

Estee Lauder(EL)

\$212.57 (As of 08/24/20)

Price Target (6-12 Months): **\$224.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Estee Lauder has outperformed the industry in the past three months. We note that the company has been undertaking robust cost-control measures. Such efforts along with the Leading Beauty Forward initiative helped it curb operating costs by about 3% in fiscal 2020. Additionally, the company's skincare business has been growing steadily. This, along with solid online business bodes well, especially amid the pandemic. Incidentally, coronavirus-led store closures hurt Estee Lauder's fourth-quarter fiscal 2020 results, wherein the top and the bottom lines fell year over year. In fact, adjusted loss was wider than the consensus mark. Notably, net sales declined 32% due to retail store closures amid the pandemic. Management plans to shut 10-15% of its global freestanding stores along with various low performing department store counters.

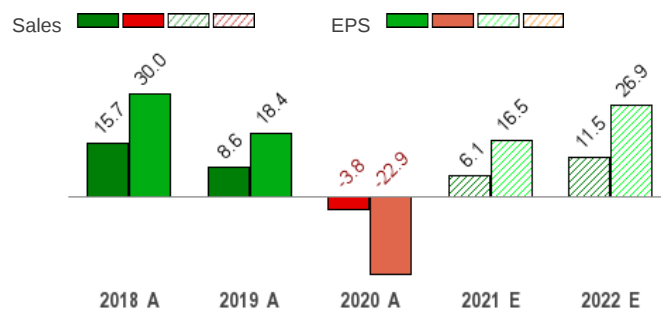
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.42 - \$137.01
20 Day Average Volume (sh)	1,431,752
Market Cap	\$76.5 B
YTD Price Change	2.9%
Beta	0.78
Dividend / Div Yld	\$1.92 / 0.0%
Industry	Cosmetics
Zacks Industry Rank	Bottom 30% (177 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-179.0%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-7.1%
Expected Report Date	10/29/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	4,043 E	4,849 E	4,167 E	3,763 E	16,910 E
2021	3,438 E	4,426 E	3,897 E	3,412 E	15,172 E
2020	3,895 A	4,624 A	3,345 A	2,430 A	14,294 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.53 E	\$2.16 E	\$1.68 E	\$0.78 E	\$6.09 E
2021	\$0.87 E	\$1.75 E	\$1.51 E	\$0.68 E	\$4.80 E
2020	\$1.67 A	\$2.11 A	\$0.85 A	-\$0.53 A	\$4.12 A

*Quarterly figures may not add up to annual.

P/E TTM	51.9
P/E F1	44.3
PEG F1	3.4
P/S TTM	5.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

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.

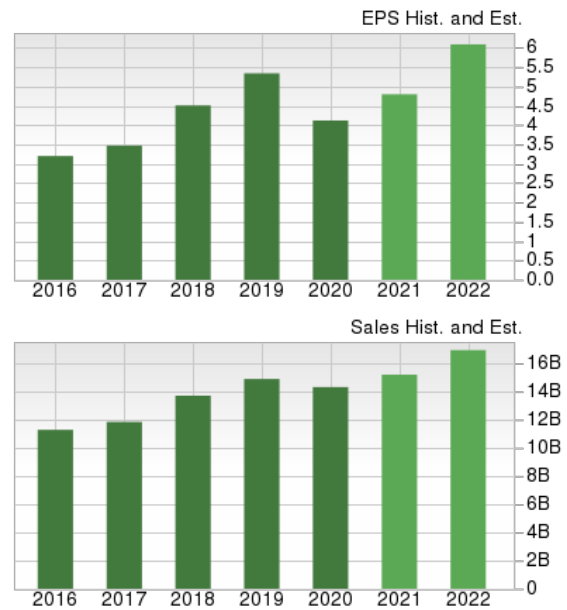
Estee Lauder's manufacturing and research facilities are spread across the U.S., Canada, Belgium, Switzerland, Japan, South Africa and the U.K.

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** (51.6% of fiscal 2020 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** (33.5% of fiscal 2020 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** (10.9% of fiscal 2020 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** (3.6% 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** (26.5% of fiscal 2020 sales); **Europe, the Middle East & Africa** (43.8% of fiscal 2020 sales); and **Asia-Pacific** (29.6% of fiscal 2020 sales).



