

08-Jun-2021

The Estée Lauder Companies, Inc. (EL)

Deutsche Bank Access Global Consumer Conference

CORPORATE PARTICIPANTS

Fabrizio Freda

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

OTHER PARTICIPANTS

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

...hear from both of the leaders who has helped Estée Lauder deliver a tremendous decade into 2020 and who I think is the company positioned for an exciting path forward as well. So, Fabrizio, thank you very much for joining us.

Now, before we begin, just a few logistical points for those who are listening in. First of all, Fabrizio is going to run through a few slides at the start just to ground us on Estée Lauder's current strategic priorities and to catch us up on the recent initiatives. And then after that we'll turn over to Q&A.

If you are joining via the conference portal you should see the ability to submit questions in the window in front of you. So please feel free to make use of that at any time and I'll do my best to integrate your questions into the conversation when the time comes.

With that, Fabrizio, over to you.

Fabrizio Freda

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

Thank you, Steve. And hello to everyone. It is great to be with you today. I hope you and your families are in good health as our hearts continue to be with those impacted by COVID-19.

Since some of my remarks today contain forward-looking statements. Let me refer you to our most recent company reports filed with the SEC where you'll find factors that could cause actual results to differ materially from these forward-looking statements.

So our fiscal year 2021 is unlike any other in our history, framed from beginning to ending by the pandemic. It is characterized by deep pain and sorrow but also tremendous compassion and resilience. Our employees have been extraordinary in this most difficult year. We are emerging from the pandemic a better company; thanks to their creativity, ingenuity and result. This summer, we celebrate our 75th anniversary and look forward with optimism to a beautiful future in our next 75 years. Let me share with you why.

We are the global leader in pristine beauty with an outstanding portfolio of over 25 brands in skin care, makeup, fragrance and hair care sold in high growth channels like online, travel and retail and specialty mostly. Our innovation is extremely powerful. It once again proved its value during the pandemic as we continued to create desirable loyalty inducing products. Our multiple engines of growth strategy encompassing product categories, channels, geographies, brands, consumer segment and price points give us many levers to fuel the business. Our ESG initiatives are strategically important to us and our quick key to shareholders.

We are not only advancing, but also accelerating the work of our environment goals, and in our social commitments. We are beauty inspired, value-driven. We led with our values, and during the pandemic, we prioritized the safety and well-being of our employees and consumers. We aim to be the most inclusive and diverse beauty company in the world and to be both the employer of choice for diverse talent and the brands of choice for diverse consumers.

Last June, we announced a comprehensive set of commitments to act with urgency on achieving racial equity in the US for our black employees, black consumers, and black communities. This March, we announced our 2021 strategy on women's equity. Today, 55% of our executive-level employees are women and 50% our general managers at our company are women, including those in countries like Saudi Arabia. We focus on generational diversity with our CEO Global Reverse Mentor Program, pairing young talent with senior leaders to help them stay on top of the latest trends and giving our younger generation an important voice.

Our most important engine of growth strategy has been instrumental in our successful navigation of the pandemic. We pivoted our focus to the engines of the moment; all of which have excelled as we magnified these already strong engines.

In skin care, from entry-level prestige to luxury and across subcategories, our businesses has gone from strength to strength, driven by local relevant innovation, successful hero strategies, compelling ingredients natives and deeper consumer relationship, enabled by sophisticated data and analytics.

Our luxury and artisanal fragrances have realized significant growth, as fragrance offers as means to express self-care through the emotional comfort of scent. The category is also flourishing online as store retailer expanded, which together with live chat and live streams captured consumers' desires.

In Asia Pacific and most especially in China, we invested for growth by expanding local talent and capabilities, driving social selling and investing competitively in advertising. Our online channel was strong pre-pandemic, which positioned us well from the outset of COVID-19 and we accelerated investment to serve consumers even better across brand.com, third-party platform, retail.com and pure-play retailers. With speed and agility, we added High-Touch services to elevate to the consumer experience from convenience buying to enriched shopping by integrating technology and data with our talented beauty advisors.

