

L'Oréal SLB may be pricing a target miss

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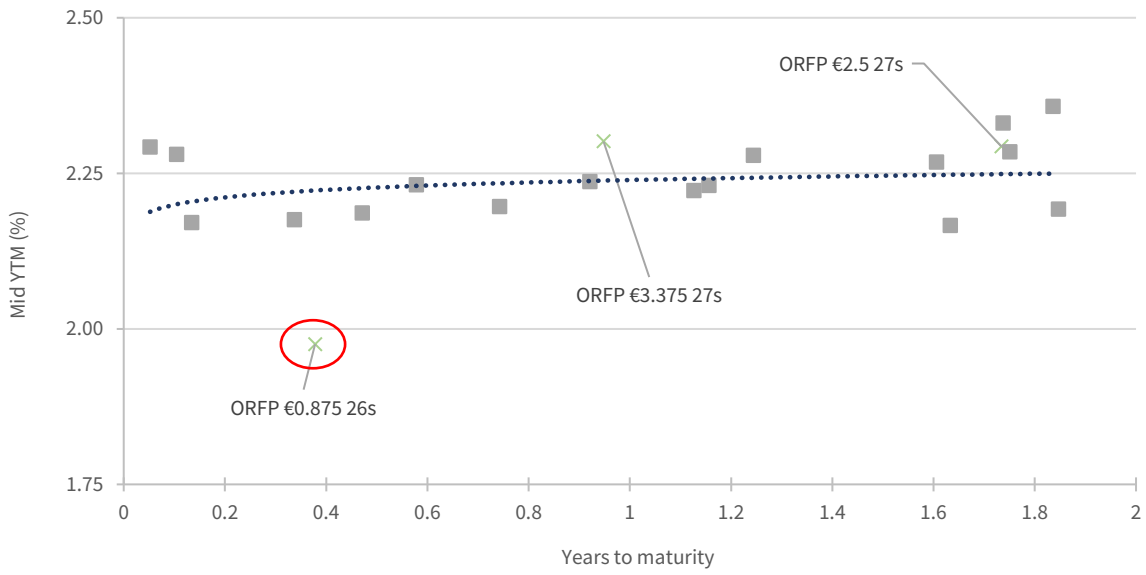
L'Oréal (ticker: ORFP), one of the world's largest cosmetics companies, issued a Sustainability-Linked Bond (SLB) in March 2022 (ISIN FR0014009EJ8). The EUR1.25bn 0.875% bond matures in June 2026, with the observation date for its three Sustainability Performance Targets (SPTs) at the end of 2025. Each missed target will result in an additional 0.125% paid at maturity.

The SPT details and rankings of the bond are as follows:[1]

- **SPT1:** Reach absolute zero Scopes 1 and 2 GHG emissions at all operated sites. This appears on track and is ranked **Likely MEET**.
- **SPT2:** Achieve a 14% reduction of 'cradle-to-shelf' Scopes 1, 2, and 3 GHG emissions per unit of sold product, relative to a 2021 baseline. This requires substantial improvement to be achieved, and limited interim information has been released. We rank this target **50:50**.
- **SPT3:** Ensure 50% of the company's plastics used in packaging come from recycled or biobased sources. This requires substantial improvement to be achieved, and other sustainable packaging targets are also off-track. We rank this **50:50**.

The bond's yield compared with select peers is shown in Figure 1 (more details on this peer group can be found on later pages). It shows the SLB is trading about 20bps tighter, **implying an average 40% probability of SPT2 and SPT3 being missed.** The bond has outperformed this year, perhaps indicating a change in investor sentiment towards the likelihood of targets being achieved.

Figure 1. Yields of select peer bonds. Source: Bloomberg Finance L.P., accessed 11 Feb 2026.



[1] For more details on the ranking methodology, please see "A watershed year for the SLB market", AFII, 15 Jul 2025.

