

## ESTÉE LAUDER (\$EL) A BEAUTY GIANT AT A CROSSROADS



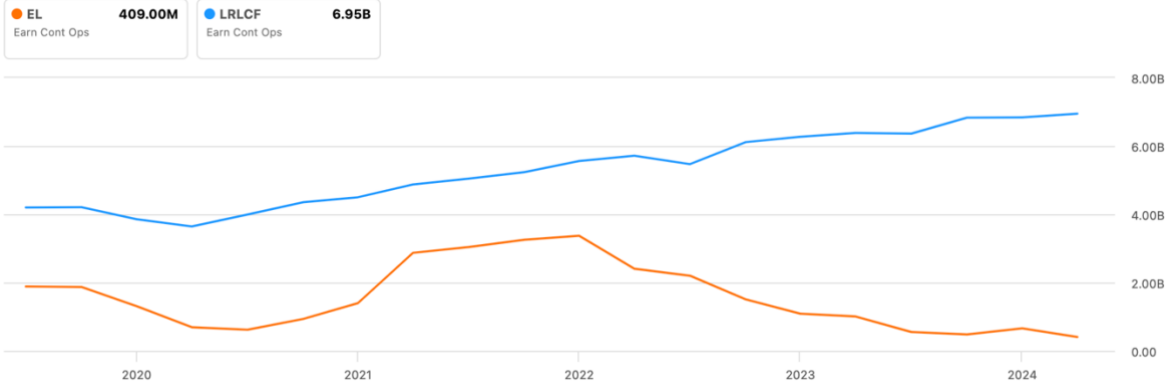
When we think of iconic beauty brands, Estée Lauder undoubtedly stands out. Founded in 1946, this company has grown from mixing cosmetics in a kitchen to becoming a global luxury leader. But even giants face storms, and Estée Lauder is currently navigating some rough seas. With its stock price tumbling and the Chinese market slipping away, the question is: Can Estée Lauder reinvent itself, or is this the start of a decline?

# THE SHINE FADES



Let’s not beat around the bush—Estée Lauder’s stock has taken a serious hit. Over the past year, the stock has dropped by a staggering 43%, which is a far cry from the 18% gain seen by the broader S&P 500 index. So, what’s behind this dramatic fall from grace? Well, it all boils down to a mix of underwhelming financial performance, the sluggish Chinese market, and a challenging global environment.

For starters, Estée Lauder's earnings have been on a downward spiral. In 2024, the company’s adjusted earnings per share fell to \$2.59, a 25% drop from the previous year and a staggering 64% decline from the \$7.24 per share it boasted in 2022. These figures are alarming for investors who have long seen Estée Lauder as a reliable blue-chip stock. Let’s have a first look on the earnings from operations from the last 5 years, compared to L’Oréal, the main competitor:



But why such a drastic drop? The answer lies largely in China—a market that has been both a blessing and a curse for Estée Lauder. China has been a goldmine for luxury brands, with its growing middle class and high demand for premium products. However, in recent months, the Chinese luxury market has cooled significantly, and the impact on Estée Lauder has been severe. The once-booming travel retail sector in places like Hainan has seen sales plummet, dragging down Estée Lauder’s overall performance. In fact, the company’s sales in Asia Pacific dropped by 7% in the most recent quarter, a trend that has been worsening since last year.

The downturn in China has also been exacerbated by the broader economic slowdown and shifting consumer behaviors. With the Chinese economy facing headwinds, luxury spending has taken a hit, and Estée Lauder, heavily reliant on this market, has felt the impact. The company's optimistic forecasts from previous years now seem overly ambitious, as it struggles to meet even modest growth expectations. For fiscal year 2025, Estée Lauder has revised its growth projections to a range of -1% to +2%, far below the 5% growth that was initially anticipated.

