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# The Estée Lauder Companies, Inc. (EL)

Q4 2024 Earnings Call

## CORPORATE PARTICIPANTS

### Laraine A. Mancini

*Senior Vice President-Finance and Strategy & Head-Investor Relations,  
The Estée Lauder Companies, Inc.*

### Tracey Thomas Travis

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

### Fabrizio Freda

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

## OTHER PARTICIPANTS

### Stephen Powers

*Analyst, Deutsche Bank Securities, Inc.*

### Dana Lauren Telsey

*Analyst, Telsey Advisory Group LLC*

### Bryan D. Spillane

*Analyst, BofA Securities, Inc.*

### Peter Grom

*Analyst, UBS Securities LLC*

### Lauren R. Lieberman

*Analyst, Barclays Capital, Inc.*

### Rupesh Parikh

*Analyst, Oppenheimer & Co., Inc.*

## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, everyone, and welcome to the Estée Lauder Companies' Fiscal 2024 Fourth Quarter and Full Year Conference Call. Today's call is being recorded and webcast. For opening remarks and introductions, [audio gap] (00:00:19) turn the floor over to Senior Vice President of Investor Relations, Ms. Rainey Mancini. Ma'am, you may begin.

### Laraine A. Mancini

*Senior Vice President-Finance and Strategy & Head-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 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. Unless otherwise stated, all organic net sales growth also excludes the non-comparable impacts of acquisitions, divestitures, brand closures and the impact of foreign currency translation.

You can find reconciliations between GAAP and non-GAAP measures on our press release and on the Investors section of our website. As a reminder, references to online sales include sales we make directly to our consumers through our brand.com sites and through third-party platforms.

It also includes estimated sales of our products through our retailers' websites. Throughout our discussion, our Profit Recovery and Growth Plan will be referred to as our PRGP. During the Q&A session, we ask that you please limit yourself to one question so we can respond to all of you within the time scheduled for this call.

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

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## Fabrizio Freda

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

Thank you, Rainey, and hello to everyone. Today, we will review our results for fiscal year 2024, which represented a difficult year for the company, and discuss the implementation of our strategy reset to drive improving performance in fiscal year 2025 and beyond.

After a challenging first half, we returned to top line growth in the second half of fiscal year 2024, with organic sales growth accelerating from 6% in the third quarter to 8% in the fourth quarter. And we delivered an adjusted operating margin of 11.6%.

This level of profitability was higher than the first half, and expanded from the second half of fiscal year 2023. All told, for fiscal year 2024, our organic sales declined 2%. We achieved modest gross margin expansion and adjusted operating margin contracted 120 basis points to 10.2%.

These results were in line with the revised outlook we offered in May for sales and better than expected for operating profitability, despite the further softening of the prestige beauty industry in China and Asia travel retail. That said, we remain unsatisfied with this performance.

Looking ahead, our fiscal year 2025 outlook reflects continued declines in the prestige beauty industry in China and Asia travel retail while the PRGP, which remains on track relatively to our previously stated goals, enable us to offset the pressure to profitability from declines in areas of our business that had high penetration of Skin Care. It yields a slower pace of operating margin expansions for fiscal year 2025 than we had previously expected when we expanded the PRGP in February.

For fiscal year 2025, in the rest of our global business, we are planning to deliver improved performance across both developed and emerging markets. To fuel this, our strategic priorities are reigniting Skin Care, capitalizing on the multiple growth drivers of high-end Fragrance, moving faster in leveraging winning channels, launching accretive innovation inclusive of new big opportunities, and enhancing our precision marketing capabilities for increased effectiveness and efficiency of our consumer-facing investments.

The PRGP enables and accelerate these strategic priorities and is the foundation to restore sustainable, long-term organic sales growth and to rebuild our operating profitability. We are also creating a faster and leaner organization that will more quickly adapt to market dynamics and be better able to leverage future growth.

While our sales and profit outlook for fiscal year 2025 is disappointing, this year, we will make important strides as we implement our strategy reset to continue rebalancing regional growth, deliver improved annual profitability and strengthen go-to-market and innovation capabilities to elevate our execution in response to a more competitive market. These efforts will position us to both outperform the prestige beauty industry in fiscal year 2026 and accelerate profitability expansion.

Let me now describe the drivers of our fiscal year 2025 outlook, before discussing our strategic priorities in greater detail. The prestige beauty industry reported retail sales trends in mainland China further weakened

sequentially in the fourth quarter, from a decline of mid-single digit in the third quarter to a decrease of low-double digits, as the consumer confidence remains subdued. Importantly, we gained share in the prestige beauty industry in mainland China in the fourth quarter, driven by La Mer and Estée Lauder progress in the market's far largest category of Skin Care.

Retail sales trend for the prestige beauty industry in Asia travel retail also did not improve during the fourth quarter. This was most notable in Hainan, where retail sales in the beauty market declined over 40% despite a more favorable comparison to the previous period as the quarter unfolded. For Hainan and Asia travel retail overall, as traffic returns, conversion levels remain subdued and significantly lower than pre-pandemic levels, owing to weak consumer sentiment, reducing basket sizes and to an extent consumer diverse spending to experiences.

The US prestige beauty industry retail sales growth decelerated each month throughout the fourth quarter, albeit with growth at a still compelling pace of mid to high-single digit. Encouragingly, our company retail sales returned to growth. While we continue to see the prestige beauty share driven by the extent of our exposure to slower growth channels, our share loss was reduced in the [ph] fourth (00:07:52) quarter. This reflects gains from gradually increasing our exposure to high-growth channels like Amazon and specialty-multi.

And this trend was further reinforced in July when our company retail sales growth accelerated to mid-single digit, driven by double-digit growth in Fragrance and Hair Care. Moreover, the company retail sales improved to mid-single-digit growth in Skin Care, and we gained share in the category in July.

