

Estée Lauder's travel retail arm delivers 'standout performance' in challenging quarter



The Estée Lauder Companies Inc. (ELC) reported net sales for its first quarter ended September 30, 2014 of \$2.63bn; a 2% decrease compared with \$2.68bn in the prior-year quarter.

Although travel retail, sales decreased reflecting the accelerated retailer orders the company's travel retail business continues to benefit from new launch initiatives, an increase in global airline passenger traffic and expanded distribution. Excluding the impact of the accelerated retailer orders, travel retail sales increased double digits.

Fabrizio Freda, President and Chief Executive Officer, said: "We entered the fiscal year on solid footing, with underlying strength in many parts of our business. Sales growth in the first fiscal quarter was in line with our expectations and earnings per share exceeded our forecast, due to strong results in several of our brands, as well as disciplined expense management.

"Our performance, after adjusting for the accelerated sales orders we reported in fiscal 2014, was highlighted by double-digit sales and operating income growth from our Europe, Middle East & Africa region, where we are building share and leveraging opportunities in both developed and emerging markets. In addition, our makeup artist and luxury brands, and online and travel retail channels delivered standout performances.

"Our well diversified business allows us to accelerate what's working and capture opportunities to further strengthen our leadership in prestige beauty. Some of our brands that were small have become sizeable and solid engines of growth and we believe the new small brands we added to our portfolio recently can become engines of the future."

While Freda says that ELC's current business is solid, the company recognizes recent challenges, including the strength of the US dollar, geopolitical tensions and soft retail environments in certain important markets, like Hong Kong.

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THE ESTÉE LAUDER COMPANIES INC.
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; In millions, except per share data and percentages)

	Three Months Ended September 30		Percent Change
	2014	2013	
Net Sales	\$ 2,631.0	\$ 2,675.0	(2)%
Cost of sales	536.6	544.1	
Gross Profit	2,094.4	2,130.9	(2)%

“Reflecting the impact of these challenges, we are adjusting our full fiscal year net sales estimate to 5% to 6% in local currency and reducing our earnings per share estimate to \$3.03 to \$3.11 for the full fiscal year, excluding the effect of the accelerated retailer orders,” adds Freda.

OUTLOOK FOR FISCAL 2015

The Company continues to estimate global prestige beauty will grow approximately 3% to 4%, but expects it will be at the low end of the range due to certain macroeconomic issues.

The Company expects to grow ahead of the industry by focusing on the fastest growing product categories, channels and countries. The Company also expects to leverage its strong sales growth and increase its operating margin and cash flow from operations.

While the Company's business is performing well overall, the Company is cautious of the slower growth in Hong Kong and from Chinese travellers, unfavorable foreign exchange due to the strength of the US dollar in relation to certain currencies, the impact of lower volume of luxury gift giving in China, and a softer retail environment in some channels in the United States.

Additionally, the Company is negatively impacted by the recent political instability in Hong Kong, and is also monitoring the effects of certain global uncertainties on its business, including increased sanctions in Russia.

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(Unaudited; Dollars in millions)	Three Months Ended September 30						Percent Change Reported Basis
	Net Sales		Percent Change		Operating Income (Loss)		
	2014	2013	Reported Basis	Constant Currency	2014	2013	
Skin Care	\$ 1,091.4	\$ 1,171.0	(7)%	(7)%	\$ 176.4	\$ 241.6	(27) %
Makeup	1,021.3	1,001.0	2	2	125.9	166.3	(24)
Fragrance	377.4	367.4	3	3	39.0	36.9	6
Hair Care	128.1	124.8	3	4	8.8	8.4	5
Other	12.8	10.8	19	19	(2.1)	(2.5)	16
Subtotal	2,631.0	2,675.0	(2)	(1)	348.0	450.7	(23)
Returns and charges associated with restructuring activities	—	—			—	(1.2)	
Total	\$ 2,631.0	\$ 2,675.0	(2)%	(1)%	\$ 348.0	\$ 449.5	(23) %

As previously mentioned, some retailers accelerated their sales orders in connection with the Company's rollout of its last major wave of SMI in July 2014 in certain of its locations. While those additional orders benefited fiscal 2014 results, the Company's full year fiscal 2015 results will reflect a corresponding adverse effect. The Company's fiscal 2015 full year outlook includes the impact of this shift.

