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EDITED TRANSCRIPT

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PRESENTATION

Steve Powers *Deutsche Bank - Analyst*

Okay. Good morning, everybody, and welcome back. I'm Steve Powers on the head of Deutsche Bank's US consumer staples franchise. And I am thrilled to welcome back Estee Lauder and CFO, Tracey Travis. It's become somewhat of a tradition for us, and I look forward to every year. So thanks for rejoining us.

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Well, it's one of our favorite conferences that Thank you for having us back. We are sorry, I missed that last year.

QUESTIONS AND ANSWERS

Steve Powers *Deutsche Bank - Analyst*

Okay. So we're going to dive right in and I want to do you want to pick up with the profit recovery plan. Maybe a lot of topics, lot of discussion of top line trends. But I think this is as we move into fiscal '25 in fiscal '26 is becoming there's going to become increasingly important. And I know you've spoken about many of the benefits of being born in gross margin. I'd love to begin just getting a sense of different contributors and initiatives that underpin those contributions.

And maybe a little bit of description about how what the savings that have come from, how much is going to come from (Inaudible) obsolescence versus more normalized promotions versus through cost savings, et cetera?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah. It's probably helpful just to talk a bit about the journey that we've been on this year that positions us for the profit recovery plan. So obviously, it's been a bit of a challenging couple of years for the company on one of the things as we emerge from the pandemic and many of our markets and some of the actions that we've taken to really get both our internal inventory under better control, given some shocks that we experienced as well as on some of the inventory and trade specifically, as it relates to Asia, Travel Retail required us to really pull back significantly on production.

And so when you look at, you know, our third quarter results and the fact we took all the inflection point and we're returning to growth, we returned to growth really by taking some hard actions in the first half of the year to recover, if you will, from some of the effects of the pandemic. And and what would it had

on us now that we're in a position to grow where we're shipping replenishment back to Asia, travel Retail, we want to make sure we grow at a margin that is acceptable, obviously, from a company standpoint. So the profit recovery plan is an acceleration of margin recovery on as we grow.

And it was important for us to take the actions, in particular in gross margin. And as you indicate, Steve, on in order for us to make sure and growth at our current margin level, obviously would not be something that we would be acceptable. And so a lot of our focus when you think about where we've lost a lot of gross margin, a lot of that has been in gross margin.

And so gross margin recovery is certainly the big focus area for us. It helps to fuel growth on having the growth higher gross margins and down in the areas that we're focused on in gross margin, primarily our with some of the inventory work that we've done, that will certainly help us in terms of obsolescence. It will also help us in terms of discounting.

And so we should start to see those benefits obviously over the next few quarters. And that's been an important element of our profit recovery plan. So we've already done that. We've already positioned ourself to start to realize some of those savings. We've also invested in changes in process as well as really leveraging some of our tools a bit more on to help our supply chain in turn arms of demand forecasting and trying to get our new forecast accuracy up. That too will help us in terms of discounts and obsolescence of the other thing that we have focused on is innovation. And obviously, innovation is key in in our industry.

As we looked at our future pipeline of innovation, we have basically cut the tail, if you will, on some of the innovation that was less accretive. And and that allows us to focus resources on the bigger, more profitable growth programs and some of which were we launched in the second half of this year. Which will see the full benefit of next year. But that was also an important enabler for us in terms of gross margin recovery. And then the last area that we're focused on is really looking at our footprint in terms of manufacturing and making sure that we are rightsizing, if you will, some of our manufacturing expense.

This is to the level of production as we ramp back up production. And so those are areas that will manifest themselves in terms of gross margin recovery in terms of expense areas on. And that's the other obviously area that's important for us. From a margin recovery standpoint, there are two primary areas of focus. one is on procurement. And so we've got an accelerated indirect procurement program to really look at our spend and in some cases, eliminate spend, in other cases, leverage our cost a bit better with our supply base.

