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The Estée Lauder Companies, Inc. (EL)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone and welcome to the Estée Lauder Companies' Fiscal 2020 Fourth Quarter and Full Year Conference Call. Today's call is being recorded and webcast. For opening remarks and introductions, I would like to turn the call over to Senior Vice President of Investor Relations, Ms. Rainey Mancini.

Laraine A. Mancini

Senior Vice President-Investor Relations, The Estée Lauder Companies, Inc.

Hello. On today's call are Fabrizio Freda, President and Chief Executive Officer; and Tracey Travis, Executive Vice President and Chief Financial Officer. 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 the factors that could cause actual results to differ materially from these forward-looking statements. To facilitate the discussion of our underlying business, the commentary on our financial results and expectations is, before restructuring and other charges and adjustments, disclosed in our press release. All net sales growth numbers are in constant currency.

You can find reconciliations between GAAP and non-GAAP figures in our press release and on the Investors section of our website. For clarity, I would like to remind you that references to online sales include sales of our products from our online channels, including brand.com and third-party platforms, as well as estimated sales of our products through our retailers' websites.

During the Q&A session, we ask that you please limit yourself to one question so that we can respond to all of you within the time scheduled for this call.

And now, I'll turn the call over to Fabrizio.

Fabrizio Freda

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

Thank you, Rainey, and hello, everyone. Fiscal year 2020 was truly a year without parallel, as we delivered one of our strongest first halves on record and navigated with agility through an unprecedented pandemic in the second half. In both of these dramatically different halves, our employees led with extraordinary passion, creativity, and resiliency. Our hearts continue to be with everyone impacted by COVID-19, and we remain focused on the safety and well-being of our employees, their families, and consumers.

The second half of our fiscal year also marked a period of profound pain, as tragic events in the United States highlighted the systemic racial injustice that has plagued our society for far too long. In June, we announced a comprehensive set of commitments to act with urgency on achieving racial equity. We stand in solidarity with our black employees, black consumers, and black communities, and firmly know black lives matter.

Among our many commitments, we are listening and learning to foster a stronger internal culture and advocacy in inclusion. We are focusing on talent and opportunity to ensure that we are providing more equitable access to professional development and advancements for our black employees. We are ensuring that the end-to-end creative process accurately and consistently represents the black experience and engages black professionals.

We are investing for change, through a three-year, \$10 million pledge for the company, our brands, our foundation, employee matching gifts, and the Lauder family to support non-profits and are in the process of

making the initial \$5 million donation. Since announcing our commitments, we have held 30 town halls with our employees and began to identify gaps in our professional development and advancement opportunity for our existing black talent. We have also engaged a diversity-focused recruitment firm and created new diversity recruitment resources. We have commitment to doing more [ph] as it lies (00:04:03) at our company and in our communities.

In the last few months, the company and our employees have also made donations and pledges to organization around the world to help limit the spread of COVID-19, and ease the related hardship faced by the communities in which we live and work. We made hand sanitizer for frontline workers, high-risk individuals, and our employees. The production continues in this day at our facilities in the United States, the United Kingdom, Belgium, and Switzerland.

Our brands have found meaningful ways to offer support, and Aveda is a shining example. Its initiative for salon owners and stylists served to connect and educate, as well as to provide financial and business assistance. By offering extended payments term, online sales, reopening toolkits, and over 1,000 hours of virtual education, Aveda actively assisted its network during this challenging period of salon closures.

Turning now to the year's performance. In the first half of fiscal year 2020, sales rose 14%, and adjusted EPS climbed to 20%. Our continued outperformance yielded strong global prestige beauty share gains. In fact, our gains accelerated in calendar 2019. We were well on our way to a third fiscal year of double-digit sales and adjusted EPS growth. Despite extensive temporary store closures worldwide in the second-half as COVID-19 pandemic took hold, sales fell only 20% and we were profitable as we quickly pivoted to online to capture consumption and adjust our cost structure.

Our multiple engines of growth strategy, which has powered our success for over a decade, continues to be highly effective. The company diversified prestige beauty portfolio give us many levers to drive the business. Our robust global skin care portfolio, vibrant online business, and broad exposure to Asia/Pacific are the engines of this moment. In them, we enjoyed both strong and growing prestige beauty share and profitability.

Across these engines, the Estée Lauder brand's performance was magnificent in fiscal year 2020, as it achieved its third consecutive year of double-digit sales growth. Impressively, the brand hero franchises of Advanced Night Repair, Revitalizing Supreme+, Perfectionist, Re-Nutriv, and Micro Essence all contributed meaningfully to growth. For the fiscal year, skin care performed exceptionally well. Estée Lauder, La Mer, Tom Ford, Origins, Darphin, and Le Labo drove growth organically; while the category also benefited from the acquisition of Dr. Jart+.

We delivered excellent performance across subcategories, owing to strong repeat purchase rates, data analytics driven marketing, new social selling strategies developed during COVID-19, and highly desirable innovation. Among the subcategories, demand for watery lotions is soaring as a hydrated step before serums and moisturizer in the new era of self-care. Estée Lauder Micro Essence, La Mer The Treatment Lotion, Origins, Dr. Weil Mega-Mushroom Treatment Lotion delivered outstanding growth for the fiscal year, and we expect to continue favorability in this compelling subcategory.

Beyond watery lotions, our serums and high-care subcategories are prospering. For serums, cherished heroes like Estée Lauder Advanced Night Repair and innovation from Clinique Even Better line, and Estée Lauder Perfectionist and Re-Nutriv franchise bolstered growth in fiscal year 2020. La Mer New Eye Concentrate, launched a few months ago, has been highly sought as consumers are embracing its lighter texture and new claims.

In EMEA, the product was the bestseller on lamer.com in the fourth quarter. Trusted brands, like Clinique, flourished online when brick-and-mortar closed. In the fourth quarter, Clinique US prestige beauty share rose on retailer.com, solidifying its number one brand. Sales on clinique.com were the largest across of all of our brand sites in the quarter, driven by hero's Dramatically Different Moisturizing Lotion and Moisture Surge. Clinique promise to deliver products that are simple, safe, and effective for skin is resonating loudly online.

Our online business surged worldwide in fiscal 2020. It delivered nearly triple-digit organic sales growth in the fourth quarter, which is a testament to the capabilities and scale we had built. Each of brand.com, brand boutiques on platform, such as Tmall and retailer.com doors contributed meaningfully.

