

ESTÉE LAUDER Companies

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Introduction : Whether you're a value investor, a speculator or even a trader, there's a good chance that Estée Lauder is a company that fits your criteria. Indeed, the company is currently at the crossroads of value research, due to its exceptional situation. Despite its market capitalization, now seriously affected, the company was once of great interest to famous investors. For evidence of this, we need only recall Terry Smith, who began taking stakes in the company from 2016 until 2019. The share price then fluctuated between \$93.31 and \$194.24, until 2023, when he sold his batch of 5.42 million shares (i.e. all of them) at a price of \$166.73 per share. It was Peter Seilern, another British investor, who praised the company in his book "Only the best win". And with good reason: Estée Lauder was one of the few companies to enter the "Seilern Universe", representing over 5% of his highly selective Seilern World Growth fund. Now, it's a completely different, much younger investor who's making a comeback. Michael Burry, head of his Scion Capital LLC fund, and best known for his performance in the film "The Big Short", recently divested a large part of his holdings in Chinese companies to buy mainly Estée Lauder shares. The increase in this position in the cosmetics company brings the valuation of these shares in the company to 13.2 million dollars, or 100% of his equity portfolio, accompanied by numerous puts on 6 other American and Chinese companies, mainly in the e-commerce and technology sectors. This stake is not very significant in relation to the company's market capitalization, or even to the stakes of the other two investors mentioned above, but Dr. Burry's popularity is generating a lot of media buzz about these stock movements, and consequently turning the spotlight on Estée Lauder. There's a reason for all this excitement surrounding the American stock. As we have just explained, for consumers and investors alike, the company enjoys a very strong reputation and financial solidity, but recent events have destabilized this situation. For all its qualities, the brand has seen its share price plummet from a peak of around 375 US dollars at the end of 2021 to 50 dollars in April. All these facts justify the need to study this company and understand the reasons behind its high volatility. To carry out this study, we will review the company's history, analyze its business model, its reputation (to understand its strengths) and finally compare the pre- and post-covid periods in order to identify the fundamental cause of its recent failure on the stock market and reach a conclusion on various investment approaches for this stock.



History : Estée Lauder is considered to be the name of its founder, who, born Josephine Esther Mentzer, decided to call her company "Estée" (the young woman's nickname) followed by her name "Lauder", acquired after her marriage. The company owes not only its name to its founder, but also a large part of its history up to 1995. Influenced by an uncle who was a chemist and later a dermatologist, and driven by a passion for beauty care, Josephine began producing creams at home in New York. Following the success of her products in beauty salons, in 1946 the couple decided to create the company. The first two golden rules were established: "*talk & touch*" and "*gift with purchase*", which would later become widely popular in the industry. In its early days, the company offered just 4 products, including two creams, a cleansing oil and a lotion, and in 1948 opened its first boutique in New York's Saks Fifth Avenue store (photo right). In addition to a successful start, the entrepreneur introduced the concept of daily fragrance with the creation of Youth-Dew in 1953 (still sold today), marking a turning point in the industry. This step revolutionized perfume sales and enabled the family business to grow into a multi-million dollar enterprise. Building on its reputation and financial success, in 1956 the brand launched Re-Nutriv, a \$115 (\$1,359.14 today) product combining 25 rare ingredients. In the 1960s, the company opened up to the international market, setting up its first subsidiaries in London (at Harrods) and Hong Kong. The decade was marked by numerous launches, such as the first men's fragrance "Aramis", the refillable powder case in 24-carat gold-plated alligator and the creation of the Clinique brand, in association with dermatologist Dr. Norman Orentreich. With so much growth and wealth accumulating, in 1969 the family moved the company's headquarters to the GM Building at 767 Fifth Avenue, overlooking Central Park, which is still the company's world headquarters today. It wasn't until 1982 that the famous, award-winning "Night Repair" serum was launched, and another two years before the iconic "Beautiful" fragrance became available. At the same time, the "Lab Series" brand for men was born. The following decade saw a major upheaval. The company launched the Origins brand (1990), and strengthened its family identity by handing over management to the two sons of the founder, who retired in 1995. This was also the year of the company's IPO on the New York Stock Exchange, at a price of \$26 per share. At the end of the decade, the Aveda hair care and Jo Malone fragrance brands were launched. In 2004, Estée Lauder passed away at the age of 97, while her company continued to grow through acquisition. The following year, the group launched products with Tom Ford, then acquired Bumble and bumble in 2006, as well as Smashbox Beauty Cosmetics in 2010 and Too Faced in 2016. In 2021, after 75 years in the industry, the brand achieves carbon neutrality, sourcing 100% renewable energy for its direct operations, and opens a 27870 m² distribution center in Galgenen, Switzerland. In 2022, Tom Ford was acquired for \$2.3 billion. More recently, in 2024, a partnership with Messika is announced with the finalization of the acquisition of DECIEM Beauty Group in the same year. On June 14, 2025, the founder's eldest son, Leonard Lauder, died at the age of 92. These two brothers, Ronald and Leonard Lauder, are among the 11 people to have remained in the Forbes 400 ranking every year since its inception (alongside Warren Buffett, Charles Koch, Phil Knight, Donald Bren, Philip Anschutz, Donald Newhouse,



Leonard Stern, Les Wexner and Ray Lee Hunt). This rare fact is yet further proof that this company is an integral part of American business success.

Business and financial situation : In this section, we'll try to establish an overview of the company's current financial situation, while understanding its causes. The aim is to provide as much information as possible, so that you can build your own valuation model or adjust certain parameters (*figures are in millions*).

