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## EL

## BUY

**The Estée Lauder Companies Inc.**

**Sector: Personal Care / Beauty**

### Initiating Coverage

Share Price	\$106.76
Price Target	\$143.00

FY JUN	'25A	'26E	'27E
Rev (\$B)	\$14.33	\$15.06	\$15.73
Gross Mgn.	74.0%	74.0%	74.5%
EBITDA (\$M)	\$44	\$1,731	\$2,628
EBITDA Mgn.	0.3%	10.7%	16.2%
Dil. EPS	(\$3.14)	\$1.77	\$3.69

### Market Data & Valuation Measures

52-Week Range	\$48.37 - \$110.37
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January 4, 2026

## EL – BUY – From Volume to Value; Initiating Coverage at BUY, \$143 PT

**Key Message:** We are initiating coverage of The Estée Lauder Companies Inc. (EL) at BUY with a \$143 price target, as the company exits a volume-driven reset with a structurally higher-quality earnings profile emerging. Our thesis is underpinned by (1) a channel mix reset, (2) inventory and working capital discipline, (3) brand portfolio polarization, and (4) normalized earnings power being underwritten at the trough. The Street views China and Travel Retail weakness as prolonged earnings pressure; we see a structural reset that improves margin quality and earnings durability. Cleaner inventory reduces future markdown risk and supports higher incremental margins as demand normalizes. EL's exposure to high-end prestige skincare and fragrance positions the company on the right side of consumer polarization, with fragrance providing high-margin, emotionally driven demand and strong gifting resilience. As margins, cash flow, and mix normalize, we expect the market to re-rate EL on forward earnings quality rather than backward disruption. Our base case valuation is anchored on a 17x EV/EBITDA multiple applied to normalized 2030 earnings, reflecting restored earnings quality and reduced operational volatility.

## HD Research

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# The Estée Lauder Companies Inc. (EL, BUY, \$143 PT)

Initiating Coverage

**From Volume to Value**

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## Initiation Summary

# From Volume to Value

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Estée Lauder is repositioning from promotional volume toward higher-quality, margin-durable growth, driving a structural reset in earnings power rather than a cyclical rebound

- Portfolio of globally scaled prestige brands across skincare, fragrance, makeup, and hair, categories characterized by low price elasticity and repeat purchase behavior
- Brand equity and emotional engagement support pricing power and disciplined promotion, sustaining premium mix across cycles
- Multi-channel exposure (DTC + specialty retail) enhances margin visibility and reduces reliance on lower quality volume channels
- Channel mix reset away from promotional travel retail and discounted China demand improves realized margins and inventory turns
- SKU rationalization and portfolio simplification enhance mix quality, operational efficiency, and margin transparency
- Inventory normalization reduces markdown risk and supports sustained full-price sell-through
- Skin-care and fragrance represent ~66% of 1Q FY26 revenue, anchoring earnings quality and margin resilience
- Gross margin recovery of ~300 bps from FY23 trough, driven by mix and pricing discipline
- Geographic mix reflects reduced exposure to volatile channels and improving margin visibility
- Lower promotional volatility enables incremental margin expansion as volume stabilizes
- Fixed cost absorption improves as revenue recovers on a higher-quality base
- Free cash flow inflects ahead of EPS recovery as working capital drag normalizes
- Shares are priced off depressed near-term margins, implying persistent earnings impairment
- We value EL at \$143 per share, based on 17x EV/EBITDA applied to normalized FY2030 earnings
- The multiple reflects conservative historical trading levels for EL during periods of stable margins and disciplined execution
- Upside is driven by earnings power restoration, not multiple expansion beyond precedent
- EL does not require accelerating top-line growth to work – margin durability, cash generation, and normalized earnings power drive the investment case

Source: Company filings, Company reports, Company website, HD Research estimates

# EL: From Volume to Value; Initiating at BUY, \$143 PT

## Investment Thesis

- **Channel Mix Reset:** Exit from low-quality travel Retail and promotional China demand structurally improves gross margin, inventory turn, and earnings durability
- **Inventory & Working Capital Discipline:** Cleaner inventory reduces markdown risk and unlocks free cash flow growth inflection ahead of EPS recovery
- **Prestige Portfolio Polarization:** Exposure to high-end skincare and fragrance positions EL on the right side of a polarized consumer, supporting margin resilience
- **Earnings Underwritten at the Trough:** Current valuation reflects depressed earnings quality and peak disruption rather than normalized margin structure, setting up multiple normalization as fundamentals stabilize

## Detailed Drivers

- **Margin Quality Improves Before Revenue:** Mix normalization and lower promotional intensity support higher incremental margins as demand stabilizes
- **Balance Sheet-Led Recovery:** Inventory normalization and SKU rationalization structurally reduce working capital drag and improve cash flow visibility
- **Prestige & Fragrance Resilience:** Emotionally driven fragrance demand and non-discretionary skincare support margin stability through demand volatility
- **Operating Leverage on a Cleaner Base:** Reduced volatility enables stronger operating leverage as volumes normalize

## Primary Debates

- **China Recovery:** Will demand normalize without renewed promotional intensity?
- **Travel Retail Sustainability:** Can volumes recover at structurally higher margins?
- **Margin Durability:** Will pricing and mix discipline persist through the recovery cycle?

