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MANAGEMENT DISCUSSION SECTION

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Welcome to the 19th Annual Deutsche Bank Global Consumer Conference. It is great to be back in Paris. It is even better to be back in person, and I'm tremendously happy to kick this conference off this year with The Estée Lauder Companies. Joining us from Estée Lauder today will be Executive Vice President and Chief Financial Officer, Tracey Travis, as well as President of North America, Mark Loomis.

The way we're going to do it today, Tracey is going to run through a few brief slides just to level set us all on the company and where we stand, and then we'll go right into Q&A.

And with that, I'll turn it over to Tracey.

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

So, thank you Steve and good morning everyone. It is, as Steve said, great to be back here at the Deutsche Bank Conference and great to be back here in Paris in person. I'm going to give a brief introduction to the company, and then we'll move to the fireside chat to continue the conversation. And we certainly appreciate all of the interest in the company, and in having you here this morning.

Since some of my remarks will contain forward-looking statements, let me remind 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, we are a leader in one of the best consumer segments, global prestige beauty. We have a strong portfolio of more than 25 prestige brands spanning product categories, price points and consumer preferences. We're well-balanced geographically with more than three-quarters of our sales derived outside of the Americas from over 150

countries and territories. And we operate in four main product categories with particular strength in skin care, makeup and luxury fragrance.

Global prestige beauty is thriving and is expected to grow mid-single digits on average well into the future, creating many opportunities for ELC. Consumers around the world are trading up for high quality products and experiences, especially aspirational customers in emerging markets. And as we focus only on the prestige segment, ELC can leverage this trading up dynamic without risking cannibalizing our existing business.

The rising middle class is fueling growth in China and emerging markets while core developed markets are recovering from the COVID disruption. ELC is well-positioned with its geographic balance and diverse brand portfolio to benefit from this trend.

By product category, skin care momentum is driven by a combination of factors, including expansion of the middle class, expanding consumer regimens that use a higher number of products, and the increasing interest in health and wellness. Makeup is just beginning to recover as consumers worldwide want to look their best as they both resume social and professional occasions. Fragrance is becoming a means for self-expression and self-pampering, and consumers are migrating to the well-differentiated luxe and artisanal offerings to fulfill that. And innovation in hair care is offering consumers greater benefits.

The COVID disruption accelerated the shift to online shopping and the rapid development of Hainan as an in-country vacation destination in China in travel retail, channels both of which are margin accretive, are areas of strength for ELC. We expect online to continue to grow and travel retail should benefit more broadly from the resumption of travel throughout the world in the next two years, while the accelerating business in Hainan is expected to be largely incremental. At the same time, sales in brick-and-mortar are coming back, and the experience has been elevated by the integration of omni-channel initiatives.

We are also well-positioned to win in the growth segment of prestige beauty due to the core capabilities that we've built over the past several years. Increasingly, our innovation and consumer engagement is informed by sophisticated data analytics that help us to anticipate trends and increase the success rate of our new products. We are now truly consumer-inspired and data-driven.

We have a large and growing portfolio of high repeat hero products with broad consumer appeal that we can deploy during high-traffic shopping moments to recruit new consumers. Our prestige brand portfolio covers the range of prestige price points, consumer preferences, product categories, and regional strengths, giving us great flexibility to focus on the right brands, in the right places and at the right times.

And with about one-third of our business online today and three quarters of our visible ad spend in digital, it is more important than ever that we have technical and creative competencies to win in the digital arena. We are creating exceptional high-touch experiences for consumers online across our portfolio and we continue to invest in this dynamic area to stay ahead of the curve.

Innovation now accounts for 25% to 30% of our annual sales and is a key element of our growth algorithm. We innovate across all categories and brands with new concepts like MACStack Mascara and new technologies like Aveda Botanical Repair. We also develop extensions that leverage our scale by strengthening those high repeat hero franchises like Estée Lauder Revitalizing Supreme and Clinique Moisture Surge hydro-infused lotion. Locally relevant forms like watery lotions, including La Mer's treatment lotion and Estée Lauder's Micro Essence are rapidly gaining global appeal as well. And they started as regional focus areas.

