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The Estée Lauder Companies, Inc. (EL)

Q3 2026 Earnings Call

CORPORATE PARTICIPANTS

Laraine A. Mancini

*Senior Vice President-Finance and Strategy & Head-Investor Relations,
The Estée Lauder Companies, Inc.*

Akhil Shrivastava

*Executive Vice President & Chief Financial Officer, The Estée Lauder
Companies, Inc.*

Stéphane de La Faverie

*President, Chief Executive Officer & Director, The Estée Lauder
Companies, Inc.*

OTHER PARTICIPANTS

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Chris Carey

Analyst, Wells Fargo Securities LLC

Bonnie Herzog

Analyst, Goldman Sachs

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to The Estée Lauder Companies Fiscal 2026 Third Quarter Conference Call. Today's webcast is being recorded.

For opening remarks and introductions, I would like to turn the call over to the Senior Vice President of Investor Relations, Ms. Rainey Mancini.

Laraine A. Mancini

Senior Vice President-Finance and Strategy & Head-Investor Relations, The Estée Lauder Companies, Inc.

Hello. On today's webcast are Stéphane de La Faverie, President and Chief Executive Officer; and Akhil Shrivastava, Executive Vice President and Chief Financial Officer.

Since many of our remarks today contain forward-looking statements, let me refer you to our press release and our reports filed with the SEC, where you'll find factors that could cause actual results to differ materially from these forward-looking statements.

To facilitate the discussion of our underlying business, the commentary on our financial results and expectations is before restructuring and other charges and adjustments disclosed in our press release.

Unless otherwise stated, all organic net sales growth also excludes the non-comparable impacts of acquisitions, divestitures, brand closures, and the impact of foreign currency translation. You can find reconciliations between GAAP and non-GAAP measures in our press release and on the Investors section of our website.

Retail sales performance discussed is based on information available as of April 29, 2026. As a reminder, references to online sales include sales we make directly to our consumers through our brand.com sites and through third-party platforms. It also includes estimated sales of our products through our retailers' websites. Throughout our presentation, our Profit Recovery and Growth Plan will be referred to as our PRGP.

And now, I'll turn the webcast over to Stéphane.

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

Thank you, Rainey, and hello to everyone. Today, we raised our fiscal 2026 outlook and offered our preliminary view on fiscal 2027. We do so with confidence in the trajectory of our business as our third quarter result extend our strong year-to-date performance and as we begin realizing the benefits of One Operating Ecosystem.

For the third quarter, organic sales rose 2%. Operating margin expanded significantly, bolstered in part by gross margin expansion, and EPS grew 40%, further demonstrating the momentum of Beauty Reimagined.

For the nine months of fiscal 2026, we have delivered progress in many areas of our business. Three of four region grew organically, led by high-single digit growth in Mainland China and double-digit growth in our priority emerging markets. The Americas stabilized, and we remain focused on seizing its full potential.

Looking at categories, fiscal year-to-date, France rose double-digit organically, significantly outperforming the industry, and skin care grew low single digits, while hair care stabilized and makeup rate of decline slowed. Fiscal 2026 is promising to be the pivotal year we intended, one in which we restore organic sales growth and expand our operating margin for the first time in four years. We now expect to deliver organic sales growth of 3%, the high end of our prior range, operating margin on track to be 10.7% to 11%, significantly ahead of the 10% we previously expected at the midpoint and notably better than the 8% of fiscal 2025.

Driving these results and expectation are retail sales growth and share gain in several key markets. In Mainland China, with our high-single digit retail sales growth, we estimate we outperformed prestige beauty for the third consecutive quarter of fiscal 2026 driven by brands, including La Mer, TOM FORD, Le Labo, and The Ordinary.

For travel retail, in Hainan, we significantly outperformed prestige beauty, which itself improved sequentially to gain share, as our activation for Lunar New Year drove remarkable performance. Retail sales rose strong double-digit, accelerating from high-single digit in the second quarter, with 10 brand growing double-digit, led by La Mer, Estée Lauder, and M·A·C.

In Japan, where prestige beauty declined low-single digit, our share expanded overall, driven by outperformance in makeup.

In Korea, we returned to retail sales growth, up high-single digits and gained share in makeup. In both market, M·A·C performed exceptionally well.

In the US, our retail sales grew mid-single digits. We gained volume share in total prestige beauty driven by every category. On a value basis, The Ordinary gained share in skin care, while Clinique, M·A·C, Bobbi Brown Cosmetics, and Estée Lauder expanded share in makeup. The company gained value share in the US prestige hair care, driven by Aveda and The Ordinary, and we are seeing evidence of Aveda's turnaround given share expansion track salon data.

These retail sales and share trend around the world are a tribute to our team's delivery of Beauty Reimagined. During the third quarter, we continued to execute with excellence across all five action plan priorities. We accelerated best-in-class consumer coverage, expanding our portfolio presence in consumer-preferred, high-growth channels, market, media and price tiers.

For Amazon Premium Beauty stores, we deepened brand reach across the 10 markets where we have launched; for instance, with Clinique launching in France and Estée Lauder in the UK. Similarly, we increased our brand reach on TikTok Shop in markets from the US to Germany and Malaysia, and enhanced our online presence in China, launching The Ordinary on Douyin, and Estée Lauder and M·A·C on vip.com. This work, coupled with strong performance on Douyin, Tmall and Coupang, one of the leading Korean online platforms, drove double-digit online organic sales growth in the third quarter. Impressively, fiscal year-to-date, online organic sales growth grew 10%, leading us to believe we outperform prestige beauty in the channel.