We'll start with the first line of the income statement. Although sales are very global, they remain the backbone of Estée Lauder's analysis.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net Sales	\$10 968,80	\$10 780,40	\$11 262,30	\$11 824,00	\$13 683,00	\$14 863,00	\$14 294,00	\$16 215,00	\$17 737,00	\$15 910,00	\$15 608,00
Growth		-1,72%	4,47%	4,99%	15,72%	8,62%	-3,83%	13,44%	9,39%	-10,30%	-1,90%
Cost of Sales	\$2 158,20	\$2 100,60	\$2 181,10	\$2 434,00	\$2 844,00	\$3 387,00	\$3 552,00	\$3 834,00	\$4 305,00	\$4 564,00	\$4 424,00
Gross Profit	\$8 810,60	\$8 679,80	\$9 081,20	\$9 390,00	\$10 839,00	\$11 476,00	\$10 742,00	\$12 381,00	\$13 432,00	\$11 346,00	\$11 184,00
Gross Margin	80,32%	80,51%	80,63%	79,41%	79,22%	77,21%	75,15%	76,36%	75,73%	71,31%	71,66%
SG&A	\$6 985,90	\$7 073,50	\$7 337,80	\$7 460,00	\$8 553,00	\$8 857,00	\$8 637,00	\$9 371,00	\$9 888,00	\$9 575,00	\$9 621,00
Operating Expenses	\$6 983,00	\$7 073,50	\$7 470,90	\$7 686,00	\$8 784,00	\$9 163,00	\$10 136,00	\$9 763,00	\$10 262,00	\$9 837,00	\$10 214,00
EBIT	\$1 776,80	\$1 560,60	\$1 555,20	\$1 617,00	\$1 980,00	\$2 307,00	\$1 046,00	\$3 331,00	\$3 036,00	\$1 397,00	\$772,00
Net Earnings	\$1 209,10	\$1 093,40	\$1 120,80	\$1 256,00	\$1 117,00	\$1 794,00	\$696,00	\$2 875,00	\$2 408,00	\$1 010,00	\$409,00
NI Growth		-9,57%	2,51%	12,06%	-11,07%	60,61%	-61,20%	313,07%	-16,24%	-58,06%	-59,50%
PER	25,7	27,8	26	43,6	29,2	40	105	41,2	59,5	112	-38,6
SG&A Growth		1,25%	3,74%	1,67%	14,65%	3,55%	-2,48%	8,50%	5,52%	-3,17%	0,48%
SG&A/Revenue	63,69%	65,61%	65,15%	63,09%	62,51%	59,59%	60,42%	57,79%	55,75%	60,18%	61,64%
OpExp/Revenue	63,66%	65,61%	66,34%	65,00%	64,20%	61,65%	70,91%	60,21%	57,86%	61,83%	65,44%

As we can see, the company's sales are becoming less and less predictable, and even declining over 2023 and 2024. To better understand the reasons, we can also look at the additional data in the annual report.

Thanks to this new information, we can see that the problem is a major one for the company, since all the benchmark products are suffering from a lack of sales. From 2022 to 2024, every major category suffered a decline. By region, the drop is even greater, except in the brand's native country, where it struggles to remain constant (declining, if inflation is taken into account). This first striking observation begs the question: "Is the beauty care market (simply) in decline? The answer is no. Take an

	2024	2023	2022
Skin Care	\$7 908,00	\$8 249,00	\$9 902,00
Makeup	\$4 470,00	\$4 532,00	\$4 670,00
Fragrance	\$2 487,00	\$2 451,00	\$2 491,00
Hair Care	\$629,00	\$652,00	\$631,00
Other	\$115,00	\$53,00	\$47,00
Returns associated with restructuring and other activities	-\$1,00	-\$27,00	-\$4,00
Net sales	\$15 608,00	\$15 910,00	\$17 737,00
	2024	2023	2022
The Americas	\$4 581,00	\$4 518,00	\$4 623,00
Europe, Middle East & Africa	\$6 140,00	\$6 225,00	\$7 681,00
Asia/Pacific	\$4 888,00	\$5 194,00	\$5 437,00
Returns associated with restructuring and other activities	-\$1,00	-\$27,00	-\$4,00
Net sales	\$15 608,00	\$15 910,00	\$17 737,00



American competitor like Ulta Beauty; its sales growth was 30% (8.6→ 11.2) between 2022 and 2024. The more international competitor L'Oréal, on the other hand, posted growth of 13% (38.26→ 43.49) over the same period. It's clear, then, that it's the brand that's under threat, not necessarily the market (although according to analysts, the Chinese market is doing badly). As explained in the history section, the company has continued to sell certain products for decades, maintaining its roots. The question is whether these roots are still sound, or whether some changes might be in order? Perhaps the answer will come when we talk about the change in management. The second interesting ratio which remains a source of pride for the company is its gross margin percentage, peaking at 72%. However, here too we are faced with a decline, since a few years earlier it was an impressive 81% to which we were entitled. This first margin can be explained by the premium aspect of some of its products (I suppose), but we still need to succeed in continuing to sell them.

At the very bottom of this first financial statement is net income. This figure is just as important as sales, but gives us a better idea of the value of the PER (Price-earnings ratio). This ratio is as basic as it gets when it comes to evaluating a company/share. This indicator is calculated by

	2024	2023	2022
Net Sales	100,00%	100,00%	100,00%
Cost of Sales	28,30%	28,70%	24,30%
Gross Profit	71,70%	71,30%	75,70%
Operating expenses			
SG&A	61,60%	60,20%	55,70%
Restructuring and other charges	0,80%	0,30%	0,80%
Goodwill impairment	1,90%		
Impairment of other intangible and long-lives asse	1,20%	1,30%	1,40%
Total operating expenses	65,40%	61,80%	57,90%
Operating income	6,20%	9,50%	17,90%
Interest expense	2,40%	1,60%	0,90%
Interest income and investment income, net	1,10%	0,80%	0,20%
Other components of net periodic benefit cost	-0,10%	-0,10%	
Earnings before income taxes	4,90%	8,80%	17,10%
Provision for income taxes	2,30%	2,40%	3,50%
Net earnings	2,60%	6,30%	13,60%

dividing a company's market capitalization by its net income, which would also be equivalent to dividing the share price by net earnings per share. In basic terms, the P/E expresses the number of years a share must be held before it is repaid by the company's profits. The reason for presenting an explanation of this ratio here is that it requires knowledge

of earnings, but also because Estée Lauder's is historically high (as of 2016), as we can see from the first table. A high P/E generally means that investors expect strong growth. However, in view of recent sales surprises, earnings have been affected as a result, and the fall in the share price has been all the greater given that shareholders were expecting strong growth. Talking about earnings is just as important here, because while the company can be proud of posting such a high gross margin, its operating margin is less impressive, dropping from around 17% in 2022 to 5% in 2024. The following table expresses each income statement item as a percentage of sales, giving a better idea of the proportions.