On our brand sites in particular, we delivered nearly 90% organic sales growth globally in the fourth quarter as we increased investments to offer the best High-Touch services. We quickly evolved our live chat capability to video. We also announced our Virtual Try-On to include more categories. We rapidly deployed live streaming, first in Mainland China and then globally, engaging makeup artists as well as brand ambassadors for tutorials. Our live streams are shoppable, meaning that consumers can make purchases within the event.

Across the brands, traffic grew significantly in the fourth quarter, and conversion rates rose dramatically. Encouragingly, we saw strong growth in engagement and repeat purchase behaviors. Both new and existing consumers shopped our brand sites more frequently. As for example, with Origins and Estée Lauder in the United States, reinforcing the great work we are doing to cultivate and retain consumers through this moment. Consumer have discovered new shopping habits online that are enduring, and this is true of all ages.

Clinique's live streaming series designed to both entertain and educate, led consumer to return more frequently, spend four times longer on site, and convert at far higher levels. The brand June live streaming event with Clinique global ambassador Emilia Clarke surpassed these newly-elevated conversion levels.

Bobby Brown launched its Artistry Like Never Before program in May, offering consumers one-on-one and small group video consultations with national makeup artists. These engaging sessions range from 15 to 60 minutes, with the 30-minute Makeup Bag Makeover session as the most popular. Conversion rates are incredibly strong, with a high-level of units per transaction. Bobby Brown continues to scale this program globally to meet the increasing demand. This is just one example of the many ways our brands are building community through this challenging moment, and we see this as an exciting evolution of the shopping experience for the future.

Aveda, which led our brands by first launching its ingredient glossary earlier in the year, is seeing guests who engage with the glossary spend three times more time on aveda.com than average. Further acting on our commitment to ingredient transparency, Clinique, La Mer, and Origins launched their ingredient glossaries in the fourth quarter; and we have more to come in fiscal year 2021.

We maintained our strategic focus on key online shopping events throughout the year. Our advanced planning for these events delivered outstanding results. For the 6/18 mid-year shopping festival, the Estée Lauder brand sales on Tmall tripled, and its sales ranked second among all prestige beauty brands.

Our Asia/Pacific region delivered superior sales growth in fiscal year 2020. Every category in the region expanded, led by accelerating growth in skin care. Fragrance also accelerated, as consumer desire in the region for our portfolio of luxury and artisanal fragrance built. Mainland China performed exceptionally, with its sales rising roughly 50% organically in the fourth quarter. Korea and several other markets also grew for the year and fourth quarter, driving prestige beauty share gains for both periods.

In Mainland China, the premium and luxury segments of prestige skin care are booming. In fact, luxury is the primary growth driver for the total category. For this, La Mer is ideally positioned with its heritage, iconic ingredients, and superior quality. La Mer is helping to grow the category and the brand shares of prestige skin care is expanding significantly, which is the ideal combination.

Desire for our luxury and artisanal fragrances is strong in the region, and we continue to see the growth. In the fourth quarter, we launched Kilian and Frédéric Malle in Mainland China with great initial interest from consumers. In Korea, our fragrance sales soared as Jo Malone London and Tom Ford grew with our launches of Kilian and Le Labo were also highly sought, collectively driving prestige share gains in the category.

With air travel still largely curtailed, we are focused on meeting demand locally across the brick-and-mortar and online channels as well as in localized destinations of travel retail. Hainan, in particular, is prospering as tourism gradually resumes, which partially offset the decline of travel retail in the fourth quarter. As of July, duty-free shopping allowances in Hainan have increased more than threefold, which is further boosting consumption. We continue to strengthen our leadership in the travel retail channel.

Innovation is fundamental to our strategy, and even in this unique year, it once again represented over 25% of sales. It will play a vital role in fiscal year 2021, powering the engines of the moment and the engines of the future. Already out this month are two big launches in skin care. La Mer launched its new concentrate as a potent barrier serum newly advanced with antioxidant power to be a double source of strength against environmental stressors and their aging effects.

Estée Lauder introduced the breakthrough new generation of its brand icon, Advanced Night Repair. This powerhouse serum still has all the benefits and texture loyal consumer know and love, and now feature innovative new technology. Tested on women of all skin tones, ethnicities and ages, it now offer the fast-growing, highly-desired benefits of firmness, pore minimization, and eight-hour antioxidant powers on top of its existing wrinkle and uneven skin tone benefits, to recruit a younger consumer while retaining our loyal users globally. Its package has been modernized into a luxurious recyclable glass bottle that supports our sustainability initiatives.

We have excited with launches to come from M·A·C and Clinique in Macau, as we anticipate trends on the horizon. Our pipeline in fragrances and hair care is also robust, with newness from Jo Malone London and Aveda, among others. Looking ahead, we are confident that we can return to our long-term growth algorithm of 6% to 8% sales growth, 50 basis points of operating margin expansion, and double-digit earning per share growth in constant currency after a period of normalization as the impacts of COVID-19 subside.

Our Citizenship and Sustainability goals remains on track. We are also implementing sustainable office practices in Mainland China and exploring green energy solutions there. For fiscal year 2021, we are investing in several strategic priorities intended to drive our long-term sustainable growth. Among the priorities are enhancing manufacturing capabilities, expanding online fulfillment capabilities, and further funding growth opportunity in Asia/Pacific, including our new state-of-art innovation center in Shanghai.

While the world continues to confront many unknowns related to the pandemic, certain realities have emerged that have accelerated our strategy. As online has quickly grown, we need to more aggressively adjust our brick-and-mortar footprint and more closely align with how and where the consumer wants to shop.

The Post-COVID Business Acceleration Program we announced today is designed to rapidly reallocate our resources, enabling us to invest in the greatest opportunities for long-term sustainable growth, like online, skin care, or China. Importantly, this program will also improve the productivity and sustainability of our brand-building

brick-and-mortar footprint and better position us to make it experiential and omni-channel. Tracey will discuss the program in more detail.

In closing, we confidently bring the strength of the first-half and the learnings from the second-half with us into a new fiscal year. I want to thank all our employees for your exceptional contributions across the year and most especially the second-half. You navigated through an unprecedented period with grace and made us a better company.

Now, I will turn the call over to Tracey.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

Thank you, Fabrizio, and hello everyone. As Fabrizio said, fiscal 2020 was an extreme tale of two halves. At the end of December, we delivered our best half-year performance on record, and by the time we closed the year on June 30, COVID-19 had created the backdrop for our worse second-half performance. Navigating through this year has certainly been one of the most significant challenges we have faced. At the same time, we are proud to recognize the incredible compassion and resilience of our employees, who continued to support their communities and each other as they also worked to both mitigate the business impact of COVID-19 and also drive the recovery of our growth. As a reminder, my commentary today is adjusted for the items that Rainey mentioned at the beginning of the call and net sales growth numbers are in constant currency.

