

Estee Lauder Companies Inc.

2Q24: Sales and EPS beat; new restructuring plan added

Maintain Rating: NEUTRAL | PO: 150.00 USD | Price: 134.12 USD

Organic sales -8% YoY; Adj. EPS of \$0.88 vs BofAe \$0.50

Estee Lauder reported 2Q24 organic sales decline of -8% YoY vs BofA/Street estimates of -10%/-9% YoY. Sales of \$4.28bn were +4.2% above BofAe, with better gross margin and SG&A driving adjusted operating income of \$577mil vs our \$305mil estimate for the quarter. EPS of \$0.88 was above estimates, including -13c of drag from higher tax rate and -3c of drag vs our model from non-controlling interests. FY24 EPS guidance was revised to \$2.08-\$2.23 for the year, a 14c reduction at the midpoint, reflecting 37c of incrementally worse tax and interest expense impacts partially offset by less onerous FX and Mid-East disruption impacts. EL also added a restructuring element to its FY25-FY26 recovery plan. This could help bridge the margin gap created by China travel retail likely being smaller in the future.

2Q24 by the numbers

Organic sales by segment: The Americas was -1% (BofAe +2%) with declines in North America partially offset by double-digit growth in Latin America; -14% for EMEA (BofAe -21%), and -7% for Asia/Pacific (BofAe -7%). Skin Care declined -10% YoY (China and Travel Retail mix leans heavily towards Skin Care), with Makeup -8%, Fragrance -1%, and Hair Care -6%. **Gross Margin** declined -60bps YoY to 73.0%, +140bps vs 71.6% BofAe. **Operating Profit & Margin** were \$577mn and 13.5%, vs BofAe at \$305mil and 7.4%.

EL narrows FY24 range on 2Q outperformance

Estee updated its full-year FY24 guidance reflecting continuing recovery with expectations summarized as follows: 1) Organic sales is expected now expected to grow (1%) to +2% YoY vs prior (1%) to +2% YoY (BofAe/Street: -0.5%/-1.0%), with net sales growth in line, suggesting less severe FX and mid-east impacts to topline; 2) Adjusted EPS is expected to be in the range of \$2.08-\$2.23 vs prior \$2.17-\$2.42 compared to BofAe and Street estimates of \$2.30/\$2.33 which now includes -53c of tax and interest expense impacts (-37c worse than 1Q guide), partially offset by mid-east disruption of only -8c now (+14c vs 1Q guide), and FX translation hit of -7c (+9c better vs 1Q guide). For 3Q24, management has forecasted organic sales growth of +4-6% YoY (BofA +6%, Street +5%), and EPS of \$0.36 to \$0.46 (BofA \$0.85/Street \$0.83), implying a combined 2Q and 3Q EPS of \$1.24 to \$1.34 vs BofAe of \$1.35.

Maintain Neutral rating

We maintain our Neutral rating and \$150 PO given long-term growth recovery prospects in China and overall strength of the beauty category offset by near-term inventory overhang and pace of recovery.

05 February 2024

Equity

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Stock Data

Price	134.12 USD
Price Objective	150.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-2-7
52-Week Range	102.22 USD - 267.91 USD
Mrkt Val (mn) / Shares Out (mn)	48,471 USD / 361.4
Free Float	92.5%
Average Daily Value (mn)	337.50 USD
BofA Ticker / Exchange	EL / NYS
Bloomberg / Reuters	EL US / ELN
ROE (2024E)	16.2%
Net Dbt to Eqty (Jun-2023A)	63.7%
ESGMeter™	High

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Timestamp: 05 February 2024 08:37AM EST

EL 2Q24 results

Exhibit 2: EL 2Q24 Earnings Summary

(Dollars in millions except per share amount)

	2Q24	BofA	% Diff.	\$ Diff	2Q23	% Diff.	Consensus	% Diff.
Net Sales	\$4,280	\$4,107	4.2%	\$173	\$4,621	-7.4%	\$4,168	2.7%
COGS	1,154	1,166	-1.0%	(12)	1,219	-5.3%	1,217	-5.2%
Gross Profit	\$3,126	\$2,942	6.3%	\$184	\$3,402	-8.1%	\$2,980	4.9%
SG&A	2,549	2,637	-3.3%	(88)	2,634	-3.2%	2,652	
Operating Income	\$577	\$305	89.3%	\$272	\$768	-24.9%	\$335	72.4%
Interest Expense, net	55	52	5.2%	3	24	129.2%	57	-3.4%
Pre-tax Income	\$522	\$252	106.8%	\$270	\$744	-29.8%	\$278	88.0%
Tax Exp.	196	71	177.3%	125	185	5.9%	77	153.5%
Non-Controlling Int.	(11)	0	N/A	(11)	(3)	266.7%	3	-455.9%
Net Income	\$315	\$182	73.3%	\$133	\$556	-43.3%	\$203	54.8%
EPS	\$0.88	\$0.50	73.5%	\$0.37	\$1.54	-43.3%	\$0.55	60.1%
Diluted Shares Out.	360.0	360.4	-0.1%		360.4	-0.1%	361.5	-0.4%

