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EL - Q4 2015 The Estée Lauder Companies Inc. Earnings Conference Call

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OVERVIEW:

Co. reported FY15 net sales of $11b, net earnings of $1.18b and diluted EPS of $3.05. 4Q15 net sales were $2.52b, net earnings were $153m and diluted EPS was $0.40. Expects FY16 constant currency sales growth to be 6-8% and diluted EPS to be $3.10-3.17. Expects 1Q16 constant currency sales growth to be 6-7% and EPS to be $0.66-0.69.

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PRESENTATION

Operator

Good day everyone and welcome to The Estee Lauder Companies' fiscal 2015 fourth-quarter and full-year conference call. Today's call is being recorded and webcast.

For opening remarks and introductions I would like to turn the call over to the Vice President of Investor Relations, Mr. Dennis D'Andrea. Please go ahead, sir.

Dennis D'Andrea - *The Estee Lauder Companies Inc. - VP of IR*

Good morning. On today's call are Fabrizio Freda, President and Chief Executive Officer, and Tracey Travis, 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'll find factors that could cause actual results to differ materially from these forward-looking statements. Our discussion of our financial results and our expectations are before restructuring and other charges, including the re-measurement charge related to Venezuela.

In addition we will generally discuss results before the impact of accelerated retailer orders that took place in the fourth quarter of last year, due to the July 2014 implementation of our Strategic Modernization Initiative. We will also explain the impact of the shift in sales on our fiscal 2016 first-quarter and full-year comparisons. You can find reconciliations between GAAP and non-GAAP figures in our press release and on the investor relations section of our website.

And now I'll turn the call over to Fabrizio.

Fabrizio Freda *- The Estee Lauder Companies Inc. - President & CEO*

Thank you Dennis and good morning everyone. I'm proud of our strong financial performance in fiscal 2015, which validated the soundness of our business strategy.

We achieved very strong results, which were fueled by our multiple engines of growth in all regions, despite significant currency headwinds and other unusually strong challenges and volatility. We delivered these results by having developed a more balanced and diversified business over the last years across brands, geographies and channels. These important characteristics have become the key pillars that will help us continue to deliver long-term sustainable profitable growth.

This balance and diversity are important factors that have made our performance more reliable this year even in the face of external situations that arose and were out of our control. Our fourth-quarter constant currency sales growth was strong, up 7% -- ahead of the industry trends -- due to the broad global appeal of our prestige brands and their highly coveted beauty products. That performance capped an excellent fiscal year with constant currency sales growth of more than 6% and earnings per share growth of 12%.

We are celebrating many other achievements as well. One of our most important assets is our prestige brand portfolio, which we continue to strengthen and evolve. Our brands successfully pursued fast-growing markets and channels, created desirable products and attracted new consumers.

Makeup is the fastest-growing category in beauty in this moment as it appears consumers are seeking for gratification of instant results. As the global leader in prestige makeup we are capitalizing on this trend and our brands that are focused on makeup grew sales.

M.A.C.'s outstanding performance was driven by its constant creativity and wider distribution. Smashbox, which is strong in the specialty multi channel, generated exceptional double-digit growth, driven by a successful array of product launches.

Bobbi Brown expanded its makeup lessons at counters globally, which served to highlight its unique products and philosophy and supported its growth.

Many of our midsize and small brands generated strong gains, especially those in the luxury tier. Jo Malone and Tom Ford fueled exceptional growth by adding a terrific range of products to their successful lines of existing fragrances, while La Mer and Origins showed solid growth in skin care.

Within these categories and brands, innovation was a key contributor to our success. Sales for new products accounted for nearly 20% of our business. We launched products that resonated strongly with consumers across the board, including in fast-growing subcategories, such as masks, and a white spaces areas for us like contouring.

Emerging markets remain a major growth engine and have become 14% of our business. Excluding China sales in emerging markets grew 26% with the strongest performance in Brazil, Russia and Turkey.

Our China business grew 6%, with every one of our 14 brands there posting gains. We now have a presence in nearly 100 cities, having added 18 new cities during the year. We continue to expand our digital presence in China, further penetrating the largest market for e-commerce in the world. Our e-commerce sales there more than doubled and we expanded the number of brands sites on Tmall to four by launching Origins and La Mer. Bobbi Brown plans to join Tmall next month.

Our best performing region was Europe, the Middle East and Africa, where sales growth greatly outpaced prestige beauty growth, allowing us to gain share in all markets and in most brands. Our U.K. business grew double digits for the second straight year. The EMEA region's success came from implementing key corporate strategies, such as expanding emerging markets, smaller brands and direct to consumer channels to broaden our reach among a wider array of consumers.

Globally our direct to consumer channels are increasingly resonating with shoppers and contributed to our strong performance. Maintaining a strong momentum, e-commerce grew nearly 30% and was vibrant around the world, reflecting higher traffic and conversion.

During the year we opened 130 freestanding stores across several brands, with the majority of these openings for M.A.C. We now operate over 1,000 freestanding stores, which provide a more complete brand immersion and their sales also rose double digits. And we have another 360 freestanding stores operated through distributors.

We successfully completed the last major wave of our Strategic Modernization Initiative one year ago which allowed us to more fully focus on realizing value from the additional capabilities. The program delivered the working capital improvements we achieved this year particularly in inventory and payables.

Looking at our bottom line, a lower tax rate and share count reduction from our stock repurchase program also helped drive our EPS performance. These were the major elements that led to our results in fiscal year 2015. We also looked toward our future growth and expanded our portfolio by acquiring four brands, that compete in certain fast-growing subcategories of beauty we identified.

We have begun to nurture and integrate them into our business and believe they have terrific potential for long-term growth.

We achieved our performance while navigating a number of macro challenges that included considerable currency fluctuations, which caused a shift in travelers' buying patterns, a lingering downturn in Hong Kong that curtailed travel by high spending China visitors, continued lower economic growth in China and a sharp drop-off in travelers to Macau. The travel retail channel was negatively impacted by these factors, as well as the MERS outbreak in Korea.

There were also fewer high spending consumers traveling, particularly Chinese, Brazilians and Russians. These global issues had a more significant impact on two of our largest brands, Estee Lauder and Clinique, which represent over 40% of sales. They were also affected by softness in certain department stores in the U.S. and China caused by lower spending.

The balance of our portfolio collectively grew double digits, allowing us to generate excellent constant currency growth in both sales and earnings per share. We expect continued strong growth trends in fiscal year 2016 -- but the growth engines will continue to evolve.

We have updated our 10-year compass to position our brands in the most promising and fastest-growing areas for the near and long term. By being agile we will allocate our resources to where we expect the best returns on our investments.

Global prestige beauty is dynamic and highly competitive. It is undergoing unprecedented changes involving how and where consumers shop and where they learn about the kinds of products and experiences they desire. Our strategy is working precisely because we anticipated many of the opportunities stemming from this environment and invested in the fastest-growing areas to capitalize on these new shopping patterns and habits.

This is an exciting time to be a major player in global prestige beauty. The industry is expected to grow again by 4% to 5%, driven by favorable demographics, a growing middle class that aspires to prestige beauty products and a constant stream of enticing launches.