For fiscal year 2025, we forecast the global prestige beauty industry to grow 2% to 3%, reflecting ongoing strength in many developed and emerging markets globally. The market in the West, which collectively exited fiscal year 2024 relatively strongly, are primed to drive the industry performance.

The markets in the East, in total, are expected to be tempered as strength in Japan and Southeast Asia is offset by ongoing declines in mainland China and Asia travel retail. We expect the global prestige beauty industry to reaccelerate to historical mid-single-digit growth in fiscal year 2026, assuming China progressively stabilize and then return to growth.

With this industry landscape and given the size of our business in some areas most challenged, our fiscal year 2025 organic sales growth outlook range is in – a decline of 1% to an increase of 2%. Our organic sales growth outlook reflects an acceleration in several areas of business, partially offset by declines in mainland China and Asia travel retail.

For our first quarter, the pressure is more acute, such that our organic sales outlook calls for a decline, which Tracey will describe in further detail.

For fiscal year 2025, we are refocusing consumer-facing investment on the biggest opportunity, streamlining our organization to be faster and more agile in order to fuel the organic sales growth momentum we have in many areas of our business across developed and emerging markets.

We also intend to better leverage the strength of our brands in North America, where we are leaders in prestige Makeup, which is the region's biggest category and where we hold the top two ranked brands; and in prestige Skin Care, adding four of the top five ranked brands. Moreover, in North America, we also intend to leverage the market strengths across generation as we forecast a balanced contribution to industry growth by age.

Looking at our strategic priorities for fiscal year 2025, let me begin with Skin Care, which represents over 50% of our sales and is our most profitable product category. Our initiatives are designed to enable us to even better leverage our top-ranked global prestige Skin Care portfolio to welcome new consumers and further engage our loyal consumer through elevated precision marketing, a robust accretive innovation pipeline and expanded reach in high-growth channels.

This starts with The Ordinary, which entered fiscal year 2025 with momentum, having growth in the organic sales by more than 20% in fiscal year 2024. The Ordinary is leading the way among our brands in capitalizing on white spaces opportunity in products, channels and geographies.

In the fourth quarter, The Ordinary launched its first product in lip care, executed a hugely successful TikTok Shop Super Brand Day campaign in the US and established its footprint in Japan.

For fiscal year 2025, The Ordinary has already newly entered the body care subcategory and is preparing to expand into more emerging markets given its proven successful launches in India, the Middle East and South Africa over the last two years. Among the brands we are incubating, a star in fiscal year 2024 was NIOD in Skin Care. The brand has a promising future. Clinique is making great strides executing its strategy to double down on its authentic dermatologist heritage.

Clinique [ph] began this work (00:12:50) in the US and UK this past spring and has been expanding its global rollout. This includes its successful launch on the US Amazon Premium Beauty store in March. Impressively, Clinique has returned to share growth in the US prestige Skin Care with three consecutive months of gains through July.

Clinique performance in US retail in July was particularly impressive, with the brand Skin Care brand and Makeup outperforming across subcategories and Clinique retaking the number one rank in overall prestige beauty.

La Mer, along with the Estée Lauder Re-Nutriv franchise, fuel our luxury skin care strategy, with both brands poised to build on their successful in – of fiscal year 2024, during which La Mer exceptional growth made it our best-performing brand.

For Re-Nutriv, we plan to build upon its fiscal year 2024 launches of the new moisturizer and serum foundation this year through an expanded product portfolio, focused on the science of skin longevity and visible age reversal.

With The Ordinary, Clinique, Estée Lauder and La Mer, we are bringing to market in fiscal year 2025 a rich innovation pipeline focused on the benefits of nighttime skin care ritual, which is an incremental user education.

Our brand portfolio strategically addresses various skin concerns and types with targeted ingredients and [ph] claims (00:14:33) designed to appeal to a diverse range of consumer segment because of price and product position.

Let me now turn to our next strategic priority, capitalizing on the multiple growth drivers of high-end fragrances, where our luxury and our seasonal portfolio of Jo Malone London, TOM FORD, Le Labo, KILIAN PARIS, Frédéric Malle and AERIN Beauty collectively rose mid-single digit organically in fiscal year 2024. The luxury tier of the Fragrance category, where we are number one ranked, was the best performing tier in retail sales in fiscal year 2024, and we expect this to be the case again in fiscal year 2025.

We are focused on further realizing the growth potential of high-end fragrances, given its broad-based strengths around the world to drive greater scale for the company. From Le Labo's outstanding performance in fiscal year 2024, led by Asia Pacific, where its organic sales nearly doubled to Jo Malone London's disruptive campaign with Tom Hardy to drive its men's business, and we are well positioned to build on our momentum.

Our brands have distribution expansion and compelling newness slated not only in the scent, but also in the form and size to trade consumer into the luxury tier. And we are thrilled to be expanding our luxury portfolio with the September launch of the Balmain Beauty brand which chose the Fragrance category to begin its journey.

We are also focused on driving accelerated sales growth in the prestige tier of the Fragrance category with our Estée Lauder and Clinique brands with broad reach, go-to-market activation slated for this and upcoming quarters.

Let me turn our strategic priority of winning in fast-growing channels globally. To do so, our mindset shifted to more boldly merchandising our brands, where consumer are increasingly discovering shopping for beauty while executing with excellence and staying true to our High-Touch approach. While this encompasses both brick-and-mortar and online, today, I will share with you examples from online.

In the US, our launches of Clinique, Too Faced, Bumble and bumble on the Amazon Premium Beauty store in the second half epitomize this philosophy. Clinique launched with a skin analysis tool in March and by June, had expanded to offer live chat with the Clinique ambassador while Bumble and bumble launched with extensive hair education from the brand's expert stylists.

