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The Estée Lauder Companies, Inc. (EL)

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CORPORATE PARTICIPANTS

Stéphane de La Faverie

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OTHER PARTICIPANTS

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Good afternoon, everyone. I'm Dara Mohsenian, Morgan Stanley's Household Products and Beverage analyst. I'm very pleased to welcome Estée Lauder to Morgan Stanley's luxury conference. Just before we get started, I do have to note a quick disclosure. Please see the Morgan Stanley research website at www.morganstanley.com for important research disclosures and reach out to your Morgan Stanley representative with any questions.

So joining us today from Estée Lauder are CEO, Stéphane de La Faverie; and Nadine Graf, who's President of EMEA, UK & Ireland and Emerging Markets. Thanks so much for being here, guys. We appreciate it.

Stéphane de La Faverie

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

My pleasure. Thank you for having us.

QUESTION AND ANSWER SECTION

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

So, Stéphane, I thought we could start out. It's been a year-and-a-half almost under your leadership and Beauty Reimagined. A lot of work has been put in place and internal improvement. Can you give us an update on what you think is working well so far in the five pillars that you've laid out as being key to your strategy, where you've made the most strides, and maybe also some of the areas where you're looking for more traction or to drive even more progress?

Stéphane de La Faverie

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

A

That makes sense. No, thank you. Thank you, first of all, for having us. Glad to be here, like today first time I do this, this conference. So when you think about it, like almost like a year-and-a-half, like you said, but who's counting the days. Every month feels like a year on what we've done in the year-and-a-half, but – so Beauty Reimagined, as you know, when – in February of 2025 when we launched it, was anchored on five pillars.

The first one being the consumer coverage, because the realization is when I took this position with the leadership team, is that we needed to put our brands in the channel of growth. And we may not always had the right position, meaning in the US, in Europe or in Asia in channels. And we've expanded, like today, I'm very proud to say like even on Amazon today, we have like 12 brands in 10 different countries. We expanded also on TikTok Shop. We've done in Asia Shopee. We've also revisited our freestanding store network by accelerating the deployment of freestanding stores in the fragrance area, but optimizing also on the makeup and hair, where we may not have had the best productivity.

So I think from – we've made some great progress here and I think we will continue to do so. I think one of the thing that I'm most proud of is the work that we've done with Nadine and her colleagues in North America, expanding our brands in Amazon, but also recently on Sephora, where we've launched M·A·C in Sephora in the US and in the Middle East. And in both cases, we have had some really good success that allows us to put this brand in the end of like the younger consumer that we were targeting.

The second areas of Beauty Reimagined has been innovation. I'm sure we can talk about it more in detail, but innovation has been really good for us because in a post-COVID world, we're seeing a need for more innovation. And I made some really bold statement when we launched Beauty Reimagined, where we would increase the penetration of the business generated by innovation around 25%, but also triple the number of innovation coming to market in less than in a year. And today, we are already in the mid high teens in that. So we're making a lot of good progress on innovation.

And then, the third one, which obviously when you have the right distribution and the right innovation, is also about how much can you invest behind it. And we've increased our consumer-facing investment. Even in the last quarter, we were up 5% ex-FX, which really allows us to reignite the wheel of recruitment and retention, the [ph] ANR (00:11:18) brands in various markets around the world. And then finally, this is just from a consumer-facing.

And finally, the last two pillars, which is, one, the PRGP. How do we create bold efficiency? You saw that this year what we've guided for the year. We are going to make an improvement of like close at the higher end of the range, like 300 basis points improvement. And if you take what we've guided for now next year, we will be about

500 basis point of improvement. So enormous amount of transformation, which is linked finally to the final pillar, which is how do we work together to create more agility? And we brought a lot of new partners like Accenture, WPP, Shopify that allows us to revisit our operating model to be a much more agile organization.

So we are at the beginning of the journey. I think there's still a lot of work to do for us, but the confidence and the momentum that we are seeing with now three quarters in a row of positive growth and we've guided to the top of the range in term of growth this year is giving us confidence that at least the strategy is working and that we can continue to accelerate. And as we're finishing the deployment of the PRGP, we can really focus on growth going forward.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Great. And Nadine, maybe on the same front, you can talk about the progress in the strategic pillars in your areas of responsibility and also just perspective on culturally how deep rooted these changes have been in your regions or any perspective on the broader company?

Nadine Graf

President-EMEA, UK&I and Emerging Markets, The Estée Lauder Companies, Inc.