Finally, our travel retail channel acted quickly to capture demand in domestic travel when international travel ceased, driving brand building, robust growth also in Hainan. Impressively, these engines at the moment have

delivered outstanding performance so far this fiscal year. We expect to return to growth in fiscal year 2021 with both sales and adjusted operating margin exceeding those of fiscal year 2019.

Throughout the pandemic, we invested in engines of the moment and in engines of the future. Around the world, we are expanding our data and analytics capabilities to elevate our consumer understanding and our ability to anticipate trends.

We foresee abundant long-term growth opportunity in the dynamic Asia-Pacific region. We are building an end-to-end innovation center in Shanghai. And we aim to best meet the needs of Chinese and Asian consumers through increased capabilities in product design, formulation, consumer insights and trend analytics. We have also broken ground on the state-of-art manufacturing facility in Tokyo, which should enable us to better meet demand and increase speed to market in the region.

We extended our sustainability work from setting innovate new goals in travel retail to expanding our portfolio of brand level ingredient glossaries to seeing a wind farm in Oklahoma become fully operational, which is our largest renewable energy contract to-date.

We also increased our ownership in DECIEM, becoming a majority investor with a path to full ownership in three years. DECIEM, with its fast growing brand The Ordinary and the new brand incubation capabilities, aligns well with our multiple engines of growth strategy. The Ordinary further diversifies our skin care growth engine by consumer segment price point and geography with a superior online business. The brand has redefined entry prestige with an ingredient focus, regimen-based product portfolio that drives basket size.

Innovating is playing a vibrant role in fiscal year 2021, powering the engines of the moment and what we expect to be engines of the future.

In skin care, we launched three highly sought hero innovation. Estée Lauder's Advanced Night Repair serum has being a powerful force. Thanks to its new formula and luxurious more sustainable glass bottle. While La Mer new, the Concentrate has been a big contributor to growth, amplifying strength of Crème de La Mer franchise. The third, Clinique new Moisture Surge 100-hours has received an excellent consumer response with its exclusive Aloe Vera Bio Ferment.

Fragrance has also been reached with innovation led by Jo Malone London, Tom Ford Beauty and Le Labo. We have an exciting pipeline ahead in makeup with Too Faced already garnering success from its new lip plumper.

As we recover from the pandemic, we anticipate that the fundamental drivers of prestige beauty long-term growth will remain intact. This includes a growing middle class and rising per capita spend in emerging market, increasing trade-up from mass beauty, and growing aging population in developed markets. As we emerge from the pandemic, our growth engines will diversify and expand geographically. We believe the engines of the moment will continue to thrive, owing to strong repeat purchase rates driven by the exceptional quality of our products; and we expect additional engines of growth to ignite.

We are strategically planning for a renaissance in makeup as markets reopen and social and professional locations resume. The return of broad-based international travel will complete the ongoing development of Hainan. Finally, as traffic gradually returns to the stores, brick-and-mortar retail is expected to become more productive again, most especially in North America and EMEA.

In closing, we have delivered excellent performance amidst the pandemic. We're confident we are well-positioned to embrace the opportunities of tomorrow and continue growing global prestige beauty share. Thank you.

QUESTION AND ANSWER SECTION

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

All right. Thank you for that. I think you've teed up a number of topics that we can delve deeper into. But I guess I first want to talk about the concept of agility. Back I guess seven or eight years ago, you were one of the first executives I interacted with to really – you really elevated that concept of agility to a strategic imperative versus prior paradigms that emphasized scale and, at the time, an outsized focus on margins across consumer goods.

So I guess, can you just reflect on that a little bit? Talk about the evolution of that agility-based growth mindset at Estée Lauder. How it was integrated into your executive leadership team? How it was infused in the company culture? And how perhaps it helped you navigate the last 12 months, and helps you position for the path ahead?

