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The Estée Lauder Companies, Inc. (EL)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to The Estée Lauder Companies' Fiscal 2025 Fourth Quarter and Full Year Conference Call. Today's webcast is being recorded.

For opening remarks and introductions, I would like to turn the call over to the Senior Vice President of Investor Relations, Ms. Rainey Mancini.

Laraine A. Mancini

Senior Vice President-Finance and Strategy & Head-Investor Relations, The Estée Lauder Companies, Inc.

Hello. On today's webcast are Stéphane de la Faverie, President and Chief Executive Officer; and Akhil Shrivastava, Executive Vice President and Chief Financial Officer.

Since many of our remarks today contain forward-looking statements, let me refer you to our press release and our reports filed with the SEC, where you will find factors that could cause actual results to differ materially from these forward-looking statements.

To facilitate the discussion of our underlying business, the commentary on our financial results and expectations is before restructuring and other charges and adjustments disclosed in our press release. Unless otherwise stated, references to net sales refer to organic net sales, which excludes the non-comparable impacts of acquisitions, divestitures, brand closures and the impact of foreign currency translation. You can find reconciliations between GAAP and non-GAAP measures in our press release and on the Investors section of our website.

As a reminder, references to online sales include sales we make directly to our consumers through our brand.com sites and through third-party platforms. It also includes estimated sales of our products through retailers' websites. Throughout our discussion, our Profit Recovery and Growth Plan will be referred to as our PRGP. During the Q&A session, we ask that you please limit yourself to one question, so we can respond to all of you within the time scheduled for this webcast.

And now, I'll turn the webcast over to Stéphane.

Stéphane de la Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

Thank you, Rainey, and hello to everyone. Before we discuss our results for fiscal 2025 and 2026 ambition, let me begin with a moment of remembrance of our beloved Chairman Emeritus, Leonard A. Lauder, who passed in June. On behalf of myself, Akhil, the executive team, board of directors and the Lauder family, we extend our heartfelt gratitude for the sympathy shared. We were profoundly moved by the outpouring of compassion for employees, consumers, peers, retailers, suppliers, media, analysts and investors. Your condolences celebrated a life beautifully lived and a legacy deeply felt, recognizing how Leonard uniquely shaped and revolutionized not just our company, but also the beauty industry.

Leonard was a mentor to me, and as he was to so many others. He was a strong advocate for Beauty Reimagined when he entrusted us to lead. We are more committed than ever to regaining prestige beauty leadership in his honor and upholding the company's values he championed.

Turning to our fiscal 2025 full year performance, our results were in line with the revised outlook we provided in May, and the expectation Akhil and I set in our first earning call in February. Nearly two-third of our 8% organic sales decline came from travel retail, as it decreased 28% driven by strategic decision and prolonged weak conversion. Importantly, we ended fiscal 2025 much better positioned than fiscal 2024 with healthier trade inventory, especially in travel retail Asia for currently forecasted demand.

Travel retail represented approximately 15% of reported sales, down 4 percentage points from fiscal 2024 and 14 percentage points below its fiscal 2021 peak reached during the pandemic, making it more similar to the channel global prestige beauty share and reducing our exposure to its volatility.

Gross margin expanded 230 basis point to 74%, driven by PRGP benefits and better by 50 basis points than the outlook given in May, despite significant volume deleverage. Operating margin of 8% contracted 220 basis point, driven by sales declines and increased consumer-facing investments. Diluted EPS decreased 42%.

Since I became CEO, we have acted with urgency to operationalize our strategic vision of Beauty Reimagined, making strong initial progress across all five action plan priorities from January through June.

In the second half of fiscal 2025, we gained prestige beauty share in China, Japan and the US, demonstrated not only our ability to return quickly to share gain by building on our brand's high desirability but also early wins from new consumer coverage and uptake of enticing innovation. Globally, Le Labo and La Mer gained prestige beauty share in the second half, confirming their strong desirability and The Ordinary accelerated to high-single-digit retail sales growth in the fourth quarter.

La Mer, TOM FORD and Estée Lauder fueled our second half share gain in China, while Le Labo, Estée Lauder and La Mer powered Japan. In the US, The Ordinary, Clinique and Estée Lauder drove share gain, while Estée Lauder new Double Wear considered – ranked number one product launch in prestige makeup by Circana from January through June.

In our first action plan priority, accelerate best-in-class consumer coverage, we achieved many accomplishment in the second half of fiscal 2025, particularly for our online business. Following The Ordinary's launch in the US Amazon Premium Beauty store in the third quarter, Origin (sic) [Origins] (00:06:31) and Aveda launched in the fourth quarter, while Estée Lauder and Aveda opened in the Amazon Premium Beauty store in Canada. We now have 11 brands [ph] offered (00:06:44) in the US and 3 in Canada.

And in Southeast Asia, we built scales on Shopee and TikTok Shop across the third and fourth quarters. This action complemented second half growth from our existing presence in fast-growing online retailers like Tmall and Douyin. As a result, online organic sales growth accelerated from low-single digit in the first half to mid-single digit in the second half. Online reached 31% of reported sales for fiscal 2025, up 3 percentage point from fiscal 2024 to an all-time record. And we expect online mix to climb higher still. We continued our expansion in pharmacy in Europe and began entering the pharma channel in Latin America with Clinique responding to rising demand for derm brands.

Moving to our second action priorities, create transformative innovation and innovate across prestige price tiers to reach a wider audience.

Throughout the second half of fiscal 2025, we introduced a robust slate of breakthrough on-trend and commercial innovation aimed at new consumer acquisition as you can see on the slide. We are realigning our innovation portfolio to deliver gross margin accretive product quicker and better capture faster-growing industry trend in skin care within night, longevity and derms, as well as across makeup and the still in demand luxury fragrance segment, as well as haircare.

Let me share a few highlights from the fourth quarter, beginning with skin care. La Mer built upon the iconic success of its Treatment Lotion with The Balancing Treatment Lotion, which, along with the brand's third quarter launch of Night Recovery Concentrate, fuel La Mer second consecutive quarter of double-digit organic sales growth in Mainland China. Clinique and The Ordinary showcased their unique derm and scientific brand equities at entry prestige pricing.

For Clinique, the brand launched a supercharged SPF version of its renowned dermatologist recommended DDML. For The Ordinary, its new UV Filter SPF 45 Serum offered consumers sun care protection in its signature serum formats.