All three brands are off to a very strong start on the US Amazon Premium Beauty store. Clinique and Bumble and bumble are seeing promising uptake also with male consumers. And for Clinique, where we now have a full quarter of performance, we are encouraged by the extent of consumers subscribing for future purchases as well as the strong level of repeat purchases in the quarter. So far, in fiscal year 2025, Dr.Jart (sic) [Dr.Jart+] (00:18:13), Smashbox and Lab Series have already opened storefronts in the US, and we have more launches on the horizon.

Around the world, we are building growth momentum with social commerce, driving new consumer acquisition by engaging consumers where they're spending their time, leveraging a content-focused approach with live streaming and short-form videos and activating full funnel integration of social media and commerce.

In China, we have scaled and sustained strong growth on [ph] the win (00:18:47) with more brand launches slated for fiscal year 2025. Looking at Japan and Korea, we are further unlocking platform opportunities for our brand with LINE and Rakuten, and accelerating social commerce on Kakao with focus on gifting.

Our final strategic initiative is enhancing our precision marketing capabilities, enabling us to be more focused on new consumer acquisition. From brand equity to product assortment, distribution and media, we are better able to target new consumers and also to accelerate the effectiveness of acquisition and efficiency spend. This capability has been designed to leverage data, including over 200 million consumers profiles we have built over the years and exclusive partnerships with AI leaders.

Precision marketing is also allowing us to be far more nimble with trend to action. During fiscal year 2024, we began pilot studying in market around the world to marry trends with our rich portfolio of existing products and innovation to activate against trends with speed.

We realized promising results, including successes with the peach makeup and bronzing trends. We have now formalized this process and developed the trend AI tool to enable our brand teams around the world to quickly drive trends to action.

In closing, we have designed our strategy reset to position the company for a stronger future. We are wholly focused on executing with excellence across these strategic initiatives and our PRGP to again realize the proven performance of our company. To our employee, I extend my deep gratitude for your commitment amid a challenging time for our company.

And now, I will turn the call over to Tracey.

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## Tracey Thomas Travis

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

Thank you, Fabrizio, and hello everyone. We navigated through another challenging year across several areas of our business and took specific actions to more sustainably improve our sales and profit results as it became apparent that the recovery that was anticipated to occur throughout the year in some of our markets was impacted by far more volatility.

And while we returned to growth in the second half, primarily driven by resumed shipments in Asia travel retail, we are certainly not pleased with our overall full year results. And on top of global prestige volatility, the execution of our strategy has not met our expectations in some key areas of our business.

During the year, we also largely completed the basic design and began the implementation of our multi-year PRGP to deliver stronger results against our expectation for a more gradual rebuilding of sales growth along with an acceleration in profitability.

Before I discuss our fiscal 2025 outlook, let me first share with you the fiscal 2024 fourth quarter and full year results. Our fourth quarter organic net sales increased by 8% compared to last year, meeting our expectations, albeit with a different geographical mix than we anticipated, which reflected lower results in mainland China and North America due notably to further softening in overall prestige beauty in both of these markets. A combination of tentative consumer sentiment in China and consumer inflationary pressures in North America are believed to have contributed to the deceleration in both markets.

Diluted EPS rose to \$0.64 from \$0.07 last year, exceeding our expectations, largely due to our operating performance and the reduction in our full year effective tax rate. From a geographic standpoint, organic net sales rose 32% in EMEA, primarily driven by the increase in our Asia travel retail business, given the favorable comparison to the prior-year period as shipments increased over last year's extremely low level.

In addition, organic net sales increased in both our developed European and priority emerging markets. Organic net sales in Asia Pacific decreased 4%, primarily driven by the ongoing softness in overall prestige beauty in mainland China as well as lower shipments in Hong Kong SAR as we anniversaried the initial surge in sales with the border reopening in the prior-year period.

Outside of these markets, net sales rose strong double digits in Japan as a favorable currency, coupled with strong end market activation and expanded consumer reach attracted both domestic and traveling consumers and bolstered growth across all product categories in nearly all channels of distribution.



In the Americas, organic net sales decreased 5%, driven by the decline in North America, reflecting the ongoing intensely competitive environment as well as an overall slowdown in growth in prestige beauty, especially in brick-and-mortar channels, which particularly impacted our Skin Care and Makeup categories.

Online sales grew mid-single digits in the region, benefiting from both retailer.com growth and the launch of select brands, especially Clinique, on the US Amazon Premium Beauty store.

From a product category perspective, Skin Care organic net sales increased 15%, primarily due to the increased shipments within the Asia travel retail business referenced earlier, which drove net sales growth from both La Mer and Estée Lauder. Organic net sales from The Ordinary also increased across all geographic regions.

Makeup organic net sales increased 1%. Net sales increased from Estée Lauder, benefiting from the resumption of shipments in our Asia travel retail business and the continued global success of the Double Wear product franchise. Clinique net sales rose strong double digits, fueled by the Almost Lipstick product franchise. Partially offsetting these increases were declines from M·A·C and TOM FORD.

Organic net sales increased 2% in Hair Care and 1% in Fragrance. Regarding Fragrance, net sales growth was driven by the ongoing consumer appeal of Le Labo's unique product offerings and targeted expanded consumer reach in Jo Malone, partially offset by declines in Estée Lauder and Clinique.

Our gross margin expanded 380 basis points to 71.8% compared to last year. This increase primarily reflected lower obsolescence and overhead charges as well as higher Skin Care sales. Operating expenses decreased 340 basis points as a percent of sales to 62.7%, driven largely by the increase in net sales, improved gross margin and lower general and administrative expenses.

During the quarter, we recorded \$471 million of impairment charges related to Dr.Jart (sic) [Dr.Jart+] (00:26:09) given the continued lower-than-expected growth in profitability of the brand. We made the decision to exit the brand from its heavily discounted travel retail channel and prioritize direct investments in other more profitable areas of the business, including in mainland China and Western markets where a broader assortment of the brand has been resonating well with consumers.