As an industry leader with an unparalleled portfolio of authentic, aspirational brands well-suited to consumers around the world, we are uniquely positioned to capture a larger share of consumers' beauty choices. We believe that emerging market consumers will continue to be one of the best growth drivers, both in local markets and as they travel along key corridors.

As a result, we are accelerating our expansion in key countries, such as Turkey, where we are building on our growth and adding seven new freestanding retail stores for M.A.C., Clinique, Bobbi Brown and Jo Malone in the first quarter alone. In China we also plan to continue strengthening our brand portfolio, as well as accelerate our makeup and fragrance businesses. We expect to enter about a dozen new cities this fiscal year, expand distribution across all our channels and leverage our organization infrastructure and capabilities.

Our heritage markets are an essential contributor to our growth plans. Our U.K. business is expected to remain robust, fueled by continued strength of our portfolio, including gains from our largest brands, as well as the expansion of new brands in the market. We expect solid increases from department stores, which have been a strong channel, and we will accelerate our digital initiatives and selectively increase our penetration in smaller cities with freestanding stores.

We are also opening stores in high-traffic locations that aren't typical retail venues, such as our interactive pop-up shop in the Piccadilly Circus tube station.

In the U.S. we are evolving the consumer experience and service model through exciting in-store merchandising in higher traffic locations that will distort and enhance our brand messages to resonate with consumers and drive greater conversion. We are working with our department store partners to bring more traffic in their stores to the beauty floor. When we attract consumers to our counters we expect to convert more of them into buyers by featuring our newest products and personalized High-Touch services.

Additionally, the Estee Lauder brand is launching a special collection of makeup and skin care developed for North America Sephora stores and their millennial consumers. Called The Estee Edit by Estee Lauder, the collection is designed for this consumer and channel and will be supported by digital marketing and social media.

The Estee Edit, along with Estee Lauder's best-selling skin care products, will launch in March over 250 Sephora stores in the U.S. and Canada and on Sephora.com.

Regarding our channels globally, our online sales are projected to continue growing strong double digits. We also plan to accelerate our freestanding store openings around the world, both directly operated and through distributors.

We expect to add more than 250 stores this year, mostly in foreign markets for M.A.C., Jo Malone and Bobbi Brown. As we expand our retail store footprint, we are building capabilities to improve our operations and omnichannel initiatives, as well as our efficiency and productivity.

To continue our growth in specialty multi-retailers, we are selectively expanding our distribution by adding the brands with the best fit in the retailers that are winning around the world. In the U.S., Bluemercury is expected to open more stores and locations inside select Macy's. Our luxury brands are well represented in Bluemercury and we expect to benefit from the chain's expansion.

Another way we are increasing our presence in specialty multi is by acquiring new brands that are strong in the channel, such as GLAMGLOW.

Newness has always been paramount in beauty and in today's crowded beauty aisle it is even more critical. We believe this environment favors our respected brands that place a premium on creativity and quality.

Our innovation pipeline is strong and we are emphasizing new subcategories, speed to market and products with widespread consumer appeal. Estee Lauder and Clinique have exciting plans underway to generate improved results this year and that involves balancing their innovation across categories and demographics.

Estee Lauder's recent launch of its New Dimension franchise of contouring products is an initiative in a white space area for the brand. The collection rolled out in North America in late July and will be followed by all other markets in September.

This fall in Estee Lauder's top-selling Double Wear foundation franchise, we will be introducing an innovative new compact form called Double Wear Makeup To Go. And to build on its successful Modern Muse fragrance franchise, the brand is introducing Modern Muse Le Rouge. The launch will be supported by TV, digital and print campaigns featuring the brand's newest model, Kendall Jenner, and we plan to leverage her substantial social media following.

Clinique has launched a new global campaign named Face Forward to introduce Clinique iconic and best-selling 3-Step products to millennials. The campaign focuses on young women influencers who are dynamic, accomplished and on the cusp of greatness. These influences inspire young women that they can face everything in life and with Clinique they can Face Forward.

Clinique has several initiatives underway to reinforce its authority in the entry price point of prestige beauty and its positioning in makeup, which go hand-in-hand and should help fuel its total business.

Early results are encouraging. In the last two quarters of fiscal 2015 the brand's makeup sales increased.

Clinique is focusing on several of its winning makeup franchises and extended them this year with new products. These include 3-Step, Beyond Perfecting, Chubby Sticks and Clinique Pop Lip Colour and Primer.

Clinique is also striving to reestablish its strength in skin care with key launches, including new moisturizers under the successful Smart franchise. We believe the combination of exciting makeup and skin care launches, compelling marketing targeted to millennial consumers and focused distribution expansion will work to turn around this large important brand.

M.A.C. again expects to post double-digit growth by sticking to what the brand is and what it does best -- a fashion trendsetter that creates fun, unexpected and edgy collaborations and products -- with a highly talented group of makeup artists in its stores and counters.

Our midsize brands have a strong trajectory ahead. We have an enviable track record of developing small brands into sizable ones.

In the last five years Jo Malone has tripled in size and La Mer's sales more than doubled, becoming our fourth largest brand. These success stories inspired our recent acquisitions and the potential we see in them.

In our four newest brands we are connecting their creativity with our extensive industry knowledge as we develop new products, expand distribution and strengthen their digital platforms and communications. Digital marketing and social media clearly continue to grow in importance. Across our brands globally we are devoting capability building resources to strengthen our talent in the digital space, creating our ability to further grow via new technologies that enhance our storytelling and maximize consumer engagement.

Our brands are also leveraging key influencers online and developing real-time content to create ongoing communications with consumers.

The implementation of our SAP platform is enabling greater visibility into various aspects of our business, such as indirect procurement, advertising and promotion and corporate services. This allows us to analyze our expenses to determine efficiencies and effectiveness and take action where appropriate. Benefits derived from this area are built into our profitability forecast, while continuing to allow for a portion of the savings to be reinvested in additional growth capabilities.

This should give you a good sense of the many plans we have underway to maintain our momentum in fiscal year 2016. We are well positioned in a vibrant industry that continues to expand, even in volatile times. We remain confident about our ability to deliver strong and reliable results, thanks to our well diversified business and successful strategy.

We expect to continue to outpace global prestige beauty growth by at least 1 percentage point annually, due to the far-reaching consumer appeal of our brands around the world and the exceptional quality of our products. Thanks to our multiple engines of strong growth in numerous countries and channels, coupled with excellent momentum in many of our brands, our goal this year is to again deliver superior sales growth, double-digit EPS gains and greater stockholder value.

Our Company made tremendous strides in fiscal 2015. Most importantly we demonstrated that by being both well diversified and agile we can quickly alter our game plan when needed to react to changing market conditions and still achieve our goals.

For this all our employees deserve credit and I thank them for their dedication and hard work. Together we have produced another year of excellent results and look forward to a bright future ahead.

Now I will turn the call over to Tracey.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Thank you Fabrizio and good morning everyone. I will briefly review our fiscal 2015 fourth-quarter and full-year financial results and then share with you our expectations for fiscal 2016.

Please note that my commentary excludes the year-over-year impact of restructuring and other charges, primarily the Venezuela remeasurement charges. Also excluded is the impact of the acceleration of retailer orders that otherwise would have occurred in the first quarter of fiscal 2015 related to our July 2014 rollout of SMI.