The information on the left (above) confirms our findings. Sales, administrative, marketing, general and financial costs are all on the rise, leading to a decline in every margin - gross, operating and even net income.

This focus on operating costs is highly relevant to our analysis, as the observation of ever-increasing interest costs will lead us to take a look at the balance sheet, the second financial statement.

	2019	2020	2021	2022	2023	2024	Q1-2025
Cash and cash equivalent	2 987,00	5 022,00	4 958,00	3 957,00	4 029,00	3 395,00	2 631,00
Account receivable	1 831,00	1 194,00	1 702,00	1 629,00	1 452,00	1 727,00	1 792,00
Inventory receivable	2 006,00	2 062,00	2 505,00	2 920,00	2 979,00	2 175,00	1 959,00
Inventory and promotional merchandise	388,00	614,00	603,00	792,00	679,00	625,00	635,00
Prepaid expenses and other current assets	-	-	-	-	-	-	-
Total current assets	7 212,00	8 892,00	9 768,00	9 298,00	9 139,00	7 922,00	7 017,00
PP&E	2 068,00	2 055,00	2 280,00	2 650,00	3 179,00	3 136,00	3 059,00
Operating lease right-of-use assets	-	2 282,00	2 190,00	1 949,00	1 797,00	1 833,00	1 875,00
Goodwill	1 868,00	1 401,00	2 616,00	2 521,00	2 486,00	2 143,00	2 080,00
Other intangible assets	1 203,00	2 338,00	4 095,00	3 428,00	5 602,00	5 183,00	4 129,00
Other assets	805,00	813,00	1 022,00	1 064,00	1 212,00	1 460,00	1 726,00
Total other assets	3 876,00	6 834,00	9 923,00	8 962,00	11 097,00	10 619,00	9 810,00
Total assets	13 156,00	17 781,00	21 971,00	20 910,00	23 415,00	21 677,00	19 886,00

The explanation widely adopted by the media for the decline in sales is "due to poor logistical management during the reopening of stores in China. Many customers tried to buy their products online, but were unable to get them due to weak supply chains in several locations." This explanation is indeed reflected in the observation of the "Inventory and promotional merchandise" line, rising from \$388 million in 2019 to \$792 in 2022 (a 104% increase) and to \$635 currently (2025). On the cash and cash equivalents side, the fall is significant, of 48% between 2020 and 2025. When inventories increase and liquidity decreases, we can conclude that the cash position is deteriorating. The company has probably tried to improve the logistical situation of its operations by consuming more cash; a closer reading of the explanations given by management would be useful. Accounts receivable rising when sales fall is not a good sign either. Despite the sometimes opposing directions these figures have taken over the last five years, the result is similar: current assets are decreasing. A more neutral way of obtaining an opinion on liquidity levels would be to calculate the current ratio. However, if there are real problems with the supply chain and the online sales system, then we would have a first clue as to why not all competitors have been so affected. On the face of it, these problems fall under the responsibility of management, even if the market wasn't demanding more beauty products over the period.

The current ratio divides a company's total current assets by its current liabilities, and gives an idea of a company's ability to cover its short-term debt and bills. Here, we propose to look at its value in comparison with some of its competitors, and try to find out whether its situation is solid in the short term. Our competitors include: elf Beauty, l'Oréal, Coty, Shiseido, Kao corp, Puig, Natura & Co. As can be seen from the table below, Estée Lauder's current ratio is greater than 1, meaning that the company has the financial resources to remain solvent in the short term, which is important to bear in mind when considering a scenario where the beauty sector is in particularly bad shape. 1.50 is even a good liquidity ratio, not too high but sufficient. A downward trend to watch, however.

	2019	2020	2021	2022	2023	2024	2025	Average	Sector Aver.
Estée Lauder Current ratio	1,57	1,72	1,84	1,60	1,46	1,39	1,41	1,57	1,50
e.l.f Beauty			2,32	2,97	2,81	1,6	3,05	2,55	
l'Oréal		1,31	0,73	1,02	1,1	1,13		1,06	
Coty Inc		1,81	0,74	0,66	0,75	0,76		0,94	
Shiseido		1,46	1,36	1,35	1,28	1,2		1,33	
Kao corp		1,83	1,92	1,66	1,78	1,79		1,80	
Puig Brands			1,57	1,64	1,4	1,36	▼	1,49	
Natura Cosméticos		1,16	1,28	1,21	1,54	1,58		1,35	

To continue, let's look at three other ratios: Net debt/Equity, Debt/EBITDA and the Interest Coverage ratio, to get a better idea of this company's banking stability. The first ratio presented is debt divided by EBITDA. This ratio measures the amount of revenue generated and available to repay debt, before accounting for interest, taxes, depreciation and amortization. A high ratio may indicate that a company's indebtedness is potentially too high. Taking 3 as a reference value, we might conclude that the company is experiencing a sharp increase in its level of debt, or that its EBITDA level is falling. At just over 3, this ratio is worth keeping an eye on to see whether Estée Lauder will manage to maintain a certain financial solidity, especially as its competitors seem to be in a comfortable position on this measure.

