

05-May-2015

# Estee Lauder Cos., Inc. (EL)

Q3 2015 Earnings Call

## CORPORATE PARTICIPANTS

Dennis D'Andrea

*Vice President-Investor Relations*

Fabrizio Freda

*President, Chief Executive Officer & Director*

Dennis McEniry

*President-Estee Lauder Companies Online*

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President*

---

## OTHER PARTICIPANTS

Steve R. Powers

*UBS Securities LLC*

Caroline S. Levy

*CLSA Americas LLC*

Olivia Tong

*Bank of America Merrill Lynch*

John A. Faucher

*JPMorgan Securities LLC*

Christopher Ferrara

*Wells Fargo Securities LLC*

Wendy C. Nicholson

*Citigroup Global Markets, Inc. (Broker)*

Dara W. Mohsenian

*Morgan Stanley & Co. LLC*

Mark S. Astrachan

*Stifel, Nicolaus & Co., Inc.*

Lauren Rae Lieberman

*Barclays Capital, Inc.*

Nik H. Modi

*RBC Capital Markets LLC*

Ali Dibadj

*Sanford C. Bernstein & Co. LLC*

Stephanie Schiller Wissink

*Piper Jaffray & Co (Broker)*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to The Estée Lauder Companies Fiscal 2015 Third Quarter Conference Call. Today's call is being recorded and webcast. For opening remarks and introductions, I will turn the call over to the Vice President of Investor Relations, Mr. Dennis D'Andrea. Please go ahead, sir.

---

### Dennis D'Andrea

*Vice President-Investor Relations*

Good morning. On today's call are Fabrizio Freda, President and Chief Executive Officer; Tracey Travis, Executive Vice President and Chief Financial Officer; and Dennis McEniry, President of ELC Online. Dennis will discuss our current online business as well as future opportunities.

Since many of our remarks today contain forward-looking statements, let me refer you to our press release and our reports filed with the SEC where you'll find factors that could cause actual results to differ materially from these forward-looking statements.

Our discussion of our expectations for the fourth quarter and full fiscal year are before the impact of accelerated retailer orders that took place in the fourth quarter of fiscal 2014 due to the July implementation of our Strategic Modernization Initiative, which would have occurred in our fiscal 2015 first quarter. You can find reconciliations between GAAP and non-GAAP figures in our press release and on the Investor Relations section of our website.

And I'll turn the call over to Fabrizio.

---

### Fabrizio Freda

*President, Chief Executive Officer & Director*

Thank you, Dennis, and good morning, everyone. Our company delivered an excellent performance in the third quarter of fiscal 2015 with broad-based gains across most brands, channels and regions. Our net sales rose a strong 8% in constant currency, exceeding the top end of our expectation by more than 1%.

Sales leverage and cost management drove our earnings per share, which climbed a robust 49% in constant currency, also surpassing our expectations. Importantly, we achieved these strong results despite some ongoing market challenges. One of the more difficult environment was Hong Kong, where the expected recovery did not materialize due to continuing political protest and fewer travelers from Mainland China. Additionally, change in travel patterns caused by currency swings negatively impacted travel retail trends in a number of countries, Brazil, Russia, Turkey and Hong Kong in particular.

Economic growth in the European region was largely improved. Through our focus initiatives, we outperformed the markets in the region, and delivered robust gains. Thanks to the multiple growth engines we have developed, and our proven ability to execute through many challenges, we expect the pace of our constant currency sales growth to continue in the fourth quarter.

Our strength will continue to be driven by both new launches, as well as acceleration of compelling product and services that are already resonating worldwide. As fiscal year 2015 draws to a close, recognizing the progress we have made, we are increasing our constant currency sales growth forecast to 6% to 7% for the full year.

On the bottom line, we are raising the floor of our constant currency EPS guidance range, which increases our midpoint target. Also, our EPS guidance includes dilution from acquisition-related costs. We are using our better-than-expected profit this quarter in part for incremental investment in the fourth quarter. These investments will drive Estée Lauder and Clinique's turnaround plan in the U.S., and support business-building capabilities.

We also expect investment spending to continue to drive gains in some of our best performing areas, including the UK, Europe, China, and our luxury brands. Additionally, M•A•C is accelerating freestanding store opening. The improving trends we saw in the third quarter give us the confidence to spend more in the final few months on initiative that we expect to carry our momentum into fiscal year 2016.

Global prestige beauty is one of the most vibrant areas in the consumer product space. It has provided consistent annual growth, currently, mid-single digits. Some areas are growing significantly better than the average. So, we are overemphasizing those. For example, some of the fastest growing product areas are contouring treatments and kits, facial oils and masks, eye and lip makeup, and high-end fragrances. Additionally, when consumers shop, they are increasingly attracted to E&M commerce, sites and freestanding stores.

Geographically, we see significant opportunity in most emerging markets. Recently, Europe has begun to improve. And in the U.S., the makeup category is thriving. We are strategically positioned to win in each of these large, high growth areas by brand, product category, geography, and channel which led to our strong growth in the quarter, well ahead of the industry average. We believe we have just started tapping the potential in many of these areas, and we are finding ample room to drive our business.

Our successful efforts in developing a broader profile with multiple engines of growth and fashion into more beauty trends were evident in our results. Even at the time when two of our biggest brands did not grow at acceptable levels in our largest market, the rest of our business more than compensated, fueling robust sales growth for the company.

Our broad-based portfolio is a clear strategic advantage. Brands such as M•A•C, Jo Malone London, Smashbox, Bobbi Brown or Tom Ford continue to be power engines of growth, generating double-digit sales gains. In fact, nearly half of our brands achieved at least 10% growth or more.

In the U.S., the majority of our brands achieved a very strong performance. Many of our products are perennial bestsellers. We had growth across most channels with healthy retail sales in specialty-multi, e-commerce and freestanding stores.

Nonetheless, Estée Lauder and Clinique sales growth in the U.S. department stores lagged behind prestige beauty growth in the market. As you know, we have been working to [ph] renew (6:59) stronger growth in these brands, and we have new exciting programs being deployed now and over the next 12 months to 18 months.