The impact of that shift was $178 million in sales and $127 million in operating income, equal to approximately $0.21 per share. This shift created difficult comparisons for the first quarter, the fourth quarter and the full-year of fiscal 2015 and will also create comparability issues for the first quarter and full-year of fiscal 2016.

Now for the fourth quarter, net sales came in at $2.52 billion which was 7% growth in constant currency. Acquisitions contributed 50 basis points of this sales growth. Net earnings were $153.0 million compared with $175.2 million in the prior-year quarter, reflecting increased store openings, investments in information technology and in R&D and product development.

Diluted EPS of $0.40 came in above the top end of our expectations, primarily due to continued disciplined expense management. Reflected in the EPS for the quarter was approximately $0.02 of dilution from acquisitions and currency translation was unfavorable by $0.07.

Looking at our business by region for the quarter, net sales in the Americas increased 12% in constant currency. We had strong double-digit growth in Latin America, which came primarily from the continued great growth of M.A.C. in Brazil and also in Mexico.

We also had a high single-digit increase in North America, which reflected good sales growth in both the U.S. and Canada and was led by the online and specialty multi channels as well as improved sales to department stores.

In the Europe, Middle East and Africa region net sales increased 3% in constant currency. Many markets in the region benefited from increased tourism, largely due to the weaker euro.

We achieved double-digit sales gains in the U.K., the Balkans, Benelux and many emerging markets including Turkey, Russia and South Africa. The larger markets of France, Germany and Italy collectively grew low single digits, while we saw softer results in Spain. Our sales in the travel retail channel declined 4% despite strong retail sales, primarily reflecting the impact of the MERS outbreak on inbound travel to Korea, continued weakness in travel to Hong Kong and Macau and related customer destocking and currency-driven softness in other travel retail locations such as Hawaii and Brazil.

Sales in the Asia-Pacific region rose 4% in constant currency led by double-digit gains in China, Australia, New Zealand and Thailand. Japan contributed solid growth as we anniversaried the impact of the VAT increase last year and benefited from higher tourism due to the weaker yen, while Korea grew low single digits. Hong Kong remained weak, reflecting the decline in tourism and Taiwan sales declined on continued weak retail trends.

Net sales by product category rose double digits in most categories for the quarter. Skin care was the exception, with sales declining 2% in constant currency. Increases from La Mer and Origins and incremental sales from GLAMGLOW reflected in part the continued growing popularity of subcategories like masks. However, these gains were more than offset by the declines in skin care at Estee Lauder and Clinique across serums and moisturizers.

Sales in the makeup category rose 10% in constant currency led by the continued strength of M.A.C., Smashbox and Bobbi Brown. The expansion and growth of Tom Ford Beauty also contributed to the category. Both Estee Lauder and Clinique posted modest growth in makeup in the quarter as they benefited from some recent new product launches and marketing activities in the category.

Sales of fragrance products jumped 26% in constant currency. Continued strength in high-end fragrances from Jo Malone and Tom Ford combined with incremental sales from our recent acquisitions were the main drivers. The category benefited also from initial shipments of the new Michael Kors Gold collection which launched in July.

In hair care, sales rose 10% in constant currency. Aveda launched Thickening Tonic and new products in its Be Curly line. The brand increased distribution across channels in the U.K. and Asia and delivered strong salon sales in Western Europe.

Bumble and bumble is also seeing continued strength in the specialty multi and online channels.

Our gross margin increased 30 basis points to 80.7%, primarily related to favorable currency and some channel mix. Operating expenses as a percent of sales rose 110 basis points to 71.6%. The primary driver was higher selling and store operations costs of 100 basis points due largely to new store openings in the quarter related to our retail store expansion strategy. As a result, operating income declined 9% to $228.3 million and operating margin decreased 80 basis points to 9.1%.

Turning to the full [fiscal] (corrected by company after the call) year, as Fabrizio indicated we delivered strong full-year results while navigating a number of challenges, most notably the significant strengthening of the dollar and its multiple impacts on both translation and consumer travel. Net sales rose 2% to $11 billion. Excluding the effects of currency translation, sales grew more than 6%, even without the acquisitions, which contributed 30 basis points.

Net earnings grew 2% to $1.18 billion and diluted EPS increased 3% to $3.05 which includes $0.05 of dilution from the acquisitions. Unfavorable currency translation impacted EPS by $0.24. In constant currency diluted EPS rose 12% for the year.

Once again our sales growth was broad-based across regions and product categories.

Gross margin increased 20 basis points to 80.5%. The increase came primarily from favorable pricing, currency and channel mix partially offset by the higher cost of some new product introductions.

Operating expenses as a percent of sales rose 40 basis points to 64.6%. The increase was primarily due to the impact of higher retail store operations costs, reflecting the increase in the number of Company-operated freestanding retail stores, acquisition costs as well as investments in information technology. These increases were partially offset by approximately $100 million from our cost savings initiatives and leverage in our overall marketing and advertising costs reflecting the rapid growth of brands with less traditional marketing spend, as well as a shift of media investment from traditional to digital.

Operating income rose slightly to $1.74 billion and operating margin decreased 20 basis points to 15.9%. Our operating margin was unfavorably impacted by 30 basis points from acquisitions and 40 basis points from unfavorable currency. Excluding these factors, our operating margin would have expanded by 50 basis points.

Net interest expense improved 10% to $45.7 million, primarily due to higher interest and investment income this year. Our effective tax rate for the year was 30.3%, a 60 basis point improvement from fiscal 2014 driven primarily by a reduction in the effective tax rate related to our foreign operations.

All major elements of working capital improved in fiscal 2015 compared to the prior year. This was largely driven by the continued progress in our supply chain service initiatives, which helped improve inventory days to sell by eight days, to 190 days to sell at year-end.

The decreased days were also driven by favorable currency translation which was partially offset by higher inventory to meet demand for our sales objectives for the fall season, an increase in the number of freestanding retail stores and the addition of new inventory from our acquisitions.

For the fiscal year on a reported basis we generated approximately $1.9 billion of cash flow from operating activities, an increase of 27% or $408 million versus the prior-year period.

We invested $473 million in capital projects principally in counters, new retail stores and information technology. We used $241 million for acquisitions and given that the bulk of our remaining cash was overseas, in June we took advantage of the favorable rate environment and issued $300 million of 30-year senior notes at 4.375%.

We returned more than 90% of our reported free cash flow to stockholders during fiscal 2015 through dividends and share repurchase activity. We repurchased approximately 12.4 million shares of stock for $983 million, reducing our diluted shares outstanding by more than 7 million shares from the prior-year period.

We also used $350 million to pay dividends to stockholders, which reflected a 20% increase in the quarterly dividend rate and a payout ratio of nearly 30%. The combination of our increasing dividend and strong stock performance this fiscal year delivered total stockholder return of 18.1%, significantly higher than the average of our peer group and more than double the 7.4% return of the S&P 500 over the same period.

Looking ahead, our strategic view of opportunities remains unchanged even as we evolve our tactics based on the learnings of the past year. Our goal remains to exceed global prestige beauty sales growth by at least 1 percentage point annually and we expect to achieve that goal with top-line growth of 6% to 8% annually in constant currency.