And then the other area obviously is restructuring, which we talked about in the February call. So those are are the key elements there. Lots of programs underneath those, as you can well imagine. But those are some of the key areas of the profit recovery plan that we're focused on executing against.

Steve Powers Deutsche Bank - Analyst

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Very good. I will say that in my case and excitement to get started, I forgot to mention that there was a disclosure slide Bush. I'm sure you're all fall before we start. I would like to put that back up, feel free. So people can look at it again, but just wanted to make sure we highlighted about it is my oversight. So I apologize.

We think about the contributions of those various, um, so is it fair to assume sort of a third of the benefits to come from obsolescence, the third from sort of from promotional normalization and simplification and then a third from some of the procurement and restructuring incentives? Or is it skewed more disproportionately about?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

You know, I will as we see said on our last call, we'll give more specific guidance in our August call when we give guidance in terms of the cadence of we expect the recovery to occur. But I mean, I don't think that's it completely out of line but it's not exact.

Steve Powers *Deutsche Bank - Analyst*

Okay. The state. The program overall is expected to yield [1.1 to 1.4] of incremental net operating profit flow through maybe you can give us a sense of the magnitude of the reinvestment opportunity that sits above those numbers. Do we get a sense of how much? I think there is a fear that if those savings all flow through that there's not enough investment going into the business to [dispel] growth recoveries and maybe you can help dispel that notion?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah. So we haven't. Yes, to your point on the \$1.1 billion to \$4.4 billion range of net savings that we expect to come over two years in the program, you know, is a net number, and we're actually targeting higher from a growth standpoint on the reinvestment will know very much committed to flowing through the savings that that we have committed to, but again, to programs actually generated more than that.

So you'll see the pace of of reinvestment accelerate throughout fiscal 25 as we start to realize savings from from this program. And and that's very important as we look at some of them markets that we have had been more challenging for us, making sure we've got investment behind our brands that are growing our investment behind distribution expansion.

When you think about our business and what's important for us, it's a growth business. So prestige beauty is a growth category on it is, you know, has been growing anywhere between high single and in low double digit in most markets. Most of the measurement measured markets that we measure with the exception of China, which obviously has had more challenges as it relates to the recovery.

So it's a great growth opportunity for us. What's important from a financial structure standpoint is that we have strong gross margins so that we can invest in advertising in distribution, expansion for our brands and and in the education we do to consumers as well. And so on that program this program is a

growth fueling program in addition to a margin recovery program.

Steve Powers *Deutsche Bank - Analyst*

Okay. And the program, as you articulated before, is skewed slightly towards fiscal '25 versus fiscal '26. So assuming that's correct, but I interpret that as kind of [\$600 million] plus of contributions fiscal '25, is that a fair?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

I would under score side (technical difficulty).

Steve Powers *Deutsche Bank - Analyst*

Okay. Fair enough, fair enough. Okay, [555] plus very good view on what I do want to get to growth, but I want to break our traditional habit of leaving capital allocation to the end.

As the business makes good on that profit recovery, there should be lots of free cash flow, the falls. And I'm curious as to given all of the work you have going on organically to re-accelerate growth, how do you prioritize that cash flow in terms obviously, there's reinvestment back in the business. But to the extent there's excess free cash flow continues at returning that cash to shareholders or is the business in a position to lead into M&A. But as I go through some recovery?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

On Sure, you saw the announcement that we did complete the remaining acquisition of DCM, the ordinary brand. And so we are now the full owners of DCM. So that is certainly an acquisition that we have prioritized. We just anniversaried our one-year acquisition of Tom Forte. So, in terms of free cash flow, yes, I mean, just the work that we've done on inventory has freed up cash and obviously, you know, the processes that we are putting we put in place to continue to keep that inventory level more disciplined is a big fuel or our as obviously as it relates to free cash flow.

And for the acquisitions that we've done recently, we have taken on additional debt. And so in addition to returning cash to shareholders, we are also returning cash to our debt holders as well. And I will I'd say that along with focusing on the TRP in the turnaround of the business is our primary focus right now.

