

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Estee Lauder Companies Inc at Sanford C Bernstein Strategic Decisions Conference

EVENT DATE/TIME: MAY 29, 2024 / 1:00PM GMT

CORPORATE PARTICIPANTS

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Guillaume Jesel *The Estée Lauder Companies Inc. - President of Global Brands, Tom Ford Beauty, Balmain Beauty & Luxury Business Development*

CONFERENCE CALL PARTICIPANTS

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

PRESENTATION

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Okay. I can see the timer has started. So we're going to kick things off without any further ado. Good morning, everybody. Thank you for coming on. It's a busy room, but there are a couple of seats I think, scattered around, especially at the front. So please feel free to take one.

For those of you who don't know me, my name is Callum Elliott. I'm Bernstein's U.S. HBC and beverages analyst. And I'm delighted to welcome Fabrizio Freda, who needs not much introduction as the CEO of Estee Lauder Companies. Alongside Fabrizio, is Guillaume Jesel, who is the President and CEO of Tom Ford and Head of Luxury Business Development. I felt like I might have massacred the pronunciation of your surname there, Guillaume.

Just a quick housekeeping item. On the screen behind me, we should have a safe harbor statement for the Estee Lauder Companies regarding forward-looking information and non-GAAP disclosures of which you should all be aware. With that out the way, though, Fabrizio, Guillaume, thank you for joining us.

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Pleasure. Good morning.

Guillaume Jesel *The Estée Lauder Companies Inc. - President of Global Brands, Tom Ford Beauty, Balmain Beauty & Luxury Business Development*

Morning.

QUESTIONS AND ANSWERS

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

So Fabrizio, I think we need to start with growth. And 2 years ago, when you were here with Peter Jueptner, Head of your International business, we talked a lot about your compass, your sort of long-term strategic road map. For the past couple of years it has clearly seen a lot of volatility. So as you strategize today on beauty industry growth for the next several years, what do you think will be the primary drivers of growth for the beauty industry and prestige in particular for your business? And how has that changed over the past few years since we had that conversation with Peter?

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

©2024 Refinitiv. All rights reserved. Reproduction or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Yes, first of all, the key concept is there's still a lot of growth in front of us in the industry. This is a high-growth industry. The prestige beauty part is really a high-growth industry. There are so many long-term secular activities and changes which are happening that will, in my opinion, confirm this for the next 10 years. It's not only a short-term thing. So let's start from, first of all, the markets. We see 3 blocks. First of all, emerging markets other than China. This group of markets, we look at them altogether. And altogether, they are a very big source of growth for the future, even currently, but also projecting it to the future in the compass sense.

These emerging markets are growing for several reasons. They're at different stages of their development, and I will make a few examples, but they are all growing because the middle class is growing, because the per capita consumption of prestige beauty is growing, because the categories are growing in different ways. For example, some cases, there is low penetration of skin care. This is increasing or lower penetration in makeup, or in fragrance, this is increasing. So there are different category development stages. And they all are growing because of the overall growth of prestige versus mass.

So for example, take India as an example. India has about -- today, 10% of the total industry is prestige luxury. But this part of the industry is growing double than the total industry. So you can easily see how overtime, this becomes 20%, 30%, 40%. The same phenomenon happening in China where in 2017 to today, the penetration of this has more than doubled in terms of the luxury versus total industry. There are many examples of that. So examples of our -- for us, our emerging markets is places like India where we have very high market share, where the growth is very strong, where we are penetrating the market in terms of distribution. There are still a lot of opportunity, there is -- infrastructure is being built. That is -- there is a lot of growth also in the middle class. But the key area is that the online is playing the role -- online commerce is playing the role to make the acceleration of this emerging market much faster. The reason for that is that historically, emerging market, we are growing at least in luxury at the pace of infrastructure because the infrastructure or luxury had to grow ahead of the market.

Now with the online, the ability to reach the consumers which are ready to buy is immediate and take India as an example, the arrival of one of our partners, which is Nykaa online business has changed completely our ability to penetrate. And so our market share now is in the 40% plus, 40% plus of the prestige, so very strong position to grow. So emerging markets will continue to grow. We have a team that work on them. It's a very, very strong team. They also connect them [online].

The second is developed market. Developed markets are growing very fast. Frankly, one of the consumer industry, which is growing the fastest. The driver of developed markets growth is, for example, in skin care is regimens. People are using more regimens for multiple products or the age of usage of skin care is getting younger. Fragrances. Fragrances have developed -- in developed markets has gone from 2, 3 fragrances in home to 6, 7. So the amount of fragrances in home is -- has increased. And because of these brands, they offer collections a much better ability to penetrate the market than the single brands,

et cetera.