In makeup, Clinique built upon its blockbuster Almost Lipstick franchise with a third shade, Nude Honey. Since 2021, Clinique has driven strong sales growth of Almost Lipstick, with volumes over 30 times greater than four years ago, demonstrating our ability to leverage social media virality to further fuel demand and attract younger consumers.

M·A·C's bold famous commercial innovation, paired with the new Lipglass Air contributed to strong share gain in the US prestige makeup lip color and lip-gloss subcategory in the second half. Aveda introduced Miraculous Oil, which is significantly outperforming initial sales expectation.

For our third action plan priority, boost consumer-facing investment to accelerate new consumer acquisition. We increased consumer-facing investment at a greater rate of growth in the second half versus the first half to reignite retail growth.

In Mainland China, this contributed to high-single-digit retail sales growth and share gain in each of the third and fourth quarters, solidifying share gains for the fiscal year with every category improving share.

In the fourth quarter, 10 brands grew at retail to fuel share gains in every category and every channel. The incremental investment coupled with innovation drove outstanding performance for 6/18 for La Mer, Lauder and Jo Malone London across online platform and powered The Ordinary success launched in China with Sephora.

And we invested in our freestanding store as we strategically drive a more productive fleet. For the full year, we opened nearly 40 doors for our fragrance brand to much success and closed unproductive doors, primarily for M·A·C, Aveda and Origin (sic) [Origins] (00:11:43) for over 10 net new stores globally.

Le Labo continued its spectacular expansion with new stores, including the Beijing and Seoul Experience Center, while Jo Malone London, Hainan store navigation and experience to meet evolving consumer needs.

Next, let me share an update on our portfolio review. We recently engaged external adviser as we consider evolving the portfolio to best align with the strategic vision of Beauty Reimagined and focus on our highest-return opportunities over the medium to long term. We will share updates in due course.

Let me now turn to our fiscal 2026 outlook. With three fiscal year of sales decline and operating margin erosion behind us, we enter fiscal 2026 with signs of momentum and the start of our turnaround, a return to top line growth in fiscal 2026 and the pursuit of a solid double-digit operating margin in the years ahead.

For fiscal 2026, we expect to deliver low-single-digit organic sales growth, maintain our now stronger gross margin despite the headwind of incremental tariffs and expand our operating margin by 165 basis point at the midpoint. Akhil will describe the drivers in detail, but let me share a few overarching themes.

For sales, we intend to significantly reduce discounts. We made good progress in fiscal 2025 and believe there is much more that we can achieve. Our sales growth also [indiscernible] (00:13:34) benefit from accelerating best-in-class consumer coverage, recognizing we still have a lot of work to do in markets with a high penetration of department stores. Finally, we are putting greater emphasis on accelerating in high-growth emerging markets, given our still untapped potential as emerging market only represent 10% of reported sales.

For operating margin, the organization has embraced PRGP and its momentum is very encouraging. We achieved much more from PRGP than we expected in fiscal 2025, which gives us confidence that we can deliver meaningful cost saving in fiscal 2026 and fund incremental consumer-facing investments.

To fuel our 2026 outlook, we are focused on executing with excellence Beauty Reimagined. Already in the first quarter, we are further accelerating best-in-class consumer coverage. The Ordinary launch on Tmall in China with a breakthrough service, the first AI-powered flagship stores co-developed with Tmall. And we are exciting to be expanding on Amazon Premium Beauty store's success beyond the US and Canada, starting with The Ordinary in Amazon UK, which launched in July as well as Clinique in Amazon Mexico this month.

In travel retail, we are greatly expanding our presence in the Americas through the all new distribution with Duty Free Americas. This builds on progress in EMEA to expand the presence of our luxury fragrance brand in airports.

Moving to our second action plan priority, create transformative innovation, we have identified our external hire for the new leader of R&D and expect to make this announcement in the coming weeks. For fiscal 2026, we are targeting innovation to be back representing over 25% of sales. With this pipeline, we are well on our way towards tripling the percentage of innovation launched in less than a year, from 10% to 30%. In fiscal 2026, we are set to have 16% of our innovation that is launched within the year.

Here are a few fiscal 2026 innovation already in the hands of consumers. In skin care, reflecting our imperative to innovate from the entry price tiers to luxury tiers, The Ordinary launched sulfur 10% powder-to-cream concentrate, a break-through formula.

Further up the prestige tier, Estée Lauder Advanced Night Repair franchise introduced a new eye cream, while Re-Nutriv launched a watery lotion powered by longevity science.

In makeup, we are rebuilding on our gain in lip with M·A·C Lipglazer Glossy Liner and Bobbi Brown's Cashmere Luxe Matte Lipstick. And following TOM FORD's recent success with Cushion Foundation, the brand launched Architecture Radiant Hydrating Foundation.

In fragrance, the category poised to lead prestige beauty industry globally in fiscal 2026. Jo Malone London's Raspberry Ripple, this year's seasonal limited edition color is outperforming last year's limited edition runaway success.

TOM FORD extended their halo of its Oud collection with Oud Voyager and expanded to its popular Black Orchid franchise with Black Orchid Reserve. We are also proud to mark the exciting relaunch of the Aramis brand with Intuition, a new fragrance flaunted by global ambassador, NBA Hall of Famer, Dwyane Wade.

For our third action plan priority, boost consumer-facing investment, we are deploying a new media model that puts greater focus on demand generation through broader media tactics. We made significant shift in the mix of media budget to enhance consumer acquisition and improve ROI accountability. Our investment in AI have begun to show meaningful impact, transforming how we engage with consumer and operate internally.

From personalized marketing and media optimization to agile go-to-market execution, AI has driven a 31% increase in ROI from our North American media campaigns, enabling faster decision-making and stronger real-time market responsiveness.

For our fourth action plan priority, fuel sustainable growth through bold efficiencies, among our newer initiatives when we expanded the PRGP in February 2025 is outsourcing. Our analysis revealed a significant gap versus industry benchmark and we are rapidly advancing these initiatives.

For our final action plan priority, reimagine the way we work. As of July 1, brands own global strategy, innovation and long-range planning, while region have full responsibility for the P&L, allowing for greater local agility and consumer focus. We introduced new ways of working playbook aligned to the structure to drive brand-region collaboration and we are very encouraged by the elevated engagement so far.

In closing, we are energized as we are transforming our company through Beauty Reimagined. To our employees, thank you for bringing Beauty Reimagined to life in six short months through your tremendous passion and commitment. Together with all of you, I am excited for what we will accomplish.

I will now turn the call over to Akhil.