## A CLOSER LOOK AT THE COMPETITION

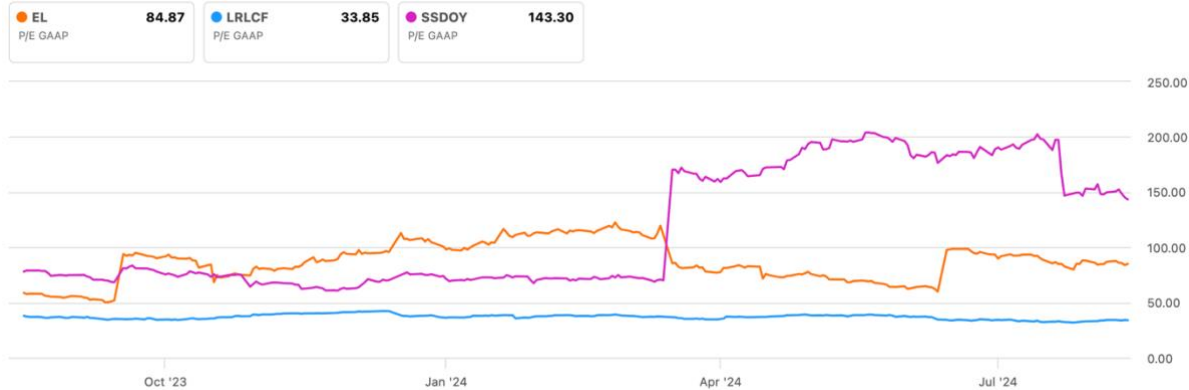


Let's dive into the competition, because Estée Lauder isn't just dealing with internal struggles—it's up against some serious heavyweights in the beauty world. At the forefront is L'Oréal, the global cosmetics leader, which has been on a winning streak, thanks to its diverse portfolio and balanced global presence. Unlike Estée Lauder, which has leaned heavily on the Chinese market, L'Oréal's wider reach has helped it navigate regional downturns with ease. But L'Oréal isn't the only one keeping Estée Lauder on its toes. Newer players like Fenty Beauty by Rihanna and even The Ordinary—a brand under Estée Lauder's own umbrella—are shaking things up with innovative products and strong social media game. We also have Shiseido in Japan, and Beiersdorf; these brands are not only capturing the attention of younger consumers but also setting trends that leave traditional giants scrambling to keep pace.

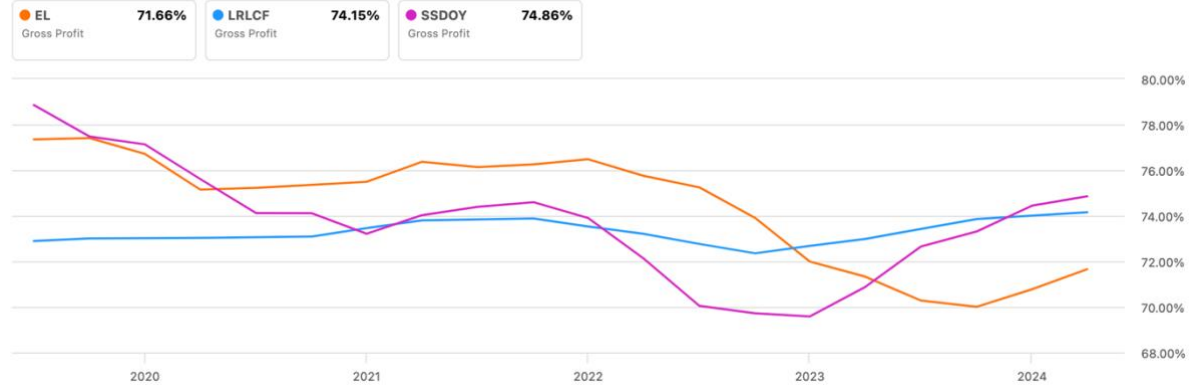
And let's not forget about the tech titans like Amazon, making bold moves into the beauty space. Armed with vast data and direct-to-consumer models, they're challenging the old guard and forcing established brands to rethink their strategies. While Estée Lauder faces its challenges, it's clear the beauty industry is still thriving. L'Oréal remains dominant across skincare, makeup, and hair care, while niche brands and indie labels are carving out their own spaces with creative products and savvy marketing. The rise of clean beauty, vegan options, and sustainable packaging has further shifted consumer expectations,

pushing established brands to innovate faster than ever. Estée Lauder has the resources and history of innovation to keep up, but the big question is whether it can do so quickly enough to stay in the game!