We are always scanning the market for where we believe where we see a real growth opportunity, margin accretive growth opportunity on luxury skincare is an area that, you know, the Lumia brand has done incredibly well , you know, in the competitive space, other other brands and luxury skincare have done incredibly well.

We have refocused the Estee Lauder brand in some of our Asian markets on renewed driven in addition to the other franchises because that is the top of the line in terms of their skin care. While we also have the ordinary, which is entry price point skincare. So that's, you know, the balance between shareholders and debt holders are the near term, the near term focus areas.

But if there is an acquisition that, so that we see that we are interested in and we always have a pipeline of things that, gee, if they were to come to market, we certainly would want to be able to participate in that something that we would do once we get once we satisfy our debt holders and you know, and some of our shareholders.

Steve Powers *Deutsche Bank - Analyst*

And how do you view the M&A landscape today relative to history of the market conducive to M&A and prestige beauty? Or is in a row of more conducive less conducive? And are the kind of evergreen?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yes. I mean, interest rates have obviously stabilized, stabilized a bit. There's still no high. But when you look at the growth categories of the industry, I mean, it's still an attractive industry for the right asset. So I think the environment is conducive to M&A, and I think you will probably see more of it on over the next few months.

Steve Powers *Deutsche Bank - Analyst*

One more question on the growth. Okay. On the free cash flow recovery, should we expect that to come? I mean, obviously, there's the inventory rebalancing that you've got going on. Is it really limited to profit recovery? Or we've talked in the past about it reducing time to market it, making the supply chain more efficient.

The plant now opened up in Tokyo, which I hope over time should reduce cycle times is their working capital benefits to unlock as we go through this recovery above and beyond the near term inventory reductions or is that future?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yes. I mean, as you know, we've reached a pretty the good level of inventory right now. We do have plans to further reduce over time, the inventory and certainly the agility that you mentioned of building a value chain in Asia on given the growth that we expect to continue to happen in the Asian market will provide us with some additional inventory savings as it relates to working capital. And we also expect some savings in other areas as well as working capital, like payables, receivables, et cetera. Okay.

Steve Powers *Deutsche Bank - Analyst*

Great. Okay. So from a top-line perspective, the second half of fiscal '24 had been positioned for some time has been important inflection point where growth was expected to resume and then presumably continue accelerate into fiscal '25. We've hit that inflection point. So where are you today? Most excited most encouraged some versus where do you see more work ahead?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah. Well, the work ahead, certainly as the profit recovery plan. It also is the area that I'm most excited about because a lot of the work that we work stream that we have going on, the profit recovery plan, certainly our you know, to accelerate margin, but they're also to reduce some of the complexity that's

built up over time in the company. And so we recognize that this is a real opportunity for us to take actions to become more agile and we are focused on to your point innovation.

And how do we speed to market more innovation, whether it's product innovation or commercial innovation that's increasingly important in every market as, you know, the activeness of the category brings and lots of competitors. And so you know that ability to be more nimble in terms of bringing innovation to market or commercial innovation to market. We had a very broad array of brands and products within each of our brands. So commercial activation and innovation becomes critically important as well.

So the conversations that we're having with our teams are very calm, motivating and energetic in terms of how we're going to as we're now positioning ourselves for growth and creating more fuel for growth, how we're going to operate a bit differently to in a faster paced way in a faster pace markets.

Steve Powers *Deutsche Bank - Analyst*

Okay. In that commercial innovation, how backlogs, how restrained where you from pushing forward with marketplace activation and innovation as you were trying to reduce inventory levels are up until April 1, and how quickly can you turn on that's bigger in terms of accelerating commercial activity.

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah. I mean one of things that very much focused on. We're seeing increasingly consumers react to trends and so on, you know, our model from a marketing activation standpoint, you know, is very thoughtful and planful as it should be. But one of the things that we're really focused on and brands like the ordinary in our our portfolio to face has gotten much better at this as well, is not only seeing trends and being able to respond from a commercial activation standpoint and then bringing product to market if the trend actually is a longer-term trend, but also creating trends.

