

Americas Investing Report



Estée Lauder Companies Incorporated
(EL-US) Market Capitalization: \$62.62B

ESTÉE LAUDER



Company Description & Key Segments Overview

Estée Lauder Companies Incorporated is a leading manufacturer, marketer, and seller of skin care, makeup, fragrance and hair care products in approximately 150 countries around the world. Notable brands include Estée Lauder, Clinique, Origins, M·A·C, Bobbi Brown, La Mer, Aveda, Jo Malone London, Too Faced, Dr. Jart+, and The Ordinary.

The Skin Care segment (moisturizers, cleansers, sun care products, etc.) accounts for 58% of overall revenues, followed by Makeup (lipstick, foundation, powders, etc.) which generates 26% of revenue with Fragrance (including eau de parfum sprays and colognes, etc.) and Haircare (shampoo, conditioners, etc.) rounding out the remaining 12% and 4% respectively.





Investment Thesis

Despite numerous headwinds in the recent Q3 FY2022 period, Estée Lauder performed well with 9% sales growth and posting \$4.25B of revenue. Every category grew organically with both sales rising across brick-and-mortar and online distribution channels. Eleven brands contributed with double-digit growth as the diversified portfolio of products is a positive in weathering disruptions in any one area.

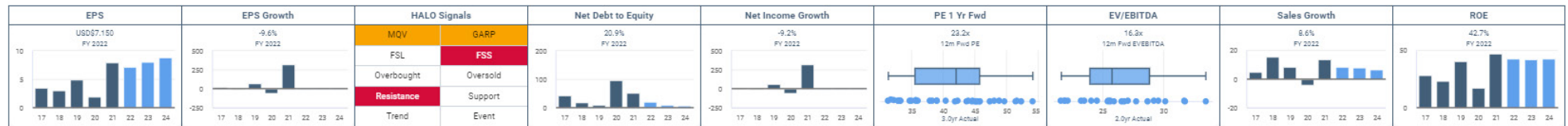
Operating margin expanded as management exercised cost discipline as volatility increased. Gross margin improved 70 basis points compared to last year with strategic price increases, favourable currency and reduced obsolescence contributing to the improvement and more than offsetting inflationary pressures, which will continue to hold importance in the current business environment.

Consumer demand remains robust and the shift back to working in the office versus the previous two years and higher social gatherings presents a tailwind for revenue. Americas and Europe, the Middle East and Africa (EMEA) continued to perform well even as conditions were dampened by high inflation and negative sentiment due to the Russia invasion into Ukraine. While the issues are unlikely to abate in the foreseeable future, our belief is that the target market, that being women classified as the middle class and higher aged 35 to 55, for Estée Lauder's products will be resilient and continue to purchase products at a healthy level. Additionally, recency bias is inherent in the average person and in general we think that people adapt and accept conditions quite quickly and carry on about their daily lives largely uninterrupted and we use the COVID as an example of this observation, although in this case it could be classified as an event that incurred a longer time for adjustment.

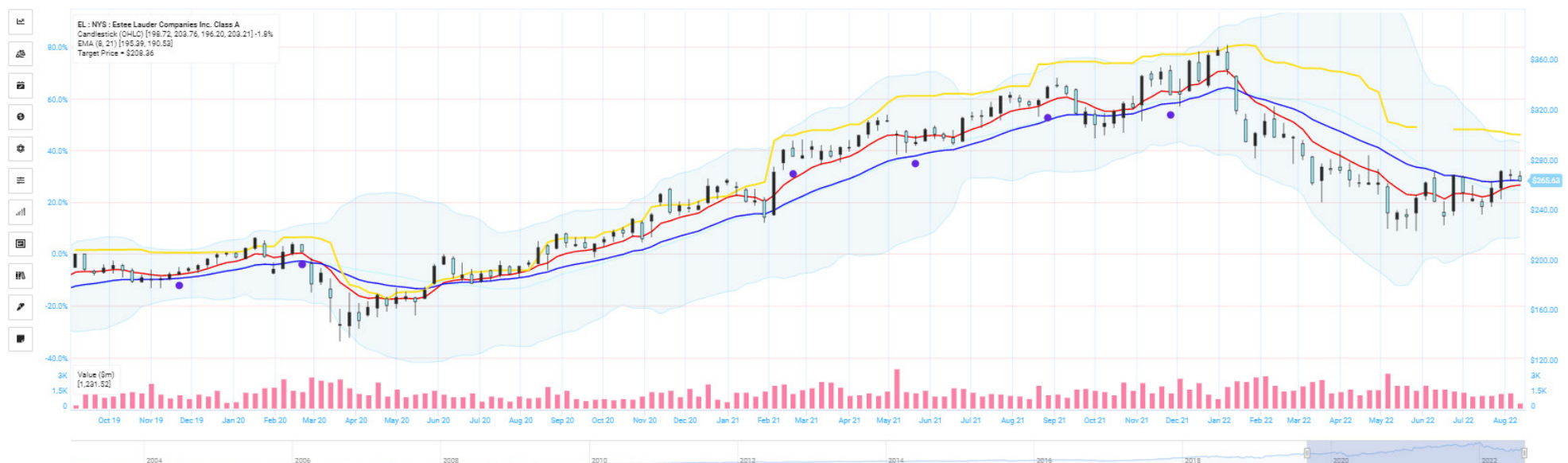
On the opposite end of the spectrum, the Asia-Pacific region has been negatively impacted by COVID restrictions in China with organic sales in the mainland falling a mid-single-digit percentage as a 25% growth in online sales was offset by a steep decline in brick-and-mortar. Next quarter results will experience a larger negative impact, but the limitations are transitory and we estimate operations will return to normal sooner rather than later. The period before the lockdown was strong and once the limited operating capacity ends for distribution centres, a reacceleration in growth should occur. Other markets including Japan, Malaysia, Thailand and Singapore were strong, further lending to the credence that the issues are caused by the lockdowns which is a short-term headwind rather than persistent or concerning weakness in area.