And now for the quarter results, net sales for the fourth quarter fell 31%, as the majority of our brick-and-mortar distribution throughout the world was closed for much of the quarter. We rapidly accelerated programs to capture additional growth globally online, resulting in nearly double our online sales year-over-year. As a result, online sales, including Retailer.com, represented more than 40% of our total sales in the quarter. The December acquisition of Dr. Jart+ added approximately 3 points to net sales growth.

Regarding our regional performance, net sales in Asia/Pacific rose 16%, driven primarily by very strong double-digit growth in skin care. Mainland China returned to previous levels of robust double-digit growth, as brick-and-mortar retail reopened and online more than doubled on strong June 18 mid-year shopping festival programs. Nearly every brand and channel rose strong double-digits in China; Korea rose mid-single digits while other markets in the region have been slower to recover. Net sales in our Europe, the Middle East and Africa region fell 39% with all markets declining. Global Travel Retail, which is primarily reported in EMEA was hard hit by the 97% drop in international passenger traffic but still managed to decline less than 30% for the quarter, supported by strong local tourism within China.

Net sales in the Americas declined 54%, reflecting a very difficult environment throughout the region. From a category standpoint, skin care was the most resilient. Net sales grew 3%, driven by continued strong increases from the Estée Lauder and La Mer brands in Asia. Skin care sales also benefited from the acquisition of the Dr. Jart+ brand. Net sales in makeup fell 61%, reflecting greatest impact of COVID-19 work-from-home and social distancing guidelines on consumer preferences, particularly in Western markets where makeup is the largest category.

Fragrance net sales declined 56%, reflecting the impact of store closures and a shift in consumer preferences from personal colognes to hand wash and home fragrances.

Our hair care net sales fell 35%. Most stores and salons were shuttered during the quarter. Our gross margin decreased 840 basis points, compared to the fourth quarter last year, as we expected. A number of factors

contributed to the decline and most were triggered by the impact of COVID-19 on our sales and on our manufacturing locations. Increased obsolescence contributed more than half of the decline as demand for all products particularly makeup was sharply curtailed by COVID-19. Inefficiencies caused by the temporary shutdown in some of our manufacturing locations and the implementation of social distancing measures reduced capacity and triggered a requirement to recognize these manufacturing costs in the current period, rather than when the product is sold. This contributed approximately 210 basis points to the decline. The inventory step-up related to the Dr. Jart+ acquisition increased tariffs and other supply chain impacts made up the remainder of the decline.

Operating expenses declined 22%, reflecting the \$550 million in cost actions we implemented during the quarter; however the sudden and dramatic sales decline and the gross margin impacts I just mentioned resulted in a \$228 million operating loss for the quarter. The diluted loss per share of \$0.53 including \$0.03 of unfavorable currency translation and \$0.06 dilution from the acquisition of Dr. Jart+.

Let me now discuss a few elements of our full-year results. Net sales declined 3% in constant currency, reflecting the record performance in the first-half followed by the impact of COVID-19 on the second-half. Our distribution mix shift continued to evolve, accelerated by COVID-19. Online sales growth accelerated during the year and continued to outpace other channels. Online, including Retailer.com represented 22% of our total sales during fiscal 2020, a 7-point increase compared to last year. Travel Retail delivered a strong performance despite the sharp downturn in the second-half and grew high-single digits for the year, ending fiscal 2020 at 25% of sales. Department stores globally, including their Retailer.com business, represented 31% of fiscal 2020 sales, and North America department stores were 9% of our global sales mix.

Our gross margin fell 220 basis points to 75.2%, driven largely by the factors I just described in the fourth quarter. For the full-year, the increase in obsolescence comprised about half of the decline. The COVID-related manufacturing inefficiencies were approximately 50 basis points and the Dr. Jart+ acquisition increased tariffs and other supply chain impacts caused the remainder of the decrease.

Operating expenses declined \$240 million or 3% for the year, reflecting savings from Leading Beauty Forward and our ongoing cost initiatives as well as the cost containment actions we took in response to COVID-19 in the second-half of the fiscal year. Our full-year operating margin fell 280 basis points to 14.7%, primarily reflecting the gross margin decline, 40 basis points dilution from the inclusion of Dr. Jart+, and the deleveraging effect of lower sales. The capabilities we built during this time and the actions we took and are taking should help position us to emerge strongly when the recovery is in full swing.

Our effective tax rate for the year was 23.2%, an increase of 200 basis points over the prior year primarily driven by the geographic mix of earnings. Net earnings declined 24% to \$1.5 billion and diluted EPS fell 23% to \$4.12. Earnings per share was negatively impacted by \$0.04 from currency translation and \$0.11 dilution from the acquisition of Dr. Jart+. We recorded \$1.2 billion after-tax or a \$3.31 per share of impairment charges, primarily related to our makeup brands that were initially challenged by a general slowdown in the overall makeup category and along with certain freestanding retail stores, have been further challenged by the impact of COVID-19 on consumer demand.

In fiscal 2020, we recorded approximately \$68 million after-tax or \$0.19 per share in restructuring and other charges for our Leading Beauty Forward initiative. We remain on track to substantially complete initiatives under the program by the end of fiscal 2021 and we continue to expect annual net benefits of approximately \$475 million, before taxes. These charges were partially offset by the gain on our minority interest in Dr. Jart+ and favorable changes in the fair value of contingent consideration.

As you have heard, COVID-19 has created a number of disruptions to our business, including accelerating changes in our distribution mix that had been expected to occur over a longer period of time. The Post-COVID Business Acceleration Program that we announced today reflects the need to accelerate additional organizational changes during fiscal 2021 to operate more effectively in the post-COVID reality. We expect to close select department store counters and between 10% to 15% of freestanding retail stores primarily in Europe and North America, while also further supporting the accelerating consumer shift to online shopping. This necessitates commensurate changes in our commercial organizations that will reduce the number of employees by a net range of 1,500 to 2,000, primarily point-of-sale and support personnel related to those retail locations. While some positions will necessarily be eliminated, we also plan to increase investment in online talent and capabilities including online consultation by sales associates.

We also intend to reinvest a portion of the savings from the program to further build out our online technical capabilities, including accelerating omni-channel capabilities linked to our retail stores and to increase digital media to reach both new and existing consumers. The program is beginning now and we expect to realize results fairly quickly, mostly in the coming two years. We expect to take charges of between \$400 million and \$500 million through fiscal 2022 and generate savings of \$300 million to \$400 million before-tax by fiscal 2023, a portion of which will be reinvested to drive growth.