Clinique is taking a holistic approach. Its major launches earlier this fiscal year were successful higher-priced skin care products. And now, the brand is also emphasizing its sizeable makeup business in the U.S. and seeing encouraging results. For consumers, makeup provides instant gratification and fresh new looks. For Clinique, it offers more exciting opportunity for entry price products which are trans-millennial and fits with the brand's heritage positioning.

Clinique spring makeup launches are in the important categories of foundation and lipstick. Launched in February, Beyond Perfecting foundation and concealer is helping to drive the entire makeup category for Clinique, which grew again in the U.S. in the quarter. Clinique is number one in foundation in its home market.

The brand's other exciting makeup launch, Clinique Pop lip color and primer feature an accessible price point in a case that [ph] displayed (8:17) the color inside. Clinique expects its newest lip product will further accelerate its lipstick sales, which are projected to be up double-digit in the U.S. this fiscal year.

In both skin care and makeup, Clinique is launching products that play to its strengths and reinforce its leadership in key subcategories. One important area for the brand is moisturizers, where it holds the leading position in prestige beauty in North America. To further strengthen its authority, Clinique is launching this fall its first cream in its best-selling Dramatically Different Moisturizing line, by adding a formula geared to consumer with dry skin.

The new cream should generate incremental sales in its powerful core franchise. We believe the brand is beginning to attract more millennials through this new makeup and skin care products, and at the same time, it is engaging consumer with fresh advertising, communication, in-store merchandising and new services.

The Estée Lauder brand has modernized its image, and reaching out to a wider demographic, while continuing to serve its core consumer with significant new products. It has had success this year with several makeup products, and expect this trend to continue with Kendall Jenner, the brand's millennial spokesmodel.

In the fall, Kendall will appear in digital, print and TV advertising for an exciting new fragrance called Modern Muse Le Rouge which extend the inspirational concept behind the Modern Muse franchise. She will also promote upcoming makeup products, which will be discussed during our next call. Makeup and fragrance are good recruiting category for younger consumer.

The most exciting development at Estée Lauder is its next major launch, a new franchise of transformative product that creates visible definition for a beautiful, more contoured looking face which is an important new beauty trend. Named New Dimension, the collection includes a concentrated serum, a Liquid Tape precision treatment, and contour kits for face and eye. The actress, Eva Mendes, will be the face of this new skin care product in digital, TV, and print advertising.

New Dimension is targeted to global consumers of multiple ages and ethnicities. The line launches in North America in July, followed by international market in September and additional product will roll out later in the year. We expect New Dimension to create a new subcategory for Estée Lauder brand for core consumers.

Let me now discuss our total international business. We continue to successfully execute our emerging market growth strategy which is progressing well. In total, local currency sales from all emerging markets aside from China climbed 29% with exceptional results in Brazil, Turkey, and South Africa. In some markets such as Russia, devaluated currencies reduced outbound travel, creating more local demand and sending sales up sharply.

M•A•C is our largest brand in many emerging markets including Brazil, Turkey or the Philippines, and strong gains in these countries contributed to its stellar global growth. M•A•C is now available in more than 100 countries and territories, having entered four new markets only this quarter.

China continues to be an area of strength for us. Our constant currency net sales climbed 14%, and most of our brands were up double digits. Although skin care remains the dominant category, makeup has seen rapid acceleration, allowing us to leverage our position as the worldwide leader in prestige makeup.

Our total retail sales in China rose high-single digit for the quarter, and we estimate we gained share overall. Sales increases were broad-based across our brands with several up double-digits, including Clinique.

Sales also rose in nearly all channels including department stores, free-standing stores and Sephora. Today, Chinese consumer can buy our products in brick-and-mortar stores in 94 cities, three more than last quarter. The most rapid growth, however, was online where our business more than doubled.

Our travel retail business improved despite several challenges. Retail sales climbed 7%, slightly higher than passenger traffic growth, which remained robust. The strongest retail gains were in Asia Pacific led by Japan, which benefited from tourists attracted by the weak yen as well as Thailand or Australia.

We believe we gained share in travel retail in calendar 2014, driven by accelerated growth in certain limited distribution brands, an improving business in Europe, the Middle East and Africa. We continue to add distribution points and invest in the channel to help fuel our future growth.

Online channel continue to show exceptional progress this quarter and is a key element of our long-term growth strategy. Our brands will benefit from the best-in-class capability we have established in this rapidly-growing area, from both retailer expansion and our continued brand size development. Dennis will discuss these exciting opportunities for E&M commerce.

As we continue to demonstrate, we have significant growth drivers through our business that are particularly exciting about the long-term potential of the four brands we recently acquired. We are integrating them into our operations and developing strategic plans for their future. They have started tapping into our capabilities and infrastructure to leverage their creativity and growth potential.

During the quarter, we continued to improve our productivity, manage our expenses and delayed some planned investment spending until the fourth quarter to fuel new initiatives. Tracey will provide more detail.

We are pleased with our results to-date in fiscal 2015. We are confident we will achieve our full-year targets, even in face of continued headwinds, and remain optimistic about our long-term strategic direction.

We are currently in the process of updating our compass, our 10-year view of the prestige beauty landscape that will provide insights to fuel our multiple engines of growth and throttle our business forward.

Our goal is to continue to generate superior top-line growth, above the industry average, and leverage that growth into increased profitability in order to enhance stockholder value.

Now, I will turn the call over to Dennis McEniry, who has led the company's highly successful and profitable online division for the last 12 years. Under his leadership, e-commerce has gone from its infancy to a thriving business that will constitute approximately 8% of our company sales this year and an even greater portion approximately 12% in our most developed markets. Dennis?

---

## Dennis McEniry

*President-Estee Lauder Companies Online*

Thank you, Fabrizio, and good morning, everyone. We have been the leader in online prestige beauty and consistently delivered outstanding growth year-after-year. Our compounded annual growth rate over the past five years was 25% with an accretive margin to the company. Our global technology platform combined with regional and local market execution has allowed us to serve consumers at the local level with global business scale.