And so, you know, the enhanced data that we have enabled over the last few years to run only be able to read and react what's happening in social media. That could mean a meaningful trend for our you know, our brands on it has been very important. So we have a lot of the elements there and making sure that our teams, in particular, our local markets because we are seeing trends more and more become local.

I mean, there are global trends, certainly, but it's very important that our local markets are enabled with both the resources and talent to actually activate trends. I'm and be able to capitalize on them when they happen. And so we're doing that and really welcome to the markets themselves are incredibly excited about that focus for them to be able to do that.

Steve Powers *Deutsche Bank - Analyst*

No, you did hit the inflection we are going to accelerate in the fourth quarter, but the guidance for the fourth quarter from a revenue standpoint was slightly below what had been implied based on were three key was supposed to end up. Maybe just talk through some of the puts and takes there, what sort of on or ahead of schedule, what's holding and holding back versus your prior look will be helpful?

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Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah. The biggest reason that we were more muted on our fourth quarter was in the third quarter when we talked about this, obviously on the third quarter call. The China, the recovery has been slower, and that is China and China travel retail. Now, obviously, we have a bit of a different situation because we are resuming some of the shipments in parts of China travel retail. So we're seeing shipment growth, but the acceleration in terms of traffic has been uneven.

And we've seen fits and starts as it relates to traffic and really the consumption of traffic along their travel journey. So that's the reason why, as we actually saw in Mainland China, a slowdown in prestige beauty in the third quarter that, which was a surprise to us, and I think many, many others on that, we pulled down the fourth quarter related to that to that softness. So and again, we remind ourselves that China is still in recovery.

We're seeing consumers understandably similar to what we saw in Europe as well as in the Americas when restrictions are lifted and people started on resuming normal activities, you know, the priority was on seeing family was on travels it was on dining and entertainment and a bit less on goods.

And so they're much, obviously later in that cycle than our other markets that, you know, that had been in recovery on A-pack, you know, has been growing strongly all year outside of the China area on Europe, may the markets of Europe outside of travel retail has had been going quite nicely.

And even within travel retail, European travel retail in the Americas have been growing nicely. So it really is this left pocket of recovery, if you will, that we have on with China, that is just been a bit flatter in terms of the recovery than what we had anticipated.

Steve Powers *Deutsche Bank - Analyst*

And we're coming up on what how to solve for it, if I'm assuming is a relatively prudent assumption around [618] strength. But maybe you could elaborate.

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

If it was our assumption at the time in terms of [618].

Steve Powers *Deutsche Bank - Analyst*

Okay. As we look forward and what I guess, let's break this between Asia, travel retail and I don't have a minimum mainly China, but focusing on travel retail as we look forward from here. So it's softer than hoped for softer than expected. What's the both the kind of medium term expectation in terms of recovery?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

So it's still a very important channel of distribution and growth for us. When you think about travel retail and in particular, when you think about it relative to emerging market consumers often times just given

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our lack of distribution and some of the emerging markets that have been growing double digits for us, but we have limited distribution. And so oftentimes, the first time a consumer will interact with any one of our brands physically is in an airport.

And so Travel Retail remains a very, very important distribution channel for us, and we expect travel retail to grow over the next few years. So one of the things that we're doing in travel retail, we have an opportunity to expand our fragrance portfolio in travel retail, our fragrance portfolio with and doing quite well with Tom Ford and Jo Malone and Lalabo and frederic model and Kilian, and so that's a big focus of ours as well, not only in travel retail, but also certainly in markets like Europe where we have more opportunity for expansion.

We are adding back some staff in in travel retail that obviously, when people weren't travel, we didn't have the staff there. So selectively, as we see converter version traffic and conversion pickup on, we're adding back the act that staff. And we've certainly done that in markets here in Europe as well as in the Americas and throughout selective markets and in Asia.