Operating income increased to \$349 million and our operating margin expanded 700 basis points to 9% in the quarter. Our effective tax rate for the quarter was 22.8% compared to a negative 17.9% last year, the latter having had a larger year-end true-up to reflect our final effective tax rate for the fiscal year of 2023. Our rate was better than anticipated this year, primarily due to the shift in our geographical mix of earnings.

Diluted EPS increased to \$0.64 from \$0.07 last year, due largely to the improvement in our operating results, partially offset by an unfavorable impact from the increase in our effective tax rate. Foreign currency translation was \$0.03 dilutive to EPS in the quarter and the impact from the business disruptions in Israel and other parts of the Middle East was \$0.02 dilutive.

Turning now to our full year results, although we saw growth in the second half, our full year results highlight both volatility and the impact of our own challenges in some key areas of our business. Collectively, the pressure in mainland China from the ongoing softness in overall prestige beauty, the necessary actions we took in Asia travel retail during the first half of the year to reduce high trade inventory levels in a prolonged soft retail environment, and continued pressure from the competitive environment, particularly in North America, outweighed the solid growth we saw during the year in our EMEA and LATAM markets.



Organic net sales decreased 2%, primarily due to the ongoing softness in overall prestige beauty in mainland China, leading to a 3% decline in Asia Pacific. The challenges in Asia travel retail also pressured sales, resulting in a 2% decline in EMEA as our return to growth in Asia travel retail in the second half was not enough to offset the first half decline due in part to retail trends decelerating throughout the second half in China. Net sales in the Americas was overall flat compared to last year.

From a category perspective, Skin Care net sales declined 3%, largely due to the declines in mainland China and Asia travel retail and Makeup decreased 1%, also reflecting these challenges as well as a prior-year benefit from changes made to M·A·C's take-back loyalty program. Net sales fell 4% in Hair Care and rose 2% in Fragrance.

Confronted with the volatility throughout the year just discussed, our teams attempted to balance cost efficiency actions with consumer-facing investments to support growth. Net sales with our specialty multi-retailers and in our freestanding stores, each grew double digits. Global travel retail represented 19% of our reported sales in fiscal 2024 and online net sales represented 28%.

Our gross margin improved 30 basis points to 71.7% compared to 71.4% last year, reflecting the initiatives we took throughout the year to reduce excess and obsolete inventory as well as changes in brand mix. Partially offsetting this progress was an unfavorable impact from foreign currency and the impact from the under-absorption of overhead in our plants due to the necessary pull-down of production earlier in the year.

Operating expenses increased 160 basis points to 61.5% of sales, reflecting deleverage from the sales decline, including our investments to support targeted expanded consumer reach globally and to support growth where we had momentum. Operating income declined 13% to \$1.6 billion from \$1.8 billion last year, and our operating margin contracted 120 basis points to 10.2% for the full year.

Our effective tax rate for the year was 31% compared to 26.5% last year, reflecting a higher effective tax rate on our foreign operations due to the geographical mix of our earnings and the unfavorable impact associated with previously issued stock-based compensation.

Net earnings was \$935 million and diluted EPS was \$2.59, both declining 25% compared to last year. Foreign currency translation was \$0.10 dilutive to EPS and the impact from the business disruptions in Israel and other parts of the Middle East was \$0.06 dilutive.

We generated \$2.4 billion in net cash flows from operating activities compared to \$1.7 billion last year. The increase reflects improvements in working capital, which was largely due to the actions we took to reduce in-house inventory levels. We utilized \$919 million for capital investments and returned \$947 million in cash to stockholders through dividends.

After our initial minority investment in DECIEM in 2017 and then increasing our investment to become majority owner in 2021, we are pleased to have completed, subject to finalization of the purchase price, our acquisition of the remaining equity interest in DECIEM this past May for \$859 million, of which \$829 million was paid as of June 30, 2024.

Looking ahead now to our outlook for fiscal 2025, while acknowledging some initial bright spots related to pivots in our strategy, we are cognizant that overall global prestige beauty growth has tempered in recent months as reflected in the current declines in mainland China and Asia travel retail, particularly Hainan. Prestige beauty has also moderated in some of our major markets like North America. And while we believe we have the right priorities for growth, we are also mindful of the level of variability that continues to exist in many of our markets.

Accordingly, we are reflecting a more subdued recovery of growth in fiscal 2025, which you have seen in this morning's press release.

The PRGP remains a critical element in our ability to deliver margin expansion and ultimately is designed to put in place the cost structure necessary for the company to drive stronger leverage in its business on lower than our normal growth expectations this year. This should also yield even greater flow-through of benefits to profit as net sales progressively return to higher growth in future years.

In fiscal 2024, we had already approved actions to begin addressing overcapacity in parts of our supply chain, inclusive of streamlining manufacturing and distribution costs where we could react more quickly and to simplify certain areas of our overhead structure.

Our PRGP initiatives are focused on three primary benefit areas for the company: first, accelerating margin expansion through both gross margin recovery and additional expense leverage while also enabling additional cash generation for the company; second, creating additional fuel for growth with targeted investments in consumer-facing activities; and third, simplifying our processes and creating more agility and speed in execution. We have begun executing against many initiatives within these three areas of benefit for the company.

Regarding margin expansion, the significant pull-down of production we did at the beginning of last year to bring manufacturing levels well below our shipment trends in order to reduce our inventory level has already yielded cash benefits in fiscal 2024. This has also resulted in additional benefits from reduced discounts and obsolescence costs and lower levels of expenses are expected to continue into fiscal 2025.

Additionally, this year, we are planning to realize greater net benefits from our strategic pricing actions through less discounts and promotion with our enhanced focus on precision marketing. These actions, along with the benefits of more accretive innovation, particularly in Skin Care support the gross margin expansion we expect this year.

