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# Estee Lauder Cos., Inc. (EL)

Bernstein Strategic Decisions Conference

## CORPORATE PARTICIPANTS

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Ali Dibadj

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## MANAGEMENT DISCUSSION SECTION

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Okay. Thanks very much, everybody. I hope you had a good lunch. Thanks very much for coming to the Estée Lauder meeting this afternoon. I'm Ali Dibadj, Bernstein's Household, Personal Products and Beverages analyst. Hope you can hear me back there. We're very pleased to have with us today Fabrizio Freda, the CEO; and Tracey Travis, the CFO of Estée Lauder.

Fabrizio, as you know, came on many years ago and led the transformation of the company from the kind of 2008, 2009 onward period; till today, really taking it through a change from a channel perspective, a flexibility perspective, et cetera. Tracey came on to very much look at the cost and make sure the financial strength of the company continues, still have a perspective about each of those aspects of the business as we go on in the fireside chat.

There has clearly been some headwinds in the industry at department stores closing, fragmentation, China wobbling a little bit, some of the travel retail centers wobbling, and these guys have done a very good job at managing that, in our belief.

We'll start off with a few comments from Fabrizio to begin with, just about kind of what the industry is looking at right now. We'll go into Q&A, if you have any questions, please let me know, we'll drop them on the cards that you have, pass them to the aisles and I'll try to go through them as much as possible. So, Fabrizio, let me thank you and pass it over to you.

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Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

Thank you. Thank you for the introduction and anything. So, maybe I'll use a few minutes to put in a certain context what's happening in our industry today and how we are navigating the current headwinds, but even more importantly, the future opportunities, which I believe are enormous.

So, the first thing I want to frame is that, the prestige beauty market, this remains one of the most significant promising markets that are in consumer goods everywhere. It's 4% to 5% growth constantly every year since several years, and there are reasons why this is happening and will continue to happen. Reason like the amount of – the growth of the mid-class around the world, the wealth of women and the interest of women, particularly women, in that category. And all these demographic and economic trends are, in our belief, going to continue. So, a fast-growing industry. And we have chosen to stay focused on that part of the industry, which is the fastest growing, the most profitable, at least for us, and the most promising for the long-term. So, fast-growing industry with a company Estée Lauder fully focused on it.

The second thing is that, the strength that Estée Lauder has developed in these years are now going to change, and they're still the most important driver on the industry. The strengths are product quality, amazing product that a consumer want to repeat, a portfolio brand. Remember, in this industry, different from other consumer industry, where the people have one or two brands at home in total for a category, women have 12 to 13 brands at home in this category. So, the only way to get very high market share is now mega branding these portfolio brands.

And so, we are a company with an amazing portfolio brands, and this is continue to grow and continue to gaining force. And the third is, the selected distribution model, where on top of selling product, we sell high touch services, which are education and customization of the product. These three ideas, high-quality, portfolio, services, is not changing, [indiscernible] (03:47) is evolving, but these trends are still there, still the driver.

Then, we are pivoting on the way to execute these trends. So, we are in this moment pivoting our distribution choices, because we are responding to the reality. As you have seen, there are certain channels, which are growing much faster than others, namely online, travel retail, specialty-multi, and not only in the U.S., around the world. And there are other channels that need to reinvent themselves namely brick-and-mortar department store and we are supporting the reinvention of these channels, but we are pivoting a rebalancing, how the brands reach the consumer in this way.

The other aspect where we are pivoting on is the way consumer gets engaged, what – basically is consumers are engaged by social media, by experiences in store in different ways than in the path. And so, we are pivoting our organization in a way that we can execute in this new way and continue to win.

The other thing we are pivoting is the innovation model. We still are a very innovative company in a very innovative industry, 20% of the products we sell every year are new, launched in that year, which is a very high percentage, a big [indiscernible] (05:07) innovation. What we are pivoting on is that the importance of hero products, I mean, your products that attract a lot of attention is increasing.

And so, our innovation is big, but also our innovation now is more focused on products that maybe there for years, but can be re-launched, readjusted, re-tuned to the consumer of today, and we may comment on some of this in the course of the discussion.

And then, the leveraging of these trends and the changes I'm describing are all supported by the project that we call Leading Beauty Forward, which is basically the restructuring program, which allow us to attract our cost base, and not only to reduce it, and to improve our profitability opportunity, but also to reallocate the investment and the cost to the area of the future and take them away for the areas that are being suggested to change.

So, for us, Leading Beauty Forward is the way to create savings, is the way to manage profitabilities in the future, but is also a way to reallocate resources and also an opportunity to redesign our organization in a way that can be

leveraged by growth. Because, at the end, we remain a fast-growing company, a company which believes in growth and has the opportunity to be a fast-growing company in a fast-growing industry, that's why been able to leverage our cost base via growth in the future, is one of the key benefits we are now building.

So, I think that's more or less the overview that I wanted to give. Is that okay?