The online beauty channel continues to grow and we are well positioned to capitalize on this opportunity. Consumer preferences are shifting and more and more people are comfortable shopping online and via mobile for

beauty products. We are committed to bringing our High-Touch services online to meet those changing consumer needs.

We were the first global prestige beauty company to go online with the Clinique brand in the U.S. in 1996. Today, we have more than 130 direct-to-consumer E&M commerce sites in 30 countries. Together with our marketing sites, we attract over 325 million online visitors globally each year.

Our direct-to-consumer sites generate approximately 60% of our global online sales with retailer sites generate the remaining 40%. Both are contributing growth of over 25% a year. This year, we are seeing strong growth from retailer sites such as Nordstrom and Macy's Nordstrom and Macy's in the United States, John Lewis Partners (sic) [Partnership] (17:51) in the UK, and Douglas in Europe. We greatly value our partnerships with all of our retailers around the world, and together we share best practices and explore ways to win in the growing online business, and the new world of omni-channel.

In aggregate, our online sales are expected to grow nearly 30% this year, an acceleration over our previous five years, with double-digit growth across all regions. North America accounts for approximately 65% of our sales. The U.S. is our most established market and often leads in experimentation of conversion-driving enhancements before they are rolled out to international sites.

From the very beginning, we've been focused on bringing our signature High-Touch service from in-store to online. It is important to us that our consumers can engage with our beauty advisers and makeup artists along their digital shopping journey. Many of our brand sites feature live video chat with beauty advisors, integrated content and commerce, enhanced product browsing, photo uploads, skincare diagnostics, shoppable videos, auto replenishment and more. These enhancements not only support our mission to deliver our best, High-Touch service to our consumers. They also successfully drive engagement and conversion to sales.

Internationally, the UK is our second largest market contributing approximately 15% of our global online sales with particularly strong momentum from M•A•C, Bobbi Brown, Jo Malone, and Clinique brand sites, as well as a number of our important retail partners.

Asia Pacific, Europe, and the Middle East and Africa and Latin America, which contribute the balance of our online sales are collectively growing over 50% year-over-year. While many markets in these regions are relatively new entries for us and are currently small, they are experiencing high growth and we are excited about their long-term potential.

Emerging markets continue to be a key building block for our international growth. China is our third largest online market. We are on track to more than double our online sales in China this year. In addition to our six brand sites, we have four shop-in-shop sites on Tmall. Estée Lauder is the number one perceived beauty brand on Tmall and we're excited that La Mer became our fourth brand on the platform a few weeks ago. All four of our brands on Tmall are greatly exceeding our expectations and we plan to launch additional brands there in the near future.

Virtually all of our brands are growing double-digits online globally. We work closely with them to support product launches and ensure online is used as an engine to drive buzz, product information and sales. Beauty is one of the most active categories online with countless searches for products and how-to videos. Beyond our brand sites we strive to remain active, relevant and innovative in social media in order to drive engagement.



A terrific example is our I Love Makeup channel on YouTube, which features our company's products, makeup tutorials and video storytelling. It is the most subscribed beauty channel on YouTube of any brand with 30 million views.

We are experiencing strong mobile growth, with some markets generating more than half of their online sales from mobile phones and tablets. Across all regions, sales growth from mobile devices has greatly exceeded sales growth from PCs.

To capitalize on the consumer shift to mobile, we have expedited the launch of m-commerce sites around the world and have developed strong capabilities to win in the mobile space.

Omni-channel is a strategic initiative for the company to enhance consumer shopping experience by allowing them to seamlessly move across channels. We're in the early stages of developing our omni-channel concepts. This quarter, we plan to launch omni-channel pilots with M•A•C and Origins freestanding stores in the U.S. with more to follow in the UK and internationally the next fiscal year.

We remain excited about the future of our online business. We've developed a strong business model for E&M commerce with winning capabilities and teams. For example, we're able to take our learnings from M•A•C in existing markets and use them to maximize our launch in new markets such as M•A•C in Brazil. We will continue to launch new markets, expand our brand distribution in existing online markets, and win with our retail partners. As we continue to fuel growth in online and drive omni-channel initiatives, we believe we will see significant opportunities ahead of us.

In closing, I would like to thank my colleagues in the company and our retail partners worldwide for their continued partnership. I will now pass the call over to Tracey.

---

### Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President*

Thank you, Dennis, and good morning, everyone. First, I will review our fiscal 2015 third quarter results, and then share our expectations for the fourth quarter and the full year. My commentary excludes the impact of the Venezuela re-measurement charges that we reported in both this quarter as well as the year ago quarter.

Net sales for the third quarter grew 1% over the prior year and rose more than 8% in constant currency above the top end of our expectations. Sales did accelerate sequentially from last quarter as we expected, driven primarily by improved results in the U.S., Latin America, China and most of Europe and the Middle East. Our recent acquisitions contributed 50 basis points to sales growth this quarter. Our businesses in Hong Kong and travel retail continue to be softer than expected as Fabrizio noted earlier.

Our gross profit margin of 80.5% was 10 basis points above the prior year period, primarily reflecting currency favorability of 20 basis points. Operating expenses improved 60 basis points to 64.9% of sales. The largest drivers of the decrease were 70 basis points of favorable selling and shipping expenses and 40 basis points of advertising, merchandising and sampling expense leverage as we continue to experience faster growth from brands with less traditional advertising, and those brands have become a greater proportion of our total sales mix.

Partially offsetting these improvements were increases in certain G&A expenses such as retail store operation and information technology as well as acquisition-related fees. During the quarter given a mixed retail environment in certain markets including in part due to the severe winter weather conditions in the U.S., we were also more prudent during the quarter in some areas of our planned second half of the year spending, which contributed to



the lower operating expense margin and which will also contribute to an acceleration and spending in Q4. As a result, operating margin rose 70 basis points to 15.6% in the quarter.

Earnings per share came in at \$0.72, approximately \$0.22 above the top end of our guidance range due primarily to better-than-expected sales and to the timing of certain investment spending in general and administrative costs. EPS would've been \$0.10 higher on a constant currency basis for the quarter.