Additionally, regarding expense leverage, with our expectation of a slower return to growth, there is increased leverage pressure from our fixed cost. We are executing against our restructuring program and have already approved initiatives to reduce spans and layers in certain parts of our business. Furthermore, we are expanding our existing shared services capabilities to support the simplification and standardization of key processes and scale capabilities faster as well as rationalizing the breadth of distribution choices across our existing portfolio of brands.

We have also negotiated savings across many of our spending areas and are already realizing savings in areas like transportation. Lastly, we are taking this opportunity of the PRGP to address some the ways we work to simplify decision-making and enhance our agility and go-to-market execution to be faster in this ever-changing dynamic global prestige beauty environment. More to come on this in a future earnings call.

All told, we anticipate at this point that approximately 80% of the net benefits realized from the PRGP in fiscal 2025 are targeted to improve gross profit, with the remaining 20% targeted to reduce certain operating expenses. This mix is likely to shift in fiscal 2026 as more of our expense actions contribute favorably to our overall expense structure given the expected cadence of initiatives.

We also expect to take restructuring and other charges of at least approximately \$100 million to \$120 million in fiscal 2025 from approved initiatives with additional charges expected during the course of the year as more initiatives are finalized and approved. However, with modest sales growth expected in fiscal 2025, as I indicated

before, we will unfortunately also experience a greater amount of fixed expense deleverage in addition to the unfavorable mix pressure from softer sales performance in some of our higher-margin categories and regions.

And as we communicated, we are protecting a portion of the savings we generate from the PRGP to reinvest selectively in advertising and store activation to fuel growth with the brands and regions where we have momentum, and support the growth we are currently experiencing with active derm, luxury fragrance and distribution expansion in faster-growth channels.

We began this fiscal year with our teams fully immersed and committed to executing initiatives across all pillars of the PRGP now that we are post the completion of our design phase. We continue to expect to deliver approximately \$1.1 billion to \$1.4 billion of incremental operating profit from the full PRGP. And while we are focused on realizing slightly more than half of the net benefits in 2025, additional savings initiatives may be required as lower sales volumes are realized.

Overall, we expect to progress margin expansion at an accelerated pace as a result of the plan by delivering annual margin expansion greater than our pre-pandemic historical average, inclusive of creating additional fuel to accelerate sales growth at a faster pace as well.

Accordingly, fiscal 2025 is projected to be a year of transition for the company, navigating continued macroeconomic softness and challenges in a few key areas of our business, while accelerating growth where we have momentum and executing against our real – and realizing anticipated benefits from the PRGP. Our strategic imperatives for the year, as mentioned by Fabrizio are focused on leveraging the inherent strengths we have across our brands, categories, regions and talented employees.

Over the next few years, Western markets, along with Asia Pacific markets outside of China, are expected to drive a greater portion of our long-term profitable growth, as we deepen our focus on fast-growing channels in these markets. We have the opportunity to leverage our Skin Care brands with strong lux and active derm appeal, expand the consumer reach of our luxury Fragrance portfolio, capture more relevant trends with our Makeup brands and reenergize our Hair Care brands, all with an eye towards capturing additional consumers while retaining loyal ones. We also plan to begin leveraging our regional lines manufacturing and distribution network in Asia to create greater inventory agility as demand dictates.

With that backdrop in mind and using August 12 spot rates of [ph] 1.092 for the euro, 1.276 for the pound, 7.167 for the Chinese yuan, and 1,364 (00:39:40) for the Korean won and full fiscal year organic net sales are forecasted to range between a decrease of 1% and an increase of 2%. Throughout this past fiscal year, to mitigate the expected pressures to our business, we accelerated the implementation of initiatives under our PRGP, as I previously mentioned, which we expect, combined with our sales growth range to result in most of our margin expansion for the full year to be realized in gross margin.

We expect our full year effective tax rate to be approximately 32%. Diluted EPS is expected to range between \$2.75 and \$2.95 before restructuring and other charges. This includes approximately \$0.03 of dilution from currency translation. In constant currency, we expect EPS to grow by approximately 7% to 15%.

Net cash flows from operating activities are forecasted between \$1.8 billion and \$2 billion. Capital expenditures are planned at approximately 5% to 5.5% of forecasted net sales.

We expect our first quarter results to be pressured by the ongoing challenges in mainland China and Asia travel retail we experienced as we exited fiscal 2024, mainly as subdued consumer sentiment, more experiential spending and lower conversion rates continue.

We are, however, seeing some early signs of progress, particularly in North America, as Fabrizio mentioned. With our strategic pivots and assuming the progressive return of prestige beauty sales growth in mainland China and Asia travel retail, we anticipate overall improvement over the course of the year.

With that backdrop for our first quarter, we currently expect organic net sales to fall 3% to 5%. At this time, we expect first quarter diluted EPS of \$0.02 to \$0.10 before restructuring and other charges. This includes approximately \$0.01 of accretion from currency translation. In constant currency, we expect EPS of \$0.01 to \$0.09.

Assuming a full year global prestige beauty performance in fiscal year 2025 of 2% to 3%, our remaining three quarters are anticipated to meet or slightly exceed this growth, which is in line with our previous sales performance objective of exceeding the overall average of global prestige beauty growth by at least 1 point.

With the implementation of our PRGP initiatives and if global prestige beauty accelerates further in fiscal 2026, the combination of additional sales momentum and margin accretion leverage from our PRGP should provide further progress toward returning to a more sustainable sales and profit growth algorithm.

In closing, while our fiscal 2024 performance was disappointing, we remain focused on navigating the current volatile global prestige beauty dynamics, while leveraging the long-term strengths of our brands, and we maintain confidence in our strategic pivots and the execution of our PRGP to drive profitable growth in fiscal 2025 and beyond.

I want to personally thank our teams globally for their resilience, commitment and dedication to the company through another difficult year.

Before I turn the call back over to Fabrizio for a few final comments, as most of you know, I announced my planned retirement at the end of this fiscal year. Accordingly, I want to congratulate Akhil Srivastava on his appointment as CFO effective November 1. I look forward to working with him over this transition period and appreciate his commitment to the company and its ongoing success.