Akhil Shrivastava

Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

Thank you, Stéphane. Hello, everyone, and thank you for joining us today. Before discussing the outlook, I'll briefly recap our fourth quarter results and highlight progress in key areas of the business. For more information on our full year and fourth quarter performance, please refer to our press release issued this morning.

Overall, we delivered fourth quarter and second half results at the top end of our implied guidance range. Starting with top line, organic net sales declined 13% in the fourth quarter, reflecting declines across all product categories, except fragrance, as well as across every geographic region, primarily driven by global travel retail as we expected.

Encouragingly, we are seeing positive results with share gains in some key markets, notably in Mainland China and Japan. In the US, we made significant progress in narrowing our share losses during the fiscal year and gained share in the second half.

Now, looking at margins, our gross margin for the fourth quarter was relatively flat, even as we faced the steepest sales volume decline of the year. For the full year, we delivered 230 basis points of gross margin expansion, despite our sales deleverage, landing at 74%. This meaningful expansion was driven by the relentless execution of our PRGP.

Turning to operating margin for the fourth quarter, we delivered 4% compared to 9% last year. This was driven by a 580 basis points increase in consumer-facing investments, as percentage of sales. On the full year, consumer-facing investments increased 400 basis points, as we invested in our brands as part of Beauty Reimagined to fuel growth and long-term value creation. These investments were enabled through our PRGP, which fueled our continued progress in reducing non-consumer-facing costs in the fourth quarter, ending the year with a 6% reduction.

In the fourth quarter, we also recorded $425 million of impairment charges relating to Dr. Jart+ and Too Faced. This reflects challenges in Mainland China and Korea for Dr. Jart+ and continued underperformance in key geographies and channels from Too Faced.

Our effective tax rate for the full year was 38.8% compared to 31% last year. This reflects a higher effective tax rate on our foreign operations due to our geographical mix of earnings and the unfavorable impact associated with previously issued stock-based compensation. Our diluted EPS was $0.09 in the fourth quarter as compared to $0.64 last year.

Looking now at our PRGP restructuring program, as of June 30, we recorded $610 million of total cumulative charges, primarily in employee-related costs. Moving to our cash generation, for the year, we generated $1.3 billion in net cash flow from operating activities compared to $2.4 billion last year. This decrease is primarily due to lower earnings adjusted for non-cash items, and an unfavorable change in operating assets and liability. This also reflects that last year, we made a very significant year-on-year reduction in our inventory, which drove very strong CFFO in the base period.

Additionally, the reductions reflect a significant increase in restructuring payments. We invested $602 million in capital expenditure, down 34% compared to last year, which reflected prior-year payments relating to the manufacturing facility in Japan. This level of CapEx reflects a strong focus on optimizing capital expenditures and prioritizing consumer-facing investments. Free cash flow generation remains a strategic priority, and we are focused on driving improvements in working capital, CapEx and operational efficiency to strengthen free cash flow going forward.

Now, turning to outlook, our priority is to execute our Beauty Reimagined action plans with excellence. The strategy is designed to drive long-term value creation and restore growth, improve margins, and drive cash. We are focused on driving sustainable sales growth in fiscal 2026 and beyond, as well as achieving a solid double-digit adjusted operating margin over the next few years.

Beginning with fiscal 2026, we are providing only an annual outlook. This approach gives us more agility and flexibility to navigate ongoing volatility, while better aligning with the long-term value creation and strategic priorities.

Also, as you may have seen in a press release issued this morning, and consistent with prior years, we continue to develop our strategy and allocate resources by product category. Beginning with the first quarter, we will be reporting our fiscal 2026 and comparable fiscal 2025 results by reorganized geographic regions that align with our recent leadership changes. We plan to share more detailed financial information based on our new regional structures in the coming weeks.

Now, let me update you on our assumptions regarding evolving trade policies and enacted tariffs. As I mentioned in May, our task force has been moving with urgency, closely monitoring developments and evaluating various scenarios to mitigate some of the tariff impacts. Since then, our teams have acted swiftly to implement mitigation actions, including leveraging available trade programs and further optimizing our regional manufacturing footprint to bring production closer to the consumer, including through a facility in Japan. These efforts, along with the agility we have built into our supply chain, are helping to offset more than half of the expected impacts and better position us to adapt quickly to address the evolving trade policies.

Based on what we know today and net of our planned mitigation strategies, we expect tariff-related headwinds to impact profitability by approximately $100 million. We continue to evaluate additional strategies to further mitigate these impacts, including more PRGP initiatives and potential pricing actions.

Turning now to our industry expectations, for fiscal 2026, we assume modest global prestige beauty growth in the range of 2% to 3%, which is an improvement versus fiscal 2025. While there are early signs of stabilization in Mainland China, travel retail conversion continues to be weak and challenges persist in the West, including subdued consumer sentiment in the US and Western Europe.

In terms of retail sales, our expectations assume retail sales growth in line with or ahead of prestige beauty in key markets. We also remain focused on improving our performance and narrowing the gap between retail and net sales growth globally.

In fiscal 2026, we aim to achieve this through tighter monitoring of inventory in trade and a significant reduction in discounts. That said, progress may take longer in some markets and is unlikely to be linear. Particularly in North America, we ended fiscal 2025 with an approximate 5 percentage points gap between retail and net sales growth for the full year. While we expect the gap to narrow throughout the year, a greater disconnect is anticipated in the first quarter.

Moving to top line, for the full year, we expect organic net sales to be flat to up 3%. Our outlook assumes mid-single-digit net sales growth in Mainland China, as well as meaningful improvement in our global travel retail business. It also assumes more broad-based improvements across the rest of the business compared to last year.

Let me now share a few details. We expect full year organic net sales in our global travel retail business to return to growth at the midpoint of our outlook. This reflects the improvement in shipment compared to last year in Asia travel retail, particularly in the first half as we anniversary the impacts of action taken to improve retailer inventory levels, along with the strategic decision to reduce our exposure to reseller activity.

However, this improvement is expected to be offset to some extent by persistent challenges in the broader retail environment, including weak conversion. As a result, we expect a wider range of net sales growth in global travel retail in the second half, reflecting ongoing uncertainty.

In the rest of the business, we expect to deliver low-single-digit organic net sales growth for the full year, reflecting improvement in year-on-year growth rates across most markets relative to fiscal 2025.

In terms of the first quarter, we expect organic net sales to be down low-single digits to slightly positive. This reflects high-single-digit growth in our global travel retail business, while maintaining a strategic initiative to keep the mix of business in line with industry norms. In addition, we anticipate a return to solid growth in Mainland China and a more moderate decline in the remainder of the business.

