

# Estée Lauder Companies Stock Pitch

BY CONSUMER STAPLES

ESTÉE  
LAUDER  
COMPANIES

# Estée Lauder Companies Background

- NYSE: EL - Lauder family beneficially owns shares of Class A and Class B Common Stock with approximately 84% of voting power.

569.4 in 2020 projected to be worth 758.4 in 2025

150 countries and territories

- It is the second largest cosmetics company in the world after *L'Oréal*

- founded in 1946 (**76 years ago!**) in New York City producing makeup, skincare, fragrance and hair care products

- Subsidiaries: A diverse portfolio of brands, including La Mer, Jo Malone London, Clinique and Tom Ford Beauty

- Market cap = \$83.31 billion

- Multinational Cosmetic company

# Products



- **Skin Care** – Revenue grew sharply with a 11% jump for Q2 FY2019, primarily due to growth in Skin Care (e.g. *Moisturizer, Cleanser and Serum*)



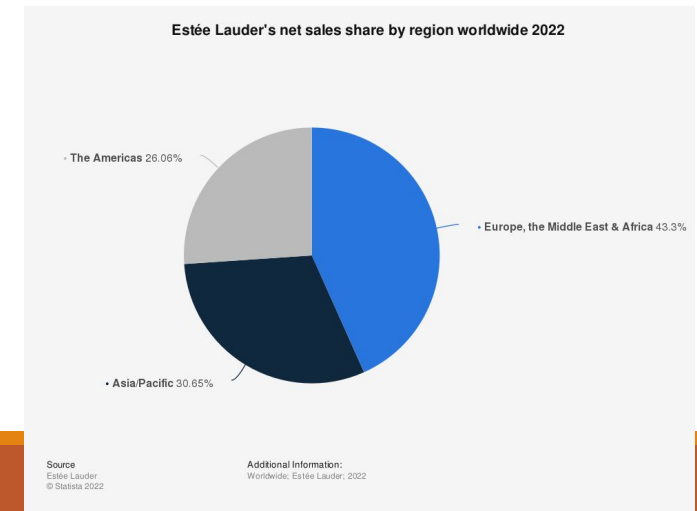
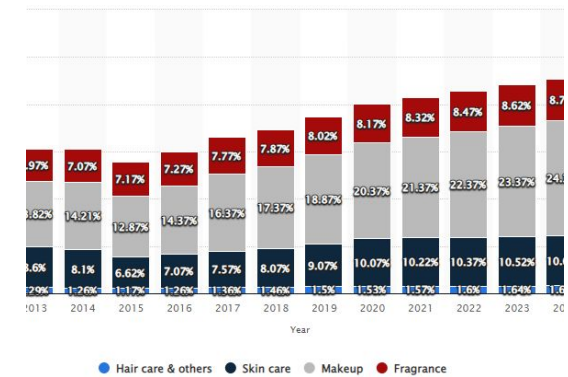
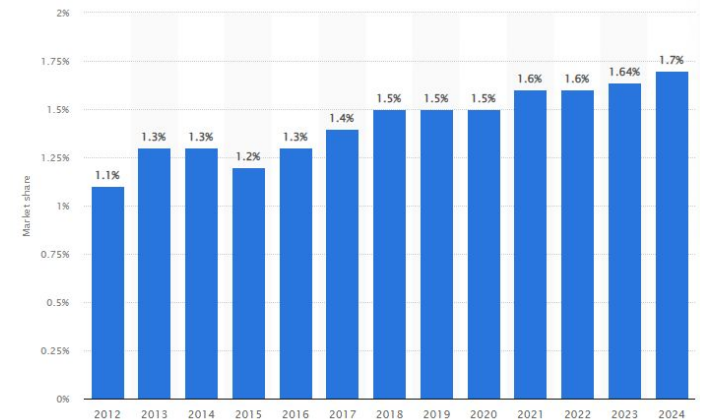
- **Fragrance** – In 2020, an estimated 1 million women used Estée Lauder Beautiful. The second-ranked Estée Lauder Pleasures had roughly half of this number in 2019. (e.g. *Eau de parfum sprays and colognes, powders and creams*)



- **Hair Care** –Estée Lauder's share of the hair care products market worldwide from 2012 to 2024. In 2018, Estée Lauder's share of the global hair care products market is estimated to be 1.5 percent.