All elements of working capital continued to improve during the quarter compared to the prior year. This was largely driven by continued progress in inventory days to sell, which decreased by 28 days to 164. The primary drivers of the improvement in inventory were a combination of favorable currency translation, supply chain process improvements and a favorable comparison to the preliminary SMI-related inventory build in the prior year.

For the nine months of this fiscal year, we generated approximately \$1.4 billion of cash flow from operating activities, an increase of 18% or \$216 million versus the prior-year period, most of which is driven by working capital improvement. We invested \$280 million in capital projects, largely in customer-facing areas, such as counters and new retail stores to support our brand's growth plan.

During the third quarter, we completed the acquisitions of GLAMGLOW and Frédéric Malle, bringing the total pay for acquisition costs this fiscal year to \$237 million, which we funded with a combination of cash on hand and commercial paper, leaving our free cash flow to be distributed back to stockholders.

And regarding return of capital to stockholders, for the nine months ended March 31, we deployed \$626 million of cash to repurchase approximately 8 million shares of stock, reducing our diluted shares outstanding by approximately \$7 million shares from the prior-year period.

We also distributed \$260 million in dividends to stockholders, which was a 15% increase over the prior-year period. We continue to expect to distribute approximately 100% of our free cash flow and share repurchases and dividends by the end of this fiscal year as another vehicle to enhance stockholder value.

Let me now turn to our outlook for the fourth quarter and for the full fiscal year. My commentary for the full year continues to exclude the impact of the acceleration of retailer orders that shifted sales from the first quarter of fiscal 2015 into the fourth quarter of fiscal 2014 related to our July rollout of SMI.

The impact of that shift was \$178 million in sales and \$127 million in operating income, equal to approximately \$0.21 per share, and it affects comparisons of both the fourth quarter and the full fiscal year. With two months to go to the end of our fiscal year and the momentum we built in the third quarter, we are raising our sales estimate and now expect sales growth for the full year of approximately 6% to 7% in constant currency. This includes 30 basis points from our recent acquisitions.

The U.S. dollar has continued to strengthen since we provided guidance last quarter, and currency translation is now expected to negatively impact our full year sales growth by approximately 5 percentage points, equal to \$550 million in sales. Our estimate for the remainder of the year assumes 1.08 for the euro, 1.50 for the pound, and 1.20 for the yen. Our sales growth guidance including the negative currency impact is approximately 1% to 2%.

We are narrowing our full year EPS range to \$2.92 to \$2.97. This compares to our fiscal 2014 EPS of \$2.95 before charges and the accelerated orders. The 5% negative currency impact on sales equates to approximately \$0.27 of earnings per share, \$0.04 more than our last update.

In constant currency, we are raising the low end of our range, and maintaining the high end of our previous range. On this basis, EPS is expected to rise between 8% to 10% for the year. Our EPS guidance continues to include approximately \$0.06 of dilution from acquisitions.

Our sales in the fourth quarter are expected to grow 7% to 8% in constant currency, or flat to down 1% on a reported basis. The strong constant currency sales growth in the fourth quarter is expected to come from new product launches from Clinique and Estée Lauder in both skin care and makeup as Fabrizio mentioned earlier, incremental growth from our previously announced acquisitions, continued acceleration of growth in North America, continued strong momentum from M•A•C and our other makeup brands, and an easier comparison in Japan against the past VAT increase of sales period in the prior year.

We are very pleased with the overall course of our business thus far, as we have managed through a tremendous amount of global market volatility by continuing to execute well against our strategy, and by leveraging the strengths in our portfolio, creating accelerated momentum in the second half of the year versus the first half.

We expect mid- to high-single-digit constant currency sales growth in the fourth quarter, and we are committed to reinvesting behind our strategic priorities. We plan to meaningfully increase investment in our fourth quarter behind both our current and upcoming product launches, as well as to support accelerated door opening activity in particular for M•A•C.

We also expect to continue our investments in building capability in areas such as information technology, R&D, digital marketing and human resources. Lastly, the fourth quarter will reflect \$0.03 of acquisition-related activities. We anticipate fourth quarter EPS will come in between \$0.27 and \$0.32. The approximately 8% negative currency impact on sales growth in the quarter equates to approximately \$0.10 per share.

In closing, we are pleased with our team's ability to navigate major macro headwinds and deliver strong operating results. And we believe we are well positioned to deliver great results for this year as well as position ourselves for another strong year of growth in the next fiscal year.

And with that, we conclude our prepared remarks, and we'll be happy to take your questions now.

## QUESTION AND ANSWER SECTION

**Operator:** The floor is now open for questions. [Operator Instructions] Our first question today comes from Steve Powers with UBS.

Steve R. Powers  
*UBS Securities LLC*

Q

Hi guys, good morning, thanks. I guess I was hoping you could start by just providing a little bit more clarification around that full-year guidance. Because I understand the incremental FX headwinds, but in light of the large beat this quarter and the progress you seem to have made offsetting M&A dilution, the full-year outlook basically implies you plan to reinvest the entirety back in the business in Q4. I know that was, in part, a timing decision, but as you alluded to – because you alluded to it, but I guess could you just talk more about where the investment will be targeted? And what type of return we should see? Because it's a little surprising not to see more of the beat flow through, given the underlying top-line strength.

And then I guess while you're on the topic of guidance, I know this second part may have to wait till August for a full update. But FX seems to be taking a pretty big chunk out of your planned margin progression, again, based on this full-year outlook. So I'm wondering how – or I'm wondering what kind of risk that poses to your longer term target of 17.5% EBIT margins by fiscal 2017 as you look forward. Thanks.

Tracey Thomas Travis  
*Chief Financial Officer & Executive Vice President*

A

All right. Steve, no, great questions. So, one of the things that we have done historically and I think many of you recognize that is in the fourth quarter, if we are having a good year and generating incremental savings not only from our cost savings initiatives, but also from the momentum of the business, we take the opportunity to invest behind some of the strong growth drivers that we have to, not only end the year strong but also position ourselves for the upcoming fiscal year. So that is what we plan to do this year.