Our ability to leverage our strength has paid off. Over the past four years, including a period of significant disruption, we increased net sales by nearly \$4 billion, representing approximately 11% compound annual growth. At the same time, our adjusted operating margin expanded by over 300 basis points, demonstrating the flexibility and agility in our operating model. In fiscal 2022, we have been encouraged by the recovery in our Americas and EMEA regions, along with a continued growth in China in the first half.

In our third quarter, the invasion of Ukraine and the resurgence of COVID to China caused us to reduce our expectations for the fourth quarter and the full year. As you can see from this chart, even with this temporary setback, we expect to deliver another year of strong sales growth and strong margin expansion. Our employees have been extraordinary and we are truly better and more resilient company thanks to their creativity, ingenuity, and resolve.

China has seen good progress containing COVID. In our operations, they are back on track in time for the 611 – or 618 shopping event as we anticipated and communicated back in May. We've seen gradual but uneven improvement since we reported earnings in early May. In Shanghai, lockdowns lifted on June 1, Beijing restrictions on public transport lifted May 30. And most stores have resumed normal operations albeit at significantly reduced traffic levels.

Consumer traffic has been impacted due to strict testing requirements. Social selling and other online activity have helped to partially offset the brick-and-mortar traffic declines. Our DCs, which are predominantly located in Shanghai, were operating in quarantine mode with limited and varying capacity levels since March. Employees have now returned to work and capacity is close to 100%. We are now able to fulfill both brick-and-mortar and online orders, and we are prepared for the 618 shopping event, which is a big event for us this quarter, including the utilization of several pop-up distribution hubs outside of Shanghai. We are also utilizing a temporary DC in Guangzhou this fall to expand capacity and accelerating our planned regional DC network beginning early 2023.

Travel to Hainan still remains significantly below normal and operators there are leveraging pre and post-tail and promoting 618 to keep some momentum. Despite the challenges presented by this situation, our excitement about the consumer and our commitment to investing in China is undiminished by this temporary, transitory disruption.

Lastly, ESG remains an important part of our overall management of the business. Our commitments to social impact and sustainability are fundamental to the company. And we have continued to invest and progress across our goals. These commitments also help us to attract and retain talent, contributing to our consistent recognition as a top place to work in key markets around the world. Our collective vision is 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 brand of choice for our global consumers.

In fiscal 2021, we established a new equity and engagement center of excellence to drive progress towards racial equity commitments, and our gender equality commitments serve to advance women both within our organization and around the world. Each of our brands will focus on and support at least one social or environmental cause by 2025.

Our brands are often able to align with causes that are relevant to their brand positioning. One example is La Mer's dedication to ocean conservancy. We are committed to environmental responsibility in several areas including energy and emissions, packaging and plastics, ingredients and chemical safety and in responsible sourcing. And we have clear measurable goals for each, which are contained in our annual sustainability report.

As a result of the significant work we've done in social impact and sustainability, the company has been frequently recognized for its leadership in this area.

So in closing, that's an overview of the company. We've delivered excellent performance despite the disruptions from COVID, and we believe we are well-positioned to continue growing global prestige beauty share. And with that, I will join Steve and Mark.

QUESTION AND ANSWER SECTION

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. Maybe just to start off, I think you gave a good overview at the open around why the category, prestige cosmetics and beauty broadly, is attractive for the long term. You talked about how it's thriving structurally and recovering post-pandemic. The current investor focus is on pending consumer slowdown and recession. So, maybe a little bit of perspective of how you expect the category to perform in that scenario, how you're approaching the future and weighing those scenarios, and why the company is advantaged kind of in any environment?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