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Yeah. Great. And you touched on a lot of points we want to hit in a lot more detail, so it's fantastic.

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

Absolutely.

## QUESTION AND ANSWER SECTION

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

First, just from a category growth perspective, you are saying 4% to 5% roughly is the growth of the prestige category, what are they growing now and what are you growing? Because it seems at least from some of the data that's out there that you are losing share on a global basis. Can you talk to us about that, I mean, why or why not?

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

A

Yeah. I don't know which data you're referring to, but the global Euro Monetary data for fiscal year 2016, [indiscernible] (07:14) – we are growing share globally also in fiscal year 2016. And in the last quarter that we published where we have been growing 9% in constant currency, we are growing market share. So, we continue to grow market share globally.

However, in the global market share growth, there is a mix, which we have lost some market share in the U.S. and we have gained market share in the rest of the world in a way that is more than compensated the lost market share in the U.S., so that's what's happening from a market share standpoint.

The reason why we are growing market share is the same, the market is growing actually more 4% than 5% more recently, but 4% to 5% is the range that we'll believe it will continue and we have been growing, the last quarter, our growth was 9%, of which 5% organic. So, even in our organic growth, we are largely ahead of the market, then you add the great performance of our recent acquisition, we are clearly growing market share.

So, we are growing market share, we have been growing market share for the last eight years constantly. And the U.S., where we are not growing market share, is in our opinion, a temporary period, where we're not growing market share before we pivot. Why? Because, basically, we are really deep in U.S. brick and mortar department store and this segment is not growing, actually it's being declining, the brick and mortar part. So, in order to grow market share, we need to increase our presence in the fastest growing channel, which we are doing, and is one of the key activity we are pivoting around. And I believe, when this will be completed, we will go back growing market share, not only globally, but also in the United States.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So, let's talk a little bit on the U.S. then. If you do look at the kind of newer channels, except for, I don't know, specialty-multi as you call it. Within that channel, are you maintaining or growing share with your brands that are there, so not the new acquisitions, but Clinique as an example, or Estée Lauder. When they are in those channels, or even in those channels, right, because I'm trying to disaggregate the channel mix versus the inside the channel share positioning?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

But the question is on [indiscernible] (09:26).

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Let me answer on all the channels.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

So, we are growing market share in travel retail...

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

...on all brands. We are growing market share online on all brands. On specialty-multi, specialty-multi is a big word. Specialty-multi in the U.S., which is the focus of your question, you say Sephora, Ulta, Bluemercury. Each one of these is a very different customer base. So, Clinique, Clinique is doing better in Ulta than in Sephora, but there are other brands in our portfolio which are doing much better in Sephora, then it will depend on the user base. In total, I think we are doing a great growth, it's more than – I think was more than 22%, 23% in the last quarter. And the growth has been further accelerated by the new acquisition.

By the way, the new acquisitions are strategic for several reasons. First of all, they are great brands. Second, they're brands that have a huge growth potential. Third, they tackle a target growth that we didn't tackle before, that's particularly true for Too Faced, which is much younger than our average portfolio, maybe with the exception of M•A•C.

And then, because they are super strong in specialty, so just with these two acquisitions, we have doubled our penetration, especially in the United States in Weymouth.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Okay.

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

So, they're part of the strategy to accelerate and swing and pivot the distribution of the total portfolio.

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

And you mentioned that, especially multi grew by 20% in the U.S., it's kind of like ex-acquisitions, ex-distribution. I guess, I'm trying to get at, when the transition is over from department stores to specialty-multi, will you be gaining share in specialty-multi, or are you maintaining share or losing share in that channel with your core brand?

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

This isn't – we are not yet there...

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Sure, sure.

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

So, I cannot predict the future, but that's our plan.

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Okay.

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

I believe that, again, we are speaking total portfolio, I want to be specific.

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Yeah, yeah.

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

So, the combination of M•A•C. in Ulta that we are deploying, Clinique continue opening doors in Ulta. La Mer having been launched in Sephora and in Sephora.com, Jo Malone [indiscernible] (11:34) launched in Sephora, et cetera. All the moves you have seen us doing, when this will be completed, we will definitely beat market share in specialty, in our opinion.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Now, one of the key focus points, obviously, for you guys, you are only focused on prestige, right? How does that translate when that goes into an Ulta or a Sephora, where there is not just prestige, there is a gamut of different products. Department stores were very easy way to encircle and say this is prestige, but you are going to have Ulta with a makeup artist, having a M•A•C. there.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Yeah.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

But down the aisle, three hours later, there is lipstick for \$2.99 or \$3.99, well, you're selling it for M•A•C. for \$13.99 and \$14.99. Do you think the store then kind of dumps down the prestigeness at all? Or do you think the brands are strong enough within the same shop to have prestige versus non-prestige together?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

We believe the second, the brands are strong enough [indiscernible] (12:33), obviously the second. And by the way, we are very prudent in deploying our brands, probably more prudent than any other company. We didn't go to Ulta with a lot of our portfolio several years ago, because we felt, right or wrong, that on that question, the answer was not completely favorable. Now, we believe that they way Ulta has developed and the way the brands are presented, the way the consumer has developed, there is ample space for a prestige winning section within Ulta. And, by the way, I have to say Ulta is demonstrating this statement to be true, with their amazing results, with the amazing work they're doing and with the collaboration with us that they're doing. So, we are very happy of that, and I believe in the future, this will not be brand dilutive.