In March, we strengthened our ties in specialty-multis with M·A·C's much anticipated entry into the US Sephora. For the month, M·A·C was the number one lip brand in makeup across the Sephora stores where it launched.

For our second action plan priority, create transformative innovation, we deliver on all three areas of breakthrough, on-trend, and commercial. Our newness in France resonated especially well, contributed to the category's double-digit organic sales growth, driven by every region. Le Labo delivered another quarter of remarkable growth with high-single digit like-for-like door growth and strong double-digit organic sales growth, driven in part by Violette 30, a recent addition to the classic collection.

TOM FORD's innovation in the category went from strength to strength as the brand followed Oud Voyager's successful launch earlier in fiscal 2026, with the highly sought-after Figue Érotique. BALMAIN's Beauty (sic) [BALMAIN Beauty's] Destin, the brand's new entry into prestige price tier with a refillable, bold scent, drove an exceptional consumer response and stronger than expected retail sales.

Lastly, in France, KILIAN PARIS latest launch, Her Majesty, contributed to the brand's strong double-digit organic sales growth, the fastest in the company, demonstrated our ability to accelerate growth in promising emerging brands.

In skin care, breakthrough launches from La Mer in eye and Estée Lauder Supreme franchise were among several drivers fueling strengths for those brands in Mainland China. While we are pleased with the performance of these launches, globally, we did not have the breadth of newness in skin care relative to last year's third quarter. Fiscal year-to-date, innovation has been a vital contributor to skin care organic sales growth, and we have a rich innovation pipeline for fiscal 2027.

In makeup, Estée Lauder Double Wear, next-generation matte foundation, drove the brand's double-digit growth in the category, while M·A·C's Lip + Cheek Mousse capture the multi-use makeup trend.

Turning to our third action plan priority. We boosted consumer-facing investment for the fifth consecutive quarter focused on high-ROI opportunities. La Mer experiential celebration for the launch of the rejuvenating eye cream were one of the several drivers making La Mer once again the greatest contributor to the company's organic sales growth. And Estée Lauder's launch of the all new Double Wear foundation delivered exciting activation around the world to drive engagement and new consumer acquisition.

We invested in groundbreaking campaigns, including Jo Malone's commercial innovation featuring the Jagger sisters driving organic sales growth. The Ordinary showcased its brand equity with its dictionary-theme pop-up across five countries as the brand extended its double-digit organic sales growth.

Our fourth action plan priority is fuel sustainable growth through bold efficiencies. We achieved a significant milestone in the PRGP's restructuring program by quarter-end, having approved initiatives to achieve the high end of the target growth-saving range.

In April, we expanded the size of the restructuring program, reflecting additional initiative expected across the pillar of the program. These include the expansion of the position impacted, which largely reflects the anticipated exit of select unproductive doors in department stores and freestanding stores channel, as we increasingly tapped into the high-growth potential of online. This was a decision we did not take lightly, as it will impact beauty advisor globally as we evolve our business to better align with consumer shopping preferences. We remain committed to completing business case approvals for the restructuring program by the end of fiscal 2026. With a line of sight of additional growth benefit driven primarily by optimization of our selling model, we are increasing the target range of gross savings.

For the entirety of PRGP, we have taken decisive actions to reshape our cost structure and operation to drive speed and agility, which is now evident in our organization. We remain on track to achieve the vast majority of PRGP's full run rate benefit in fiscal 2027.

Since launching Beauty Reimagined, we are well on our way in executing the biggest organizational leadership and cultural transformation in our company's history, while successfully managing internal and external disruption, and restoring organic sales growth, and improving profitability.

Finally, for our fifth action plan priority, we have now fully established One ELC, our operating model, aligning brands, regions and function as One Team with One Culture and One Operating Ecosystem. We swiftly deployed One Team to begin fiscal 2026 simplifying the organization with fewer layer and silos and clear ownership. More recently, in February, we unveiled One Culture guided by our beauty commitments, reinforcing how our team work every day, grounded in accountability and bold entrepreneurship thinking.

On our last earning call, I spoke of the work underway for our One Operating Ecosystem to build a more connected and scalable enterprise transformed by AI. At that time, we had established Enterprise Business Services, selecting Accenture and elected to modernize our direct-to-consumer omni-channel experience with Shopify. In April, we appointed WPP for a unified, enterprise-led approach to media buying to enable greater scale, precision and impacts. By partnering with these and other best-in-class organization, we are transforming from a fragmented data landscape to a more unified one, enabling real-time insights, a single consumer view, and more effective activation across brands and markets.

We made significant progress with Accenture over the last few months, beginning to consolidate vendors across brand, region, and functions to drive simplification, ensure governance, and eliminate long-tail spend. We have completed go-live across consumer care, CRM, and tech infrastructure, and are pleased with the early proof point that we have achieved in record time. All told, we plan to have Enterprise Business Services fully deployed by the end of calendar 2026.