## EL: Financial and Valuation Summary

### Our 2026E Core Financial Metrics

- Gross margin of 74% reflects mix normalization and reduced promotional intensity
- EBITDA margin expands to 11% as operating leverage improves on a cleaner revenue base
- Operating margin recovery to 8% from -5.5% driven by pricing discipline and cost control
- Free cash flow inflects from decline to growth, reaching \$2.0B as inventory normalization reduces working capital drag

### Our Multi-Year Forecasts

- EBITDA margin expands from trough levels to mid-teens by FY27 as mix and cost discipline normalize
- Earnings power normalizes with FY27 EPS of \$3.69
- Substantial free cash flow acceleration to \$2.8B by FY27 leads earnings recovery as capital drag structurally declines

### Our \$143 Price Target Reflects Earnings Normalization

- Our \$143 PT is based on 17x EV/EBITDA applied to normalized 2030 earnings
- Valuation reflects normalized earnings quality, margin durability, and lower operational volatility
- Current Street consensus valuation embeds permanent impairment despite visible path to normalization

# Why Now?

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The stock moves as investors shift focus from disruption to normalized earnings quality

## 1. Inventory Normalization Reaches Steady-State (FY2H26)

- FY25 reflected peak inventory dislocation from channel reset, SKU rationalization, and promotional unwind
- By mid-FY26, inventory levels stabilize relative to sales, materially reducing working capital volatility
- Cleaner inventory improves full-price sell-through, lowers markdown risk, and restores gross margin visibility
- Balance sheet normalization removes a key source of earnings and cash flow noise

## 2. Free Cash Flow Becomes Durable and Repeatable (FY26)

- FY26 marks the first year where cash flow primarily reflects normalized operations rather than working capital timing
- Inventory normalization removes prior-year distortion, aligning cash generation with underlying margin recovery
- Free cash flow becomes a reliable signal of earnings quality rather than a byproduct of balance sheet movement

## 3. Gross Margin Improves Sequentially Through FY26

- Mix normalization, reduced promotional intensity, and SKU discipline drive visible improvement in gross margin
- Gross margin stability at ~74% in FY26 despite muted top-line growth signals durability rather than transitory recovery
- Sets the foundation for incremental margin expansion as volume stabilizes into FY27

## 4. Balance Sheet De-Risking Enables Capital Return Optionality (FY27 Setup)

- Normalized free cash flow enables de-levering and balance sheet repair
- Capital allocation focus shifts from restructuring support to shareholder return capacity
- Investors begin underwriting capital return durability alongside earnings recovery

## 5. FY27 Guidance Reframes the Narrative

- FY27 becomes the first year where margins, cash flow, and mix are sustainably normalized with full forward visibility
- Street focus shifts from FY26 volatility to confidence in the trajectory and durability of earnings power
- Re-rating begins as investors underwrite normalized earnings power, even as full steady-state margins are realized over the medium term



## Company Overview

# A Global Prestige Beauty Platform in Earnings Recovery

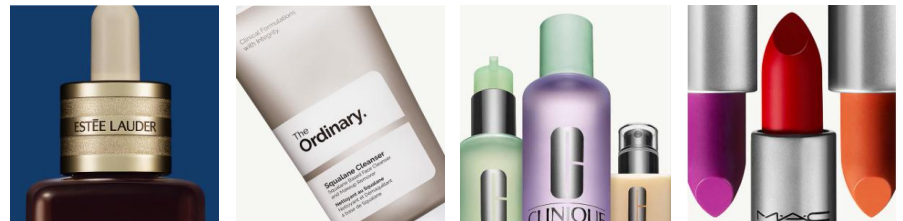
- Estée Lauder is a global prestige beauty company with leading positions across Skin Care, Fragrance, Makeup, and Hair Care
- Portfolio spans entry prestige to luxury, supporting broad consumer recruitment and premium monetization
- Operates a diversified channel ecosystem including DTC, specialty retail, marketplaces, and travel retail
- Executing a multi-year transformation (“Beauty Reimagined”) focused on restoring growth and margin durability

## Representative Estée Lauder Brands

### Luxury / High Margin



### Core / Recruitment Engines



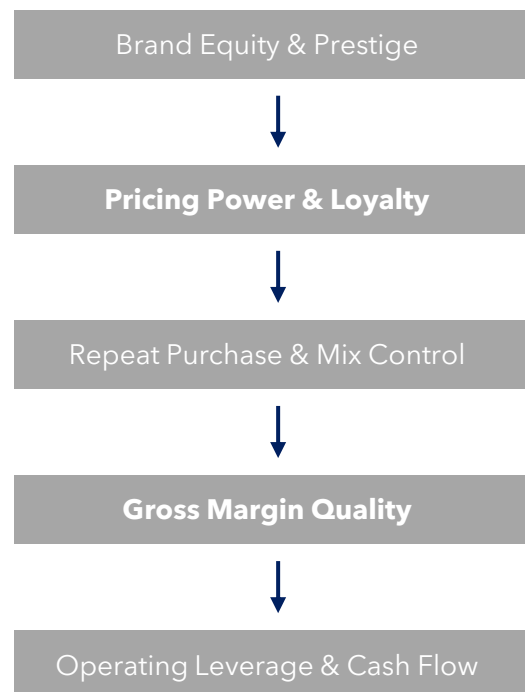
*EL combines scale, brand equity, and pricing power – the reset is execution, not relevance.*

# Why the Estée Lauder Business Model Works

Prestige positioning, repeat purchases, and pricing power drive margin durability

- **Prestige categories support pricing power and repeat purchase:** Skincare and fragrance benefit from high replenishment rates, emotional loyalty, and low price elasticity
- **Brand-led demand enables disciplined promotion and mix control:** Strong brand equity allows EL to protect pricing and reduce promotional intensity over the cycle
- **Multi-channel distribution enhances reach without margin dilution:** DTC, specialty retail, and travel retail provide flexibility to optimize mix, inventory flow, and profitability
- **Scale and operating leverage amplify margin recovery as demand volatility normalizes:** Fixed cost absorption improves meaningfully as volumes stabilize on a cleaner revenue base