Now let's take a look at the indicators and compare our company with the competition, and start with the classic P/E ratio. As you may know, a high P/E means that investors are willing to pay a higher price in relation to the company's current earnings, which may reflect high expectations of future growth or a perception of superior intrinsic value. On the other hand, in the case of Estee Lauder and Shiseido, the high ratio seems to be the cause of falling earnings (see the first graph), due mainly to the Chinese market, also for Shiseido. L'Oreal seems unaffected, with a stable P/E ratio.



But if we look closer, the gross profit margins are quite similar for the three competitors, meaning that Estée Lauder doesn't mess around:



## A RAY OF HOPE?



In response to these challenges, Estée Lauder has rolled out its "Profit Recovery and Growth" plan. The goal? To turn things around by focusing on efficiency, innovation, and digital transformation. The plan aims to boost net profits by \$1.1 to \$1.4 billion over fiscal year 2024 levels, which sounds impressive on paper. But will it be enough?

The success of this plan hinges on several factors, including how well Estée Lauder can adapt to new market realities. The company has acknowledged the need for modernization, particularly in how it engages with consumers. The rise of e-commerce and social media has shifted the beauty industry's landscape, and brands that fail to innovate risk becoming irrelevant. Estée Lauder is trying to catch up by investing in digital marketing and direct-to-consumer channels, but it's a race against time.

### **THE AI INNOVATION LAB: BETTING ON THE FUTURE**

One of the most exciting aspects of Estée Lauder's future plans is its partnership with Microsoft to create an AI Innovation Lab. This initiative builds on the company's earlier investments in artificial intelligence, including a voice-activated makeup assistant launched back in 2017. The AI Innovation Lab is designed to speed up product development and help Estée Lauder stay ahead of beauty trends. But can AI really save the day? It's possible. By leveraging AI, Estée Lauder hopes to tailor its offerings more precisely to consumer needs, optimize its supply chain, and reduce time-to-market for new products. In a world where consumers expect personalization and instant gratification, these capabilities could give Estée Lauder a much-needed edge!

However, the success of this initiative will depend on how effectively Estée Lauder can integrate AI into its operations and whether it can truly capitalize on the technology to deliver tangible results. It's a high-stakes bet, but if it pays off, it could be a game-changer.

## **THE INSIDER MOVES**

Insider activity can often give us a clue about a company's future, and Estée Lauder is no exception. Recently, director Lynn Forester sold nearly 3,900 shares at an average price of \$93.61 each, while simultaneously exercising options to acquire over 4,300 shares at a lower price. These moves have raised eyebrows among investors. On one hand, the sale could be seen as a lack of confidence in the stock's future. On the other hand, the exercise of options suggests that insiders still see potential for growth. It's a mixed signal, but it does highlight the uncertainty that currently surrounds Estée Lauder.

## **THE ROAD AHEAD**

So, what's next for Estée Lauder? The company is clearly at a crossroads. On one side, there are significant challenges—declining sales in key markets, fierce competition, and the impending departure of long-time CEO Fabrizio Freda. On the other side, there are opportunities—leveraging AI, expanding into new markets, and capitalizing on its strong brand portfolio. The Chinese market will continue to be a critical battleground. If Estée Lauder can stabilize its operations in Asia and reignite growth in this region, it could reverse its fortunes. However, this will require a delicate balancing act, navigating economic uncertainty, and changing consumer behaviors.

Meanwhile, the company's investments in AI and digital transformation will need to bear fruit. If Estée Lauder can successfully modernize its operations and better connect with consumers, it stands a good chance of regaining its footing in the global beauty industry.

## **CONCLUSION**

Estée Lauder's story is far from over. While the company faces significant challenges, it also has the tools and resources to adapt and thrive in a changing market. The coming years will be crucial in determining whether Estée Lauder can maintain its status as a leader in the beauty industry or if it will be overtaken by more nimble competitors. For investors, Estée Lauder's current situation presents both risks and opportunities. Those who believe in the company's ability to innovate and adapt may see this as a buying opportunity, especially with the stock currently undervalued. However, caution is warranted, as the road ahead is anything but certain. As Estée Lauder embarks on the next chapter of its journey, it will need to draw on its rich heritage of innovation and excellence to navigate the challenges ahead and secure its place as a leader in the global beauty industry. The stakes are high, but so is the potential for a remarkable comeback!