A

Yeah, no, absolutely with pleasure. And I think one thing I can say is that Beauty Reimagined has fundamentally changed the way we are operating already across each and every market. This is not a theory of a transformation. This is really very, very operational. And I think the way to look at it, as Stéphane explained, is the first three pillars are consumer-facing and this is where we've doubled down the most with regards to accelerating consumer capture, being where consumer is, but really expanding the universe of the prestige consumer. It's not about the channel; it's about the positioning. But then also on how we go to market I think in terms of agility, in terms of speed, in terms of consumer centricity, proximity that we have never had before, but also the agility on how we're doing investments. And that has changed fundamentally in the way how we go to market.

You have alluded to it. We have made some very pivotal shifts, I would say, in terms of where we play across our brands. We have launched eight brands on Amazon in the UK, in the European market just over the last eight months, believe it or not, but the decision has been taken less than a year from now and it's already out there executing and it's growing fastly from an online perspective. So we can already see that in the number. It's 10 times faster than what actually it is on brick-and-mortar literally across the region.

But then you also have got on how we invest, the agility on how we're able to shift from a P&L responsibility standpoint across the different geographies. It's very important, especially with the volatility that we have because where there is demand, you need to double down. Where there is some challenges, you will want to put it out.

And when we look also on the geographic front, as you said it earlier, but we came with EUKEM as a new region where UK and Europe are under one roof just from a heritage and scale standpoint, where we've got a lot of similarities on the challenges that we need to address versus bringing all the emerging markets across the globe together. Very powerful, not looking at one individually, but all together as a powerful future growth driver. And the proof is in the pudding. It's already there. In Q3, you saw that we're growing double digit already and really leveraging the full portfolio and how we're going to market. This is very encouraging and also something that we will see in the future as part of our growth strategy.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

A

Great. It's helpful. Stéphane, you touched on innovation contribution and the ramp-up you're seeing there. Obviously, that's a key linchpin of the Beauty Reimagined strategy. Can you just discuss how your innovation process has changed internally? So how you're generating this greater output? And then as we think about that output over the next couple of years, you mentioned the progress you made already. What are you expecting as you look out to fiscal 2027 and beyond in terms of a ramp-up in innovation contribution to sales?

Stéphane de La Faverie

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

A

I think it's a good question and it's fundamental. I think I'm very proud of many of the innovation that we've launched to market from La Mer Rejuvenating Night Cream and the eye product or the new lipstick that we've launched on M·A·C, alongside all the different perfume that we've launched across our brand.

I think fundamentally, what has changed is that we look at innovation in three different buckets: there's trend innovation, there's breakthrough innovation and commercial innovation. The trend innovation we've said we want to just bring product faster to market. So we've re-engineered our process, sometime powered by AI, sometime by simplifying the way we're working. And I've been very vocal on rebalancing internal and external innovation. So we've been able to tap into innovation externally, also both in makeup and in skin care. Externally, we've worked with the likes of Intercos and Cosmax and others like in the past, but we've doubled down the work with them and allows us to just bring product faster to market, simplifying the way that we operate with them, also because of the way that we are [ph] delayering (00:16:50) and simplifying our processes internally.

And like I said earlier, we're very proud that we've been able to bring a lot of makeup product to market in six months or less. And this is – makeup has always been for us the category that we knew on trend, was needed to just go faster with the consumer wants to see the new lip gloss. And one of the thing that I said when we launched Beauty Reimagined is for – to reignite demand behind our makeup brand. We needed to go after lip. And what I'm very proud of like in the US in the last quarter is we grew market share, both in volume and in value with M·A·C and Clinique and Estée Lauder, depending on the subcategories. And that's for me was an indication that we are reactivating the wheel of recruitment because lipstick is often the category that you enter in for recruitment.

So then you have like breakthrough. Breakthrough takes a little bit more time. Think about skin care, skin care sometime, it can take two to three years to development. We are now bringing product to market in 18 months. For instance, we have like a new oil serum under the Estée Lauder brand that we've launched with the R&D center in China, we've been able to just do in 14, 15 months. That was never conceivable in the past and we have because of reviewing completely our process.

And the last thing that innovation is not only about new product; it's also how do you make sure that you put in the end of the consumer the product they love, but you always find new ways to talk about it. And Double Wear, for instance, which is the number one foundation in the world with Estée Lauder, now we've relaunched it obviously, but at the same time, we found new ways to talk about it. And we've talked about like the added benefit to the formula, which is not only complexion and full coverage, but there's also like breathable and so on and so forth.