Fabrizio Freda

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

A

Yeah. No, thank you. That's a great question. And so, I summarized the concept of agility in two or three ways. The first one is the multiple engine of growth. So, agility require that the company develop multiple opportunities for growing, because that is very difficult to rely only on one opportunity, assuming this is long term, will never be changed, disrupt, or having temporary problems.

So, first of all, agility require the right portfolio brands, the right portfolio category coverage, the right channels. We have gone in the last years from, frankly, a couple of channels today we operate in 12 channels and we lead in many of those. So, it's basically creating the platforms is the first step. And we have used the last 10 years to go from a company that was 80% in one country and one channel to a company that operates in multiple countries, in multiple geographies, multiple channels, and most important, leads in multiple categories, but even in the subcategories. Today is not about skin care. Today is about moisturizer, serum, eyewear, watery lotion. And so we have a specific strategy by subcategories and we are managing all of these.

Then, the other element of agility, having the data to anticipate the decisions. In the past, we were structured to work based on experience. And when you are based on experience, you can now predict the future. And so we established elements of governance like our Compass that I [ph] spoken (00:13:49) about many times, which is basically the team that worked for me and that we, every year, update our next 10 years' vision of what the industry will be in terms of geography, consumers, channels.

And we anticipate the moves. And we anticipate the move via reverse engineering model, where every year we discuss what we should be ready for three years from now, five years from now, even if it's not going to help us in the next six months. So, we invest in being ready in anticipate trends, that's the second. Beyond, after multiple engines, the second big idea is being ready to anticipate trends.

Then you ask, what does it mean in your team? In my team, it means that we have multiple skills. Our leadership team is very diverse. There are amazing competencies in each one of the areas and the team work together. As you and I were chatting before the call, Zoom is actually bringing people working together even better in the short

term in absence of thing. And so our team work together, but each one of them brings a unique element of skills that the other can leverage on.

And so example, we have great expertise online today in over the world. We have anticipated; we have been the first working with Tmall in China and we have anticipated this learning. And then, we have been the first company taking the Tmall model outside of China with Tmall when Tmall had done investment like in Lazada or in the Turkey partner, but also looking at other partners that wanted to go in that model, which is very, very good for luxury because it allowed the brands to be in control of their own destinies that exploit huge traffic online.

We have been the first one thinking through on how to transfer online the services that we were historically providing in department store like chat with consultants, like trying the product on, and understanding the [ph] concept (00:15:55), et cetera, so we have transferred all of these. Now, all these happened because we had been anticipating the future and creating in the team the skills to deliver to these anticipations.

And then last example I want to bring is the geographical anticipation. I mean, I showed you the chart of what's happening. I mean, the growth of the Chinese consumers is extraordinary and in the last years – the index of consumption per capita in the last five years, as I show in the chart, is being 185% consumption per capita, reaching \$50, which is still well below Japan, Korea or even more below what is there in the US, obviously, or Europe. And so this is an extra – then you add it to these extraordinary opportunity, still the opportunity of transfer from mass to prestige. And then, the opportunity on middle class and you've seen again in the chart that 300 million people entering the middle class in the next year.

For comparison in Europe or US is 20 million or 30 million; so it's an extraordinary growth opportunity. Now, why it's important? We have anticipated that. We have positioned ourselves for great. So now we have 25% market share of this world and this world is growing is growing exponentially. And so we will do our best to continue growing the market share. But even if that was the market share, this will be an extraordinary growth in the long term because, again, it's a game of positioning, anticipating the trend. It's not a game of fighting for market share when it's too late.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So I guess to build on that – so a couple of questions come out of that from me as I think about the path forward. So can you talk a little bit more about what you're seeing and expecting in that Chinese market today, the Chinese consumer today, but then also what you're anticipating near to medium-term in terms of the pacing of recovery in some of your legacy developed markets like the US and Europe and Japan? And then, as well any comments you have just long-term. On the slide, you mentioned India. This market is beyond China that I'm sure you're anticipating longer-term. And just how relevant are those next-stage markets for today's investor? Is that a one-year to three-year initiative? Is that a three-year to five-year initiative or is that a five-year-plus initiative?