Before I close, I'm thrilled to welcome to The Estée Lauder Companies portfolio the number one prestige skin care brand in India, Forest Essentials. In March, we agreed to build upon a long-term partnership as a minority owner by acquiring the remaining shares. With the transaction expected to close in the second half of the

calendar year, Forest Essentials is an exquisite Indian beauty brand, grounded in the science of modern, Luxurious Ayurveda, and we are excited to expand the brand in India and share it with the world.

Additionally, in April, we made a minority investment in 111Skin, a luxury skin care brand which is ideally positioned for pre- and post-procedure growing demand. This exemplifies our minority investment strategy to build brands for the future, like we did with DECIEM and Forest Essentials. In closing, with strong year-to-date result and the momentum of Beauty Reimagined, we are confident we will deliver our now higher fiscal 2026 outlook.

Looking ahead to fiscal 2027, our view is for prestige beauty's growth to accelerate, as we expect retail sales growth from the China ecosystem, including travel retail, to improve to mid-single digit and the global demand for prestige beauty to remain robust. In our preliminary plan, we intend to deliver another strong year in fiscal 2027, as we expect accelerating organic sales growth of 3% to 5%, gaining prestige beauty share at the mid to high end of the range and operating margin of 12.5% to 13%. We have the right brands, the right team, and a clear momentum onward and upward.

Before I turn to Akhil, I extend my deepest gratitude to our colleagues around the world who have achieved so much for The Estée Lauder Companies. I also want to recognize our colleagues, retailers and suppliers across the Middle East as they navigate a challenging time in the region. We are committed to continuing to support the safety and well-being of all our employees in the affected area.

I will now turn the call over to Akhil.

Akhil Shrivastava

Executive Vice President & Chief Financial Officer, The Estée Lauder Companies, Inc.

Thank you, Stéphane. Hello, everyone, and thank you for joining us today. Overall, we delivered strong performance in the quarter with sales growth, continued margin expansion, and strong cash generation. Across One ELC, we are executing against our strategic priorities with great efficiency, continuing to advance Beauty Reimagined with focus, discipline and speed. I'll begin with a recap of our third quarter performance, and then turn to outlook, covering a raised fiscal 2026 outlook and a preliminary view on fiscal 2027. For more details on our third quarter results, please refer to the press release we issued this morning.

Starting with organic net sales, we grew 2% year-on-year, driven by double-digit growth in fragrance. Performance in the category was broad-based across most brands and all geographic regions, led by double-digit growth from our luxury brands and in both the Americas and Mainland China.

Looking at our geographic regions. Positive results across all product categories, except hair care, drove mid-single digit net sales growth in Mainland China and double-digit growth collectively in our priority emerging markets. Across our four regions, we delivered mid-single to double-digit growth online, reflecting continued momentum from expansion.

In North America, sales declined low single digits, reflecting continued pressure in brick-and-mortar, including retailer bankruptcies, shop-in-shop closures, and softness for some of our brands. The disruption to our business from the conflict in the Middle East negatively impacted our third quarter sales growth in EUKEM by approximately 1 percentage point. The impact to our consolidated results was not material. I'll discuss our assumption for the remainder of the fiscal year related to these disruptions when I address our outlook.

Turning now to margins. Gross margin for the quarter was 76.4%, an expansion of 140 basis points compared to last year. This was largely driven by strong net benefits from a focused PRGP execution and programs covering

all aspects of operational efficiencies, including our zero waste initiatives, which drove another reduction in excess and obsolescence this quarter. These net benefits help to offset headwinds from incremental tariffs and inflation. This also reflects a favorable impact of 95 basis points related to an in-period charge we took last year for under-absorbed overhead costs. Our improved sales leverage also contributed to expansion in the quarter.

Looking at operating margin, we expanded by 360 basis points, delivering a margin for the quarter of 15% compared to 11.4% last year. Changes in our business mix, along with a shift in spending to the fourth quarter, led to better than expected results. Our disciplined investment allocation and PRGP net benefits drove a 4% reduction in non-consumer-facing expenses and improved operating leverage, even with the normalization of employee incentive costs. This funded a 9% increase in consumer-facing investments, or 5% excluding the impact from FX.

We continue to invest for growth, enhancing brand desirability and reinforcing the execution of Beauty Reimagined. Our effective tax rate for the quarter was 31.8%, up from 30.8% last year. Diluted EPS was \$0.91 for the quarter, compared to \$0.65 last year, an increase of 40%, driven by our sales growth and cost leverage. This also includes a dilutive impact of \$0.02 related to business disruptions in the Middle East.

Looking at our overall PRGP, we continue to execute with discipline, delivering results ahead of our expectations. With the establishment of One ELC operating model, we are continuing to make measurable progress against our strategic priorities, driving sales growth, improving our cost structure, and fueling sustainable long-term value creation.

In terms of restructuring costs, through March 31, we recorded \$1.1 billion of total cumulative charges, primarily related to employee-related costs. Further to Stéphane's comment on evolving our focus towards high-growth channels and reflecting approved initiatives through April 29, we now expect total restructuring and other charges of \$1.5 billion to \$1.7 billion before taxes. We still expect approvals for specific initiatives under the restructuring program in total to be completed by the end of fiscal 2026.

Shifting now to another key priority, cash flows. For the nine months, we generated \$1.2 billion in net cash flows from operating activities. This is a meaningful improvement compared to the \$671 million generated last year, and primarily reflects higher earnings, excluding non-cash items. Also contributing to the improvement was a favorable change in operating assets and liabilities despite the significant increase in restructuring payments. We invested \$306 million in CapEx, as we continue to prioritize consumer-facing investments to fuel growth while optimizing all other CapEx investments. For the nine months, CapEx was down 23% versus last year, reflecting the phasing of projects. These results reinforce our ongoing focus on improving free cash flow.