For Sephora, the answer is different. Sephora is mainly focused – only focused on prestige, except maybe they are private label. And so, Sephora is more typically a brand-building prestige channel, and Bluemercury as well. So, I don't think that overall there is an issue. I think, specialty is demonstrating to be a brand-building channel, rather than a brand-diluting channel.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And if you take it by category, so I would pause it that makeup, color cosmetics is more difficult to differentiate prestige versus not, relative to passive skin care, where there's a little bit more technology behind it. Do you see it that way at all, or do you think there are other dimensions you can use that you can differentiate a NIX versus a M•A•C, if they are both at a M•A•C – both at an Ulta, as an example.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Yes. There is many other things that differentiate a mass brand versus a M•A•C. The quality of the products, the trendiness of the product, the capacity, these three ideas, which are behind it, the service, the education, et cetera, et cetera. So, the brands of prestige are winning over the brands of M•A•C. If you exclude one brand versus another, but you look at the total, to answer your question, total makeup prestige is growing much faster than total makeup M•A•C, since several years. So, it's my [ph] state (14:48) and would not be accurate, this could not be true for seven years in a row.

So, consumers have very strong reason to prefer prestige makeup brands, including many which are in our portfolio in general to the M•A•C, actually they normally upgrade their purchases when they can afford it. And we see this, not only in the U.S., all over the world.

Another important thing I want to clarify. Before I said women, and in this is the U.S. data, in China it's even bigger, we have 12 to 13 brands at home. Now the women that have at home only prestige brands or only makeup (sic) [M•A•C] (15:28) brands are the minority. The majority of women are in the middle, meaning they have at home both makeup (sic) [M•A•C] (15:35) and prestige brands.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

M•A•C and prestige?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Sorry, I said makeup – M•A•C and prestige brands. Thank you.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

And so, at the end, and over the years, we have this data, because we do the consumer [indiscernible] (15:46). Over the years, the number of prestige brands is increasing over the number of M•A•C brands. So, women are choosing in their portfolio brands more often than before to choose prestige brands. And that trend, we believe, will continue. That kind of trend in places like China or Asia is absolutely more accelerated than in places – than U.S., where the proportion is already much more balanced.

And the other thing, I don't know, if everyone is familiar, in this market, in beauty, you have places like the U.S., where M•A•C, prestige is kind of 50%-50%. Places like Brazil, where prestige is 5% of the market or places like Korea, where prestige is 60%, it's bigger than M•A•C. The world is very different. And so, depending where every country is, the proportion of prestige versus M•A•C in the competitiveness of the two changes completely and we manage this, and because we are the only company, which is completely focused on prestige. So, for us, the growth of the prestige category is the main goal. And we have this goal in common with a lot of our retail partners around the world.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

One of the biggest debates that I have, of course, if you have questions, please send them on. One of the biggest debates that I have with investors is, department store anchor, so to speak. And I told them, look, it used to be 40% of the business 10 years ago and now 20% of the business is North America department stores, and that starts to open up eyes a little bit. If you were look forward 5, 10 years, what do you think that mix is, in terms of North America department stores as a percentage of your sales?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

I'd prefer not to guess a number. Also, for the reason that, let me say, if the trends continues like it is, we'll be obviously smaller than today. But I want to be clear, we are also working with department stores to re-launch the department store model. I believe that malls and department stores are not going to decline forever. There are many countries around the world [indiscernible] (17:53) are being very successful again.

And when they become more entertaining, when there are better services, more reason for engaging, destination shopping is not going to disappear, it's declining in this moment. So, the reinvention of destination shopping is part of the work to be done and this will be done. And so, where this will stop the rebalance distribution, frankly it's difficult to judge. The thing I want to say okay, but our focus is not on diminishing department store, our focus is on leveraging much better the fast-growing channels that we have around the world, that's the way we are looking at it, while transforming the department store model in best possible way.

And the other thing I wanted to add to your perspective is, when we see that department stores are declining, to be clear, is brick and mortar department store, mainly mid-tier, because online department store business is actually growing at 20% or more and we are enjoying that part of the growth. So, the part of the business which is under pressure is, mid-tier brick and mortar department store, which is very specific.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And that likely continues to decline as a percentage...

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

I believe this will definitely continue to decline as a percentage of our business, because it's declining today, but also because we are growing so much faster [audio gap] (19:21-19:24) in this.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

One of the other topics I talk about a lot with folks is that China play, for you guys, or Chinese consumer play, more broadly. China consume around the world 15% of your sales, China plus travel retail plus everything else, cause low-20% of your operating profit. So, in some sense, you are China play with all the risks and positives that that endorse. Can you talk a little bit about your positioning in China from a brand perspective? So, I think, you have six brands there right now, maybe seven or more....