As Fabrizio said we achieve above industry results through the strength of our brand portfolio, investing behind the fastest consumer growth areas and distinctive new innovation. Geographically we continue to expect rapid expansion in emerging markets, reflecting the increasing disposable income of a growing middle class. In developed markets we plan to optimize our brand portfolio and selectively increase penetration in smaller cities.

Looking at our distribution channels, we continue to see great momentum in E and M commerce, travel retail, freestanding retail stores and the specialty multi-retailers. We expect omnichannel initiatives to evolve the way consumers experience brands across all channels and drive higher sales as a result.

And importantly our superb brand portfolio allows us to deploy the right brands with the right products for each channel, geography or demographic opportunity we see. We are working to stabilize and grow our Estee Lauder and Clinique brands, continue the rapid growth of our makeup and luxury brands and expand our newest brands.

We remain open to further acquisition opportunities and continue to target an average of 1% of sales growth from acquisitions over the three-year time horizon. Flexibility, agility and the strength of our execution are crucial for our Company to compete in a rapidly evolving dynamic industry. This means that in any year as we have done, we must be able to allocate resources to tools and capabilities to evolving and dynamic geographic, brand, product or channel opportunities.

At the same time our goal is to produce double-digit EPS growth in constant currency each year. Sales growth is an important driver of our long-term growth and value creation and it is expected to account for more than half of our expected EPS growth over the next three years.

We will continue to annually progress margin expansion and combined with share repurchase and effective tax rate reduction we will deliver our EPS goals. When we set our three-year margin goal last year the currency assumptions were much different than they are today. As I mentioned earlier, adverse currency movements curtailed our fiscal 2015 operating margin by 40 basis points and will also have an impact in fiscal 2016.

Additionally, the four new brands we acquired are expected to be slightly dilutive for the next few years.

Over the next three years we will further leverage our investments in SMI to accelerate cost savings while investing in capabilities needed to increase our competitiveness. We see three major areas contributing to operating margin expansion.

About one-quarter of the improvements are expected in gross margin from a combination of pricing, channel mix and SMI-enabled cost of goods reductions. About two-thirds of the improvements are expected to come from our SMI-enabled cost savings initiatives, including indirect procurement, A&P effectiveness and other programs targeted to improve the efficiency of our operations. And the remainder is expected to come from productivity.

These benefits will be partially offset by investments to turn around our Estee Lauder and Clinique brands, further expand and support our retail stores, further develop our digital and omnichannel tools and build capabilities and talent across all of these areas. With these factors taken into account we now expect further cumulative operating margin expansion of approximately 90 to 130 basis points in constant currency through fiscal 2018.

The annual improvement may vary by year based on both the momentum of the business and the opportunity for investment to drive profitable growth.

Working capital improvement is another goal enabled by SMI. Today we have greater visibility into our inventory globally and the SMI program along with other tools assists us in improving turnover through better forecasting and demand planning which should also help to reduce out of stocks.

At the same time we are often getting the fastest growth from countries that are more distant from our production facilities and therefore require longer lead times for transit. Still we have already begun to see the net benefits begin to accrue from our SMI effort and we are targeting inventory days to sell improvement to approximately 155 days by the end of fiscal 2018.

While inventory is the largest area of opportunity we expect improved performance across all of our working capital drivers. If we achieve our goals over the three-year time horizon we expect to free up approximately $300 million to $400 million in additional cash from our accounts payable, accounts receivable and inventory levels, which will greatly accelerate our growth and cash flow from operations.

Now let me discuss our outlook for the fiscal 2016 full-year and first quarter. The sales shift related to last year's SMI rollout will impact comparisons to the prior year in both the first quarter and full fiscal year. I'll discuss our expectations adjusting for the impact of the shift.

Our forecasted growth rates both before and after the shift impact are available in today's earnings release for your reference. For the full-year, sales are forecasted to grow 6% to 8% in constant currency. All regions are expected to contribute to that growth, led by EMEA, and all product categories are forecasted to grow, led by fragrance and makeup.

Pricing is expected to contribute between 1.5% and 2%. Continued distribution expansion for most of our brands is expected to contribute between 2% and 3% to growth. Last year's acquisitions will add an incremental 50 basis points and the remainder is from sales growth in existing distribution as well as new innovation.

Currency translation is estimated to negatively impact our full-year sales growth by approximately 3% to 4%. Our estimate assumes weighted average exchange rates for the full-year of 1.07 for the euro, 1.51 for the pound and 126 for the yen.

We are leveraging SMI to create value for the organization through greater efficiencies and cost savings. We have a strong governance process in place to support our value creation team efforts and ensure continuous cost improvement.

In fiscal 2016 we will generate expense leverage through our value creation initiatives which are expected to garner over $200 million in savings primarily from indirect procurement, A&P optimization and cost of good efficiencies. And we continue to look at opportunities that will produce progressive cost savings.

To support and sustain our long-term growth we will reinvest a portion of the savings behind the turnaround of our Estee Lauder and Clinique brands, further expansion of our retail stores, R&D and innovation, information technology and talent. We will continue to be nimble with our resource allocation which impacts the quarterly cadence of our spending. For fiscal 2016 we expect our tax rate to be in the range of 29% to 30%.

Diluted EPS is expected to range between $3.10 and $3.17, including $0.05 of dilution from acquisitions. Compared to our fiscal 2015 EPS of $3.05 before charges and the exhilarated orders, EPS is expected to grow between 2% and 4%. The projected 3 to 4 percentage points of adverse currency translation on sales in fiscal 2016 equates to about $0.18 of EPS. In constant currency we expect our EPS to rise by 8% to 10%.

In fiscal 2016 on a reported basis we expect cash flow from operations to be approximately $1.8 billion. Capital expenditures are planned at approximately 5% of sales, which will primarily support consumer facing investments in counters, retail stores and online site development as well as systems, facilities and manufacturing.

We review our capital structure annually with the Board and we do not expect any major changes in our philosophy for this fiscal year. We prefer to maintain strong credit ratings, which gives us flexibility to access cash at favorable rates.

We have distributed an average of 100% of annual free cash flow to our stockholders over the last four years through a combination of dividends and share repurchases. We have room to grow our dividend while maintaining a sustainable payout ratio and as of June 30, we had approximately 28 million shares remaining on our buyback authorization.

Looking at our first quarter, we expect sales to rise approximately 6% to 7% in constant currency. Translation could hinder growth by approximately 6 to 7 percentage points. We will support a strong start to the new fiscal year by making choiceful investments in our first quarter to achieve this.

We expect incremental investment behind new product launches, notably Estee Lauder's New Dimension, store expansion and our new brands. We also will make further investments in Estee Lauder and Clinique's turnarounds and in information technology. The initial impact of the MERS outbreak in Korea during last fiscal year's fourth quarter is continuing into our first quarter and pressuring our profitable travel retail business.

Also weighing on profits this quarter is continued weakness in some other areas, including Hong Kong and Macau, as well as an increase in stock-based compensation vesting and acquisition-related expenses. At this time we anticipate that EPS will be between $0.66 and $0.69. The adverse currency translation on sales for the first quarter equates to about $0.09 of EPS.

In closing, let me reiterate that we are pleased with the performance we delivered in fiscal 2015 and with the opportunities we just shared with you and with a business that is increasingly more balanced and reliable than ever, we intend to continue to deliver sustainable profitable growth.