And then importantly, the interest -- again, the interest in high-quality prestige luxury beauty products has increased. So again, also in developed markets, the percentage of growth of prestige is faster than mass. And so the development of the prestige market, the percentage of the total keep increasing in the correct way. So this from a geographical standpoint.

The compass from category standpoint, we still believe skincare as 3 years ago is going to be the fastest-growing category. Now this is a positive because skin care is also the one with the best P&L structure, particularly with the best gross margin in the overall. And so the fact that skin care will continue to grow ahead of the average is actually good for profitability in the entire industry. The -- skin care is also growing, as I said before, because of regimen usage, but also growing because consumers are really seeing the reason for using skin care in different area.

There is anti-aging, probably if you followed our innovation program. Anti-aging is turning into age reversal and technology is going from anti-aging to age reversal. Then there is the instant benefit growth, which is for young consumers that prefer, for example, benefits like luminosity, glow, benefits, which are immediate, which are happening now and that's one other aspect.

And then finally, the growth of care in terms of the expertise consumer is changing. The amount of knowledge about ingredients and all these expertise in making consumer much more capable of driving regimens, instead of using 1 product, using 3 products for night, 3 products for day. And then what is increasing overall in the market is the consumption of night products and the use of product during the night cycles. So this is driving skin care.

What is driving makeup is many aspects, obviously, in many markets, but the contour makeup, for example, is winning in Asia, makeup -- parties makeup doing very well in the West. So different markets drive different part, but makeup is becoming particularly tied to looks and the different looks by different occasion is growing exponentially.

And finally, fragrance is -- I commented it's probably one of the fastest growing categories because of the amount of product in every home. Consumers are using fragrances for different occasions, for different moments. I still remember my father had used 1 fragrance all his life like probably your fathers or mothers as well. But the -- but I already was a revolution, I used 2. But now children use 7, 8; 1 for every kind of occasion for every moment, et cetera. That is a big change of the category, as you can imagine. And this is dramatically increasing the overall consumption. And this is the category which is the biggest percentage of business in prestige luxury versus the total. So it's driving also the growth of this category is also driving the mix between prestige and mass in a very positive way for prestige.

So those are the big changes. The last maybe I want to mention is channels. Channels continue -- the mix of channel continue to grow. Obviously, online continues to accelerate, to increase the percentage of the total, now on average online is more profitable than brick-and-mortar at least in this industry. So this is a

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

©2024 Refinitiv. All rights reserved. Reproduction or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV 

positive growth. Travel retail continue -- will go back to growth, obviously, in the post-COVID environment. It will remain a key channel for discovering for trial of products, particularly for emerging markets and for emerging consumers. And the growth of travel retail in these days, for example, when travel is happening again, around the world is increasing, and not only in Asia, but particularly actually around the world. And this will continue.

There is a very interesting channel, which is exclusive in the East, just starting in the West, which we consider a great opportunity for the future, which is the social selling and the social selling, which means the interaction between the social media activation and the selling. So you can go from Instagram to buy. You can go from TikTok Shop to TikTok social or vice versa. So this interaction between the social moment and the commerce moment, which is, by the way, ongoing in China, explosive growth. It's starting also in the West. And so you will see more of this driving the consumption because the immediacy from media moment and buying moment is obviously a big booster of buying. So that's why I hope I gave you an overview, a category, by channel, by geography, there are many, many reasons why this industry is expected to be a high-growth industry also for the next 10 years.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Incredibly detailed answer. One thing sort of elephant in the room that you didn't talk about, which was China. So we spoke about the emerging market ex-China and developed markets. When we can turn to your business in China specifically. And I guess my question is, between travel retail in China and the domestic Chinese market, Chinese consumers in totality have been a pretty integral part of the growth of your business over the past decade. Where are we today for this Chinese opportunity? And how is that intersection of travel retail for Chinese consumers versus the Mainland Chinese market? How is that channel interaction playing out today? And how is that interaction different maybe to what it looked like before the pandemic?

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Yes, that's also very specific questions. And -- yes, let's start from the last part of your question. What was before the pandemic? Before the pandemic, I'm sure you know in the industry of -- in our industry, so in beauty -- in luxury beauty, there was 40% or 50% is estimated of the consumption or the purchasing act of Chinese consumer was happening outside of China during their travel. So this 40%, maybe 50% of consumption and purchasing that was happening outside of China during COVID obviously came back into China and came back into Mainland business going back into [high-end] business. So both in the traveling high-end situation and in Mainland situation.