So you know, and and one of the things, Asia travel retail is a bit different than them, then Europe and US eventing becomes very important in Asia travel retail. So we're starting to resume some of the big events that our brands have done to really draw attention to some of the new innovation that we've done. We've done some additional inventing and Heine M, which has gone well, and we'll do that. And in some of the airport in Asia as well as traffic resumes and really to help drive the conversion of the traffic in those markets.

Steve Powers *Deutsche Bank - Analyst*

Are you more optimistic about the recovery in global travel retail for Phase I trial reseller or another way of saying it, if you think about the next three, four, five years or more growth to come? Yes, for on a global basis or individual job retail.

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

It's a great question. And I think in terms of travel, I think travel will pick up globally as it has been. Conversion is very different by region. And so we see more shopping occasions in Asia, travel retail than we do in Europe. And in the Americas, I think we have more opportunity in Europe, Travel Retail and the expansion of our fragrance portfolio will help that. But I think Asia travel retail, we would expect traffic, but also more conversion. And that's just in the history of what we've experienced.

And certainly we will continue to feel that with some of the activities that I spoke about in terms of the spending, et cetera.

Steve Powers *Deutsche Bank - Analyst*

I guess similar question on mainland China and your outlook over the next 12, 24 months. But my perception is that despite the volatility you've been operating through the background, you position the company, what it was much stronger position, but there's a Tokyo manufacturing facilities in Shanghai,

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R&D center, more distribution centers around the country, right, more diversified online presence

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

For branches. I mean, whenever we've launched during this period of time, we've launched Lalabo which has been a tremendous success. We have a fantastic couple of stores in China and more to come on. We've launched our innovative brand in China as well during during this timeframe. And in a lot of the innovation that we focused on in the second half that we talked about on the call, prior to that from within luxury skin care, which should resonate pretty strongly in China and other parts of a Asia and Europe where luxury skincare is more prevalent.

So we have I would agree with you. We've positioned ourselves well from a from a commercial standpoint, and we've also positioned ourself from a supply chain standpoint to have more agility. And so if there are further disruptions, which I would hope we wouldn't experienced anything like the disruption options that we've experienced over the last couple of years.

But we have more flexibility in our supply chain. And we also have more R&D capability on the ground and the focus there will be to get products faster to market that are locally relevant. And so yes, I mean, we still on maintain a tremendous amount of optimism for the growth of Asia overall China, in addition to a greater China in addition to markets like Japan and Korea and Southeast Asia, which are important focus areas for us as well.

Steve Powers *Deutsche Bank - Analyst*

Great. Okay. Let's maybe talk about trends from up for a product segment perspective. We'll start with skin care, obviously closely tied to China closely tied to travel retail, but independent of how do you view the overall competitive position of the portfolio? I'm thinking about contributions until the from brands like luminaire and Estee Lauder at the AGM, the high end of prestige, but also the ordinary or in the use of the ordinary in the US or clinic and what you've now positioned and active derma?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah, we feel very good about the portfolio. And, so to your point, you know, luxury skincare, in particular in our eastern markets has been a big growth area Lumiere has done quite well as lot or has the renewed true franchise, which is their luxury positioned part of their portfolio and a lot of our innovation, some of our breakthrough innovation has to come through in the renewed for a franchise of which we've just launched in the latter part of of this year.

And so we expect to see full benefits of that next year. On the ordinary has been a phenomenal success for us, and we are so pleased now to be the full owners of that brand. And that is a brand that we've launched in India and Middle East to much success. Practically, I'm pretty much every market that we've launched it in.

It's taken a top three for position in the distribution channels that, which is largely specialty-multi and obviously online. So we're positioned well at the entry price point in terms of skincare of prestige, on

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Clinique, you know, was the original derm brand and so reactivating and the positioning of Clinique on repartnering with dermatologists. The brand was actually developed with dermatologists initially. So many of the formulas of Clinique today that have been around for a number of years where we're actually developed and partnered with dermatologists.