Moving on to cash flows, cash generated from operations was slightly below last year at \$2.3 billion, reflecting lower net sales partially offset by cost actions and favorable working capital. We utilized \$623 million for capital improvements, primarily supporting our e-commerce capabilities, supply chain improvements and information technology. We eliminated or deferred approximately one-third of our planned CapEx, mostly related to retail stores and office space upgrades. We also used \$1.04 billion net of cash acquired to purchase the remaining ownership interest in Dr. Jart+.

During the year, we borrowed \$2.7 billion net of repayments to both fund the acquisition of Dr. Jart+ and to provide liquidity and flexibility as the COVID-19 impact spread during the second-half of the year. We ended the year with \$5 billion in cash and cash equivalents and \$6.1 billion in short- and long-term debt. Even with these liquidity actions and with lower earnings, we returned \$1.4 billion in cash to stockholders during the year via dividends and share repurchase activity. In August, we repaid the remaining outstanding \$750 million drawn on our revolver.

In the near-term, while we are encouraged by the gradual reopening of markets around the world, it remains difficult to predict the duration of the pandemic, the timing and trajectory of the recovery and the corresponding impact on our business, even while online remains a significant bright spot. Where stores are open, we are seeing traffic return slowly. We are also mindful of the risk of the global recession and a likely slow recovery in employment, as some businesses in Western markets remain closed and many government support measures taper off. Therefore, we are not providing explicit sales and EPS guidance for the full-year; however we can provide you with some underlying assumptions to help at least frame some of your expectations for the year.

We do expect to see progressive quarterly sales and profit improvement as retail doors re-open and traffic and travel gradually resumes, assuming no significant second wave occurs. Given this expectation, for the first-half of the fiscal year, comparisons to our record performance in the prior first-half will be difficult, with sales and profit below prior-year levels. While online is expected to perform strongly, the momentum for recovery in brick-and-mortar and Travel Retail will not be realized until later in the second-half. Conversely, we expect sales and profit to grow significantly in the second-half of the year against a period of considerable COVID impacts particularly in the fourth quarter. The inclusion of six months of incremental sales from the acquisition of Dr. Jart+ should add

about 1 to 2 percentage points to sales growth for the fiscal year. Pricing is expected to add another 2 points of growth.

Our manufacturing capacity is back to near-normal levels and we expect our gross margin to recover accordingly. We expect to realize the full benefit from Leading Beauty Forward in fiscal 2021 and we will continue to maintain some of the COVID-19 cost controls as we progress through the first half of the year. These savings are expected to give us the flexibility to invest more in digital marketing and advertising to support innovation, recruit new consumers and drive brand awareness, while also supporting our operating margin recovery.

Our full-year effective tax rate is expected to be approximately 23% and net interest expense is expected to be approximately \$170 million. Capital expenditures are planned at approximately \$900 million, as we continue to invest in additional manufacturing and distribution capacity, technology, and data analytics, research capabilities and e-commerce to support future growth.

And as you saw in the press release today, we declared a quarterly dividend of \$0.48 per share. We also expect to reinstate share repurchases sometime during the year, as we gain comfort that the recovery is more sustained.

As we are already halfway through our first quarter, we are more comfortable providing guidance for this quarter. At this time, we expect sales to decline 11% to 12% in constant currency. Sales declines peaked in April and have been gradually improving each month, as retail markets around the world reopen for business. The incremental sales from Dr. Jart+ are expected to add about 2.5 points to growth and currency is expected to be dilutive by approximately 1 point. We expect first quarter EPS of \$0.80 to \$0.85, reflecting the sales outlook, continued cost containment measures and investment in key growth areas like online, innovation and China. Currency is expected to dilute EPS by \$0.01, and Dr. Jart+ is forecast to dilute EPS by \$0.06.

We look forward to leveraging the tremendous strength of our business and driving a strong recovery in the new fiscal year as the market accommodates. Protecting our agility to invest appropriately for both the near-term recovery and the long-term opportunities inherent in global prestige beauty is paramount to the strategic actions we are taking to continue to support long-term sustainable growth.

On behalf of Fabrizio and the Estée Lauder Companies' leadership team, we give thanks to all our employees around the world for their extraordinary efforts to manage during this unprecedented period.

That concludes our prepared remarks. We'll be happy to take your questions at this time.

QUESTION AND ANSWER SECTION

Operator: The floor is now open for questions [Operator Instructions] Our first question will come from the line of Erinn Murphy with Piper Sandler.

Erinn E. Murphy

Analyst, Piper Sandler Companies

Q

Great. Thanks, good morning. I guess my question is for Fabrizio. You've had a lot of success in digital. That was really expounded upon this quarter. Have you changed your views on how you view Amazon as a potential beauty partner?

And then secondly, if stores are starting to re-open, can you just talk about how consumers are interacting with stores? Thank you.

Fabrizio Freda

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

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So, no, we have not changed our point of view at this point in time on Amazon. We see such a huge, long-term sustainable evolution of our online that we want to focus on that. And specifically I want to explain what's happening in the online part. Our last quarter, our online business was growing at triple-digits, and this included 90% growth on our brand.com, great work on retail.com in the 80-plus percent and also triple-digit in our platforms [ph] at Tmall (00:39:28). This increase, particularly the brand.com and the platforms is increasing our data-to-consumer business, which means increasing our data availability of consumers and increasing our ability to market these consumers.

The other thing we are seeing is a dramatic increase in consumer engagement in the world of online. And because of these better engagements, we are driving loyalty and repeat of our hero products like never before. And, finally, we really see an increase of exclusivity; meaning the consumers that were already there are buying more exclusively our brands and our brands online. And we see the arrival of new consumers across all age groups which was not the case in the past, where the younger age group was ahead. And now, we see really an increase across all ages group. This is a tremendous opportunity and we stay focused on leveraging this opportunity in the future.

The other thing we are doing is investing in creating better omni-channel capability, which bridge you – bridge to your second part of the question, which is what we see in store. We see that brick-and-mortar stores are and will remain very important, but they will need to be linked more wherever possible in omni-channel ways to the online, the consumer expect the full experience, and the brick-and-mortar store will need to become even more experiential to attract the right traffic on top of being omni-channel. And so we expect brick-and-mortar to be very important, continue being brand-building, but we need, as we explained in the prepared remarks, to rationalize it because we need to increase productivity. We need to bring back the productivity level that had been diminished by the COVID situation. And bringing back the productivity will make the brick-and-mortar more sustainable for the long-term that we continue to bring an essential part of brand-building.