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

12.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

12 now, okay. How much more can you go? How much more room is there from a distribution perspective, from a just pure comp store growth perspective, a little bit more view on China?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Yeah. First of all, China is back. So, to be very clear, China in this moment is growing again the market, we are growing even faster than the market. But, as we discussed in the last quarter, but the market is accelerating, which is good news.

Second, the Chinese consumer is absolutely passionate about beauty. And this is not going to change, this is opportunity per se, meaning that even the same door distribution is growing again in China. So, it's not only about expansion of the consumer.

On top of the same door, and the [indiscernible] (20:36) of the consumer, there is space to better coverage. We are today in 170 cities in China, we believe there is space for 300 cities where there is demand. We know this how – we know this from Timo, where the demand from our product – on our Timo store comes from 300 cities and not from the 170 we are on. And actually, we use this data to choose the next cities where we can penetrate. Then, the target groups, there are more and more people entering the mid-class in China and this obviously – their priority is prestige beauty in many cases.

And finally, China is a very big skin care market, but makeup and fragrances are on fire, because China did not – was not a big makeup market, it was not a big fragrance market. So, the acceleration of these two categories is here to stay for many years to come, in my opinion. So, the combination of extra coverage, better penetration of the population for prestige and the category like makeup and fragrance is accelerating dramatically, I believe, make China one of the most interesting market for the long-term. If we are leading in this market, we have a great position of our brands, by the way, we could deploy another 10 brands over the years, if we wanted, or when this will be appropriate by category, so also there, there is space to growth.

The last thing with China I want to say that, a big percentage of Chinese consumer spending is when they travel. And so, the benefit of winning in China has a double impact, has also a positive impact on the travel retail channel and on the big tourist cities of the world, where the Chinese tourists go and spend from Seoul to Hong Kong in Asia or to Paris, London or New York in the rest of the world. So, the China success has a very big positive impact on the total company sales.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And from a positioning of your brands perspective, you've originally gone through China with much more of a skin care, I'd say, feel to it with Estée Lauder and Clinique brands, a couple of years ago, you were six or seven, now you're 12, it sounds like so much more fast roll out of these brands. How have you pivoted from skin care to now makeup, which is growing very, very quickly and certainly fragrance you had presence there as well?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

We are pivoting in two ways. First of all, our biggest strong [audio gap] (23:09-23:12) first of all is foundation, and then lipstick and then gradually we'll go into more makeup areas. As we speak, Lauder is launching Double Wear, which is the biggest foundation in the world of the Lauder brand and one of the biggest in general into China, this was not done so far, which is a huge opportunity. And so, we are adding to our brands, they're key hero SKUs, which globally are super proven that were not the time to be launched in China.

Second thing, we are growing our makeup brand. I think, as we said in the third quarter, M•A•C in China last quarter grew 60%. So, we are really going deep with our great win in makeup brands like Bobbi Brown, M•A•C, et cetera. And then, we are adding a lot of emphasis on fragrances, Jo Malone in China is a roaring success, and the benefit of this success of Jo Malone in China is, Jo Malone in travel retail Asia is flying, and is one of the reasons why in travel retail we are building market share, because we're always being market leader in beauty, meaning makeup and skin care and travel retail. We were not at all in fragrances. And so, the big success, particularly of Jo Malone and Tom Ford in Asia and in China is creating a huge benefit on the travel retail, making us grow also there.

So, that's the way we are pivoting and making sure that also in Asia, and particularly in China, we will be soon a [ph] competitive place (24:41), skin care, makeup, fragrances. The only thing these three will have in common will be profitability, meaning we are not deploying the unprofitable fragrances models or any unprofitable model. In China, from the beginning, we have chosen to be maybe prudent in the amount we can sell, but fairly at the right price, with the right cost structure, and be profitable day one.

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Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And the margin mix is a positive margin mix for the China market on average from, let's say, product relative to say the U.S. That's still going to be the case in your...

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Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

A

On the positive margin mix of versus skin care is difficult, but a positive margin mix versus the company average, yes.

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Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah, okay. And one of the drivers of the positive margin mix is the price gap between a China product, same product there, of course, the same product versus here, versus Europe, as another example. So, is that price gap sustainable? Do you think you're going to have to take some of that down? Clearly, there's some taxation changes that you've passed off to the consumer, most of it. Can you talk about that in terms of the...

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Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

A

Sure.

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Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

...the right to have that price gap?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yeah. So, we actually have taken the price gap down...

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Yeah.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

...over the last few years. We took some pricing action when import duties came down a few years ago, which is pricing – we lower pricing on key SKUs more than what the duties came down. And then, the most recent change in import taxes and consumption taxes, we also took some pricing down as well to pass through that saving.