And now, I'll turn it back to Fabrizio.

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## Fabrizio Freda

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

Thank you, Tracey. And I want to make a final comment before we turn to Q&A. Today, I announced my intention to retire from Estée Lauder Companies. It has been a privilege, a great honor to lead the company for 16 years. I have been deeply enriched by exceptional colleagues around the world, and I take this decision to retire with gratitude to – for all we have accomplished.

I have two primary objectives ahead of my retirement: first, I intend to execute with excellent strategy reset that Tracey and I described today, inclusive of our Profit Recovery and Growth Plan. It is important to me that our next leader [ph] inherits this (00:44:17) business with momentum. Second, I plan to work closely with our board of directors and my successor, once named, to ensure a smooth transition. My passion for our beautiful company is as strong as ever, and I'm confident in its bright future.

Throughout the years, I've deeply enjoyed representing the company with analysts and investors. I look forward to our continued engagement until I retire. And that concludes our prepared remarks, we'll be happy to take your questions at this time.

## QUESTION AND ANSWER SECTION

**Operator:** Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Our first question today comes from Steve Powers from Deutsche Bank. Please go ahead with your question.

**Stephen Powers**

*Analyst, Deutsche Bank Securities, Inc.*

Q

Great. Thank you so much. There's a lot to cover but Fabrizio, maybe we can pick up where you left off, as you both – you and Tracey both outlined a very challenging and transformational time for the company. As you personally look ahead at the priorities facing Estée Lauder, how are you thinking about – or how would you frame the most important attributes that you'd look for in your successor? And how closely will you be involved over the coming months and quarters in finding that successor?

**Fabrizio Freda**

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

A

Sure. As I said in the prepared remark, I will be very involved in – with the board in working on the succession. And obviously, as you know, it's the board responsibility to decide the successor and – but we are working all together to get the best output out of the work done for some time. This is a long-term process. It's not something that we are just starting working now, obviously.

And in term of the characteristic of the successor, I think the successor has to be obviously a great leader and understand the key elements of our company. And one of the key elements is being brand builders and people that can develop growth. We are a growth company, and we are a global company. And so, obviously, being able to drive growth globally and being able to continue reshaping the cost structure of the company in the proper way that will become even more leverageable with future growth are going to be essential characteristics.

But I would just want to reassure you that the options that the board has developed, they all have these characteristics. So, as I said, the board is pretty well advanced in the work needed to determine the future.

**Operator:** Our next question comes from Bryan Spillane from Bank of America. Please go ahead with your question.

**Bryan D. Spillane**

*Analyst, BofA Securities, Inc.*

Q

Hi. Thanks, operator, and good morning, everyone. So, maybe just to kind of try to put this year fiscal 2025 into a little bit of a perspective, maybe Tracey, can you give us a sense of if China hadn't decelerated like it has since you last reported, what would earnings power have been this year? Or maybe to put it a different way, how much – in terms of your forecast this year and the change in trend in China, like how much do you think that actually affected earnings power in fiscal 2025?

**Tracey Thomas Travis**

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

A

Yeah. No, thanks, Bryan, for the question. So, clearly, China and travel retail are important growth drivers for the company, have been historically and they're also high-margin areas of the company as well. So, when we see pressure in those areas, as we saw in fiscal 2024, you can see what the impact on the company is.

So, if, right now, in our guidance, mainland China is expected to be anywhere between flat to down high-single digit and travel retail Asia is expected to be down double digit. That puts a quite a bit of pressure on our earnings results and our EPS. The fact that this year, with those two pressures, we actually will have EPS up is really because of the contribution of the Profit and Recovery Growth Plan (sic) [Profit Recovery and Growth Plan] (00:49:27), the PRGP, which we will refer to it from now on, as we said in the prepared remarks. So, that is delivering – if you think about delivering around 51% at the low end of the range given the fact that we're relatively flat if you take the midpoint of our range in terms of our growth this year, what we're expecting, so that means other markets like the Americas, APAC outside of China and EMEA outside of travel retail are expected to grow.

But if you take that contribution, it is being offset by some expense deleverage. It's also in looking at your models, you need to add back some of the interest expense from our debt that we took out for the acquisition of TOM FORD and DECIEM and bonus as well back at target levels. So, those are some of the differences. And then obviously, you heard our estimates for currency, which will be slightly dilutive for the year.

So, all of that puts pressure on our overall EPS, but still on a year that is close to what it was last year from a sales performance perspective, we are demonstrating improved margins and improved EPS and that is because of – and with a negative mix impact related to travel retail in China. And that is because of both the PRGP as well as other actions the company has taken to really halt a lot of activities that we would normally do in the course of the year.

We are also, importantly, as I said in our prepared remarks, protecting some investment for the momentum that we spoke about in the prepared remarks in categories like Fragrance, the active derm category, and where we're seeing momentum, that will be important for us when we think forward to fiscal 2026 and beyond and have more market growth hopefully but also those brands continuing to become a greater proportion of the business.

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**Operator:** And our next question comes from Lauren Lieberman from Barclays. Please go ahead with your question.

**Lauren R. Lieberman**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thanks. Good morning. I'm pausing on how to frame my seven questions. So, I want to just follow on, Tracey, maybe on the – what you've just shared and the driver – the fact that there will be earnings growth even with sales flat to down. And you called out halting some activities, protecting some investment, noting all the expense deleverage that there will be, how should I – why shouldn't I be concerned that there's going to be constraining investments this year because the market doesn't stand still, right?

You mentioned North America more competitive. I'm going to guess other companies, whether they are global or local across China, are not going to be pulling back on investment. Everyone is going to want to be gaining share in a market that's down. So, how do we know that there isn't too little investment being put back in, in 2025 in the name of putting up some earnings growth? And then frankly, when we get to this time next year and there's new leadership in place or has been named and you have the strategic reset, [ph] but there isn't (00:53:05) another



strategic reset. So, I threw a lot in there, but those are the things that are on my mind that I'd love to hear both of you comment on. Thanks.