So that concludes our prepared remarks. And at this time we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dara Mohsenian, Morgan Stanley.

Dara Mohsenian - *Morgan Stanley - Analyst*

Hey, good morning. So on the long-term margin targets clearly FX and acquisitions are pressure points but I was hoping you could comment a bit on your ability to generate some incremental productivity internally to at least bridge some of that gap from these external issues.

And given your efficiency in margin gap versus peers, why there's not more of a sense of urgency in attacking the productivity to deal with some of those external issues. Thanks.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So when you look at the margin guidance, the cumulative margin guidance that we gave over the next couple of years, if you take into consideration both the foreign exchange impact from last year as well as what we called out for this year in terms of impact, and the initial dilution from our acquisitions which should mitigate in the 2017 to 2018 timeframe, but 2015 and 2016 we're seeing dilution. We are actually relatively close to where we had guided to at the end of last year on that 17.5%.

So we do think that given both the currency impact that we've had and the acquisitions that we chose to do, we are in line with our prior guidance. Since that guidance, a few other things have happened. Clearly, the strength or the strong foreign exchange impact has impacted some of our channels like travel retail. The MERS impact is having us start off this year with a bit of a softer impact, and we feel it's very important for us to invest in Estee Lauder and Clinique.

So the balance that we have, which is why we've actually increased our cost savings plans in order to do some of the funding that we need to support those programs, and that's important for us in terms of long-term growth.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

I would like also to add one thing to this answer, is that as you mentioned sense of urgency. There is an enormous sense of urgency in the Company to continue to grow margin. We are fully committed to it. Already in the 17.5% that we communicated at that time, there was a lot of cost savings included.

Second, we have increased them and as Tracey has explained, we will continue to look into that and maybe find even more opportunities. But there is commitment to that. The point is, however, that also investment needs and investment opportunity also has been increasing. And our decision is to make sure that we keep focused on the long-term growth and sustainable growth of the Company.

So we are leveraging cost savings but also continue focusing on investment needs and opportunities to keep the Company growing the best possible way.

Operator

Steph Wissink, Piper Jaffray.

Steph Wissink - *Piper Jaffray & Co. - Analyst*

Thank you, good morning, everyone. Tracey, a question for you. When we were sitting at this point last year and you had guided to 2015, I think you had guided to 5% and 6% top-line growth constant currency and EPS growth of 7% to 10%. If we compare that to your growth going forward for 2016, 6% to 8% top line and 8% to 10% bottom line, can you just help us characterize the differences in that top-line guidance and the relative flow through to EPS looking ahead versus hindsight looking to the prior year? Thank you.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Yes, the growth levers that we have in fiscal 2016 are much like they were in fiscal 2015. So one of the things that we saw in fiscal 2015 that we just spoke about was the tremendous strength of the makeup category. So we certainly expect continued strong growth out of all of our makeup brands.

One of the other things that we saw was more softness in skin care and that certainly affected Estee Lauder and Clinique. And we are expecting better performance in skin care in fiscal 2016 than we saw in fiscal 2015 and therefore better performance for Estee Lauder and Clinique.

In terms of the flow through to profit, with all of the mix impact that we have from channel mix and category mix we don't expect a tremendous amount of gross profit margin expansion but some. So the leverage that we will get will be in the expense area. And as I indicated certainly over the next three years we expect a one-third split between margin expansion and gross profit margin and two-thirds coming from expense leverage.

Operator

Ali Dibadj, Bernstein Research.

Ali Dibadj - *Sanford C. Bernstein & Company, Inc. - Analyst*

Hey guys, I just wanted one clarification and a real question. The clarification remains around the cost-cutting plan which even if you take out the currencies and take out the impact from acquisitions it just doesn't seem like SAP is allowing you to accelerate much at all, whether it be from margin or whether it be from inventory. So if you just take another shot at helping us out on that that would be helpful.

The other question is to try to get a better understanding on the channel diversity strategy which has certainly helped and I guess I have questions around three areas. One is the travel retail impact from the Chinese luxury tax change.

Two is how we should think about your ROIC and margin given the ramp-up significantly now to 1,000 freestanding stores? And then three is how have you guys analyzed the brand risk of Estee Lauder into Sephora? Thanks for all that.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Well, that's a multipart question so let me start with the SMI savings. Ali we believe this year based on what we've communicated we had very good results from SMI.

As you know we went live in July of this year. It does take some time for the team to get familiar with really optimizing SMI and our biggest markets went live in July.

So the fact that we were able to generate $100 million of cost savings and we are doubling that next year we believe is very good progress. And as I mentioned in my prepared remarks we believe that there is more savings out there to gain over the next few years. So our internal plan calls for increasing levels of savings every year related to SMI-enabled programs.

As it relates to working capital, going from what was 200 days to sell to 155 days to sell is in the timeframe that we're indicating is pretty great progress. And so we certainly as we always do will try to exceed those levels of improvement. But being able to free up $300 million to $400 million of cash over this time frame is obviously very good for us, very good for our shareholders and allows us the opportunity to either invest in more ROIC-driven projects or return more to shareholders.

So that's a good thing. So I think we believe that we've got a very strong program. And we certainly to Fabrizio's point are committed to continuing to look for even greater savings.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

Yes, and in answer to your other 3-in-1 questions is on, TR we believe there is enough price differential in the TR channel to continue growing the part of TR business which is driven by price differentials. I want also to underline that a lot of the TR business is driven by conversion and marketing in airports and other activities, particularly true for makeup where the absolute price differential is much inferior to fragrances and skin care and is growing actually in this moment faster than skin care.

So the impact on TR of the tax difference in China we believe will be moderate and anyway there are other growth drivers in TR which have the potential to more than offset that.

Second is the freestanding store, the impact of freestanding store expansion on margin and ROIC we believe we should look at the total business. Meaning that some of our freestanding stores are very, very productive, particularly the ones for MAC and Jo Malone for the time being. In this case the impact actually is positive.

But also you need to think that the overall margin of online is higher, travel retail is higher. Some of the more productive freestanding store higher, part of the specialty multi around the world is higher. So the combination of all these factors makes actually the channel mix favorable rather than unfavorable if we continue to drive our strategy the way we are.

The last question on Estee Lauder in Sephora we believe this is an important step forward for the brand. I personally don't believe there is a risk, actually this is very good news for the ability to modernize, rejuvenate the brand in front of the millennial consumer.

That is a specific goal of this action. Sephora in the US has an excellent penetration on millennial consumers and the ability of the Estee Lauder brand to tailor its activity to this consumer will have also a positive halo effect on the entire brand nationally in our opinion. So all good, we are pretty excited about this move.

Operator

Olivia Tong, Bank of America Merrill Lynch.

Olivia Tong - *BofA Merrill Lynch - Analyst*

Great, thank you. I want to talk a little bit about the staying power of the impact of brand strength because it looks like your outlook implies that you're expecting local currency sales growth to accelerate as the year progresses, even though the benefit from acquisition lapse and the pace of investment spend also decelerates, clearly have a much bigger delta and investment spend at the beginning of the year and less so as the year progresses. So can you talk about the staying power of the impact of brand spend and if your expectations have changed relative to what you've seen in the past and if so what are the key drivers behind that?