	2019	2020	2021	2022	2023	2024	2025	Average	Sector Aver.
Debt/EBITDA									3,72
Estée Lauder		2,5	1,82	1,5	3,15	3,14		2,42	
e.l.f Beauty			4,1	2,1	0,97	1,62	1,62 ▼	2,08	
l'Oréal		0,39	0,86	0,65	0,93	0,84		0,73	
Coty Inc		36,82	6,7	4,96	4,29	3,73		11,30	
Shiseido		3,94	1,71	2,96	3,01	5,5		3,42	
Kao corp		1,04	1,12	1,29	1,38	1,05		1,18	
Puig Brands			2,66	3,17	2,93	2,5	▼	2,82	
Natura Cosméticos		4,84	4,22	13,91	2,97	3,09		5,81	

The second ratio calculated here is a debt/profitability ratio. It indicates the ease with which a company can pay the interest on its outstanding debt. This ratio divides a company's earnings before interest and taxes (EBIT) by its interest expense over a given period. The higher the value, the easier it is for the company to repay the interest on its debt. Below, we can see that Estée Lauder used to have a very good ratio (over 10), like most of its competitors, but once again recently, the fundamentals are no longer there. Banks have stopped lending to companies with an interest coverage ratio of less than 1.5, and today it would appear that the company has the worst sector, close to 4, which is particularly worrying.

	2019	2020	2021	2022	2023	2024	2025	Average	Sector Aver.
Interest Coverage ratio									22,01
Estée Lauder		13,05	17,4	21,29	7	4,18		12,58	
e.l.f Beauty			2,94	12,2	17,08	12,93	9,22 ▼	10,87	
l'Oréal		65,6	161,85	105,83	35,91	23,24		78,49	
Coty Inc			0,69	1,41	2,06	2,32		1,62	
Shiseido		4,21	17,26	9,39	5,9			9,19	
Kao corp		57,9	61,42	48,31	29,6	40,12		47,47	
Puig Brands			13,08	16,26	11,58	8,2	▼	13,64	
Natura Cosméticos		1,7	2,08		1,89	3,14		2,20	

Finally, these observations can be summed up by the third ratio, which measures the level of total indebtedness in relation to shareholders' equity (as a percentage). This ratio can be used to assess the degree of dependence on debt. D/E ratios vary by sector and are best used to compare

	2019	2020	2021	2022	2023	2024	2025	Average	Sector Aver.
Total Debt/Equity									81,54
Estée Lauder		221,91	116,57	118,86	158,47	180		159,16	
e.l.f Beauty			55,97	37,45	19,99	45,23	41,14	39,96	
l'Oréal		8,78	26,71	20,79	29,89	25,64		22,36	
Coty Inc		212,75	138,81	134,76	108,02	97,18		138,30	
Shiseido		64,02	33,66	47,49	43,88	55,48		48,91	
Kao corp		29,23	27,31	26,41	25,8	22,33		26,22	
Puig Brands			112,32	220	256,55	58,09		161,74	
Natura Cosméticos		64,56	56,94	75,45	31,41	49,9		55,65	

direct competitors, or to measure changes in a company's debt dependency over time. A particularly low ratio may indicate that a company is not taking advantage of debt financing to grow. The table below uses the same format as the other two, and the findings are rather similar. Considering that a D/E ratio below 1 would be good and above 2 would be risky, we can conclude here that Estée Lauder is showing serious signs of weakness due to excessive debt compared to its equity levels. To refine the observation of this indebtedness, we can calculate the Long Term Debt/Equity ratio, which gives us: 1.7, which isn't much better.

Below is the second part of the balance sheet (liabilities) from 2019 to 2025, showing the evolution of these ratios, partly due to the growth in the Group's long-term debt. The presentation of these tables enables you to calculate your own ratios and carry out your own analysis. Lastly, however, we can see that retained earnings amount to 12.344 billion dollars, which leaves the company a certain degree of freedom to undertake new projects and better plans.

These first readings of the income statement and balance sheet show that the brand's image and sales have been seriously damaged. What's more, the margins on the income statement have all deteriorated, due to unfavorable trends in the sector and probably less careful management of operations. The financial ratios calculated also allow us to conclude that the company has no

Current debt	516,00	1 222,00	32,00	268,00	997,00	504,00	3,00
Account payable	1 490,00	1 177,00	1 692,00	1 822,00	1 670,00	1 440,00	1 214,00
Operating lease liabilities	-	375,00	379,00	365,00	357,00	354,00	399,00
Other accrued liabilities	2 599,00	2 405,00	3 195,00	3 360,00	3 216,00	3 404,00	3 348,00
Total current liabilities	4 605,00	5 179,00	5 298,00	5 815,00	6 240,00	5 702,00	4 964,00
Long-term debt	2 896,00	4 914,00	5 537,00	5 144,00	7 117,00	7 267,00	7 298,00
Long-term operating lease liabilities	-	2 278,00	2 151,00	1 868,00	1 698,00	1 701,00	1 682,00
Other noncurrent liabilities	1 244,00	1 448,00	2 037,00	1 651,00	1 943,00	1 693,00	1 597,00
Total noncurrent liabilities	4 140,00	8 640,00	9 725,00	8 663,00	10 758,00	10 661,00	10 577,00
Commitments and contingencies							
Redeemable Noncontrolling Interest	-	-	857,00	842,00	832,00	-	-
Common stock	6,00	6,00	6,00	6,00	6,00	6,00	6,00
Paid-in capital	4 403,00	4 790,00	5 335,00	5 796,00	6 153,00	6 685,00	6 966,00
Retained earnings	9 984,00	10 134,00	12 244,00	13 912,00	13 991,00	13 427,00	12 344,00
Accumulated other comprehensive loss	(563,00)	(665,00)	(470,00)	(762,00)	(934,00)	(1 140,00)	(1 273,00)
	13 830,00	14 265,00	17 115,00	18 952,00	19 216,00	18 978,00	18 043,00
Treasury stock	(9 444,00)	(10 330,00)	(11 058,00)	(13 362,00)	(13 631,00)	(13 664,00)	(13 698,00)
Total stockholders'equity	4 386,00	3 935,00	6 057,00	5 590,00	5 585,00	5 314,00	4 345,00
Noncontrolling interests	25,00	27,00	34,00				
Total equity	4 411,00	3 962,00	6 091,00	5 590,00	5 585,00	5 314,00	4 345,00
Total liabilities, redeemable noncontrolling interest and equity	13 156,00	17 781,00	21 971,00	20 910,00	23 415,00	21 677,00	19 886,00

control over its indebtedness, which is a delicate matter when the future of the business is uncertain. Liquidity has been reached, but certain long-term projects can still be envisaged. We will now look at the cash flow statement in a more synthetic way, in order to arrive at the part studying the company's valuation.