Turning to our outlook. The current geopolitical and macroeconomic environment remains uncertain and continues to drive global volatility. Starting with fiscal 2026, our solid year-to-date results supported by continued net benefits from our PRGP and disciplined cost management give us confidence in raising our fiscal 2026 outlook.

In terms of the conflict in the Middle East, our outlook assumes a greater year-on-year impact from disruption to our business in the fourth quarter relative to the third, as shipments for key shopping moments had already gone out before the conflict began. This helped to minimize the impacts to our third quarter sales and profitability. For the fourth quarter, we expect an unfavorable impact of approximately 2 percentage points to sales growth and \$0.06 to EPS.

Now, looking at our fiscal 2026 outlook. We expect organic net sales growth of approximately 3% at the high end of our prior guidance range. For the full year, the impact of business disruptions in the Middle East is expected to be less than 1%. We assume gross margin of approximately 75% and operating margin of 10.7% to 11%. The strong margin expansion is in spite of a more normalized level of employee incentive costs, which is expected to have a greater year-on-year impact in Q4 than in the first three quarters of the year. Diluted EPS is now expected to range between \$2.35 and \$2.45. This represents a year-on-year growth of 56% to 62%, and includes a dilutive impact of approximately \$0.07 related to business disruptions in the Middle East. We also assume a weighted average share count of approximately 365 million shares.

Please refer to our press release issued this morning for other assumptions included in our fiscal 2026 full year outlook, including those regarding evolving trade policies and enacted tariffs.

For fiscal 2027, our preliminary view is based on strong progress across Beauty Reimagined and our PRGP, as well as our assumption of low to mid-single digit growth in global prestige beauty. While we are in the process of finalizing our fiscal 2027 plan, we currently assume net sales growth of 3% to 5% for the full year and operating margin of 12.5% to 13%.

As Stéphane said, we are confident in the trajectory of our business, while recognizing ongoing external uncertainty and volatility. We plan to share a more complete view on fiscal 2027 in August, when we report our fiscal 2026 full year results. At that time, we will refine our view as needed based on our assessment of prevailing geopolitical and macroeconomic conditions, as well as changes in foreign currency exchange rates.

In closing, we remain focused on executing our long-term strategy to become the best consumer-centric prestige beauty company, with clear priorities of sales growth, margin improvement, and strong cash generation. Across One ELC, we are advancing a multifaceted transformation with discipline and speed, and we are deeply grateful for the dedication, resilience and passion of our employees around the world who make this progress possible. Together, we are positioning the company to deliver sustainable, long-term value creation.

That concludes our prepared remarks. I'll now turn it over to Rainey.

Laraine A. Mancini

Senior Vice President-Finance and Strategy & Head-Investor Relations, The Estée Lauder Companies, Inc.

Before we start Q&A, please note that management will only be addressing questions related to our fiscal 2026 third quarter results, outlook for fiscal 2026, and preliminary view on 2027, as set forth in the press release we issued this morning or discussed on today's call. The company will not be commenting on the status of discussions with Puig or the possibility of a transaction. The company does not intend to provide any further information ahead of an official announcement detailing an agreed-upon transaction or a termination of discussions.

During the Q&A session, we ask that you please limit yourself to one question, so we can respond to as many participants as possible within the time scheduled for this webcast.

And now, let me turn it over to the operator for the Q&A session.

QUESTION AND ANSWER SECTION

Operator: The floor is now opened for questions. [Operator Instructions] Our first question today comes from Dara Mohsenian with Morgan Stanley. Please go ahead.

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

Hey, good morning.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

Morning, Dara.

A

Dara Mohsenian

Analyst, Morgan Stanley & Co. LLC

I was hoping to maybe get a bit more perspective on long-term margin potential. You're, obviously, making greater-than-expected progress on margins in fiscal 2026. You've announced the greater job cuts and cost savings. So I just wanted to get some updated perspective from you on how you're thinking about the path to margin expansion as you look out past the guided to fiscal 2027 level. With all the progress you're making, do you think you can get back to the peak high-teens margins you had in your business at one point? And perhaps just give us a general sense as you look out past fiscal 2027 on the incrementality of cost savings and reinvestment needs, as you look out longer term. I know you won't quantify that, but just a general sense of the continued opportunity there and the need to sort of reinvest behind the business. Thanks.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

No, thank you, Dara, for the question. I was expecting this question, but the – so, when you think about it, and I've said it now consistently over the last few quarters, we're executing the biggest transformation in our company history at every level, leadership, cultural, operational, you name it. And I think we've demonstrated over the last three quarters and actually since the launch of Beauty Reimagined, now the fifth quarter, that we are executing with speed and agility. We are back to growth now for the first time in four year. We're expanding margin.

A

Now, if you think about the margin that we've expanded or we are planning to expand this year at a higher end of the guide for the year, plus what we are – the preliminary view that we are giving for fiscal 2027, we would have expanded margin by 500 basis points from the starting point of Beauty Reimagined. We were at 8% margin. We could finish around 11% this year, and we have a preliminary view of 12.5% to 13% for next year. So, obviously, this is an enormous amount of work that is coming from our ability to just improve gross margin. You saw gross margin has expanded by 140 basis points into this quarter.