Turning now to our PRGP, in fiscal 2026, we are continuing to execute with rigor, discipline and clear purpose to optimize key elements across our cost structure to improve margins and profitability, as well as create fuel for growth. We are pleased with the meaningful progress we have made in fiscal 2025, and remain focused on advancing our PRGP initiatives in fiscal 2026. Through our PRGP, we expect continued benefits in fiscal 2026 to gross margin and to operating expenses, specifically non-consumer-facing expenses as we enhance overall productivity and right-size our cost base.

Now, looking at our restructuring program, we remain on track and continue to advance key initiatives inclusive of approvals through August and relative to the high end of the total expected ranges we previously communicated. We have approved initiatives accounting for over 60% of expected gross benefits and nearly 50% of both anticipated charges and net reduction [ph] impositions (00:30:11).

With that backdrop, let me walk you through our other full year assumptions. We assume an operating margin between 9.4% and 9.9%, reflecting greater expansion in the second half of the year, as we expect benefits from our PRGP to build sequentially each quarter.

In fiscal 2026, we expect margin progression despite year-on-year headwinds from incremental tariffs and normalized bonus levels. Our estimated geographical mix of earnings is expected to drive an effective tax rate of approximately 36%. This assumes a higher rate of approximately 40% in the first quarter, with improvement over the course of the year as we expect to build profitability.

In addition, we are monitoring certain provisions in global tax legislations that may expire in fiscal 2026, which, if not extended could increase our effective tax rate. Diluted EPS is expected to range between $1.90 and $2.10, assuming a weighted average share count of approximately 365 million shares. This reflects year-on-year growth of 26% to 39%.

Turning now to cash generation. In fiscal year 2026, we expect to generate net cash flows from operating activities between $1 billion to $1.1 billion. While this reflects a slight decline from last year, driven by the anticipated peak in restructuring payments, we are confident in our ability to mitigate some of the pressures through a strong focus on managing working capital. We expect capital expenditures for the full year to be approximately 4% of sales, reflecting a more efficient and normalized level of expenditures, along with our focus and determination to optimize CapEx overall and target the investments in consumer-facing areas to fuel growth.

In closing, we remain confident in Beauty Reimagined, grounded by our consumer-centric mindset that prioritizes growth-driving investments, cost discipline and operational efficiency. While we are not providing an outlook beyond fiscal 2026, we are determined to deliver strong cost leverage through sales growth in fiscal 2027 and bring to bear with urgency PRGP benefits from optimizing of our end-to-end operating model to drive cost savings, including through ongoing outsourcing initiatives, tax planning consistent with the strategic changes we are making in our mix of business and a more competitive approach to procurement.

To our employees, thank you for your dedication and excellence through this period of meaningful transformation. Your resilience and commitment drive our progress. Together, we are turning strategy into execution and execution into long-term value creation.

That concludes our prepared remarks. I'll now turn it over to the operator to begin the Q&A session.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions. [Operator Instructions] Our first question today comes from Dara Mohsenian with Morgan Stanley. Please go ahead.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC
Q

Hey, good morning.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.
A

Morning, Dara.

Dara Mohsenian
Analyst, Morgan Stanley & Co. LLC
Q

Morning. So, clearly, a lot of hard work occurring under Beauty Reimagined, significant plans in place in the five key action areas you mentioned. I wanted to touch specifically on simplifying the organizational structure just – and the restructuring there. How much progress have you made so far? What changes are left to be implemented in fiscal 2026? And I'd just love to get your sense for how the organization is handling the change culturally, both on the organizational front, but also just in a broader context. There's obviously a lot of change occurring for a company with a proud heritage and tradition. So, are you satisfied with how quickly the organization is moving so far? And how do you think this change is being [indiscernible] (00:34:38) culturally? Thanks.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.
A

Yeah, no, thank you, Dara, for your question. I think it's obviously at the heart of all the changes that we are implementing and obviously delivering on the vision of Beauty Reimagined, like you said, on the five key action priorities. I think from an organization standpoint, you've heard me say in the prepared remark that we are going to announce in the next coming weeks, the head of R&D, which will actually complete the new leadership team in place. And we've done that in a very short six months since we've announced the new organization.

We also – if you remember, we've announced the collapse of the seven region into four. So, today – and Akhil mentioned in his prepared remark also, like, the new geographical structure on which we are going to report on, which is obviously the Americas, UK, Asia and travel retail and China as a standalone region. So, all of that is already in place, I'm very, very pleased with the progress that we are making at this point. The team is really committed on the challenges that we are doing. We have had relentless communication throughout the organization. Personally, I've had like multiple town hall through the organization, many of my executive team leaders also did the same thing internally but also externally. We spend a lot of time communicating with you guys, but also with our suppliers, our retailers, all the challenges that we are making around the world.

I've said it multiple time. This is the biggest organizational transformation that we have done in our history. And we are changing compensation to just make sure that everybody is rewarding on the total and the execution of Beauty Reimagined, and we are really laser-focused on the time that we have left to deliver the PRGP. We – obviously, you've heard both Akhil and I been very pleased on the progress that we are making on the PRGP, which obviously, we exceeded our expectation in fiscal 2025, and we have more to go get in fiscal 2026 and continues to benefit in 2027.

From an organization standpoint, we have the complete new organization in place from a leadership standpoint. But I think it's not only at the level of my leadership team, it's throughout the organization.

Last time in the last earning calls, we said that we were moving the responsibility of the P&L from the brand to the region, and I reiterated that also, like, today. As of July 1, all of that is in place. And I think the engagement that we're seeing throughout the organization, between the brand, between the region, between the function throughout the organization is extremely encouraging and very positive, and we are seeing the collaboration and the speed of execution already that is paying some strong dividend.

I think many of the progress that we've highlighted of the last six months since we've announced Beauty Reimagined are coming through all these changes that we are making from the share gain that we have in China, that we have in the US, that we have in Japan, the acceleration that we're seeing in the emerging market, even though not yet satisfying to all of us, I think many of the changes are the result of the new organization that we are putting in place.

So, I would say, in conclusion, frankly, very happy with the progress that we are making, the speed at which we are making. I think, Dara, you mentioned, obviously, the culture is evolving and it's changing, but we are really pushing on ambition and accountability throughout every, I would say, pillars of brands and regions and function of the organization. And I think this is only the beginning of the momentum that we are just going to see going forward.