Fabrizio Freda

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

A

Yeah. First of all, there is the COVID situation and the post-COVID situation. Starting to the answer to China and to – overall, in the long-term, as I said, I believe China will continue to be a great engine of growth for the entire industry of prestige cosmetics for the reason I just explained and I touched.

So this is also driven by the fact that in China, the expansion of consumption is driven by social media and creation of desire in social media. Social media is national, so social media cover all the cities in China. While

today, the prestige distribution is limited. In our case, for example, our most distributed brand is Estée Lauder with 137 cities, if I'm not wrong. And we know that our online sales already today are in more than 600 cities.

So there is a lot of consumers in China that can only access prestige beauty and prestige beauty of Estée Lauder Companies via online or via travel retail, meaning when they travel. Now, the big idea, the results of this is that the brick-and-mortar distribution is highly productive, because it's only the one where there is high traffic. So the entire business model is more productive. There is brick-and-mortar productivity, which is growing over time and is covered – brick-and-mortar is covering more and more consumer and more cities, but only when they are productive. So stays focused. While online covers everything else.

And then traveling. Now, what happened during COVID, which I think we should not under-evaluate that the traveling consumers, people traveling internationally mainly. Now, about 20% is the goal for passport in China. So the 80% of the population that will not travel internationally would not enjoy travel. But now, with Hainan, also the 80% of consumers that were not enjoying travel retail will and are enjoying as we speak travel retail and will continue to enjoy.

So when people ask me about Hainan, is this just substitute international travel. And when international travel will come back, Hainan will stop, not at all. Hainan is serving 80% of consumer that never travel international, and never will at least still when the passport penetration will dramatically increase, which as far as I'm aware is not going to happen in the next few years. And so, the key model here is to think of China as these expansion desire driven by social media, expansion, penetration, spending per capita, and the ability to access via brick-and-mortar, via online, via travel retail international later on after COVID and via travel retail domestic as we speak. This dynamic is a long-term dynamic that is not going to be changing depending on pandemic or non-pandemic is going to evolve gradually.

And so the second question was the other emerging markets, absolutely. I just want to say in terms of COVID recovery, as you can imagine the other emerging market group will be affected by COVID for much longer than the more developed situation as what we have seen because of vaccinations and because of the speed of penetration of vaccination. So I need to distinguish in the short-term, I would expect the other emerging market to come back to solid growth if you want or probably last in the queue of recovery, not first.

But in the longer term, meaning after COVID will be been eliminated, this is going to be a fantastic engines of growth, because all the dynamics that we see in China will repeat at a different scale. We always compare the sum of all the other emerging markets of the world being comparable to China and [ph] not even (00:23:06) but still very big. But then, there is no single emerging market other than China that will be as big as China at least in their projection that our Compass indicates.

But this time will be super exciting. So India, plus Brazil, plus Middle-East, plus Russia, plus Indonesia, plus Philippines, all the markets where we are basically going for leadership, and we have today number one or number two in each one of them. And in these markets, the same will happen, meaning that in the past, the speed of development of this market was driven by the speed of development of brick-and-mortar distribution. The means were subject to infrastructure building for luxury. Now, infrastructure building for luxury in this market is low and focused, while online luxury penetration is going to be very fast and accelerating. And so also these are the market will be completely accelerated in the future by the online penetration. By the way, the COVID period has accelerated in every single of these markets; so very promising for the long term.

And then there is – we are obviously assuming and we can go more in that in this one later that in the future year, the current drivers like COVID has accelerated, as I described in my prepared remarks, like skin care, like global

online like the Chinese consumers like domestic travel in China. These drivers will continue and new drivers will add to these, and the new drivers will be the recovery of makeup. The new drivers will be the brick-and-mortar reopening and the improved productivity because many being close including many that we closed. And the new drivers of the high-end fragrances that really started towards the end of COVID to accelerate and we believe as going to have a big push.