The reduction of the non-consumer-facing, that is consistent again, minus 4%, which is showing the discipline that we are putting in the management of our SG&A. And today, we've announced the PRGP continues and new ideas that we are putting out there to continue to further optimize our SG&A in favor of improving the consumer-facing and investing behind our brand. And I was very clear about, like now, in February 25, when we launched Beauty Reimagined, that we needed to invest behind our brand, and we are seeing the retail momentum and the sequential improvement in many of our brands' geographic channels around the world.

So, when you think about it, coupled with the new operating model that we are putting in place, and this operating model is built in partnership with best-in-class partners around the world, you name like Accenture, Shopify, WPP that we've announced last month, which is going to allow us to create a unified media activation model, you start thinking that all of what we are doing is to build a P&L that is built for leverage. And it's very important for us that we unlock additional growth. And the momentum that we are seeing this year is what is giving us the confidence to get and to give you the preliminary view for fiscal 2027 at 3% to 5%, which – I want to be very clear, at 3% to 5%, like Akhil would say, at the mid to the high point of this view, we will be gaining market share. And that is going to create a lot of leverage in our P&L. And you do that, you couple with the emerging market growth, the online growth, all of that is going to create more leverage for the operating margin over time.

And I want to make it clear, margin recovery is a marathon. It's not a sprint. And I'm really beyond proud of what we are doing as a team today to show the momentum. And I want, again, to stress that, if we deliver the top end of our view for next year, it will be 500 basis points improvement to 13% of margin. And with the leverage that we are building in the P&L, I believe we can continue to improve over time.

Operator: The next question comes from Filippo Falorni with Citi. Please go ahead.

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Hi, good morning, everyone.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

Morning, Filippo.

A

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

Morning. So, thank you for the addition of the preliminary fiscal 2027 guidance. That was very helpful. I was hoping you can expand a bit more from a geographic and category standpoint where you see the acceleration in the global prestige category. And from an Estée Lauder-specific standpoint, where you see the biggest opportunity in terms of improvement in market share? Just curious what regions are driving the acceleration you're expecting and where you see the biggest opportunity. Thank you.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

No, thank you, Filippo, for the question. I'll start, and certainly Akhil will add a few things. The thing that I would say to start with is the category of beauty is still extremely resilient and very attractive as we speak. We're seeing many indication of the life cycle of the consumer is expanding, consumer entering younger into the contact category. They are staying longer also with us. This is the reason why we've launched this big venture into longevity led by the Estée Lauder brand, but many of our brand. We're seeing so new category also then pre- and post-procedure. This is the reason why we've done a minority investment in 111Skin, but we have many of that in many of our brands. We have emerging markets that continues to grow, thanks to what I've been saying for now, quite some time, 500 million new consumers that are going to enter the middle class between now and 2030. The accessibility of beauty through online channels, specialty-multi that is growing in, frankly, every geography around the world.

A

So, when you think about, you take this macro change and the continuous robustness of the category, coupled with what we've demonstrated with three of the four region that are posting growth over the last nine months. Fragrance is in double-digit in the last quarter, online in double-digit, priority market in double-digit, China is in the fifth quarter of consecutive market share gain, and we are doing it in a way that I'm extremely proud of because it's very well balanced between the channel, but also the brand. We have six brand in double-digit growth in the quarter in China beside, like, obviously, the La Mer that continues to be very strong. But we have TOM FORD, we have Le Labo, we have many brands. We have Hainan also that is in recovery. I've said it in my prepared remark. We are growing significantly ahead of Hainan. Hainan is actually sequentially improving, but we are improving much, much faster than the average.

And I would say last but not least, the stabilization of North America and the US for me was super important. I've communicated at the beginning of Beauty Reimagined, it is about rebalancing the growth between the region, between the category. And the fact that in the US, our investments are paying strong dividend in the sense that every of the four category are growing share in volume. It was about reactivating recruitment, and we are doing it. And we are doing it also by gaining not only volume share, but by value share with The Ordinary and on five makeup brand in the US. So, all of this indication shows that, Filippo, we're not only diversifying the growth by geography, but we're also diversifying the growth by category.

Now, in the quarter, we have had very strong positive momentum in fragrances. But when you look over the nine consecutive months, skin care is accelerating, and makeup and hair care are sequentially becoming, like, stronger. And obviously, the launch of M·A·C in Sephora in the US or TikTok Shop around the world are the proof point that the strategy from a consumer coverage, from an innovation acceleration and investments are working.

So, I would say, in a sense, that, when you put the macro condition behind beauty alongside the acceleration that we're seeing in our geographies and in our categories and the diversification of the growth, we feel very confident putting our outlook or just the preliminary view that we've given for next year and which will position us into a market share gain again, as I said in the prior question, if we deliver the mid to the high point of the preliminary view.

Akhil Shrivastava

Executive Vice President & Chief Financial Officer, The Estée Lauder Companies, Inc.

Stéphane, if I...

A

Filippo Falorni

Analyst, Citigroup Global Markets, Inc.

That's very helpful.

Q

Akhil Shrivastava

Executive Vice President & Chief Financial Officer, The Estée Lauder Companies, Inc.