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**Tracey Thomas Travis**

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

A

No. Of course, Lauren. So, if you think about when we first described the PRGP, we said we have gross savings, and we are investing some of those gross savings in order to fund the program as well as fuel some of our – create fuel for some of our consumer-facing investments.

And so, when you think about the cadence of results and savings that we expect from the program, obviously, first quarter, there is some benefit, but that will progressively improve through the course of the year as our actions materialize. So, we are funding some of the consumer-facing investments out of the gross investments, in our – out of our PRGP.

I also mentioned that even in fiscal 2024, where we had green shoots, you heard, I mean, many of those strategies were put in place before, obviously, some of the innovation that we came out with and some of the plans that we had to expand in faster-growing channels. So, we have tried to, in a very difficult year, even in fiscal 2024, protect some of the consumer-facing investments. And as we see growth happening in certain areas, we will certainly fund more of it in some of the savings generated throughout the course of this year in the PRGP.

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**Fabrizio Freda**

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

A

And also, Lauren, I wanted to add that – a concept here, which is, my intention also of announcing the retirement at the end of the fiscal year is also to work together with the board, together with the team, and when announced, together with my successor, on making sure that we put, in 2025, the company in a condition to leverage growth momentum in general – in all the areas where the opportunity will be, in the China market, where today, we see declines, to continue to grow market share, and that's the focus.

And in term of the [ph] PRT (00:55:31) to make sure that we have sufficient investments in all the key areas of the business where this momentum has to be preserved in the future. Those are internally key goals that we are going to pursue.

And I hope that the strategic reset that I explained in my prepared remarks, somehow indicate also not only the numbers, but the content on which we want to invest the numbers because it's clear that we have extraordinary strengths in our brands and brand equity in our portfolio. It's clear that we continue to have great, high repeat rates because our products are outstanding and [ph] liked by (00:56:19) the consumer. I hope it's clear that our innovation is getting much stronger in many areas. And in clear that we have two big strategy reset areas, one is the lowering exposure to declining market and declining channels and substitute this with high-growth market, high-growth channels, the best we can.

And the second is actually improving the effectiveness of our marketing plan – of our recruitment plans. And so, we will get better support to our business, not only spending more money, but all what I said about precision marketing, is all about increasing the power of our recruitment.

And finally, you heard me saying that our recruitment has been – going to be focused more than ever on new consumers. And that, I believe, will make a big difference. And so, all what I just said is really the purpose of the transition. And so, the transition is going to be tailored to that.

**Operator:** And our next question comes from Filippo Falorni from Citi. Please go ahead with your question.

Q

Hi, good morning everyone. I wanted to ask a few question on the travel retail business, given we have a bit less visibility on the inventory levels. So, can you – it seems like the last two quarters, the industry decelerated in terms of sell-through, but you were up double-digit in terms of sell-in. Can you give us a sense of the inventory levels exiting the year?

And Tracey, you mentioned you expect double-digit decline in fiscal 2025. Can you give us any sense of the cadence of the decline? Is it more concentrated in the first half and then an improvement in the second half? Any color there would be helpful. Thank you.

**Tracey Thomas Travis**

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

A

Sure. So, you're right. As we said, and certainly, as you mentioned, others have said also there was a decline in Asia's travel retail, particularly in China travel retail in the last few months of our fiscal 2024, and that certainly did impact us.

The reason we were up, we were anniversarying very low shipments from the prior year. And so, we had in certain parts of China travel retail, specifically Hainan, very low shipments in our fourth quarter last year.

And so, even with decelerating sales, we were replenishing relative to what we had experienced in the prior year. But because of the acceleration from Q3 to Q4 – the deceleration from Q3 to Q4, we did end with inventory levels higher than what we would have liked. And so, part of what you see in our first quarter results is making sure that we keep inventory levels at the level that we and our customers want in that region even managing, obviously, the volatility from month to month that we and our retailers are experiencing.

**Fabrizio Freda**

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

A

Yeah. And I just want to add the perspective that this is actually a big priority for us. It's really manage much better stock normalization in TR in the future. And so, the – what you said, which is obviously the retail in quarter four went down much more than expected. So, by definition, created higher temporary stocks.

We are already reacting in quarter one readjusting it. That should be seen as a better reactivity and better management of this in the future. And as I said in previous calls, we are also preparing to build a distribution center in Hainan that will further shorten the time between orders in travel retail and delivery that will make this process better and better over time.

**Operator:** Our next question comes from Dana Telsey from Telsey Group. Please go ahead with your question.

**Dana Lauren Telsey**

*Analyst, Telsey Advisory Group LLC*

Q

Hi. Good morning, everyone. As you think about the distribution channel shifts and the margin impacts, where they're going on to Amazon, specialty-multi, what does that mean for the business in terms of how you're seeing

in North America, in particular, department stores and Amazon specialty-multi? And then with travel retail being 19% of sales, how do you see that in fiscal 2025 and the progression as we move forward? Thank you.

**Tracey Thomas Travis**

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

A

Well, I'll start with the second one, Dana. Travel retail will be lower than it was in fiscal 2024, because we're expecting it to be negative all years. So, it will be a lower percent of our mix. And as Fabrizio mentioned, part of what obviously is happening is we're seeing channel shifts. We're seeing some of the travel retail business go to other regions, whether it's remaining within mainland China or traveling to – back to international travel in certain parts of the world, including, obviously, markets in addition to within the travel retail channel. So, we expect that it will continue to shrink as a percent of our mix, at least in fiscal 2025 and hopefully see some stabilization after that.