And then we have spread the young consumer when you look from a consumer standpoint to come back into the game more aggressively but most importantly the ageless consumers to continue to grow because another thing that COVID did is that the ageless consumers – ageless consumer is we call it people 55-plus more or less and depending by country – and this group of consumer were not very heavy online shoppers. Today, they are because during COVID, they learned the way and they liked it. And so this will increase their reach, will increase their product purchase frequency, will increase their access. And so the ageless population, particularly in developed markets, will continue to be a great opportunity.

So, I'm personally very optimistic that, as you said, my work has been to create the agility and to put into position the company for the future growth. I call it putting the boat – the boat being the company – in the winds of growth. I think we are really well positioned in the winds of growth. And the good news is that the fastest growing currents are accretive for profitability to the company. So, it's not the kind of growth that [ph] used (00:26:35) to dilute profitability over time; is actually the opposite. It's the kind of growth that over time can help support profitability or/and the creation of resources to invest in the future.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Some of those drivers of growth that you just mentioned, the resumption – the recovery of brick-and-mortar, the renaissance of makeup, and just the ongoing – I think you used the word storytelling in your presentation of fragrance, and the development of that category, which historically was not an engine of growth. But I think you've changed the portfolio and shown that it can be.

How important are those to the recovery of developed markets, like the US and Europe? I think they go hand-in-hand with the recovery of traditional markets. And what's your current outlook on the pacing? I'm sure that's a moving target, but just how are you investing? In terms of anticipation, as you think about the path over the next 6 to 12 months, is that something you feel is there going to be a V-shaped inflection, is it more long-tailed, or is it too early to tell?

Fabrizio Freda

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

A

Well, it's too early to say, but one thing I can say is that COVID is not finished and we see when there is a COVID resurgence, closing of the market, I think, the impact to the business is very big. And I personally believe that sometimes maybe the market is under-evaluated the understanding of how bad it can be. I mean, we have learned the hard way in Japan, where now Japan has been closed, and in other examples.

And so, to be clear, first of all, how recovery is happening? Recovering is happening two ways. The moment the market re-opens, there is what we see is called reopening. And then after reopening, starts recovery, assuming that COVID really continues to go down or disappear. So, the reopening is a temporary moment of enthusiasm, where people go out and shop in brick-and-mortar. We all do it. I've done it last weekend. I mean, we are dying for doing that and every good human being is in the same position. So, there is this re-opening moment that the numbers would look good in brick-and-mortar.

By the way, they look less good in online for a brief period of time, because people don't go anymore online. They go to the store. But we should not confuse reopening with any trend. It's not a trend. It's not a trend on the goods, because brick-and-mortar then will go to more regular situation. It's not a trend for online. Online will continue to grow in the long term. It's just a reopening moment and this reopening moment is about two, three months that what we see when it happens. And so, we are ready for those reopening moments when they happen, where they happen.

Then there is the recovery, which is a bit more of a back to a normalized trends of development and growth. That is going to be more gradual, because it require many new habits to establish, many new things. And so, then there is a gradual recovery over time, etcetera.

So, the other thing that we need to keep in mind, this is happening in different way in different parts of the world. It is interesting that in the middle of the pandemic, the year we just passed, Asia with a very disciplined way to manage COVID has been creating more purchasing occasion, more opening stores, and more people [indiscernible] (00:30:16) than US or Europe that was hit very bad by COVID with closures and lockdowns.

Now, with vaccinations, the opposite is happening. Vaccination are progressing faster in America and in Europe than they are in Asia. And so, Asia is still the majority. China is the exception. But the rest of Asia, I should say, is still managing COVID mainly via lockdown, closures, and management of the disciplined approach wearing masks, rather than via huge vaccinations [ph] speed (00:30:56). Now, this will change in the next 6 to 12 months, but for the moment, that's the reality.