Hey, Filippo. Hi. Just as Stéphane touched very well upon our growth trajectory, I wanted to touch a little bit upon the margin progression and also build upon Dara's question. So, at 13% margin, 12.5%, 13% margin, our gross margin is north of 75%. Our SG&A or total OpEx is 62%. So, there's still significant runway, as Stéphane said, on margins. And why we feel confident is because, if you look at even this year, we started with a guide of about 9.4% to 9.9%, and it's really the comprehensive nature of our work, which starts by looking at discounts to operational excellence, to One ELC model, which Stéphane talked about, which really covers many meaningful parts.

A

Shopify is one of them. It's a total online transformation. And with leadership of Brian and team, we are doing a total tech transformation. There's a full-on project on procurement. We announced WPP in the media, so we are going to drive significant ROI on our consumer-facing. With EBS on Accenture, that's a whole program to drive a better One ELC streamlined model across various parts of the world. So, what you are seeing is a very comprehensive program to drive cost. And with slightly increased announcement of restructuring, this gives us significant runway beyond the 11 and – 12.5% and 13% margin guide we gave. So, between those two combinations of growth flywheel that Stéphane talked about and a new cost efficiency with restructuring, but everyday efficiency muscle we are building in the organization up and down the chain gives us the confidence to drive not only growth, but margin, cash and total value creation.

Filippo Falorni*Analyst, Citigroup Global Markets, Inc.*

Okay. Appreciate the color, guys. Thank you.

Q

Stéphane de La Faverie*President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.*

Thanks, Filippo.

A

Operator: The next question comes from Rupesh Parikh with Oppenheimer. Please go ahead.

Rupesh Parikh*Analyst, Oppenheimer & Co., Inc.*

Good morning and thanks for taking my question. So, just going back to Americas and maybe specifically North America. So, growth there has been flattish. So, just curious, as you look to FY 2027, do you expect to turn the corner from a growth perspective? And just in terms of some of the inventory destocking headwinds, would you expect those to go away next year?

Q

Stéphane de La Faverie*President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.*

Hey, Rupesh. Yeah. No, thank you. The simple answer is yes. We expect basically to go from where we were declining for a decade to the stabilization we were saying to the acceleration, and that's a massive work that the team is doing. So, like, am I happy where we are in North America? I think the team is doing a fantastic job. We're not there yet, and we still have, like, some work to do, but the team is really working very hard to rebalance the channels and to have consistent performance behind the brands.

A

But look at it objectively. In the quarter, having the four category in volume share gain and having The Ordinary that continues to do a fantastic job in skin care and gaining market share, both in volume and in value, having five brands in makeup gaining share in value in the quarter is showing that the Beauty Reimagined is working in this market. Now, obviously, we're coming from a position of strengths. Like I said, we have many brand in top rankings, but we had to pivot, and we are pivoting very fast where we are distributing our brands in the market. Now, we have 12 brands in Amazon in the US performing extremely well. We have the launch of M·A·C Sephora that is only four-weeks old in the quarter, okay? So, we just launched at the beginning of March. And M·A·C is already gaining 10 points of market share in the entire quarter. But I would just like also want to highlight that it's been just like skyrocketing in term of market share gain in lip, which is one of the key categories.

So, we're seeing many proof points of the acceleration in the market. We are reactivating in recruitment. We are putting more innovation in the market. We are moving to, like I said, Amazon, TikTok Shop, more brand into

Sephora, continuous acceleration with Ulta. We have, like, fantastic support from all our retail partners. And we have online growth in the high-single digits in the US, which is also very encouraging. That is just giving us all of this confidence that we can return to growth next year.

And then I would say just one thing, Rupesh. Like, we've done all of that with exiting some of our brands and some channels and also having to navigate disruption like bankruptcies in some retailers that is costing us up to 2 points of growth in the quarter. So now, if you exclude all this disruption, we would be even closer or like certainly very close to, like, market share gain. And we are narrowing the market share loss. In the quarter, we've only lost 6 basis points in value versus prior year, but gaining significant volume. And that was, for me, the key indicator to put the foot on the gas pedal and to just accelerate in North America. And I think that was your question, no, Rupesh? I hope I've answered what you wanted.

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Yeah, you did. Thank you.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

You've asked, sorry, on the inventory. The inventory in North America is in a very good position. And we are managing, like I said, in every geography, in every channel. We're shipping to the demand. And I'm very confident that we are in the right place pretty much everywhere. Is there one or two SKUs that are above what we wanted? This is normal. We are managing through it, but nothing unusual to manage for us at this point.

A

Rupesh Parikh

Analyst, Oppenheimer & Co., Inc.

Great. Thank you.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

Thanks, Rupesh.

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Operator: The next question comes from Lauren Lieberman with Barclays. Please go ahead.

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Great. Thanks. Hey. Good morning.

Q

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

Morning, Lauren.

A

Lauren R. Lieberman

Analyst, Barclays Capital, Inc.

Good morning. So I wanted to talk a bit about channel strategy in the US. So you guys have been outspoken and made a lot of progress, obviously, on Amazon and you've had the launch with M·A·C in Sephora. But we read this week that Bobbi Brown may be exiting US department stores, and department stores have long been, let's call it, I

Q

don't really know what the analogy is to use, but a challenge as the channel itself has been deeply pressured. So just perspective on exposure to department stores, willingness to kind of continue to make kind of bold moves in that sense to exit channels outright to reposition, because it's a big swing if the reporting on Bobbi is correct. Thanks.