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So one of the things that we're seeing is quite a shift in terms of how we spend relative to brands. So we've talked a lot about the fact that the brands that are growing right now are the non-traditional advertised brands, they are the brands that have an in-store presence, they have a strong digital presence and then from a category standpoint as we said makeup but also fragrance is growing in this moment.

What we are seeing even in our more traditional advertising brands is the impact of TV moderating, still important, but moderating and the impact of digital growing. So we have looked at balancing our investment spend across television, print, digital and in-store for those particular brands. There are also different channels that are growing, so we too have looked at balancing the channel mix for our brands.

So I think the strength of brands is still quite strong. We're seeing given the online strength of digital marketing, a lot of smaller brands gaining in strength because of the channel, that channel of communication with consumers gaining in strength.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

And on the staying power question I'd like to add that this fourth quarter we've been growing 7% which is faster than the industry, faster than most of our competitors. And this has happened despite some important challenges for us.

We spoke to it but I want to underline that Hong Kong and Macau and Korea are very important areas for us, areas where we have high market share, where we have profitable businesses, where particularly our skin care brand and skin care category is enormously focused and we were able to deliver ahead of market 7% strong growth despite these headwinds on top of the currency one.

This shows actually in my opinion staying power and stability of our growth model even in the presence of unexpected challenges which are out of our control, like MERS as an example in the month of June which had a big impact and also in the beginning of July. So there is a lot of staying power and to Tracey's point the rebalancing of the media spending actually is in my opinion going to increase the staying power rather than diminishing it.

Operator

Bill Schmitz, Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Good morning. A couple of questions. The first is have you considered maybe just pulling the margin targets entirely?

Because it seems like there's so many growth initiatives. And I think for investors top-line growth and EPS growth is probably more important than a margin ratio, especially given the magnitude of some of the money you could spend to build out stores in some of the other channels, etc.

Then my second question is on Clinique and Estee Lauder has the world changed? Because it seems like every five or six years the brands go through a big growth challenge as you spend a lot of money, you get them fixed again and they start to struggle thereafter.

So is that 40% of sales for those two brands like a number you want to stick to? Because as they slow it seems like the natural margin mix of the business improves pretty dramatically and I do not know the answer but it seems like just given what's happening in the prestige cosmetics world broadly speaking everything is lifting up and to the right and it's hard to take those two brands there. I'm sorry for the long-winded question.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So let me take the first part of that, Bill. As it relates to the margin guidance the reason we've transitioned to a cumulative margin guidance is for the very reasons that you mention, the fact that in any given year if we have the opportunity to invest in more freestanding stores or invest behind our acquisitions that are going to actually continue to drive you above industry sales growth and above industry EPS growth then that is the right strategy and decision for us and it's the right strategy and decision for investors.

So having said that to transition from giving annual margin guidance to EPS guidance is a bit of a transition. So we're happy to be transparent with respect to what we're thinking and the fact that we absolutely understand we have margin opportunity and we are progressing forward on that with our cost savings initiatives and other initiatives yet at the same time there are some investments we're making better going to be more margin challenging and others that will be quite margin accretive.

We may have a year where we have an 80 basis point margin expansion and we may have one that we have 20. But what we are saying is we will have double-digit EPS growth. So your comment is well taken.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

And also on this one I want to add in this volatile world which is in front of us it is where agility is a key driver of success. We wanted also to ensure we had multiple drivers for our ultimate goal of double-digit EPS growth.

So the multiple drivers is certainly growth is important, margin will continue to be important, but we have other taxes, we have the share repurchase, the share count. So we have different drivers that can deliver more constantly even in a volatile world.

So we are stronger and we believe our point of view is becoming actually stronger and more reliable every year.

On your question on Lauder and Clinique (technical difficulty) those are important assets for the Company and we want to continue to build on these assets. However, they are very big brands and so they have big brands with broad distribution and a very broad distribution. I believe the most important thing for these brands they are more exposed to the new volatilities of the world than the smaller brands which have limited distribution and very specific consumer groups that like them.

For example, in this moment what we have seen in the last year meaning the crisis in Hong Kong, the crisis in Macau, now the flu in Korea and the slowdown of the growth of China, all these factors had a tremendous impact on Lauder and Clinique. And particularly on the skin care business on Lauder and Clinique which is very visible. And frankly these factors which are external have a bigger impact than what one innovation can do in the course of six months.

So these brands have been more difficult to turn around than the small brands because they are so broad in distribution and so big. But anyway we remain determined to drive them and to leverage the great assets that their equity represents for the Company.

Operator

Caroline Levy, CLSA.

Caroline Levy - *CLSA Limited - Analyst*

Hi there, good morning. I'm just wondering on pricing given the devaluation we have seen some companies take more pricing, you're sticking to the 1.5% to 2% as a global number and I'm wondering if you see any upside to that?

And then how many stores? That would be very helpful. Thank you.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So in terms of pricing as we've shared in the past, Caroline, and you know we have a pretty sophisticated pricing process. And in any given year we look at all of our markets, we look at our traveling corridors and we adjust pricing either up, mostly up. But in some cases we actually adjust it down if for currency reasons, etc.

So this past fiscal year we actually did take pricing up in some markets like Venezuela, Russia and other markets as well and we did adjust some prices down as we indicated also. So the 1.5% to 2% represents a combination of price adjustments both up and down, mostly up obviously given the net for the fiscal year. But we absolutely do look at currency competition and many other market factors when we establish pricing for all of our markets.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

And on freestanding stores we will continue to drive freestanding store on some of our brands. Not all of our brands are designed to have a winning and successful freestanding store model as part of the total model.

But in general we are continuing to expand. And particularly we are continuing to expand where there is not sufficient high-quality distribution in specialty or department store or other models. And the important thing is that the other revolution will be omnichannel, meaning the ability to connect the stores with the online.

And so wherever there is not good alternative distribution, freestanding store well-connected to online are proving to be an enormous opportunity to make the brand successful even in the absence of high-end prestige distribution available. A typical example of this has been Brazil where without the freestanding store and the online business of M.A.C., M.A.C. today could not be the market leader there, in absence of the typical counter distribution that in Brazil is not available. So freestanding stores we continue to increase, again we are not in a condition to give you a specific number but it continues to increase and will make our ability to reach the new consumer of the world much stronger than it was in the past.

Operator

Steve Powers, UBS.

Steve Powers - *UBS - Analyst*

Thanks. I just want to go back to the margin guidance and just make sure I have my facts straight. So you used to be at 17.5% for fiscal 2017 and now it sounds like off an adjusted fiscal 2015 base of what I think is 15.9% --

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Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Right.

Steve Powers - *UBS - Analyst*

It sounds like you're guiding to basically 17.2% at the high-end one year later. So annually you've gone from 50 basis points run rate to 30 to 40 basis points.

So I guess just going back to the earlier discussions, how much of that gap is really just the differing FX environments versus something more structural? It sounds like you're in investing more in advertising, in new channels. It sounds like brands like Clinique and Estee are not quite where you want them to be, so I'm just trying to figure out the gap there.