## Value Stack Diagram



*EL's economics are built on brand-led pricing power and repeat purchases – margin recovery is structural, not cyclical.*

## Diverse Portfolio Anchored by High-Margin Categories

Skincare and fragrance drive earnings quality; makeup and hair support recruitment and scale

Revenue mix shown; earnings contribution skewed toward skincare and fragrance

Skin Care	Fragrance	Makeup	Hair Care
<ul style="list-style-type: none"> <li>• Skin Care accounted for 45% of total revenue in 1Q FY26</li> <li>• High replenishment frequency and consumer loyalty</li> <li>• Premium pricing supports superior gross margin profile</li> <li>• Core driver of earnings durability through the cycle</li> </ul>	<ul style="list-style-type: none"> <li>• Fragrance accounted for 21% of total revenue in 1Q FY26</li> <li>• Emotionally driven category with low price elasticity</li> <li>• Strong gifting dynamics support premium price points</li> <li>• High incremental margins as volumes normalize</li> <li>• Increasingly important to portfolio mix normalization</li> </ul>	<ul style="list-style-type: none"> <li>• Makeup accounted for 30% of total revenue in 1Q FY26</li> <li>• More discretionary and trend-driven</li> <li>• Key entry point for new customers</li> <li>• Historically more promotional, with margins improving under tighter discipline</li> <li>• Margin profile improves as mix and inventory normalizes</li> </ul>	<ul style="list-style-type: none"> <li>• Hair care accounted for 4% of total revenue in 1Q FY26</li> <li>• Smaller revenue base with premiumization opportunity</li> <li>• Professional and prestige exposure supports pricing</li> <li>• Long-term growth lever with improving profitability</li> </ul>
<p><b>Role in thesis:</b> Margin stability and repeat purchases</p>	<p><b>Role in thesis:</b> Margin expansion and mix uplift</p>	<p><b>Role in thesis:</b> Consumer acquisition and operating leverage</p>	<p><b>Role in thesis:</b> Incremental growth option</p>

Sources: Company filings, 1Q FY26 earnings release & call transcript

# Leadership Overview – Executive Team

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## **Stéphane de La Faverie, President and Chief Executive Officer**

- Appointed CEO in 2025 following more than a decade of senior leadership roles at Estée Lauder
- Proven track record scaling core global franchises and emerging growth brands while balancing brand equity with disciplined execution
- Led major category and geographic expansions, including fragrance portfolio enhancements and deep engagement with Chinese consumers
- Brings a pragmatic leadership style focused on accountability and profitability, aligning the organization around higher-quality growth
- Experience across prestige, travel retail, and digital channels supports portfolio simplification and channel discipline initiatives

## **Akhil Shrivastava, Executive Vice President and Chief Financial Officer**

- Oversees global finance, FP&A, treasury, investor relations, and operational excellence initiatives
- Central role in Estée Lauder 's multi-year profit recovery and margin reset, prioritizing return on invested capital over volume growth
- Deep background in consumer finance enables disciplined capital allocation, cost normalization, and inventory control
- Demonstrated ability to align financial rigor with brand-led growth across regions and channels

## **Roberto Canevari, Executive Vice President, Chief Value Chain Officer**

- Leads global manufacturing, fulfillment, supply planning, procurement, and end-to-end value chain optimization initiatives
- Expanded remit in 2025 to include packaging and engineering, strengthening cost visibility and operational leverage
- Experienced supply-chain transformation leader with a history of driving efficiency, resilience, and scale across global organizations
- Key enabler of inventory normalization, SKU rationalization, and reduced markdown risk

Sources: Company reports, Company website

## Investment Thesis and Detailed Drivers

## Key Investment Drivers Overview

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- 1) **Channel Mix Reset: Exit from low-quality travel Retail and promotional China demand structurally improves gross margin, inventory turn, and earnings durability**
- 2) Inventory & Working Capital Discipline: Cleaner inventory reduces markdown risk and unlocks free cash flow growth inflection ahead of EPS recovery
- 3) Prestige Portfolio Polarization: Exposure to high-end skincare and fragrance positions EL on the right side of a polarized consumer, supporting margin resilience

# Deliberate Shift from Volume to Value

Exiting low-quality channels while concentrating investment in high-margin prestige categories

## Lower-Quality Volume

- Promotional Travel Retail volumes with structurally lower realized margins and higher working capital volatility
- Discount-led China demand with elevated markdown and inventory risk
- Broad SKU proliferation diluting mix and operational efficiency
- Revenue growth historically prioritized over profitability, depressing cash conversion

**Strategic Reset  
Underway**



*Mix and channel quality, not volume,  
drive incremental margins*

## Higher-Quality Prestige Value

- Prestige skincare and fragrance with structurally higher gross margins and repeat purchase dynamics
- Brand-led pricing power and reduced promotional intensity
- SKU rationalization improving mix, turns, and margin visibility
- Disciplined channel strategy driving higher incremental margins and earnings durability

*By prioritizing mix and channel quality over volume, EL is positioned to restore margin quality ahead of broader revenue recovery.*

Sources: Company filings, FY25-1Q FY26 earnings release & call transcripts; management commentary on channel discipline, inventory normalization, and margin recovery



