Estée Lauder Companies (EL)

Updated June 6th, 2024, by Ian Bezek

Key Metrics

Current Price:	$124	**5 Year CAGR Estimate:**	13.2%	**Market Cap:**	$44.8 B
Fair Value Price:	$145	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	05/31/24
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.2%	**Dividend Payment Date:**	06/17/24
Dividend Yield:	2.1%	**5 Year Price Target**	$213	**Years Of Dividend Growth:**	4
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Buy

Overview & Current Events

Estee Lauder is one of the world's largest cosmetics and beauty care companies. It competes primarily in the upscale and prestige portion of the market. Sales break down as follows: Skin care makes up 52% of sales, makeup constitutes 28%, fragrance is another 16%, and hair care is the other 4%. The firm's leading brands include the namesake Estee Lauder along with Clinique, Aveda, M.A.C., and Origins among others. Estee Lauder is a truly international firm, operating in more than 150 countries. And revenues are split almost equally in thirds between the Asia-Pacific, Europe Middle East & Africa, and the Americas segments.

Estee Lauder has historically shown strong and consistent growth, with top-line revenues growing from $11.0 billion in 2014 to $17.7 billion in 2022. The firm's strong branding and distribution network makes Estee Lauder a dominant competitor in most markets. In addition, rising disposable income in emerging markets has created far more potential customers that can afford the firm's products, and the rise of social media has boosted cosmetics products demand.

Estee Lauder enjoyed a tremendous growth surge as the economy reopened from the pandemic. The company relies on travel retail and gifting as significant sources of demand, so the reopening of airports, malls, and other such commercial centers greatly boosted the company's results. However, retailers bought too much cosmetics inventory and certain markets – particularly Asia – greatly decelerated in 2023. Estee Lauder's earnings-per-share plunged from $6.55 in 2022 to just $2.79 in 2023. The challenges are set to persist this year.

The company reported its fiscal Q3 2024 earnings on May 1st, 2024. Earnings-per-share of 97 cents rose from $0.47 for the same period of last year and greatly exceeded expectations. Revenues grew 5% year-over-year, marking the first quarter of growth in more than a year. This quarter was much better than expected, and backs up management's previous claims that the company is at a positive inflection point. Despite that, the share price has slid over the past quarter as consumer spending slows and stock prices fall across the high-end consumer discretionary space.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.06	$2.82	$2.96	$3.35	$2.95	$4.82	$1.86	$7.79	$6.55	$2.79	***$2.25***	***$8.54***
DPS	$0.78	$0.92	$1.14	$1.32	$1.48	$1.67	$1.39	$2.07	$2.33	$2.58	***$2.64***	***$3.88***
Shares[1]	393	386	377	373	376	370	367	368	365	361	***361***	***355***

Estee Lauder had demonstrated consistent earnings and dividend growth until 2020. However, the pandemic disrupted the business, with many stores closed due to lockdowns. The firm's earnings plunged and it briefly paused its dividend as well. Estee Lauder enjoyed record earnings in 2021 as clients shopped at a fast pace with the economy reopening. But momentum has gone entirely into reverse since 2022 and inventories have piled up leading to margin pressure.

While earnings are temporarily depressed, there is no reason to believe that the business' economics are permanently impaired. As such, we are modeling Estee Lauder using its 10-year average return on assets (ROA) of 12% and believe

[1] In millions.

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the company would earn $5.81 per share in a normal mid-cycle year. From there, we believe the company will grow earnings at an 8% annualized pace. The dividend should grow at about the same rate as earnings over time.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	23.6	29.8	30.0	28.3	47.3	37.0	99.4	40.1	38.0	69.8	***21.3***	***25.0***
Avg. Yld.	1.0%	1.0%	1.1%	1.2%	1.0%	0.9%	0.9%	0.6%	0.7%	1.4%	***2.1%***	***1.8%***

Estee Lauder has averaged a P/E ratio of 44.3 over the past decade and 56.9 over the past five years. However, the firm had outlier years in 2020 and 2023 which inflate those figures. Excluding those exceptions, Estee Lauder has averaged a P/E ratio in the low 30s. We believe the firm's P/E ratio will settle closer to 25 over time as the firm matures and its long-term growth rate decelerates.

Estee Lauder has averaged a 1.0% dividend yield; the current 2.1% yield is far above that historical average.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	33%	39%	39%	50%	35%	75%	27%	36%	92%	***46%***	***46%***