So re-communicating that and reminding consumers of that is certainly something that you know, has been important for us to be able to do and how much of their innovation going forward will very much reinforce that derm positioning not only for skin care, but also fragrance, three makeup on and some of the sensitive positioning, sensitive skin positioning that they have for makeup in particular foundation. So both active derm as well as sensitive skin.

The Clinique brand we have actually we don't talk about it as much, but Bobbi Brown is clearly a makeup artist brands, but they had decent part of their portfolio about a third of their portfolio with skin care. And and it resonates quite well, particularly in Asia, but also in many western markets. And so that also is a focus for the Bobbi Brown brand.

And so we are well represented across various price points within our portfolio for skin care and across various different segments of skin care to position free, younger consumers as well as some of our ramp, our more mature population of site

Steve Powers *Deutsche Bank - Analyst*

On the ordinaries geographic expansion or their priority markets were whitespace that you see still? Or are you more focused on developing the footprint that you've currently?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

There's more whitespace. Yes. The ordinary is not fully distributed at all. So there's definitely more whitespace actually, Steve, for most of the brands in our portfolio, there's more white space opportunity. So the most broadly distributed brands that we have, our FTE, Lauder and Clinique. And even those brands, when you think about either emerging markets or even a market like China, where are you know, yesterday Lauder brand has around 145 all most broadly distributed brand in China.

And we in about 145 cities. But through online, we have sales represented in over 700 cities. So even for some of our more broadly distributed brands on it now there's an opportunity for further distribution and and expansion and not just brick and mortar distribution. I mean, one of the benefits we have in emerging markets, often times, we will launch on a pure play platform or with our own brand site, we'll see how the distribution or how the demand builds.

And that one allows us to actually enter into the market in brick and mortar distribution in a very productive and profitable way. And that's been our emerging market, a market focus. That's where quite, quite well for us in many of our priority. Emerging market.

Steve Powers *Deutsche Bank - Analyst*

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Great. Maybe a similar question on makeup Mac, Clinique and Estee Lauder, Bobbi Brown. Those are the anchor franchises, but I was particularly interested with the recent entry of Tom Ford at the makeup turnover has been a priority for a while. I'm just interested in what that move signals in terms of touch for change for the company from just positioning about overall portfolios?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah, of makeup of has been since very early stages of our development of the Tom Ford brand, along with Tom. At the time started as a fragrance brand, but very quickly moved to make up some makeup is a big part of the Tom Ford brand strategy in this quarter. We have some very exciting innovation coming in 2025 for makeup, recognizing that the tour makeup in certain markets has been the fastest growing part of the makeup category.

And and Tom Ford is our brand right now that has (Inaudible) makeup. And so that will be a big focus for the company. We've also announced down we will be launching, and we're very excited about that as well. When you think about the success that we've had with the Tom Ford brand and to have success as well with the domain branch will start like we did with Tom Ford with fragrances, but we'll also eventually expand into makeup as well. So we're well positioned.

We see that could to our makeup trend to be a longer-term trend certainly has been a trend that we saw in that last few years. And we believe with those two brands and others in the future and for those two brands we will be well positioned in that category.

Steve Powers *Deutsche Bank - Analyst*

That's why I'm love with M&A. Okay. What about the core of the makeup franchise that was source your assessment of brands like Mac? Or is there more work to do they are you satisfied with the trajectory of the business?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Yeah. I mean, Mac has done a makeup now is on an upward trend and and Mac has come out with some very strong innovation in the second half of this year. When you think about our Mac brand, it's still the top number one prestige makeup globally. So it's there are a lot of consumers that use Mac. Mac represents a lot of different things from a brand standpoint. But you know, the breadth of their makeup assortment is unmatched.

