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L'Oréal CEO on Why the Beauty Industry Is Immune to Crisis

By Rupert Steiner Sept. 16, 2019 4:30 am ET



Photograph by Jason Alden/Bloomberg

Jazz singer Diana Krall performed as 800 guests dined at an event hosted by Jean-Paul Agon, the chief executive officer of [L'Oréal](#), during a four-day industry conference in Vancouver.

The dinner that evening in June passed without incident. Earlier in the day, Greenpeace activists had rappelled from the rafters at the Consumer Goods Forum, an annual gathering of CEOs of retailers and manufacturers, to protest what they claim is the destruction of forests by its members.

The French cosmetics giant has been involved in sustainability initiatives for years. But in an interview with *Barron's* before the dinner, Agon said that one bad effect on the environment is good for L'Oreal's business: the harsh effects of city air pollution on the skin.

"When you live in a city your skin, your hair is challenged more than if you were living in a rural area, so you need more shampoos, conditioners, skin care, hydrating creams, anti-UV, etc," said the 63-year-old Agon. "Urban life means more socialization, and more socialization means more beauty consumption."

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The French-listed firm, which owns some of the world's most recognized brands including

L'Oréal was founded in 1909 by Eugene Schueller, a French chemist of German descent. L'Oréal went public in 1963, but Schueller's only daughter, Liliane Bettencourt retained a majority holding.

In 1974, concerned that the French government might nationalize the company, she exchanged almost half of her stake for shares in [Nestlé](#), the world largest food group in a complex cross-shareholding agreement. [Nestlé currently owns 23%](#) of L'Oréal and has come under pressure from an activist shareholder to sell. Agon said there are "no discussions about that right now."

"I have said several times that if Nestlé wanted to reduce its participation, its equity at L'Oréal we would be happy to help them," said Agon, who has been with the company for 41 years. "That's it, but I have to say also that we are very happy to have Nestlé as a shareholder."

L'Oréal now has a market value of €141.9 billion (\$155 billion) and is geographically spread over 130 countries with 86,000 employees. It comprises four divisions—professional products, consumer products, L'Oréal Luxe (upscale cosmetics and fragrances), and Active Cosmetics (skin-care and beauty products sold in health-care outlets).

Over the past five years, L'Oréal has been [a stock market star](#), and strong growth in sales and profit has helped lift the shares 96.17%, compared to a 53% rise in the Dow Jones Industrial Average.

Over the past month the stock is up 6%, in line with [rival Estee Lauder](#), and ahead of Covergirl and [Wella owner Coty](#). Agon said the business is attractive to investors because of the diversity of its product ranges and global reach.

"We are the No. 1 beauty company, but mostly because we cover all channels, all categories, all geographies, all consumer needs," he said during the interview as the buzz of seaplanes landing on the waterfront of Canada's third largest city almost drowned him out.

Dressed in a blue suit, with spectacles tucked into his jacket pocket, he sported a crisp white double cuffed shirt, and oozed charm and confidence.

"I would say that the beauty business is pretty immune to crisis," he said, pointing to what he called the company's "pretty high" price-earnings ratio of 31. "It is at 31 right now because investors and analysts acknowledge the fact that, whatever happens, L'Oréal will be able to keep growing, keep developing, and keep increasing its profitability," he said.

The profitability in different parts of the business "are very similar, which gives us this capacity to adapt to the way the market evolves without damaging profitability," he said.

He said L'Oréal offers investors something they like: predictability. "We are

able every year, first, to outperform the market in terms of growth, secondly, to increase year after year the profitability, third, to increase the dividends. So, it is a very regular machine in terms of growth, profit, dividends, etc.”

He also claims the business is immune from the trade war with China. “We don’t see any impact of the tariff dispute on our business,” he said. “Why? The No. 1 reason is for most of our products we manufacture where we sell.”

New markets including Asia Pacific account for 45.9% of sales, followed by Western Europe, which contributes 28.4%, and North America, at 25.7%, according to the company.

Agon grew up in Paris, the only child of an architect mother and a father who was an executive in the pharmaceuticals industry. He studied at France’s prestigious Ecole de Hautes Etudes Commerciales business school that counts former French president Francois Hollande as alumni and was recruited by L’Oréal in 1978.

Within two years he was a product manager for the consumer products division, eventually taking positions in France, Greece, Germany, Asia and America. In 2006, he was appointed CEO of L’Oréal, adding chairman to his résumé in 2011.

When asked if he worries L’Oréal promotes superficial values over what lies under the skin, he replied, “no, not at all.” He said he’s convinced L’Oréal’s products improve customers’ self-confidence and self-esteem.

At the dinner later that evening, Krall, who was joined by her husband Elvis Costello, belted out Billy Joel’s “Just the Way You Are.”

“When I see your face,” she sang. “There’s not a thing that I would change ‘cause you’re amazing just the way you are.”

Agon may hope no one paid attention to the lyrics.

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