

Estee Lauder(EL)

\$178.80 (As of 05/18/20)

Price Target (6-12 Months): **\$187.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Shares of Estee Lauder have outpaced the industry in the past three months. The company has been undertaking cost-control measures amid the coronavirus pandemic that generated nearly \$250 million of savings during third-quarter fiscal 2020. Moreover, it expects these measures to deliver increased benefits in the fourth quarter. Apart from these, strength in Estee Lauder's online business along with solid presence across emerging markets bodes well. However, during third-quarter the company's top line and the bottom line declined year over year. Notably, net sales fell 11%, thanks to retail store closures due to the COVID-19 outbreak. In fact, management expects majority of its retail stores to remain shut through most of the fiscal fourth quarter.

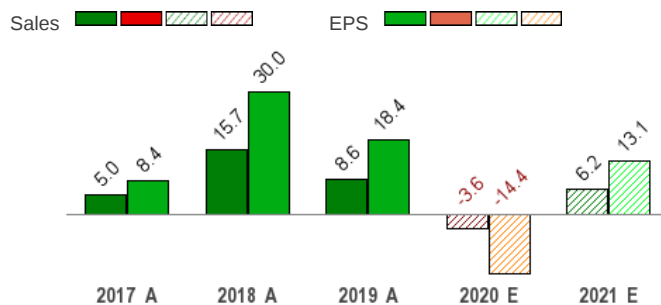
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.42 - \$137.01
20 Day Average Volume (sh)	1,699,440
Market Cap	\$64.2 B
YTD Price Change	-13.7%
Beta	0.77
Dividend / Div Yld	\$1.92 / 1.1%
Industry	Cosmetics
Zacks Industry Rank	Bottom 30% (177 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.1%
Last Sales Surprise	9.5%
EPS F1 Est- 4 week change	-3.7%
Expected Report Date	08/17/2020
Earnings ESP	-11.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,412 E	4,526 E	3,849 E	3,261 E	15,206 E
2020	3,895 A	4,624 A	3,345 A	2,463 E	14,325 E
2019	3,524 A	4,005 A	3,744 A	3,590 A	14,863 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.25 E	\$1.95 E	\$1.50 E	\$0.50 E	\$5.17 E
2020	\$1.67 A	\$2.11 A	\$0.85 A	-\$0.14 E	\$4.57 E
2019	\$1.41 A	\$1.74 A	\$1.55 A	\$0.64 A	\$5.34 A

*Quarterly figures may not add up to annual.

P/E TTM	33.8
P/E F1	39.1
PEG F1	3.0
P/S TTM	4.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/18/2020. The reports text is as of 05/19/2020.

Overview

New York-based Estee Lauder Companies Inc. is one of the world's leading manufacturers and marketers of skin care, makeup, fragrance and hair care products. The company's products are sold through department stores, mass retailers, company-owned retail stores, hair salons and travel-related establishments.

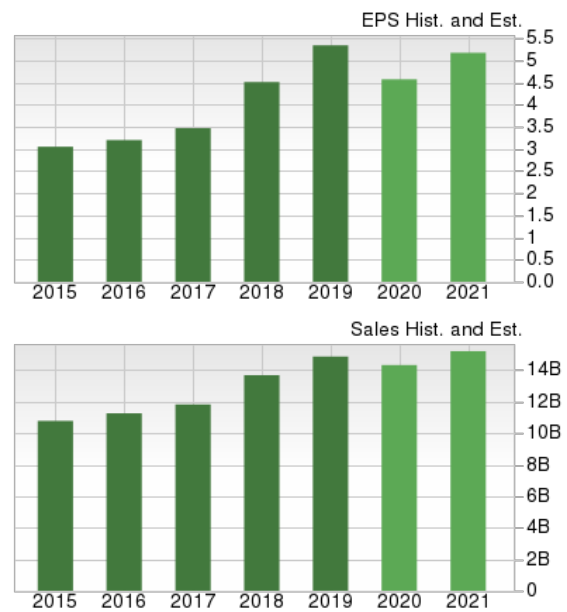
Estee Lauder's manufacturing and research facilities are spread across the U.S., Canada, Belgium, Switzerland, Japan, South Africa and the U.K.

The company reports operating results in terms of product categories and geographic regions.