So I think it has been revamping the processes, also bringing new talent in the organization. Our new Head of R&D, René Lammers, that comes from PepsiCo and Unilever in the past has allowed us to just also simplify our processes, rebalance internal and external.

And the last thing I would say from an innovation that has been very clear is what are the right prices? At the moment, where there's so much tension in consumer confidence around the world, we've been able to just re-engineer our innovation also to be at the right prices. And in lip, the success that we are seeing in the US, we're

seeing in Europe and in many market like even TOM FORD in Asia, because we've been able to put the product at the right price point. But I've been very clear with my team that every innovation we launch has to be accretive to gross margin going forward, all the category we're launching. So it's not that we are lowering optimizing the price at the wrong cost of good; we are doing it by optimizing gross margin and putting the right price, and that's really allowing us to just reignite the wheel of our recruitment.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And as you think about the multi-year innovation pipeline from here, should we see continued progress? Is it sort of linear progress as we look out over the next couple years? Give us a little bit of detail on the multi-year innovation.

Stéphane de La Faverie

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

A

Yeah. No, no, we will. Now, I think when you look at it, when you have – when we say about 25% of our innovation, of our business comes from innovation is about the right number. Now, it's about not necessarily more innovation. It's bigger, bolder, more breakthrough innovation. So you're going to see a lot more in the areas of longevity points, which is like a big trend that everybody is talking about.

We have a lot of research on that front, multi-year research, but many of these product are coming under The Estée Lauder brand and even La Mer. On The Ordinary, you see constantly like new ingredients we have like in our new [ph] PDI, PDRM (00:20:35) products, which is also on the longevity at the price point of \$10 that is coming to market. So you're going to continue to see us doing breakthrough on the ingredients, on technology across the four categories.

And even on fragrances, you saw the last quarter, we published like double-digit growth on fragrances because what our perfume each on like TOM FORD, Jo Malone, Le Labo, KILIAN are all doing extremely well, but we also have like striving new innovation on TOM FORD. We have had Figue Érotique multiple new fragrances. We have had also on Le Labo multiple City Exclusive that we are launching around the world.

So you're going to see us continuing with this cycle of innovation because I think there's a clear demand across all the region for new all the time, and that allows us to just bring constantly new consumers.

The last data point I would give you is with La Mer. We've launched the new rejuvenating eye cream across Asia, including China. We've brought 20% new consumers to the brand, on the brand that was already gaining market share in pretty much every market.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Right. So a lot of hard work and progress under the strategic pillars.

Stéphane de La Faverie

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

A

Yes.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

I think...

Stéphane de La Faverie

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

Still a lot of work to do it, but...

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Yes.

Q

Stéphane de La Faverie

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

...we are on the right momentum.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

The question is, where do we get in terms of sort of sustainable organic sales growth going forward longer term? So maybe we can shift to some of the regions and talk about progress so far and long-term expectations. China has been a big success story over the last year. You've returned to consistent share gains, but it's also an incredibly competitive market.

Q

Stéphane de La Faverie

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

Yeah.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

So just as you think out from here, A, do you think you're back to sustainable share gains? And in China, what's really driven the improvement? How sustainable is that? And what's structurally changed in the geography for Estée Lauder? And then second, I'd just love your perspective on category growth here in China from here. There's obviously been an incredible amount of volatility in recent years, but your perspective on category growth going forward would be helpful also.

Q

Stéphane de La Faverie

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

Yeah, no, I feel really confident about China. I've been in China I think three times this year. Like this year already, I'm going back in August. I think, first of all, our team on the ground doing a fantastic work. And I think in China has been, what, five quarters in a row that we have market share gain. If you look at the [ph] eight-less (00:23:10) quarter, I think out of the eight, seven we've gained market share, which exactly shows the continuous desirability of our brand.

A

Let's not forget that The Estée Lauder Companies has been in China for 31 years now. So we know the market for a very long time. We have adopted, especially the first market in the world, we adopted this concept of local relevance. Estée Lauder was the first brand to put a Chinese model on an advertising when nobody else was doing it in the beauty industry and we've consistently done that all the time.

But what has changed for us in China is for a very long time, our growth was dependent on Estée Lauder and La Mer, our two largest brand. They remain our two largest brand. But today, we have a really diversified portfolio. We have TOM FORD that is growing double digit. Jo Malone is growing double digit. I think we have Jo Malone growing 21% in the last quarter. We had Le Labo growing 70-plus percent in the last quarter. Le Labo is now the brand with the highest productivity per door in China.