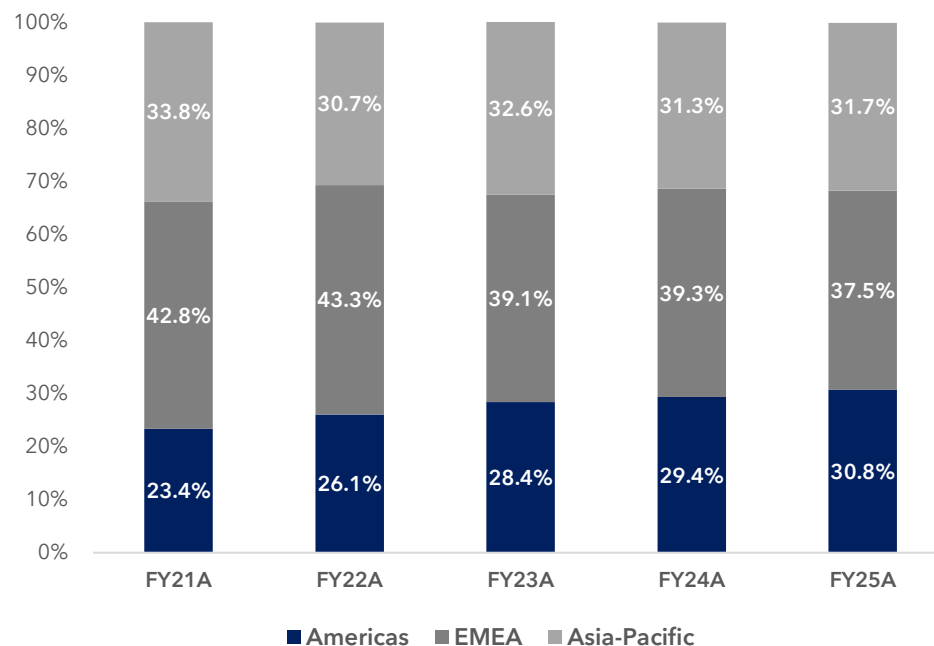
# Channel Mix Reset: Profitability Before Growth

Promotional discipline and inventory normalization are improving margin quality ahead of revenue reacceleration

- Travel retail and promotional China initiatives historically diluted margins through elevated discounting, wholesale buy-back risk, and limited pricing control
- Excess exposure increased inventory volatility, driving markdowns and obscuring true demand signals across categories
- Management has deliberately reduced exposure, prioritizing DTC and prestige specialty channels where pricing, inventory, and promotions are directly controlled
- Shift improves realized margins and earnings visibility, even as near-term revenue growth is moderated
- Channel discipline prioritizes profitability over volume, setting a higher-quality base for future growth reacceleration
- Americas revenue mix increased ~740 bps from FY21-FY25, reflecting reduced reliance on travel-retail-heavy regions

*Americas mix serves as a proxy for structurally higher-margin, higher-control channels*

## Geographic Revenue



Geographic revenue mix shown as a proxy for channel exposure; the company does not disclose revenue by channel. Travel retail is embedded within regional reporting (EMEA/APAC). Americas mix carries structurally higher margins vs. travel-retail-exposed regions.

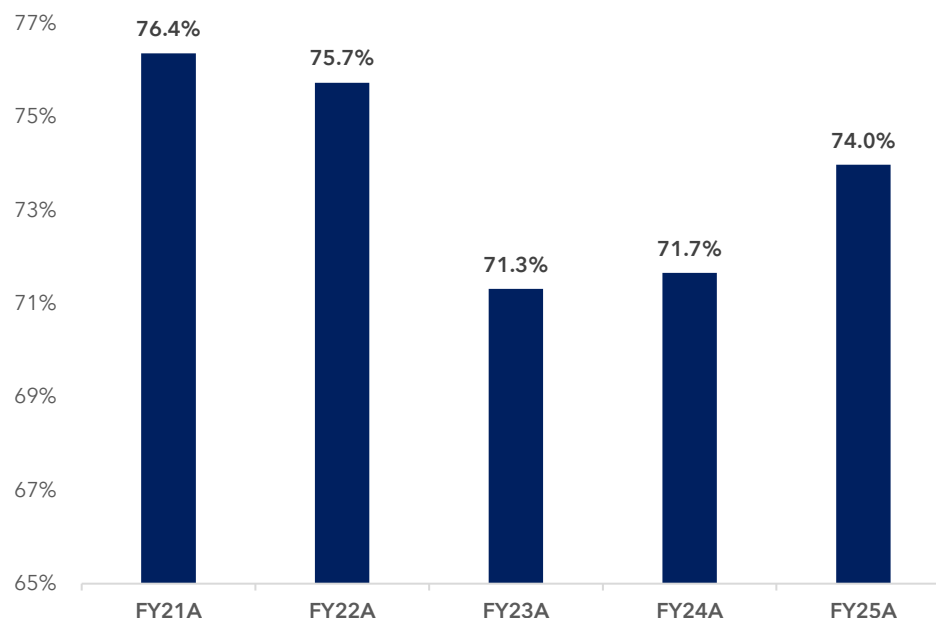
*Channel discipline is improving earnings quality before growth reaccelerates.*

# Margin Recovery Is Structural, Not Cyclical

Mix normalization, reduced discounting, and operating leverage drive a durable earnings reset

- **Gross margin recovery reflects mix and pricing discipline, not demand normalization, as recovery occurs despite muted top-line growth:** Reduced promotional intensity, SKU rationalization, and premium mix are restoring margin quality
- **Inventory normalization reduces markdown risk and improves visibility:** Cleaner inventory supports full-price sell-through and stabilizes gross margin progression
- **Operating leverage improves as volatility moderates:** Fixed cost absorption improves as revenue stabilizes on a higher-quality base (~300 bps gross margin recovery from FY23 trough)
- **Margin recovery precedes revenue reacceleration:** EL prioritizes earnings durability over near-term volume growth

## Gross Margin Recovery



Margin pressure during FY2023-FY2024 reflects elevated promotions, unfavorable mix, and inventory actions. Recovery reflects normalization of mix and channel discipline.