So it was a repatriation of a lot of consumption that was happening outside for our industry. That's obviously built the internal industry. Now we -- since the beginning of the story, we really follow Chinese consumers buying a -- Chinese consumer consumption rather than one where they buy, how they buy has been changing in the last 10 years, many times, been evolving. And by the way, it's very volatile also because the Chinese consumer is changing direction on where to buy easily, depending on pricing, depending on interest in the services they get provided, depending on the situation because buying is also a form of entertainment.

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

©2024 Refinitiv. All rights reserved. Reproduction or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

And so traveling, for example, is -- buying during travel is very, very important for Chinese consumers or Chinese travelers. It's part of the joy of traveling, the joy of discovery. So in that sense, today, this is changing again. We see in this moment the traveling consumers around the world increasing. This is obviously the people that travel that go -- these Chinese consumers are traveling back to visit Paris or Tokyo and to be the high class, the high middle class, the high side of the middle class, they are, in this moment, less subject to the pressure in economy or the consumer sentiment issues that we see in Mainland China. So this consumer are buying. This part of business is growing.

And when they travel, they buy sometimes in the Paris airport or in the London airport or they buy downtown in London at Harrods, at Selfridges, or they buy in Tokyo. Actually, Tokyo in this smoment is really booming in the sense, they buy in Tokyo mainly in the Tokyo department stores, for example, and they buy products which are interesting to them and maybe they look for novelty, they look sometimes for what they can buy at lower price.

As you know, the yen is low in this moment. So it's actually a good, good moment to buy in Japan, so they buy a lot in sense, or they buy to discover new things that maybe are not available in their city, or their part. A lot of these travelers may come from Tier 4, Tier 5 cities, so they may not have stores, for example, of luxury in their city, they may have the access online, but not the access in brick-and-mortar. So it doesn't make -- the example of Japan because give you the tangible example what really happened. Departments stores in -- Japan has super high service department stores. So the pleasure of somebody living in a Tier 4 city where there is no brick-and-mortar experience can only buy online being in a Japanese department store to discover this brand in detail is a beautiful, pleasant experience. So they go for it.

So that's why you see now a big growth of Chinese consumption in the various airports of the tourist's destination, a big growth in the downtown of touristy destinations. Then you look at the (inaudible) they continue to be -- in our opinion, will continue to be an amazing center of consumption because there will be a lot of people continue to travel there. And this, over time, in the long term, will continue to grow and to continue to offer opportunity. In the last quarter, as we discussed during the last quarter, we saw growth in the retail in this area there is -- there's a lot of traffic increase at that time, although those are volatile, volatile time also in the traveling consumers within China, but this being growth. And then in Mainland, you have a phenomenal way in this moment, as you know, we have discussed in the last quarter as well. We see consumer sentiment being still soft. The market was declining overall internally. And so there is a soft market. We believe it's temporary. However, this is in this moment, the reality, and this is linked to consumer sentiment.

Now it's true that the traveling consumers, which are growing clearly in all senses, as I explained, they tend to be high-end middle class while the Mainland consumers, they maybe buy -- the new middle class, they buy one time, they try to buy at the best possible price that's probably the people which are in this moment, more touched by the low consumer sentiment, by -- the softest. So there is a difference between middle class levels in which one is impacted more by the current situation, which, again, we

believe this is going to evolve.

But as we said in the last quarter discussion, when we look at the total, those are estimates because we don't -- we are not direct to consume everywhere in the world. So we need to estimate wholesalers things. But in these estimates, even in this soft moment overall in Mainland China, the total Chinese consumption is actually on a growing trend when you capture all of it around the world.

So Chinese consumer remains a fundamental engine for growth for the long term. We are very well positioned in this Chinese consumer area. We have strong market shares. We have -- when we look at the market share by quarter, last quarter was a soft quarter. But when we look, for example, on the calendar year 2023, we have been growing market share in -- we've been growing market share makeup, we've been -- sorry, in fragrances that we are losing some market share, in makeup and this because we have not been playing yet aggressively enough in what is called the [pure] makeup, which is a big opportunity, which, by the way, Guillaume will comment in a second on, which is mainly a tenfold opportunity for us for the future, it will be a great opportunity for the long term.

So net China is here to stay as a big engine of growth together with the emerging markets, together with the developed markets. And the moment -- the softness, the current softness linked to into consumer sentiment will improve. I think we are super well positioned to enjoy it also in Mainland China but definitely, we are already enjoying it in the come back to travel of the Chinese consumers, which is very exciting. Guillaume, maybe you want to add.