In terms of the the color range for color cosmetics for foundation, you know, when consumers know when they go into, if you're looking for what particular shade, you're going to find anything in Mac and so that is very important from a Mac standpoint. So Mac is really focused on as we see the importance of trend. It's picking up in the market is very much focused on their trend program. Mac has historically led trends in makeup, and that is still a focus area for there is going forward.

So I think we're expecting to see some exciting innovation come out of the Mac brand. You know, in 2025 in 2026.

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Steve Powers *Deutsche Bank - Analyst*

Great. And last but not least, fragrances thing about the last 10 years and the transformation of Estee Lauders, Fergus portfolio has been truly pretty incredible used to be viewed as a clear weak spot now. Is there an area of agreed-upon strength? Are there other ways to further round out the portfolio? Are you happy with where it stands today?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

We're very happy with our fragrance portfolio. We took the decision, Steve, as you know, a few years ago to really reposition our fragrance portfolio. We had historically Estee Lauder and Clinique. Obviously, the company with a lot of fragrances was a big, big part of the original launch of the company in terms of the fragrance portfolio.

So Estee Lauder and Clinique and have a heritage line of of fragrances. We had a designer fragrance portfolio. It was largely a US centric fragrance portfolio. And where we were seeing growth and profitable growth for our portfolio was in the luxury and artisanal fragrances. So Jo Malone as a fantastic grower profitably for us and very sizable.

It is one of our top brands in terms of size, Tom Ford is a pretty close. Second. Obviously, it's fragrance and and cosmetics. And so when we look at those brands, it's very different because we've seen a trend in fragrances. Were there historically and still just a certain extent, consumers want their signature fragrance and they have one fragrance and they buy that fragrance and they stick with that fragrance.

And that's their signature sent on what we've seen more trend and particularly with younger consumers, but not just if people want to collection fragrances. And so I have my day fragments, my eating fragrance might weaken fragrance. And you know, a collection of fragrances like Tom Ford and Jo Malone allow us to keep consumers within the franchise as they are broadening their array of fragrance interest level, both Frederick model, Kilian now all of the fragrances that we've acquired in recent years and have expanded our from our in that category of a collection of fragrances.

And so it's very much the trend that we see in in fragrances. The fragrance category in general has has grown. We expect that it will continue to grow. It was one of the big surprises during the pandemic that people were actually using fragrance at home.

It represents tampering. It represents signature and individuality. And and so we're very pleased. There's still a lot of runway for our fragrance portfolio Jo Malone still has opportunity even given its size, Tom Ford has opportunity as well. And then Frederic Malle about and Kilian are very, you know, have much more opportunity from a distribution standpoint.

So we have a lot of runway within our fragrance fragrance portfolio. And there are some exciting things happening with on with the Estee Lauder and Clinique fragrances in the upcoming months that will share at the appropriate time.

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Steve Powers *Deutsche Bank - Analyst*

Great. We're almost out of time, I will give you the last word.

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Okay.

Steve Powers *Deutsche Bank - Analyst*

What should investors keep most top of mind as they think about I know many of this room and outside this room are thinking about the waters and incremental investment opportunity. What might those on the outside currently the missing or not fully understanding?

Tracey Travis *Estee Lauder Companies Inc - Executive Vice President and Chief Financial Officer*

Well, first of all, we want to thank our investors for hanging in there with us. So obviously, it's been a challenging time. I think to the one thing I would love for investors to understand is we've taken some actions this year that have been tough and obviously starting at the end of our last fiscal year to really position ourselves to be at the inflection point that we do talked about on the third quarter, the proper rate and how that we very much committed to getting back to.

And so that's really what I would leave investors with that. The the things that we've experienced over the last couple of quarters have really positioned us in terms of bringing our inventory levels down, you know, some of the acceleration and focus on innovation that we've had to expand our portfolio and say well into growth over the next couple of years should be quite exciting.

Steve Powers *Deutsche Bank - Analyst*

Thank you. We will leave it with that, Tracy, Estee Lauder. Thank you very much for joining us, and thank you all for joining us as well. I wish everyone a great conference.

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