So, we see the impact of closures. In this moment, there's something in Australia happening; again, there is Japan; there is Malaysia, which is under strain. So when we see this in this market, we do suffer in the short term about this. And then, we should not forget that till May – London was closed until April. In Europe, Germany has just opened up now, etcetera, etcetera.

So, when there is these situations, they impose us to realize that our recovery will be gradual and will be heavily dependent on these reopening, recovering, or still closing phases that will be different around the world. Take the very sad, obviously, stories in India, Brazil in the last period, where we've been very close to our teams there, that's definitely not the phase of recovery or not the phase of reopening. It's still in the middle of COVID.

So, that's why I'm saying, we need to be prudent in imagining that everything comes back one day; in a quarter, everything is back. That's not the way will happen. However, it will happen. And you were asking what is the – so, I've described my expectation for a gradual recovery. But I do have the expectation that when this gradual recovery will be completed, we should be, in few years in front of us, as I said, where the current drivers will continue to drive and the new drivers will be added on top.

What are the new drivers? First of all, the recovery of makeup, the renaissance of makeup as you described. The brick-and-mortar productivity that will make brick and mortar having the resources to make a better brick and mortar experience as well, which is a big important element for the long term of our categories. You mentioned high-end fragrances where we are a clear market leader, they're booming. But most importantly, the pyramid of prestige fragrances being very big and luxury fragrances is more which is in the west, in the east is inverted is that very luxury fragrances, which are booming and not the cheap fragrances.

And so, in the east huge progression of fragrances we are very well-positioned. And again, this to your point, this is the way we have anticipated the future. The fragrance market in the east will be gigantic and will not look in any way like the fragrance market in US and Europe will be all about this luxury experience and that's why we are

ready, we were ready five years before this even started. But now, I don't know to make an example our Jo Malone business in China is on fire and will continue to be and that's because we've anticipated how the market will have been shaped there before it was too late. And so this will continue to be exciting. And then, I believe that there will be a growth again in the West. So Europe will come back, US will come back, and we will take advantage of this growth.

You were asking also how we are ready; for example, we don't know what we don't know, so we are making some bets in particularly in some cases: thanks, to analytics. We make certain bets in inventories so we are ready. In case there is an acceleration of a certain category, we are ready and we measure the risk; for example, we may create bigger inventories, producing more of some product that they believe that when the recovery will start will have a great demand acceleration. But normally, we take the risk of higher inventories when we know that even if there is a delay in the recovery, this product will fly anyway, just more gradually, so where the risk is measured. But we do that. We anticipate; thanks for that data analytic, the recovery patterns, and we are ready in every sense with the money to invest in advertising, with the products on the ground for serving the consumers and in our joint, joint planning with the retailers, etcetera, etcetera. So, all of these is pretty sophisticated; it's complex; and I believe we are on top of it.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

And your portfolio is constantly evolving; it has been. I think the addition of DECIEM is an example of that. My perspective is it's pretty well suited and, and has evolved nicely to me especially in skin care and fragrance. In makeup though, when you think about the makeup renaissance that's to come, how confident are you that the portfolio of your makeup brands today is well positioned against that future demand? Is it or is it an opportunity? How are you thinking about that?

Fabrizio Freda

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

A

No. Actually, I think it is. Our portfolio – and we make some decisions also recently to close a brand that we thought was not right for the portfolio. So, we are really managing the portfolio. We are managing the portfolio, adding opportunities when we see a strategic need like you mentioned DECIEM in skin care; and we are closing brands that we believe for the changed market conditions do not have any more the long-term role that we were attributing to this brand. So, we actively manage our portfolio in a rational way, and again, with the attempt to anticipate the reality.

But our portfolio to-date, think of it, we have in Clinique, all the makeup for people with sensitive skin. And this is much stronger in the West than in the East. But in the West is really a big fundamental and growing. And so, Clinique is well-positioned to take advantage of these evolutions particularly in the area of foundations. In Estée Lauder, we have a very strong program on foundations and on lipsticks, particularly. And in these two categories, the brand is really the combination of Clinique and Lauder on foundation make us the biggest, the market leader in the foundation category, which is going to be one of the biggest, biggest category coming back.