Guillaume Jesel *The Estée Lauder Companies Inc.* - President of Global Brands, Tom Ford Beauty, Balmain Beauty & Luxury Business Development

Listen, I'll echo some of what you said. I think it's even more relevant for the luxury segment in China for Tom Ford. So Tom Ford anchors the upper end of luxury in the portfolio of the Estee Lauder companies. Calendar '23 was a standout year for us last year for the market. Actually, the market grew double digits, both in fragrance and makeup. Tom Ford also grew double digits in both, and we outpaced the market both in fragrance and makeup. Actually, in makeup, we grew at twice the rate of the market in calendar '23 in the prestige market in the year.

So in makeup, we see batch value remains important, particularly for items that are used in public. In fragrance, we see the collection effect that Fabrizio mentioned, where actually consumers are buying more than 1 fragrance and collecting. So we're seeing repurchase. That's important because this is a nascent category in China. There was not a lot of consumption of fragrance before. It was bought more to put on the vanity now it's purchased for use. And the actual customer lifetime value of fragrance is the highest. And so that's very important because we think that there is sustainability there.

So we gained share in both of those categories, and we contributed in fragrance to the creation of the luxury and of the market in China. And that's what you refer, Fabrizio, often as the pyramid inverting. The pyramid being the upper end of fragrances, the luxury end of fragrances is becoming larger, and we're seeing that happen also in China. And so this phenomenon, which occurred during the pandemic is

sustainable.

If you compare actually post-pandemic the situation is that Tom Ford actually tripled the business in domestic China. So that's quite impressive. You also mentioned the other emerging markets -- in the other emerging markets, excluding China, Tom Ford doubled compared to pre-pandemic. So this is comparing to fiscal '19. That's the reference that we -- we look at. If you look at the categories compared to pre-pandemic, makeup doubled, and fragrance quite doubled during that period of time for Tom Ford in China.

I think the brand is highly desirable also in China. That's really important. The media impact value of the brand in China ranks #7, is ranked by launch metrics and we're seeing a lot of loyalty with our consumers. When you look at channels, I think that both online and our own retail stores, along with, of course, the luxury department stores very important. Online is more for recruitment, and it's very important in second and third and fourth tier cities. We seeing such a fragrance -- of the recruitment sizes, the smaller sizes, there used to be a barrier to entry in fragrance. And now people starting to consume with the smaller sizes. Makeup is the same as recruitment format online.

Whereas the other end of the spectrum in our retail stores, which is where we see the brand equity at its full -- within its full glory. We're seeing much higher penetration of high-net worth consumers as well as men -- are actually also present in the online channel for fragrance, 40% of our customer base. We're seeing a very high average natural -- average purchase in those retail stores. That is more than double what we see online. So that really reflects sort of what's happening with luxury in China overall.

And we do see as the Chinese resume travel, we're seeing the same phenomenon that they're also -- we are gaining share in Greater China overall, including travel retail and the other neighboring countries during that same period of time.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Guillaume, maybe we can stick with you because (inaudible) have you here. You've spoken a lot there about Tom Ford. But everyone in the room can see on the stage behind you, the rest of your title is luxury business development, and the Estee Lauder Companies is in the process of -- to recreate what you've done with Tom Ford, now with the BALMAIN brand going forward. So I guess my question is, what are the learnings that you think you can take from the success you've had with Tom Ford to the BALMAIN brand? And how do you balance the benefits of building these luxury brands from scratch within the beauty versus the drawbacks, the trade-offs in terms of the time it takes to build.

Guillaume Jesel *The Estée Lauder Companies Inc. - President of Global Brands, Tom Ford Beauty, Balmain Beauty & Luxury Business Development*

Yes. Listen, I think that -- yes, we'll be launching BALMAIN in September 2024. We signed a partnership with BALMAIN about 2 years ago. So we're on track to launch in time in September with the fragrance in the beginning. And I think that we are taking a lot of good learnings for -- from Tom Ford for this development. And I think it starts with an incredible equity of the brand or the founder so -- BALMAIN

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

fashion has been around since 1945. They have very strong codes, they have also -- which was the same for Tom Ford (inaudible) already, a fully developed one, very strong vision from the creative director, which we work very closely with and influences the creativity.

Of course, we uphold the highest levels of quality as well in the product that we developed. We create innovation that is unparalleled in terms of the uniqueness of the conceptual innovation that we create that has to deliver more than -- on tangible attributes also on creating concepts that don't exist yet in the market.