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

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Yeah. No, thanks, Lauren. You're right. We are continuing to resize the channel in North America. And frankly, it's not only North America. I would say it's in our Anglo market, that it is in the US, that is in the UK, and in Australia to a certain extent also. And we are moving to high-growth channel. This is why we've been really fast and diligent in putting our brand on Amazon. This is why we moved M·A·C into Sephora. And I really want to thank the Sephora team and our team for the fantastic support for really, really great launch, the continuous support from our partners at Ulta, where we're doing great things.

But we have to continue to right-size the department stores, and I've been very clear. And part of the PRGP expansion, if you look at it, we are reducing – so 70% of the expansion from an employee workforce, our beauty advisors from channel that are dilutive, especially in department stores and freestanding store. And we rationalize it. And in some places, we have brand that we are exiting from some channels to really focus on the high-growth channel.

To answer your question on Bobbi Brown, Bobbi Brown is a fantastic brand. We love the brand. There's plenty of proof points where the brand is growing in Asia, and we have plenty of proof points where the brand is growing in the high-growth channel, such as Amazon or specialty-multi. And this is where we are putting our effort. And I've been very clear all along that Beauty Reimagined was about rebalancing the geography, rebalancing the category, but also rebalancing the channel to make sure that we are where the consumers are shopping. So these are some of the tough decision that we have to make, but we are making them with speed, agility, and this is going to create more momentum for us in the Anglo markets.

Akhil Shrivastava

Executive Vice President & Chief Financial Officer, The Estée Lauder Companies, Inc.

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If I could just add one thing, Lauren, which you are very well familiar. I mean, one of the untold story of Estée Lauder Companies is how well diversified our channels are around the world. If we look at globally, our online business is almost one-third of our business. Our direct-to-consumer is more than 30%. Even in the US, online is getting closer to 40% and direct-to-consumer is more than 30%. So worldwide, we have capabilities around 8 to 10 big channels in the world, and we are bringing these capabilities – cross-capabilities around the world.

For example, one of the things Stéphane has done is how to work with pure-play. We now have a global team that drives pure-play progress around the world. So on platforms like Amazon, TikTok, we are taking the progress of one country to another at a rapid pace like we've never done before. So it's an extraordinary ability to pivot. Market is transforming. But as part of Beauty Reimagined number one, we are trying to lead that change through consumer coverage, and whole organization is working across the board on that.

Operator: The next question comes from Chris Carey with Wells Fargo. Please go ahead.

Chris Carey

Analyst, Wells Fargo Securities LLC

Q

Hi. Good morning, everyone.

Stéphane de La Faverie*President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.*

Morning, Chris.

A

Chris Carey*Analyst, Wells Fargo Securities LLC*

Morning. I wanted to ask about the EUKEM segment. You flagged double-digit growth in emerging markets. I believe you had constructive commentary on France in this call, if I heard that correctly. So clearly, there's some momentum in key areas. It does suggest the UK is perhaps a bit more muted. Could you give us a sense of how you see the UK? How the strategies to improve the market are evolving? And perhaps in general, as you think about this region more broadly, how you would see the key growth drivers as you march toward this organic sales target that you would have over the next 12 months or so? Thank you.

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Stéphane de La Faverie*President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.*

Yeah. No, thanks, Chris. The EUKEM is a tale of so many different stories because, obviously, you have the UK, you have Europe, and you have the emerging market. Thanks for noting. The emerging market for us, we're very happy with the momentum that we're getting in the market with double-digit growth in this quarter, and we have had some very strong positive momentum for now quite some time in this quarter. India has been absolutely phenomenal for us. We have, like, a market like Vietnam, Indonesia, Turkey that are doing well. And surprisingly also, we've had good net sales growth in the Middle East because we were getting ready for Eid and Ramadan. So we had shipped just before to get ready. And we had a fantastic campaigns, great activation, new product into the market. And obviously, all of that has been somehow disrupted by, obviously, the conflict in the region.

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The interesting thing also within the Middle East, UAE is the region within the Middle East that is the most affected with Israel. Obviously, we have actually maintained strong position in Saudi, where, for the quarter, we are flat in sales with only a 2% decline in March. So, it tells me that we have strong position and we will navigate through this disruption. Obviously, we are hoping, and like I said, for the safety of our employees, and our team suppliers, and et cetera, that this is going to become to this realization very quickly. With that, I think we will continue to build on the momentum.

When it comes to Europe itself, Europe is more muted, Chris. We have had obviously some success in France and in Spain, where we are gaining market share in France. We are really deploying all our niche and fragrance brand at speed. And we are seeing a lot of, like, good demand in this market. But generally speaking, the consumer sentiment in Continental Europe has been the most affected around the world outside obviously of the Middle East region. And we are navigating through this disruption by being very strategic on where we are investing. For instance, we've put a lot of investment on Double Wear behind Estée Lauder, and it's been fantastic. We have some great activation on The Ordinary, and The Ordinary is gaining market share in the region. So, we are more targeted and more specific on how we are deploying our capital in the region.

Now, when it comes to the UK, and I know my team was not happy when I told a few quarters ago that I was not happy with the performance, and we've worked very hard together to just turn around. And I'm very happy to report that a sequential improvement and the UK is back in positive territory. Now, we are not there yet and [Technical Difficulty] (00:52:56).