In terms of product categories, Estee Lauder's primary segments include:

- **Skin Care division** (44.1% of fiscal 2019 sales): This segment sells skin care products for men and women. The products consist of moisturizers, creams, lotions, cleansers, sunscreens and self-tanning products.
- **Makeup division** (39.4% of fiscal 2019 sales): This segment manufactures, markets and sells makeup products. Products include lipsticks, mascaras, foundations, eye shadows, nail polishes, powders and related items, such as compacts, brushes and other makeup tools.
- **Fragrances division** (12.1% of fiscal 2019 sales): This segment sells fragrance products for men and women. Its products include eau de perfume, sprays and colognes, as well as lotions, powders, creams and soaps that are based on a particular fragrance.
- **Hair care division** (3.9% of fiscal 2019 sales): This segment includes hair color and styling products, shampoos, conditioners, and finishing sprays.
- **Other division**: This segment sells ancillary products and services.

Region-wise, the company reports under **Americas** (31.9% of fiscal 2019 sales); **Europe, the Middle East & Africa** (43.4% of fiscal 2019 sales); and **Asia-Pacific** (24.7% of fiscal 2019 sales).



Reasons To Buy:

- ▲ **Cost-Saving Efforts Amid COVID-19:** During the third quarter of fiscal 2020, the company undertook various expense-control measures that included suspending travel, meetings, consulting, non-essential recruits and cutting certain employee costs. In fact, these measures have resulted in nearly \$250 million of savings during the quarter. Moreover, Estee Lauder expects these cost-control measures to deliver increased benefits in the fourth quarter.

On Apr 15, the company resorted to other measures like salary cuts for senior executives and other management employees along with furloughing workers, among others. These along with other cost-control measures implemented in the third quarter are expected to reduce operating expenses by \$500-\$600 million in the fourth quarter. We note that, shares of Estee Lauder have lost 15.4% in the past three months compared with the industry's decline of 27.8%. Moreover, in a month the stock has risen 6.2%.

- ▲ **Solid Presence in Emerging Markets:** Estee Lauder has strong presence in emerging markets which insulates it from the macroeconomic headwinds in the matured markets. The company derives significant revenues from emerging markets like Thailand, India, Russia and Brazil, which keeps it encouraged about making distributional, digital and marketing investments in these countries.

Markedly, China remains a major area of focus for Estee Lauder. In fact, the company's recently piloted emerging business model for online and offline stores in Mainland China region is yielding. Moreover, Mainland China has recently seen recovery owing to reopening of retail stores with reduced working hours owing to relaxations in coronavirus-induced lockdowns. Incidentally, management anticipates returning to double-digit sales growth in the region by fourth-quarter.

- ▲ **Strong Online Business:** Estee Lauder has a strong online business and the company expects it to be a major growth engine for the upcoming few years. Estee Lauder was the first global prestige beauty company that went online with the Clinique brand in the United States in 1996 and has now spread its presence online to about 50 markets. Further, Estee Lauder has been implementing new technology and digital experiences including online booking for each store appointment, omni-channel loyalty programs and high touch mobile services. These initiatives and the company's digital-first mindset have been aiding the company's online sale.

Moreover, Estee Lauder's brand teams have been fully committed to enhancing consumer experiences online since coronavirus-induced lockdowns were imposed. In this regard, they have been focusing on proper product placement and showing cases tools including virtual try-on to ease decision-making. Markedly, the company's online sales rose sharply since the end of March and continued to climb through April. We note that, products like La Mer, Crème de la Mer Treatment Lotion and Estee Lauder's Advanced Night Repair among others have been witnessing solid demand online amid the coronavirus pandemic. Apart from these, management is on track with expanding brand presence across various third-party sites, rolling out new digital payment technologies and enhancing its loyalty programs as it continues to widen market reach.

- ▲ **Financial Status:** Estee Lauder's long-term debt (including long-term operating lease liabilities) of \$6,962 million as of Mar 31, 2020, fell 0.3% sequentially. Further, the company had cash and cash equivalents of \$4,876 million as of Mar 31, which is sufficient to fund its current debt of \$1,527 million. Notably, in an attempt to enhance its financial flexibility amid the coronavirus outbreak, Estee Lauder has drawn down the full amount under its \$1.5-billion revolving credit facility. Also, management has issued \$700-million aggregate principal amount of 2.6% senior unsecured notes that are due in 2030.
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Estee Lauder's cost-control measures amid the coronavirus outbreak are yielding. Additionally, it has been depicting strong growth in its online business.