So the fourth quarter investment is a combination of planned investment that we had targeted for in the second quarter that if the third quarter was strong, we would reinvest back into the fourth quarter in those brands that are showing momentum.

So that's a piece of it. And the other is, as I had mentioned in my prepared remarks, we were a bit prudent in the third quarter recognizing that we had some weather challenges in North America and we were expecting an acceleration in sales. So we wanted to make sure that that momentum occurred before we spend as heavily behind some of the marketing programs for the new product launches that we had in the third quarter. And obviously the third quarter results that we just announced support that.

So, the fourth contains continued support around the turnaround plans for Estée Lauder and Clinique. We do have new product launches again in the third quarter – in the fourth quarter and we'll be supporting both the launches we did in the third quarter as well as in the fourth quarter with that investment.

We have additional investments supporting the momentum at M•A•C, Tom Ford, and Jo Malone, again, in line with the tremendous growth that we've seen out of those brands this year. We did have a bit of a delay in some of the M•A•C store openings that we had planned in the third quarter. And we'll now have a fair amount of M•A•C

store openings opening in the fourth quarter. So that's also putting some additional investment pressure on the fourth quarter.

And then we'll continue to invest in some of the corporate capabilities that we have outlined for you all year. We have a ramp-up in spending in R&D, information technology, HR and in digital. So those are generally the areas.

Regarding our outlook, over the next couple of years, you're correct, we will in August update what the impact of foreign exchange has been on our long-term outlook. And, Fabrizio, I don't know if you want to add anything to that.

---

**Fabrizio Freda**

*President, Chief Executive Officer & Director*

A

Yeah. We will update that, but you asked to get a sense on the situation. We have today 0.4 point of margin. We should [indiscernible] (36:36) acquisitions. I just want to clarify, this is going to be about 18 months input, so it's not a long-term input because the – at the end, this acquisition will be over time margin accretive, and the cost of the acquisition will be reabsorbed in 18 months. So the impact on currency [ph] that you are in (36:54), today is about 0.5 point if currency – if we had to go back to the currencies.

And we are working internally to look at a way in which to operate this with more savings, so other activity that will probably – we plan to work around this current currency situation. And, by the way, the currency in the long term could also change again. So we don't know. And so we will come with a point of view in August on what is the right balance for the future.

---

**Operator:** Our next question is from the line of Caroline Levy with CLSA.

---

**Caroline S. Levy**

*CLSA Americas LLC*

Q

Good morning, thanks very much. Love to just discuss the online opportunity in China. It's still – obviously it's number three, but it's still pretty small, and yet in other categories, it's really massive. I'm just wondering what your view is on how big it could be over a 5 year to 10 year period relative to the bricks and mortar business, if could you talk a little bit about that? And separately, in online, just to talk about how you plan to activate the New Dimensions, did I get that right?

---

**Tracey Thomas Travis**

*Chief Financial Officer & Executive Vice President*

A

Yes.

---

**Fabrizio Freda**

*President, Chief Executive Officer & Director*

A

So, to answer the first question, and I would like Dennis to say a few word, but today we have 8% of our global business online. I hope you were impressed as much we are by the progress that's been done online and by the potential in the long term. In the countries which are more developed like U.S., we have about 12% of our business. We believe that in China, China could be 20% of our business in the long term being online the way the country has progressed in the way other categories have progressed in this area. We are at the beginning of the journey in China where we have very well advanced in the U.S. I don't know, Dennis, if you want to add anything.

Dennis McEniry

*President-Estée Lauder Companies Online*

A

Yeah. I think first of all, we're pleased with the growth in China. We're going to more than double our businesses here. We expect in the next few years that our business will be about 20%-plus, as Fabrizio mentioned. This is a business that's quite new for us, online in the market, and in the current quarter, it basically performed as well as the UK in terms of the size of the business. So, it's become, essentially in this past quarter, equal to our number two business, and growing at triple-digits. So, we're very pleased.

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

And on New Dimension, we are very excited with this new launch of the Estée Lauder brand, we believe that the contouring category is a new trend, and there are many, many consumers around the world which are enthusiastic about entering this category and experimenting what the experience can be.

The product is excellent, does a fantastic job. So, we have a great formula, and we have great plans. And I hope as I explained in my prepared remarks, we plan to start from the United States in July, and then roll out internationally as of September, which is also clarifying the way we think of giving our best shot to accelerate the U.S. market.

**Operator:** Our next question is from the line of Olivia Tong with Bank of America.

Olivia Tong

*Bank of America Merrill Lynch*

Q

Good morning. Thank you. It sounds like on new products that there's a decent size surge relative to recent years. So, how do you think about the contribution from new products going forward, not only in Q4 but fiscal 2016 as well? And then following on that, as you focus more efforts behind millennials, does that in any way impact how you think about contribution of price mix to the top line? Thanks.

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

So I'll take this one. So our – the percentage of innovation as part of our sales every year, percent of new product is increasing. We have done great progress in the last years. And we have increased this significantly slightly ahead of the market. And obviously, the more the acceleration of the industry is in makeup, the more obviously this is innovation-intensive because makeup into a number of product launch is more intensive than any other category.

And so, we are very well-prepared. We will continue to be ahead of the industry average in terms of the ability to innovate, to exercise creativity and launch new products.

However, how we are doing it as I think I explained in my remarks, we are doing it analyzing the markets, analyzing what's big and what's growing the fastest. And, third, anticipating and inventing new breakthrough areas. So, the combination of focus innovation on what's big, what's growing, and inventing the new is basically our program. And in total, this will constitute a continuing increase of innovation year-after-year.

**Operator:** Our next question is from the line of John Faucher with JPMorgan.

John A. Faucher  
*JPMorgan Securities LLC*

Q

Yes. Thank you. You guys have been pretty up-front in terms of some of the pricing differentials related to China and travel retail over the past couple of years and how that's impacted your European business in particular. Can you talk a little bit about what you've seen in some of the other luxury categories in terms of some of the price changes out there? And is that something that you see entering the prestige beauty category going forward? Thanks.

