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EL

BUY

The Estée Lauder Companies Inc.

Sector: Personal Care / Beauty

FY2Q26 Earnings Review

Share Price	\$99.47
Price Target	\$147.00

'26 Qtr.	2QA	3QE	4QE
Rev (\$B)	\$4.22	\$3.75	\$3.65
Gross Mgn.	76.5%	76.0%	76.6%
EBITDA (\$M)	\$598	\$587	\$750
EBITDA Mgn.	3.7%	3.6%	4.6%
GAAP Dil. EPS	\$0.44	\$0.64	\$0.98

Market Data & Valuation Measures

52-Week Range	\$48.37 - \$121.64
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EL – Execution Continues as Margin and Earnings Recovery Takes Hold; Maintaining BUY at \$147 PT

Estée Lauder delivered a strong fiscal 2Q26, reinforcing our view that the company's recovery is structural and margin-led, rather than cyclical or volume-driven, with margin expansion increasingly decoupled from near-term revenue growth. Organic sales increased 4% year-over-year, while profitability inflected meaningfully: adjusted operating margin expanded 290 bps YoY to 14.4%, and adjusted EPS increased 43% to \$0.89. Notably, margin expansion materially outpaced revenue growth, underscoring that earnings improvement is being driven by mix normalization, pricing discipline, and operating leverage, rather than promotional volume.

Gross margin expanded 40 bps YoY to 76.5%, despite ongoing tariff and inflation headwinds. Skin care and fragrance—EL's highest-margin categories—each grew ~6% organically, driving the majority of gross profit growth. Makeup profitability remained temporarily depressed due to returns taken ahead of upcoming innovation launches; management characterized this as timing-related rather than structural. We expect makeup margins to improve in 2H as innovation (Double Wear, Clinique) ramps and distribution resets gain traction.

Importantly, the quarter reinforced that margin recovery is not being driven by aggressive working capital actions. Inventory levels have stabilized following last year's destock, and working capital volatility has meaningfully reduced. Our FY26 forecast assumes flat-to-modestly higher inventory, ~1.7x inventory turns, and no incremental cash benefit from liquidation, reinforcing that the margin reset is operational rather than balance-sheet-driven and therefore more durable. We believe the market continues to overestimate the extent to which EL's earnings recovery relies on short-term cash extraction.

Management raised FY26 guidance across revenue, margin, and EPS, narrowing organic sales growth to 1–3%, increasing adjusted operating margin to 9.8–10.2%, and raising EPS to \$2.05–\$2.25. Management also flagged a modest 3Q margin contraction driven by incremental consumer-facing investment and tariff headwinds, with reacceleration in 4Q. We view this cadence as intentional reinvestment rather than deterioration. Our model implies 10% reported operating margin in FY26, reflecting residual restructuring costs rather than deterioration in underlying profitability.

On cash flow, management guided to \$1.1–\$1.2B of FY26 operating cash flow, reflecting peak restructuring-related cash payments. Our model reflects \$1.6B of OCF and \$1.1B of free cash flow in FY26, driven by improving earnings and stabilized working capital. Looking ahead, we forecast a pronounced inflection in FY27, with \$2.3B of OCF, \$1.7B of FCF, and 70% normalized FCF conversion as restructuring cash headwinds roll off.

At valuation, EL trades at approximately 15x FY27E EV/EBITDA on our estimates, which we view as inexpensive relative to the durability of the margin reset and the visibility into normalized earnings power. We maintain our BUY rating and raise our price target to \$147, based on a 17x EV/EBITDA multiple applied to normalized FY30 earnings, implying meaningful upside as investor focus shifts from FY26 transition dynamics to FY27–FY28 earnings and cash flow normalization.