

02-Jun-2026

The Estée Lauder Companies, Inc. (EL)

Deutsche Bank dbAccess Global Consumer Conference

CORPORATE PARTICIPANTS

Stéphane de La Faverie

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

Roberto Canevari

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OTHER PARTICIPANTS

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

All right. Good morning, everybody. Welcome. I am very excited to welcome The Estée Lauder Companies back to the stage here in Paris. And I'm equally excited to welcome back both President and CEO, Stéphane de La Faverie, as well as Executive Vice President and Chief Value Chain Officer, Roberto Canevari.

Behind me, for those in the room, you will see Estée Lauder's disclosure slide. Please take heed. And for those of you who are listening in online, you will find the same disclosures on Estée Lauder's Investor Relations website.

And with that, Stéphane, Roberto, we'll kick it off.

Stéphane de La Faverie

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

Looking forward to it.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Okay.

Stéphane de La Faverie

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

Thank you for having us.

QUESTION AND ANSWER SECTION

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Good. So a year ago, when we were on the stage, we spoke a bit about portfolio optimization. And in that context, the conversation was mostly about organic optimization over time. And just to, I think, address maybe a probably elephant in the room, you've obviously, since that time, looked at a very large acquisition of a portfolio of brands, and you've continued to be active in minority and majority investments in other assets, as well as hiring advisors to look overall, do a portfolio review. So I guess as we kind of reset and think about the business from here and your strategy from here, how do we think about the role of M&A going forward? Do you have the right portfolio of brands to achieve what your aspirations are or do you need something more transformational from an M&A perspective to achieve the value creation targets that you set?

Stéphane de La Faverie

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

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Thank you for addressing the elephant in the room on the first question, which I'm sure everybody is waiting for. So let me start by the end of your question. Do we have the right portfolio of brand to compete in the prestige beauty market today? And the answer is absolutely yes. I think we have a fantastic portfolio of brands today. We have many markets around the world where we're gaining market share. China, like even in the US, we are like in the right trajectory in the emerging market, all lines around the world.

So I believe from our portfolio – and we divide our portfolio of brand in three groups, you have what we call the large brands that our \$1 billion or close to \$1 billion and more, anything that is between \$500 million in net sales and \$1 billion; and the smaller brands. And I have to say our large brands, our mid-sized brand are very, very good and we have some really up and coming smaller brands that are growing fast. Think about brands like KILIAN that now is the fastest growing brand in the company. We have Le Labo as a mid-sized brand. That is the second fastest growing brand in the company. And La Mer within some of our largest brands, that is gaining market share in pretty much every market around the world, let alone, brands like The Ordinary, which are like performing extremely well.

So I would say I'm very proud of like the portfolio brand. And when we were on stage last year, I think there was still a lot of question mark of are our brands impaired or not, because obviously we have like three years of deleverage. There was a question mark. And I think this year when you look at us being able to just go back into growth and in many geographies and channel in market share growth, I think it is for me the proof that our portfolio of brands is very strong. But I've also been very public that we will be part of the M&A discussion. We've always been part of the M&A conversation. You think about 8 of the 25 brands-plus that we have in the portfolio forward created in the company, the rest have been small or large scale innovation, the two largest one being TOM FORD and DECIEM that have been done over the past like five years. So we will be part of it.

Sometime, we have to revisit the portfolio, and we are looking at it and been clear that we've hired advisor to look at some of our brands. Sometimes brands don't fit anymore the consumer needs, and this is what we are in the process of relooking at.

Now to address the elephant in the room and push, obviously, that has been on many people's mind. When you look at what we discussed yesterday about Beauty Reimagined, Beauty Reimagined and its goal, obviously, are the five pillars that I think everybody knows very well. But it was about the rebalancing of the growth from a

geography, from a category standpoint and from a channel standpoint. And it is true when you look at the portfolio of this that our company in prestige beauty, we are the leader in skin care around the world with very strong position in Asia Pacific and many of the markets around the world. We are the leader in makeup, especially with brands like M·A·C. But obviously in France, this is the smallest of the three large one. Obviously, hair care, we are playing a much smaller role in the prestige market even though we see a great potential and we're extremely proud of the portfolio of luxury brand artisanal niche high where people are calling them that we have from Le Labo, TOM FORD, Jo Malone and KILIAN, and so on and so forth.