Fabrizio Freda  
*President, Chief Executive Officer & Director*

A

I just noticed I didn't answer the previous question on pricing which was the mix with the millennials, so I'll start from that, is the fact – the entry price point, products are obviously more successful with the millennium than the very high-end luxury. But this doesn't mean that the entry price point products are less profitable for us. So, actually, the mix of entry price product in prestige for us is a favorable mix. So, we don't see any pressure from this trend. On the contrary, it's a good trend.

Now, going back to the question on pricing versus other category. Now we have a very articulated pricing process and price strategy globally. We, as a group – team internally, they measure price and price evolution, impact of currency changes and obviously, what competition does around the world constantly. This has happened already since few years.

And so we don't see any need of changing our strategy nor our processes. We just will continue to execute the process of harmonization, the process of responding to currency changes, the process of responding to competitive needs and obviously, most importantly, to consumer desires. And we'll continue in that direction like you have seen in the last year. So, we don't see a big change, in other words.

**Operator:** Our next question is from the line of Chris Ferrara with Wells Fargo.

Christopher Ferrara  
*Wells Fargo Securities LLC*

Q

Thanks. Good morning. I guess, Fabrizio, I wanted to go back to advertising in this particular quarter, right? So, I guess, coming into the quarter, you'd planned to increase ad support in the business. And the idea was that sales would accelerate on that increased support and better launches.

So, you got the sales lift, up 8% organic, which is good, but you got 40 basis points of ad leverage, right, which is I think very different than what everyone was looking for. So, I guess, I was hoping, just for some insight into this, I mean can you quantify how much was actually – how much advertising was actually deferred into Q4? Was the brand mix so different, right, meaning the brands that require advertising grow faster, was that mix so different from what you'd expected that you were able to get that growth on 40 basis points of advertising leverage? I'm just trying to look for a little bit more understanding on this. This would be helpful.

Fabrizio Freda  
*President, Chief Executive Officer & Director*

A

Sure. Let me say first of all, yes, we are postponing some advertising to the fourth quarter, as Tracey explained. That's why let me refer to the total year because your comment anyway is correct. We have in percentage advertised leverage on the total year even if by quarter, this is assessed by swing where we invest more on the

initiative we choose to support more. But for the total year, this is absolutely a correct statement. Our absolute level of advertising is basic flat. But in percentage of sales, we are leveraging it.

So why this is happening? First of all, within the advertising, there is a swing toward digital. This has an impact. And in many countries today is still a positive impact. Second, there is a fact that our traditional brand, which are typically more advertised, Estée Lauder and Clinique, as you know, are not the one which are driving the growth the fastest.

On the contrary, the fastest growing brands such as M•A•C or Jo Malone or La Mer or Bobbi Brown are not advertised the traditional way. They are advertised more in digital. And most importantly, a lot of, what we consider their marketing, is in their freestanding stores. And is in areas where the cost is somewhere else, is not on the advertising line. And so, in some of these brands, we are not necessarily leveraging the support to the brand, just changing line where you will find it, as Tracey explained. I don't know if Tracey want to add anything.

Tracey Thomas Travis

Chief Financial Officer & Executive Vice President

A

Yeah, No. We – obviously with our expansion of direct-to-consumer, we are seeing shifts in our expense line. So we're seeing faster growth of store, operating expenses, occupancy expenses and to Fabrizio's point, we are seeing shifts from advertising and promotion as those brands are growing slower than the brands that certainly are expanding from a direct-to-consumer standpoint.

As far as your question on our expectations in the third quarter and what shifted to the fourth quarter. We had about \$30 million of advertising that shifted – advertising and promotion that shifted from the third quarter into the fourth quarter. And again, that allows us to advertise both the launches that we had in the third quarter, as well as the ones we are going to do in the fourth quarter.

**Operator:** Our next question is from the line of Wendy Nicholson with Citi Investment Research.

Wendy C. Nicholson

Citigroup Global Markets, Inc. (Broker)

Q

Hi. Sorry for the background noise; I'm in an airport. But first of all just following up on that advertising question. As you go into 2016 – and I appreciate you don't want to give us any guidance – but as you go into 2016, and you put more effort behind the flagship Clinique and Estée Lauder brands, do you think that overall advertising ratio will go up?

And then second question, just following up on the DDML cream. I know when you launched DDML Plus, it was a little bit of a disappointment in that it wasn't incremental revenue growth, it was actually just cannibalizing the core business. So what makes you think that the cream is going to be incremental to that franchise? Thanks.

Tracey Thomas Travis

Chief Financial Officer & Executive Vice President

A

Okay. Thanks, Wendy. I'll take the first part, and Fabrizio will take the second part. So again, we're not going to give guidance obviously for fiscal 2016, but certainly as we indicated, we do plan to support Estée Lauder and Clinique as they continue to respond to both the new product launches and differential advertising a mixture of traditional advertising in TV and print, as well as increasing levels of digital advertising that we would expect to spend more in fiscal 2016 on both of those brands.



However, given the mix shifts that we're seeing with the faster growth of other brands, that does not necessarily mean that when you look at our advertising and promotion line, you will see de-leverage; quite the opposite. I think you'll continue to see us leverage marketing, advertising and promotion with the growth that we are seeing in the makeup artist brands and some of our direct-to-consumer channels.

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

Yeah. And Wendy on the cream is – first of all, Clinique has an outstanding DDML lotion business, which is loved by consumer and is preferred in many parts of the world. But, for example, the cream form is very preferred in Europe. We have seen, for example, on the Estée Lauder brand, that some years ago developed cream called the Supreme for Europe in a cream form, this being one of the key drivers in that region of the Lauder brand. And now also Clinique will have a cream preferred form that will have, first of all, a completely different regional relevance.

In the U.S., a cream is very preferred with people with dry skin and, in fact today, in our profile of Clinique, we have an opportunity to have much higher market share for DDML in the area of people with dry skin. So, there is a wide space, an extra business, no cannibalizing, which is a big [ph] next (50:26) opportunity with this initiative in our opinion in every country of the world.