Reasons To Sell:

- ▼ **COVID-19 Hurts Q3 Results:** Estee Lauder reported third-quarter fiscal 2020, with the top line and the bottom line declining year over year. Notably, adjusted earnings per share of 85 cents fell 45% year over year. Moreover, Estee Lauder's net sales of \$3,345 million declined 11% year over year (down 9% at constant currency). The downside was caused by retail store closures due to the coronavirus pandemic. In fact, sales declined across all regions and product segments year over year. Also, operating income in third-quarter declined 84% year over year.
- ▼ **Coronavirus-Led Store Closures:** The coronavirus outbreak is spreading at an alarming rate. The cosmetics space has been under major pressure with companies shutting stores, limiting store hours and withdrawing their guidance. In this regard, Estee Lauder anticipates majority of its retail stores to remain shut through most of fourth-quarter fiscal 2020. The company expects these store closures to continue impacting the global prestige beauty negatively. Moreover, restrictions placed on air travel are likely to act as a deterrent.
- ▼ **Risk of Operating in Overseas Markets:** Estee Lauder's financial performance may be largely affected by its significant presence in the international markets, which exposes it to the risk of unfavorable foreign currency translations, economic or political instability, and other governmental actions on trade and repatriation of foreign profits. We believe that, the above mentioned factors pose a major threat to the company's performance.
- ▼ **Market Trends and Consumer Preferences:** As Estee Lauder operates in a consumer centric market, its ability to garner profits depends largely on how well it can predict changes in consumer preferences and spending patterns for beauty products and respond in a timely manner to fulfill the same. Hence, failure to stay up to date on product mix by continually searching for new products and anchoring new supplier agreements may result in becoming obsolete.

Retail store closures due to the coronavirus pandemic hurt Estee Lauder's top-line in third-quarter fiscal 2020.

Last Earnings Report

Estee Lauder Q3 Earnings Beat Estimates, Sales Down

The Estee Lauder Companies reported third-quarter fiscal 2020 results, with the top line and the bottom line surpassing the respective Zacks Consensus Estimate. Notably, this marked the company's 23rd and 13th straight quarter of earnings and sales beat, respectively. However, both earnings and sales declined year over year.

Quarter in Detail

The company posted adjusted earnings per share of 85 cents, which beat the Zacks Consensus Estimate of 72 cents. However, the metric declined 45% year over year.

Estee Lauder's net sales of \$3,345 million surpassed the Zacks Consensus Estimate of \$3,055 million. However, sales declined 11% year over year (down 9% at cc). The downside was caused by retail store closures due to the coronavirus pandemic. Nevertheless, the decline was partially offset by inclusion revenues from the recently-acquired Have&Be Co. Ltd.

Gross profit came in at \$2,509 million, down 14%. Also, gross margin contracted 310 basis points (bps) to 75%. Operating income declined 84% year over year to \$109 million. Operating income margin declined significantly to 3.3% from 18% reported in the year-ago quarter's levels.

Product-Based Segment Results

Skin Care's sales declined 1% year over year (flat at cc) to \$1,723 million, due to reduced sales from Clinique, La Mer and Origins brands.

Makeup revenues were down 22% year over year (down 20% at cc) to \$1,146 million, thanks to softness in brands like Clinique, Bobbi Brown and Tom Ford Beauty to name a few. The downside can be mainly attributed to impacts of the outbreak of coronavirus. Also, persistent softness in color cosmetics sales in most markets was a deterrent.

In the **Fragrance** category, revenues fell 11% year over year (down 10% at cc) to \$349 million caused by softness in various designer scents like Jo Malone London mainly due to the coronavirus outbreak. This along with expiration of the Tory Burch license agreement in Dec, 2019 acted as a deterrent.

Hair Care sales totaled \$119 million, down 13% year on year (down 12% at cc). This was caused by lower sales from Aveda, and Bumble and bumble owing to the coronavirus outbreak.

Regional Results

Sales in the **Americas** declined 23% year over year (also at cc) to \$892 million, due to reduced sales in brick & mortar stores following retail store closures in March due to the coronavirus outbreak. Nevertheless, growth in online sales during this time offered some respite.

Sales in **Europe, the Middle East & Africa** region declined 6% (down 5% at cc) to \$1,525 million due to the coronavirus outbreak. Nevertheless, gains in the online and travel retail offered some respite.

In the **Asia-Pacific** region, sales fell 4% (down 1% at cc) to \$928 million, thanks to lower sales following store closures due to the pandemic. Nevertheless, online sales increased double-digits during the quarter.

