068	5 639	6 074	6 941	7 368	7 591	7 795	7 972	8 153	8 338
Advertising Expense	9 208	8 648	10 591	11676	12504	12997	13466	13898	14344	14806
Research & Development	985	964	1 029	1 136	1 216	1 264	1 310	1 352	1 395	1 440
Other operating Expenses	437	709	432	477	511	531	550	568	586	605
Total Operating Expense	24 763	23 492	26 559	20 230	21 599	22 383	23 121	23 789	24 478	25 189
Operating Income/EBIT	5 111	4 500	5 728	5 678	6 268	6 711	7 155	7 457	7 772	8 162
Interest Expense, Net Non- Operating	(75)	(79)	(38)	(38)	(38)	(38)	(38)	(38)	(38)	(38)
Interest/Invest Income - Non- Operating	392	392	397	397	397	397	397	397	397	397
Interest Income - Non- Operating	29	20	19	19	19	19	19	19	19	19
Investment Income - Non- Operating	363	372	378	378	378	378	378	378	378	378
Interest Income(Exp), Net Non- Operating	--	--	0							
Other, Net	(16)	(37)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)
Net Income Before Taxes	5 411	4 777	6 047	5 997	6 587	7 030	7 474	7 776	8 091	8 481
Provision for Income Taxes	1 657	1 210	1 445	1 433	1 574	1 680	1 786	1 858	1 934	2 027
Net Income After Taxes	3 754	3 567	4 602	4 563	5 013	5 350	5 688	5 918	6 157	6 454
Minority Interest	(5)	(4)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Equity In Affiliates	1	1	1	1	1	1	1	1	1	1
Net Income	3 750	3 563	4 597	4 559	5 009	5 346	5 684	5 914	6 153	6 450

FIGURE 57: INCOME STATEMENT

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