	2020	2021	2022	2023	2024	Q1-2025
Cash flows from operating activities	2,28	3,63	3,04	1,73	2,36	1,56
Cash flows from investing activities	(1,70)	(1,86)	(0,95)	(3,22)	(0,96)	(0,63)
Cash flows from financing activities	1,46	(1,89)	(3,04)	1,59	(2,04)	(1,99)
Capital expenditure	0,62	0,64	1,04	3,29	0,92	0,61
Free cash flow	1.67	2.44	2.55	(1.20)	0.81	0.54

*This table has been reconstructed from data provided by the Morningstar website. As noted above, we have cash flows from operations, investments and financing. On the last line, we find free cash flow, an extremely important figure for investors, which will enable us to determine the company's subsequent valuation. It corresponds to the amount of cash remaining to a company after accounting for operating expenses and fixed asset maintenance. To find out more about its calculation, it reconciles net income by adjusting for non-cash expenses, changes in working capital and capital expenditure. Although some companies manage to maintain good free cash flow, Estée Lauder shows just as many signs of weakness in this table as in the other two. As far as we can see, there is a 68% decrease in free cash flow between 2021 and 2024. Free cash flow has therefore not been steady over the last four years, nor has it been growing. The year 2023 is somewhat exceptional, since the company had to finance the acquisition of TOM FORD on April 28, 2023 from 001 Del LLC (sole owner of the brand) for a total acquisition cost of \$2,578 million (including \$28 million in transaction costs and \$300 million in deferred consideration payable to the sellers). *Of the \$300 million deferred consideration payable to the sellers, \$150 million is due in July 2025 and the remaining \$150 million in July 2026.* So, to sum up the study of cash flows, they are mainly positive, which is a good point, but they are not growing, reflecting the recent instability of the sector. There are factors behind these declines, such as acquisitions, but unfortunately the timing was not the best given the impact of Covid. The challenge lies in establishing the discounting model, which will prove tricky.*

Valuation :

Here we come to the most important part for some, and the most controversial for others. In the course of an "analysis", estimating a company's value is quite important, but it should not be the systematic conclusion. While everyone is aware that projections are never always right, and that there are many ways of valuing the same company, when a value is assigned to a company, it will always generate a bias in the investor's mind. Because of the lack of precision and the psychological difficulty of remaining detached from a figure, I prefer to find the parameters that meet the current valuation and let the reader judge these for himself.

PRESENT VALUE OF FUTURE CASH FLOWS

Year	1	2	3	4	5	6	7	8	9	10	TOTAL
Prior Year Cash Flow	\$1 250,00	\$1 312,50	\$1 378,13	\$1 447,03	\$1 519,38	\$1 595,35	\$1 675,12	\$1 758,88	\$1 846,82	\$1 939,16	
Growth rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
Cash Flow	\$1 312,50	\$1 378,13	\$1 447,03	\$1 519,38	\$1 595,35	\$1 675,12	\$1 758,88	\$1 846,82	\$1 939,16	\$2 036,12	
Discount Factor	0,9434	0,8900	0,8396	0,7921	0,7473	0,7050	0,6651	0,6274	0,5919	0,5584	
Discounted Value Per Annum	\$1 238,21	\$1 226,53	\$1 214,96	\$1 203,49	\$1 192,14	\$1 180,89	\$1 169,75	\$1 158,72	\$1 147,79	\$1 136,96	\$11 869,43

CALCULATION OF RESIDUAL VALUE

Cash Flow in Year 10	\$2 036,12
Growth rate	1,5%
Cash Flow in Year 11	\$2 066,66
Capitalization Rate	-
Value at End of Year 10	\$38 139,27
Discount Factor at End of Year 10	0,5584
Present Value of Residual	\$21 296,77
Business Value	\$33 166,20

BUSINESS VALUE OF A COMPANY

Business Value = Present Value of Future Cash Flows + Present Value of Residual

Here, the figures are in millions, the discount rate is 6%, the growth rate is 5% and long-term growth is 1.5%. 33 billion dollars corresponds to current capitalization.

This discounted cash flow model is fairly classic, and is presented in the summary of the book "The Warren Buffett Way", which will shortly be republished on this site. It is based on the addition of discounted cash flows with a terminal value. Each of these parameters has a strong influence on determining the company's value. A second, more intuitive method will also be used here, that of approximating the company's value by the PER ratio. We need to estimate the company's future earnings. If we take the figures for the first quarter of 2025 and try to establish a form of continuity (constancy), then we can estimate a PER ratio. *The current ratio is not really available, since in 2024, net income was negative.* Using this principle, below is a rough estimate of the PER ratio based on the company's current market capitalization.