And so I think the -- if you look at some of the -- Tom Ford really has been a phenomenon for us in terms of delivering sustainable growth. And so you ask what are the drawbacks of -- in terms of speed, I think that you know Tom Ford is a top 20 brand overall in the past -- under 10 years, it gained 30 rank. It was 50, it's now 30. You look at fragrance, it's a top 10 brand in fragrance under 10 years in at [18 rank]. Makeup is also top 20, and gained 20 ranks in makeup in under 10 years. The fragrance market -- fragrance business account for double since pre-pandemic. So I think there's a number of elements here in the growth and the ranking progression of the brand that shows that luxury has staying power and that it has steadily delivered ranking progression and growth that is sustainable and profitable.

And so that is the reason why -- those are some of the elements that are replicable from what we've done both equity-wise as well as financially and commercially from Tom Ford that are replicable to BALMAIN and that is unique in the way of working at the Estee Lauder Companies, which Fabrizio often comments on connecting creativity and analytics. This is the best example of that is like it leverages both the strategic way of managing brands on the Estee Lauder Companies with the equities of another party that brings that creativity together. And I think the connection between the 2 is where is the genius of the company.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Okay. I like that. Let's go back to Fabrizio. So to my first question, you started...

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

By the way, I've been humbled, but the BALMAIN is really beautiful. The execution they're making with the support, the BALMAIN team and the creative [director] is outstanding. So I'm sure in September, you will have a very important reaction to what you will see what kind of luxury brand can we create.

Guillaume Jesel *The Estée Lauder Companies Inc. - President of Global Brands, Tom Ford Beauty, Balmain Beauty & Luxury Business Development*

I agree, I think brand creation -- and thank you for that opportunity, a rare occasion. And I think to do so with Olivier Rousteing, who the designer of BALMAIN, is both the youngest and the most tenured of any designer in (inaudible) fashion house -- it's extremely inspiring to work with him. And I think that the mandate was to create something that was unique and breathtaking. And I think we'll hopefully fulfill that dream when we reveal the brand in the fall.

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

I clearly believe so.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

So Fabrizio, where we started the conversation and where you started your answer to my first question, was emerging markets outside of China. And the strong opportunity that those present. You touched a little bit upon India. Maybe you could look past India and where outside of India, do you think some of the other greatest opportunities lie? And maybe you can also talk about the strategies you're deploying in some of those markets where, as you say, the runway for distribution growth is still incredibly long. And also, which brands you choose to play within those markets as -- pertains to the affordability and prices?

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

So every market is different. It's a different stage of development. What they have in common is that all the markets have, as I said, middle-class development, then all the markets have a higher penetration of beauty in terms of consumption as I said China doubled or more than doubled in the last 5 years, and the same is happening in every one of these markets in different stages of the development.

The third is the penetration of luxury prestige as a percentage of the total market. So markets that -- where China was less than 10% just 5 years ago, now is at the 40%. So Korea, 60% of the market is luxury versus mass. So all these markets start from mass being the market and luxury being 5%, 10%. And then luxury over time, become up to whatever, North America is almost 50-50. That becomes into, let's say, the 50-50 zone, okay? The -- so when you spend, the growth that comes from middle class growth plus increased consumption per individual, plus increased penetration of luxury versus total, you see that in all these emerging markets, there are extraordinary potential of total prestige market growth.

Now what we have done strategically is in the last 10 years, we aimed at becoming the #1 and #2 company in each one of these markets, where we are today. So we have the among the biggest market share, if not the #1, it's always at least the #2, but most of the case, this is the #1. So we have leadership market share in well positioned -- in fast-growing markets. That's why what we have done in the last 10 years to prepare this moment has been very, very important.

Second, what is the acceleration strategy common to all, I said before, the online penetration is dramatically increased. The moment when we started in China, just to speak to the China book, as an example -- playbook, is we started in Beijing and Shanghai, only with the arrival of Tmall the acceleration of the China market to Tier 3, Tier 4, Tier 5 cities went faster -- much faster than the brick-and-mortar distribution products.

Still today, in China, we are -- we're the most distributed brand in 140 cities, and we serve more than 600 cities. Now the same phenomenon is happening in India, in Mexico, Italy, everywhere. So the typical distribution is now more focused in this emerging market in big cities where the productivity per store is efficient. And because of this, it's profitable. While the other part of consumption is served by online,

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

thanks to technology now brings also the services typical of luxury (inaudible) that combination is in a combination for all of these emerging markets because it allowed the emerging market development in an efficient way with -- we are profitable. We are sometimes more profitable in these emerging markets than in some of the developed markets because the model is well managed, profitable because it's a high productivity per door model.