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SPT reporting and analysis

L'Oréal has historically reported on its performance against sustainability targets in its Universal Registration Document (URD).[2] If the usual schedule holds, the next URD should arrive in March 2026. We note that L'Oréal will release its 2025 annual results after market close on 12 February 2026,[3] at which point information on the SLB may be released, given its financial relevance.

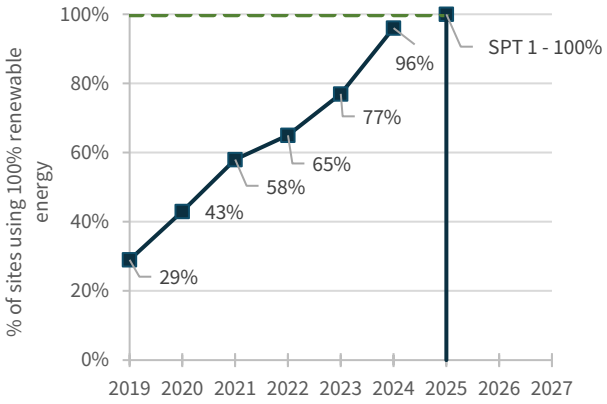
By analysing the company's historical performance against its SPTs and the drivers of this, we can gain insight into whether the targets will be achieved and assign AFII rankings accordingly.

SPT1

The company's first target is to reach absolute zero Scope 1 and 2 GHG emissions across all operated sites by 31 December 2025. In L'Oréal's recent URDs it also describes this target as all operated sites using 100% renewable energy.[4]

Figure 2 shows L'Oréal's progress towards this SPT. As shown, the company has been increasing its proportion of sites using exclusively renewable energy since 2019, and was only 4% away from achieving the SPT in 2024.

Figure 2. Percentage of operated sites using 100% renewable energy. Source: L'Oréal.



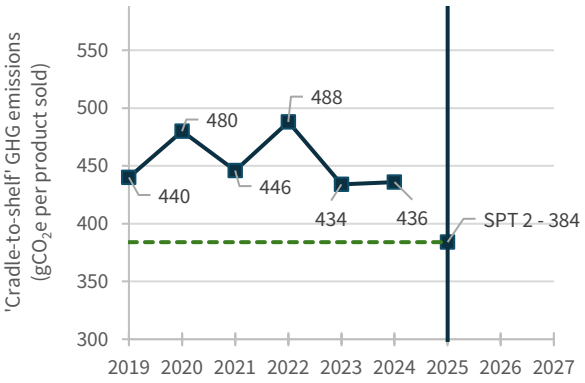
L'Oréal announced in recent years that it has reached 100% renewable energy across Europe and SAPMENA (South Asia Pacific, Middle East & North Africa),[5] suggesting that it is has made additional progress in 2025.

We can therefore rank SPT1 as **Likely MEET**, given the progress the company has made, and the small increase required from 2024 to meet the target.

SPT2

SPT2 focuses on the reduction of 'cradle-to-shelf' emissions.[6] L'Oréal aims to achieve a 14% reduction in these emissions per unit of product sold by the end of 2025, compared to a 2021 baseline. L'Oréal is included in AFII's Deforestation Debt Universe,[7] a list of fixed income borrowers with substantial deforestation

Figure 3. 'Cradle-to-shelf' GHG emissions (gCO_2e per product sold). Source: L'Oréal.



[2] An annual, comprehensive report filed by European issuers, detailing a company's organisation, business, financial position, earnings and prospects, governance and shareholding structure.
[3] "Financial Calendar", L'Oréal, accessed 11 Feb 2026.
[4] Pg 279, "L'Oréal 2024 Universal Registration Document", L'Oréal, 24 Mar 2025.
[5] "L'Oréal Reaches 100% Renewable Energy in Europe", ESG Today, 1 Apr 2025.
[6] 'Cradle-to-shelf' emissions are defined as "*GHG Emissions linked to Scope 1, Scope 2 and Selected Scope 3 per sold product, it being specified that Selected Scope 3 includes raw materials and packaging materials purchased, products manufacturing and products transportation to the first delivery point to clients*" in the SLB Bond Prospectus.
[7] "Deforestation Debt Universe: update", AFII, 29 Jan 2026.

exposure. As such, transparency with regards to the company's emissions trajectory is essential.