	2024	Q1-2025	2025
Net Sales	\$15 608,00	\$3 550,00	\$14 200,00
Growth	-1,90%		
Cost of Sales	\$4 424,00	\$889,00	\$3 556,00
Gross Profit	\$11 184,00	\$2 661,00	\$10 644,00
Gross Margin	71,66%	74,96%	74,96%
SG&A	\$9 621,00	\$2 258,00	\$9 500,00
Operating Expenses	\$10 214,00	\$2 355,00	\$9 400,00
EBIT	\$772,00	\$241,00	\$964,00
Net Earnings	\$409,00	\$159,00	\$636,00
NI Growth	-59,50%		55,50%
PER	-38.6	-38.6	52.20

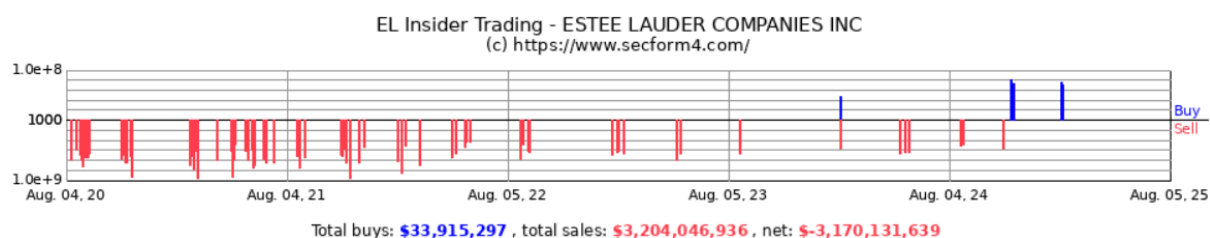
On the left we have an estimate of the PER in 2025 based on two assumptions: that market capitalization remains the same, and that results for the year are determined by continuity with the first quarter, maintaining the same orders of magnitude in terms of margins. This PER can be compared with the average ratio over previous years, which is 36. With such a

valuation, the market remains very optimistic for the times ahead. A more advanced comment will be made in the conclusion.

Optimism for the future : with the exception of asset-based valuation, most methods have to be based on future earnings and therefore on the future, which is by definition unpredictable (unknown). This is why major stock market movements often occur when a company does not perform as well as analysts expect (either upwards or downwards), or when an unforeseeable event occurs (disaster, illness, scandal, etc.). Trying to predict the future can be less difficult for some companies (mature and stable) or even very complicated (start-ups). In the case of Estée Lauder, we may be in the midst of a turning point in its future (in its history). This explains why the share price is fluctuating wildly, and why its name is the subject of debate on the stock market. Without taking the context into account, this section helps to set up a valuation model by talking about the change in management and the "promises" made for the future. At the same time, this section justifies investors' optimism about the company.

Leonard Lauder was CEO from 1982 to 1999, before serving as President and Chairman of the Board. Ronald's son, William P. Lauder, also held this position for 5 years from 2004 to 2009. In short, the company has always been primarily run by the founding family. But if the market seems unsettled today, it's because of the latest change in management, which took place in January 2025 with the arrival of Stéphane de La Faverie as Chairman and CEO, after 14 years with the family business and 25 years in the industry. He succeeds Fabrizio Freda, who held the position from 2009 to 2023. His arrival is accompanied by a press release containing a great deal of news for the years to come. The CEO presents changes that concern the organization of the geographical regions, but also the brands. The action plan, dubbed *Beauty Reimagined*, is naturally aimed at revitalizing the Group's sales. A breakdown of responsibilities by geographic region is presented, with Nadine Graf as President of the Europe, Middle East and Africa (EMEA) region, Joy Fan still heading up mainland China, and co-heads Tara Simon and Amber English to head up the Americas cluster. In addition, Estée Lauder's 24 brands will now be organized by category, with the aim of bringing innovations to market faster. This plan is designed to bring the brand closer to its consumers and make it the market leader. In February, the new CEO announced the elimination of between 5,800 and 7,000 jobs by 2026, and presented his restructuring plan. A year earlier, 3,000 jobs had been threatened. This announcement comes with the justification of wanting to "simplify and accelerate processes" and "outsource certain services". On the operational side, Estée Lauder intends to expand its PRGP (profit recovery and growth plan), tackling debt reduction through strategic purchasing,

supply chain efficiencies and selective outsourcing. These measures are designed to finance consumer-oriented investments and restore double-digit adjusted operating margins over the next few years. For all these reasons, the future outlook for the company can be positive. Added to this is the shareholder balance, with nearly 30% to 40% of shares owned by the founding family (via trusts and foundations, often opaque, information gleaned without going into detail from SEC documents), which can be seen as a positive indicator. Indeed, family-run businesses often favor long-term strategies and sustainability (taking into account the impact on future generations), possess a deeper understanding of the business but may be exposed to family conflicts in return. All the facts presented above therefore help us to understand why the company's market capitalization remains high, and why future expectations remain optimistic. One final sign can be mentioned in this section: insider buying. This "indicator" is always interesting, because whether you're not an expert in a sector or know little about a company, employee share purchases will come to give you the opinion of those who know it (better). Since I don't invest with this criterion in mind, but know that it's considered "important" by others, I'll simply present the various recent purchases.



At first glance, this chart suggests that the craze has never been greater among insiders. But the chart below completes the picture, and may help to mitigate this first impression.

Filing Date	Trade Date	Ticker	Insider Name	Title	Trade Type	Price	Qty	Owned	ΔOwn	Value
2025-02-10 16:01:33	2025-02-07	EL	Fribourg Paul J	Dir	P - Purchase	\$65.00	+45,500	524,300	+10%	+\$2,957,333
2025-02-07 16:30:13	2025-02-05	EL	Shrivastava Akhil	EVP, CFO	P - Purchase	\$65.79	+700	2,381	+42%	+\$46,053
2025-02-07 16:18:52	2025-02-05	EL	Fribourg Paul J	Dir	P - Purchase	\$65.80	+87,000	478,800	+22%	+\$5,724,373
2024-11-20 16:04:08	2024-11-19	EL	Fribourg Paul J	Dir	P - Purchase	\$64.48	+77,800	391,800	+25%	+\$5,016,181
2024-11-19 11:30:03	2024-11-15	EL	Fribourg Paul J	Dir	P - Purchase	\$64.46	+153,000	314,000	+95%	+\$9,862,777
2024-11-15 16:27:04	2024-11-13	EL	Fribourg Paul J	Dir	P - Purchase	\$63.98	+157,000	161,000	>999%	+\$10,045,534
2024-11-15 16:08:33	2024-11-14	EL	Shrivastava Akhil	EVP, CFO	P - Purchase	\$65.00	+1,000	1,681	+147%	+\$65,000
2024-02-07 16:35:48	2024-02-07	EL	Hyman Jennifer	Dir	P - Purchase	\$146.70	+1,350	2,350	+135%	+\$198,045

This table shows the major purchases, mainly by Fribourg Paul J, who sits on the Board of Directors and has been Chairman and CEO (since 1976) of Continental Grain Company, one of the world's largest agribusinesses. The total value of these purchases amounts to \$33,606,198, which is substantial but relative to his personal fortune of around \$100 million, according to various Internet sources. All in all, the few purchases made provide a feeling of confidence regarding future improvements, but remain concentrated around three people. The buying indications may seem ancillary, but as Peter Lynch says: "Insiders might sell their shares for any number of reasons, but they buy them for only one: They think the price will rise."