- **Makeup** EL's makeup segment continued to see increased sales from the acquisitions of Too Faced and BECCA in the last fiscal year (E.G. *Lipsticks, lip glosses, mascaras, foundations, eyeshadows, nail polishes and powders.*)



# SWOT – Strengths

Strength	This means...	Evidence
Cosmetic Market Monopoly	Strong market power and solid brand reputation protects long-term sales	- Estée Lauder have a 10.4% market share in the global Cosmetic market
EL's Strong Distribution Network around the globe	The products are sold to a limited stores that compliments the image of the brands such as department stores, upscale perfumes and specialty stores	<p>The Estée Lauder Companies sells products in approximately 150 countries and territories.</p> <ul style="list-style-type: none"> <li>• We have three main geographic regions: Asia/Pacific; Europe, the Middle East &amp; Africa; and The Americas.</li> <li>• Each region is composed of one or more affiliates. Today we have affiliates in 50+ countries and territories.</li> </ul>
Good dividend yield	Growing dividend yield has risen from the last two years which is a clear indication of good financial health	<p>- Current TTM dividend payout for EL of \$2.64</p> <p>- Annual dividend yield for EL is 1.14%</p>
Strong operating income	Estee Lauder has been successfully able to generate positive returns on the operating income it has incurred on various projects in the past.	Total reported operating income was \$3.17 billion , an increase from \$2.62 billion in the prior-year period.

# SWOT - Weaknesses

Weakness	This means...	Evidence
Product testing controversies	The Estée Lauder Companies perform non-animal and human volunteer testing to assess product safety and efficacy.	The Chinese government requires testing on animals for many cosmetic products. This controversy for smaller brands that are "cruelty free" but were acquired by Estée Lauder
Quite Expensive products	Estée Lauder comes under the premium segment and thus its products' prices are quite on a higher side as compared to other brands in the market offering the same products at a little cheaper price.	- Due to this, people who want to buy a product from Estée Lauder are taking their feet back just because they are not willing to pay.
High Day Sales Inventory	The time it takes for products to be purchased and sold are higher than the industry average, meaning that Estee Lauder builds up on inventory adding unnecessary costs to the business.	EL's Days Inventory is ranked <b>worse than 89.51% of 1725</b> companies in the <b>Consumer Staples</b> industry
Limited Product category	Estée Lauder has stopped themselves with cosmetic products alone.	- They are only known for their high-quality trusted skin and makeup care formulas

# SWOT – Opportunities

Opportunity	This means	Evidence
Exposure of New Markets	- Consumers always look forward to paying higher prices for greater value products and opportunities to penetrate the market.	- The opportunity to bring into emerging economies by engaging with their environment can help to raise Estée Lauder. Recently, Estée Lauder expanded its footprint with the New Jo Malone London store in Mumbai, India.
Growing Demand	- The market for hair care and personal care products is expanding, and it has significant demographic and geographic potential.	<p>The market potential is always increasing as more people use hair care products daily and there is so much competition in the hair care industry, people are well aware of its importance.</p> <p>Hair Care Market is poised to grow at a CAGR of 6.6% by 2027</p>
Great Social Media Management	On different social media platforms, this brand has a very strong online presence and thus has been able to reach many individuals worldwide and attract people with its campaigns and social media management.	Estée Lauder announced that <b>75% of its marketing investment is now focused on digital social media influencers</b> , and the beauty holding company is apparently happy with how it's turning out.