Yeah. Well, prestige beauty is the fastest growing part of the overall beauty category. And so, we see many consumers, particularly in emerging markets, trading up into prestige beauty, which is one of the reasons why it is the fastest growing. And it has been relatively consistent over the last several years. It is a great category for pampering, and it's an aspirational category. And it's also an affordable luxury. So when consumers during recessionary times or during more challenging times need to cut back on other discretionary items, they can afford a lipstick. Leonard Lauder is famous for the lipstick index and – but they can afford a lipstick, they can even afford a moisturizer. And in fact, many times it becomes more important because they perhaps can't have the other things that they would desire from a discretionary standpoint. So from that perspective, there is some resilience and that we've seen in the category as different markets have gone through different transitions over time.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

And when you think about your portfolio, when you sort of entry level prestige brands like a Clinique or a M.A.C, all the way up to super premium luxury. La Mer, does that advantage you going into a period that is potentially softer from a macroeconomic perspective? And do those brands across those price tiers historically perform differently? How do you think about that?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

Yeah. I mean, we would expect to see more sensitivity at the entry level price point. La Mer consumers are quite loyal, so – and they tend to be higher income and more resilient even during times of recession. So we typically see a little bit more sensitivity at the entry level price points. But like I said, the price points are accessible. There is not that big of a gap now between from a price point standpoint, between prestige and the top end of mass. So if you have a choice, most of the time consumers will pick prestige, because of the experience that we provide

from – in terms of prestige beauty, the service experience, the instruction that we provide in terms of how to use our products and the quality that we're known for.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Okay. As you go forward, I think, Estée Lauder has been at forefront of the wave of agility kind of rhetoric, first rhetoric and then actuality that we've seen out of consumer packaged goods, because I think your agility journey kind of began officially about a decade ago.

When you think about the way that the executive leadership team is structured, when you think about some of the restructurings that you could put in place over the years, including Leading Beauty Forward most recently and the multiple engines of growth you often talk about across the portfolio, how does that position you as you think about scenario planning for fiscal 2023 and beyond? Just the lessons learned and the kind of organizational knowledge accrued over the past decade. How does that position you going forward? And maybe a little bit inside of just how the executive leadership team is able to manage through change and actually make decisions on the fly?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.



Yeah. No. That's a lot. So let me start with, a little more than a decade ago, obviously we were faced with another recession and we may have another one coming up, certainly if you listen to the news of late and all of the economic indicators. We've spent the last decade really creating more agility and flexibility within the company. We've recognized that after the 2008, 2009 recession, we needed to create more flexibility within our cost base. We were a very different company then. We had a heavy brick-and-mortar distribution and heavy selling cost and heavy in-store cost channels of distribution. We were not as diversified from a channel standpoint. We weren't as diversified from a category standpoint.

And so, we had a fair amount of work to do. One of the things we did back in probably 2015, is we launched a program called Leading Beauty Forward. And recognizing that we needed to very quickly pivot to digital advertising and create the resources to do that, we needed to create a more leveraged expense structure. We did do a restructuring, but it was a different restructuring. It was a restructuring that also had a reinvestment component where we invested in the capabilities that we needed, given the opportunity that we saw from our compass and our corporate strategy, for growth in prestige beauty. And that was a game changer for us to be able to not only fund growth where we saw it, but also to manage through.

And I don't – I'd love to say, we foresaw a lot of the shocks from a geopolitical and a global standpoint that occurred over the next several years, but it positioned us well for that and to be able to react and respond well. Our structure is, we have a regional structure and Mark is one of our regional leaders as you mentioned, in North America. We also have a number of international regions, and then we have our global brand leaders and we have our corporate functions. And we have, what we call, an executive leadership team that meets monthly, but really communicates far more often to manage the business and prioritize and reprioritize, obviously led by our CEO, Fabrizio Freda.

We're also guided by our corporate strategy. And those of you who are familiar with the company know that we are a very strategically-led company. We align all of our brands, regions and functions around our corporate strategy and their strategies really link to the corporate strategy, so that we know that we are addressing those fastest growth areas and we're also managing risk across the company appropriately.