As shown in Figure 3, the company's progress against this target is more mixed compared to SPT1, with emissions fluctuating in recent years.

L'Oréal would need to cut emissions by 12% from 2024 to meet SPT2, in contrast with the recent, small increase seen that year. The company achieved a substantial reduction between 2022 and 2023, but recent performance has been inconsistent.

In past years, the fluctuations in L'Oréal's emissions have been attributed to lighter packaging,[8] higher sales, and shifts in Scope 3 emissions. Indeed, most of the company's emissions are Scope 3, specifically Category 1 Scope 3 emissions from purchased goods and services.[9] While higher sales could suggest an increase in upstream emissions, we have little visibility on whether L'Oréal has mitigated this by decarbonising its supply chain or substituting materials during the year.

Details of sustainability performance are only available on an annual basis, with the publication of L'Oréal's annual URD. Given there has been no interim reporting, it is difficult to assess the progress the company has made towards achieving the target during the year. While the company's latest sales results show growth across all divisions, this reveals little about whether emissions have decreased.

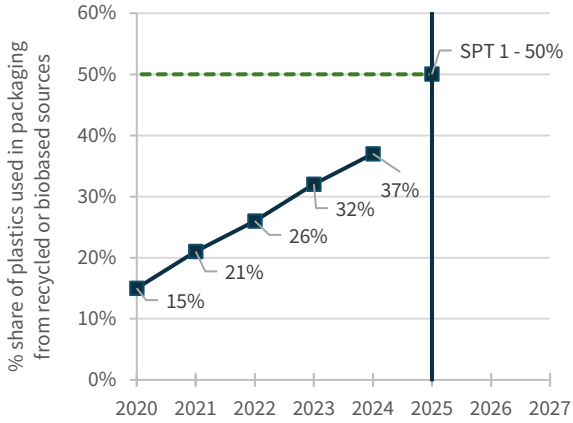
Therefore, in the absence of any specific evidence related to L'Oréal's emissions in 2025 and the reduction required to achieve SPT2, we assign a ranking of **50:50**.

SPT3

The third and final SPT calls for 50% of the company's packaging to be made from recycled or biobased sources by 2025.

Whilst the company's use of recycled plastics in packaging has been rising since 2020, a significant increase of 13% YoY would be required to achieve SPT3, as shown in Figure 4.

Figure 4. Percentage share of plastics used in packaging from recycled or biobased sources. Source: L'Oréal.



The issue of responsible packaging appears to be important to L'Oréal, with the company establishing goals as part of its 'L'Oréal for the Future' programme. Indeed, the target to increase the share of plastics from recycled sources to 50% by 2025 is an intermediary goal, on the way to achieving 100% by 2030.[10] In recent years, L'Oréal has launched the 'Sustainable Packaging Initiative for CosmEtics' (SPICE)[11] and became a member of the Ellen MacArthur Foundation's The New Plastics Economy, which aims to apply circular economy principles to plastic packaging.[12]

However, it seems L'Oréal may be struggling to meet its other sustainable packaging goals. For instance, it targeted 100% of its plastic packaging to be refillable, reusable, or recyclable by 2025,

[8] Pg 215, "L'Oréal 2023 Universal Registration Document", L'Oréal, 19 Mar 2024.
[9] Pg 210, "L'Oréal 2024 Universal Registration Document", L'Oréal, 24 Mar 2025.
[10] Ibid., Pg 51.
[11] Ibid., Pg 235.
[12] Ibid., Pg 234.

but reached just 49% in 2024. This poor trajectory was reported in the media, alongside similar challenges faced by Unilever, another large consumer goods company.[13]

As noted above, a lack of intra-year information means there is not enough evidence to determine whether SPT3 will be met or missed definitively. However, based on the current trajectory, the target appears difficult to achieve. The importance of plastic packaging in L'Oréal's sustainability strategy does indicate the company is aware of the issue and is seeking to address it, especially as the proportion of plastics from recycled or biobased sources has been increasing. We therefore rank SPT3 as **50:50** to reflect the ongoing uncertainty.

