



JEAN-PAUL AGON

Chairman and CEO of L'Oréal

Thierry DE MONTBRIAL

First of all, I would like to thank Jean-Paul Agon for joining us today, which required a huge effort. He is making the round trip from Paris in a day and leaves tonight to China.

As an introduction, I would like to point out that after talking with you about marketing, I can say that Jean-Paul Agon is above all a marketing man.

Jean-Paul AGON

Nobody is perfect.

Thierry DE MONTBRIAL

You told me something, but I don't believe you: you said you didn't understand a thing about finance.

Jean-Paul AGON

Nothing at all.

Thierry DE MONTBRIAL

I find that odd. We talked about the question of branding. I think everyone here knows the brand L'Oréal pretty well, but what impressed me the most is your brand in China. You don't use or translate the name "L'Oréal" into Chinese; instead it is described as the idea of Western beauty or elegance. As there are some Chinese people in this room, maybe you could say it in Chinese.

Jean-Paul AGON

I hope they can confirm this. Indeed, what I find interesting in China is that you cannot use your brand's name in a Western language, you need to translate it into ideograms and you need to choose them to express your brand's concept while using phonetics that make sense. So in Chinese, L'Oréal is called 巴黎 欧莱雅, "pali olaya", which according to what I was told, means "Western beauty and elegance". "Pali" is actually "Paris", so that's something.

Thierry DE MONTBRIAL

So it expresses the idea of Western culture but also of a certain French pride.

Jean-Paul AGON

Yes, "Pali" is Paris and Paris is France. That is part of the success of our brand in China, it's the first beauty brand among Chinese women. It's interesting because you talked a lot about geopolitical differences and confrontations, etc. But something unifies all people: it's L'Oréal because L'Oréal is the first beauty brand among American women, Chinese women, Russian women, French women... So at least when it comes to beauty and L'Oréal, everybody agrees.

Thierry DE MONTBRIAL

That's what I call success.

How many L'Oréal customers are there out of the 7 billion people on this earth?

From the audience



2 billion.

Thierry DE MONTBRIAL

Almost. Who said that? It must be someone who knows about the industry.

From the audience

14 billion.

Thierry DE MONTBRIAL

Well either way, it's in billion.

Jean-Paul AGON

Yes indeed. When you are the first global beauty supplier, by definition you reach all women in the world. We haven't reached all of them yet but we count about 1 to 1.5 billion customers in the world. And they are well-spread because L'Oréal is present in Western Europe, North America, Asia, in the Middle East, in Eastern Europe... The only continent we have yet to reach is Africa, and by the way it is going to be very interesting in the upcoming years because that is our next challenge.

Thierry de MONTBRIAL

Another point which struck me in our preliminary discussions is that you told me that first, there is a distinction that perhaps should be made between a global and an international company. That is one point that I think could be clarified. The other point which struck me is the idea that for L'Oréal at least, the geopolitical turbulences do not matter so much, unlike many other industrial sectors, typically automotive industry and of course, the aircraft business. I think this is something that we would like you to clarify a little further.

Jean-Paul AGON

Okay. The first question is: what is the difference between an international company and a global company? I think very simply, a global company goes beyond international, which means that it is one step beyond. An international company is a company that is based somewhere and sells its products everywhere in the world. A global company is a company that is already based everywhere in the world. However, if I may, I would like to say that I think L'Oréal is even at a third stage, that personally I call the "universal company", which means that we want to be the company for everyone, everywhere in the world, for every consumer everywhere in the world. It means that, and it is a strategy that we have called "universalisation", we want to be global, while respecting the differences. Beauty is something very cultural and in order to be relevant to every consumer in every country in the world, you really have to adapt to all these different countries. For example, even if the brands we have are global, the products that we offer are very relevant to Chinese in China. By the way, most of them are made and formulated in China, produced in China, by Chinese for Chinese. It is the same in America, Brazil, Russia and everywhere. I think that is the ultimate form of the global company, which is really universal, with R&D facilities everywhere in the world, manufacturing of course everywhere in the world and teams everywhere in the world, in order to be relevant everywhere in the world. I think that is an important evolution.

Regarding your second question...

Thierry de MONTBRIAL

On the first one still, could you mention a number of other examples? For instance, would you say that Unilever is in a similar position, or Nestlé maybe? I do not know.

Jean-Paul AGON

Yes. Absolutely. I think that they are not going as far as we want to go in the relevance of an international brand for every country. Some other companies have local brands. For example, in the food industry you usually have local brands that may be different country by country. In the beauty market, it does not make sense, so what we try to do is



to have global brands. For example, if we take L'Oréal, the L'Oréal brand is the same brand everywhere. Sometimes there are the same names for sub-brands everywhere, like Elseve, etc., but then the formulas and the products will be made differently from country to country. For example, 90% of the L'Oréal Paris brand in China is specific to China, and it is the same for the USA, etc. It is really going very far in relevance for the consumers.

Regarding your second question, are we or not impacted by everything going on in terms of geopolitics? Of course, we are, but not too much. Of course, we are because as we are totally global, as we just said, we manufacture a lot locally, but we also export from country to country and in all directions. For example, we export as much from Europe to the US and from the US to Europe, or from China to the US and the US to China. It is a complete circle of flows and obviously, when there are tariffs, when some markets are more difficult to penetrate, it does not help us. However, as you mentioned we are less impacted than other types of industries because, after all, what counts is our ability to touch women everywhere in the world and it is much easier than to negotiate with governments in terms of contracts or things like that.