That's my just clarifying question. And then Tracey the working capital improvements that you target, how much of those will accrue to the US versus overseas markets? Because I just want to gauge how much of that cash will be accessible without tax implications versus just building on the balance sheet? Thanks.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So as it relates to the margin you're correct that the starting point is 15.9%. And as we, currency between 2015 and 2016 accounts for about 70 basis points, acquisition accounts for about 30 basis points. So that kind of bridges some of the difference between where we were at previously and where we're at today.

It's primarily currency and the acquisitions which were not foreseen when we obviously gave the three-year guidance previously at 17.5% and so that's that explanation. As it relates to working capital and where cash is generated, we called out and as you've seen from our results, we've got strong growth overseas which we expect that will continue.

Our working capital improvements will be across the board so some of them certainly will be in the US. We have our largest manufacturing operations here in the US and some of them will be overseas as well. So it will be a combination of both.

I can't give you a precise split at this point in time. You certainly have seen that our tax rate has come down this year and is expected to come down next year also. So I think the combination of all of the strategies that we have in place will be quite favorable from a Company standpoint and from a shareholder standpoint.

Operator

Lauren Lieberman, Barclays Capital.

Lauren Lieberman - *Barclays Capital - Analyst*

Great, thanks, good morning. I just wanted to understand a bit again about year because I've heard and I think in the press release it was a little confusing, Fabrizio in his quote and on the call has talked about a goal of double-digit local currency earnings growth and for fiscal 2016 on that basis you're looking to do 8% to 10%.

So is the reason it's not solidly double digit, is it the softness in Asia and that it disproportionately impacts Clinique and Lauder skin care which is higher-margin? Or is it that there is also a stepped-up reinvestment this year with the goal of accelerating growth in some way?

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

First of all, I'd like to say the 10% is at the top of the range and in that sense when we put something at the top of our range means that we will do our best efforts to reach it. And, however, the reason why this is not in the middle of the range this is exactly the reasons you just underlined, meaning that there is both high profit pressure in certain areas externally like Hong Kong, Macau, the situation in Korea, the slowdown in China and all these factors and the fact that these external pressures happen to impact particularly the skin care part of our business and which is highly profitable and very concentrated on Lauder and Clinique.

So it is exactly the combination of these factors that we don't control what will happen out there. And so we want to be prudent in that sense and we needed to be able also to invest the appropriate amount of money to navigate this situation in fiscal year 2016.

Operator

Mark Astrachan, Stifel Nicolaus.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Yes, thanks in good morning everybody. A question on Clinique, Estee, so what was the sales performance in 2015 and if not specific just broad strokes? And then what are the expectations for the brands in 2016 and maybe if you could just talk about that progression a little longer term?

And then differently just switching to emerging markets, the 14% of sales today maybe talk a bit about where you can be over the next three to five years on a percentage of business basis, again just broader strokes. How do you benchmark your exposure versus peers and then what is the cost on the operating margin outlook to achieve that continued expansion and specifically what sort of categories lead the growth in that channel? Thank you.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So in fiscal 2015 Estee Lauder and Clinique were down low single digits in constant currency and so we expect them to be up in fiscal 2016, low single digits. So that's the difference between fiscal 2015 and 2016.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

The second question was about emerging markets, so emerging markets today are 14% and we will continue to grow them in the next years. I prefer not to give you a specific number but you need to just -- you can make up your numbers when you see that we are growing 6% to 8% every year, in emerging markets ex-China are in this moment growing 20%-plus. And China is projected to grow between 6% and 10% depending year-by-year, those are the numbers which are emerging.

So it will be a growing percentage of our total business. Now what we need to invest in there as we explained China today is already more or less in line with the average of the Company. And some of these emerging markets are ahead of the balance of the Company.

Others are in the beginning of the investment period. So overall the investment is relatively reasonable to grow in emerging markets gradually the way we are doing it.

So this is not going to be a huge part of pressure on margin. It's rather the investment in other areas which are an important pressure on margin.

Operator

Wendy Nicholson, Citi Investment Research.

Wendy Nicholson - *Citi Investment Research - Analyst*

Hi, just a couple of housekeeping things. Number one can you give us the like door growth for your sales in China, not the retail takeaway but your sales into China. And number two, Tracey, you called out lowering the tax rate as a long-term driver of earnings growth but just looking at the progress that's already been made over the last decade you're already below 30%, what's the five-year target for the tax rate if you will and I know it's subject to various geographic things and whatnot.

But then my last question and sort of broader question is on the travel retail business because this is, whatever, it's been a tough 2015 for travel retail. Each of the quarters you've talked about it being either down in reported terms or low single-digit growth. I have to go back to 2009 when obviously the macro was wildly worse than it is right now.

So I'm just wondering how many -- you've been attributing the weakness in your travel retail to currency issues and less traffic and a little bit of MERS and a little bit of that but it just feels like the growth in the travel retail business may have structurally changed. So I'm wondering is it that there are fewer airports that are opening, is there more competition in that channel because your growth of strong double digits in that channel seems to have evaporated? Thanks.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Okay, let me start Wendy with your question on the tax rate. As we guided this year and you're right the tax rate has come down over the last few years. We guided 29% to 30%, at this point I think the low end of that guidance would be what we are prepared and again to your point with lots of contributing factors to think about for the longer term at the 29%.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

And let me start on the travel retail question and then I will cover China. First of all just to put the number straight, our travel retail business grows 6% at retail this year which is a very solid growth which is slightly ahead of the traffic, so is a very strong number. So I'm not sure I agree that there's been an overall trouble.

It's true that it's not been double digit like it used to be in the past and the reason for that is that this was a very tough situation where you get Hong Kong Macau travel and then you get the Korean MERS activity in June and July and other factors like the important change of certain emerging market consumers that are very heavy spenders like Russian Brazilian and in lower part Chinese. And all this is driven by currencies as well, on top of by economic crisis in some of these countries like Brazil or Russia.

The combination of these factors all happening at the same time including the flu in Korea, yes, have been putting pressure on travel retail. And also keep in mind that we made the historical choice that paid out very well to focus particularly on the Asian travel retail expansion that was the driver of skin care around the world. And this part where we have historically created a very big market share has been the one hit the most in the current external situation.

We believe this is going to change, every year there will be a different situation and we continue to believe that travel retail in the long term will be a very strong driver of the business. And I don't think at all that our strength has evaporated. Actually I think we've never been stronger in travel retail than today in terms of balance of brands, balance of airports and ability to grow in the future.

Second I just want to underline for example in the quarter in the last quarter we had travel retail net sales were minus 4%, travel retail the retail, we have only until May by the way, was plus 9%. So we have been growing 9% retail. Now June where we don't have the retail number probably was a different number impacted by the MERS in Korea, still very solid retail trend in travel retail even in the last quarter.

China power our net sales in constant currency in China was 6% in the year. Our retail in China was 8% growth during the year and the like door in China was minus 1% for the year.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Which was improved from the prior year's like door growth.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

Which was an improvement, yes because last year fiscal year 2014 the like door was minus 2%. So there was a little improvement.

Operator

Javier Escalante, Consumer Edge Research.

Javier Escalante - *Consumer Edge Research - Analyst*

Hi, good morning everyone. I just would like a clarification with regards to the Americas growth, the 12% adjusted.

So if you can break it down by North America, how much was acquisitions, how much was retail sales? And then I was surprised to see that you flagged Venezuela as a contributor because there have been for currency for necessities and I don't think that your categories qualify for that.