Operator: The next question is from Steve Powers with Deutsche Bank. Please go ahead.

Steve Powers
Analyst, Deutsche Bank Securities, Inc.

Q

Great, and good morning, everybody. This is a question perhaps more for Akhil, although, Stéphane, I'd obviously welcome your perspective as well. I was hoping you could just maybe better decompose the gap between retail sales and shipments that you see entering fiscal 2026. I'm curious as to how much of that is still the byproduct of elevated trade inventory in pockets versus the discounting you mentioned versus perhaps channel mix dynamics or otherwise. And then, I guess, as you look forward, just how you anticipate that gap looking if it still exists as you exit the year versus the beginning? Thank you.

Akhil Shrivastava
Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

Thank you, Steve. So, I would say, if you look at the big picture from where we closed fiscal 2024 to where we closed fiscal 2025, when you look at our largest markets, travel retail, China and US, in every single market, we have reduced inventory, and we have brought it in a meaningful way to where we need it to be. So, that's the first step.

I think in travel retail, from where we see retail now, I think we are very much there. China, we have always kept lean inventory, and we are in a good place there. In North America, where – while we have reduced inventory, we still – because of the retail environment, we are just watchful of what – how we want to manage that. Going forward, we expect this gap to narrow.

So, in terms of your big takeaway, our net should start to track retail much closely than it has in the past. So, you should feel good about it. And of course, we'll give you quarterly guidance, which is why on quarter one in North America, we gave you already the perspective that we see some challenges.

However, overall, your takeaway should be that we are shipping to retail as Stéphane and I had said, very much build retail, ship to retail, you could have a variance on the quarter, but we will never let it pass that. We will adjust it right in the next quarter, and of course, we'll be very transparent in communicating that.

Now, in some of the markets like North America, where we are, as part of Beauty Reimagined, changing our coverage and going to pure-play retailers, moving more to specialty-multi, et cetera, there comes a channel mix, which creates that dynamic, there comes certain costs which go above the line versus below the line, which create that gap between retail to net, but these are profitable channels and overall value-creating channel.

So, overall, I would say we have made dramatic progress. We are watching this very carefully. And going forward, we expect the gaps to be significantly narrow versus where we have been.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Yeah. And I think, just, Steve, just one thing to add to what Akhil was saying. I think you're seeing even in the algorithm for the year, what we said, we have a modest growth of travel retail mid-single-digit growth in China. For the rest of the business, we are in low-single digits, but we are seeing gradual improvement from our net sales throughout the year because of what Akhil said, we are aligning retail and net throughout the year, quarter over quarter.

So, still a bit of a gap in Q1 as Akhil mentioned. But frankly, you're going to see that in the exit of 2026, we will be in a much better position, frankly, in all the geography. But again, the big work was done in fiscal 2025 on reducing dramatically the inventory in travel retail, and we [ph] exited (00:42:18) fiscal 2025 in the right place. So, now, it's fine-tuning to make sure that the total net sales and the retails are aligned going forward.

Operator: The next question is from Lauren Lieberman with Barclays. Please go ahead.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Morning, Lauren.

Operator: Ms. Lieberman, perhaps your line is muted on your end. It's open on ours.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Sorry. Good catch. Okay. I'm here. So, good morning, again.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Hi, Lauren.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Good morning, Stéphane.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Morning.

Lauren R. Lieberman
Analyst, Barclays Capital, Inc.

Q

Just wanted to hone in a bit on North America and Stéphane, your – or it was Akhil's comment that markets with significant department store exposure, which will remain more challenged. And so, you've made great progress to North America, presence on Amazon, et cetera, market share gains in various periods.

But how should – how are you thinking about the balance of channels in North America? And frankly, how long it takes for the region to get to consistent sales growth given fill that weight of department stores? And I guess, [indiscernible] (00:43:20) more pointedly, would you consider sort of more dramatic action, the way that you've taken in travel retail to effectively at this point, proactively reduce exposure to the channel? Thanks.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

No, thank you, Lauren. I'll start and I'm sure Akhil will just, like, add few flavor to it. Now, when you look at North America, let me take a little bit of a step back because the market is very strong. And we've seen it in fiscal 2025, really gradually improving sequentially quarter over quarter. And even the beginning of fiscal 2026, what we see in the months of July is strong and we're strong. In our prepared remark, we said that we've been gaining market share for the first – the last six months of the last fiscal year. And that's the first time in many, many years, I've said it last quarter, said it again, this is a massive transformation.

To what you're pointing, Lauren, a lot of this is coming from, obviously, the first pillars of Beauty Reimagined, which is to increase the consumer coverage, we've made and we made it very intentionally and strategically. Today, we have 11 brand on Amazon. And the interesting thing with Amazon, obviously, we are very pleased with our progress with Amazon and Clinique was, like, the first brand to launch, Aveda and Origin (sic) [Origins] (00:44:38) were the last one to launch. And we're seeing even as we are lapsing the anniversary of Clinique launch, Clinique continues to be very, very strong, which tells us that we've been able to just attract new consumers, but also reengage with lapsed consumers over the past 12 months.

Amazon not only is adding new consumers for us, but is also acting a little bit as a megaphone to our total business because Amazon is not only a commerce platform, but it's also the majority of the beauty search that is happening in the market. So, we have been seeing a lot of positive momentum in retailers like Ulta, where we are very, very strong. Obviously, our online business, our own online business, online.com is also, like, strong.

We have a lot of work that still need to be done on the more traditional channels like the department stores. And obviously, as a percentage of our total business, they continue to reduce, and we are working very closely with our historical partners to make sure that we focus on the top stores to make sure that we're also recruiting the right consumers. There's still a lot of traffic and a lot of demand in these stores.

So, we're seeing a good momentum. And I have to say the early result that we are getting in July are extremely encouraging, where July, again, we are in market share gain. And we are not only market share gain on brands like Origin (sic) [Origins] (00:46:08) – The Ordinary, but we are also across Lauder, Clinique and M·A·C, which gives us a lot of confidence that we are on the right track to make the changes. And you will see the mix of new retailers like Amazon or specialty-multi increasing in the total going forward, and that's the intent that we have.

Akhil Shrivastava

Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

Yeah. I would add a few things to what Stéphane said. Hello, Lauren. So, I think, overall, we are very pleased with where the channel mix is evolving in North America. As Stéphane said, we now have a much more balanced view of what e-channels bring. I mean department stores are probably less than one-thirds of our business, not probably, they are one-third – less than one-third of our business. We have built Amazon business, which is significantly a larger part of our mix of business. We have a large DTC business between brand.com, between freestanding stores. So, we now have a much more diversified business than probably most people realize. And what we intend to do is to really serve the consumers and underlying e-channel as part of very consumer-centric approach. There's a different consumer there. We are serving them according to that.

