

Estee Lauder(EL)

\$167.76 (As of 03/25/20)

Price Target (6-12 Months): **\$176.00**

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:D

Value: F

Growth: A

Momentum: F

Summary

Estee Lauder has outperformed the industry in the past year, courtesy of robust sales and earnings history. The company has been gaining from growth across most brands and sales channels. The trend continued in second-quarter fiscal 2020, with the top and the bottom line surpassing estimates and rising year on year. Performance was supported by growth in emerging markets, travel retail and online sales. However, the company is witnessing certain headwinds caused by the recent outbreak of the coronavirus in China and around the world. Additionally, adverse currency movements are expected to negatively impact the company's performance in fiscal 2020. Moreover, challenges in Hong Kong's retail environment and tariff impacts in China are a concern. Notably, management lowered sales and earnings guidance for fiscal 2020.

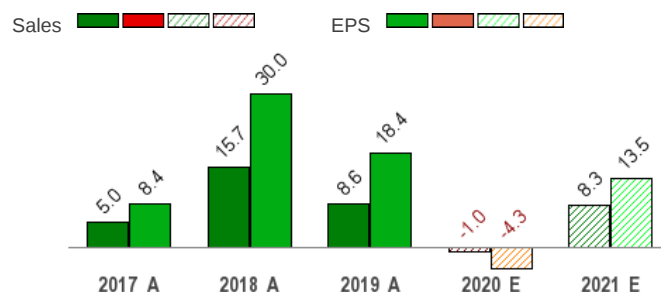
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.42 - \$137.01
20 Day Average Volume (sh)	3,296,693
Market Cap	\$60.3 B
YTD Price Change	-18.8%
Beta	0.69
Dividend / Div Yld	\$1.92 / 1.1%
Industry	Cosmetics
Zacks Industry Rank	Bottom 15% (215 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	6.0%
EPS F1 Est- 4 week change	-10.4%
Expected Report Date	05/01/2020
Earnings ESP	-5.3%
P/E TTM	28.1
P/E F1	32.8
PEG F1	2.5
P/S TTM	3.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,033 E	4,899 E	3,803 E	3,514 E	15,946 E
2020	3,895 A	4,624 A	3,276 E	2,968 E	14,719 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	\$1.77 E	\$2.14 E	\$1.45 E	\$0.68 E	\$5.80 E
2020	\$1.67 A	\$2.11 A	\$1.00 E	\$0.30 E	\$5.11 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/25/2020. The reports text is as of 03/26/2020.

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.

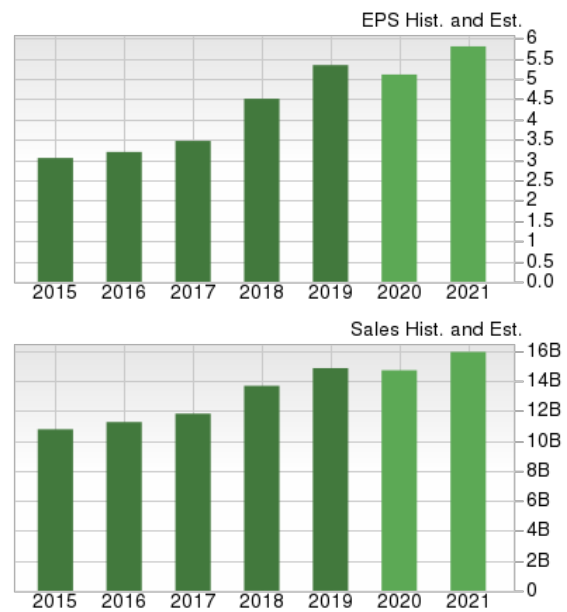
Estee Lauder's manufacturing and research facilities are spread across the U.S., Canada, Belgium, Switzerland, Japan, South Africa and the U.K.

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:

▲ **Stellar Performance Boost Stock:** Estee Lauder has been performing well on strong brand growth across most sales channels and regions. Such upsides combined with efficient operational strategies have led to remarkable top-line and bottom-line trends. With second-quarter fiscal 2020 results, the company marked its 22nd and 12th straight quarter of earnings and sales beat, respectively. Also, the metrics improved year over year. Apart from strong brands, performance in the quarter was aided by solid skincare and fragrance categories along with strength in travel retail and online channel sales. Also, China and other emerging regions continued to perform well. The sturdy brand performances were supported by focus on innovation as well as prudent marketing and advertising strategies. Moreover, savings from the Leading Beauty Forward initiative provided the company additional financial strength to invest in growth moves. Estee Lauder's shares have gained 3% in a year, against the industry's decline of 34.8%.