Now, face is going beyond foundation. There are concealers. There are other areas, which are growing in this moment. And those two brands, for example, are super well-positioned to take these by store. Now, MAC is a brand, which is super well-positioned to follow the concept of looks to create really the top look evolution. And in a moment where the need of expression, the joy of social relationship, the joy of self-expression is coming back will be a big trend in the post-COVID everywhere. As you can imagine, the spirit of using makeup for having fun as well is really coming back everywhere. MAC is extraordinarily well-positioned to take this trend.

Then our Too Faced brand with its unique way to speak to the young generation that has been silenced by COVID. I mean, the young generation has been the one that is probably is responsible the biggest part of makeup decrease because they were closing their homes, so the social occasion location to wearing makeup were gone; and now this is coming back. For example, in this moment, Too Faced is so successful with a lip plumper, so making the lips a little bit bigger and more solid because it's a fun moment, it's a way to express again the sense of coming back to normal life, to social occasion, have fun with it. And so Too Faced is super well-positioned for these elements of the Pink brand, as we call it, with these kind of unique ideas and ability to speak to the very young people.

And Bobby Brown is the elegant brand speaking to all the business women or the women that we've got back to the office in makeup with a nude approach and with a makeup which is more about expression of their preferences rather than something to much visible or too aggressive and very well-positioned in this way.

And so, all the consumer segment desires that could continue, we cover them with our brands. We have an answer to everything and that's the way we look at it. Also, don't forget we are the global market leader in makeup or in prestige makeup as we speak. We're always – not always, but we have been in the recent years in that position. So we are well-positioned both in terms of portfolio consumer segments. And then geographically, we are in a very good position relatively to the size of the makeup market everywhere in the world. Keep in mind that in the East the percentage of business, which is makeup, is much lower than in the West. And so, we will prioritized accordingly.

And so in summary, the resurgence of makeup will be very good news for Estée Lauder Companies, for our portfolio, and will be even better news in the West, frankly, than in the East in terms of the relative importance of our competitive position in every market.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. And we're coming up on the end of our allotted time, but I did want to talk about your post-COVID business reacceleration program, the restructuring program that you put in place amidst the pandemic. Can you just give us an update on where that is? It's relatively early in terms of its implementation and I think even earlier in terms of you reaping any benefits from it. But how does that factor in as an enabler of some of the growth drivers that you've talked about today?

Fabrizio Freda

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

A

Yeah. This program was very specific. I mean, to do the many pivoting of resource allocation and saving programs. To be clear, we have a saving program, which is ongoing in the company and has nothing to do with restructuring. And then, we have Leading Beauty Forward that was the restructuring program for pivoting in many areas, example, from more – into social media from different kind of advertising in many areas, to restructure the company in many areas, more online, etcetera. So, we have used already – we used savings and we used Leading Beauty Forward to make many of the changes.

Advance, so this program that you mentioned is really focused on managing the disruption that COVID created in the brick-and-mortar part of our business. That's priority number one. Then there are other opportunities around that. But that's priority number one. And so, we have to move resources from areas where they were essential before to areas where they will be essential for the future. And we need to manage our stores to become productive again at the new level of traffic that they are having and the new level of projected traffic.

Now, if you think that during COVID, our business – most of the market, when you look to 2019 to today, has doubled penetration, actually more than doubled in the markets that were low, and in many markets doubled penetration. So, obviously, the business has not been growing in that way. So, brick-and-mortar in total is less productive by definition. And so, that's what this program does.

We are more or less in the middle of use of the resources. We have some great programs that's been approved. But you're right when you say that we have not yet got the benefits of this today. We will get it more in the course starting next fiscal year, the majority, and then over the remaining time. But for the moment, you're right, we didn't get yet the benefit, but we got the projects. We got the resources to rationalize the projects.