But it is true that when you go from east to west, the more west you go, the higher the penetration of prestige brands is, especially in Europe and in Latin America. Europe, we are roughly 40%, 50% of the business that is in prestige brands. And in Latin America it can be in excess of 50%, 60%, and we have less of a presence on this one. So when – if an opportunity one day comes and we can look at it, but I want to be very clear, it has to be accretive from a growth standpoint, has to be accretive from a profitability standpoint over time, it has to create shareholder values. And if we cannot reach the growth and the profitability at the right price point, then that is not an option. And this is why obviously this deal didn't go through because it was not at the right price and this is, as the President and CEO of Estée Lauder, nothing that I will ever do to the company or like to our shareholders to just do something that doesn't make sense financially. Strategically, it may make sense because the complementarity of the portfolio are very interesting, but it has to make sense like financially.

And I just want to address like one of the thing also as part of a large size acquisition, merger or what it is, even though it's maybe not at the heart of what we are seeking within Beauty Reimagined, something that is merger and transformational, we will continue to look at opportunities. But one of the thing that people have question, is it the right time.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Right.

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Stéphane de La Faverie

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

And that's what I just also wanted to address, because we are part – as part of the PRGP, our profit recovery and growth plan, we're in the midst of a major transformation from an operational standpoint, cultural and leadership standpoint. I want to be very clear. This transform in 29 days is over in term of approval of the PRGPs. So by the end of June 30th or the end of our fiscal year, we're done, and would have been approving with the leadership team 100% of the business case, which we've expanded. But the execution of this transformation will be largely completed by the end of this calendar year, that it is the back office, that is the transfer of our media planning, we've like WPP or the integration with Shopify from a direct-to-consumer. This will be largely done by the end of 2026, which allows us to, obviously, takes much transformational deal if we decide to in the future. But again, it has to be at the right price and it has to make sense within the existing portfolio of The Estée Lauder Companies [ph] brand (00:11:52).

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Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Great. Okay. Thank you.

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Stéphane de La Faverie

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

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[indiscernible] (00:11:55)

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

So as you say...

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Stéphane de La Faverie

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

Hopefully, it addressed...

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Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

It – yes, it addressed, I think.

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Stéphane de La Faverie

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

[indiscernible] (00:11:58)

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Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

So we're now, as you say, the PRGP kind of winding down and being fully embedded in execution, it's 18 months, thereabouts, since Beauty Reimagined was...

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Stéphane de La Faverie

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

Right.

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Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

...rolled out. I guess, how do you parse or how do you respond to, I guess, concerns or criticism that, okay, Estée Lauder has started to put some points on the board.

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Stéphane de La Faverie

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

Yes.

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Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

But it's low hanging fruit. How do we parse out between what's low hanging fruit versus what's more structural momentum that you can build on as you go into the future?

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Stéphane de La Faverie

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

I think it's a really good question. If I'll – to start with the market, so what it's seen as low hanging fruit is hard work from the team. And I'm extremely proud of the work that the team has put like over the years, the last two years

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really to just do this transformation. It is not something that is insignificant. It is the biggest operational transformation that we've ever done. And we are doing it in a market that is below historical growth algorithm. We believe that, especially calendar 2025, I think, prestige beauty grew 2% to 3%. In this context, I've been very clear at the last earnings calls that this year we are going to deliver the top end of our guidance of 3%. So today, I confirm again, we will be in position to deliver the 3% growth for the year, which will translate into slightly higher retail sales growth. There's still a bit of a disconnect between retail to net for us. And in many markets like in China, in emerging market online, we believe that we are gaining small market share, and we can elaborate on that, like in more detail if you want to.

So I think we have a lot of great momentum. This momentum is allowing us also to confirm today the preliminary view that we've given during the earning calls of 3 %to 5% net sales growth for next year, which will translate to roughly 4% to 6% in retail. Again, because of the switch of the channels that we are going from more traditional channel to specialty multi-platform like Amazon, some of the accounting rules from gross to net is slightly different, which we have a higher retail sales. With a four to six at the mid to the higher point, we will gain market share globally. So – and that's the one thing that I would like everybody like to remember is within the year after the PRGP, Estée Lauder company will be back into market share gain at the mid to the higher point of the preliminary view that we're getting. And we are doing it also by continuing to expand profitability. We've given also a range of 12.5% to 13% like OI for next fiscal year. And that's the beginning and the continuation of us being able to just like recall us to future mid-teens in terms of profitability for The Estée Lauder Companies.