# SWOT – Threats

Threat	This means...	Evidence
Competition from Other Brands	New skincare and cosmetics brands are also creating products with newer competitive innovation and technology for retail stores which is increasing the competition of Estée Lauder.	- Estee Lauder also feels threatened due to high competition. The cosmetics brand must compete with several brands, such as L'oreal and Claraline.
Poor macro conditions worldwide (Cost of Living and War)	- High Global inflation is affecting EL's - short term fall in supply for makeup brands	- Estee Lauder since it is increasing the operational cost of the brand. An increase in the operational cost means the profits of Estee Lauder are shrinking as inflation increases.  - Estee Lauder annual operating expenses for 2022 were \$14.567B, a 7.13% increase from 2021. Estee Lauder annual operating expenses for 2021 were \$13.597B
Negative Publicity	Most cosmetic brands show false advertising such as improvement in skin tone. A wide range of people say that these cosmetic products are against culture, cause ill effects on health and skin, and they aren't natural.	- In 2018, The <b>Estée Lauder</b> Companies CEO Fabrizio Freda had to apologised for <b>advertising</b> claims on specific cosmetics which were found to be false

# Upcoming pipeline/new s/ events

## **Estée lauder to buy designer brand Tom Ford**

Estée Lauder is nearing a deal to buy Tom Ford for about \$2.8bn, including debt, beating out competition from several others interested in acquiring the luxury fashion brand, said people briefed about the matter

## **Estée Lauder Double Wear light: The foundation the best in Australia**

A \$54 foundation that promises lightweight but long-lasting coverage has been named the best in Australia by thousands of women.

Estee Lauder's Double Wear Light Stay-In-Place Makeup SPF 10 beat out stiff competition from big-name brands including Clinique to be named best new foundation at the 2022 Beauty-Heaven Glosscar Awards.

**Given that fundamentals usually drive long-term market outcomes, the company is worth looking at.**



# Environmental, Social and Corporate Governance (ESG)

Environmental	Social	Governance
In 2020, they achieved Net-Zero 1 carbon emissions and sourced 100% renewable electricity globally for direct business operations.	Increased Unconscious Bias training in the United States to reach 94% of corporate employees, 100% of Supply Chain employees, and 61% of point-of-sale employees	Climate Action Steering Committee - senior leaders from various functions who assess and manage climate related risks and opportunities
They've eliminated extraneous cartons and paper for their products wherever possible, aiming to have 100% of their forest-based fiber cartons FSC-certified by 2025.	Spent \$118 million with women-owned businesses in fiscal 2022, aiming to increase spending to \$150 million (per fiscal year) by 2025	Evaluate the performance of their employees under ESG goals holistically
Aim to reduce absolute Scope 1 and 2 greenhouse gas (GHG) emissions 50% by 2030 from a 2018 base year.	Aiming to create a workforce that is more representative and responsive to people of all backgrounds through increasing their hires from HBCU's and expanding investments in women's leadership and girls education	Currently 45% of Global SVP positions and above are held by women, and they aim to achieve gender parity for women in senior positions globally by 2025
By 2025, 75-100% of packaging will meet at least one of the "5 Rs":	Distributed \$12 million to support nonprofits that advance racial and social justice	
















# Financials

A company's current ratio can give a sense of its operating cycle or ability to turn its product into cash. Estee Lauder has got a current ratio of 1.68 as of the quarter ending Sept 2022. It is useful to compare companies within the same industry, as often business operations differ in each industry.