Dr Jart+ growth forecasts are slower-than-expected in China and travel retail with the full-year outlook for the company overall also lowered, as sales growth was cut to 7% to 9% from 13% to 16% and earnings per share dropping to \$7.05 to \$7.15 from \$7.43 to \$7.58. This caused the share price to decline significantly after the announcement, thus, the negative impacts have been somewhat accounted for by investors. However, the company does not offer only one product and in a singular region and the geographic diversity of their operations is a benefit and we expect that the ongoing recovery in the Americas, Western Europe and most of Asia will outweigh the slowdowns in China and Eastern Europe and provide Estée Lauder a relatively strong performance over the coming quarters in spite of the headwinds.

Company Performance and Financials



-- Select Portfolio -- BUY SELL
D W M HALO Global Investing



Price Target Price MA (EMA,21) MA (EMA,8) Dividend Flash Reports

Source: HALO Technologies dated 10 August 2022



Catalysts

- Growth across multiple brands with a diverse portfolio of products across geographic regions.
- Recovery of brick-and-mortar distribution channel as COVID subsides with online to retain the majority of gains from the previous two years.
- Increasing efficiency and margins through price increases and streamlined costs.
- Favorable foreign currency which translates into earnings addition.
- Stable consumer demand with possibility for a shift in sentiment towards the positive as COVID/economic/Geopolitical issues improve.
- Improving conditions in Asia-Pacific with loosening restrictions to provide the mainland China region a significant tailwind.
- Ownership, Lauder family control 85% of the voting power and may direct company in the positive manner due to having a significant stake in the company.

Downside Risks

- Increasing COVID cases and the rise of new variants which could lead to restrictive measures such as lockdowns and exacerbating supply chain constraints, particularly in China.
- Beauty market is highly competitive with prominent competitors such as L’Oreal and Unilever vying for market share.
- Ownership, Lauder family control 85% of the voting power and may direct company for their best interests and not the public shareholders.
- Continual economic downturn and market volatility causing negative sentiment to persist or escalate.
- Global operations bring about stringent regulatory and geopolitical issues.
- Unfavourable foreign currency which translates into earnings erosion.

Note: Estée Lauder Companies Incorporated is not held in the HALO Technologies thematic portfolios.


ANALYST VIEW

● 19 Buys ● 8 Holds ● 0 Sell

Average target price US\$302.46

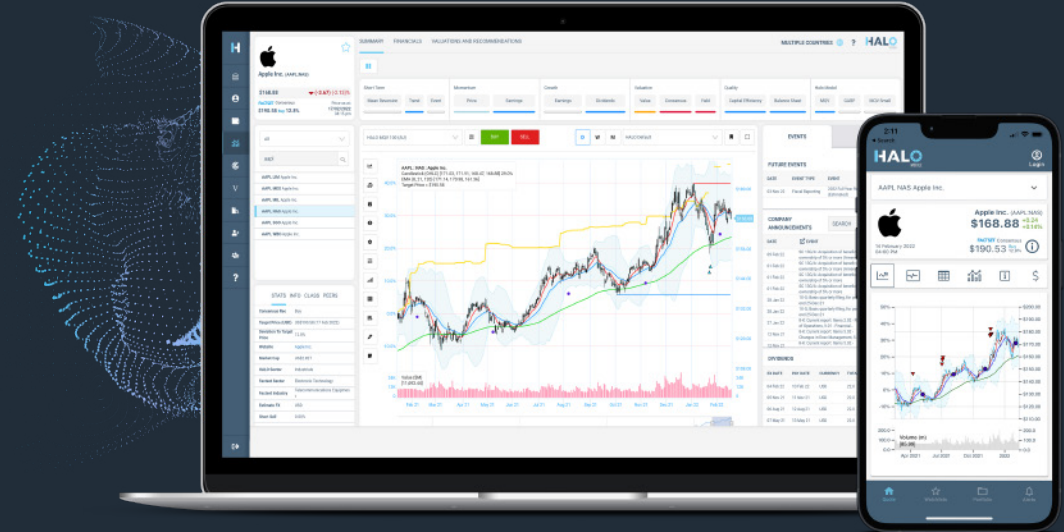


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