So the thing I would say on the five pillars of Beauty Reimagined, everything is moving in the right direction. From a consumer coverage, we've really like deploy our brands where consumers are. We have 12 brands in 10 markets now today like with Amazon. We have like many brands in TikTok Shop around the world. We've expanded on vip.com in China. We expanded on Shopee in Southeast in Asia. So many, many like great opportunity.

From an innovation standpoint, we're accelerating. If you remember, I've put a stand of saying that at least 25% of our sales will come from innovation and that we will triple the number of innovation coming to market in less than a year. We're making a lot of progress. This year, we are going to deliver roughly 24%, 25% of our sales from innovation. So it's a net acceleration compared to where we used to be. And in term of bringing innovation to market in less than a year, we are in the high double-digit for a high teens at this point, which obviously is very encouraging and we're moving fast on the category that is benefiting from the most is makeup.

The third one is we are accelerating our consumer facing. I was very clear at the beginning of the journey of Beauty Reimagined, it was not only we could have taken the benefit of the PRGP drop everything to the bottom line, everybody would have been happy with like a net increase of the EPS at a moment in time. It was very clear for us we needed to reignite the retail demand and think about like the US, after a decade of market share erosion for The Estée Lauder Companies, now, we are gaining market share in volume in all four categories. And, for me, that's a very good sign that we are now going into stabilization to acceleration because we are recruiting a lot of consumers.

The fourth pillar, PRGP, we've expanded it in the last call. Now, the benefit are going to be between \$1 billion and \$1.1 billion of like benefit for the company. So it's not insignificant. But think about more the benefit as the agility that we are creating into the company, the speed. And at this moment in time, after three years of deleverage, being back into positive, confirming the top end of the guidance this year and already putting a guidance for next year in the midst of the current environment with high level of volatility, should hopefully give a lot of like confidence that we have the momentum to go back into market share gain.

And the last one, certainly the one that I'm most proud of, is the cultural transformation of the company. We've changed the ways of working. We're much more agile. We are one team. We changed also the incentive program of the leadership team that is really rewarding on the success of the One ELC, so the one company, and we're seeing today we've already 7,000 position that we've already eliminated and we're going to go anywhere between 9,000 to 10,000 that we're seeing a lot agility and speed and collaboration within the company with clear sense of who does what between the brands, the regions, the affiliate. And obviously, we have the very strong support of the function like, obviously, [indiscernible] (00:18:05).

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Yes. And, Roberto, underpinning all of that has been a number of changes on the supply chain. You spoke about, last year as well, supporting Beauty Reimagined with PRGP. I guess, last year, we're talking about tariffs. I guess there's still tariff uncertainty. We now have other uncertainties related to conflict in the Middle East.

Stéphane de La Faverie

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

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The list is long.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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I guess when you step back and think about the supply chain journey and how you're handling current volatility, what more is there to do from here? And how would navigating the current environment...

Roberto Canevari

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

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Yeah.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Look differently a couple of years ago versus what you're able to do today?

Roberto Canevari

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

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Yeah. Yeah. Well, a number of things. Maybe – but let me start with what we are doing and then I'll explain how and give some elements. What we're doing is we're definitely driving what we call our dynamic value chain or supply chain. Dynamic value chain has three ingredients, it's speed, so time to market, there's agility and resilience, given what is happening around us. Those three elements are the principle of dynamic value chain.

Why we're doing it? Agility is needed now. We want to enable the growth wherever it comes from, however it comes from and what is happening around us requires quite a lot of agility, but at the same time we want to continue the journey of gross margin expansion that has been very successful so far and we want to continue to do it while we give this speed and agility. So that's what we're trying to do.

The how is insisting a lot on our strategy that we started a while ago on regionalizing our network, both the manufacturing network, what we have, but also the sourcing network with our supplier partners. I think I can say I'm very proud of the network that we've built today. And I think, it's one of the most diversified of the industry. We

are present, strong presence in the three major continents that we operate. The idea is basically, if I simplify, is a source where we make and make where we sell.

