
Fitch Affirms L'Oreal SA at 'F1+'

Fitch Ratings-London/Paris-01 July 2010: Fitch Ratings has affirmed L'Oreal SA's (L'Oreal) Short-term Issuer Default Rating (IDR) at 'F1+'. L'Oreal USA Inc's US commercial paper (CP) programme guaranteed by L'Oreal is also affirmed at 'F1+'.

The rating is underpinned by the group's strong business profile and its financial flexibility to further deleverage and improve its credit metrics. Fitch expects the group to improve its operating performance and continue to generate strong free cash flow in 2010.

"L'Oreal's performance will benefit from a low year-on-year revenue comparable, strong growth from its expansion in emerging markets, the recovering US economy, and its strategy aimed at enlarging its affordable product range to consumers," says Johnny Da Silva, Director in Fitch's European Retail, Leisure and Consumer Products team.

L'Oreal's business profile is underpinned by its comprehensive coverage in geography and markets through different distribution channels. Its profile also benefits from the company's innovation capacity, diversified product ranges and well-established international brands with different price ranges.

Fitch expects L'Oreal's performance to improve in 2010 with positive organic revenue growth momentum driven mainly by volumes and as destocking from large retailers in 2009 winds down. The agency also expects the group's advertising/promotions and R&D to be maintained at current levels as a percentage of sales and the group to continue to focus on cost discipline. This should lead a gradual improvement in its operating margin in 2010.

L'Oreal continued to generate sizeable free cash flow after dividends of more than EUR1.8bn at FYE09. Its 8.9% equity stake in Sanofi-Aventis ('AA-/Stable/F1+') - currently worth about EUR5.9bn - which it can realise in part, or in its entirety, is a key factor underpinning the group's financial flexibility. While the group has suspended its share buyback programme in late 2008, it does not rule out acquisitions if the opportunity arises.

L'Oreal credit metrics have improved with an adjusted net debt/EBITDAR at 1.3x as of FYE09 (versus a peak of 1.7x in FY08). Fitch expects this ratio to improve towards 1x in FY10. Liquidity remains healthy, with committed undrawn back-up lines totalling EUR2.5bn as of FYE09. This amount fully covers the amount drawn so far under its EUR2.6bn French and USD800m US CP programmes. Applicable criteria, 'Corporate Rating Methodology', dated 24 November, 2009, are available at www.fitchratings.com.

>> Fitch has made major improvements to its credit research on EMEA and AsiaPac corporates. To view these improvements, visit our 'Clear Thinking' web page at <http://clearthinking.fitchratings.co.uk/Index.html>

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Additional information is available at www.fitchratings.com.

Marc Ladreit de Lacharriere, Fitch's Chairman and member of the board, is also a member of L'Oreal's board. Mr. Ladreit de Lacharriere does not participate in any rating committees including L'Oreal.

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[Corporate Rating Methodology](#)

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