So, we believe that the price gap that we have right now on relative to other markets is sustainable. You have to understand that it actually is more expensive for us to operate in China. We import products into China, so we don't manufacture in China. So, that is a higher cost than it is here in the U.S., where we do manufacture product. And there are other costs associated with the VAT and other things that are part of operating in the Chinese market that do represent higher cost for us.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And what is the price gap now? [indiscernible] (26:55) 80%, and still it's close to about 70%, 65%?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

No. It's more between 25% and 35%.

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

A

At this point, it's much [indiscernible] (27:01).

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yeah.

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

A

Yeah. All right. It's good.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yeah.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

To be very clear, it's going down significantly also because every action that the Chinese government have done, allowing duties and lower entry taxes, we have taken the opportunity to [ph] take (27:19) the price down.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Even further it sounds like...

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Even further on some SKUs and in general always reflect in the new advantage into pricing to reduce this gap. And we're reducing this gap in a way that was not penalizing our profitability, because it was based on the reduction of cost. And that's the best opportunity to do that in the right moment without penalizing profitability.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. And just from putting all together on a China perspective, what do you think that comp store growth is for you on sustainable basis and then what do you think the distribution growth is on top of that, rough numbers?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

I think that high-single-digit comp growth, I believe, is a sustainable model for various reasons I said. When you have the distribution and penetration and launch a new brand, et cetera, this number can be much high. Last quarter, the number was very strong double-digit, and so, this will depend a lot on the market. I mean, China in this moment is strong. For the last couple of years, was less strong. I personally believe, will continue to be strong for some time, but may have cycles like any other market. So we will navigate these cycles as they appear.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

And online in China is growing quite fast as well. And on the [ph] comp base as well (28:40).

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So I want to go to online actually. It's become such a big margin, help to you. It's been a big growth business for yourself. One of the big channels that you're not involved, [ph] I think we've (28:53) got a couple of questions about that now and generally is Amazon. Talk about that in their attempt, obviously, to create beauty boutiques in some sense and why that hasn't been something that's been attractive for you at this point?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

For the moment, we have not seen the opportunity in that area also because we pay a lot of attention in distribution to choose what we call luxury distribution. Luxury distribution has to have a certain amount of qualities and we check each one of these element to judge the distribution is appropriate or not. We didn't feel that so far distribution [ph] were (29:30) checking all the boxes of being brand building distribution. We don't put our brands

in distribution channels, which are diluting the brands over time. Only in the distributor channel, they build the brands over time. When we see this opportunity of distributing and building the brand at the same time, we frankly have no hesitation. An example of that is Tmall in China, where Tmall is an online mall where Alibaba build the traffic, but we own the store. So we retail our brands the way we want, so we are in control of our retail, in control of our brand equity, in control of our pricing, in control of everything. And then in this situation, we are managing and frankly, very successful.

Where we are not in control of many [ph] developments, is (30:22) more difficult to understand if this is a brand building solution or not. So that's the current situation and this situation may change over the years. And also, it's important to think of the brand name. Why don't we distribute in Walmart? So there is a brand name that means mass.

There are retailer brand names that means luxury and it's very important to arrive to a point where there will be a luxury distribution online, also in the U.S. with the luxury distribution criteria and absolutely this will be considered. We at our [ph] brand.com (31:10) activities, which we know from consumer analysis, they are considered luxury. So if you go and you shop on [ph] mac.com (31:18), this is a luxury store for the consumer and that's our aspiration.

---

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And just to go back to the Ulta commentary. Before you were saying Ulta was not one of those where you could see it as a prestige. They changed, and so [ph] you got it (31:32).

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Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Yeah. Yeah.

---

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And so Amazon, if they did that, it'd be something you would be considering going to, I guess, if they allow you that control? It's nothing against Amazon, right?

---

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Nothing against Amazon. That's what I said. Actually, they are an amazing company doing an amazing job. So that's why I said we made this choice based on criteria, not on who is doing the business.

---

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So as you know, really able to take my [ph] consulting head (31:56) off. One of the problems that there is for your brands is that there are third-parties who sell Estée Lauder on Amazon and that's completely out of your control.

---

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Yeah.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So you've decided in some sense to say, look, we're not going to control that. If we sold it ourselves, we might have a little bit more control, but there's not enough control on Amazon. We'll just basically give it up to a third-party and you think that's the right decision?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

I believe this is the right decision, because the moment – we control it in a way, which if out of control is out of control forever.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Completely. Okay. Okay.

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

And so [indiscernible] (32:28) but to be very clear, we are not happy about that. If I could avoid it, I would avoid it, but it's not in our control. But that we are not happy about that. That's actually a negative of this distribution system.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Sure. Sure. Want to switch gears to innovation a little bit. I think you mentioned 20% driven by innovation from your sales perspective. What makes you unique in innovation versus L'Oréal or others? Why do you think it's such a good run rate at this point? And there are hits and misses as always. [indiscernible] (33:03) maybe learn from some of your misses as well in this commentary?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

So why we are good in innovation? First of all, we have a great R&D capability, particularly in skin care, in foundation and we have great [indiscernible] (33:17) in the color aspect and in the fragrance business, which are sometimes [ph] external partners (33:23). And so, first of all, the quality of our formulation is outstanding. I mean, you need to think of Estée Lauder company like a formulation company, where the formulation skills, the formulation ability are outstanding.