"Our forecast reflects solid programmes, our ability to leverage high growth opportunities and our intent to continue to sustain investments in areas of strong momentum and further build capabilities for the long term."

For Lauder's fiscal Q1 (ending 30 September) the change in net sales and operating income in the Company's product categories was unfavorably impacted by the shift in orders from certain retailers due to the Company's implementation of SMI, as previously mentioned.

Skin care net sales declined, due to the impact of the accelerated orders, as well as a difficult comparison with the prior-year period, which featured significant launches of reformulated iconic products from certain of our heritage brands.

Results by Geographic Region							
Three Months Ended September 30							
(Unaudited; Dollars in millions)	Net Sales		Percent Change		Operating Income (Loss)		Percent Change
	2014	2013	Reported Basis	Constant Currency	2014	2013	Reported Basis
The Americas	\$ 1,114.8	\$ 1,202.4	(7)%	(6)%	\$ 57.4	\$ 156.0	(63)%
Europe, the Middle East & Africa.	942.2	891.2	6	5	169.9	180.8	(6)
Asia/Pacific	574.0	581.4	(1)	(2)	120.7	113.9	6
Subtotal	2,631.0	2,675.0	(2)	(1)	348.0	450.7	(23)
Returns and charges associated with restructuring activities	—	—			—	(1.2)	
Total	\$ 2,631.0	\$ 2,675.0	(2)%	(1)%	\$ 348.0	\$ 449.5	(23)%

The decrease reflects lower sales, versus the prior year launches of certain Advanced Night Repair products from Estée Lauder and Dramatically Different Moisturizing Lotion+ from Clinique, as well as certain Even Better products by Clinique.

Partially offsetting these decreases were sales from recent launches of the Company's new Advanced Night Repair Eye Synchronized Recovery Complex II from Estée Lauder and the Clinique Smart custom-repair serum and Clinique Sonic System Purifying Cleansing Brush.

Also, contributing to sales were recent product launches, such as Micro Essence Skin Activating Treatment Lotion from Estée Lauder, as well as from the Company's luxury skin care brand, La Mer.

Higher makeup sales primarily reflected strong growth from the Company's makeup artist brands and from recent launches, such as Pure Color Envy sculpting lipstick and Perfectionist makeup from Estée Lauder.

Sales from makeup artist brands benefited from new product offerings, as well as expanded distribution consistent with the Company's retail store strategy.

Sales in the category also benefited from Smashbox and the Tom Ford line of cosmetics.

In **fragrance**, the higher sales primarily reflected growth from luxury brands Tom Ford and Jo Malone. Sales gains were also generated from the recent launches of DKNY MYNY and Estée Lauder Modern Muse

Estée Lauder's travel retail arm delivers 'standout performance' in challenging quarter Chic.

Net sales in the **United States and Canada** decreased, primarily due to lower net sales from heritage brands, driven by the impact of the accelerated orders and a difficult comparison with the prior-year period product launches that featured significant launches of reformulated iconic products.

Partially offsetting these declines was double-digit constant currency sales growth in Latin America.

For the **Europe, the Middle East & Africa**, in constant currency, net sales increased in most product categories and in most countries in the region. The Company estimates that it continued to outperform prestige beauty in many markets.

The net sales increase was led by double-digit constant currency growth in a number of emerging markets, including Russia, South Africa, Turkey and Central Europe. Double-digit growth was also posted in the Balkans and Nordic, while strong sales gains were generated in the United Kingdom, the Middle East and Italy.

Sales in the **Asia/Pacific region** decreased modestly, reflecting lower constant currency sales in Japan, China and Thailand. The decrease in Japan is due to the accelerated retailer orders. Sales in China declined modestly primarily due to certain heritage brands, reflecting the overall slower growth rate in the country, as well as a difficult comparison with the prior-year period that featured significant launch activity. Sales in Hong Kong were flat compared with the prior-year period.

These decreases were partially offset by double-digit constant currency net sales growth in Australia and New Zealand, while Korea and Taiwan achieved mid- and high-single digit gains, respectively.