So we're really diversifying the portfolio. And we're seeing a market that is still obviously highly dependent on skin care, but rebalancing slowly but surely on the category. Remember that fragrances is only 5% to 7% of the market, but we have very strong position there and we are also like growing.

So I feel a market that is more stable, high-single digit growth in the market, and we are gaining market share there. And the reason for it, despite the rebalancing of the brands and the category is we've applied the same model of consumer coverage. One of the big unlock for us has gone to be on Douyin, the equivalent of the Chinese obviously TikTok, and that has allowed us to just capture a lot more newer consumers, but at the same time to make sure that we are preserving desirability and equity, we've ramped up the number of freestanding stores. This is actually the region of the world where we have the highest number of freestanding stores, which allow to dial up equity and experience for the brand.

So, I feel really good about the work that the team is doing. I think it's sustainable. We have a plethora of innovation coming from China. Remember, the last thing that is important is two years ago, now it's the anniversary, two years ago, we've opened our research and innovation center in China and it was about doing innovation in China for China that now we are seeing the ramp-up and the fast acceleration across Estée Lauder, La Mer. And now, we are entering all our brands into the research and innovation center to be able to do more innovations, which will allow us to reduce the cycle and to have product even more tailored.

So I think what is behind your question, do I worry about the local brand versus the international brand? As long as you know how to play in China in the multi-channel network and you are locally relevant, I think with the desirability we've built over the years, I think our growth is sustainable in the market.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And from a category growth perspective, it sounds like you think things are a bit more stable here going forward and you've gotten back to a nice pace of category growth. Just a perspective on any...

Stéphane de La Faverie

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

A

Skin care, fragrances, hair care. Makeup, it's still subdued, but I think makeup is a little bit subdued everywhere around the world. But definitely like one skin care is strong in China, obviously, like the market is strong because it's still 65% to 70% of the market is in skin care.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And it sounds like there's confidence behind the underlying drivers there. Any impact post Iran? Does that impact the way you think about the market over the next few quarters here?

Stéphane de La Faverie

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

A

For China specifically.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

For China.

Q

Stéphane de La Faverie

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

No. For the moment, honestly, no disruption. I think there was a visit like over the last few days. Everything seems to be like going fine so far. I don't know, I was not part of the conversation, but at least I didn't see any type of like major disruption in the market. And I cannot control like the geopolitical discussion...

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Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Right.

Q

Stéphane de La Faverie

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

...at least from a consumer confidence.

Maybe one thing that is interesting in China is one of the only market in the world that are seeing consumer confidence increasing over the last few months. Obviously, the world is in tumultuous moments, but China is rebounding. Don't get me wrong, it's still not where it was pre-COVID. But the fact that it's just going up, I think the real estate market is not as bad as what it used to be six months ago. The stock market in China is very strong. So all of that is just rebuilding some consumer confidence and beauty is part of their culture and one category that the Chinese consumer always gravitate towards.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Okay, great. We're seeing some progress in the Americas...

Q

Stéphane de La Faverie

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

Yeah.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

...but you haven't gotten back to sustained organic sales growth yet. I know clearly, there's been a bit more progress in retail sales than shipments, but just help us understand strategically where you are in your US turnaround, perhaps give us an update on your channel mix today, the growth you're seeing by channels. Obviously, that's an important part of the dynamic, as you talked about earlier, across the overall enterprise, but particularly in the US. And is there a line of sight to getting back to consistent organic sales growth as you look at the US and Americas in general?

Q

Stéphane de La Faverie

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

A

To answer the last part of your question, yes, can we go back to sustainable share again? Yes, and we will get there. Are we there yet? No. But the progress made by the team are pretty impressive because don't forget that we're coming from a decade of market share erosion for us. And the fact that in the last quarter, we've been able to put the four category in volume share gain was very important for me and for the entire team that our strategy of reignite recruitment. And when you see volume share gain in every category, it tells you that we are bringing new consumers to our brand.

Now, obviously we still have some work. We have skin care and hair care where we're growing also in value, but we want to make sure that consistently every quarter on every brand, every category. Now we are still the channel shift in the US for us to be able to constantly re-establish this market share gain, but the quick pivot that we've done to Amazon, to TikTok Shop, to opening like more direct-to-consumer business is also helping us there.

Now we need to continue to rebalance it and I've been very vocal that while we're not giving up on the department store, we still have, in some areas, too much dependency on the department store. We are rationalizing the tail of the department store. We've also – there's no need to hide it, we've also decided to discontinue brand from this channel to refocus on some [ph] over growth (00:29:55) channel like specialty-multi and online. And I think we are in a journey of how as – and we're trying to do it as fast as possible without disrupting completely the market of rebalancing our distribution.