Erinn E. Murphy

Analyst, Piper Sandler Companies

Q

Thank you.

Operator: The next question will come from the line of Lauren Lieberman with Barclays.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Great. Thanks. Good morning.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

Good morning, Lauren.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Good morning. I was hoping we could talk a little bit about North America and sort of underlying brand performance and takeaway, if you will. [indiscernible] (00:42:00), anything you could share, I guess one, in terms of brand.com performance, and then two, the degree to which existing retail inventories, so retail inventory at department stores as an example and specialty multi which are redirected to fulfill online orders such that maybe the shipment numbers that you're reporting don't really give us like a full read of how the brands were actually performing during the quarter. Thanks.

Fabrizio Freda

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

Yeah. So, first of all, your first part of the question, in North America our online business has been exceptionally strong, and our brand.com business has been really exceptionally strong. And the penetration of the online business has increased dramatically after the 40%. And so that changed. Now, a lot of this will be sustainable for the reason I was explaining before; meaning that retail.com is increasing and the reason why it will be sustainable. The engagement of the consumers there is increasing. Our brand.com increased in the 90% is sustainable because we see it from the consumer engagement for the amount of time people spend on our brand.com.

Just to give you a sense, a few data points that the Virtual Try-On that we have added or the chat with consultants that we have added, or the entertainment activities that we have added and the story explanation of innovation, all this have brought in some brands and then Estée Lauder as an example, we have consumers that spend 26 minutes on our site interacting with us [indiscernible] (00:43:49). So we see really the time of the interaction, the time of engagement going up. So this is – we made this very sustainable growth over the long-term and joined with our new technologies, will make it probably one of the best consumer experiences over time, a luxury consumer experience, full of experience and our omni-channel capabilities. So that's what's happening. Now, to be clear, this was in our plans. This was part of our compass, but the COVID-19, has anticipated these trends and the speed of margin of these trends of at least two or three years; that's what we are seeing.

Now, the impact of COVID-19 outbreak however is also expected to disrupt the brick-and-mortar in the near-term. This impact includes the store closure in department stores which are happening. Obviously in the quarter, last quarter, they were closed in many, many cases. Closure directed by us will also be added in the future as we explained in the Post-COVID Acceleration Program (sic) [Post-COVID Business Acceleration Program] (00:44:54). And then we are conscious of the high level of unemployment and that is affecting consumer sentiment in total, in general. And we see also this affecting, particularly for the time being, the makeup category.

We are managing through this, pivoting towards online business as I explained, supporting – also supported by our new understanding – granular understanding of consumer and the biggest availability of data that we can drive, and our Post-COVID Business Acceleration Program will however accelerate the increased productivity in our freestanding store, in our department stores and should work really to rapidly bring productivity back in the future. Fewer brick-and-mortar locations, which is what's happening now in the short-term, but also will continue in the medium-term will reduce our fixed cost and should help also making the region become more profitable with the different mix between online and brick-and-mortar.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

And the only thing I'll add, Lauren, is the brand.com business in North America in the fourth quarter was up almost 70%, and represented about 60% of the mix of business. So it was a very strong performer as you might well imagine, and that to Fabrizio's point, was the case really across all of our markets.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Great. Thank you.

Operator: Our next question will come from the line of Nik Modi with RBC Capital Markets.

Nik Modi

Analyst, RBC Capital Markets LLC

Yeah. Good morning, everyone. Just a quick clarification. Can you confirm that online margins are – for the corporate average that was just a clarification. And then Tracey, Fabrizio, I mean how do we think about this post-COVID plan and kind of what you're targeting for like online as a percentage of the overall – [indiscernible] (00:46:58) so the 7 point increase is quite dramatic. I'm just curious how you're thinking about the evolution over the 24-month period over this program? Thanks.

Fabrizio Freda

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

I don't know. I can tell you our online margins are stronger than ever, so the development of our online business is accretive to the business. That is a fact. And how we are thinking of this? I mean we are thinking of a continuous growth of the penetration of online in our business. I'm not going to give you a specific number because there's a lot that has to be written in the future.

But as a point of reference, we have today, at the level of 40% in the most developed online markets of the world; US, UK, China. And other markets are growing tremendously from a much lower base than these three markets. But in every market, there is a tremendous growth. So the potential is very high and we will learn more about what the specific landing point would be, but it's going to be significantly higher than today.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

Yeah. So we finished the fiscal year 2020 at a 22% online mix as we said in our prepared remarks. And we would expect online penetration to grow from there, even with the strong growth in the fourth quarter, obviously with a lot of our brick-and-mortar closed during much of the quarter. We do still expect to see higher penetration in fiscal 2021 of online on top of what we saw in full-year fiscal 2020 with a portion of our brick-and-mortar doors closed.

So to Fabrizio's point, the acceleration of online that we are prepared to continue to sustain with all of the programs that we implemented in Q4 and expect to continue along with other capabilities that we're adding in fiscal 2021 should continue to sustain. A lot of those consumers that perhaps discovered shopping online for the first time or at least certainly was our record of them for the first time and may continue that practice.

Nik Modi*Analyst, RBC Capital Markets LLC*

Thank you.

Q

Operator: Our next question will come from the line of Mark Astrachan with Stifel.

Mark Astrachan*Analyst, Stifel Financial Corp.*

Yeah. Thanks, and good morning, everybody. I wanted to ask, so your growth in calendar first-half 2020 was slightly above what estimated market share for prestige looked like at least estimated by one of your larger peers but also then slightly below the growth from that larger peer which has been somewhat consistent in recent years. I guess, perhaps talk a bit about the dynamics of that and how you anticipate share trends to progress kind of through your fiscal 2021, maybe segment, geography and kind of what perhaps it has driven some of that underperformance like you anticipate for the future and kind of – or maybe [indiscernible] (00:50:09) looking at that, help point that out as well. Thank you.

Q

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

Yeah. I'm not sure I understood completely the way you frame the question, but basically we are growing global market share, and we are in prestige, the global market leader. And the total market share is growing and is growing ahead of our competition in general at global level, because we are focusing on the area of fastest growth and most importantly we are focusing on the areas of profitable, sustainable long-term growth. And because of this, the total is growth.