Reasons To Buy:

▲ **Skincare Sales Strong:** Shares of Estee Lauder have gained 14% in the past three months compared with the industry's growth of 10.6%. Estee Lauder's skincare portfolio has been performing extremely well. Brands such as Estée Lauder, Tom Ford, La Mer, Origins, Darphin and Le Labo witnessed significant organic growth during fiscal 2020. The category is also benefitting from the acquisition of Dr. Jart. During the fourth quarter of fiscal 2020, Skin Care's sales inched up 1% year over year (up 3% at cc) to \$1,612 million.

▲ **Cost-Saving Efforts:** The company has been on track with cost saving measures. In fact, uncertainties related to COVID-19 led management to implement stringent cost-cutainment practices. These include measures such as suspending travel, meetings, consulting, non-essential recruits, salary cuts for senior executives and other management employees along with furloughing workers, among others.

Markedly, cost-saving actions aided the company to reduce operating expenses by nearly 22% during the fourth quarter of fiscal 2020. For fiscal 2020 as a whole, operating expenses declined by 3% or by \$240 million, primarily reflecting savings from the Leading Beauty Forward initiative as well as cost-containment actions taken in response to COVID-19 in the second half of the fiscal year.

▲ **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 been witnessing recovery owing to reopening of retail stores with reduced working hours owing to relaxations in coronavirus-induced lockdowns. During the fourth quarter of fiscal 2020, almost every brand and sales channel depicted strong growth in Mainland China, which in turn led to an organic sales growth of nearly 60%. Premium and luxury segments of prestige skincare were seen to perform exceptionally well in the region, in the said 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 has been 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. Markedly, online sales including Retailer.com represented more than 40% of the company's total sales in the fourth quarter of fiscal 2020.

▲ **Financial Status:** Estee Lauder's long-term debt (including long-term operating lease liabilities) of \$7,192 million as of Jun 30, 2020, fell 0.3% sequentially. Further, the company had cash and cash equivalents of \$5,022 million as of Jun30, which is sufficient to fund its current debt of \$1,222 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.

Estee Lauder's cost-control measures amid the coronavirus outbreak are encouraging. Additionally, it has been depicting strong growth in its and online business.

Reasons To Sell:

▼ **Q4 Results Unimpressive:** The company's fourth-quarter fiscal 2020 performance was rather disappointing, with the top and the bottom line deteriorating year over year. Moreover, the company's loss was wider than the Zacks Consensus Estimate and sales missed the same. Results were majorly hurt by coronavirus-led hurdles.

For the fourth quarter, the company posted adjusted loss of 53 cents per share compared with adjusted net earnings of 64 cents per share in the year-ago quarter. On a constant-currency (cc) basis, adjusted loss came in at 50 cents per share. Further net sales of \$2,430 million declined 32% year over year (down 31% at cc). The downside was caused by retail store closures due to the pandemic.

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

▼ **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. 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.

Moreover, as part of the two-year Post-COVID Business Acceleration Program, the company plans to reduce retail footprint, especially in Europe, the Middle East & Africa and in North America regions. Through this plan management expects to shut 10-15% of its freestanding stores worldwide along with various low performing department store counters. The plan is expected to start during the first quarter of fiscal 2021.

▼ **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 raise the risk of the business becoming obsolete. Also, uncertainty surrounding government stimulus and a contentious November election may impact consumer spending activity.

Last Earnings Report

Estee Lauder's Q4 Loss Wider Than Estimates, Sales Down

The Estee Lauder Companies Inc. reported fourth-quarter fiscal 2020 results, with the top and the bottom line deteriorating year over year. Moreover, the company's loss was wider than the Zacks Consensus Estimate and sales missed the same. Results were majorly hurt by coronavirus-led hurdles.

Nevertheless, the company undertook several efforts to preserve its financial flexibility amid the coronavirus pandemic. These include curbing advertising and promotional activities, travel, consulting and meetings among others. Also, it reduced capital investments amid the crisis.