In terms of the faster growth channels that we are pivoting to, I mean, obviously, they represent growth. Different channels had different margins. As you know, we don't give specific channel margin information. But to the extent that those channels are allowing us to recruit new consumers, it is certainly margin accretive for the company overall when we see the kind of reversal that we saw even in the last few months, launching on Amazon with Clinique. And so, I think that's something that we are focused on.

Fabrizio spoke about other platforms. Online being a big focus for us as well from a strategic standpoint, platforms in other parts of the world that also represent growth and the recruitment of new consumers. So, that is a big area of strategic pivot for us that we expect will be margin accretive for the company overall.

**Fabrizio Freda**

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

A

And I would just want to add that as you have heard from our example today is a lot of these channel rebalancing is also between online and brick-and-mortar. And the online is very efficient for many reasons. On top of that, we used the last few years to develop online platforms that now we are in a condition to scale and to leverage in our activations of the various online channels.

And finally, when you invest in a high-growth channel, where the consumers are particularly active, particularly the young consumer, the return on the investment in advertising and the ability to recruit, the right cost of recruitment actually increase while the cost of recruitment tend to be higher in declining channels. So, the overall move for us will be actually positive in the long term. And we are managing this with the profitability mix in mind, one of the key things that we need to achieve.

**Operator:** Our next question comes from Peter Grom from UBS. Please go ahead with your question.

**Peter Grom**

*Analyst, UBS Securities LLC*

Q

Thanks, operator, and good morning, everyone. Hope you are doing well. I was hoping to ask maybe a bigger picture question here, just given all the commentary in the release on the path forward and what has been slower progress in China and Asia travel retail. When you speak to category growth returning to mid-single digits in fiscal 2025, assuming China progressively recovered, what do you think is a realistic category growth expectation in China and maybe Asia travel retail as well as we look out longer term? Specifically, just trying to understand or be curious how you think about the ability to return to 6% to 8% organic sales growth if performance in these regions and channels doesn't necessarily return to growth rates we saw prior to the recent challenges. Thanks.

**Fabrizio Freda**

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

A

Yeah, I'll start and then Tracey will add perspective. I assume when you say category growth, you define the category as the prestige global market in total. That's what I understood for your question. And so, the overall category growth of the luxury prestige part of the beauty business historically has been growing in the mid-single digit range. And I think the [ph] facts (01:05:41) today with China and travel retail Asia declining double digit in this moment as markets, you see that we are forecasting 2%, 3%. And this forecasting 2%, 3% to the category growth is the reflection that we are not assuming in our guidance for fiscal year 2025 is stabilization of that.

And basically, this is our attempt, try not to guess the future that is in this moment is very difficult to predict because of the volatility that Tracey spoke about. So, with that context, you see [ph] immediately (01:06:21) that the difference between stabilized Chinese consumers, so China stabilized, and the market is [ph] 2, 3 points (01:06:33) the market with a stable growth in China was single digit – sorry, was mid-single digit. And so, that's the difference between the 2% and the 5%.

Now, if in the future, we do expect the overall global category, as you define it, to have this – to benefit of the stabilization of the China TR consumption and market, and that will make the category stronger. So, assuming the category will go back to a 5% global growth also because to be clear, except now the Chinese reset in this period, the demographic fundamentals, the reason of long-term development in this category are intact globally. In fact, we're seeing still pretty strong development in Asia, ex-China, in Europe, in America, as we said before, despite a gradual reduction of the growth, the growth is still mid-single digit and plus. So, the market has strong fundamentals and the market will go back as it happened in the past.

In the past, during, I don't know, the recession of 2008, 2009, the market went down in the 2% and then bounced back to the normal the year-after. So, we have seen this many other times in the history of the market. And we, as a company, believe that the strategy reset that we are discussing and the ability of our Profit Recovery and Growth Plan to put us back on track for leverageability will put all of us in a condition to grow at least 1 point ahead of the market in the long term and to reestablish our – the way we think of long-term algorithm as growing ahead of the market.

**Operator:** And ladies and gentlemen, our final question today comes from Rupesh Parikh from Oppenheimer. Please go ahead with your question.

**Rupesh Parikh**

*Analyst, Oppenheimer & Co., Inc.*

Q

Good morning and thanks for taking my question. So, just going back to the commentary on North America market, you guys called out a strong competitive environment in the Americas. So, just hoping to get more color on what you're seeing there? And as you look forward for your planning assumptions, are you expecting a further moderation in the US prestige market?

**Fabrizio Freda**

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

A

So, in our guidance, we are reflecting the current moderation of the growth because again, in this guidance, we are not guessing the future. We are reflecting what we see currently. And this moderation of the growth, however, brings the market still in the mid-single-digit growth. So, it's not a bad market.

I mean, US has been weaker than that in the past. So, it's still a relatively solid market growth that is happening today. And in this relatively solid market, we are working for dramatic improvements. I think it's important to understand that we have seen progress in quarter four, our – because we grew retail even if the net was difficult, but we grew retail. And again, the net was reflecting also some issues happening in many of the retailers in our less fast-growing part of the business. But the retail was growing in July, as we revealed, the retail is further accelerated – our retail is further accelerated. Some of our brands like Clinique is showing very exciting progress, which is super encouraging.

Actually, I would say that all the brands where we have started implementing the new strategy, we see that there is extraordinary interesting progress, which is validating that once we'll be able to implement across the portfolio, all the improvements that we are trying to do, we could achieve the stabilization, which is the first goal that we have in mind, the stabilization. So, stop the decline in market share, stabilize and align with the market growth in the US. So, we are – in summary, we are cautious of the overall market in the US in this moment, but we are positive on our progress in executing an improvement strategy in America.

**Operator:** And ladies and gentlemen, with that, we'll conclude today's question-and-answer session. If you were unable to join for the entire call, a playback will be available at 01:00 PM Eastern Time today through September 3. To hear a recording of the call, please dial 877-344-7529 using passcode 3757854. 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. You may now disconnect your lines.

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