Conclusion : Following all this research, although Estée Lauder may not be as complicated a company as others, we can say that its situation and (near) future are far more complex. In this final section, we'll make a number of recommendations regarding various investment and speculation strategies. But before we do that, let's return to the discussion of sales in the *Business and Financial Situation* section. The conclusion was that competitors had managed to stabilize and recover their sales, while Estée Lauder continued to suffer. Numbers are numbers, of course, but an (exceptional) stock market reading also proves relevant to gain further perspective on market sentiment. Here's what we get:

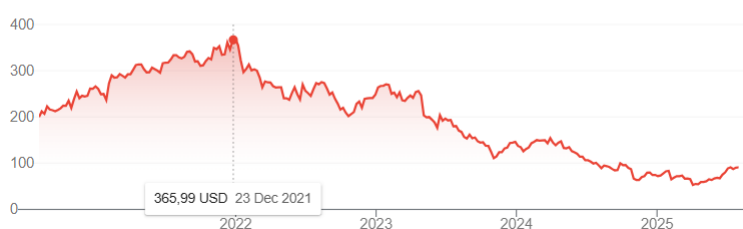
Market Summary > Estee Lauder Companies Inc

91,04 USD

-108.95 (-54.48%) ↓ past 5 years

Closed: 4 Aug, 05:04 GMT-4 • Disclaimer
Pre-market 92,01 +0,97 (1,07%)

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > Coty Inc

4,09 EUR

-6.36 (-60.87%) ↓ all time

1 Aug, 16:54 CEST • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > Bath & Body Works Inc

28,17 USD

+7.12 (33.82%) ↑ past 5 years

Closed: 4 Aug, 04:05 GMT-4 • Disclaimer
Pre-market 28,21 +0,040 (0,14%)

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > L'Oreal SA

377,85 EUR

+100.25 (36.11%) ↑ past 5 years

4 Aug, 11:18 CEST • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > Shiseido Co Ltd

2 414 JPY

-3,126.50 (-56.44%) ↓ past 5 years

4 Aug, 15:30 GMT+9 • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > Puig Brands SA

15,95 EUR

-8.55 (-34.90%) ↓ all time

4 Aug, 11:22 CEST • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



18,72 USD

-23.42 (-55.58%) ↓ past 5 years

Closed: 4 Aug, 05:20 GMT-4 • Disclaimer
Pre-market 18,91 +0,19 (1,01%)



462,80 EUR

+88.80 (23.74%) ↑ past 5 years

4 Aug, 11:25 CEST • Disclaimer



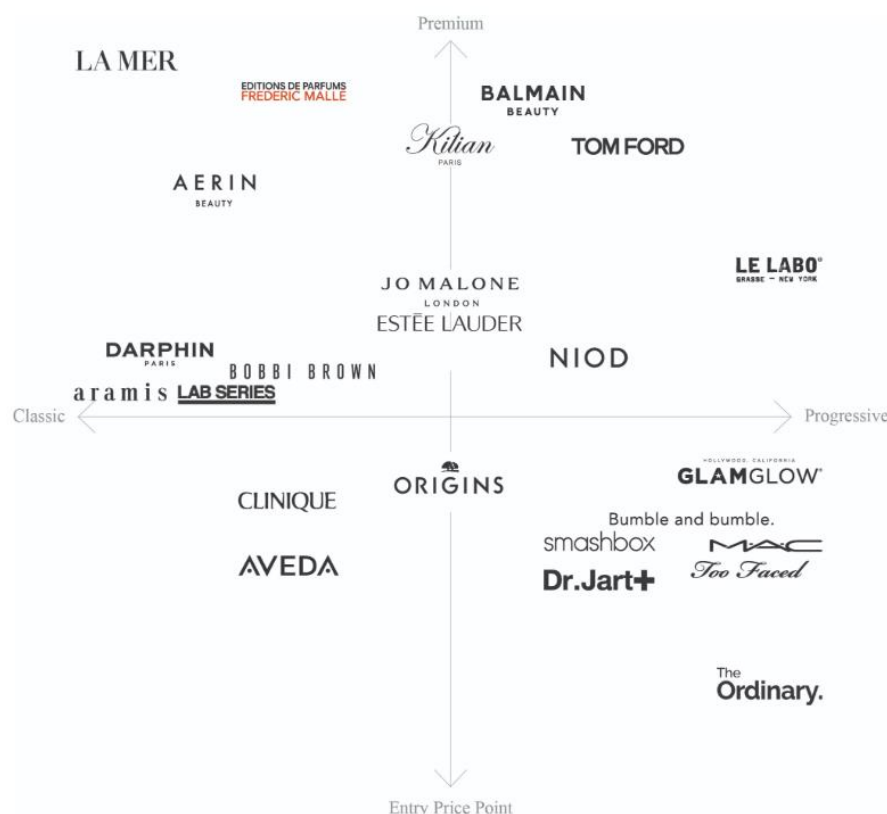
Clearly, the period following December 2021 was a landmark for the US (and global) economy, due to the high level of inflation reached, the change in central bank policies, fears of recession, an inversion of the yield curve, all accompanied by political and economic instability in China. These stock market movements were significant and visible on the major indices such as the S&P 500, but the reason I have chosen to present the stock prices of companies in the beauty, luxury and apparel sectors is because, obviously, regardless of size and strength, few companies have managed to recover from this period, and markets remain unstable and rather correlated in these industries, unlike the indices, which have rallied. This gives us an initial clue: for nearly three years now, investors (and the health of the sector) have been unable to agree on the valuation of companies, probably due to an overly disrupted and/or uncertain environment. As noted above, market capitalizations have been neither growing nor stable since this event. In addition to providing us with valuable information about the future (since markets are, in a way, functions that transform future forecasts into current values), regardless of the risk of recession that increasingly hangs over the markets, these facts lead us to wonder about the specific interest in Estée Lauder. After all, if a dozen or so companies in the sector are seeing their profits decline and their business suffer, why should (just) one of them manage to bounce back? In my opinion, it's more likely that Estée Lauder will outperform or even outperform its sector in the event of a market upturn, with all competitors moving in the same direction, than that the company will be the only one to see its profits grow or remain stable in the event of a recession in the near future. These initial remarks allow us to establish the first recommendation for long-term investors. Estée Lauder can be a good investment if you are convinced of several things: 1) Demand for beauty care products will recover and start to grow again (before or without a recession). 2) Estée Lauder will regain its historic number-one position in the sector. This outlook means that a severe recession in the coming months is out of the question - *after all, Peter Lynch also said, "If you spend 13 minutes analyzing stock market and economic forecasts, you've lost 10"* - and explains why the "Beauty Reimagined" plan will work. Even so, a long-term investment may seem risky, since the arrival of new management is recent, the company's valuation seems optimistic and there is a risk of recession. A long-term investment could therefore wait for the publication of more recent results with real signs of financial strength, as well as a strong knowledge of the sector, to affirm that Estée Lauder will be the winner in skincare and cosmetics in the years to come, despite its current fragilities (in addition to positive