And this is an essential project, because will allow us to rationalize the brick-and-mortar and any other areas that was disrupted by COVID. And to move resources to the areas, which are the new drivers, and obviously, in the exercise, create better profitability, but the key idea of the program is this. And so, you will see the benefits also in the accelerated growth over time of the new drivers.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Do you have a sense yet for how much of the brick-and-mortar savings that you reap from the program gets reinvested in a new form of brick-and-mortar, a more modern brick-and-mortar that meets the needs of the post-pandemic consumer versus it's either just proceeds that you end up being extra profit or gets reinvested into other initiatives? But I'm curious as to how much gets reinvested back into brick-and-mortar in a new form versus just...

Fabrizio Freda

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

A

I cannot give you a percentage, but yes, part of it gets reinvested in brick-and-mortar, but not necessarily in new brick-and-mortar, because there are new brick-and-mortars we are opening as you know. But these new brick-and-mortar we're opening, frankly, we are opening it already with a clear vision of productivity and profitability.

So, the new brick-and-mortar that we are adding should be more productive and more profitable by design day one, so they don't need the restructuring. The restructuring fund in brick-and-mortar, that will be used in brick-and-mortar and more for improving the experience of the brick-and-mortar, and making sure that the remaining brick-and-mortar is more creative, is more productive, but is also a better experience for consumers, so remain a big equity building long-term viable channel, which is so essential to us. So, yes, we are investing in improving the remaining brick-and-mortar. No need to invest in the new brick-and-mortar, because this is productive on its own.

And, yes, some of it is also moved to do better activity online, to do other things in this way. And also, some of it is financing our increased advertising, so that – our advertising goes mainly in our hero products or the products that define our brand and in new innovation, is presenting the new ideas, the innovation to the consumer that indirectly has also big impact of brick-and-mortar, positive impact of brick-and-mortar.

So, in that sense, also the money that we will move to advertising is in reality invested in brick-and-mortar, because is still the majority of our business in many countries. As you've probably heard us saying, when we look at what happened in China or in US, half of our business is online, so if this happens in our two biggest markets, it can happen over time everywhere.

So, imagining the future of the industry, at least the future of Estée Lauder company in prestige-focused areas to be half in online, half in brick-and-mortar is not an unrealistic projection over the next many years. And so we

need to add both of these parts, the brick-and-mortar, I think being an amazing experience, being very creative being obviously doing the job of selling, but also doing the job of creating these services and delivering the service that makes the difference between mass and prestige, which is the service of care, of customization, of entertainment, of product education that we add to our consumer, and in which frankly, we invest significant amount of money on top of the quality of our product, as you know, which is the other characteristic.

By the way, on the quality of the product, it sounds like a nice, nice thing to say every time, I want to say there is a key measure of that. The quality of our product is measured by the highest repurchase rates of the industry. When people repurchase after having tried and become loyal and use a certain product for years or for life this is the measure of quality, nothing else, not the fact that somebody tried for the first time. People try it the first time for many reasons, a good brand or marketing, but repeat is about quality and that's why we are so convinced that that's one of the other important strengths for the company in the long-term. And our restructuring programs, over time, has also helped us to invest and continue to invest in quality in everything we do in that area.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Yeah. We're going to have to end it here but I can talk to you for a lot longer. And I think we were ending in terms of The Estée Lauder Companies proclivity to continually invest in the quality and in advertising is probably underappreciating. I think it's underappreciated that you're advertising, for example, is higher now as a percentage of sales and in dollars when it was entering the pandemic. So as you recover, you've been investing well-ahead of the recovery. So, I'm excited to see what happens. Thank you very much.

Fabrizio Freda

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

Yeah. Yes. With the concept of anticipation, I was trying to explain how it works, absolutely.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Yes.

Fabrizio Freda

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

Thank you. Great questions. Great discussion. I hope everyone got some more insights that you need to make your decisions and I hope this was helpful.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Fabrizio, thank you very much. Thank you to The Estée Lauder Companies, and I wish everybody a very productive conference. Thank you.

Fabrizio Freda

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

Thank you very much.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.