So, I would say those are a few things that we have done and how we manage very differently today than perhaps a little more than a decade ago.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Great. That was a lot, and you handled it very well. Thank you. Another topical topic of the moment is inflation. Just, I think, as The Estée Lauder Companies given your cost and margin structure is better positioned than many companies, but a little bit of – a little perspective on the inflation backdrop that you're seeing, where the biggest pressure points are and how you're thinking about pricing? You've taken pricing progressively, consistently over this course of time, you took a little bit more pricing in fiscal 2022. As you look forward, just the approach to pricing and how that may vary across the portfolio?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

Yeah. Yeah. No, we to your point, Steve, our growth algorithm that we have communicated for a number of years now in stable times, which we haven't seen in a few years, but is 6% to 8% top line growth and 50 basis points of margin expansion. A component of that is the pricing that we take annually. So in a low inflation environment, we have taken around 2% pricing every year, and then 2% to 3% is driven by the distribution expansion that we have.

We still have a fair amount of distribution opportunity for some of our smaller and mid-sized brands. Our largest brands that are more broadly distributed are really driven by innovation and recruitment of new consumers. So, 2% pricing, 2% to 3% distribution, and the balance is driven by same-door sales and really enabled by innovation of 20% to 30% of our revenue every year.

This year, recognizing that we would be facing a higher inflationary environment, we took an incremental price increase. So we took 3% price increase at the beginning of the year and then an incremental 1% in January, so, on average, this year, 3.5%. Our pricing is normally taken at the beginning of the year. We have already communicated our pricing for next year, which will be higher given the inflationary environment, so...

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Starting July 2022.

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

Yes.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

Starting July 2022. So we, given the fact that we're in prestige and luxury we do have pricing power. It is a key enabler and a key benefit, if you will, of being a luxury and prestige company. And we do expect to take pricing, as well as we have accelerated some of our cost saving programs to offset the impact of inflation.

One of the things to note about our company, when you think about the structure of our P&L, unlike a mass company where they have lower gross margins and therefore the material and labor costs embedded within their product is higher, so they are more exposed to inflation. We have less exposure at least to commodities inflation like a lot of other companies. And our inflation, the experience that we've had in inflation has really been more in the freight area driven by higher oil prices, as well as the supply disruption and some media inflation and a bit of wage inflation as it relates to our store and distribution employees.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Great. Let's [ph] turn on (22:08) to China and Mark [indiscernible] (22:10) because before Mark ran North America, he was in Asia for quite some time, so he's got some experience on these topics as well. You talked in the open about how the Shanghai backdrop has improved, your distribution center is back up and running, you'll be prepared for 618, all great news. Let's take the demand side first and then we'll talk a little about what you're doing on the supply side. But on the demand side, you talked about online booming, brick-and-mortar coming back but on a lag and Hainan sort of on pause until [indiscernible] (22:49). What's your outlook for how those – aggregate demand progresses in China and how it might vary across those three channels?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.



So, I'll start and then Mark can weigh in as well. It's hard to tell, quite honestly. And the zero-COVID policy, we did not expect Shanghai to go into lockdown. Obviously, we had had prepared a network distribution strategy which diversified our distribution center. And it's probably worth, for those who don't know, all of our distribution capacity to support all of China was in Shanghai. So it did have a larger disruption for us than it did perhaps for others that had a broader network of distribution. We will, going forward, have more distribution center capacity. We are de-risking that situation with a temporary warehouse outside of Shanghai, but 45 cities actually shut down in the May timeframe in China.

And I – everything that we know is, there will continue to be a zero-COVID policy management to try to contain COVID in China. So, we are preparing for that by having more distribution centers so that we don't end up in the same situation that we had in May, and making sure, obviously that we can continue to enable online growth to the extent that any brick-and-mortar ends up being constrained. So, I mean that's the way that we're managing it, what – at least what we can control as the situation unfolds. So, I don't know if you want to add, Mark?

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.