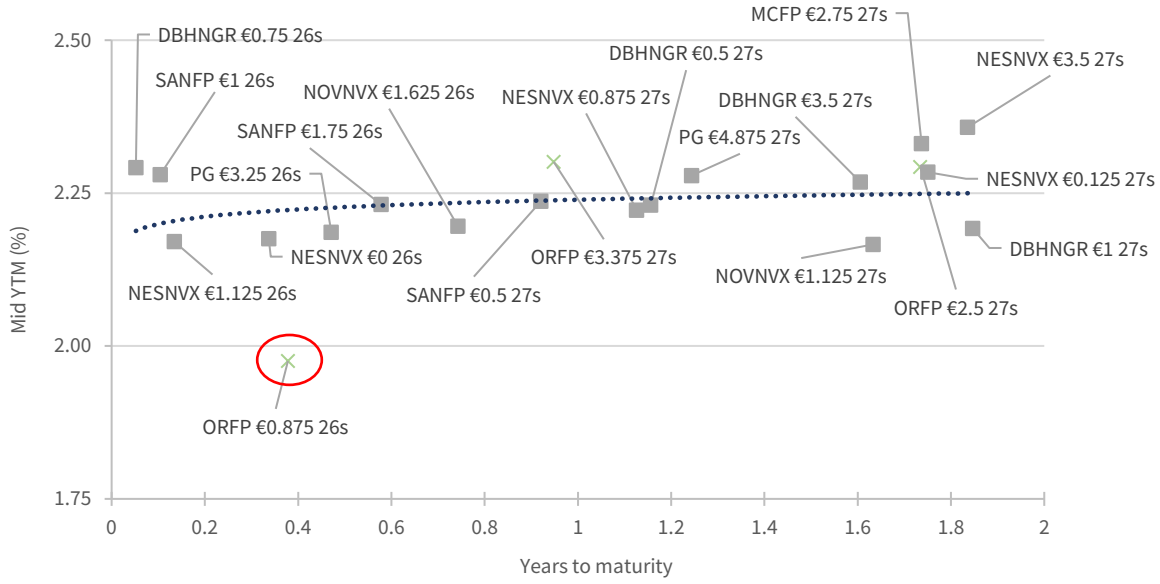
Pricing analysis

The SLB is very short dated (four months to maturity), and this makes a comparison with L'Oréal's other bonds a challenge.

We therefore contrast its pricing with those of comparable bonds from other issuers. To form a comparison universe, we have chosen EUR-denominated fixed-rate bonds from corporates with a focus on consumer sectors.[14] The securities mature before the end of 2027, have an outstanding size greater than USD300mn, and a credit rating greater than Aa3/AA-. This is not an exhaustive list but provides a sizeable sample of comparable bonds to the SLB. For a full list of bond details please see Table 1 in the Appendix.

Figure 5 shows the current yields of this population.[15] It is worth highlighting that L'Oréal has one of the strongest ratings in this group (Aa1/AA). Indeed, only Deutsche Bahn (ticker: DBHNGR) is stronger at Aa1/AA+. As the graph shows, the two ORFP 2027 bonds seem to be priced in line with the peer group, and it is only the SLB, ORFP 0.875% 2026s, which is an outlier to what otherwise appears to be quite a tight curve from this sample of comparable bonds.

Figure 5. Yields of peer bonds. Source: Bloomberg Finance L.P., accessed 11 Feb 2026.



[13] "L'Oréal and Unilever are struggling to hit green packaging goals. What's the solution?", Cosmetics Business, 14 Jul 2025.

[14] We also added Deutsche Bahn to include an issuer with a higher rating.