And at the end, I'd like to clarify that we have all the data. The consumer repeat purchase or become loyal to products only when they love the product performance. So the formulation skill is the key driver of repeat. I would like also to make another observation. Repeat and loyalty is where the profit is. Trial, so just trying all these beautiful things, which are out there in the market, the moment of trial is normally an investment. The moment of our profitability comes with repeat and loyalty. So the core ability to be producing products, which are absolutely liked by the consumer so that they get repeated, I believe is the core strength of our innovation model.

The second is the creativity and the ability to be on trend. We have models that help us be on trend and anticipated trend. For example, we start the Korean trends and when they happen in Korea, we launch them in the United States. The same with California trends. We launch them in Asia when they're starting in California, et

cetera. So we have the ability. Because of our global reach, because of our organizational model, we have the ability to move trends around the world in a way, which is anticipating them rather than following them.

Third is because our innovation is by brand and there is a very accurate strategic process that identify the areas where the volumes can be the biggest, where the innovation could be the biggest. For example, the moisturizer market is by far a bigger market than many other benefit in the area of skin care. Winning almost [indiscernible] (35:25) with great innovation is worth much more money that winning in a smaller segment. And so, we have a lot of our brand activity, which start from the biggest opportunity. In other words, the focus of our innovation on the biggest opportunity is the competitive advantage.

And finally, the creativity. I think we have amazing creative people. We have great creativity in the way we invent product and present that to the consumer and the consumer love creativity. My personal point of view is that creativity will become more and more a competitive advantage in a world where availability of products is becoming infinite. And so, the impact, the creativity, the distinctiveness of the product is going to be more and more a driver of success. And we have historically [ph] been strengthened into that (36:12).

---

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

One of the trends that I want to point to before I get to elaborate margin discussion is trend of immediate gratification, whether it'd be going to makeup, whether it'd be even in skin care.

---

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Absolutely.

---

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Do you have the R&D or the marketing or the brand rights to play in that space relative to some of the smaller fragmented players that are clearly gaining share?

---

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Absolutely. We have identified that with our compass the increase of instant gratification already four years ago. We have built the capability. If you say, today more than half of innovation are in instant gratification already as we speak, and the ones that have been very successful are already there. So if you think that all the – obviously, the big category of foundational lipstick are instant gratification by definition, but in skin care all the new moisturizer we've launched is all about what we call instant benefit.

And I personally believe that the instant gratification trend will just continue. And we are better positioned than we were on the cure aspect, for the simple reason that we are the global market leader in prestige unit cap and the cap is all instant gratification. Fragrance is our instant gratification, particularly they are seasonal immediate model that we are now driving. In skin care is where that are both, instant and long-term gratification. And in skin care, we [indiscernible] (37:39) years ago. So we are in pretty good shape to leverage the strength.

---

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Great. So shift over to margins. We talked before about channel shifting. North America department store margins are, as best as we can tell, significantly lower than going to specialty-multi [indiscernible] (37:56) online even travel retail. Can you help us quantify that gap and what it does from a mixed shift perspective as you go to these other channels?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

So without getting into the specifics, I mean, clearly, there is more investment in department stores because of the selling model. We do co-upselling in some cases for some brands like M•A•C, we actually have the full sell. There is a fairly significant...

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Commissions [ph] right to think about it (38:24).

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yes, yeah. [ph] That's what. The commission is that way (38:26) basically. So the comp for the sales associates, the investment in counters, the investment in the visual merchandising and department stores, and advertising. The advertising model in department stores, particularly the traditional advertising model, has been a heavy cost model, so yes.

Now, they have historically been highly productive stores. So all of that investment certainly drove a fair amount of productivity, but as other alternatives have come into play in the market like specialty-multi and the growth of online, that investment is not generating the same amount of return. So not for us and obviously not for our retailers. So we are both looking at how do we right-size the investment in those stores relative to the traffic and the sales that are coming out of those stores. And for us, as Fabrizio said, we want to make sure that for prestige distribution where our consumer is shopping we have our brands, the right brands presented in those various channels of distribution. And that's really what we've been doing in the U.S. market.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So net positive mix [ph] going away (39:44) from North America department stores is what I think would ensue from that?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yeah.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

How big? So is it a 15-point gap between an average North America department store relative to a Sephora or an Ulta specialty-multi, is it that big or...