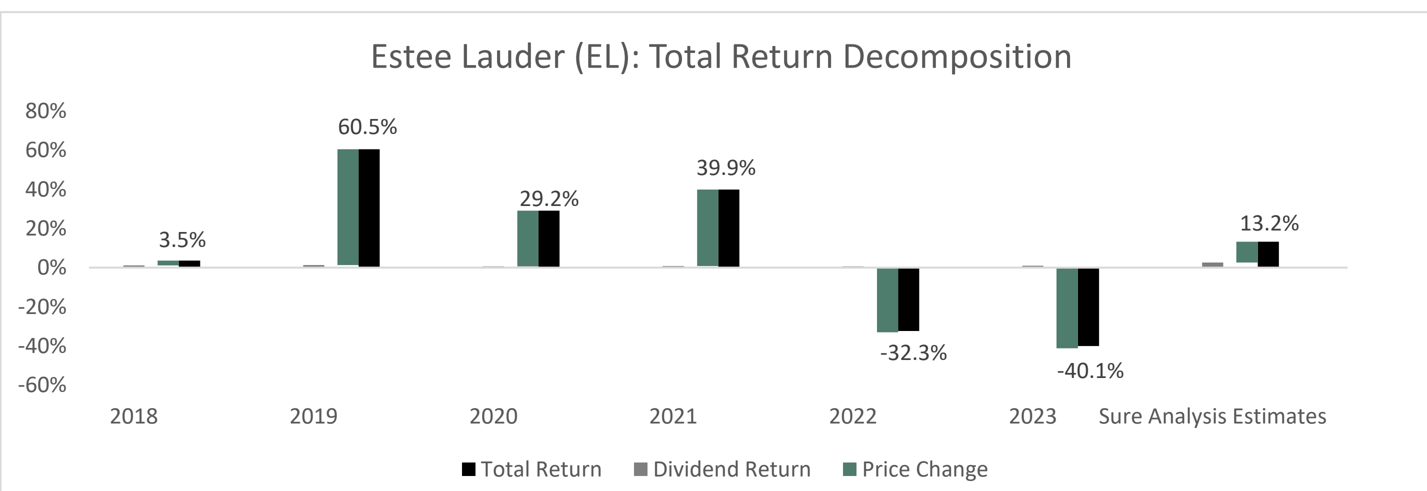
Estee Lauder has averaged a 45% payout ratio since 2014. It remains around there, based on normalized earnings, and we expect the payout ratio to remain around that level long-term. The company has a strong balance sheet, earning an "A" credit rating from S&P Global and it holds minimal net debt.

Historically, cosmetics has been thought to be a stable industry that can handle economic volatility. However, the pandemic greatly disrupted business and has unleashed substantial near-term uncertainty in the cosmetics industry. We believe the firm retains substantial scale, branding, and operational advantages that will shine in the long run.

Final Thoughts & Recommendation

Estee Lauder is currently in the midst of a steep operational downturn. However, we believe the firm will return to normal levels of profitability over the next 12 to 24 months. Based on earning its historical ROA, Estee Lauder shares are somewhat below fair value today. Shares can be expected to generate 13.2% annualized returns over the next five years, driven primarily by the 8% earnings growth rate plus multiple expansion. Shares earn a buy rating today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	10,969	10,780	11,262	11,824	13,683	14,863	14,294	16,215	17,737	15,910
Gross Profit	8,811	8,680	9,081	9,390	10,839	11,476	10,742	12,381	13,432	11,346
Gross Margin	80.3%	80.5%	80.6%	79.4%	79.2%	77.2%	75.2%	76.4%	75.7%	71.3%
SG&A Exp.	6,986	7,074	7,338	7,460	8,553	8,857	8,637	9,371	9,888	9,575
D&A Exp.	385	409	415	464	531	557	611	651	727	744
Operating Profit	1,825	1,606	1,743	1,930	2,286	2,619	2,105	3,010	3,544	1,771
Op. Margin	16.6%	14.9%	15.5%	16.3%	16.7%	17.6%	14.7%	18.6%	20.0%	11.1%
Net Profit	1,204	1,089	1,115	1,249	1,108	1,785	684	2,870	2,390	1,006
Net Margin	11.0%	10.1%	9.9%	10.6%	8.1%	12.0%	4.8%	17.7%	13.5%	6.3%
Free Cash Flow	1,025	1,470	1,264	1,286	1,933	1,773	1,657	2,994	2,000	(1,558)
Income Tax	568	467	434	361	863	513	350	456	628	387

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	7,869	8,227	9,223	11,568	12,567	13,156	17,781	21,971	20,910	23,415
Cash & Equivalents	1,629	1,021	914	1,136	2,181	2,987	5,022	4,958	3,957	4,029
Acc. Receivable	1,379	1,175	1,258	1,395	1,487	1,831	1,194	1,702	1,629	1,452
Inventories	1,294	1,216	1,264	1,479	1,618	2,006	2,062	2,505	2,920	2,979
Goodwill & Int.	1,051	1,471	1,572	3,243	3,202	3,071	3,739	6,711	5,949	8,088
Total Liabilities	3,999	4,573	5,636	7,166	7,857	8,745	13,819	15,023	14,478	16,998
Accounts Payable	525	635	717	835	1,182	1,490	1,177	1,692	1,822	1,670
Long-Term Debt	1,343	1,625	2,242	3,572	3,544	3,412	6,136	5,569	5,412	8,114
Total Equity	3,855	3,643	3,572	4,384	4,688	4,386	3,935	6,057	5,590	5,585
LTD/E Ratio	0.35	0.45	0.63	0.81	0.76	0.78	1.56	0.92	0.97	1.45

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	16.0%	13.5%	12.8%	12.0%	9.2%	13.9%	4.4%	14.4%	11.1%	4.5%
Return on Equity	33.6%	28.9%	30.8%	31.3%	24.3%	39.1%	16.3%	52.6%	35.7%	15.7%
ROIC	24.4%	20.8%	20.1%	18.1%	13.7%	22.2%	7.6%	25.4%	19.6%	7.6%
Shares Out.	393	386	377	373	376	370	367	368	365	361
Revenue/Share	27.90	27.95	29.90	31.70	36.42	40.13	38.96	44.04	48.61	44.08
FCF/Share	2.61	3.81	3.36	3.45	5.15	4.79	4.52	8.13	5.48	(4.32)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.