[15] We acknowledge the challenges in comparing pricing for short-dated bonds, where coupon and cash price differences can create supply-demand dynamics. However, the group of comparable bonds includes a wide range of coupons and cash prices, and so gives some useful comparisons.

Implied SLB option pricing

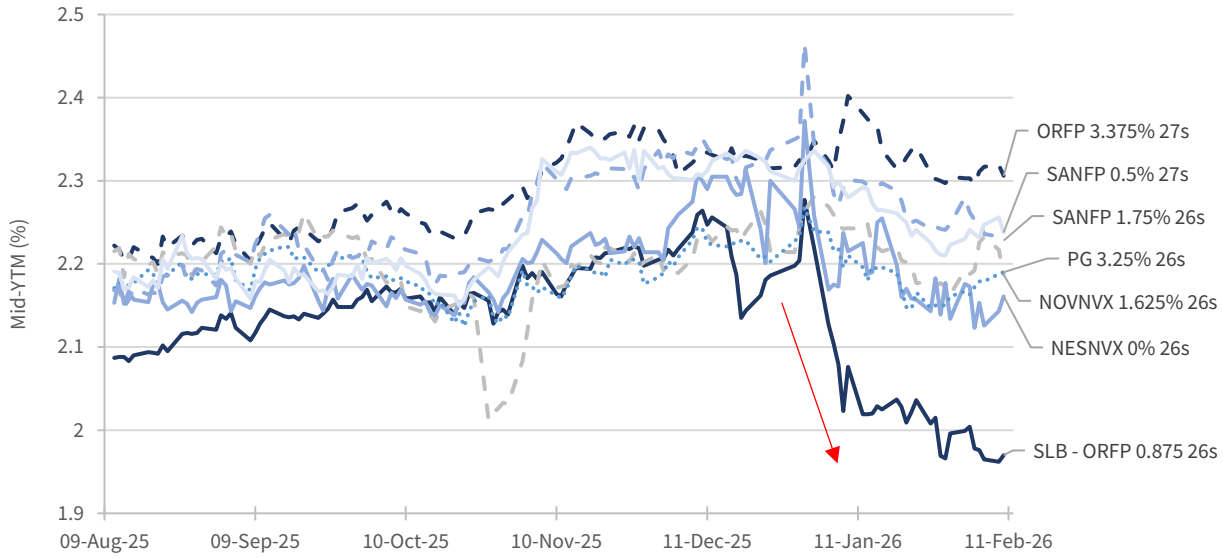
The bond pays a premium payment at maturity of 0.125% for every missed SPT. Given our assumption that SPT1 is likely to be achieved, we will consider the maximum potential step-up to be 0.25%.

The current yield on the SLB is 1.98%. Moving this to 2.2% (roughly in line with the trendline from the sample of bonds) would decrease the cash price by 10c. We interpret this pricing as implying an average 40% probability of each target being missed. Since the premium payments are additive, this could reflect a 0% probability of one target being missed and an 80% of the other.

Historical performance

We have also looked at the historical performance over the past six months, to see when the SLB began trading rich relative to our selected comparison universe. For this analysis we use a subset of our earlier universe with maturities greater than three months and less than one year. The data is graphed in Figure 6.

Figure 6. Yields of subset of short-dated bonds. Source: Bloomberg Finance L.P., accessed 11 Feb 2026.



As shown in this figure, the SLB outperformed in the first few weeks of the year. This is when its yield appears to have tightened below the peers.

Conclusions

L'Oréal has one SLB outstanding, the targets for which were observed at the end of 2025. If the company follows past reporting practices, progress towards these targets is expected to be disclosed in its Universal Registration Document in March.

AFII analysis of the bond's three SPTs suggests the company will likely meet the first target on Scope 1 and 2 emissions. However, the success of the other two, linked to Scope 3 emissions and renewable packaging, is less certain.

The bond in question is trading at a tighter yield than a selection of peers, having outperformed in the first few weeks of the year. This can be interpreted as the market implying an average probability of 40% of SPT2 and SPT3 being missed.