Estee Lauder has been gaining from strong brands and growth in the emerging markets. Additionally, it has been depicting strong growth in its online and travel retail network.

▲ **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. In fiscal second quarter fiscal, the company witnessed growth in most emerging markets. This was backed by customer-oriented products and efficient social media operations.

Markedly, China remains a major area of focus for Estee Lauder. In fact, in second-quarter fiscal 2020, the region witnessed robust double-digit gains across most brands. Sales channels, especially online, grew significantly. Management, as part of its long-term emerging market strategy, has been making constant investments in China for the past 20 years and plans to continue growing market share in the region. Though the company is currently battling headwinds related to Coronavirus and tariffs in China, the country's long-term demographic and economic trends keeps Estee Lauder encouraged. Additionally, it is striving to expand in other emerging regions as well.

▲ **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 is 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 boosting the company's online sales, thus being a major growth driver for its overall top line. In fiscal second quarter, the online business witnessed double-digit growth across all online distribution channels along with growth in all regions.

The company is focused on expanding brand presence across various third-party sites, rolled out new digital payment technologies and enhanced its loyalty programs as it continues to widen market reach in the United States. In North America, the company gained from solid online sales from La Mer brand driven by unique product assortment and an effective holiday campaign during fiscal second quarter. Earlier, management stated that Estee Lauder has been gaining from the launch of Tom Ford Beauty and Jo Malone London brands on TMall in China. Also, significant contributions are being derived from other smaller regions. In fact, online markets in Spain, Greece, Israel and India are expanding rapidly and present solid growth opportunities.

▲ **Travel Retail to Drive Sales Further:** Estee Lauder has been strongly focused on enhancing its travel retail business, which remains a major sales driver for the company. Travel retail sales were sturdy in second-quarter fiscal 2020, with broad-based growth in most brands, regions and categories. During fiscal second quarter, the company's top eight brands grew double digits in the segment. Strength in skin care and various fragrance along with expanded targeted reach drove growth. Also, innovative pre-retail campaign, different retailers' activation and effective advertising aided performance.

Although Estee Lauder has been facing certain challenges in travel retail stemming from the recent outbreak of coronavirus, management is optimistic about gradual recovery in the future. That said, Estee Lauder's travel retail sales have been benefitting from rise in traffic, effective launches and impressive marketing strategies. Further, the company expects the travel retail business to gain from rising passenger traffic, favorable fundamentals and higher conversions. Well, the company remains committed toward undertaking more efforts to enhance conversions through strategic initiatives. To this end, it has been undertaking various endeavors like better customer insights; enhanced merchandising and improved digital marketing.

Reasons To Sell:

▼ **Threats in China & Dismal Outlook:** We note that Estee Lauder is witnessing a difficult time caused by the recent outbreak of coronavirus in China and globally. In fact, management anticipates the next few months to remain tough as consumer traffic in China remains slow. The outbreak has led to a number of store closures as well as limited hours of work. Moreover, restricted global travel has been affecting the company's travel retail business.

Management is cautious about tariff impacts and outbreak of coronavirus in China. Moreover, unfavorable currency rate is a worry.

Apart from this, management is cautious about factors like tariff impacts in China and challenges in Hong Kong's retail environment. Incidentally, the company lowered its outlook for fiscal 2020. For fiscal 2020, adjusted earnings are projected in the band of \$5.60-\$5.70 compared with previous view of \$5.85-\$5.93. At constant currency, earnings are projected to grow in the range of 9-11% compared with the previous guidance of 10-12% growth. Net sales are expected to rise 6-8% compared with previous view of 7-8% for fiscal 2020.

▼ **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. In fiscal 2020, currency movements are likely to affect the bottom line by almost 5 cents. Further, currency fluctuations are likely to have a 1% negative impact on the top line in the same period.

▼ **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.

▼ **Cheaper Alternatives & Competition:** The cosmetics industry is very competitive not only with regard to the peers existing in the space but also due to the fact that the market is flooded with alternative products. Therefore, it is very difficult to advertise a product and convert into sales, as many cheaper generic products are available. Cheaper alternatives may hinder customers' loyalty for the brand, thus impacting the sale of its products.

Last Earnings Report

Estee Lauder Q2 Earnings & Sales Beat Estimates

Quarter Ending **12/2019**

Estee Lauder Companies Inc. reported second-quarter fiscal 2020 adjusted earnings per share of \$2.11, beating the Zacks Consensus Estimate of \$1.91. This reflected growth of 21% on adjusted as well as constant-currency basis. The upside was driven by a robust top-line performance.