A

Now, there are areas of the business where because of our historical business model, we are losing market share. In some cases also, we're also losing more market share than some of our competitors. And this is specific to the US, for example, which is an example of this. But there are areas of China, Travel Retail, Asia in general where we are growing and we are growing very fast. So, our strategy is not to have our multiple engine of growth to grow all at the same time at any cost. We are trying to put the resources, reallocate our resources where there is the highest sustainability in rate of return. And in that sense, we really look at the key measure of the global market share. And so that answer part of your question.

The other part of the question, how we see this market share develop by quarter. As we explained in our prepared remarks, we see really a gradual improvement of our business quarter-by-quarter during fiscal year 2021. We explained what is our view of the first quarter, the second quarter will be better and the last semester will be really strong. And that's our view of the recovery and this is a reflection of the way the stores will re-open. COVID will hopefully be managed around the world, and the markets, particularly the consumer sentiment in different parts of the world will be reestablished.

Where the consumer sentiment is reestablished, where COVID has allowed the reopening in most of the channels like China, we are seeing tremendous business and tremendous share gain. So is also in the area of consumption

and market share that was the core of your question we see a gradual acceleration of recovery over the years in the four quarter of fiscal year 2021.

Tracey, maybe you want to add some perspective?

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

A

No. And obviously we have not provided guidance for the year for obvious reasons as we don't know how the recovery will progress or COVID-19 will impact global markets for the fiscal year. But as we think about the second-half of the year, because I know we tried to provide you with as much as we were comfortable providing as it relates to the guidance. But if you think about the second-half of the year comparable, assuming that there is a gradual recovery and there's no other shock to the system; very comparable to our fiscal 2019 EPS performance, so stronger sales growth, but comparable to our fiscal 2019 EPS growth. And that's with obviously the tax rate and the interest expense call-outs that I made.

Operator: Our next question will come from the line of Wendy Nicholson with Citi.

Wendy C. Nicholson

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. Just – first question is on the stores that you will keep open. Can you give us some sense of what that footprint will look like maybe by brand and by geography? And I know those stores, even though they've been – the ones that you're closing, they may have been unproductive but they still have served as great ways to build customer relationships and they're great branding vehicles and all that kind of good stuff. So how much of the savings from closing those stores do you intend to drop to the bottom line versus reinvest to offset the benefit of that branding presence, if you will that you've had historically? Thank you.

Fabrizio Freda

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

A

Yeah. Let me start and then Tracey may add something. First of all, we are doing what the consumers are telling us they want. So we are following the consumer preferences evolution. And second, we are responding to the decisions of our retail partners because, to be clear, there are retailers which are reducing the number of store, there are retailers which are closing and – so, first of all, we need to reflect what is the reality of the market. Second, we need to reflect what the consumer preferences are, and this will result in closing the stores which are the least productive. And so the stores that will remain which is obviously the large majority, these stores would be more productive and will allow us to make this store experiential and in appropriate cases also multi-channel. And this will make these stores not only sustainable for the long-term but will make these stores brand-building. While the non-productive doors which are [ph] now (00:56:00) working and there is no traffic, frankly, are losing their power of being brand-building. But the larger majority of the remaining brick-and-mortar will remain – will be more productive and would be a fantastic brand-building tool that will continue to create the relationships you were referring to. But the unproductive stores of the world are frankly not very productive relationship today. And on the contrary, the online new way to work and particularly the new way of the consumer to engage online is becoming much more relationship-building, much more brand-building than ever before.

And I think if I had to summarize what is in my opinion the biggest change of COVID-19 that made all the online channel, brand.com, platforms, pure-plays, retail.com, much more brand engaging and so much more fully luxury experiences, thanks to technology, than ever before.

And so to the last part of your question, the savings from this productivity improvement in brick-and-mortar will be, in part, obviously going to the bottom line but in part will be reinvested. It will be invested in making the remaining brick-and-mortar store and our online much more brand-building, growing faster and continue to create outstanding relationship with our consumers, not to underestimate that the fact that a lot of the strong online growth is in brand.com and platforms, so where we have the data access will also give us much more information, data and insights to manage the consumers and the business better in the future.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

A

And the only thing I'll add to that is most of our stores are profitable. We have had a portion of our stores, as you have heard us talk about the mix shift we've experienced over the last few years, some of our stores became more marginally profitable, and obviously COVID-19 accelerated some of them into a loss. As we think about recovery and what to expect in terms of brick-and-mortar recovery, those are stores that now we believe need to close. And as you all know, the deleverage related to some of the fixed cost of freestanding stores when they are not productive is burdensome and certainly prevents us from being able to invest behind recruiting new consumers from a digital marketing perspective. So those are the store that we will be taking action on. They were on that marginal bubble to begin with and certainly have become loss-making now that – and we don't expect them to recover from loss-making.

As it relates to our mix of stores, you can imagine as well, clearly in the more mature markets like North America and Europe, those are where the bulk of the stores are that we will be addressing. And with the challenges in the makeup category, a number of them are in the makeup area but they're not just makeup. They do comprise some other locations as well where mall productivity has declined and – or street productivity has declined with some of our freestanding stores.

Operator: Our next question will come from the line of Steve Powers with Deutsche Bank.

Stephen Powers

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you. So I guess if we net all of that together and fast forward to when your sales do recover to pre-COVID levels, is it your expectation standing here today that the results in profitability and margin against those sales will be higher than before, just given the productivity and the restructuring efforts and the mix shifts that we're talking about to online and skincare? Or are there reasons to believe that that may be delayed given the growth reinvestments you just spoke about and maybe some residual weakness in higher-margin channels like travel? I guess a little bit more color as to how you're thinking about all that.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

A

So, and obviously, margin we don't expect will recover this year. And certainly, with the actions that we're taking, we would hope that we could recover back to fiscal 2019 margins by next fiscal year, but that is just the pattern as we believe in fiscal 2022, again all things going smoothly, which has not been the case the last several years, but that in fiscal 2022, assuming a normal year, we will be back to the margins that we had pre-COVID and would progress from there, as Fabrizio indicated in his prepared remarks, to back to our 6% to 8% top line growth and 50 basis points of margin expansion.

Operator: Our next question will come from the line of Rupesh Parikh with Oppenheimer.

Rupesh Parikh*Analyst, Oppenheimer & Co., Inc.*

Q

Good morning. Thanks for taking my question. So, on the makeup recovery, I was curious just to get your perspective in terms of how you guys think the makeup recovery could take place from here? And then also, I guess related to that question, I know obsolescence related to makeup was a big headwind on the gross margin line in Q4. So I was just curious whether that headwind would continue into this fiscal year? Thank you.