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

It's hard to have a like-for-like comparison. The mix of brands are different, et cetera. But if you think about the difference in the investment model, it's a decent difference. Not a huge difference.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. And in the Q most recently, for example, you showed 140 basis points of improvement on the selling costs, mainly driven by mix. Is that the type of run rate we should be thinking about going forward because of this shift and some of the efforts you're making in terms of reducing the investments in those department stores on a relative basis?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

So one quarter does not make a year, but, yes, you should expect to see favorable selling cost leverage over time as other channels of distribution grow. Now, we also have been investing pretty heavily in freestanding stores. In certain markets where by and large there are either online or freestanding store markets and there's not another channel of distribution to present our brand, so that obviously is a selling cost investment in freestanding stores, higher gross profit margin. But net-net over time, you should see that selling line leverage.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. To our estimate, we think there's a couple 100 basis points in that selling line or even maybe more going forward. Now if you add that to a few other buckets and do some benchmarking, you get to 400 basis points, maybe 450 basis points of real opportunity from a margin perspective going forward over the long-term compared to L'Oréal Luxe, even just the prestige piece to it, as an example. Is that out to lunch? And if it is, why?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Well, what it ignores a bit is some of the investments that you have to make in terms of opening new channels of distribution. The investment is in perhaps different line items. So where it may not be in selling, you do have more advertising investments, social media, digital, visual merchandising [ph] gondola (42:00) and specialty-multi. So you do have those types of investments as well. But net-net, yes, we will have over the next few years benefits from Leading Beauty Forward, from mix, as well as from our ongoing cost saving initiatives. So we have been realizing between \$150 million and \$200 million of savings every year from non-Leading Beauty Forward efforts that were put in place when we got to a certain critical scale with our SMI program.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And one of the things that's been a drag in your previous estimations of margin expansion has been M&A and currencies.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yeah.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

So currencies, your guess is better than mine. I don't know [ph] what's the cost there (42:44) for the moment. From an M&A perspective, it does sound like, look, there's more fragmentation out there, we want to pick brands that are in the right areas, like a toothpaste or [indiscernible] (42:52) what have you. Do you think that even with M&A, as you currently foresee it, the margin expansion potential remains or are we going to be kind of nickel-and-dime the way I guess in some sense from an M&A perspective, and not get a real good margin expansion story?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

[ph] Yeah. No. (43:07) I think that we have over the last few years done a number of acquisitions, eight acquisitions. So that's atypical for us. But when we looked at where we had white space opportunities within our portfolio and we looked at the desirability of some of the brands that were out there, we actually targeted each of the brands that we acquired. So it was a very proactive move on our part in order to add those brands to our portfolio.

You will see that purchase accounting and the negative impact of those acquisitions, at least the eight that we've done, bleed off over time. I don't think we're going to do eight acquisitions in the next year or two. So there maybe a few more that we do, but by and large you will see those brands become a more meaningful part of our growth algorithm and certainly be accretive to our margin.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. One of the areas that you guys invest a lot in, a lot of your peers do is obviously advertising spend. Can you talk about the shift to digital and the benefits that you're getting there from an efficiency perspective?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Yeah. I mean, so I would think about the shift really from traditional to digital. We were a pretty heavy investor in print, and television advertising for certain of our brands like Estée Lauder, Clinique in our designer fragrance portfolio, much of that spend has shifted to digital. And our brands that had historically been more in-store focused have actually now started to ramp up their investment in digital as well.

So for some brands where we didn't traditionally have a lot of advertising spend, we had in-store spend, but not advertising spend, you are seeing more digital spend in that area as well. So we have a big focus on digital across all of our brands, because certainly what we find is even through much of our sales volume is still transacted in-store, a lot of the influence in terms of the purchase decision is done online. And our ability to reach consumers with digital advertising and marketing online is pretty critical.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And would you take the percent of advertising down or [indiscernible] (45:36) more efficient?

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

A

Both. I mean, we've had an efficiency initiative for advertising and promotion for the last five years at least and really have seen some traction, good traction in the last two years as it relates to the efficiency of the advertising. Right now, we're looking at the effectiveness as well. So one of the things that – as we increased our spend in

digital advertising making sure that we have the right metrics in place to measure the effectiveness of it becomes very important for us, which we're doing as well.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Okay.

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

But the other thing I want to clarify, this question comes often. The traditionally advertising brands like Clinique, Lauder, are they finding the world of social media more efficient? The answer is yes. So the cost of advertising for the brand will decrease. But on the other side, brands like Jo Malone or M•A•C that we're not advertising are adding some social media advertising to their investment platform. So in total, the non-advertised brands doesn't exist anymore. Any brand has to do some social media, that has an impact of increasing the amount of advertising needed in a total portfolio, but the efficiency and the return on these investments are improving. And that's the reality of the dynamic that we see.

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

So if we take some of these dynamics that we've been talking about together, we've heard a little bit about kind of fragmented brands, fragmented channels, right. So little bit of lower barriers to entry there from a channel perspective, at least, online, et cetera. Somewhat from an advertising perspective [ph] there is skill to the (47:19) social media, doesn't cost one as much to do it. One of the other ones that's come down a little bit and love your perspective on it is manufacturing. So you can outsource, [ph] make up production if you help (47:31) like it. Can you talk about your own mix of outsourced versus insourced production, whether you see that as an opportunity and how do you battle that opportunity for me to come up with a makeup brand and outsource that right now, probably won't be successful, right, but I can do it if I wanted to?