Now, some data points to talk to explain what I'm saying, 60% plus of our finished good production is done in the region we sell; 70% and growing, 70% of the raw and packaging material is sourced in the region where we make. So that's where we are today and the journey continues. Of course, we want to make it as efficient as possible, but that's the journey. That's where we are today. And on top of that, we qualify for the same product. We qualify always multiple sources of manufacturing so that we can give optionality to our network and if something is happening, we can play with the diversified method. That's really what is happening.

Again, more specific example. I think, last year, we were mentioning about our factory in Japan, the Sakura factory in Japan. In less than 12 months, in less than 12 months, including the reason they were saying before tariffs, we moved from a 10-million unit produced to a 80-plus-million unit produced in less than 12 months. Moving the network around to mitigate tariffs, so now, this year, we can say what we have done. Last year, we're saying that's what we plan to do. That's what we have done. We have China today as sourcing from North America, which is less than 10%. All of that has allowed us to mitigate 60%-plus of our tariff exposure. So that is what we are doing from a manufacturing and sourcing standpoint.

But there is more fulfillment today. And what is happening today, fulfillment is another challenge. So what we're doing, part of the same transformation and fulfillment, we've been doing three things, essentially, simplifying the network, so reducing stock points, simplifying the network; variabilizing the cost as much as we can to follow on the volatility that we have; but also investing in key strategic places to be closer to consumers so that we can anticipate stock what is needed for resilience. We have done one in Dubai and it's helping quite a lot today to supply in that area. We have one in [indiscernible] (00:22:26) for travel retail. I think, it's the first beauty, I think, distribution center in [indiscernible] (00:22:32). It's a key presence for us. We have simplified our network, invested in a state-of-the-art in Shanghai. That's from a fulfillment or stock point standpoint.

And then we work a lot, and again, especially relevant in this period, an alternative freight lanes. Example, there might be disruption in global supply chains, as we have seen unfortunately in the past. What we're doing is multiple sources, multiple lanes. So we're using Asia to Europe sea freight, airfreight, but they could be challenged. So we're using now also a train from China to Germany. And this train has a pretty good lead time, and it's definitely competitive, much more competitive from a cost standpoint than airfreight. So basically, we're giving us a lot of optionality to play with the network.

Best example and I have here the [indiscernible] (00:23:25). This is our Double...

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

I was using it every day.

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Roberto Canevari

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

This is our Double Wear, Estée Lauder Double Wear, so one of the main product we have which we relaunched recently. We have applied – this is a big one. This is several hundred millions of gross sales, 900 SKUs, 70 shades, 45 million units. So that's a big one. It's 98% regionalized from a manufacturing, finished product standpoint, almost 100%. It's 100% regionalized from a packaging standpoint and the lead time is 20% faster. So that is kind of trying to give proof point of a theory that I was saying at the beginning, but this is really happening as we speak and we continue.

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Stéphane de La Faverie

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

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And you see this is why this agility that we're dealing in the supply chain allows us in this moment in time of high volatility and disruption, even with the Middle East, to just be able to yet still confirm our guidance...

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Right.

Stéphane de La Faverie

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

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...because, obviously, we are mitigating the impact, and in this moment in time, the impact from the Middle East has been minimal for us because of how we've been using the agility and the speed of our value chain.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Yeah. And that redundancy, regionalization, that was compare different than...

Stéphane de La Faverie

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

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Very limited from what it was even a year ago.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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Exactly. Okay. Maybe we can tag team on this one. So you've spoken in the past about the need to re-energize recruitments, right? And you talked about in the US about volume...

Stéphane de La Faverie

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

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Yeah.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

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...volume growth, but not necessarily market share growth from a value perspective. How do you balance accessibility, increasing accessibility into procedure, into your portfolio without blurring the lines between prestige and mass or diluting brand equity?

Stéphane de La Faverie

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

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Yeah. That's a very good question because we remain a pure play in prestige beauty, prestige and luxury. So we're very careful and the attention we put it on brand desirability first. So accessibility in this moment in time doesn't mean that you are diluting your brand equity. And this is also the reason why we are combining consumer coverage with great new innovation and consumer-facing investment. And I think once you start missing one of the element, you're missing actually the magic equation about how do you maintain and you continue to build the equity.