And over time, we will continue to build. We do have opportunity to grow further in specialty-multi, and we are looking at every opportunity to go. As Stéphane said, wherever the consumer is, we are going there, of course, in a value-creating way.

Operator: The next question is from Ashley Wallace with Bank of America. Please go ahead.

Ashley Wallace

Analyst, Bank of America

Q

Good morning. So, one of the data points that you gave at Q3 was organic revenue growth ex-travel retail, which was minus 3% at the time. Are you able to share with us what Q4 ex travel retail organic revenue growth was? And whilst I recognize the markets, not many are, I think, reporting from global GDP, it does show a more supportive beauty backdrop in the US and China in Q4 versus Q3. So, maybe if you can see an improvement in your organic revenue growth ex travel retail, what do you attribute this to? Is this just the gap between your sell-in and sell-out or something else that's happening now considering we've seen the other players show improving trends there?

And then, I guess, when you think about the 2026 guide, can you help us understand when we should be expecting ex travel retail organic revenue growth to turn positive? I guess the reason I ask this is it does seem that this is the part of your business that you can influence more heavily through product innovation and distribution push, where the travel retail component feels still a little bit more out of your control and impacted by market dynamics. Thank you.

Akhil Shrivastava
Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

Yeah. So, we – our overall business, excluding travel retail, was in the similar range of single digit – low-single-digit decline. Our goal is to clearly improve that business as we said in the guidance. We look to see – to get to positive growth in fiscal 2026 overall in that, low-single digit, that's our guidance.

And the part of the reason is what we explained, right? Net sales in North America, in spite of the positive retail, was negative, which we are working to close that gap per the earlier question from Steve as well.

At the same time, what we have seen versus the first half of 2025 to back half of 2025, we did see slowdown in Europe, which is part of that business. And of course, we are working to accelerate that as part of the – really the Beauty Reimagined pillar.

And emerging markets, there were more diversified businesses in rest of the world, including the strength we have seen in Japan, et cetera. We believe that we can get to stronger growth outside of travel retail. And the good news is that the China business is starting to pick up. We had – back half of fiscal 2025, we had mid-single-digit growth in our retail and growing share.

So, like you said, clearly, travel retail, we are adjusting to retail. We are focusing on building retail there and shipping accordingly. But in other parts of the business, namely China, positive retail in the US, opportunities in emerging markets, we believe that we can gradually – as Stéphane said, this will take some time, but we are in the right direction in terms of driving this business.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Yeah. No – and Ashley, just to add to what Akhil said, I just want to go back to what we've guided for the year. We have a modest growth for travel retail. And we still have ways to influence, like we did with the reduction of the inventory last year. It is true that we are starting from a lower base. But we have a new team in place in travel retail, and we are really focused on accelerating retail.

We'd be happy to just, like, show you many of the activities that we are doing in travel retail across Asia, the Americas, and Europe, where we are expanding distribution in the Americas and in Europe. So, there's still a lot of untapped potential for us in many airports around the world.

And actually, just one data point was interesting. In the month of May, we turned positive in Hainan. Thanks to all the activities that we've put in retail with Estée Lauder, La Mer, Jo Malone and you name it, pretty much across the brand. Now, the rest of our business is gradually and sequentially getting better, with the intent and the ambition that by the end of fiscal 2026, we will be in positive in the rest of the business.

We are foreseeing that China will be positive in the mid-single digit. China is stabilizing. We are gaining share. The other data point is we have early signal in July that we are also gaining share after a very strong Q4 for led by

6/18, where we had top ranks and very top performance for Estée Lauder, La Mer, Jo Malone and many other brand. So, we are seeing gradual improvement from a net sales standpoint. From the retail, we're already there in North America. We are accelerating in the emerging market, and we intend to be in double-digit growth for the fiscal year in emerging market.

As Akhil said, the challenge that we have to work on us, The Estée Lauder Companies, but also because of the China market is the big Europe, where we're seeing a decrease in consumer sentiment and obviously a little bit of a softening of the trend, especially in the key markets like France, Germany and to a lesser extent, in Italy and Spain.

But – so, we are very conscious of that, and we are working with the team, the new team [indiscernible] (00:52:59) to make sure that we are deploying more innovation in this market and adding the right consumer coverage with the right media investment to recruit new consumer to our brands.

Operator: The next question is from Rupesh Parikh with Oppenheimer. Please go ahead.

Rupesh Parikh
Analyst, Oppenheimer & Co., Inc.

Q

Good morning and thanks for taking my question. So, just going back to the operating margin guidance for the full year, I was just hoping to get more color on the interplay between gross margins and SG&A. And as you guys make that progress towards a double-digit operating margin target, where you see more improvement on the gross margin or SG&A line? Thank you.

Akhil Shrivastava
Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

Hello Rupesh, I'll start and Stéphane if could add. So, overall, in the 9.4% to 9.9% guidance that we gave, we believe that we would have gross margin flat to positive in spite of the significant tariff offset that we made. So, in absence of that, we would have expanded gross margin on top of the 230 basis points that we expanded.

And of course, as Stéphane said in his prepared remarks, we're looking at more opportunities to offset that through various PRGP and pricing opportunities, which we have not yet implemented.

So, as we look forward, which is your question, Rupesh, we do think there is more opportunity in gross margin over a longer period of time. In 2026, we believe it's more in SG&A. So, a large part of our growth in margin in 2026 would come from SG&A, primarily from non-consumer-facing. So, we will make sure that we have the right fuel to drive our brands and the overall Beauty Reimagined strategy.

But on everything else outside, which the consumer doesn't see, whether it's G&A, whether it's the shared services, whether it is our employee cost, where we had announced a significant restructuring amount to right-size our business, we will be doing that.

Within SG&A, just a double-click is that, as Stéphane said in his prepared remarks, we are looking at end-to-end business model change and driving the outsourcing opportunity, driving procurement opportunity as well where we have a full-on project looking at every single OpEx in the company to look at what – how we can consolidate, how we can drive better efficiency, how we can procure better, how we can spend better or less. So, our growth will come from SG&A in a primary way, but also from gross margin. We believe there is opportunity in both, primarily SG&A.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Yeah, just one quick addition, Rupesh, on this point. We are laser focused on growth. The PRGP, if you remember, the G is growth. So, a lot of the savings that are coming from the PRGP, which we are already in completion of the first year, and we still have one year to go, and as I said in my prepared remark, we're very pleased with the progress that we've made.