Source: Company filings, VisibleAlpha, BofA Global Research

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Exhibit 3: Income Statement Ratios

EL 2Q24 Earnings Summary

	2Q24	BofA	Bps. Diff.	2Q23	Bps. Diff.	Consensus	Bps. Diff.
Gross Margin	73.0%	71.6%	140 bps.	73.6%	-60 bps.	71.5%	150 bps.
SG&A Ratio	59.6%	64.2%	-460 bps.	57.0%	260 bps.	63.6%	-410 bps.
Operating Margin	13.5%	7.4%	610 bps.	16.6%	-310 bps.	8.0%	550 bps.
Tax Rate	37.5%	28.0%	950 bps.	24.9%	1270 bps.	27.8%	970 bps.
Net Margin	7.4%	4.4%	290 bps.	12.0%	-470 bps.	4.9%	250 bps.

Source: Company filings, VisibleAlpha, BofA Global Research

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Price objective basis & risk

Estee Lauder Companies Inc. (EL)

Our \$150 PO is based on a target P/E multiple of 30x our CY25e EPS (+5x vs prior target, reflecting what we see as materially rebased earnings at low risk of further downward revision). Our multiple implies a +20% relative premium vs. a group of EL's beauty peers, up from a +5% implied discount previously and near EL's 3yr average premium of 14% as they retool their cost structure and channel exposure in light of what now appears to be a more muted Chinese consumption environment.

Downside risks to our price objective are persistent weakness in developed markets over the long term, a slowdown in EL's faster-growth channels and geographies, higher brand investment needs, recession, prolonged impact of the COVID-19 pandemic, a deceleration in organic sales, subsequent erosion of EL's valuation premium and acquisition of TOM FORD does not materialize. Risks to the upside are faster-than-expected recovery in Makeup, particularly in the US, an accelerated return to global international travel, and middle-class consumption in burgeoning developing markets.

Analyst Certification

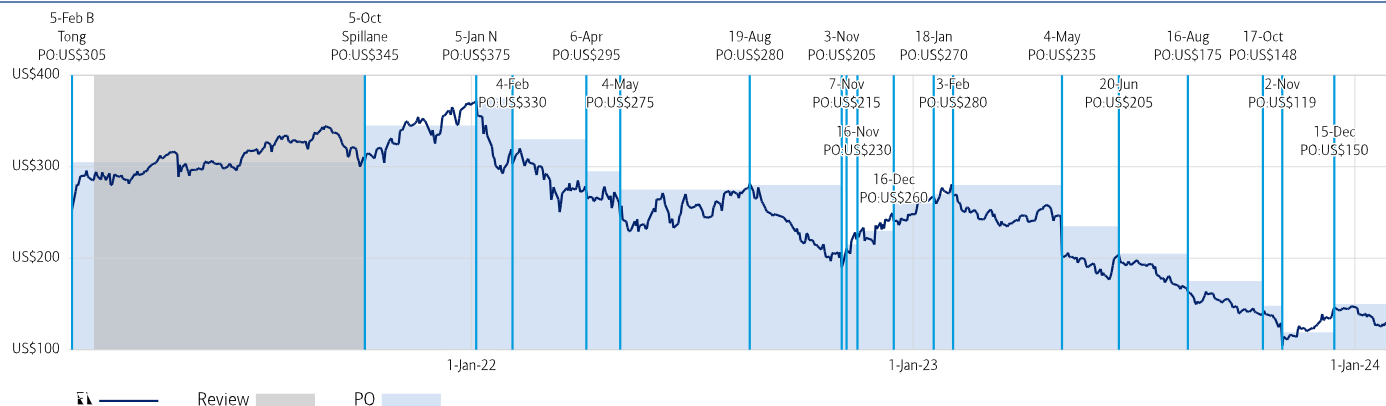
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Estee Lauder (EL) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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