*At normalized revenue levels, each 100 bps of gross margin recovery drives ~178M of incremental EBITDA, underscoring operating leverage as volatility moderates.*

## Key Investment Drivers Overview

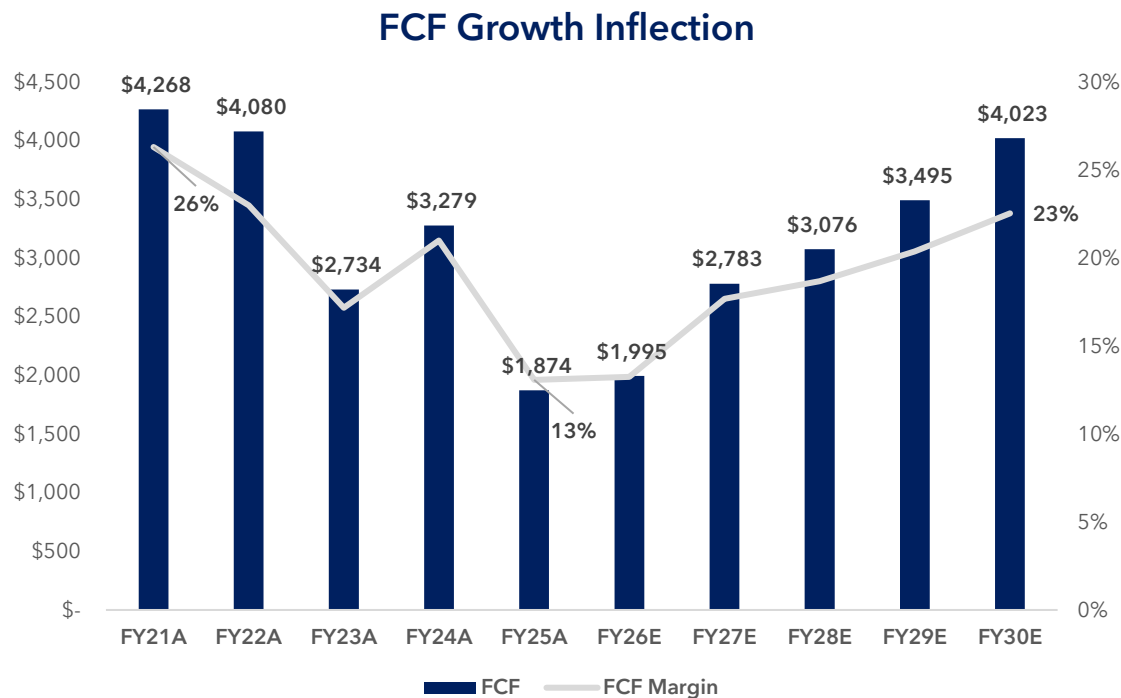
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- 1) Channel Mix Reset: Exit from low-quality travel Retail and promotional China demand structurally improves gross margin, inventory turn, and earnings durability
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- 3) Prestige Portfolio Polarization: Exposure to high-end skincare and fragrance positions EL on the right side of a polarized consumer, supporting margin resilience

# FCF Growth Inflection Driven by Inventory & WC Discipline

Inventory normalization and working capital discipline convert margin recovery into sustainable free cash flow

- **Inventory normalization reduces working capital drag:** Excess safety stock tied to promotional volume unwinds as channel discipline improves
- **Lower promotional intensity improves demand visibility:** SKU rationalization and reduced buy-backs stabilize sell-through and forecasting accuracy
- **Working capital turns from headwind to tailwind:** Inventory as percent of revenue declines, structurally improving cash conversion
- **FCF growth inflects ahead of EPS recovery:** Cash generation accelerates before full earnings normalization as balance sheet friction eases



FY25 represents peak working capital drag during inventory unwind and channel reset; free cash flow inflects from decline to sustained growth as excess inventory clears.

*Inventory discipline converts margin recovery into durable free cash flow, reinforcing earnings quality and supporting multiple normalization.*

## Key Investment Drivers Overview

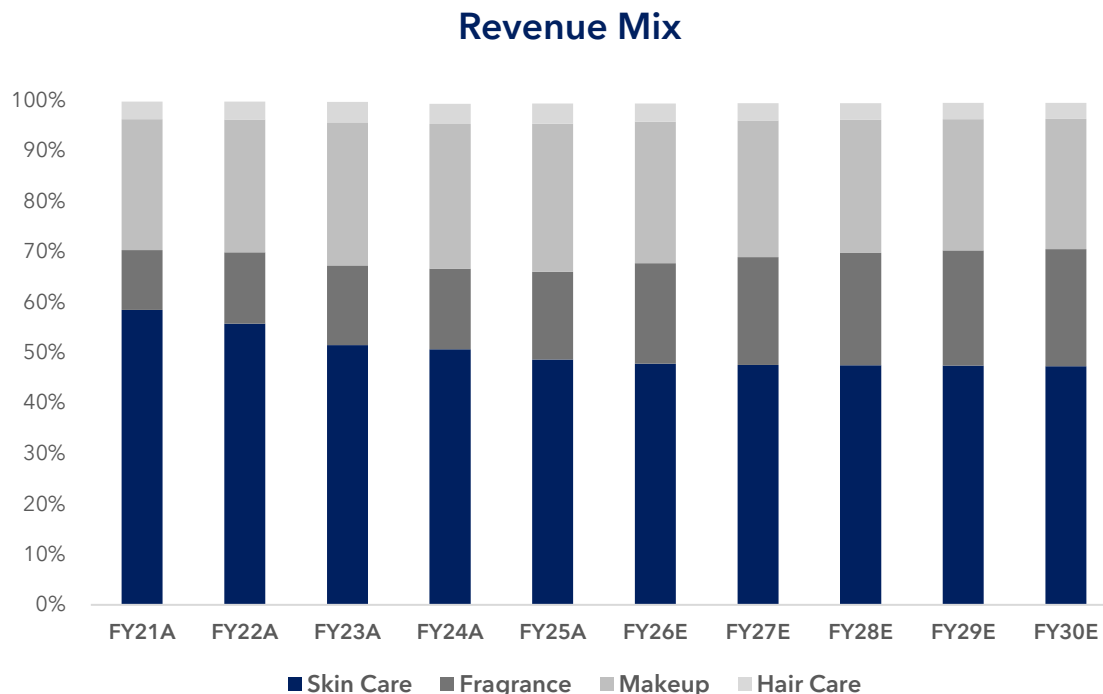
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- 3) **Prestige Portfolio Polarization: Exposure to high-end skincare and fragrance positions EL on the right side of a polarized consumer, supporting margin resilience**