As you know, for luxury the high productivity per door model is associated with profitability because of the cost, obviously, of the -- in stores and the activities in a service environment like luxury. So that's why it's methodology #1 for exclusive emerging market is the combination between brick-and-mortar and online.

The second one is you were asking the portfolio. Certain markets like India, is mainly a makeup market. And so we use in places like India, the power (inaudible) pack, which is the entry price of makeup and now the Ordinary, historically also Clinique, but Clinique and Ordinary -- and now the Ordinary is frankly playing the biggest role in India, became #1 in a short period of time in the Middle East states, so the Ordinary is an extraordinary way that we didn't prestige, get the top #1 or #2 in the market very fast in -- so you have M·A·C for makeup, Ordinary and Clinique for skin care.

And in fragrance, it's actually interestingly, the emerging markets are beginning more interested in very luxury fragrances. So in many of the American markets, particularly in Asia, Asia is starting -- Asia emerging market -- started on luxury and then they accelerate the (inaudible), which is very difficult from developed market's historical factors.

So what is the results of emerging market? In developed markets, the brick-and-mortar distribution happened before online came on top. So the arrival of online, many developed make brick-and-mortar less productive. So it was an issue for productivity because of that initial profitability. In emerging markets, these are growing in the right order. You build prestige institution in brick-and-mortar, where it is (inaudible). And then we build on top of it, the online where there is no access.

So the combination of the 2 is perfect and the arrival of online doesn't make the brick-and-mortar less productive, actually it's just a net extra to the brick-and-mortar. That's the second big strategy we've got.

And then obviously, I spoke to the fact in our portfolio today, we have the excellent portfolio of brands to enter in the market that they need entry price point. This market will be India, will be Mexico, will be Philippines will be Vietnam. But there are -- actually Vietnam is more closer to the other example. We want to -- take Thailand. Thailand is a very strong growing emerging markets, which is driven by different dynamics, driven by the middle class like the others, but also driven by tourism.

The Chinese now can go to Thailand without visa, which is incredible what's happening in this moment there. Now, in Thailand, the fastest-growth categories is actually skin care, it's not makeup and its high end. So Lauder and La Mer are our best brand in that kind of emerging markets where the consumer actually is higher-end and higher quality, particularly skin care from day 1.

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

©2024 Refinitiv. All rights reserved. Reproduction or redistribution of Refinitiv content, including by framing or similar means, is prohibited without the prior written consent of Refinitiv. 'Refinitiv' and the Refinitiv logo are registered trademarks of Refinitiv and its affiliated companies.

REFINITIV 

So depends, we have the portfolio to attack this emerging market from a luxury standpoint, or from an entry price point standpoint, depending on the development of the market, depending on the market. We tend to use more our Lauder and La Mer in Asia, and we tend to use more our Ordinary, M·A·C, Clinique in the West emerging markets. But frankly, it's really depend case by case, and we have the solution.

And then some of these emerging markets have a very high-end middle class that buy luxury a lot, buy our Tom Ford, buy our La Mer, buy our (inaudible), our BALMAIN, our Le Labo et cetera -- our (inaudible), et cetera, et cetera. This, for example, is very present in the Middle East. And this class of people also good travelers. So they are excellent customers in travel retail. And so we manage our travel retail by corridors. So we -- it's not by geography. That's why travel retail is a separate team. Our travel retail manage the Chinese travelers corridors, the Indian travelers corridors, which, for example, to the U.K., the Brazilian traveler corridor, which believe it or not is to Portugal and et cetera.

And in these corridors, we have assortment, aspiration, price pointing portfolio choices, which are relevant to the traveling population that we are serving. And this is working, and it's a very exciting for emerging market consumers as well. And so I hope I explained the key strategies that make this a super interesting opportunity. By the way, our priority emerging markets last quarter, we are growing double digit, but it has been consistent for some time.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Okay. Perfect. Time is flying. And I have too many questions to ask. Let's pivot a little bit.

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

I'll be shorter.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

We'll move to the turnaround plan, if that's okay. So a little bit of background. In November, you announced the company's profit recovery plan. And in February, you expanded upon that to include a restructuring program. I guess my question is, aside from recovery in your margin, which is clearly very important. But aside from that, what are the other strategic goals and benefits for these 2 collective plans? And maybe you can also talk a little bit and Guillaume feel free to jump in, about how involved the rest of your management team is in these plans?