So when you think about the reach of consumers, yes, we're continuing to invest in top end luxury distribution like top end department stores or freestanding store. But at the same time, we go all the way to platform like Amazon that allows us to just like get reach. But there's a clear understanding of where the experiences and where the replenishment is. And so today, we have a very good understanding and control of the ecosystem of what discovery starts and where retention continues, and that is very important. Remember, we are not in the business of only acquisition. We are actually, first and foremost, in a business of retention because this is where the profitability will stop, like building. Now, you can do it also by having the right innovation.

And innovation, I was very clear when we say we want to accelerate innovation, now, it's not necessarily in quantities. It depends on makeup, you need more innovation and you may need less in skin care and fragrances, but it's also playing the size the impact of breakthrough, but also, at the same time, sizing and price points. I've been very clear that on innovation, today, we're bringing more innovation at the entry of prestige, especially on makeup or brand like The Ordinary and Clinique that are allowing us to just reignite the recruitment wheel. But at every single time, we're doing it at an accretion of gross margin. There's no innovation that we are allowing to launch in the portfolio that are not growth margin accretive to the total. So we're doing that.

And then by increasing consumer-facing investment, remember last quarter, we increased consumer facing by 5% [ph] every other (00:27:26) quarter. Before, it is anywhere between 3% and 4%. That allows us to put more investment into consumer facing driving equity, driving reach. So think about the media today, which is these are equity firsts, then desirability through reach and making sure that we're putting our brand into culture.

Just to illustrate, one good example with M·A·C. M·A·C, we've expanded M·A·C into Sephora both in the US and into the Middle East that gives us access to the largest part of the makeup business in this region. We've went after more innovation like Powder Kiss, for instance, which has been a global success in the lipstick area, the lower price point. We've reignited the retail.

And then third, we've put back the brand into culture with high-end ambassador like Doja Cat, like Kris Jenner, and et cetera. And now, as a result in the US for the months of the last quarter, the first quarter of the calendar year, the M·A·C brand grew 250 basis points of market share in lip gloss, and grew like close to triple digits in lip in total. So that's actually the model that we are applying every single of our brands when you combine equity, desirability and culture is how you maintain the strong desirability of the brand overall.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

The target to 30% new products by innovation, is that more innovation or is that more effective bigger innovation, is it both? And I guess, what are the bottlenecks or what needs to happen from here to hit that target?

Stéphane de La Faverie

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

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Maybe we'll tag team on these two things because I think there is like what we do on the product standpoint and what we're doing from a value chain standpoint together. I think it's a combination depending on the categories. Like I said, I think makeup is more innovation. Skin care and fragrance is bigger and more disruptive innovation.

I think we look at innovation in about three buckets, the breakthrough innovation. So this one have to be like what we do for instance in longevity with Estée Lauder or Crème de La Mer that brought like regenerating night cream both like face and eye. These are smaller in quantities, but big in size. Really, like, we want to place any of this innovation in the top three of the subcategory we're launching every single time. Then there's what we call on-

trend innovation. In makeup, you have to be fast. Lip oil is trending. Okay, you need to just like you bring a lip oil in the market in 6 to 12 months or you're missing potentially the wave. Or even if not, you are missing it. The cost of entry becomes so high because there's too many players. So the combination of being fast at the entry of where subcategory is trending is absolutely key. And that's why I'm putting the accent of bringing product faster to market, never compromising quality or high performance, but we have to be fast.

And the last one is what Roberto was saying. We have like Double Wear, which is what we call a commercial innovation. So it's a product that people love. It's number one foundation in many markets around the world. But you can just like bring it through different eyes to the consumer with new ingredients, new technology inside. That is still the Double Wear you love, but it is what we call kaizen. It's like what we know is good, we can make it even better going forward. So that's what it is. And then there's many things that we are doing to be able to just bring product to market faster using AI that allows us to never compromise in quality of performance and everything that you can see.