**Operator:** Our next question is from the line of Dara Mohsenian with Morgan Stanley.

Dara W. Mohsenian

*Morgan Stanley & Co. LLC*

Q

Good morning.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President*

A

Good morning.

Dara W. Mohsenian

*Morgan Stanley & Co. LLC*

Q

First, just a question for Dennis. Can you give us a sense of how the profitability of the online business compares with the remainder of your business? And then, Fabrizio, you obviously posted strong organic sales growth this quarter. You're expecting another strong quarter in Q4. As you look out to fiscal 2016, can you discuss if you expect some of the key drivers behind that back-half strength will continue? And on the other hand in Hong Kong, can you discuss your expectations there and what you're expecting going forward? Thanks.

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

Okay. I will start answering this while Dennis prepares his answer on the profitability of online and online in general. So, the current trends that are behind our strong growth, frankly, we expect to continue. And I try to describe them in my opening statement which is basically, is the multiple engine of growth. The fact that if you look at our business by channel, by region, by brand, we have more than one-third of our business which is growing double digit, which basically means that the rest of our business can grow just in line with market, and we would achieve the kind of progress you are seeing today for the long term in a sustainable way. That's our model.

And the way we obtain our model is focusing whatever is big and growing more than the average and having the agility and the speed to reallocate resources wherever needed. What you see in our way of operating, I believe, is a special focus on agility and resource reallocation in a fast way to react to market dynamics. That's a strength.

So, the multiple engines of growth, the diversification of our portfolios and the agility of resource reallocation depending on trends is the fundamental area of competitive advantage that we have built, and I do believe that will continue to favorably impact our business trends also in fiscal year 2016 and in the future.

Hong Kong that you asked – now Hong Kong, frankly, as I said again in the opening remark, we do not see the recovery that we had hoped. Hong Kong – the Chinese travelers into Hong Kong is still weak. And the protest is creating some low level of retail, particularly at the high end. So we don't see an immediate recovery of Hong Kong. In Hong Kong, we are working, first of all, to cater better to the local because that's obviously more sustainable and more for the long term. And we are swinging the attention again, resource allocation toward more entry price of prestige versus the very high end has been typically the way the market has developed for us. And this will require some time.

So I still believe Hong Kong in the long term will remain a very vibrant and outstanding market. But I think we'll take some time to reallocate resources to the reality we are seeing in this moment. Dennis?

Dennis McEniry

*President-Estee Lauder Companies Online*

A

Yeah. As to the margin contribution of the online business, we don't break that out publicly. It's different, frankly, by market and by region. I will tell you that it is in the group of the highest contributors of margin to the company. So we're up in the realm of the groups that contribute the most margin to the operating margin of the company.

**Operator:** Our next question is from the line of Mark Astrachan with Stifel Nicolaus.

Mark S. Astrachan

*Stifel, Nicolaus & Co., Inc.*

Q

Thanks, and morning, everybody. I wanted to understand what kind of growth rate is anticipated for the fourth quarter for brands Clinique and Estée. And just sort of broadly longer term, what's a reasonable growth rate for those brands over the next, call it, year or two relative to what you've been seeing for those brands? And sort of how do you holistically think about growth longer term for those brands?

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

In this moment, we expect these two brands to be in the fiscal year on a slight decline this fiscal year. And we are working to have next year a slight positive. And then over time accelerate more, but that's basically answer to your question. That's why I keep saying, we'll take about 12 months, 18 months to see a turnaround and then an acceleration. For the moment, you need to expect at least that's our focus from a slight decline to a slight positive. That, however, will have a very positive impact on the overall company acceleration, particularly if the rest of the business remain as solid and vibrant as it is today.

**Operator:** Our next question is from Lauren Lieberman with Barclays Capital.

Lauren Rae Lieberman

*Barclays Capital, Inc.*

Q

Thanks. Good morning.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President*

Good morning.

Lauren Rae Lieberman

*Barclays Capital, Inc.*

I had a question for Dennis around decisions to work with retailer sites. So I think before I've heard you guys talk about the decision to launch a given brand in a given brick and mortar retailer like do you do Macy's on 34th Street, for a given brand versus the nearby Sephora. What's that thought process for dotcom business with your retailers? And I'm thinking in particular about expanding your presence with Ulta.com. Thanks.

Dennis McEniry

*President-Estee Lauder Companies Online*

Yeah. So the first thing we do is we look in each country and each market at fit for each particular brand. We would prefer to support authorized retailers in our brick and mortar relationships as each one of our – as they're important to each one of our brands. We do look at other opportunities in each market, for instance, the Tmall opportunity in China is a unique business model. It allows us to run our own freestanding stores, if you will, shop-in-shop online. And we do look around the globe at other fits for our brands. But our preference is to start and to build our business with our authorized retailers and help them grow their online business and our brand business with them.

**Operator:** Our next question is from Nik Modi with RBC Capital Markets.

Nik H. Modi

*RBC Capital Markets LLC*

Yeah. Good morning, everyone. Fabrizio, I was hoping you can address two things on the whole strategy with millennials. Given that they're always looking for new news and it's probably making you accelerate some of your innovation or at least the pace of innovation, how do you manage complexity, number one? But also the integrity of the Clinique and Estee Lauder brands in particular as you step up the new news? Any help with that would be much appreciated.

Fabrizio Freda

*President, Chief Executive Officer & Director*

Yeah.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President*

So let me start, Nik, and then Fabrizio will take it from there. One of the things, and we'll start with Estée Lauder. And certainly, many of our brands are focused and quite successful with millennials. What we have done and part of the turnaround strategy with Estée Lauder and Clinique is to focus in addition to focusing on our core consumers, also focusing on attracting this new millennial consumer, which is more digital savvy and certainly interacts with brands initially in terms of how they consume information in a different way.