Other Financial Updates

Net cash flow used for operating activities for nine months ended Mar 31, 2020 came in at \$1.95 billion. Further, to maintain financial flexibility, the company has decided to suspend its next quarterly dividend which was due to be paid in Jun, 2020.

Guidance

Estee Lauder anticipates majority of its retail stores to remain shut through most of fourth-quarter fiscal 2020. The company expects these store closures to continue impacting the global prestige beauty negatively. Given the uncertainty related to the pandemic, management is not providing any guidance for the fourth quarter and fiscal year 2020.

During the third quarter, the company undertook various expense-control measures that included suspending non-essential recruits among others. In fact, these measures have resulted in nearly \$250 million of savings during the quarter. Moreover, Estee Lauder expects these cost-control measures to deliver increased benefits in the fourth quarter.

On Apr 15, the company took various other measures including salary cuts for senior executives and other management employees along with furloughing workers, among others. These along with other cost-control measures implemented in the third quarter are expected to reduce operating expenses by \$500-\$600 million in the fourth quarter.

Quarter Ending **03/2020**

Report Date	May 01, 2020
Sales Surprise	9.50%
EPS Surprise	18.06%
Quarterly EPS	0.85
Annual EPS (TTM)	5.27

Recent News

Estee Lauder Shuts Stores, Draws for Credit Amid Coronavirus Fears – Apr 15, 2020

Estee Lauder informed that most of the retail stores across the Americas, Europe and the Middle East & Africa (operated by the company as well as its customers) have been shut since mid-March. Also, air travel has been restricted, which is hurting Estee Lauder's travel retail operations. Nevertheless, most retail stores in the Asia/Pacific region have been reopening over the last few weeks.

Also, Estee Lauder is witnessing higher online sales growth worldwide amid the coronavirus crisis. Also, most of the company's manufacturing facilities are operational right now, but in limited capacity. Apart from these factors, the company has undertaken various measures to enhance its financial flexibility during the crisis. In this regard, Estee Lauder has drawn down the full amount under its \$1.5-billion revolving credit facility. Also, management has issued \$700-million aggregate principal amount of 2.6% senior unsecured notes that are due in 2030.

Further, the company has been undertaking expense-control measures, postponing various capital investments, suspending non-essential recruits along with enhancing advertising and promotion expenditures. Among other moves, Estee Lauder temporarily suspended its share buyback plans as well as cancelled plans to give out its next quarterly dividend due in June.

Keeping along these lines, Estee Lauder's executive chairman, president and members of executive leadership team among others are taking salary cuts starting from May 1 until Oct 31, due to the coronavirus crisis. Further, the company's board of directors will give up their cash retainers till November.

Estee Lauder Announces Dividend – Feb 6, 2020

Estee Lauder announced that its board of directors declared dividend of 48 cents per share paid out on March 16, 2020, to shareholders of record at the close of business on Feb 28, 2020.

Valuation

Estee Lauder shares are down 13.5% in the year-to-date period and up 7.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 41.9% and 16.7%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 32.5%, while the sector declined 11%.

The S&P 500 index is down 10.3% in the year-to-date period and up 2.8% in the past year.

The stock is currently trading at 34.93X forward 12-month earnings, which compares to 32.35X for the Zacks sub-industry, 18.52X for the Zacks sector and 20.83X for the S&P 500 index.

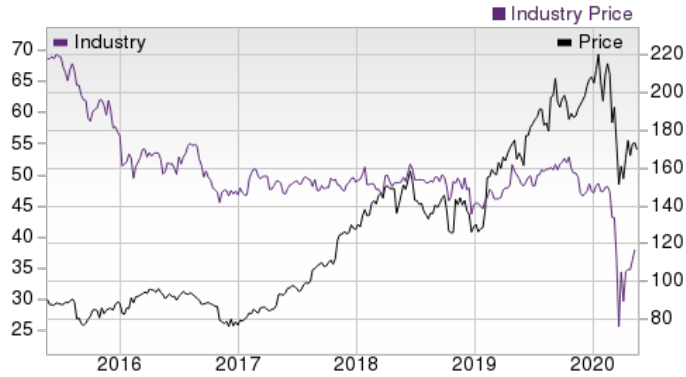
Over the past five years, the stock has traded as high as 36.11X and as low as 21.25X, with a 5-year median of 27.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$187 price target reflects 36.64X forward 12-month earnings.