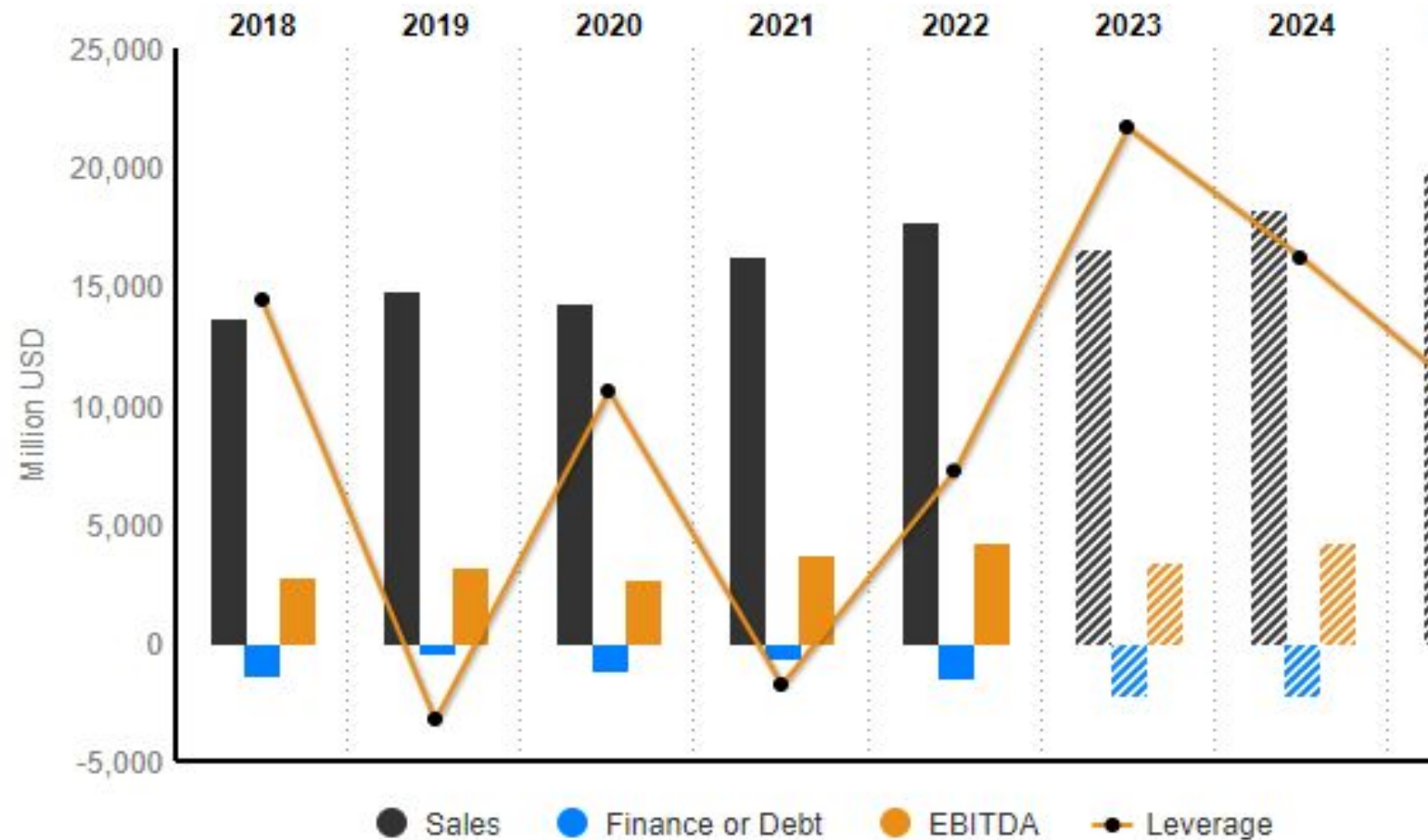
Company	Market Cap (M)	Current Ratio
The Estee Lauder Compani...	\$ 86,569.81	1.68
Colgate-Palmolive Co	\$ 65,263.64	1.17
Kimberly-Clark Corp	\$ 46,155.42	0.78
Church & Dwight Co Inc	\$ 19,789.92	1.08
Clorox Co	\$ 18,533.63	0.88
Coty Inc	\$ 6,817.90	0.70
Newell Brands Inc	\$ 5,500.88	1.25
Inter Parfums Inc	\$ 3,108.19	2.85
e.l.f. Beauty Inc	\$ 2,915.30	3.44
Spectrum Brands Holdings ...	\$ 2,448.88	2.72

# Income Statement

This shows the income statement for the last 3 operating years of Estee Lauder, we can see that year by year Revenue, gross profit and operating income are increasing while operating expenses remain at a similar figure.