That's the clarification. My question is whether you are experiencing margin degradation in department stores in the US and whether you expect with the launches in Sephora that that margin degradation is going to worsen? If that happens is it possible that you would shut down the less profitable doors in department stores in the US? Thank you.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

Okay, let me start with the Americas growth and the components of that growth. So as I said in my prepared remarks, Latin America which is certainly small relative to North America but it did grow strong double digits and that was driven by Brazil and Mexico largely but also Venezuela. Obviously there is the inflationary environment in Venezuela so that is one of the markets where we did take pricing and that has nothing to do with cash repatriation or anything like that.

As it relates to the US and Canada, we had high single-digit, mid to high single-digit growth. So again a strong quarter for the overall Americas and those were the components.

On the acquisitions this year again they were acquired at different points during the year, mostly in the latter part of the year. So we had about roughly $30 million in sales from the acquisitions this year.

So a relatively small amount. Most of that in the Americas, some of it though overseas as Frederic Malle and some of the other brands also have sales overseas.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

On the margin in department store know we are having a big stable margin situation in department stores in the US. And as far as the Estee Lauder expansion in Sephora we believe this will benefit the overall equity of Estee Lauder and in turn this will benefit the growth in every single channel. We don't believe this will be a negative for department stores at all.

Operator

Dana Telsey, Telsey Advisory Group.

Dana Telsey - *Telsey Advisory Group - Analyst*

Good morning, everyone. You talked a lot about millennials and different strategies to capture millennials.

Where do you see the greatest opportunities? And will the level of product innovation, should we continue to see more newness catering to millennials?

And lastly on the advertising budget, how are you thinking about advertising dollars shifting to digital from traditional in the context of the entire budget? Thank you.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

Well, I will answer the first questions. So the focus on millennial is a very important focus. Obviously we have brands in our portfolio which are already very strong on millennials like M.A.C. and are market leaders in many of these areas with many of the makeup categories with millennials in North America and around the world. Kors, Smashbox or many others or some of the new acquired brands like GLAMGLOW.

So in our portfolio we have brands which are even more focused on millennials and we have an innovation plan for them for each one of these brands. The two brands that we are trying to accelerate in terms of penetration with millennials are Lauder and Clinique.

Clinique is historically very strong with millennial at the entry price of prestige. And as you heard in our prepared remarks Clinique is doing a lot of new effort to revamp this ability to attract and engage millennials, particularly in the area of social media and specific product launches at the entry price point of prestige, in particularly at the entry price point of makeup where the brand has opportunity with millennials.

As far as Lauder is concerned you heard that there are several activities that we are doing, for example with new models like Kendall Jenner, which have a lot of attractiveness with millennials. And this is happening even on fragrances with Modern Rouge launch. And then there is obviously the newly announced Sephora launch, which is actually designed an entire collection on makeup and skin care designed for the millennial on top of the social media that will go along with these activities.

So we are very focused on millennial in the next years. And we are seeing initially very encouraging results. And we have a strong starting point from some of our brands like M.A.C.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

And then the second part of your question in terms of the growth between digital and traditional advertising I'll just point out that more of our brands, again we have a broad portfolio of brands, more of our brands do digital marketing than traditional marketing. So our digital spend is already higher than traditional marketing that. But having said that if you were to think about it in terms of mix shift about 30 basis points are shifting into digital out of traditional marketing.

Operator

Chris Ferrara, Wells Fargo.

Chris Ferrara - *Wells Fargo Securities, LLC - Analyst*

Thanks. Guys I guess for Americas I know not all of this is necessarily operational but I guess number one can you talk a little bit more about the profit decline in the Americas, that 78% number was kind of big on an adjusted basis?

And then skin down to on an adjusted basis, I understand the Estee and Clinique serums and moisturizers are down but just curious if there was anything unusual in the quarter on skin or is this the way to think about a run rate in any way? Thank you.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

I will start from the skin. As I explained the Asia is 70% of the market in Asia is about skin care and our market share in skin care in Asia is very, very high. The moment the external factors happens mainly concentrated in this area like Hong Kong, Macau, the flu in Korea, this has an over proportional impact on skin care and specifically on serum and moisturizers as Tracey explained in our prepared remarks.

So that's the unusual thing of the quarter that happened on skin care. And that's the key factor in the short term.

And then there is a longer-term factor which is the fact that to grow skin care we need to activate a stronger growth on Lauder and Clinique as we have been talking across this call and we have solid plans for that for the long term. Now I will turn to Tracey for the other parts.

Tracey Travis - *The Estee Lauder Companies Inc. - EVP & CFO*

So in terms of the decline in the Americas profitability as you indicated there are more than just the region performance in the Americas profitability. These numbers first of all in our press release are not adjusted for constant currency.

So they are adjusted, though, for the remeasurement for Venezuela and for the SMI shift. So the decline is not from an adjusted standpoint, a constant currency adjusted standpoint not as great as what's reflected in the press release. But the acquisitions and the purchase accounting related to those acquisition flows through the Americas.

Some of our enterprise IT expenditures flows through the Americas and then the stock comp that we called out flows through the Americas as well. So on an ongoing basis, no, we would not expect that the Americas profitability would be down.

Operator

Joe Altobello, Raymond James.

Joe Altobello - *Raymond James - Analyst*

Hey, thanks for squeezing me in here. Just a couple of quick ones. First on travel retail this is I guess the third consecutive quarter where you've seen a pretty wide divergence between sell in and sell through.

I know there is a lot of destocking that has to go on but how much more is there before we see those two numbers start to converge at hopefully a higher number from here? And then secondly on China I think you mentioned it was up 6% last year overall sales for you guys and I think Fabrizio you said 6% to 10% is probably a good run rate number.

Is that what we should expect for fiscal 2016 given what's gone on with the change in tariffs and the devaluation of the yuan for example? Thanks.

Fabrizio Freda - *The Estee Lauder Companies Inc. - President & CEO*

So I will start from China. Yes, that 6% to 8% to 10% is the range we aim at. And I don't know if you should expect it because there is a lot of unknowns in front of us in China in this moment.

But that's definitely what we are trying to achieve in our plans, tailored to achieve the 6% to 10% range. And so on travel retail is the point is that there is still when there are issues like a flu epidemic in a place like Korea which is one of the biggest markets, you have to expect that the retailers that don't know when this will finish will readjust their stock levels in a very decisive and immediate way.

So some of this stock just travel retail is an area where stock adjustments when they happen happen fast and when they are driven by external factors they can be unexpected and very very strong. So I would -- to answer your question I would like to separate the unexpected situation like we had the one in Korea from the ongoing.

I believe that in terms of the ongoing travel retail model for the future we should see a convergence of net and retail and that should become more or less aligned. But obviously this excludes specific unique factors like the epidemic of MERS in Korea that could further impact the difference between sell in and sell out. For example this may happen again in months like July where the MERS continued.

Operator

That concludes today's question-and-answer session. If you were unable to join for the entire call a playback will be available at 1 p.m. Eastern Time today through August 31. To hear a recording of the call please dial 855-859-2056, passcode 85104187.

That concludes today's Estee Lauder conference call. I would like to thank you all for your participation and wish you all a good day.