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

Yeah, I'll stop one second to speak about, first of all, our model. We do a lot of internal manufacturing and on this internal manufacture, which is mainly in areas, which are very big and where we have an R&D competitive advantage and the formulation advantage is protected.

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

What percentage [indiscernible] (48:07)?

Q

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, Estee Lauder Cos., Inc.*

60%.

A

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

That's internal?

Q

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

Internal. That is focused in areas like moisturizers, foundation, lipstick where in that part of the business the cost of goods and the quality are both competitive advantages. So we do this internally only where we can get a competitive advantage in cost and protection and formulation quality.

The other part of the business is where is this equals to get an internal competitive advantage, because the scale of this production can never be the one you need. In this case, we outsource, but when we outsource the third-party manufacturer relationships are tend to be few, develop over time, deep, where we can be not only a relationship, obviously, of cost of goods and good quality, but also a relationship where innovation has a role and long-term relationship [ph] have a role (49:13). So that's our model. And how the model will evolve, it depends, depends from which categories we'll achieve certain amount of scale, which could be insourced, that was outsourced. And the fact that today you can go out, and do your mega brand, which I'm sure will be your next project, and...

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

I'll talk [ph] to you about that (49:33).

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

By the way, I'll collaborate on that one. And the moment we will do this together, just to know the company will finance him on this one, the issue is that you will have high cost of goods in the beginning. And so, in the beginning you will have high cost of goods and you will need to play the trial game. And the trial game is investment. So the beginning is that. Only if you will get scale of your volume, and you will get repurchase from the consumer loyalty on certain [ph] SKU (50:08) then you become an interesting brand. And that day a big company will buy you. And that's the dynamic, which is happening out there.

Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. [indiscernible] (50:19) two quick questions. One is, from a portfolio perspective, I would argue, and knew this is wrong, misperception, I would argue that the fragrance business is not a place you have as much competitive advantage, maybe in the artisanal part to it, but most of it, perhaps not. Why be in that business, outside artisanal? Do you need to be there? It used to be that prestige has to be in fragrances. Do you really need to be in the fragrance business for pleasure or whatever it might be at the time?

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

No, we don't need to be in that business for any pleasure or any need.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President, EsteeLauder Cos., Inc.*

A

No, I mean, the fragrance [indiscernible] (50:53)...

Fabrizio Freda

*President, Chief Executive Officer & Director, EsteeLauder Cos., Inc.*

A

[indiscernible] (50:55) but, no, we don't need to be in businesses, which are not profitable and don't have sustainable advantage. And in fact also there, we are changing our mix. We believe that the artisanal fragrances are a great place to be. There are very profitable brands like Jo Malone today, also Tom Ford, other brands that grow in our portfolio, the one we acquired, have a great future and is a profitable future. Not only [indiscernible] (51:27), but they have the passion of the consumer, meaning there is this repeat purchase, this loyalty dynamic, this innovation dynamic, which is exactly our game.

Every celebrity has a fragrance. Every retailer can discount. It's definitely not our preferred business. If you look at the percent of our fragrance business, when I started this journey eight years ago, which is in that shape [ph] best today (51:56) is reduced by 70%. So, no, we are actually gradually turning our fragrance portfolio in a way where fragrance is becoming another profitable engine of growth. And personally I believe this is one of the biggest achievements that we have done in the last year, is to create a new fresh engine of growth that done in the right way will be profitable and done in the right way means another thing. Again, I want to remind you we are the market leader in travel retail, in beauty [indiscernible] (52:28) we are the number five company in fragrance. The travel retail, fragrance business in this artisanal area is very profitable. The more we can bring these brands to be playing well in travel retail, the more this will be a very interesting engine of growth for the long-term, for the company, which will be accretive to growth and to margin.

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Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Q

One last question to squeeze in here. I don't ever not want you to be in this chair next to us as CEO of the company, but how should I think about succession planning, how should I think about your plans going forward?

---

Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

A

Thank you for this question. So, no, please don't retire me. I'm not ready for that. And so you should think that Estée Lauder company, like every public company with a good program have a succession planning, and that the board is fully on top of it and I'm fully on top of making sure that we have amazing succession planning. But to be clear, I don't plan to retire anyway soon. I'm here to stay. This is a great company. We are in the middle of another important transition, which I believe will create an enormous opportunity for the long-term. So we have a succession plan, but we are not in a succession period.

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Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Thank you, Fabrizio. Thank you, Tracey, [ph] for your (53:43) time.

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Fabrizio Freda

*President, Chief Executive Officer & Director, Estee Lauder Cos., Inc.*

Okay. Thank you.

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Ali Dibadj

*Analyst, Sanford C. Bernstein & Co. LLC*

Thank you.

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