I mean, I would only add maybe, as we look forward, I think the opportunity in China continues to be enormous for our company, as we look getting past this this episode in the next year for a number of reasons. One is the appetite for prestige beauty is enormous among Chinese consumers. And we see that both in terms of our business today and what we see going ahead. In the context of our business, we obviously have a strong presence across our portfolio. We have a footprint, our Estée Lauder business, which is in about a 145 cities, we have many opportunities for developing brands that are much less distributed in the future which is super exciting.

We see per capita spending despite the fact that in China is the largest prestige beauty market in the world, per capita spending in beauty is still low and still catching up, but we see signs of what that can be in the future. If you look in Tier 1 cities, like Shanghai and Beijing, where consumers are already using products, have regimens at

the level that we see in some of the most sophisticated markets in the world like Korea and Japan. So that's very, very exciting.

And then number three is that most of the – particularly including in luxury, business is being driven by millennial and Gen Z consumers. So the future around [indiscernible] (25:54) opportunity in China is absolutely enormous.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Just on the footprint, so 145-ish cities with Estée Lauder. What's then the second brand and how...

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.

A

M·A·C would be about 80 cities and some of our less developed brands like Tom Ford maybe more like around [indiscernible] (26:12) cities.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.

A

There's a lot of runway in the future. And obviously through Tmall, we're able to reach over 650 cities with those consumers to build awareness. And then in addition to that, obviously, the enormous opportunity we have around travel retail with both Hainan, where the opportunity is for consumers – do not need a passport to visit Hainan, with over 100 million visitors last year. And then with passports still only what 12% penetration in China that continues to be an enormous opportunity as travel recovers in the next two years, presents enormous long-term opportunities for the company.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

It sounds like the setback that you had in the near term in China is a supply problem not a demand problem, even though the demand is very varied across channels, fair?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

Yes. Fair.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. And as the supply comes back and demand is still stable, that points to recovery. Is there any concern on your part on any of the market share setbacks that you saw as a result of the supply challenges becoming more difficult to get back or is that a quick fix?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

No. I mean, Estée Lauder and La Mer in particular are top brands in China. They are well loved. Any time we do or get any consumer information from China, it just reinforces the support that the consumer has for those products. Jo Malone and Tom Ford, to Mark's point, also have had great performance in China and M·A·C has had good performance in China. So, we have a very strong lineup of brands in China. They're very well loved by the consumers. So, we don't see, to your point, a demand problem at all. It's just the supply disruptions that we'll manage through during this time.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Okay. Great. I did want to ask about some of the long-term opportunities that you saw. And I think Mark you addressed that well. One of the things I think you've done of late, you mentioned Tmall, but my perspective is that you've been broadening the partnership to [indiscernible] (28:18).

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.



We did. So, online is a rapidly growing channel in all of our markets. It is particularly in China. At the beginning of our fiscal year, so in July of 2021, we had been primarily online with Tmall. We also have our own brand dotcom sites in China, as we do in most markets – most large markets.

We launched on JD. So, a second platform, gives us a broader reach of consumers and we are evaluating other platforms as well. Online is close to 50% now in China. So it's a significant part of the business, just for comparison, in North America, it's around 30%. So, it is our highest share market as it relates to online penetration.

And our teams are very good about identifying which platforms reach different consumers so that we can incrementally grow our brands on different platforms and are progressing and doing that certainly over the next few years. So, that's another growth opportunity for us in China. It's recruiting new consumers. And one of the ways to do that is broadening our reach both in brick-and-mortar, as Mark indicated for those brands that are not more broadly distributed, even Estée Lauder is only in 145 cities, as he said, versus the 600 cities that we have evidence of sales.

So, there's distribution expansion opportunity in brick-and-mortar. There's expansion opportunity in terms of online. We have expansion opportunity as well in terms of the number of brands. We don't have all of our brands in China. So, certainly there's an opportunity to introduce new brands to China as the market continues to grow, so we're quite bullish.

Mark mentioned the per capita consumption in China. I believe when we had our last Investor Day, we talked about the fact that China was about – the most mature beauty market per capita, was 10 times greater per capita than China at the time. That's still largely the case, even though China has progressed significantly in terms of their consumption.

