

Estée Lauder Companies Inc. Class A

US CORE HOLDING*

Recommended since 31.08.23

27.02.2024



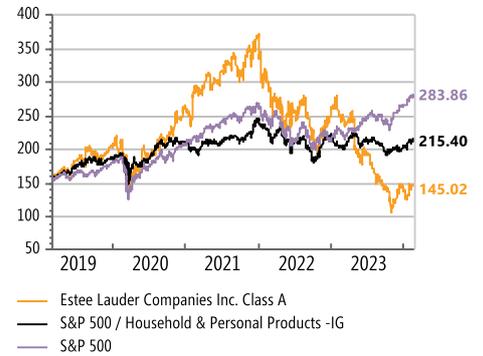
Country US	Market capitalization (bn) USD 52,0	Perf. since reco. (%)
Sector Personal & Household Goods	Free float 99,6%	Estée Lauder Companies Inc. C -9,7
Factset EL-US	Closing price USD 145,02	Sector 1,9
ISIN US5184391044	ESG Risk score* 23,4 Medium risk	



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1946, the Estée Lauder Group specializes in prestige beauty products. Its portfolio comprises 24 brands, including: Estée Lauder, Aramis, Clinique, Lab Series, Origins, M.A.C, La Mer, Bobbi Brown, Aveda, Jo Malone London, Bumble and Bumble, Darphin Paris, TOM FORD, Smashbox, Le Labo, Too Faced, The Ordinary. Its business is divided into four categories : Skin Care (52% of sales), Make-up (28%), Fragrances (16%), Hair Care (4%).



Market - competition - positions - barriers to entry

The global beauty market is estimated at \$430bn in 2022, with growth forecast at 6%/year to 2027 (source: McKinsey). Estée Lauder is n°3 worldwide behind L'Oréal (leader) and Unilever. Barriers to entry include critical size, strong brand identity, quality, constant innovation (R&D costs 2.2% of sales), and the importance of marketing (marketing expenditure = 24% of sales).

Source: Factset

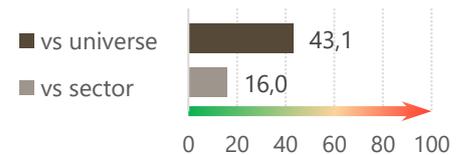
Investment case

- ⊕ The global beauty market is expected to grow by 6%/year by 2027, driven by all categories (skincare, hair care, fragrances and make-up). Historically resilient during recessions, the market is in constant motion, adapting to new trends, among which health and well-being are becoming central (natural ingredients, probiotics).
- ⊕ While the Prestige segment is more sensitive to an economic slowdown than the Mass market, its growth is stronger and expected at +8%/year (versus +5% for the Mass market), driven in particular by the premiumization trend. Backed by its prestige brands with clearly differentiated profiles, the Group is well positioned to benefit from market expansion.
- ⊕ In the short term, the Group's business is heavily impacted by the streamlining of travel retail stocks in Asia (-34% in organic in 2023 / less than 20% of sales now). This segment has been penalized by high inventories, intensified control of the Daigou network (resellers in China) reducing traffic in Hainan, and a very gradual recovery in travel. Margins are under pressure, with a significant 830bp decline in operating margin to 11.4% in 2023 (year-end June).
- ⊕ But the publication of Q2 results (Oct.-Dec.) was reassuring, with an inflexion point reached. Travel retail inventories are now in a healthier state, and a gradual return to growth will be visible from Q3 onwards. Furthermore, in order to restore profitability, management has announced an extensive cost-cutting program, which will contribute \$1.1-1.4bn to operating income over 2025-26. The gradual recovery in activity and the restructuring program will thus enable a reappraisal of the margin in the medium term. We do not anticipate a return to 19% (2021 level) before 2026-27.
- ⊕ The stock has lost 60% since the beginning of 2022 and 40% over one year. The valuation appears high (NTM PE of 40x vs. 46x in 2021 and 32x 10-year historical average), but it includes a very depreciated EPS over 2024. Current levels represent a buy point.

ESG - risks and key points

- ⊕ Estée Lauder has a medium risk of suffering significant financial impacts from ESG factors due to medium exposure and solid management of ESG issues. The Group has not encountered any major controversies in the past.
- ⊕ Like its peers, palm oil and mica are among the ingredients used. The Group has introduced a code of conduct for its suppliers. Responsible sourcing is a key focus. The aim is for at least 90% of its palm-based ingredients to come from RSPO-certified sources by 2025 (vs. 71% in 2021).

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
145	176

Our scenario assumes US 10-year yields of 3.5%, sales growth of 7%/year over the period, and a gradual improvement in EBIT margin to 22% by 2032.

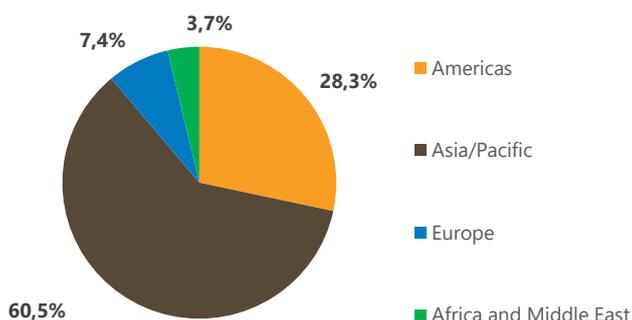
***) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	17 737	15 910	15 958	17 234	18 613
Sales growth %	9,4%	-10,3%	0,3%	8,0%	8,0%
o/w organic	8,0%	-5,6%	0,3%	8,0%	8,0%
EBIT adjusted	3500	1823	1596	2757	3443
% of sales	19,7%	11,5%	10,0%	16,0%	18,5%
Net income	2 642	1 248	800	1 745	2 361
Adjusted EPS	7,24	3,46	2,22	4,84	6,54
Adjusted EPS growth	12,2%	-52,2%	-35,9%	118,2%	35,3%
Capex/Sales	5,9%	6,3%	6,0%	5,0%	4,5%
Free cash-flow	2 000	728	603	1 531	2 223
FCF/Sales	11,3%	4,6%	3,8%	8,9%	11,9%
Dividend per share	2,33	2,58	1,84	2,61	2,89
Dividend yield	0,9%	1,3%	1,3%	1,8%	2,0%
ROCE - WACC	19,8%	3,0%	0,5%	7,3%	11,3%
ROE (%)	37,2%	15,7%	12,7%	23,7%	26,9%
Net debt/Ebitda	89,1%	249,6%	273,8%	158,5%	100,9%

Source: Factset, Bordier estimates

Sales breakdown - 06/2023



Ratios

Estee Lauder Companies Inc. Class A	S&P 500	
	Sector	Market
PE (x)***	Household Products	S&P 500
2023	56,8	25,2
2024e	65,4	25,1
2025e	30,0	23,5
P/B (x)***		
2023	11,0	9,6
2024e	8,3	9,0
2025e	7,1	8,6
Beta (2Y, daily) vs market:		1,07

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premiums representing the quality of the company's business model.

Governance and ownership structure

Since 2009 - CEO Fabrizio Freda

Key shareholders (if any):

The Lauder family holds 38% of the capital and 86% of the voting rights.

Agenda

1 May 2024 : Q3 Results

19 Aug. 2024 : Q4 Results

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

Capital split between 1/ listed Class A shares (2/3 of capital - 1 voting right per share) and 2/ unlisted Class B shares (1/3 of capital - 10 voting rights per share - fully owned by the family).

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainability, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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