Report Date	Feb 06, 2020
Sales Surprise	5.95%
EPS Surprise	10.47%
Quarterly EPS	2.11
Annual EPS (TTM)	5.97

Estee Lauder's net sales of \$4,624 million surpassed the Zacks Consensus Estimate of \$4,364 million. Moreover, sales increased 15% year over year (16% at cc). Results gained from strong international market performance (especially Asia/Pacific region); strength in Skin Care and Fragrance categories, and solid sales of Estee Lauder and various other luxury brands. Also, the company's travel retail and online channels performed well. Further, it gained from innovation and digital marketing.

Gross profit came in at \$3,583 million, up 16%. Also, gross margin expanded 20 basis points (bps) to 77.5%.

However, operating income declined 66% year over year to \$261 million. Operating income margin declined significantly to 5.6% from 19.3% reported in the year-ago period.

Product-Based Segment Results

Skin Care reported sales growth of 27% year over year (up 28% at cc) to \$2,205 million, backed by strength in Estee Lauder and La Mer brands.

Makeup revenues were up 6% year over year (up 7% at cc) to \$1,660 million, owing to solid sales of Estee Lauder, Tom Ford Beauty, La Mer and Bobbi Brown, partly negated by softness in Smashbox and BECCA.

In the Fragrance category, revenues improved 8% year over year (up 9% at cc) to \$581 million driven by increased sales of Jo Malone London and Tom Ford Beauty.

Hair Care sales totaled \$162 million that grew 5% year on year (also at cc). This can be attributed to strong sales of Aveda and Bumble and bumble.

Regional Results

Sales in the Americas increased 1% year over year (also at cc) to \$1,226 million, driven by growth from Estee Lauder, Origins and La Mer. Further, the fragrance category increased in double digits in North America.

Sales in Europe, the Middle East & Africa region improved 18% (also at cc) to \$2,079 million, backed by strong gains in the online, travel retail and specialty-multi channels.

In the Asia-Pacific region, sales rose 29% (up 30% at cc) to \$1,319 million, with broad-based growth across most markets.

Other Financial Updates

Net cash flow used for operating activities during the first half of fiscal 2020 was \$1.26 billion.

In a separate press release, management announced quarterly dividend of 48 cents for Class A and Class B shares. This is payable on Mar 16, 2020, to shareholders of record as of Feb 28.

Guidance

Estee Lauder expects solid demand for its premium products in fiscal 2020, wherein it anticipates to deliver above-industry growth.

However, the company expects coronavirus to impact global prestige beauty industry over the next few months. The company's guidance includes expected impacts from the recent coronavirus outbreak.

For fiscal 2020, adjusted earnings are projected in the band of \$5.60-\$5.70 compared with prior view of \$5.85-\$5.93. At cc, earnings are projected to grow in the range of 9-11% compared with the previous guidance of 10-12% growth. Currency is likely to adversely impact the bottom line by almost 5 cents.

Net sales are expected to rise 6-8% compared with previous view of 7-8% for fiscal 2020. The company's acquisition of Have & Be is expected to contribute around 1% to overall sales. Currency fluctuations are likely to have a 1% negative impact on the top line.

Recent News

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.

Estee Lauder's Have & Be Buyout to Boost Skin Care Unit - Dec 17, 2019

Estee Lauder concluded the acquisition of two-thirds shares of Have & Be Co. — the Seoul-based skin care company — which owns brands like Dr. Jart+ and Do The Right Thing. In 2015, Estee Lauder had made a minor investment in Have & Be. Management had stated that Have & Be had an enterprise value of \$1.7 billion. Also, the company had earlier announced to fund this transaction with debt.

Launched in 2005, Dr. Jart+ — Have & Be's skin care brand — focuses on making high-quality products that combine dermatology, art and innovation. Cicapair and Ceramidin are some of the best known skin care collections of the brand. Dr Jart+ offers a broad range of exclusive moisturizers, masks, cleansers and serums, which are sold through specialty-multi channels, travel retail, freestanding stores, high-end department stores and online websites in over 35 countries worldwide.

Notably, Dr. Jart+ has become one of the most popular Korean skin care brands globally, especially among millennials in Asia and the United States. This fast growing brand is expected to help Estee Lauder strengthen its skin care business and expand operations in Asia/Pacific, North America, the U.K. as well as the travel retail network.

Valuation

Estee Lauder shares are down 18.8% in the year-to-date period and up 3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 46% and the Zacks Consumer Staples sector are down 26.6% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 34.8% and 20.7%, respectively.

The S&P 500 index is down 23.8% in the year-to-date period and 13.4% in the past year.