Roberto Canevari

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

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I'll give some example of that and one is back to the 30%, what we're doing to enabling speed. There are a number of things. We're well underway. We have doubled, actually, when we start to have doubled that launches that we do under 12 months so we are in high teens, as Stéphane was saying, but also below 18 months, it's more than 50%. So it's there. It's coming. I have no doubt we will get there, and we've done it, and we are doing it in two ways. One, a lot of systemic changes in our value chain processes. There are many. Again, I like to give example, a quick one. The way we do quality, the way we harmonize testing and validation to expect quality with our third-party manufacturers. Especially in makeup, third-party manufacturing is an important component of our value chain network by eliminating some activities, by simplifying and synchronizing some activities by parallel pathing some actions. We're reducing by several weeks that path. So this is all speed that we gain in the launch.

More relevant, I think, for what we are doing today and for the future that we are building to achieve and beat the 30% is the one that we're doing with technology, digital technology and AI being a big component of that. In order to – one risk that we wanted to avoid was to have a lot of AI initiatives, but in a way not connected, so a lot of pilots one after the other, which is then difficult to scale. What we wanted to do since the beginning is to say whatever we do has to have an end-to-end view first. So it has to be full value chain view. And second, we are able to scale it. So we have created internally what we call our digital atelier, which is basically a competence center where we identify and define how to scale the best digital solution, AI solution. We invest in training and what we call our workers for the future. And of course, we look at our data structure to make sure that [indiscernible] (00:33:22).

Again, examples. Design to manufacture, so we go upstream. We're developing an intelligent packaging, technical packaging design using AI that is what we're trying to do is to link our marketing brief to a packaging that is either already existing or similar packagings that are aligned with the brief, but with small modifications, they are immediately industrialized, meaning we don't need to – once we did [ph] the bucket (00:33:59), it's much faster the way we develop the packaging first. But second, equally important, the packaging is industrialized, meaning when it goes to a factory line it can be produced. We don't need to do the pilot run and do the testing, et cetera, et cetera. This is months, months of two to four months, we believe, of savings in the development and the industrialization. This could be saving – we'll be saving because it's not about double tooling as an example. So there will be speed, agility and efficiency at the same time. We're ready to deploy it. We're finishing it. So that's why we believe we have plenty of solutions to double down on that.

Another example that I like to mention, because it's now present in our value chain. In the manufacturing environment, we have an AI solution which we call ELA is our new colleague, we call her. It stands for Estée Lauder line assistant. It's essentially a AI solution augmenting the capabilities of our people to identify immediately the best set up of the line for our launch or for our change in the line for our performance requirements. Something that used to last, I mean, quite a lot with different line operators is now instantaneously provided by ELA. So, again, it's speed, it's agility and it's efficiency because, of course, this is allowing more time to produce and more time to set up.

The third example, there are many, but I'll stop with the third one, but it's the one that I really like because it has helped us to manage the network. Everything that I was saying before, it's also thanks to our digital solution that we call our digital twin of our value chain network. So basically, we have mapped the network digitally, and with all the different technology in the different sites, all the different lanes, full network. So that when we want to play with scenarios – now with what is happening, we play with different scenarios, we can quickly identify which is the bottleneck, where do we have a risk, where we don't have enough agility of or resilience, and then we can zoom in and find solutions there. So those are all the technologies that we have, we're building and will allow us think to definitely go where Stéphane wants to be, maybe a bit both.

Stéphane de La Faverie

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

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In fact, it's very more interesting how AI, for the time being is we're seeing a lot of benefit in the value chain and in R&D, like the ability to just be much more resilient, much faster and agile on how to bring and to scale our innovation. So – and I think it's only the beginning. We'll see a lot more benefit from what AI can just bring even on consumer-facing optimization going forward.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

I could spend another 40 minutes on AI, but...

Stéphane de La Faverie

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

A

Yeah, I know, we can.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

We have about seven minutes left and I want to make sure we hit two key markets that perpetually come up in conversations.

Stéphane de La Faverie

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

A

Let me guess, US and China.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

You got it.

Stéphane de La Faverie

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

Okay.

A

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

And so, I guess, perspective on the state of the market, the consumer, the [ph] health (00:36:58) vibrancy of each of those geographies. I think from a US perspective, the focus is, okay, there's volume, there's momentum, there's volume growth. But when do we get to value share growth and when do we get the gap between organic sales and consumption to close? And then in China, there's a million questions, but I think the one that is I feel the most often recently is just how does Estée Lauder navigate with all the different local indie brands that are coming up? Is the portfolio as potent today as it has been historically?