# Prestige Mix Anchors Earnings Quality in Polarized Consumer Setting

High-end skincare and fragrance demonstrate superior pricing power, repeat purchase patterns, and margin durability

- Skincare and fragrance represent ~65-70% of revenue and a disproportionate share of gross profit, reflecting structurally higher margins and lower price elasticity vs makeup
- Prestige consumers remain resilient despite macro pressure, prioritizing efficacy-driven skincare and brand-led fragrance over discretionary-trade down
- Category mix reduces earnings volatility, supporting margin stability even as volume growth moderates
- Compared to makeup-heavy portfolios, skincare and fragrance deliver structurally higher margins and lower promotional volatility, anchoring earnings durability across cycles



FY26E-FY30E category mix reflects conservative continuation of current portfolio weighting.

*A stable, prestige-weighted category mix anchors earnings quality through FY30E without requiring incremental mix expansion or category acceleration.*

## Primary Debates

## Primary Debates – Key Points of Investor Skepticism

### China Recovery

**Debate:** Will China demand normalize without renewed promotional intensity?

**Our View:**

- Street assumes recovery requires discounting; EL's exposure is increasingly prestige-led and mix-driven
- Inventory normalization and SKU discipline reduce reliance on promotion to stimulate demand
- Earnings quality improves even if China volume growth remains muted

### Travel Retail Sustainability

**Debate:** Can travel retail volumes recover at structurally higher margins?

**Our View:**

- EL has deliberately reduced reliance on low-quality travel-retail volume with limited pricing control
- Any recovery occurs off a smaller, higher-margin base with improved inventory visibility
- Margins and cash flow are no longer underwritten by travel retail volume normalization

### Margin Durability

**Debate:** Will pricing and mix discipline persist through the recovery cycle?

**Our View:**

- Margin recovery reflects structural mix, channel, and inventory actions – not cyclical demand rebound
- Prestige-weighted portfolio and lower promotional intensity support margin durability
- Operating leverage improves as volatility moderates, reinforcing earnings quality



## Financial Model, Valuation, and Key Risks

## Financial and Valuation Parameters

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- **Revenue:** FY25-FY30E revenue CAGR of ~4-5%, below historical averages, reflecting conservative assumptions for China normalization and structurally lower travel retail exposure
- **Gross Margin:** Expansion from 71% in FY25 to ~76-77% by FY30E (+500-600 bps), driven by mix normalization, reduced discounting, and sustained SKU rationalization
- **EBITDA:** EBITDA margin expands from trough FY25 levels (0.3%, distorted by restructuring and impairments) to ~27% by FY30E as restructuring and impairment charges roll off and operating leverage normalizes on a higher-quality revenue base
- **Free Cash Flow:** FCF margin expands from 13% in FY25 to ~23% by FY2030E, with cumulative FY26E-FY30E FCF of \$15.4B, supporting rapid de-levering and shareholder return capacity
- **Capital Intensity:** Capex maintained at 4% of revenue; working capital normalizes to ~8-9% of sales, supporting structurally higher cash conversion
- **Valuation Framework:** \$143 price target based on 17.0x EV/EBITDA applied to FY30E EBITDA (normalized margin base), implying 34% upside from current levels
- **Multiple Context:** 17x reflects a discount to EL's historical mid-cycle range despite higher free cash flow margins and reduced earnings volatility
- **What the Market Is Missing:** Consensus remains anchored on FY26E earnings; valuation re-rates as investors shift focus from FY26 earnings volatility to FY30 normalized cash flow durability

Sources: Company filings, FY21-FY25 earnings releases & call transcripts, HD Research estimates

Note: FY25 EBITDA reflects peak restructuring, impairment, and litigation charges related to channel reset and portfolio simplification; margins normalize as one-time items roll off

# Base/Bull/Bear Valuation Framework

Scenario analysis highlights asymmetric upside as EL transitions from trough earnings to normalized free cash flow

Case	EV/EBITDA	Implied PT	Interpretation
Bear	14.0x	\$115	Prolonged China / travel retail friction; slower margin normalization
Base	17.0x	\$143	Normalized mix, margins, and FCF; valuation remains below historical mid-cycle
Bull	20.0x	\$169	Clean margin normalization and prestige-led growth drives quality re-rating

Our \$143 price targets sits above the current Street consensus (\$107.5), reflecting our valuation on normalized FY30E earnings and free cash flow rather than consensus focus on FY26E volatility. All cases assume conservative revenue growth; valuation sensitivity is driven primarily by margin durability and multiple normalization.

Valuation re-rates as investors shift from near-term earnings volatility to underwriting normalized margins and free cash flow durability.