But overall, when I see now volume share gain, it tells me that we are heading in the right direction and we are going to get to some value market share gain also going forward, but we have had some very interesting successes in makeup. We have four of our market brands that are gaining market share in the US in the last quarter – Estée Lauder, Clinique, M·A·C and Bobbi Brown – which for us was like very important to see that it's still a big makeup markets.

On fragrances, we are doing – but we are playing what you see, what is captured by Circana is only a small piece of our business because all the direct-to-consumer where we play more is not captured there. But we know when you start including the freestanding stores of Le Labo, the freestanding stores of Jo Malone, KILIAN and so on and so forth, we just have also some very good momentum on that front.

So a lot more work to do. I think we're coming from further away, but very confident that we are also like creating the right momentum.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Great. We talked about US and China volatility. Travel retail has been even a more volatile area in recent years. Just help us level set where we are today in terms of potential category growth going forward in the channel, key drivers there, and how you think about Estée Lauder's positioning today.

Stéphane de La Faverie

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

A

In travel retail.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

In travel retail.

Stéphane de La Faverie

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

A

Look, I think travel retail for me, we've done a lot of work over the past two years to reset the penetration of travel retail in our total business, been very clear. Now we are in the mid-teens, which is about like industry average and we intend to just keep it at this level.

I think we had – everybody knows it in this room, we had over-dependency on travel retail. That happens to be the most volatile channel as we see it. Like in this moment in time in the Middle East, obviously some of the airports are pretty much like shut down or with very limited amount of conversion in the stores because people are just having other things to think than just buying beauty or any other category of goods.

So I feel like now us having reset our penetration of travel retail. Now obviously it's a different story if you look at the East versus looking at the West. In the West, we were behind. We're catching up very quickly by deploying all our perfume brand like Jo Malone, KILIAN, TOM FORD. If some of you are traveling throughout the European airport, you'll see a big difference on the presence of The Estée Lauder Companies, and we're trying to repositioning our portfolio to what is the need and to cater more to the traveling consumer in this region, that it is people coming from the Middle East or from India, British consumers, which are like some of like the key consumers.

On the other hand, on the East, we're seeing a phenomenon and everybody certainly has access to the information, is now a higher foot traffic in Hainan than pre-COVID and now finally higher conversion. You remember there was a lot of like traffic in Hainan, but very low conversion. Now we're seeing conversion like growing, and the Estée Lauder Companies is gaining significant market share in the channel.

What we've done for Chinese New Year around Estée Lauder and La Mer as like creating like really, really strong momentum. And we're seeing the Chinese consumer starting to travel again only in the region. Only in the East. They are not going West. And their top three destinations are South Korea, Hong Kong and Thailand. And we're seeing that even in the moment where Nadine will certainly say a few things about the emerging market, where the market in Thailand is suffering because of like the impacts of the war in Iran, the travel retail is booming because the Chinese consumers are going in vacation there because they just don't want to go anywhere else around the world.

So I think we're in the right place. Look, it will always be more volatile channel, but I think the rebalancing of the West and the East and the penetration in the mid-teens to our total business in travel retail makes it really manageable for us.

And the last thing I would say, travel retail will and continue to remain the window for our brands around the world. Certainly many of you have gone to a Hainan or Heathrow Airport or Dubai Airport, Singapore. This is some of the best expression of our brands around the world.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Right. Nadine, maybe we can turn to EUKEM. Obviously, we saw some divergence in trends by country even before the Iran conflict. Now we have the Iran conflict on top of that. So, I'd love to get a bit of a short-term update from you on what you're seeing in the region. And then also turning to the longer term, what do you think are the key growth drivers within the region, both from a business and geographic standpoint? And some of the markets

that are doing better in that region, are there things you can apply to some of the laggard countries that drive a lot of improvement?

Nadine Graf

President-EMEA, UK&I and Emerging Markets, The Estée Lauder Companies, Inc.

A

Very true, and that basically reflects exactly the strategy we're having. And starting with the most exciting part, which is the emerging markets, because this is where Beauty Reimagined is already very visible in the new setup that we're having. We're driving growth across the emerging markets two to three times the global average overall.

So it's truly becoming a growth engine for the company going forward, and we do that profitably. So it's really driving profitable sales already as we speak, representing today around 10% of our mix of business globally and this is where we want to enlarge it quite significantly beyond the 15% in the long run. And we have got the best possible strategy to really achieve that. It's already in the making.