We are reinvesting a large part of this cost saving into consumer-facing. And I said it in multiple call before, we could have taken a very different position to just like drop many more of these savings to just improve quickly or faster the operating margin.

But we strongly believe that with the strengths of our brands, with the innovation that are coming and the new media model that we are putting in place, we need to fuel the growth going forward, the consumer acquisition that we just need to go back to historical algorithm – growth algorithm and bid market share.

When we get there with the new operating model that we are putting in place, with lower SG&A, a better gross margin [ph] that (00:56:38) what we have had over the last two years, we know that there will be a lot of leverage going forward. But we need to be laser-focused on activating retail. And obviously, as we made in the other question that we tighten the retail to net, and this is just going to create a lot of leverage going forward.

Operator: Next question is from Chris Carey with Wells Fargo Securities. Please go ahead.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi, everybody.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Hi, Chris.

Chris Carey
Analyst, Wells Fargo Securities LLC

Q

Hi. Thank you for the question. So, just a two-parter, but just regarding the quarter-to-date developments, specifically in Asia that you highlighted in the press release, I'd love to just get a bit more context on what you're seeing from the category and your own performance?

And then regarding Europe, you did mention that you've just seen a bit of slowing in the category. I know there's some new leadership in the market as well, looking to drive accelerated penetration. What's your outlook for Europe specifically as we think about the next 12 months, both the category and your own performance? And what are appropriate benchmarks for success and sequential progress in the market? Thanks so much.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Well. Thank you, Chris. So, let me just decouple, when we talk about, like, Asia between the trend that we're seeing in China and in the rest of the Asia region because, obviously, we have – and as we mentioned, we're seeing some very encouraging sign of stabilization in China. And that's the most important thing.

Consumer sentiment is getting a little bit better. It's still lower than what it was like a few years ago. But in our case, we have a very, very strong performance. We have growth in all categories and all channels in Q4. And that was exceptional. It's been a long time for us getting to this position. We had 10 brands who grew in retail, including our big brand, but in a much more diversified way.

Obviously, Lauder and La Mer continues to just, like, do some very strong activities, but we've seen tremendous retail acceleration on Jo Malone, on TOM FORD, including TOM FORD makeup and so on and so forth. We have also a very successful launch of The Ordinary in China with Sephora that we are expanding as we speak on Tmall. So, we're seeing a lot of good momentum in China. Obviously, we are – there's still some work to do. The market is soft, but more importantly for us, we are gaining market share.

In the rest of Asia, I have to say we are seeing some slowdown. Japan continues to be strong for us. We are gaining market share, but we've seen a sequential reduction of the performance linked to FX and other reason, which is obviously less tourists when, obviously, the effect has been swinging in the different direction.

Korea has been soft, and we are working with the team to – we have a new general manager in place in the market and working with the team to really accelerate the market. So, I would say, different views on China stabilization, the rest of APAC, some work to do. And Southeast Asia, I have to say, continues to be relatively strong and part of our new emerging market structure. And like I said, we have, for the moment, 10% of our sales that is coming from emerging market, but we're seeing a lot more potential with an acceleration in double digit in this year and in the years to come.

When it comes to Europe, yes, Europe is actually a bit more concerning from a consumer trend standpoint. There is an erosion, obviously, of the performance with a sequential slowing in prestige beauty across mainly of the main market. France, is the one that is the most challenging followed by Germany. Some actually still positive in Spain and Italy, but we think, generally speaking, a slowdown on the overall performance. But with the team, we are expanding consumer coverage. We have a lot of activities, especially in fragrances. You know that Europe has been for now multiple months driven a lot by the activities on fragrances in the market. And we've demonstrated actually that both with, like, brand like Jo Malone, with TOM FORD, with Le Labo, we are basically going from strength to strength, and we are continuing to expand strategically our brand. So, we can capture our fair share of the growth that is in the market. We are also strategically investing more into this market to make sure that we ignite growth and bring more consumers.

And I have to say, all the work that we are doing on innovation is benefiting this market. The fact that we're accelerating our innovation that we're bringing to market in less than 12 months, and now we are back to more than 25% of our innovation coming to market is going to help a lot because we're seeing a lot more consumers looking for new innovation also in Europe.

So, I would say, generally speaking, stabilization of China, strong in North America and some weaknesses in the rest of APAC and Europe. But again, through Beauty Reimagined, we are laser-focused on expanding distribution, adding new innovation and investing in bringing new consumers to the market. So, all of that gives us the confidence that by the end of fiscal 2026, we will have all four new geographical region in a positive territory.

Operator: The next question is from Peter Grom with UBS. Please go ahead.

Peter Grom
Analyst, UBS Securities LLC

Q

Thanks, operator. Good morning, everyone. So, thank you for all the details on fiscal 2026, but just listening to you both and reading through the release, there's just a lot going on, a lot of moving pieces. So, when we just think about the fiscal 2026 guidance, can you just talk about the level of visibility or confidence you have in the outlook at this point in time? And I guess, specifically, have you embedded some cushion if some of these assumptions were to move against you? Thanks.

Akhil Shrivastava
Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

Hello, Peter. So, overall, I would say that, look, when we give this outlook, we, of course, take the best view possible and take the – of course, a risk assessment on that. What we are seeing, which is positive, which is meaningful for us, is definitely China. China has had – market has grown, and we have grown retail mid-single digit. That's one of the largest beauty markets on the planet. That was not the case in the first half of the year.

So, with two back-to-back quarters of single – mid-single-digit growth for us, growing share that definitely gives us some confidence, barring any geopolitical things that is not in our control. What is controllable is working. We are definitely winning in that market again. So, that's good.

Secondly, on travel retail, with the work we have done on the inventory and the difficult choices we made in 2025 gives us a base from where we can grow. And retail is still challenged in travel retail, but our shipment base was – did the hard work in 2025 to make those choices. So, on travel retail and on China, barring any exogenous factors, we have good visibility now.

Thirdly, in North America, we are starting to build retail positive, and we grew share in the back [ph] halves (01:04:37), right? So, that gives us confidence that in North America, we are getting more competitive again with all of the channel changes, et cetera, we have done. So, these are the three largest businesses.