Sources: HD Research estimates

# Financials – HD Research Model

Income Statement	2021A	2022A	2023A	2024A	2025A	1Q26A	2Q26E	3Q26E	4Q26E	2026E	2027E	2028E	2029E	2030E
Revenue	\$ 16,215	\$ 17,737	\$ 15,910	\$ 15,608	\$ 14,326	\$ 3,481	\$ 4,090	\$ 3,829	\$ 3,661	\$ 15,062	\$ 15,733	\$ 16,463	\$ 17,151	\$ 17,846
Operating income	\$ 2,618	\$ 3,170	\$ 1,509	\$ 970	\$ (785)	\$ 169	\$ 320	\$ 340	\$ 361	\$ 1,190	\$ 2,124	\$ 2,634	\$ 3,173	\$ 3,837
Net income (loss)	\$ 2,875	\$ 2,408	\$ 1,010	\$ 409	\$ (1,133)	\$ 47	\$ 183	\$ 197	\$ 214	\$ 641	\$ 1,340	\$ 1,712	\$ 2,103	\$ 2,585
EBITDA	\$ 3,269	\$ 3,897	\$ 2,253	\$ 1,795	\$ 44	\$ 369	\$ 432	\$ 450	\$ 480	\$ 1,731	\$ 2,628	\$ 3,168	\$ 3,738	\$ 4,434
Adjusted EBITDA	\$ 4,482	\$ 4,261	\$ 2,663	\$ 2,300	\$ 450	\$ 483	\$ 560	\$ 556	\$ 560	\$ 2,159	\$ 2,822	\$ 3,390	\$ 3,935	\$ 4,607
<b>GAAP Diluted EPS</b>	<b>\$ 7.79</b>	<b>\$ 6.55</b>	<b>\$ 2.79</b>	<b>\$ 1.08</b>	<b>\$ (3.14)</b>	<b>\$ 0.13</b>	<b>\$ 0.50</b>	<b>\$ 0.54</b>	<b>\$ 0.59</b>	<b>\$ 1.77</b>	<b>\$ 3.69</b>	<b>\$ 4.70</b>	<b>\$ 5.77</b>	<b>\$ 7.09</b>
Shares Outstanding	\$ 368.2	\$ 364.9	\$ 361.0	\$ 360.5	\$ 360.3	\$ 361.3	\$ 362.2	\$ 362.8	\$ 363.2	\$ 362.4	\$ 363.1	\$ 363.9	\$ 364.5	\$ 364.8
Revenue growth		9.4%	(10.30%)	(1.90%)	(8.21%)	3.6%	2.1%	7.9%	7.3%	5.1%	4.5%	4.6%	4.2%	4.1%
<b>Gross Margin</b>	<b>76.4%</b>	<b>75.7%</b>	<b>71.3%</b>	<b>71.7%</b>	<b>74.0%</b>	<b>73.4%</b>	<b>74.0%</b>	<b>74.2%</b>	<b>74.3%</b>	<b>74.0%</b>	<b>74.5%</b>	<b>75.0%</b>	<b>75.5%</b>	<b>76.5%</b>
Operating margin	16.1%	17.9%	9.5%	6.2%	(5.48%)	4.9%	7.8%	8.9%	9.9%	7.9%	13.5%	16.0%	18.5%	21.5%
EBITDA margin	20.2%	24.0%	13.9%	11.1%	0.3%	2.3%	2.7%	2.8%	3.0%	10.7%	16.2%	19.5%	23.1%	27.3%
Adjusted EBITDA margin	27.6%	26.3%	16.4%	14.2%	2.8%	3.0%	3.5%	3.4%	3.5%	13.3%	17.4%	20.9%	24.3%	28.4%
Cash Flow Statement	2021A	2022A	2023A	2024A	2025A	1Q26A	2Q26E	3Q26E	4Q26E	2026E	2027E	2028E	2029E	2030E
Cash from operations	\$ 3,631	\$ 3,040	\$ 1,731	\$ 2,360	\$ 1,272	\$ (340)	\$ 156	\$ 660	\$ 961	\$ 1,436	\$ 2,154	\$ 2,418	\$ 2,809	\$ 3,309
Capex	\$ (637)	\$ (1,040)	\$ (1,003)	\$ (919)	\$ (602)	\$ (96)	\$ (164)	\$ (153)	\$ (146)	\$ (559)	\$ (629)	\$ (659)	\$ (686)	\$ (714)
<b>Free Cash Flow</b>	<b>\$ 4,268</b>	<b>\$ 4,080</b>	<b>\$ 2,734</b>	<b>\$ 3,279</b>	<b>\$ 1,874</b>	<b>\$ (244)</b>	<b>\$ 319</b>	<b>\$ 813</b>	<b>\$ 1,107</b>	<b>\$ 1,995</b>	<b>\$ 2,783</b>	<b>\$ 3,076</b>	<b>\$ 3,495</b>	<b>\$ 4,023</b>
FCF margin	26.3%	23.0%	17.2%	21.0%	13.1%	(7.01%)	7.8%	21.2%	30.2%	13.2%	17.7%	18.7%	20.4%	22.5%
Balance Sheet	2021A	2022A	2023A	2024A	2025A	1Q26A	2Q26E	3Q26E	4Q26E	2026E	2027E	2028E	2029E	2030E
Cash and cash equivalents	\$ 4,958	\$ 3,957	\$ 4,029	\$ 3,395	\$ 2,921	\$ 2,219	\$ 2,575	\$ 2,945	\$ 3,624	\$ 3,624	\$ 4,640	\$ 5,892	\$ 7,507	\$ 9,594
Current assets	\$ 9,768	\$ 9,298	\$ 9,139	\$ 7,922	\$ 7,069	\$ 6,714	\$ 7,485	\$ 7,667	\$ 7,977	\$ 7,977	\$ 9,059	\$ 10,472	\$ 12,235	\$ 14,422
Fixed assets	\$ 12,203	\$ 11,612	\$ 14,276	\$ 13,755	\$ 12,823	\$ 12,615	\$ 12,666	\$ 12,710	\$ 12,737	\$ 12,938	\$ 12,863	\$ 12,987	\$ 13,109	\$ 13,226
<b>Total assets</b>	<b>\$ 21,971</b>	<b>\$ 20,910</b>	<b>\$ 23,415</b>	<b>\$ 21,677</b>	<b>\$ 19,892</b>	<b>\$ 19,329</b>	<b>\$ 20,151</b>	<b>\$ 20,376</b>	<b>\$ 20,715</b>	<b>\$ 20,715</b>	<b>\$ 21,922</b>	<b>\$ 23,460</b>	<b>\$ 25,344</b>	<b>\$ 27,648</b>
Current liabilities:	\$ 5,298	\$ 5,815	\$ 6,240	\$ 5,702	\$ 5,435	\$ 5,083	\$ 5,750	\$ 5,834	\$ 6,041	\$ 6,041	\$ 6,325	\$ 6,545	\$ 6,750	\$ 6,922
Long-term debt	\$ 5,537	\$ 5,144	\$ 7,117	\$ 7,267	\$ 7,314	\$ 7,320	\$ 7,320	\$ 7,320	\$ 7,320	\$ 7,320	\$ 7,320	\$ 7,320	\$ 7,320	\$ 7,320
Other liabilities	\$ 4,188	\$ 3,519	\$ 3,641	\$ 3,394	\$ 3,278	\$ 3,036	\$ 3,036	\$ 3,036	\$ 3,036	\$ 3,036	\$ 3,036	\$ 3,036	\$ 3,036	\$ 3,036
<b>Total liabilities</b>	<b>\$ 15,023</b>	<b>\$ 14,478</b>	<b>\$ 16,998</b>	<b>\$ 16,363</b>	<b>\$ 16,027</b>	<b>\$ 15,439</b>	<b>\$ 16,106</b>	<b>\$ 16,190</b>	<b>\$ 16,397</b>	<b>\$ 16,397</b>	<b>\$ 16,681</b>	<b>\$ 16,901</b>	<b>\$ 17,106</b>	<b>\$ 17,278</b>
Redeemable noncontrolling interest	\$ 857	\$ 842	\$ 832	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total stockholders' equity</b>	<b>\$ 6,057</b>	<b>\$ 5,590</b>	<b>\$ 5,585</b>	<b>\$ 5,314</b>	<b>\$ 3,865</b>	<b>\$ 3,890</b>	<b>\$ 4,045</b>	<b>\$ 4,187</b>	<b>\$ 4,317</b>	<b>\$ 4,317</b>	<b>\$ 5,242</b>	<b>\$ 6,558</b>	<b>\$ 8,238</b>	<b>\$ 10,370</b>
Noncontrolling interests	\$ 34	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total liabilities, noncontrolling interest and equity</b>	<b>\$ 21,971</b>	<b>\$ 20,910</b>	<b>\$ 23,415</b>	<b>\$ 21,677</b>	<b>\$ 19,892</b>	<b>\$ 19,329</b>	<b>\$ 20,151</b>	<b>\$ 20,376</b>	<b>\$ 20,715</b>	<b>\$ 20,715</b>	<b>\$ 21,922</b>	<b>\$ 23,460</b>	<b>\$ 25,344</b>	<b>\$ 27,648</b>