Hence, the focus of those two brands more on digital from a communication standpoint. Some of the spokes model choices that we have made as it relates to Estée Lauder to really reach out to a more digitally-savvy millennial consumer, in particular, and some of the new product launches for Clinique that not only we believe appeal more to a millennial as well as to our core consumer franchise, but also are more entry-level price point focused for the millennial consumer. We do balance that and I'll take Clinique, for instance. We started the year off with two very strong, higher-end products for skin care which was the Sonic device as well as Smart serum. And, certainly, that was focused on the core franchise and focused on the broader consumer base, and they're coming back with a strategy to focus on millennials.

We do have a fairly regular when you talk about complexity, and certainly, we have a lot of brands now and a lot of SKUs. And we do go through a line edit every year to do SKU reduction and SKU rationalization, and that is part – one of the many cost-saving initiatives that we are executing against and ramping up now that we have SMI and have more visibility to that information than we've ever had in the past. Fabrizio?

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

Yeah. And then, so just say obviously the complexity will actually improve with all the plans that Tracey just explained. And so, even if we deal with more innovation and more specific targets and more local relevance, by the way, you didn't, but is another which another big driver of complexity. But the way we are operating and the concept [indiscernible] (60:24) SMI that we will definitely be ready to manage this complexity and the complexity will improve.

Now, going back to the millennial is that – it's good news. The millennials love our products. And when we talk directly to them and talk to them the way they want to be talked to, they really love our products. And the social media input of some, for example, of the millennial spokesmodels that we now have is just impressive and amazing, and this is driving our communication with millennial. One proof of that, Dennis just spoke about our vibrant online business. This online business is driven mainly by the millennials. And this is one of the fastest growing part of our business.

And the other thing I want to say, we do this also internally to prepare the company to be able to speak to millennial. We are making sure that Estée Lauder Company will be a great place where the millennial want to work in. And we, senior management, are working with millennials regularly, and we have programs to make sure that we listen to them more regularly to understand also not only what they want as a consumer, but also as a professional, and how we can work together and modernize the thinking of the company even internally.

So, it's a big process. We are really embracing the need to modernize, and we are embracing the millennial generation as a generation that can help us modernizing as professional and as consumers.

**Operator:** Our next question is from the line of Ali Dibadj with Bernstein Research.

Ali Dibadj

*Sanford C. Bernstein & Co. LLC*

Q

Hey, guys. So, a couple of things. One is just wanted to see if you have an inventory level target post SAP, because it is quite great that you're giving all that cash back to shareholders, so want to see kind of how far it can go?

And then number two is if you could tell us a little bit more about the relative slowness on skin care plus 4%? And how that ties to, or is exclusively driven by, the heritage brands, especially in the U.S.? And what do you think you can do about it, especially in the context of expanding into new channels with those brands? So Ulta, more in

Sephora, more SKUs, more brands perhaps, more third-party commerce sites et cetera. Is that one of the solutions to resolve, perhaps, the skin care problem? Thanks.

Tracey Thomas Travis

*Chief Financial Officer & Executive Vice President*

A

Okay. So, Ali, I'll take the inventory question. We are aggressively working with our organization to manage inventory turnover and to improve inventory turnover and you're seeing the beginning results of that now. So, we spoke about it last year that post-SMI, we had the opportunity to really leverage the tool and start to drive some of the supply chain opportunities from an organizational standpoint. Everything from improved forecasting to improved flow of inventory and movement of inventory throughout our supply chain and to our consumers, so – our customers and our consumers.

So, that's happening. We have talked in the past about a target of [ph] 140 (63:43). We have not given a timeframe as it relates to that. We are aggressively working towards achieving that goal and being able to communicate a more specific timeframe for you as it relates to that goal. So, you can expect an inventory update from us on the August call along with our three-year outlook.

Fabrizio Freda

*President, Chief Executive Officer & Director*

A

Yeah. And on skin care, in my opinion, the best way – first of all, skin care remains the biggest and one of the fastest growing together with makeup now, categories around the world. So, Ali, you are referring to skin care U.S., which definitely needs to accelerate, but skin care is driving around the world. In Asia, continue to be, by far, the biggest category and growing. So, skin care U.S., [indiscernible] (64:38) benefit mainly from some amazing breakthrough innovation that will drive and continue push the consumer into this, and that's our main focus.

And then, yes, the skin care can also benefit from – thanks to this innovation getting more traffic and more interest in department store about the skin care and creating more animation story and more activity. And then the skin care continues to grow online in a very successful way, which shows again the potential of it when it's well targeted.

And finally, you mentioned the specialty channel which has been for the moment more focused on the makeup and has been – the specialty channel has been one of the key drivers behind makeup acceleration. As far as the specialty channel and the methodology of breakthrough in-store activation used by the specialty channel will translate into skin care. I think this will further accelerate prestige skin care also in the U.S.

**Operator:** We have time for one more question. Our final question is from the line of Steph Wissink with Piper Jaffray.

Stephanie Schiller Wissink

*Piper Jaffray & Co (Broker)*

Q

Hi, good morning, everyone. Just a really quick question for you, Dennis. As you talk about your online business, it's almost \$1 billion here in the next 12 months or so. Can you talk about the data capture and some of the information that you're using, whether it be directly for the online business, or just strategically across the organization, the information that you're capturing online? Thank you.

Dennis McEniry

*President-Estee Lauder Companies Online*

A

Yeah. So, it's a great question. Actually, online, as you're alluding to, we can capture so much consumer insights. And we are starting to really use those in all areas of the business not only in our marketing for the total business in every channel but also in product development and R&D. And we're really getting so much feedback from our consumers, and we're using all of those data insights which frankly differ by market and by brand around the world. But we're able to collect those globally because we have one global technology platform, and we're sharing them throughout the company to make big, better decisions and better strategies and better products.

---

**Operator:** That concludes today's question-and-answer session. If you were unable to join for the entire call, a playback will be available at 1:00 PM Eastern Time today through May 19. To hear a recording of the call, please dial 855-859-2056, passcode 24651057. That concludes today's Estée Lauder conference call. I would like to thank you, all, for your participation, and wish you all a good day.

#### Disclaimer

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

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2015 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.