It's eight or nine times more opportunity from a per capita standpoint relative to the most mature developed prestige beauty market. So, the opportunity for us is tremendous. And we are – have fantastic plans over the next few years to continue to grow the market.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.



Great. Mark, maybe pivot to North America, I guess you've talked about progressive recovery in the North American market. I think skin care and fragrance are there, and have been there. I think the real pivot point from my perspective is makeup. You can provide a different perspective if you disagree, but just a little bit of sense of where you see the North American market today? How it's been progressing and the momentum, especially in the makeup recovery and makeup renaissance you guys had talked about.

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.

A

Sure. I think North America is poised for a very positive recovery. And as you said, Steve, both makeup and skin care are above the high watermarks from pre-COVID, whereas makeup had been trailing. But I think the positive news is, as North America has been opening up and particularly makeup has been very much driven by occasion-wearing, mask-wearing negative impacts, all of that has changed and makeup is recovering very quickly.

So, the great news is that we see in the months ahead that the market will fully recover. In fact, some of our brands are performing extremely well. A brand like M·A·C has recovered very well and we're growing market share both with M·A·C and Bobbi Brown. So, I think overall, we're very positive about what's happening in North America.

I think the other thing that maybe is worth pointing out is how things have changed, both in the sort of the structure of the North American market and what it means potentially for us as a company. So the good news is coming out of COVID, we had – many of our partners have rightsized themselves.

And the great news is that strong balance sheets coming out, good strong footprints. And then our key partners, brick-and-mortar, have diversified themselves IN online. So, all of our bricks-and-mortar partners [ph] were (32:47) doing less than 20% of the business online now a-third. So it gives them much more agility and ability to reach different types of consumers.

And then what's changed also significantly in North America, for instance, with our businesses, is we used to be very majority five, six years ago, over 60% of our business in department stores. Today it's less than 40%. It doesn't mean department stores aren't important, but the emergence of specialty-multi has been phenomenal and the opportunity to drive prestige versus mass.

So prestige growth versus mass in the last five years and even through the pandemic has been significantly ahead. And companies like Ulta, and you probably might have seen their most recent earnings report, have been doing phenomenally well. And it's really what we call is where prestige consumers are born from mass. So, that continues to be an enormous opportunity.

And then for our company we've done some work around rightsizing our footprint. We also have developed our online business more significantly. So, a-third of our business is DTC, which is fantastic for us. We really own the entire consumer experience. So, we feel that from a diversification and the opportunity to lean in to where growth can be, is an exciting opportunity for us moving forward in North America.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

And the productivity of that, the less than 40% of department [indiscernible] (34:03) significantly improved I would imagine.

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.

A

Yes. Certainly for our existing footprint. At the same time, the reach opportunity is enormous. You've probably heard about Ulta at Target as well as Sephora at Kohl's, we have important partnerships in both of those and those reach opportunities for us are extraordinary, great, great opportunity. Already performing very well for us and have a nice trajectory going forward over the next two years.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

And what are your – what's the enthusiasm from your retail partners for your categories and your brands today? Are they at all jittery about the macroeconomic backdrop? Are you getting very positive signals in terms of the [indiscernible] (34:42)?

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.

A

I mean, you've seen probably some of the earnings results certainly from our partners, prestige beauty is outperforming generally the store. I think the fragrance category has been a big pleasant surprise, I think in terms of what it's done during COVID. In our case, we're very much focused on luxury fragrance, which is really doubling the pace of fragrance and winning with our brands.

Skin care continues to be strong, I think, in terms of what we see happening with inflation and pricing, most recently meeting with one of our key partners just last week, we do not see any issues in terms of unit growth, at least in our category. So, I think it continues to be optimism. Some retailers are tightening up a little bit around how they're managing inventories. But their view of prestige beauty going into fall continues to be very strong.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. We have about five minutes left. Mark talked about the strength of fragrance. You guys have made some M&A moves several years ago to position yourself for [ph] fragrance of the (35:50) category to be a point of strength as opposed to what it was, which is sort of a point of, not weakness, but held back the category, held back the portfolio.