Note: Figures in millions, except per share;  
Sources: Company reports, HD Research estimates

# Risks

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- **China Recovery Skews Toward Lower-Quality Demand:** Recovery may skew toward lower-quality or promotion driven-demand, limiting mix and margin benefits even if reported volumes improve
- **Travel Retail Profitability Remains Margin-Dilutive:** Any rebound in travel retail could require renewed discounting or higher working capital investment, diluting cash conversion
- **Promotional Discipline Breaks Down:** Competitive or volume pressures could force EL to increase discounting, delaying margin normalization and weakening pricing discipline
- **Inventory Normalization Reverses:** Slower-than-expected sell-through or category volatility could reintroduce markdown risk and working capital drag
- **Execution risk in SKU Rationalization:** Portfolio simplification could disrupt shelf presence or demand in key channels if rationalization overshoots consumer preferences
- **Prestige Consumer Weakens More Than Expected:** A sharper-than-anticipated pullback in high-income discretionary spending could pressure skincare and fragrance resilience
- **Restructuring Benefits Fail to Fully Materialize:** Cost savings from restructuring and portfolio actions may be delayed or partially offset by reinvestment needs
- **Valuation Re-rating Takes Longer Than Expected:** Even with improving fundamentals, investors may remain anchored to near-term earnings, delaying multiple normalization

# Additional Information

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## RATINGS DEFINITIONS AND GUIDELINES

**BUY** - Describes stocks for which we expect a total return of 10% or more over a 12-month period.

**NEUTRAL** - Describes stocks that we expect to provide a total return of between minus 10% and plus 10% over a 12-month period.

**SELL** - Describes stocks that we expect to provide a total negative return of 10% or more over a 12-month period.

## IMPORTANT DISCLOSURES

The author may hold a long position in the securities discussed in this report at the time of publication. The author may buy or sell securities of the issuer at any time without notice. This report is provided for informational purposes only and does not constitute investment advice or a recommendation to buy or sell any security.

Past performance is not indicative of future results. Investing involves risk, including the potential loss of principal.