Annual Data   Millions of US \$ except per share data		2022-06-30	2021-06-30	2020-06-30
<b>Revenue</b>		<b>\$17,737</b>	<b>\$16,215</b>	<b>\$14,294</b>
Cost Of Goods Sold		\$4,305	\$3,834	\$3,552
<b>Gross Profit</b>		<b>\$13,432</b>	<b>\$12,381</b>	<b>\$10,742</b>
Research And Development Expenses		-	-	-
SG&A Expenses		\$9,888	\$9,371	\$8,637
Other Operating Income Or Expenses		\$-241	\$-134	\$-614
Operating Expenses		\$10,262	\$9,763	\$10,136
<b>Operating Income</b>		<b>\$3,170</b>	<b>\$2,618</b>	<b>\$606</b>
Total Non-Operating Income/Expense		\$-134	\$713	\$440
<b>Pre-Tax Income</b>		<b>\$3,036</b>	<b>\$3,331</b>	<b>\$1,046</b>
Income Taxes		\$628	\$456	\$350
<b>Income After Taxes</b>		<b>\$2,408</b>	<b>\$2,875</b>	<b>\$696</b>
Other Income		-	-	-
<b>Income From Continuous Operations</b>		<b>\$2,408</b>	<b>\$2,875</b>	<b>\$696</b>
Income From Discontinued Operations		-	-	-
<b>Net Income</b>		<b>\$2,390</b>	<b>\$2,870</b>	<b>\$684</b>
EBITDA		<b>\$3,897</b>	<b>\$3,269</b>	<b>\$1,217</b>
EBIT		<b>\$3,170</b>	<b>\$2,618</b>	<b>\$606</b>
Basic Shares Outstanding		360	363	361
Shares Outstanding		365	368	367
<b>Basic EPS</b>		<b>\$6.64</b>	<b>\$7.91</b>	<b>\$1.90</b>
<b>EPS - Earnings Per Share</b>		<b>\$6.55</b>	<b>\$7.79</b>	<b>\$1.86</b>

# Free cash flow



©marketscreener.com - S&P Global Mar

Fiscal Period: June

Net Debt<sup>1</sup>

Net Cash position<sup>1</sup>

Leverage (Debt / EBITDA)

Free Cash Flow<sup>1</sup>

2020

2021

2022

2023

2024

1 114

611

1 455

2 169

2 231

-

-

-

-

-

0,41x

0,16x

0,34x

0,63x

0,52x

1 657

2 994

2 000

1 878

2 450

# P/E ratio

The PE ratio is a simple way to assess whether a stock is over or under valued and is the most widely used valuation measure. Estee Lauder PE ratio as of December 08, 2022 is **36.21**.

Price to Earning ratio is at 44.74 in the 3. Quarter 2022 for Personal & Household Products Industry,

It means they are undervalued because their stock prices trade lower relative to their fundamentals.



## Volatility

---

Short term volatility  
caused by the pandemic

---

The opening of travel  
across the world

---

Trends

# Risk

Consumers are now seeking brands that are as transparent in their ingredient list as they are natural in their products

economic times are tough, beauty products are among the last goods to be cut from the budget.

Investment decisions



# Overall trend





# RSI



Andy3627 published on TradingView.com, Dec 10, 2022 13:36 UTC



TradingView

# Stop Loss

Depending on how risk adverse  
This scenario stop loss only at 20%  
Reward ratio is just below to 3:1