Q

Stéphane de La Faverie

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

Yeah. And I think these are – joke aside, these are the two markets to talk about. Not that I want to diminish the importance of all the others. But if we can – if these two market continues to be in the mid-single from the growth standpoint, I think we're in a really good position, like, globally as a category. And then our ability to gain market share is really what is just going to make us, like, an overall gain market share in the total.

A

So looking in the US, I would say first of all, coming from the decade of market share, deleveraged that we have had, I'm very proud of what the team has done in a very short period of time. And I think, especially online, I think the momentum is very strong with what we've done with Amazon, what we've done with TikTok shop now or frankly, even our brand.com. And I think the early sign of the transformation and the move from our internal platform to Shopify, we've done fold. It's really shown, like, increased KPIs in terms of satisfaction close retention of the consumers on brand.com. And you remember that all direct-to-consumer in the US is not captured in any of the [indiscernible] (00:38:47), and frankly, we're doing pretty well in direct-to-consumer especially linked to brands like Le Labo where the majority of the sales are in direct-to-consumer and therefore not captured in [indiscernible] (00:38:58). So on that front, I think the momentum that we are US, for me, the first stage was put back the brand in volume growth and gain market share.

Now, from a value standpoint, we are already gaining market share on brands like The Ordinary. The Ordinary is actually like flying not only in the US, but frankly everywhere around the world. I was with the team last night just doing a quick review and the brand is in high double-digit growth in pretty much every market around the world. We're seeing good momentum with our perfume brands also like with TOM FORD, like Jo Malone, like Le Labo, especially really getting strongly. But you're right. For us, we need to go from volume market share growth to value market share growth consistently, and we're still dealing with the rebalancing of the distribution. So, in our case, it is purely a distribution rebalancing.

We've made some really clear moves lately. I think it was made a headline. Bobbi Brown, we decided to exit Bobbi Brown from the department stores in the North America market to really focus on the high-growth channel. There's nothing wrong with the brand. On the contrary, the brand is doing very well. That is doing well and it's well-positioned to just work in specialty-multi and online. And that's what we decided to do.

At the same time, the expansion of the PRGP that we've announced at the last earnings calls, 70% of the expansion of the number of position eliminated are field position of beauty advisor, because we are accelerating the cut of the tail of both freestanding stores that are no longer working for us because the traffic is not there or

frankly the tail of department stores. So the faster we continue to just shift from, I would say, roughly mid-30% of our business in department store to mid-20% of our department store in the US, I think then we will poise for a very strong market share acceleration, thanks to the momentum that we are seeing both on specialty-multi and online.

One of the big move we made is M·A·C entering Sephora in the US after 41 years, title basically in the USA. It took them 41 years to just go to Sephora. Yeah, but M·A·C was not built for that. M·A·C was built as a direct-to-consumer brand.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Yeah.

Q

Stéphane de La Faverie

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

But when the consumer started to shift to go to online and specialty-multi, it was time for us to do it. And frankly, the result of the partnership that we have had with Sephora, frankly with Ulta and many of our specialty-multi retailers have been absolutely fantastic. So the faster we shift the distribution, the faster we will just get back into market share gain. Now, going east completely to the other like [ph] big block of, like, (00:41:43) beauty, I'm very confident of what we are seeing in China.

A

Now, just want to make it very clear. I don't believe that China will just resume to consistent double-digit markets growth as a market because China is a mature market. Obviously, you've said it, from a pre-COVID to a post-COVID, there's been a complete transformation of the role of the local brands. But it's not that we don't know that. We've seen that in Japan. We've seen it in Korea. We see it now in China. We just purchased the brand in India with Forest Essentials. That is the number one brand in India. And we're seeing the rise of the indie brand. We've seen the rise of the Korean brand. So that's something that we deal, and we deal by making sure that our brands are the most locally relevant in the market where we operate.

Don't forget one thing we've been now for 32 years in China, so we know how to operate in China. Of the last eight quarters, we have had seven quarters of market share gain. And one of the most exciting about these, especially since the deployment of Beauty Reimagined, is the growth is much more balanced. In the past, a lot of the growth in China was dependent on Lauder and La Mer that are continuing to do very well. But we are seeing net acceleration of TOM FORD, Le Labo. Le Labo now has the number one productivity per door of any beauty brand in China. Jo Malone that is doing very strong. And last year, we launched The Ordinary very successfully that allows us to compete at the entry of prestige with many of the local brands.

