



# Estée Lauder Companies (EL)

Updated September 12<sup>th</sup>, 2024, by Ian Bezek

## Key Metrics

<b>Current Price:</b>	\$85	<b>5 Year CAGR Estimate:</b>	18.3%	<b>Market Cap:</b>	\$30.7 B
<b>Fair Value Price:</b>	\$123	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	08/30/24
<b>% Fair Value:</b>	69%	<b>5 Year Valuation Multiple Estimate:</b>	7.6%	<b>Dividend Payment Date:</b>	09/16/24
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$180	<b>Years Of Dividend Growth:</b>	4
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Rating:</b>	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 over the past two years. Estee Lauder's earnings-per-share plunged from \$6.55 in 2022 to \$2.79 in 2023 and then \$1.08 in its recently concluded fiscal year 2024.

The company reported its Q4 and full-year 2024 results on August 19<sup>th</sup>, 2024. Earnings-per-share of 64 cents declined from \$1.08 for the same period of last year, but topped expectations. Revenues of \$3.9 billion increased 7% year-over-year, marking a healthy reversal from the company's recent sales declines. Management has guided to much more favorable results for 2025 as revenues rebound and profit margins recover. That said, the market appears to be skeptical of this outlook, and analysts are worried about continued weakness in the Chinese market and a potential recession.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$2.82	\$2.96	\$3.35	\$2.95	\$4.82	\$1.86	\$7.79	\$6.55	\$2.79	\$1.08	<b>\$2.90</b>	<b>\$7.83</b>
<b>DPS</b>	\$0.92	\$1.14	\$1.32	\$1.48	\$1.67	\$1.39	\$2.07	\$2.33	\$2.58	\$2.64	<b>\$2.64</b>	<b>\$3.88</b>
<b>Shares<sup>1</sup></b>	386	377	373	376	370	367	368	365	361	361	<b>361</b>	<b>355</b>

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 11% and believe

<sup>1</sup> In millions.

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the company would earn \$5.33 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	29.8	30.0	28.3	47.3	37.0	99.4	40.1	38.0	69.8	97.8	15.9	23.0
Avg. Yld.	1.0%	1.1%	1.2%	1.0%	0.9%	0.9%	0.6%	0.7%	1.4%	2.3%	3.1%	2.2%

Estee Lauder has averaged a P/E ratio of above 50 over the past five and ten years. We believe that is unsustainably high. The company hasn't traded below a 28x P/E multiple since 2014. However, we are modeling a more conservative 23x P/E ratio given the uncertainty around the firm's sales outlook and elevated exposure to volatile emerging markets.

Estee Lauder has averaged a 1.1% dividend yield historically; the current 3.1% yield is far above that historical average.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	33%	39%	39%	50%	35%	75%	27%	36%	92%	244%	50%	50%

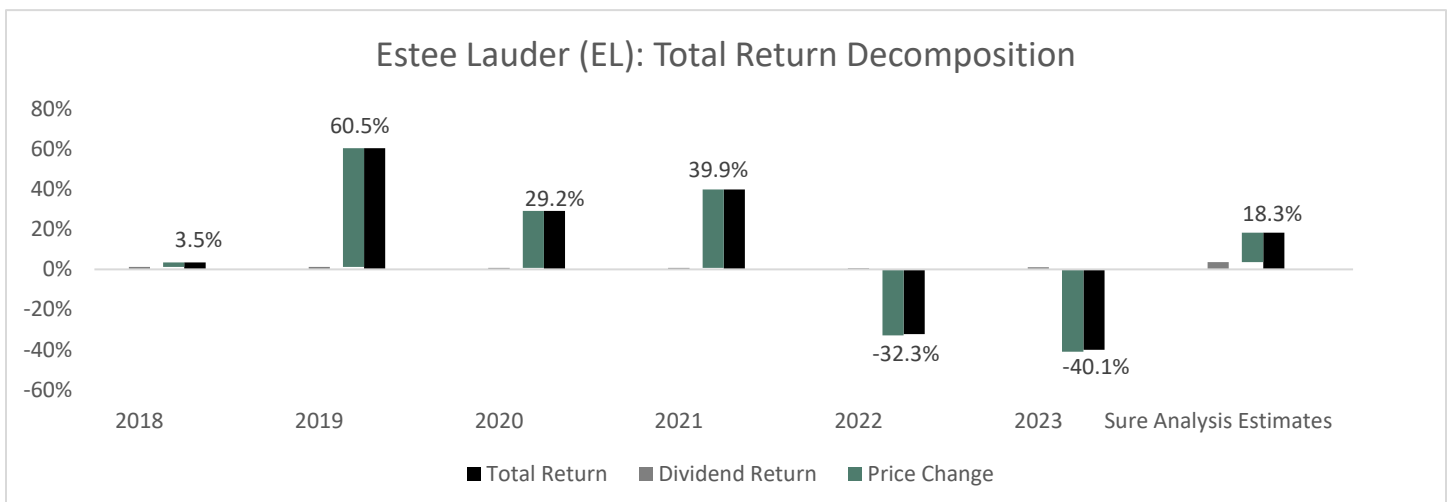
Estee Lauder has averaged a roughly 50% payout ratio over the past decade (excluding 2024). It remains around there, based on normalized earnings, and we expect the payout ratio to remain around that level long-term. The company has a strong balance sheet, earning an "A" credit rating from S&P Global and it holds minimal net debt. The balance sheet gives Estee Lauder room to keep paying the dividend during this current earnings slump.