Tracey Thomas Travis*Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.*

A

So, I'll answer the second portion of that question. We've clearly adjusted our demand plans and our forecast to be more in-line with the trends that we're seeing in makeup this year, even in the recovery. One of the things that we have seen during COVID-19, there has been even an acceleration from a penetration standpoint of interest in skin care. And we certainly expect that to continue next year.

We have some great innovation programs behind our makeup brands as well, but we are adjusting our forecast to the level of consumption we expect coming out of fiscal 2020 and the ramp-up through fiscal 2021. So we certainly don't expect to see the same level of obsolescence. Unless there is another complete shutdown of business, we don't expect to see the same level of obsolescence in fiscal 2021. And then trends, Fabrizio?

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

A

Yeah. And to the question of, will makeup recover? Absolutely, makeup as a category is coming back. This is – what we have seen is the impact of what COVID has created on the consumer sentiment, on consumer behaviors. This is the result of wearing masks in many parts of the world, which has an impact on lipstick. There is the result of being in homes and having less interaction and less social interaction between people. And there is also, frankly, the stress that COVID and the situation today in many parts of the world is creating that is conducive there be less to the use of makeup that, again, is part of a joyful moment, an indulgent moment more than anything else. And so, we expect this to come back; and to come back [ph] as in now (01:03:43) – this is now in two points of views.

Now, my point of view that makeup cycle will come back very strongly as soon as consumer sentiment will be back and optimism will be back in the future, we'll see this category booming again and we'll be ready for that. But that's exactly the essence of the multiple engines of growth that, in this moment, is skin care. And there is a reason why it's skin care. Somebody was asking me if the lipstick index is finished. You'll all remember, lipstick index concept was that beauty is a resilient category both in situation of crisis like this one and in – particularly, in a situation of recession risk because they are affordable purchases for indulging and taking care of yourself and consumers really love their routines.

Now, this has remained exactly true also in this crisis. What has changed is the category. Because of what COVID is, lipstick was not the right category to indicate that, but the resiliency of the overall beauty is still evident and is still a very strong market. But the way I answer is, the lipstick index has been substituted by the moisturizer index, but the concept of index is still there. This is a very resilient category and makeup will come back when consumer sentiment will come back.

Operator: The next question will come from the line of Steph Wissink with Jefferies.

Stephanie Wissink*Analyst, Jefferies LLC*

Q

Thank you. Our question relates to trial and discovery. I think, Tracey, you mentioned you have new launches planned. And also, Fabrizio, you talked about some of the emerging technologies – live streaming, Virtual Try-On – that you're using in your online business. Can you talk a little bit about how you think about trial and discovery going forward, whether it's makeup or skin care? And then also, just intertwining your comments on data – customer data and data access? Thank you.

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

A

Yeah. First of all, trial and discovery is going very well. And what is, let's say, evolving and continues to be very strong is obviously travel (sic) [trial] (01:06:00) and discovery in-store, has always been the key point. But what is evolving is travel – trial and discovery online. And the way this is happening is, first of all, we see – and I said this before – we see consumers spending much more time. So the level of engagement, the level of relationship with our online sites is increasing. They spend time and they spend time to discover.

Now, in term of trial, we are making a very big new investment in sampling online. So, you will go and buy online, for example, on our brand.com your preferred hero products, and then you will receive the samples of all what our data suggests that you may like around that, when you open your pack at home. And in this way, we see how we are driving trial, we are driving discovery frankly stronger than what we've ever been able to do in the stores. Because the ability to know what people will like based on data, together with the ability to interact with people with more time in the online relationship, and to ship to their home, their main purchases allow us to make them try and discover everything else. It's just a matter of the techniques that we choose. So, this is the moment where I believe trial and discovery can be farther enhanced in the luxury business model that we are developing for our future.

Operator: The next question will come from the line of Michael Binetti with Credit Suisse.

Michael Binetti*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey, guys. Good morning, Tracey and Fabrizio.

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

A

Good morning.

Michael Binetti*Analyst, Credit Suisse Securities (USA) LLC*

Q

Would rather ask you a long-term question, but I do want to clarify one thing that Tracey mentioned. Tracey, I think you said that second half of the year earnings performance will be the same as fiscal second half of 2019, and then I think later you said EPS growth would be comparable to fiscal 2019. Maybe you could clarify that? As I just looked back at the model, you did about \$2.09 in EPS in the second half of 2019. I think everybody's probably going to hook models to that comment, so it would help to get a little clarification there.

And then, I guess, and do hate to be near-term, but it seems like in the first quarter, guidance bakes in about 800 basis points of an operating margin contraction. I think you said that gross margins should start to improve and,

obviously, with the factories open you'll see less of the accounting drag there from idle factory overhead accruals. I know stores are reopening, but the SG&A was down by \$0.5 billion in the fourth quarter. It seems like it should still be meaningfully lower year-over-year even if retail starts to come back online. So, I just want to make sure I understand what – where the pressures on the margin might be in the first quarter related to what you guided.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

A

Sure. So, let me start with, again, reiterating the fact we are not giving guidance. So, as we try to help you frame your model for the year, given the fact we're not giving guidance, one of the things to think about, as we believe that the second half of the year we will still be recovering our sales growth but we'll be more normalized, assuming no additional impacts from COVID-19. The way you could think about our second half EPS is similar to our adjusted fiscal 2019 EPS in the second half, again, with the ramp-up and acceleration in sales that we expect to see. So, that is a way to kind of think about the second half [ph] of year (01:09:47). But again, that depends, obviously, on a continuation of progress as it relates to the recovery.

As it relates to this – to the first quarter, what we said in our prepared remarks is we do expect gross margin to recover. And so, when you think about the margin for Q1, one of the things we are doing is investing in advertising. So, even with sales down in the quarter, we have a launch of our – one of our most popular products, Advanced Night Repair. And that is, we are supporting with additional advertising some of the online initiatives as well. We are supporting with additional advertising in other innovation as well. So, that is a piece of what's driving some margin deleverage in the first quarter.

The other piece is higher shipping costs. So, we are still catching up a bit from our plants starting up more slowly, as it relates to social distancing, but now ramped up. But really catching up on some of the shipping to replenish some of the product that was low on inventory in certain markets. So, that is driving a piece of the margin.

And then, when you think about EPS, we obviously have higher net interest expense. So we have higher interest expense and we have lower interest income, given where rates are today. So the combination of that is also putting some pressure on our EPS in the first quarter. And then, the last piece, obviously, is I did quote the tax rate which would be the tax rate we expect to see in the first quarter as well.

Michael Binetti

Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks a lot, guys. I really appreciate the help.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

A

Sure.