Quarter Ending 06/2020

Report Date	Aug 20, 2020
Sales Surprise	-1.32%
EPS Surprise	-178.95%
Quarterly EPS	-0.53
Annual EPS (TTM)	4.10

Quarter in Detail

The company posted adjusted loss of 53 cents per share, which was wider than Zacks Consensus Estimate of a loss of 19 cents. Notably, the company posted adjusted net earnings of 64 cents per share in the year-ago quarter. On a constant-currency (cc) basis, adjusted loss came in at 50 cents per share.

Estee Lauder's net sales of \$2,430 million missed the Zacks Consensus Estimate of \$2,462.5 million. Sales declined 32% year over year (down 31% at cc). The downside was caused by retail store closures due to the coronavirus pandemic. Nevertheless, the decline was partially offset by strong online sales.

Gross profit came in at \$1,663 million, down 40%. Also, gross margin contracted 830 basis points (bps) to 68.4%.

The company reported operating loss of \$543 million against operating income of \$216 million reported in the year-ago quarter.
Product-Based Segment Results

Skin Care's sales inched up 1% year over year (up 3% at cc) to \$1,612 million. Makeup revenues plunged 62% year over year (down 61% at cc) to \$545 million. In the Fragrance category, revenues fell 57% year over year (down 56% at cc) to \$171 million. Hair Care sales totaled \$98 million, down 35% year on year (also at cc).

Regional Results

Sales in the Americas declined 54% year over year (also at cc) to \$516 million. Revenues in Europe, the Middle East & Africa region declined 40% (down 39% at cc) to \$981 million. Nevertheless, in the Asia-Pacific region sales increased 12% (up 16% at cc) to \$933 million.

Other Financial Updates

The company concluded the quarter with cash and cash equivalents of \$5,022 million, long-term debt of \$4,914 million and shareholders' equity of \$3,962 million.

Net cash flow used for operating activities for year ended Jun 30, 2020 came in at \$2,280 million.

Store Reopening Update

In Asia/Pacific, almost all retail stores have reopened which were temporarily shut due to coronavirus-induced restrictions. In Europe, the Middle East & Africa retail stores began reopening since June. At the end of June, nearly 15% of the stores were shut. Further, stores began reopening in the Americas with nearly 20% of the stores remaining shut at the end of June.

Other Updates

In the wake of the coronavirus outbreak, the company has initiated a two year Post-COVID Business Acceleration Program. The program aims to reduce Estee Lauder's retail footprint, especially in Europe, the Middle East & Africa and in North America regions alongside increasing its investments in the digital space. This program bodes well in the current environment wherein customers are increasingly shopping online. Through this plan management expects to shut 10%-15% of its freestanding stores worldwide along with various low performing department store counters. The plan which is expected to start during the first quarter of fiscal 2021 will provide annual benefits in the range of \$300-\$400 million, before taxes and once fully operational.

Guidance

Given the uncertainty related to the pandemic, management is not providing any guidance for fiscal 2021.

For the first quarter of fiscal 2021, the company projects revenues to decline in the band of 12-13% that includes a contribution of nearly 2.5% from Dr. Jart+ acquisition. Also adverse currency impact is expected to be 1% to the sales. Excluding these, management expects net sales to decrease 14%-15% in the quarter. Further, adjusted earnings are anticipated between 80 cents and 85 cents in the fiscal first quarter.

Recent News

Estee Lauder Announces Quarterly Dividend – Aug 20, 2020

Estee Lauder declared quarterly dividend of 48 cents per share, on its Class A and Class B Common Stock, payable on Sep 15 to shareholders of record as on Aug 31.

Valuation

Estee Lauder shares are up 3.2% in the year-to-date period and 7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 28.2% and 5.5%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 23.7%, while the sector declined 2.4%.

The S&P 500 index is up 6.7% in the year-to-date period and 20.5% in the past year.