economic indicators). Investor optimism over the medium to long term can rightly serve as a playground for speculators. Indeed, if quarterly results fail to live up to expectations or, on the contrary, exceed them, then the share price movement would be very significant. In this new case, traders will have to buy options or invest in the very short term, close to the publication dates. In the latter case, volatility is likely to be the order of the day, but technical analysis (and the like) are not discussed here. To qualify the two approaches mentioned above, we'd like to talk about ETFs. Since it's all the companies in the sector that seem to be suffering from the conditions of the luxury and beauty market, and these products will continue to be consumed in the future, then it's surely less risky to buy a basket (ETF) of these companies than to isolate your bet on a particular brand. (Caution: ETF risks not discussed here).

As we said at the beginning of this section, although the cosmetics business is not necessarily complicated to understand, its situation is quite complex. The financial reading of this company is not obvious, nor is it encouraging when you know the multiples with which investors value the company. For this reason, using certain (fixed) parameters such as financial ratios could prove useful. We could therefore draw up a list of ratios and stocks that meet Warren Buffett's selection criteria. But, unfortunately, here too, the work is not encouraging when we know that Berkshire Hathaway owned nearly \$266 million in ULTA Beauty before selling most of its shares rather quickly in the third quarter of 2024. In that case, we can only wonder about Michael Burry's purchase? Despite the fact that this investor is known to have followed Warren Buffett's principles, it was he himself who declared that: "To become an excellent investor, you have to adapt your style to your personality. At a certain point, I realized that Warren Buffett, although he had every advantage to learn from Ben Graham, had not copied him, but had instead charted his own course and managed money his own way, according to his own rules." This testimony tells us more about the actions of the investor who sometimes seems to speculate on companies rather than own shares for many years (and his latest reports bear this out). Finally, we'd like to address the last way of looking at Estée Lauder shares today, that of the "Cigar Butt", a notion also borrowed from Warren Buffett's early strategies. What is the Cigar Butt theory? Cigar butt investing is a term coined by Warren Buffet. In a letter to Berkshire Hathaway shareholders in 1989, he explained that this theory enabled value to be captured quickly in distressed companies. Here's what he had to say: If you buy a stock at a low enough price, there will usually be a hiccup in the company's life, allowing you to sell it at a handsome profit, even though its long-term performance may be disastrous. I call this the "cigar-butt" approach to investing. A cigar butt found on the street with only one puff left may not be very smoky, but buying it at a reduced price will turn that puff into a profit. This excerpt is a good illustration of this strategy, which is somewhat removed from Estée Lauder's current situation, but worth thinking about. Before concluding, let's take a quick look at the company whose share price we showed earlier: Victoria's Secret. Indeed, Lbrands, the company of Ohio billionaire Les Wexner, went through a rather difficult period following the Covid and ended up parting ways with its major Victoria's Secret brand and renaming its business from its other brand, "Bath & Body Works", in 2021. This story may seem anecdotal, but it reminds us that the situation is still not stable in the consumer sector, and not just for skincare products, unfortunately. The point is not to draw up a "scenario", but to bear in mind that even large companies with important brand portfolios can suffer serious difficulties and see their situation

change rapidly. It is for these reasons that Estée Lauder deserves attention, as the stakes are even higher for it. Finally, this reading leads us to a more general question: are we in a period of extreme consumer transformation, or has our attention simply been focused on the harbingers of a recession? After all, even Nike has been suffering the same fate since January 2022.



Observation chart

Cons	Pros
Declining turnover (products & countries)	Just like the rest of the sector
Gross margin in decline	Still one of the best
Increase in SG&A costs	New management
Increase in interest charges	To expand its brands
High PER	Current observation of the sector
Decrease in cash	Good retained earnings
Uncontrolled debt	
Bullish assessment	

Sources:

hedgefundalpha.com; **Terry Smith Portfolio: Stocks This Investing Genius is Betting On** - SEC.gov - Quefondos.com - Wikipedia.org - elcompanies.com - universalis.fr - ecsentual - companiesmarketcap.com - Google Finance - abcbourse.com - QuickFS - Investopedia - FashionNetwork - Nasdaq.com