If you look at emerging markets, why are we so confident as well? You have to know that in some of the highest growth emerging market like India, Turkey, to a certain extent also the Middle East and Southeast Asia, we have very, very strong positionings as The Estée Lauder Companies. We have first-mover advantage in many of them and we are really leading prestige beauty in many of these markets.

At the same time, we have got a high traction in fragrance where we're doubling down. You've got the high traction in trend-led makeup in particularly in the Middle East and in India, which we're really tapping into.

The other thing is we're talking about the young consumer. This is where more than 1 billion Gen Z consumer are, where there is online and the full digital ecosystem is really driven. And we have a very clear go-to-market strategy, but not market-by-market. This is where we play the similarities.

And I think it's important understand this, this is where the new operating model comes into place. Clear alignment from global corporation brands, region and catalyst affiliates on how we're going to win and win big, which means sourcing, recruiting from mass. Really positioning the ordinary M·A·C brands that played role from recruiting consumers from mass into prestige, scaling them across the different channels. But also fragrance, fragrance is underpenetrated overall. We've got the right portfolio of brands to win.

The second piece is really online acceleration. Online is market is disproportionately growing. We are growing with that disproportionately with higher market shares online that we have offline, but also playing the ecosystem. So, we are entering Amazon in Brazil. We are doubling down on Trendyol, be it local or global players. Shopee across Southeast Asia, TikTok Shop in Southeast Asia and beyond. So this is really the model that works for us, but today we are much more agile with regards to allocating the resources on the winning intersections that we have: brand, channel, retailer and market.

The third one I would really want to say is you win in emerging markets through local relevancy. You talked about it in China. It's so true for each and every single emerging market. But not only about having the right locally relevant face; it is really about being where it matters for that consumer, be it through Diwali, be it through Ramadan, all the local festivities and being in culture. And this is where with our strategy, we're creating locally relevant assets, a full ecosystem on who is representing the brand locally, but also reallocating investment into these moments disproportionately.

We always say brand desirability is built globally, but the relevancy is really executed locally. And that's where we're doubling down and we already see the first big wins coming from that way.

And last but certainly not least is really expanding prestige from an accessibility standpoint. When we want to recruit at scale, that means a lot of trial. So we're basically developing all our global iconic icons such as [indiscernible] (00:38:45), such as ANR in mini sizes. Mini sizes, but so that we can really drive trial and consumption at scale, and that helps us with that recruitment.

And then I think the last, but certainly least one is the recent acquisition of Forest Essentials. Forest Essentials, as you may have heard and read in the press, the latest acquisition, the number one prestige skin care brand in India. And why is it so interesting? It really sits at the intersection of India as one of the fastest-growing prestige beauty markets globally. Secondly, the rise of local brands. And third, wellness and Ayurvedic beauty becomes a consumer trend across the globe.

So having this as part of the portfolio is not only almost doubling our market share in India from an ELC market share standpoint, but really helping us to tap into another consumer that we potentially couldn't recruit with the portfolio that we're having. So a great example on how these emerging market strategies coming to life within the biggest markets, but also how we can scale it globally.

And maybe a few words then on a very different dynamic. You asked about Europe and the UK, right? Certainly much more challenging, much more demanding structurally, overdistributed across the prestige beauty overall, really shifting consumer dynamics into online more than ever still a very fundamental brick-and-mortar business that has been built historically.

We see a lot of progress. If you look, the ELC performance versus the market trends across Italy, Germany, but also the UK that we're certainly catching up. You see that the indie brands are really driving growth. And with our go-to-market across all the Beauty Reimagined, we see already this shift happening in April. We've been able to gain market shares across Germany, France and also in Italy. In the UK, we're back to growth from a retail standpoint. So slowly, but surely, you can see that there is a lot of progress happening. And at the very same time, we are true to ourself and what has to happen.

So first of all, fragrance, what you said, skin care is in China more than 50%, 70% of the sales. This is what fragrance is in Europe. This is overpenetrated from a fragrance category standpoint for prestige beauty. We are right at the same – at the right moment in time to really leverage the portfolio, not only in luxury, but also going more into the ultra-prestige positioning.

Then complexion, you talked about Double Wear. Complexion is our strength overall. This is where we're doubling down. So we're building on the strength. We're pivoting into where the consumer is from an online standpoint.