When you think about the opportunities in fragrance today relative to where your portfolio stands, where does it rank relative to historic preferences and priorities for makeup and skin care? And how do you see the fragrance category growing within the portfolio, both – not only in the US but globally?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

A

No, it's a great question. So, I mentioned the strategy process that we go through annually every year. One of the things we did several years ago was looked at our current fragrance business, which, at that time was comprised of Estée Lauder and Clinique fragrances, a broad US designer fragrance portfolio, and then Tom Ford and Jo Malone.

And as we looked across our fragrance portfolio, Tom Ford and Jo Malone were growing fantastic. Different business model, not heavy A&P spend like the designer fragrance category, so the economics were great. And we saw that consumers were gravitating more towards what we call the artisanal or luxury fragrances.

So, we took a decision to re-sort our portfolio, took the opportunity upon expiration to let some of our designer fragrance licenses expire. And we acquired three artisanal and luxury fragrance brands: Frédéric Malle, Kilian, and Le Labo. And those brands have been doing terrific. We did this, as you mentioned a few years ago, well before the pandemic, actually positioned us well in the pandemic because, as Mark said, one of the surprise categories of growth for us during the pandemic was fragrance.

And we expected the home and bath and body portion of fragrance to grow. We did not expect that the juices would grow and – the actual perfume and cologne.

And what we saw, it represented a self-pampering opportunity for people. People were willing, which they had not been as much before, to buy fragrance online and to actually try new fragrances online. We got better at communicating the scent verbally online, which had been a challenge in the past in terms of communicating what the scent actually represented.

And that's continued as we've seen markets like North America and Western Europe, open up and people return back to normal life, that growth in fragrance has continued. So, we are quite bullish going forward in terms of the fragrance category and the growth that it represents. Tom Ford and Jo Malone are two of our largest mid-size brands that are knocking on the door of being over that \$1 billion threshold to be large brands over the next couple of years. So, it's been quite a successful strategy shift for us in terms of fragrance.

In terms of M&A, which I think was the base of your question, much of our M&A outside of those three fragrance brands has been focused on skin care and makeup. But certainly, fragrance is an M&A opportunity for us as well, given the success that we've had with the shift in strategy that we've executed against.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

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Great. About a minute left. There's a lot more we could talk about as well. There's a lot we've talked about – there's a lot of uncertainty ahead of us. As you think forward, so hopefully when we reconvene here in a year, what's the principal measure of success that you think about that you want to be held accountable for? How do you think about success over the next year amidst all the uncertainty we have ahead of us?

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

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Yeah. Well I reflect back on this year, and the challenges that we have gone through – that everybody has gone through this year, and how well we've performed. And part of that goes back to our earlier conversation in terms of the agility that we've created within our business model, and how we operate, and how we lead the company.

So, I don't know what next year will anticipate in terms of inflation and other disruptions. We are getting very good like many others in terms of scenario planning and analysis. But more importantly, the agility that we've created in our expense model allows us to pivot more quickly today than we were able to previously.

So, if there are disruptions, the ability to actually shift funds to fund where growth is coming, and where there might be a temporary disruption has been key to some of the success we've been able to have during this time of two years plus a pandemic globally. So, I think, a year from now, despite what happens in fiscal 2023, if we can sit here, and have the same a similar performance to what we've delivered this year I think we'll all be incredibly happy so.

Steve Powers

Analyst, Deutsche Bank Securities, Inc.

Great. That's a good place to leave it. Thank you, Tracey and Mark. Thank you, Estée Lauder, and thank you all for joining us.

Tracey Thomas Travis

Executive VP, Chief Financial & Accounting Officer, The Estée Lauder Companies, Inc.

Thank you.

S. Mark Loomis

President-North America, The Estée Lauder Companies, Inc.

Thank you.

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