Appendix

Table 1. Details of select peer bonds for analysis. Source: Bloomberg Finance L.P., AFII, accessed 11 Feb 2026.

Issuer	Description	ISIN	Issue Date	Maturity	Amount Outstanding (EUR)	Moody's Rating	S&P Rating
L'OREAL SA	ORFP 0 7/8 06/29/26	FR0014009EJ8	29/03/2022	29/06/2026	1,250,000,000	Aa1	AA
L'OREAL SA	ORFP 3 3/8 01/23/27	FR001400M6K5	23/11/2023	23/01/2027	800,000,000	Aa1	AA
L'OREAL SA	ORFP 2 1/2 11/06/27	FR001400TT34	06/11/2024	06/11/2027	750,000,000	Aa1	AA
NOVARTIS FINANCE SA	NOVNVX 1 5/8 11/09/26	XS1134729794	07/11/2014	09/11/2026	600,000,000	Aa3	AA-
NOVARTIS FINANCE SA	NOVNVX 1 1/8 09/30/27	XS1585010074	31/03/2017	30/09/2027	600,000,000	Aa3	AA-
NESTLE FINANCE INTL LTD	NESNVX 1 1/8 04/01/26	XS2148372696	01/04/2020	01/04/2026	1,000,000,000	Aa3	AA-
NESTLE FINANCE INTL LTD	NESNVX 0 06/14/26	XS2350621863	14/06/2021	14/06/2026	1,250,000,000	Aa3	AA-
NESTLE FINANCE INTL LTD	NESNVX 0 7/8 03/29/27	XS2462321212	29/03/2022	29/03/2027	600,000,000	Aa3	AA-
NESTLE FINANCE INTL LTD	NESNVX 0 1/8 11/12/27	XS2170362672	12/05/2020	12/11/2027	850,000,000	Aa3	AA-
NESTLE FINANCE INTL LTD	NESNVX 3 1/2 12/13/27	XS2595410775	13/03/2023	13/12/2027	850,000,000	Aa3	AA-
DEUTSCHE BAHN AG	DBHNGR 0 3/4 03/02/26	XS1372911690	02/03/2016	02/03/2026	500,000,000	Aa1	AA+
DEUTSCHE BAHN AG	DBHNGR 0 1/2 04/09/27	XS2152932542	09/04/2020	09/04/2027	900,000,000	Aa1	AA+
DEUTSCHE BAHN AG	DBHNGR 3 1/2 09/20/27	XS2689049059	20/09/2023	20/09/2027	600,000,000	Aa1	AA+
DEUTSCHE BAHN AG	DBHNGR 1 12/17/27	XS1752475720	18/01/2018	17/12/2027	1,000,000,000	Aa1	AA+
LVMH MOET HENNESSY VUITT	MCFP 2 3/4 11/07/27	FR001400TSJ2	07/11/2024	07/11/2027	800,000,000	Aa3	AA-
PROCTER & GAMBLE CO/THE	PG 3 1/4 08/02/26	XS2617256065	02/05/2023	02/08/2026	650,000,000	Aa3	AA-
PROCTER & GAMBLE CO/THE	PG 4 7/8 05/11/27	XS0300113254	11/05/2007	11/05/2027	1,000,000,000	Aa3	AA-
SANOFI SA	SANFP 1 03/21/26	FR0013324340	21/03/2018	21/03/2026	1,500,000,000	Aa3	AA
SANOFI SA	SANFP 1 3/4 09/10/26	FR0012146801	10/09/2014	10/09/2026	1,510,000,000	Aa3	AA
SANOFI SA	SANFP 0 1/2 01/13/27	FR0013201639	13/09/2016	13/01/2027	1,150,000,000	Aa3	AA

Version Log

Date	Comment
12 Feb 2026	Document published
2 Mar 2026	Added link to Deforestation Debt Universe

This research is funded in part by the Gordon and Betty Moore Foundation through The Finance Hub, which was created to advance sustainable finance.

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