You talked about Amazon, but also TikTok Shop. We've opened up TikTop Shop with M·A·C in the UK and in Germany. But it's not only about the sales you do in TikTok Shop alone, it's the ecosystem comes to life. M·A·C has historically a very, very strong DTC business with freestanding stores.

So what are we doing? We're basically transforming our freestanding stores into creation hubs, which means our makeup artists, they are creating content live in the store itself and this is how the full ecosystem comes to life. So it's not only what we're transacting through the TikTok Shop, but how we're actually driving traffic and conversion

through our stores at the very same time. And that's very exciting and that's also kind of re-energizing the entire makeup category to start with.

And there are two structural resets that we do in Europe, in the UK, in particularly when it comes to our brick-and-mortar business, some decisive actions with regards to cutting some of the long tail – improving productivity, doing a selling, restructuring in the sense of reallocating really the resources into the faster-growing channels. That's what we are executing as we speak. Stéphane keeps on talking about PRGP and the execution and everything that we're doing. That's really the next big wave that we are very confident, not only in terms of taking cost out, but really in taking that and reallocating into growth. And that's probably the next important shift.

So looking ahead, you will see emerging markets continuously growing double digit ahead of the overall prestige beauty market growth in those markets, but also really a key growth driver for The Estée Lauder Companies globally. And then in Europe, we will keep on going for growth in the next chapter, being where the consumer is, number one, but also allocating the resources very decisively into the channels and in the areas, the intersections that we can definitely go off the market share gains.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

Great. Stéphane, you gave us some early clarity on fiscal 2027 post Q3, fiscal Q3. First, just what gave you the confidence to go out early with the 3% to 5% organic sales growth for fiscal 2027, particularly given the Iran conflict and some volatility there, which you quantified did have an impact in Q4. So just give us a behind your confidence there.

And then, B, as you think longer term, what are some of the key puts and takes to top line growth in fiscal 2027? You've made a lot of internal improvements, as you talked about. A skeptic could say, well, if we want to get back to that mid-single digit range historically, right, we're still seeing some yield in fiscal 2027. How should we sort of think about fiscal 2027 when we think about the long-term top line outlook if that makes sense?

Stéphane de La Faverie

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

A

Yeah. So the first thing that – why we put a guidance, a preliminary view earlier than usual is, one, because all of you have asked us basically why are you growing because we were not guiding for quite some time.

But the second thing, joke aside, is I think we have momentum and we know where the growth is coming from. When you see we are back to growth, not yet market share gain in the US, we are in market share gain in China. We are growing double digit in emerging market like Nadine said. We are growing online around the world. That is becoming a bigger part of our business like across all the market, that we felt really confident that, one, we could indicate that this year, we will deliver the top end of our guidance. So that was very, very clear for us. With one quarter to go, I think we have enough visibility to be able to go there.

And you say like in the midst of the Iran conflict and etcetera, Middle East for us is 2% of our business when you include the local market and travel retail. So, 2% is not nothing, but we can manage it. So we are managing it, and Nadine in the region is reallocating resources.

Obviously, as she describe it, we have a much more agile model that allows us to redeploy resources around the world to capture the growth where it is in this moment in time. And a lot of growth is coming from like – from the US, coming from China, but also like, like Nadine said, even in the UK, we are catching up and we're catching up quickly with like the markets. So that's what gives us the confidence.

And next year when I look at the pipeline of innovation that we have, the fact that we have a full year in most instances of new distribution like Amazon in Europe, Amazon in the US, in Latin America, in Canada, Shopee, TikTok Shop around the world, now we're putting our brands into the hand of the consumer and where the growth is like in [ph] Market Sephora (00:45:58) in the Middle East, in the US.

So think about it. We've realigned – and I'm not saying it's over, but we've realigned a lot of our brands in the right channel, putting the investments. And we're seeing the retail like growing. Sometime, you said it in the US, the retail and the net is not totally aligned because we're still structurally changing few things. But ultimately, when the retail is here, I feel that we have the right momentum, the right distribution, the right innovation.

And then PRGP is over in six weeks. In six weeks, we are done with all the cases. Remember, it was two years long of cases that need to be approved.

Now we still have 2027 to execute some of the cases that we would – like Nadine just mentioned, like for instance, the realignment of like sell-in in the region, which now the PRP goes away and we're focusing on the G. We're focusing on growth. And this is what we are, as a team, really focusing on growth. And we gave a preliminary view that we believe we can grow anywhere between 3% to 5%. And at the midpoint to the high point of this preliminary view, we will be gaining market share globally.