Operator: The next question comes from Bonnie Herzog with Goldman Sachs. Please go ahead.

Bonnie Herzog*Analyst, Goldman Sachs*

All right. Thanks. Good morning, everyone. I just had a quick follow-up on EBIT margins next fiscal year. I guess I'm wondering how critical it is for organic sales growth acceleration to ultimately drive up margin improvement versus your PRGP savings. And then I did have a question on the impact from duty-free changes at Beijing and Shanghai airports. You'd mentioned this last year. So, just hoping for an update on where things stand and if the resolution of these issues should ultimately support a sequential improvement in growth in F Q4. Thanks.

[Technical Difficulty] (00:53:44-00:53:54)

Operator: Pardon me, ladies and gentlemen. It appears we have lost the connection to our speaker line. Please stand by while we reconnect. Thank you for your patience.

[Technical Difficulty] (00:54:03-00:57:11)

Operator: Pardon me, everyone. I have our speakers joined back. We can continue.

Bonnie Herzog*Analyst, Goldman Sachs*

Okay. I don't know if I...

Laraine A. Mancini*Senior Vice President-Finance and Strategy & Head-Investor Relations, The Estée Lauder Companies, Inc.*

Can you tell us where we left off? Does Stéphane need to repeat that answer?

Bonnie Herzog*Analyst, Goldman Sachs*

Yes. Hey, Rainey. It's Bonnie. I can repeat my question. I assume you guys didn't hear it. I just – I did have a quick follow-up on EBIT margins next fiscal year. I guess I'm wondering how critical it is for organic sales growth acceleration to drive the margin improvement in the year versus your PRGP savings. And I do have a question on the impacts from duty-free changes at the Beijing and Shanghai airports that you did highlight last quarter. Could you just maybe provide an update on where things stand and if the resolution of these issues should support a sequential improvement in growth and Q4? Thanks.

Akhil Shrivastava*Executive Vice President & Chief Financial Officer, The Estée Lauder Companies, Inc.*

Hi, Bonnie. So, I'll start with EBIT margin, and then Stéphane will take on the PR question. So, it's a very pertinent question given that 3% to 5% sales growth is an acceleration. So, we feel confident that the work we have done on – as I was saying earlier, on the restructuring work, the big structural cost savings and, number two, the everyday efficiency we are building in the organization. With that, we feel confident in our margin at different sales ranges. Of course, when we give this guidance, we give in a risk-adjusted way that how we can get to that margin and the top end of the range, bottom end of the range, and even if the sales fully doesn't materialize.

So, sales is a critical part of the driver of the driver of margin, but we have multiple tools in the tool kit to continue to drive margin expansion. Of course, on a long-term basis, growth is critical to drive this, but we are still in the

middle of a massive cost transformation. So, we feel good about the cost work, which of course has an opportunity to do even better when that kind of margin – that kind of sales growth comes through.

So, in summary, what I'm saying is we have a very strong cost progress, which of course depends on growth, but is in itself a huge margin expander in itself.

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

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Yeah. And, Bonnie, just one quick thing on travel retail. Sorry for the quick tech issues that we have had there. I'm glad that we are back. So, travel retail, things are moving in the right direction. And our travel retail business posted a low-single digit growth in the quarter, which is a net sequential improvement compared to what we've been. And remember, we said that there was an issue with – potential issue with the retailer transition, especially in Beijing and Shanghai Airport, and obviously online. But the impact has been less than initially expected. I have to say, I want to recognize again my team in travel retail and also our partners, retailer partners in Hainan because they work tirelessly to make sure that we were not going to miss Chinese New Year or the key activities.

So, frankly, things are getting better. And as a result, we are also rebalancing where the growth is coming from. Hainan has been absolutely fantastic for us. We grew over 30% in the quarter in retail, which is significantly above the department. And I think I mentioned it earlier, that we have six months in double-digit with Lauder, La Mer, Jo Malone, Clinique, M-A-C, and Bobbi Brown growing. So, we are accelerating. We are accelerating the recapture. And at the same time, as we are rebalancing within the China – travel retail china ecosystem, we are also accelerating travel retail around the world.

And I've made it very clear that the investment that we are putting in travel retail West, if you are lucky to travel around the world, you are going to see better presentation, more consumer experience in all key airport than it is from Heathrow, to Charles de Gaulle, to Singapore, like, to Bangkok, you name it. Our team is working tirelessly to deploy new brands, especially all our luxury fragrance brand like KILIAN, Le Labo, TOM FORD, and Jo Malone. So, we have a lot of, like, work to continue to do, and we are confident that travel retail is back to stabilization, and we are hoping past, hopefully, the disruption in the Middle East that we are going to be able to continue to grow in multiple geographies.

Bonnie Herzog

Analyst, Goldman Sachs

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All right. Thank you. Very helpful. I'll pass it on.

Stéphane de La Faverie

President, Chief Executive Officer & Director, The Estée Lauder Companies, Inc.

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Thank you.

Operator: That concludes today's question-and-answer session. If you were unable to join for the entire webcast, a playback will be available at 1:00 PM Eastern Time today through May 15. Please visit the Investors section of the company's website to view a replay of the webcast. That concludes today's Estée Lauder conference call. I would like to thank you all for participation and wish you all a good day.

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