The table below shows summary valuation data for EL

Valuation Multiples - EL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.93	32.35	18.52	20.83
	5-Year High	36.11	33.93	22.37	20.87
	5-Year Low	21.25	19.65	16.65	15.23
	5-Year Median	27.07	24.43	19.66	17.49
P/S F12M	Current	4.25	3.72	8.65	3.24
	5-Year High	4.69	4.02	11.16	3.44
	5-Year Low	2.28	1.53	8.1	2.53
	5-Year Median	3.11	2.79	9.89	3.01
EV/EBITDA F12M	Current	16.9	27.52	34.18	12.3
	5-Year High	21.24	28.06	37.75	12.65
	5-Year Low	11.83	10.93	29.8	9.05
	5-Year Median	15.32	20.91	34.1	10.81

As of 05/18/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Coty Inc. (COTY)	Neutral	3
e.l.f. Beauty Inc. (ELF)	Neutral	3
Helen of Troy Limited (HELE)	Neutral	3
L'Oreal SA (LRLCY)	Neutral	4
Nu Skin Enterprises, Inc. (NUS)	Neutral	2
Revlon, Inc. (REV)	Neutral	3
Inter Parfums, Inc. (IPAR)	Underperform	5
Shiseido Co. (SSDOY)	Underperform	4

Industry Comparison Industry: Cosmetics				Industry Peers		
	EL	X Industry	S&P 500	COTY	HELE	NUS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	D	-	-	F	B	A
Market Cap	64.17 B	1.25 B	20.09 B	2.60 B	4.30 B	1.83 B
# of Analysts	12	2	14	7	3	4
Dividend Yield	1.08%	0.00%	2.1%	14.62%	0.00%	4.25%
Value Score	D	-	-	D	C	B
Cash/Price	0.08	0.11	0.07	0.52	0.01	0.21
EV/EBITDA	22.11	13.35	12.13	-3.94	21.37	5.74
PEG Ratio	3.02	4.32	2.72	1.85	2.79	9.45
Price/Book (P/B)	14.72	2.36	2.75	0.66	3.69	2.34
Price/Cash Flow (P/CF)	25.40	16.91	10.86	2.11	16.91	7.84
P/E (F1)	39.12	33.01	20.10	14.87	22.28	15.96
Price/Sales (P/S)	4.15	1.96	2.05	0.33	2.52	0.79
Earnings Yield	2.56%	2.97%	4.77%	6.73%	4.49%	6.26%
Debt/Equity	1.60	0.33	0.76	2.42	0.33	0.54
Cash Flow (\$/share)	7.02	1.62	7.01	1.62	10.07	4.50
Growth Score	C	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	16.69%	4.11%	10.87%	-15.60%	8.00%	4.11%
Proj. EPS Growth (F1/F0)	-14.39%	-12.57%	-10.31%	-64.62%	-17.81%	-28.71%
Curr. Cash Flow Growth	13.88%	0.64%	5.51%	-2.37%	13.99%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	8.48%	8.55%	17.39%	4.22%	-3.17%
Current Ratio	1.63	1.69	1.28	1.19	2.01	1.74
Debt/Capital	61.50%	35.23%	44.46%	71.00%	24.56%	35.23%
Net Margin	8.43%	1.07%	10.59%	-38.33%	8.92%	6.49%
Return on Equity	43.18%	10.89%	16.29%	7.26%	19.29%	17.91%
Sales/Assets	0.95	0.95	0.55	0.45	0.95	1.31
Proj. Sales Growth (F1/F0)	-3.62%	-3.95%	-2.49%	-17.62%	1.13%	-8.90%
Momentum Score	C	-	-	F	C	D
Daily Price Chg	5.22%	0.02%	5.21%	3.95%	3.47%	3.98%
1 Week Price Chg	-2.16%	-0.37%	-4.56%	-36.73%	-1.96%	-5.33%
4 Week Price Chg	6.23%	0.01%	4.12%	-39.79%	24.25%	47.55%
12 Week Price Chg	-10.33%	-6.70%	-16.39%	-68.04%	-7.23%	24.40%
52 Week Price Chg	6.49%	-0.20%	-5.84%	-74.67%	23.65%	-31.54%
20 Day Average Volume	1,699,440	43,953	2,651,378	14,003,149	200,778	1,006,006
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-31.78%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.67%	0.00%	-4.48%	-46.87%	37.47%	7.84%
(F1) EPS Est 12 week change	-19.84%	-18.60%	-16.39%	-66.11%	-17.19%	-2.56%
(Q1) EPS Est Mthly Chg	-923.64%	-50.74%	-9.90%	-81.48%	NA	14.80%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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