

L'ORÉAL (ENXTPA: OR) 1H17 Results: Robust Growth Despite a Second-Quarter Slowdown

Figure 1. L'Oréal 1H17 Results

	1H17	1H16	YoY Change
Revenues (EUR Mil.)	€13,412	€12,496	7.3%
Gross Margin	71.8	72.4	(59.7) bps
SG&A/Sales	52.9	53.3	(37.2) bps
Operating Margin	18.9	19.1	(22.5) bps
Diluted EPS (EUR)	€3.88	€3.63	6.9%

2016 figures exclude the now-divested The Body Shop.

Source: Company reports/FGRT

- **Cosmetics giant L'Oréal grew 1H17 sales by 7.3% year over year, once we exclude figures for the now-divested The Body Shop from the 2016 total. However, revenues missed expectations.**
- **Comparable sales growth was solid in North America and Western Europe and strong in the Asia-Pacific region due to a bounce back for L'Oréal Luxe in China.**
- **Diluted EPS beat expectations.**

1H17 Results

L'Oréal reported 7.3% total year-over-year revenue growth for 1H17, once we strip out 2016 figures for The Body Shop, which has now been sold. Including The Body Shop, total revenues were up 4.0%.

The company grew revenues by 4.3% in the first half at constant exchange rates and on a comparable-structure basis. Revenues of €13.41 billion missed consensus expectations of €13.78 billion.

Total 2Q17 revenue growth came in at 3.5%, a sequential slowing from the very strong, 7.5% increase reported for 1Q17, which the company said was "extremely atypical."

The company's gross margin was down due to the impact of exchange rates. Total selling, general and administrative (SG&A) expenses grew by 6.6%, which translated into a decline in the SG&A ratio. Operating profit climbed 6.1%, equating to a slight erosion of margin.

Despite the revenue miss, diluted EPS of €3.88 came in marginally ahead of analysts' expectation of €3.84.

Net Revenues by Division

L'Oréal Luxe enjoyed strong growth in the Asia-Pacific region, helped by a rebound in China. It also saw strong demand in the UK and Spain.

North America drove growth in the Active Cosmetics division, helped by the integration of CeraVe, which was acquired in January.

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Figure 2. L'Oréal 1H17 Revenue Growth, by Division

	Comparable Growth	Reported Growth
Professional Products	(0.7)%	0.9%
Consumer Products	1.9%	3.8%
L'Oréal Luxe	10.5%	15.4%
Active Cosmetics	4.6%	11.1%
Group Total	4.3%	7.3%

Source: Company reports

Net Revenues by Region

With the exception of Africa and the Middle East, the company reported solid growth across all regions, excluding currency effects:

- In Western Europe, L'Oréal cited "difficult market conditions" in France, but noted sustained growth in the UK, Germany and Spain.
- In North America, L'Oréal claimed that it won market share in a mass-market sector that was slowing "very substantially."
- In China, L'Oréal Luxe grew strongly. Sales in India were impacted by destocking ahead of the introduction of a new sales tax.
- The Brazilian market proved difficult.
- Africa and the Middle East saw a sharp downturn, and the company noted the situation was "very difficult" in Saudi Arabia.

Figure 3. L'Oréal 1H17 Revenue Growth, by Region

	Comparable Growth	Reported Growth
Western Europe	3.0%	1.6%
North America	3.1%	10.5%
New Markets	6.2%	9.9%
- Asia, Pacific	8.1%	9.4%
- Latin America	5.9%	14.1%
- Eastern Europe	9.4%	17.4%
- Africa, Middle East	(13.2)%	(10.9)%
Group Total	4.3%	7.3%

Source: Company reports

Outlook

Chairman and CEO Jean-Paul Agon said that he remains confident that L'Oréal will "again outperform the cosmetics market in 2017 and...achieve growth in both [its] sales and profits." The sale of The Body Shop will have an accretive effect on profitability, Agon said. No numerical guidance was provided.

Based on data collated before today's results announcement, analysts expect L'Oréal to grow total revenues by 5.7% and EBIT by 7.9% in FY17. Consensus calls for diluted EPS to rise to €6.91 in FY17 from €6.46 in the prior year.



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