Other than that, we have a strong presence in emerging markets around the world and we are working to accelerate. That's one of the things Stéphane has made it clear very early on that that would be a priority. So, that is a growth opportunity for us, where we are working to do. Of course, emerging markets come with their own volatility, but they are still a growth opportunity, and we are well positioned there.

So, when you look at our largest businesses from a sales standpoint, as I covered, we have good data points to support our outlook in a meaningful way. When I look at from a profit standpoint, we did the hard work on – we have done the hard work on PRGP to know what our cost structure would be, what our COGS will be, what tariff would be, what mitigation we can do. So, when we look at the cost work line by line, we, of course, have done the work to give you the margin outlook we have given.

So, both from top line margin, growth margin and cash, we believe the outlook we are giving you is the best based on the information we have today, of course, with prudency, which you would always expect from us.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

And I would say, Peter, just one quick thing. Obviously, we've said it, and you see it yourself, there is enormous amount of volatility out there in any geographies around the world. So, we have ranges to give us rooms basically to deliver, like Akhil said, the outlook. And I think you should see that from this team that we've over-delivered PRGP to our expectation. We will continue, we have 11 months to go into this fiscal year. And there's not a day in the week that we are not looking for new opportunities to cut costs where we need to do it, to refuel basically our brands everywhere around the world to activate retail.

So, we have ranges. Obviously, you would expect from any good managed business to have ranges not only to deliver the outlook but also for us to continue to do meaningful work. You saw the work that we're doing in gross margin throughout fiscal 2025. With the enormous amount of volume deleverage, we've been able to just improve gross margin by 230 basis point and even beat the guide that we gave for Q4 in fiscal 2025. So, expect us to continue to act with the same determination to cut costs where we need to cut cost to invest, to accelerate retail and to deliver on our guide for the year.

Operator: The next question is from Andrea Teixeira with JPMorgan. Please go ahead.

Andrea Teixeira
Analyst, JPMorgan Securities LLC

Q

Thank you. Just how much of your PRGP gross savings – and Stéphane you really – as you said, you over – I mean, the whole team has over-delivered on this plan, but how much are you including guidance for these margin expansions that you gave out at the midpoint and – out of the whole program, and how much reinvestment in client-facing initiatives you're embedding, you're making this year? So, how much it, kind of, [ph] flows (01:08:05) down to the bottom line?

And just trying to reconcile your comments and that's just a clarification question. Of the 500 basis points gap in retail against shipments, by my math, you probably grew about 2% in the Americas, I think that comment was 500 basis points was in particular to the US. So, my clarification questions are, one, can you comment on how much the exit rate was in the Americas? And B, how much would be embedding retail growth standpoint in the US for the fiscal year for the quarter to come? I'm just trying – I know you said it will be better than that 500 basis points gap, but just thinking of the full fiscal year. And C, how much your – you mentioned the potential for the price increase as an upside to the gross margin outlook, I was just hoping to see if you can clarify if there is any price increases in the low-single-digit outlook for local currency growth, or if that's an upside?

Akhil Shrivastava
Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

Hi. I'll start with the PRGP. So, overall, when we first went – announced PRGP, we had said $1.1 billion to $1.4 billion. That was the first time and then Stéphane and I expanded it. When we expanded it, we also said to you, hold us accountable to margin, instead of giving you a dollar tracking of PRGP figures, because the business was significantly deleveraging. So, that was definitely – and since that promise, our mission has been to grow margin, which we grew in gross margin. We are going overall margin in 2026. That's our forecast. And then, of course, we are committed to getting to strong double-digit margin.

But within that, let me give you some more clarity. So, out of the $1.1 billion, $1.4 billion, we had originally intended, we had said we'll do more than 50% in 2025. And what Stéphane referred to is that we significantly exceeded that more than 50% number in 2025.

Then to your second question, how much you are embedding in 2026? 2025 and 2026 are both fiscal years with large amount of PRGP savings that we are embedding. The way you could read that is really through a restructuring. We said that restructuring, we have spent closer to $700 million. Our total announced restructuring was $1.6 billion, $1.2 billion to $1.6 billion. So, there's still room for us to do the outsourcing project that we talked about and other opportunities that Stéphane has talked about in terms of streamlining the cost structure.

So, our forecast definitely takes into account a significant amount of PRGP saving. What is not counted here in 2026 is really the outsourcing work, that is still – will be in outer years and also procurement work, which we are working on, which should be another big lever.

So, that is our mission. Overall, we said 5,800 to 7,000 employee head count. We already communicated that we have done about 3,000 plus. There is still – we, of course, will balance. We're not trying to reach a number, but we are definitely trying to reach a margin in a way that we can execute the business, fuel the brands, and then, of course, deliver the margin. So, that's overall on PRGP.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

And maybe on pricing, just, like, one thing, Andrea, on pricing, obviously, as we always do, we have pricing power, and we embed low-single-digit, like, increase in pricing. But I just want to make sure that we're very clear about our strategy this year on pricing and potentially going forward. We will continue to build on pricing power. That's why we're investing and we have very strong brand. But we are making sure also that we are bringing to market new innovation at the right price point.

I made it very clear in my prepared remark that we are playing with the different price tier of prestige from the entry with The Ordinary and Clinique, all the way to Re-Nutriv and Estée Lauder, I think like La Mer and Jo Malone. We have a lot of, like, pricing power between our brands, but we are very careful of understanding where the growth is happening by price band, meaning, like, is the price – is the growth happening between $10 to $15, is it happening between $20 to $25 or beyond, and really tailoring our innovation to where the growth is.

And in addition, I want to make it also very clear, and we said it, we have taken some strategic price reduction on some of our product to reignite growth on some historical product. Not only we've reduced discount, but we've adjusted prices. Now, on the total, obviously, we have still pricing power, and we're increasing client. And that's the way that our guide is also built for fiscal 2026.

Akhil Shrivastava
Chief Financial Officer & Executive Vice President, The Estée Lauder Companies, Inc.

A

And your last one other question you had was on North America, the 5-point gap. So, clearly, I mean, we – as quarter one, we expect this gap to be high. But for the full year, we expect this gap to definitely compress from the 5 point that you saw in the full fiscal of 2025. And of course, we'll continue to give you visibility into this every quarter and so count on that.

Stéphane de la Faverie
President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

A

Next question?

Operator: This concludes today's question-and-answer session. If you were unable to join for the entire webcast, a playback will be available at 1:00 PM Eastern Time today through September 3. Please visit the Investors section of the of the company's website to review a replay of the webcast. That concludes today's Estée Lauder's conference call. I would like to thank you all for your participation and wish you a good day.