Thierry de MONTBRIAL

To be concrete, the current circumstances, we discussed this morning the rise of protectionism, there is an issue I mentioned myself in the opening presentation that has not yet been discussed very much, which is the weaponisation of the economy and especially of the dollar by the United States. Do you think these things could or will significantly impact your business in the coming years, if they develop?

Jean-Paul AGON

They could. I think the difference is, you are right, that it will not be that significant, but of course, it would not help. It will be a headwind rather than a tailwind, but because this industry is also pretty light, it is not capital intensive, we can also move the flows of merchandise from one country to another. We can rearrange the way we do things and that is why we always try to be very agile, very nimble, in order to adapt to the evolution of the world. I am not too worried.

Thierry de MONTBRIAL

So before we open up the discussion, let me ask you another question regarding the competition issue. How would you position yourself? Who are your main competitors and do they even exist? What could threaten you? Could we imagine that in China itself or elsewhere, a significant beauty industry could develop? Is this something thinkable?

Jean-Paul AGON

Everything is thinkable. First, we are the number one company in the world, but we have not always been. People say sometimes: "Of course L'Oréal, you are number one", but by definition we were not always. We have become number one, and in fact I think we reached this leadership position 20 years ago and we really do our best to increase this leadership every year. For example, the commitment we have is to outperform the growth of the market every year, which means that we are not only leaders, but increasing this leadership year after year. However, we do have a lot of competitors, because it is a very attractive industry, high margins, great growth. By the way, in terms of growth of the market itself, this year will probably be the best in 15 years, which means despite all the geopolitical difficulties, the market is still growing. We have many competitors and another idea that is important is that sometimes people think that of course, most of our competitors are French. It is not the case; most of our competitors are Dutch, American, Japanese or German. Not yet Chinese, but probably some day we will have some Chinese competitor. In a way, there too, I am not too worried. I think that competition is healthy. The more competition you have, the more you have to innovate to do better products and fight for consumer satisfaction, so I think that it is a healthy game and we want to win the game as much as we can.

Thierry de MONTBRIAL

Talking about innovation, could you comment a bit on what is innovation in this business? Second, is technology a significant aspect of this world and in what sense?

**Jean-Paul AGON**

It is a good question. Innovation is very important, because by definition, it is a bit philosophical, but beauty is an ideal. Beauty is not like any other consumer goods category. It is not like yoghourts or detergents, beauty by definition is an ideal. Consumers expect us to be able to create every year beauty products that are always better and innovation is a very important part of the game. For example, every year between 15% and 20% of our sales worldwide are made with new products of the year. That means that there is a churn of new products, which is extremely important and necessary and that is why we are investing a lot in terms of R&D. We spend roughly USD 1 billion in R&D every year and have almost 4 000 people working in our labs, which by the way is many more than any competitor. We have always believed that in order to become and stay the leader, the best way was to always invest in terms of R&D, to be the best in terms of quality, innovation, difference, superior quality for every consumer. That is what we do.

To answer your second question. Technology is very important. Until now, technology was mostly in terms of formulation. For 100 years, we have really invested in R&D in order to be the best in formulation technology and now there is a new field of technology, which is digital, which is tech, because obviously the market is changing completely and it is clear to us that the leader for tomorrow will have to be not only the best in technology within the products, but also in technical technology to master the data, the digital relationship with consumers, personalisation of services. It is a completely new field of technology which we are now entering and in May, we bought a company - it was the first time we had done that in 100 years - which is 100% tech. It is a Canadian company that specialises in Artificial Intelligence and Augmented Reality, in order to give us this edge in terms of technology for digital.

Thierry DE MONTBRIAL

As you mentioned, beauty is an ideal, and it changes over time. All the art buffs in this room will know that Rubens's concept of beauty is not the same as someone else's. Is this sociological matter something L'Oréal thinks about, do you have a deeper understanding of that matter?

Jean-Paul AGON

Of course.

Thierry DE MONTBRIAL

Also, we live in a time where men are having some difficulties with women. Do you know what I mean?

Jean-Paul AGON

I don't.

Thierry DE MONTBRIAL

Well, we are becoming the minority in this new world. Is men's beauty something you're interested in?

Jean-Paul AGON

These are two very different questions.

Thierry DE MONTBRIAL

But they are complementary.

Jean-Paul AGON

I'll start with the second question. Of course male beauty is very important, but I must say it isn't easy to convince men, especially Western men. For 30 years, we've been trying to persuade Western men, Europeans and Americans, to use skincare products, for example, with scant success so far. I was the first to launch a brand called "Biotherm



Homme” 30 years ago. Plenty of brands have been launched. One has just been launched in partnership with David Beckham. There’s been little success with “white men”, who don’t pay much attention to their skin.

On the other hand, there’s been tremendous success in Asia. Chinese, Indian, Korean and Japanese men are much attentive to their look than European men, which is great because there are many more of them. I have no problem at all shifting the focus on growth from Europe to Asia for a while.

On your first question, which is more philosophical, of course beauty is an ideal. Furthermore, what’s interesting is that caring about beauty has always been part of humanity’s makeup. Ten years ago, we funded a research by historians who found out that the beauty routine is very old. It dates back to the beginning of mankind. The first beauty habits have been traced back to 100,000 years ago. In fact, caring about beauty and appearance and feeling good has been essential since people started living in communities. Michel Serres, the great philosopher, said that beauty has always existed and will always exist. He said that in 100,000 years—I leave him the responsibility for his words—there won’t be any more cars or planes, but there will still be beauty and L’Oréal. Terrific!

Thierry DE MONTBRIAL

Because the universe is beautiful.