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Yes. So first of all, the profit recovery plan it's called the profit recovery plan because it's designed to recover profitability. That is also designed to recover profitability to create a much better impact on value from every point of growth we have. But we internally speaks about the profit recovery plan as having 3 main goals: Recover profitability to increase the value of our growth, first of all, and to record margin, obviously, but also to increase the value for every growth point of the future. We remains a key growth company, that's the way we look at ourselves, that's the way we manage our business.

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

Obviously, the last year, it's been an issue in that sense. But I hope that the last 15 years proved that we are designed as a group company that is now to find back the rate of growth that historically had and we are rebuilding it because -- we can speak more about that. But the profit recovery plan will serve not only the margin but also the growth because, first of all, we have committed to take a percentage of the gross savings. We committed the \$1.1 billion to \$1.4 billion and the net saving extra that will become net extra profitability.

But there are gross savings before that, which are bigger, obviously. We have committed part of the gross saving to go into increasing our consumer-facing activities. So extra spending in advertising, anything to push growth. So the profit recovery plan, as it designed on top of rebuilding margin is going to create more resources for growth, and that's priority number one.

Priority number two, the profit recovery plan will -- is helping as we speak, as to reorganize. We are particularly at functional level, we are trying to make faster decision-making and leaner functional activities. We are reorganizing the relationship with the brand region for process speed, we are learning how to include by the use of AI, the use of flexibility and agility in the decision making by brand, by region to respond to trends (inaudible) We have identified that big changes in the pre-COVID, post-COVID, which is pretty interesting.

When you take -- if you make 100% the available growth in the market, the percentage of this growth that comes from short-term trends, meaning what is trending today on TikTok, has increased. And so the ability of brands to tap into not only the long-term growth dynamics like epiderma, night consumption in skin care, luxury fragrances in Luxury. Those are the secular trends that we are all coming in -- as a company. We track all of them.

But the short-term trend, which is what in the next 3 months is trending in America, okay? Those trends today are more important than they've ever been. And so we are using the profit recovery plan, redesign of our processes as a way to be able to tap in more of this trend faster in every brand in every market of the world. And frankly, this is a driver of growth. This is a big driver of growth if we get it right. And we are getting it right. We see already some initial promise also on certain brands.

And we are learning from some brands to other brands. You will not be surprised to see that our -- the Ordinary brand is more capable in getting into the trend of the next 2 weeks than our historical Lauder brand, okay? And -- but we are learning in our historical brands how to adapt some of the executional techniques, not -- of our youngest brand to make sure that all our brands tap into this new opportunity.

Now this process is a part of the profit recovery plan. That's why we wanted to simplify the content -- we called it the profit recovery plan. But internally, we call it profit, growth and agility recovery plan, which is basically these things we are doing in summary, we are recuperating margins. We are pushing growth via more investment availability by being able to tap into the new growth drivers that we need to improve on, and increase the ability to create speed to market and agility in the way we are organized.

REFINITIV STREETEVENTS | www.refinitiv.com | [Contact Us](#)

All of this is coming out of the profit recovery plan. We are almost complete the majority of the design space as we communicated as of beginning of 2025 so basically a month from now, we are entering into the execution phase, and we start seeing results of all of this gradually over the next 3 years as per plan. And the reason why we will do this gradually as per plan, not all of a sudden, everything is exactly to avoid disruption because anyway, our business on many solid things that we don't want to disrupt. So we will do this increase -- speed, but making sure that we don't disrupt anything in the process of changing that we have established.

Then your -- last part of your question, is the team involved. This is managed by a leadership team. So the leadership team at least most of them have a role on their business and they have a role in the design of the profit recovery plan. So many -- I'm obviously leading each one of the specific redesign activities but my team is helping me in the design. The rest of the team, and not only the leadership team, but the entire top 400 people in the organization around the world, are involved not in the design, but in the execution of the profit recovery plan. So the design is the leadership team and obviously, experts and the execution will be all of us, each one. In our brands, in our regions, in our functions and this is -- so it's involved in really the key leadership of the company at all levels.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Okay. Perfect. I can see the orange light and our time has -- it appears -- our final 5 minutes. So you touched there upon how you hope that the 15-year track record sort of built up the trust with investors to get them past this recent volatility. I guess my question here is with the challenges of the past few years, it would be easy to forget that you have successfully led this business through a turnaround once before, 15 years ago now when you took over as CEO. Are there parallels do you think between the efforts of -- the turnaround the business 15 years ago, and what's required today?