The stock is currently trading at 26.93X forward 12-month earnings, which compares to 25.63X for the Zacks sub-industry, 15.12X for the Zacks sector and 14.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.65X and as low as 21.25X, with a 5-year median of 26.9X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$176 price target reflects 28.25X 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	26.93	25.63	15.12	14.72
	5-Year High	35.65	29.46	22.37	19.34
	5-Year Low	21.25	19.65	15.12	14.72
	5-Year Median	26.9	23.88	19.66	17.42
P/S F12M	Current	3.56	3.13	7.45	2.65
	5-Year High	4.69	4.02	11.16	3.43
	5-Year Low	2.28	1.53	7.45	2.54
	5-Year Median	3.06	2.7	9.89	3
EV/EBITDA F12M	Current	18.01	27.52	34.16	12.28
	5-Year High	22.3	28.06	37.75	12.64
	5-Year Low	12.12	10.93	29.77	9.09
	5-Year Median	15.34	20.57	34.07	10.8

As of 03/25/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Top Peers

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

Industry Comparison Industry: Cosmetics				Industry Peers		
	EL Neutral	X Industry	S&P 500	COTY Neutral	HELE Neutral	NUS Underperform
VGM Score	D	-	-	B	C	D
Market Cap	60.32 B	1.19 B	17.53 B	4.09 B	3.49 B	1.20 B
# of Analysts	12	3	13	7	3	5
Dividend Yield	1.14%	0.00%	2.47%	9.29%	0.00%	6.94%
Value Score	F	-	-	B	C	C
Cash/Price	0.07	0.14	0.07	0.10	0.01	0.31
EV/EBITDA	21.25	13.01	10.68	-4.14	16.29	3.91
PEG Ratio	2.52	3.32	1.64	1.13	2.46	6.19
Price/Book (P/B)	13.10	2.24	2.32	0.91	3.01	1.37
Price/Cash Flow (P/CF)	23.91	15.98	9.40	3.32	15.98	4.80
P/E (F1)	32.68	24.97	14.14	9.10	14.58	10.47
Price/Sales (P/S)	3.80	1.88	1.82	0.49	2.12	0.50
Earnings Yield	3.05%	3.91%	7.02%	10.97%	6.86%	9.54%
Debt/Equity	1.52	0.24	0.70	1.72	0.24	0.50
Cash Flow (\$/share)	7.02	1.62	7.01	1.62	8.69	4.50
Growth Score	A	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	16.51%	0.22%	10.85%	-13.69%	7.74%	4.39%
Proj. EPS Growth (F1/F0)	-4.35%	0.00%	3.53%	-9.01%	4.39%	-33.42%
Curr. Cash Flow Growth	13.88%	-0.29%	5.93%	-2.37%	1.79%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	9.29%	8.55%	8.55%	17.39%	8.28%	-3.17%
Current Ratio	1.69	1.88	1.23	0.86	2.29	2.07
Debt/Capital	60.27%	33.46%	42.57%	63.47%	19.65%	33.46%
Net Margin	11.76%	2.06%	11.64%	-33.12%	11.68%	7.17%
Return on Equity	48.28%	10.07%	16.74%	9.14%	19.84%	20.62%
Sales/Assets	1.07	0.97	0.54	0.46	0.95	1.37
Proj. Sales Growth (F1/F0)	-0.97%	1.77%	2.51%	-9.79%	8.30%	-12.32%
Momentum Score	F	-	-	F	C	F
Daily Price Chg	6.29%	0.00%	2.41%	5.49%	6.25%	4.30%
1 Week Price Chg	-12.32%	-9.18%	-16.96%	-42.34%	-18.10%	1.07%
4 Week Price Chg	-11.37%	-14.28%	-23.98%	-46.36%	-22.74%	-15.53%
12 Week Price Chg	-18.78%	-18.77%	-27.80%	-52.18%	-22.80%	-47.29%
52 Week Price Chg	2.98%	-34.43%	-18.55%	-52.89%	19.76%	-55.10%
20 Day Average Volume	3,296,693	49,274	4,285,848	8,907,386	310,337	1,617,267
(F1) EPS Est 1 week change	-6.63%	0.00%	0.00%	-11.92%	0.00%	-4.82%
(F1) EPS Est 4 week change	-10.44%	-2.40%	-1.83%	-12.84%	0.00%	-4.24%
(F1) EPS Est 12 week change	-14.34%	-10.76%	-2.90%	-12.47%	-4.25%	-34.12%
(Q1) EPS Est Mthly Chg	-16.15%	-19.78%	-1.37%	-35.05%	NA	-8.57%

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	F
Growth Score	A
Momentum Score	F
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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