So do I worry about the local brand? No. Do I look at the local brand? Do I learn from the local brand? Yes, because they have one thing is the speed. And I think the R&D center based in China now today allows us, after two years of really setting up the operation nicely, to have a net acceleration of the number of innovation that we are developing in China for China; 30% of the global innovation for The Estée Lauder Companies will come from Shanghai, and the large majority are targeting the Chinese consumer. So I'm really confident.

Today, I was just early in the morning, it was like talking to the China team to just get an update on 6.18 Shopping Festival. I think you always organized like the conference like right in the middle of some of the biggest shoppings festival like around the world. And I'm happy to report that actually the momentum is strong for the time being. It's too early to tell.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Yes.

Q

Stéphane de La Faverie

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

Obviously, because there's still another 20, like, 17 days before the conclusion of the festival, but very excited about the balance of the growth and the momentum that we are getting, which hopefully puts us again into market share gain into this quarter.

A

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

We are at time. But I want to end on the final pillar of Beauty Reimagined and culture. And you've taken – I mean, we've talked about a lot of the change. There's been a change in leadership team. There's been a dramatic flattening of the organization, dramatic changes in the ways that Estée Lauder, the company, works.

Q

Stéphane de La Faverie

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

Yeah.

A

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

What do you think has been the most difficult hurdles for the employee base to overcome amidst all that? And what are the keys to success from a cultural perspective as you go forward?

Q

Stéphane de La Faverie

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

I think it's a beautiful question, one that is very close to my heart, because all this operational transformation only sticks if you evolve the culture. I think we've put a lot of, like, effort into maintaining what are the core value of the company by evolving the culture. We've deployed what we call our BEAUTY, commitment in beauty, so BEAUTY commitment. And this stands for very simple. B of BEAUTY is bold. We need to be a bolder organization. We need to go after the new ideas. E is to be more entrepreneurial as an organization. I think our founder was the ultimate like girl's boss. And we want to be more entrepreneurial, which means that there's a lot more empowerment of the organization to go after new ideas. A is agile. I think we've demonstrated in supply chain our ability to go into new channel. Remember that in the US, everybody was questioning why are we not going to new platform like Amazon. We were like part of the last train. Obviously, this is behind and we're doing great movement. In Europe and in the UK, we're the first one doing it. So we are learning.

A

U, unified, BEAUTY, we are unified as one team. We're clearly creating this one culture and this one organization, even by changing the incentive model. All the leadership team, as I said, is going from thousands of different like mechanism of reward to just one. We need to deliver the company as a leadership team while at the beginning of the year, we'll tell you what is the guidance top line and bottom line, our job is to meet it or to exceed it and I really want the leadership team to just be behind it. T, transformational, I believe that when the PRGP is over, the big transformation is done, but it's going to be constant evolution. We are in a world that, frankly, AI allows you to just like create efficiency, like every day. And then Y, [indiscernible] (00:46:52) is yes, yes to new idea yes to just like

go to new brands, new markets, new channels as long as everything we do preserve what we have, the two most important things in our company, the best brands and the best team in the industry.

And maybe, Roberto, you can say how are you applying that to your organization.

Roberto Canevari

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

A

There is – we don't have a lot of time. Maybe I'll just say one thing. On top of the incentive, what is working a lot and is certainly working in value chain to kill silos and apart from the operating model a number of things is what Stéphane brought with Beauty Reimagined the idea of the consumer voice, so as a consumer-centric organization. At the end of the day in the meetings, no silos. We say what is adding value to the consumer? It's adding value, we go for that. It's not adding value, who cares. That a function and area but that it means the strongest push to say that's the very end, and all the rest gets organized and gets streamlined for that. So I think it's a strong message and everybody is now talking about consumer value.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Awesome. With that, we will wrap it. But thank you both for your time.

Stéphane de La Faverie

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

Thank you.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

And thank you all for joining.

Stéphane de La Faverie

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

Thank you.

Roberto Canevari

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

Thank you.

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