Operator: Our next question will come from the line of Andrea Teixeira with JPMorgan.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

Thank you and good morning, everyone. And Fabrizio, Tracey, can you help me understand the travel retail performance embedded in the first quarter guidance now that you have more than half of your quarter through? And just a clarification on those puts and takes that, Tracey, you just described for the first quarter. So, basically, you're seeing still a lot of the pressures that we saw in the quarter. So, if you can help us try to understand [ph]

like the assets (01:12:21) breakdown on some of these expenses, that would be great. But the travel would be my first – my main question. Sorry.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

A

So, I'll start, and then let Fabrizio share his perspective on travel retail. There are still travel restrictions, so travel retail is still largely closed in the first quarter. And again, we expect travel retail really to be the slowest to recover. Now, again, we are seeing traffic locally in Asia, in particular, in China. And so, that is continuing to pick up and Fabrizio addressed some of that in his prepared remarks. But we do expect that travel retail will be the slowest to recover.

As it relates again to the first quarter, relative to the fourth quarter, I guess, I'll add to what I said just previously, we did have some furlough programs in the fourth quarter that also are not repeating in the first quarter. So that is another piece of why the expenses, if you're comparing the fourth quarter to the first quarter, might look a bit higher. So it's the advertising, it's the shipping cost, and we do have some of the furlough programs that we had in the fourth quarter that will not be repeating. Probably for – when you look at the quarter, a more comparable quarter would be the third quarter of last year, relative to our first quarter this year, in terms of overall performance.

Fabrizio Freda

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

A

And...

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Q

That's very helpful. Thank you.

Fabrizio Freda

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

A

...what I will say on travel retail is that, first of all, in the long term, we believe travel retail will continue to be a very exciting channel. And in this moment, the traffic is very, very low. But, for example, the conversion of travelers into buyers is increasing dramatically. Asia is the biggest part of travel retail globally. And the good news, that Asia is going to recover faster than the West, the traveling traffic. And the conversion driven by retail, so basically by travel retail online, in Asia even stronger than the rest of the world. So the good news that will, over time, mitigate the current lack of traffic in travel retail is that the recovery is starting from Asia. Asia is the biggest and the most interesting travel retail segment.

The other important thing to say in travel retail, that in this moment, the number of travel retail also in the last quarter at minus 30% has been better than at least we were afraid of because of the many closures around the world. And the reason why it's been better, there are some mitigating factors which are very important. The most important mitigating factor that there's been the start of China local, internal travel that in many cases is duty-free travels, like in the Hainan Island, and the extraordinary increase of what the Chinese are buying within their local duty-free travel is mitigating the lack of the very limited international travel.

But then, you can expect for long-term when the international travel will be reinstated, this local internal travel will not go away, and so there will be a stronger and even more exciting long-term travel retail market to manage in

which we are, today, the market leader, and so there is a lot of long-term potential into that. And I'm very exciting to see what's happening in Hainan particularly for the future.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

And the only thing I will add, that in terms of quarter four versus quarter one, obviously, being down 30% in sales in Q4 and progressing to down 11% to 12% in Q1, we are seeing, obviously, a pickup in our brick-and-mortar business. And so, in July, in fact, as Fabrizio indicated, we actually had positive sales growth, and that was related to some of the restocking that we saw in the trade for doors that had been closed and are now reopening. So, we are seeing positive signs that we will expect to continue to see throughout the first half, even as brick-and-mortar recovers more slowly than, obviously, the strength we're seeing continue in online.

Andrea Teixeira

Analyst, JPMorgan Securities LLC

Very helpful. Thank you.

Operator: And we have time for one more question. The final question will come from the line of Olivia Tong with Bank of America.

Olivia Tong

Analyst, Bank of America Merrill Lynch

Great. Thanks. Good morning, everyone. First, just a follow-up. Did you just say that July was positive overall or specific to a channel? And then, just generally speaking, I wanted to ask about the balance between containing costs and supporting the top line, because it's clear that your investment's resonating in the top line in the last couple of years pre-pandemic. So as we think about the timing of you getting back on your long-term algorithm, clearly with a focus on efficiency, can you talk about how the organization plans to balance achieving both of those things concurrently? Thanks.

Tracey Thomas Travis

Executive Vice President-Finance & Chief Financial Officer, The Estée Lauder Companies, Inc.

So, my comment on July was global and it was sales growth, and a lot of that being driven from North America, actually, in terms of some of the restocking within North America; and still seeing growth obviously in markets like China and Korea, the same markets that had momentum in the fourth quarter or more momentum. But every market is improving a bit as doors reopen and we start to see traffic flow back to stores. But July really was a restocking from many of our retailers that had had their doors closed and we're sourcing some of their online sales from their brick-and-mortar doors.

Fabrizio Freda

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

In term of – so, yeah, July was positive to the company. But it – to speak about your second part of the question, is the focus on the top line? We are and we intend to remain a high-growth company. So that we are really focused on growth and – but we are focused on profitable growth. And in the short-term, we are – will remain focused on cost containment to make sure that we preserve the resources to invest in growth.

So, the cost containment in our program is never short-term. It's always designed to preserve and reallocate resources for investment in long-term growth and, obviously, to drive profitability at the right level. So that's the

way we think about it. And our compass and our strategy process are very focused in identifying the key areas of growth and the key areas of sustainable profitable growth and to invest in them [ph] although proportionally (01:20:05), and to continuously reallocate resources in this area. That's what we're doing.

And also, our restructuring program is also designed to give us the flexibility to continue doing that also in a COVID situation despite that we are paying a lot of attention to mitigate the short-term impact of lack of sales with a lot of good action of cost containment. We are really focused on recovery. That's the key point, is the recovery of our top line that over time, gradually will bring back our profitability and our ability to continue to deliver the kind of EPS and double-digit EPS growth that we want to deliver in the long term.

Fabrizio Freda

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

I'd also would like to close – if this is the last question – saying, in this COVID crisis, as we try to do in every crisis, I truly believe we are coming out with a better company. And yes, you're focused on the profitability side, this company can go back to being high-growth and being high-growth with strong profitability, but also is a better company in inclusion, in sustainability, in technology. And all of this together will make us also a better employer and stronger loyalty, both of employees and of consumers. And I think that's a very important value for the company we are, which are a company very long-term focused. And I think this crisis has been managed in a way where we've remained a very long-term focused company and will remain a better company – will be a better company.

Operator: And 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 September 3. To hear a recording of the call, please call 855-859-2056, passcode 4170137.

That concludes today's Estée Lauder conference call. I would like to thank you all for your participation and wish you all a great day.

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