There is a lot of indicator with China and the US being actually quite strong emerging markets. Online is strong with our innovation and the continuous emerging consumer coming to the category. Let's not forget between now and 2030, there's 0.5 billion consumers that will enter the middle class in various places around the world, with India and China being the two lead market.

So the growth potential is there. For us, we didn't have access to the growth because we were not in the right growth channel. We didn't have the right innovation and we were not investing enough in consumer-facing. The PRGP has allowed us to just cut a lot of cost in SG&A to be able to reinvest and to grow. And that I think we are back into a growth algorithm.

Now one would say, yeah, but there's a lot of disruption around the world. I think the PRGP has allowed us also to create an agile and flexible organization that allows us to redeploy allocation and funds in real time in Nadine's region or between the regions, between the brands, and really to just like overall being disrupted by many of what is coming outside.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Q

That's great. So, a lot of internal success. Maybe we can turn external for a bit. On the subject of M&A, you've announced some smaller deals. You've considered larger things, as companies do from time to time. Just help us understand is M&A a focus here, particularly given all the internal work you've done, how you think about the M&A strategy in this beauty environment where a lot of smaller, fragmented brands are gaining share versus maybe larger type of deals? And just also put it in the context of the internal turnaround and if you're – as you think about adding value longer term, how much you could add through M&A versus the internal work here?

Stéphane de La Faverie

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

A

Like let me start with the last point. I think this organizational change, and I've said it, is the biggest organizational, leadership and cultural change in our company history, in our 80 years. Many of what we've done by the end of

the calendar year, 2026, will be done. All the work that we've done on Enterprise Business Services with Accenture will be completed all the transfer. And we've already done a lot of things from an IT standpoint, from a consumer care standpoint, from a CRM standpoint. We're really going super fast because we took really the time to plan correctly. So by the end of the calendar year, we will be done.

WPP, for the first time in our history, we took over 30 media company we were working around the world to just go to one centralized agency. Now, obviously, this agency has an office in Europe, an office in the US, an office in China and so on and so forth. So we're able to just act locally, but we have now the power of one media company like going around the world that allows us to be much more efficient. We are in the midst of transferring everything. By the middle of Q1, we will be done with the full transfer.

Shopify, we've announced Shopify as a partner to just all do our DTC background. We will have 50% of our operation turned to Shopify by the end of the calendar year. We have done already TOM FORD. We've done Love series. If you go to the TOM FORD sites, we've had very strong indicators already of increased conversion, thanks to the new technology that we've deployed. So we are changing the ways of working.

So I will say from an operational standpoint, we're becoming a much more agile organization. This agile organization, why we want to do it? One, because you need to be much more agile in the world that we are in to be able to, like I said, deploy resources. And two, in the case of M&A, from small to midsize to larger one, I believe that we are a much better equipped company than in the past to do M&A and to be much more efficient and to scale fast.

You will see Forest Essential. Obviously, we want to just win in India, but we want to bring Forest Essential to the world. And I think today, what we can bring to a brand like Forest Essential is ability to scale fast without having the costs of like the organization behind it, but having modern knowledge and the scale.

111SKIN, the minority investment we've just done. We have an entire way to just like help this brand because our idea is like if 111SKIN is successful, why not 111SKIN being part of the portfolio in the future?

And then if there are opportunities for bigger deal, we will also go to do it the way we've done it with TOM FORD and we've done it with [ph] DSM (00:52:04) in the past. And [ph] DSM (00:52:05), look at it today, is one of the most successful skin care brands around the world and frankly, in every region.

So Estée Lauder has always been part of the M&A conversation. We have had a moment of pause because we had to do the PRGP and the re-engineering of the company, but we will go back to it because I believe we are going in the world where organic and inorganic are very important. And I think the share of inorganic is growing a little bit more. Now organic is still very important, don't get me wrong. I don't believe that organic will be less so than inorganic, but this ability to do it and scale matters. Scale matters for a lot of things, from a manufacturing standpoint, from a distribution standpoint, from an R&D standpoint. And I think the company is going to be much more poised to just be able to do bigger deal in the future. It has to make sense from a complementarity of like the portfolio, obviously the way we've always looked into it.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Great. Well, with that, we're out of time. I feel like I have so many more questions, but we really appreciate you both being here today.

Stéphane de La Faverie

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

Thank you, Dara. Thank you.

Nadine Graf

President-EMEA, UK&I and Emerging Markets, The Estée Lauder Companies, Inc.

Thank you.

Stéphane de La Faverie

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

Appreciate it.

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