

**Estee Lauder Companies Inc**  
**Ticker: EL**  
**Sector: Consumer Staples**  
**Industry: Personal Products**

**Intrinsic Value: \$88.06**  
**Current Price: \$66.78**  
**Stop Loss: \$56.76**  
**Upside Review: \$96.86**

**TTM P/E: 25.78**  
**Forward P/E: 20.59**  
**FV Imp. P/E: 24.17**  
**Beta: 1.08**

**Market Cap: \$25.8B**  
**Dividend Yield: 1.1%**  
**52 Wk Range: \$61.30-\$75.77**

### Industry Trends:

Although the short-term outlook for the personal products is neutral, because the high unemployment rate still makes the consumer quite price-sensitive, the overall long-term outlook is still favorable. In U.S., due to the growing aging population and increased awareness in well-being, the product demand is expected to go up. In international emerging markets, economic growth and lifestyle changes could bring the increased demand for the personal products that cannot be afforded by their customers. China, Russia and South Korea are becoming popular markets. Although this industry's customers are mainly women, there is increasing shift to men market.

### Business Summary:

The Estee Lauder Companies Inc. manufactures and markets skin care, makeup and fragrance products over around 150 countries, with the popular brands such as Estee Lauder, Clinique, Origins, M.A.C., Bobbi Brown, La Mer. The sales and profit come from three regions: America (42%/28%); Europe/the Middle East/Africa (37%/53%) and Asia/Pacific (21%/20%). The skin care division accounts for 44% of net sales, the makeup division takes up 38%, while fragrance and hair care division contributes 13% and 5% separately.

### Investment Thesis:

The Estee Lauder Companies Inc.'s strong brand image supports its prestige position in both U.S. and international markets. The firm has a 25% share in the global prestige makeup market, holding the number-one or two position in 18 countries. 60% of sales come from international markets. We believe new products innovation, extensive distribution channels, and improving operational margin will drive growth in long term.

### EL 5 year stock performance:



### Direct Competitor Comparison

	EL	COTY	LRLCY	PG	Industry
Market Cap:	25.80B	5.09B	100.91B	209.62B	N/A
Employees:	40,200	10,000	72,637	121,000	N/A
Ctrly Rev Growth (yoy):	0.05	-0.03	0.05	0.01	0.00
Revenue (ttm):	10.31B	4.61B	29.76B	84.74B	N/A
Gross Margin (ttm):	0.80	0.60	0.71	0.50	0.25
EBITDA (ttm):	1.88B	698.60M	5.98B	19.37B	N/A
Operating Margin (ttm):	0.15	0.10	0.17	0.19	0.13
Net Income (ttm):	1.02B	174.80M	3.82B	10.65B	N/A
EPS (ttm):	2.58	0.44	1.26	3.72	1.19
P/E (ttm):	25.78	30.18	26.86	20.76	N/A
PEG (5 yr expected):	1.92	2.26	N/A	2.10	N/A
P/S (ttm):	2.51	1.13	3.36	2.46	N/A

### Sources:

Bloomberg, Value Line Investment Survey, S&P Net Advantage, Morningstar, Yahoo! Finance, sec.gov

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### Competitive Analysis:

The Estee Lauder Companies Inc.'s key competitors are Procter & Gamble and L'Oreal. Estee's continuously new product innovation makes product portfolio more diversified and increased market support keeps enhancing the brand image. Its professional makeup brands, M.A.C. and Bobbi Brown face significantly less competition because they provide professional-graded products. The Skin care brands Clinique and Origins are marketed to customers that want natural, organic, and allergen-free products.

### Pros:

- Strong brand portfolio, offering products to almost every market niche
- Various and expanding channel distribution over more than 150 countries
- Margin improvement by shifting to high-margin skin care
- New products and decentralizing innovation to catch various preference of worldwide customers
- Centralizing core functions to improve cost structure
- High reputation and rising demand in emerging markets
- Increasing marketing support of core brands
- Scale of economic advantage provide bargain power over its suppliers
- Additional dividend is expected since historically increased dividend payout

### Risk Factors:

- Slowing economic growth has the negative impact on mature North-American markets
- About 60% international sales exposes EL to high risk of foreign currency rates change
- More capital expenditure on freestanding stores in emerging markets since lack of high-end department stores

### Total Return Estimates:

3 Yr FV Reversion\*: 10.85%  
 5 Yr FV Reversion\*: 7.01%

(\* - From limit order price of \$00.00)

### Key Valuation Assumptions:

Est. Revenue Growth 11%  
 WACC 8.79%  
 Expected Inflation 3%  
 Terminal Growth Rate 5%  
 10 yr. Risk Free Rate 2.68%  
 Equity Risk Premium 5.9%  
 Tax Rate 30.58%

### Key Financial Data:

Est. 2014 EPS 2.87  
 Est. 2015 EPS 3.24  
 3-5 Yr. Est. EPS Growth 16.61%  
 Credit Quality A-  
 ROE 30.84%  
 ROA 13.15%  
 Price /Book 7.21  
 Price/Cash Flow 19.1  
 Debt/Equity 37.11%  
 Current Ratio 2.33  
 Quick Ratio 1.4

### CSR Scores

EL / Ind. Avg.  
 Human Rights 1/1  
 Business Ethics Policy 1/1  
 ESG Disclosure Score 11.16/24.95  
 Equal Opportunity Score 1/1  
 Emission Reduction 1/1  
 Environmental Disclosure Score N.A./25.47