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 considerably below fair value today. Shares can be expected to generate 18.3% 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
<b>Revenue</b>	10,969	10,780	11,262	11,824	13,683	14,863	14,294	16,215	17,737	15,910
<b>Gross Profit</b>	8,811	8,680	9,081	9,390	10,839	11,476	10,742	12,381	13,432	11,346
<b>Gross Margin</b>	80.3%	80.5%	80.6%	79.4%	79.2%	77.2%	75.2%	76.4%	75.7%	71.3%
<b>SG&amp;A Exp.</b>	6,986	7,074	7,338	7,460	8,553	8,857	8,637	9,371	9,888	9,575
<b>D&amp;A Exp.</b>	385	409	415	464	531	557	611	651	727	744
<b>Operating Profit</b>	1,825	1,606	1,743	1,930	2,286	2,619	2,105	3,010	3,544	1,771
<b>Op. Margin</b>	16.6%	14.9%	15.5%	16.3%	16.7%	17.6%	14.7%	18.6%	20.0%	11.1%
<b>Net Profit</b>	1,204	1,089	1,115	1,249	1,108	1,785	684	2,870	2,390	1,006
<b>Net Margin</b>	11.0%	10.1%	9.9%	10.6%	8.1%	12.0%	4.8%	17.7%	13.5%	6.3%
<b>Free Cash Flow</b>	1,025	1,470	1,264	1,286	1,933	1,773	1,657	2,994	2,000	(1,558)
<b>Income Tax</b>	568	467	434	361	863	513	350	456	628	387

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	7,869	8,227	9,223	11,568	12,567	13,156	17,781	21,971	20,910	23,415
<b>Cash &amp; Equivalents</b>	1,629	1,021	914	1,136	2,181	2,987	5,022	4,958	3,957	4,029
<b>Acc. Receivable</b>	1,379	1,175	1,258	1,395	1,487	1,831	1,194	1,702	1,629	1,452
<b>Inventories</b>	1,294	1,216	1,264	1,479	1,618	2,006	2,062	2,505	2,920	2,979
<b>Goodwill &amp; Int.</b>	1,051	1,471	1,572	3,243	3,202	3,071	3,739	6,711	5,949	8,088
<b>Total Liabilities</b>	3,999	4,573	5,636	7,166	7,857	8,745	13,819	15,023	14,478	16,998
<b>Accounts Payable</b>	525	635	717	835	1,182	1,490	1,177	1,692	1,822	1,670
<b>Long-Term Debt</b>	1,343	1,625	2,242	3,572	3,544	3,412	6,136	5,569	5,412	8,114
<b>Total Equity</b>	3,855	3,643	3,572	4,384	4,688	4,386	3,935	6,057	5,590	5,585
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	16.0%	13.5%	12.8%	12.0%	9.2%	13.9%	4.4%	14.4%	11.1%	4.5%
<b>Return on Equity</b>	33.6%	28.9%	30.8%	31.3%	24.3%	39.1%	16.3%	52.6%	35.7%	15.7%
<b>ROIC</b>	24.4%	20.8%	20.1%	18.1%	13.7%	22.2%	7.6%	25.4%	19.6%	7.6%
<b>Shares Out.</b>	393	386	377	373	376	370	367	368	365	361
<b>Revenue/Share</b>	27.90	27.95	29.90	31.70	36.42	40.13	38.96	44.04	48.61	44.08
<b>FCF/Share</b>	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.

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