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Thank you for recognizing that. But to be clear, we very -- we acknowledge completely the last 3 years have been very, very tough. So me, the entire leadership team, don't take it easy. We are focusing on fixing the issues and restarting our process of growth. We take this very seriously and not lightly at all. And we feel the pressure of all of this and so we share the pressure that the market feels on that.

But yes, we are trying, as usual, to turn every crisis into an opportunity, and that's the focus. You are right that -- when I joined the company, interesting, I took my position more or less during the 2008, 2009 crisis. So my first idea was to gradually evolve the company and change it in the direction that we took, can take few years to do that -- actually, the crisis arrived in 2008, and I discovered I had 6 months to do that. I didn't have a few years.

So the good thing was that First of all, we did a lot to change. We changed all what should have been changed anyway over time, but we changed all of it in a short period of time. And a parallel of that the same is happening. We obviously have -- even we have a strategy transformation office, which means that we, as a company, recognize that we need continuous transformation and over the years, but now

we are accelerating all the transformation that we needed to do in a very short period of time as part of the profit recovery plan, but also as part of our regular business development. And and we are -- so shortening the activities to make fundamental changes that we had to change anyway every 10 years.

The second thing that happened at the time is that we were able to change the growth algorithms. So when I arrived in the company is when it was evident that China was a great opportunity. To be clear, when I arrived in the company, Chinese consumer were \$50 million of sales, okay. So it was built from scratch. Travel retail was \$200 million, and America also was smaller than today and in many things. So the decision of where the strategy should bring the company growth was at that time, was in a moment of crisis where we relooked the growth engines for the future, understood that the historical engine on the previous 10 years were still like department store in U.S. to make to make the story short, we are not going to pay the future 10 years, and we started changing including U.S. at that time was 80% of the business. And today, international is almost 80% of the business. So it was really a transformation of the growth engines of the company.

We are doing the same now. We are relooking at what is the right balance of growth. I just -- why I spoke about emerging markets other than China. I spoke about the future of China. But also, I spoke about the future of China in Mainland, traveling consumers in the cities of destination of tourism. So I spoke about the Chinese consumers as a difference and more sophisticated way to look at the consumption than just Mainland. And we are relooking at the power by categories, in 2008 is when we were much bigger in fragrance, prestige fragrance and makeup than skin care, and now we are a leading skin care company.

So what is the future? By category, for example, I hope it is clear from our strategy that we believe that fragrances -- high-end fragrances are growing for us, very important profile. At the time we were the low margin -- by the way, at the time we had lower margin than during this crisis, where we started at 6% margin. And we rebuild it via the mix of categories, via the gross margin refocus, the parallel is we are doing something very similar in this moment.

The other parallel is the team. The team at the time, we were working more in silos, and then we unified the team against one backbone, and the backbone has been the strategy. The compass that you mentioned was invented. The strategic backbone had taken the entire organization to work, still with expertise by area but more in synergy driven by a common strategy. Now we are doing the same. We are relooking at unifying the team, unifying the group against the strategy, but we are learning how to do this is in a much more agile model. We have been working with 10 years (inaudible) strategy. Now we are learning to work with 3 months trends, which is a very different addition to our ability to compete within the brands and to compete with our historical big companies, competitors.

And how to compete with this new in-the-brands model is a big part of where we are answering strategically in this moment and how we are staffing, even the profiles of our leaders is evolving in that direction, in the expertise, and that's happening as we speak. But the -- most of the things that they have in common, at least my personal view and my personal goal is that the moment in 2008, 2009, we made changes that then once they were completed, they provided 10 years of extraordinary growth, an

extraordinary margin growth, growth of the company and development of the strategy that we put together.

And we are all committed to make sure that the same things happen today that the changes that we are doing now that we will see live in fiscal year 2025 and after the 2025 year of the implementation and transition. As of 2026, we will have 10 years of -- go back to the kind of growth, the kind of profit recovery that we, as a company, have the ambition to have.

Callum Elliott *Sanford C. Bernstein & Co., LLC., Research Division - Analyst*

Perfect. I think that's a great note to end on. Thank you very much, Fabrizio. Guillaume. And thank you, everybody, for joining us.

Fabrizio Freda *The Estée Lauder Companies Inc. - President, CEO & Director*

Thank you.

Guillaume Jesel *The Estée Lauder Companies Inc. - President of Global Brands, Tom Ford Beauty, Balmain Beauty & Luxury Business Development*

Thank you.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024 Refinitiv. All Rights Reserved.