The stock is currently trading at 40.91X forward 12-month earnings, which compares to 38.72X for the Zacks sub-industry, 20.04X for the Zacks sector and 22.83X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.9X and as low as 21.25X, with a 5-year median of 27.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$224 price target reflects 43.11X 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	40.91	38.72	20.04	22.83
	5-Year High	42.9	38.72	22.37	22.83
	5-Year Low	21.25	19.65	16.63	15.25
	5-Year Median	27.72	24.86	19.58	17.58
P/S F12M	Current	4.95	4.62	9.49	3.7
	5-Year High	5.02	4.62	11.15	3.7
	5-Year Low	2.28	1.53	8.1	2.53
	5-Year Median	3.39	2.86	9.89	3.05
EV/EBITDA F12M	Current	19.83	25.22	35.47	12.89
	5-Year High	22.27	33.19	37.49	14.22
	5-Year Low	11.83	8.72	25.79	9.05
	5-Year Median	16.05	17.87	33.83	11.02

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Helen of Troy Limited (HELE)	Outperform	2
Nu Skin Enterprises, Inc. (NUS)	Outperform	1
Coty Inc. (COTY)	Neutral	3
e.l.f. Beauty Inc. (ELF)	Neutral	3
Inter Parfums, Inc. (IPAR)	Neutral	3
L'Oreal SA (LRLCY)	Neutral	3
Revlon, Inc. (REV)	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	Outperform	Outperform
Zacks Rank (Short Term)	4	-	-	3	2	1
VGM Score	C	-	-	C	C	B
Market Cap	76.52 B	1.37 B	23.81 B	3.04 B	5.36 B	2.46 B
# of Analysts	12	3	14	7	3	5
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	3.14%
Value Score	D	-	-	C	D	B
Cash/Price	0.07	0.06	0.07	0.45	0.02	0.16
EV/EBITDA	26.26	14.32	13.37	-4.10	25.91	7.51
PEG Ratio	3.42	3.09	3.02	1.34	3.34	2.84
Price/Book (P/B)	19.32	2.86	3.17	0.77	4.39	3.11
Price/Cash Flow (P/CF)	32.96	19.81	12.77	2.46	21.04	10.62
P/E (F1)	44.26	40.24	21.72	10.83	21.76	15.90
Price/Sales (P/S)	5.35	2.43	2.48	0.38	3.06	1.07
Earnings Yield	2.26%	2.44%	4.44%	9.27%	4.59%	6.30%
Debt/Equity	1.82	0.43	0.76	2.42	0.30	0.53
Cash Flow (\$/share)	6.45	1.60	6.93	1.62	10.07	4.50
Growth Score	B	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	14.73%	5.98%	10.41%	-15.60%	8.72%	3.24%
Proj. EPS Growth (F1/F0)	16.46%	-4.92%	-5.05%	96.95%	4.66%	-3.03%
Curr. Cash Flow Growth	-8.37%	5.90%	5.20%	-2.37%	13.99%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	7.97%	8.16%	8.50%	17.39%	4.22%	-3.17%
Current Ratio	1.72	1.48	1.33	1.19	2.07	1.62
Debt/Capital	64.48%	34.92%	44.50%	71.00%	22.95%	34.81%
Net Margin	4.79%	2.38%	10.13%	-38.33%	9.81%	6.33%
Return on Equity	34.57%	7.95%	14.66%	7.26%	20.17%	17.60%
Sales/Assets	0.82	0.84	0.51	0.45	0.94	1.31
Proj. Sales Growth (F1/F0)	6.14%	-1.41%	-1.45%	-1.41%	7.44%	-0.10%
Momentum Score	D	-	-	A	D	B
Daily Price Chg	2.69%	1.19%	1.32%	5.28%	2.94%	0.53%
1 Week Price Chg	-2.40%	-0.36%	-1.45%	-9.55%	-1.76%	0.08%
4 Week Price Chg	10.23%	2.15%	3.38%	-0.50%	11.37%	8.76%
12 Week Price Chg	6.06%	3.52%	7.69%	-9.11%	17.22%	27.80%
52 Week Price Chg	6.20%	0.00%	3.85%	-54.40%	41.81%	19.11%
20 Day Average Volume	1,431,752	54,416	1,873,293	7,764,725	121,095	477,931
(F1) EPS Est 1 week change	-7.86%	0.00%	0.00%	4.03%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.08%	0.00%	1.00%	1.98%	0.00%	20.84%
(F1) EPS Est 12 week change	-7.22%	0.00%	3.40%	7.95%	25.08%	36.14%
(Q1) EPS Est Mthly Chg	-22.17%	0.00%	0.00%	11.11%	0.00%	27.02%

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	B
Momentum Score	D
VGM Score	C

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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