

COMPANY PROFILE

# The Estee Lauder Companies Inc.

REFERENCE CODE: 8189FCF5-67F2-4065-9321-FAADC0980C3B

PUBLICATION DATE: 13 Jul 2012

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## COMPANY OVERVIEW

The Estee Lauder Companies Inc. (Estee Lauder or "the company") is a globally recognized manufacturer and marketer of makeup, skin care, fragrances and hair care products. The company operates in the Americas, Europe, the Middle East and Africa, and Asia Pacific. It is headquartered in New York City, New York and employed about 32,300 people as of June 30, 2011.

The company recorded revenues of \$8,810 million in the financial year ended June 2011 (FY2011), an increase of 13% over FY2010. The operating profit of Estee Lauder was \$1,089.4 million in FY2011, an increase of 37.9% over FY2010. The net profit was \$700.8 million in FY2011, an increase of 46.5% over FY2010.

## KEY FACTS

<b>Head Office</b>	The Estee Lauder Companies Inc. 767 Fifth Avenue New York City New York 10153 USA
<b>Phone</b>	1 212 572 4200
<b>Fax</b>	1 212 893 7782
<b>Web Address</b>	<a href="http://www.elcompanies.com">http://www.elcompanies.com</a>
<b>Revenue / turnover (USD Mn)</b>	8,810.0
<b>Financial Year End</b>	June
<b>Employees</b>	32,300
<b>New York Ticker</b>	EL

## **BUSINESS DESCRIPTION**

Estee Lauder manufactures and markets prestige beauty products. The company's products are sold in over 150 countries across the world. Estee Lauder's products are sold under several globally well known brands like Estee Lauder, Aramis, Clinique, Origins, MAC, Bobbi Brown, La Mer and Aveda. Additionally, Estee Lauder is a licensee of several brands and markets its cosmetics and other products under these brand names as well.

Estee Lauder conducts its operations through a single business segment of beauty products and operates across the following product categories: skin care, makeup, fragrance, hair care and other products.

Skin care products include moisturizers, creams, lotions, serums, cleansers, sun screens and self-tanning products.

Makeup products include lipsticks, lip glosses, mascaras, foundations, eyeshadows, nail polishes and powders. The company manufactures, markets and sells a full array of makeup products in varied shades and colors. Additionally, the product line includes related products like makeup tools, compacts and brushes.

Fragrances are sold in a variety of forms like eau de parfum sprays and colognes, lotions, powders, creams and soaps. Estee Lauder offers fragrances for both men and women.

Hair care products include hair color, styling products, shampoos, conditioners, and finishing sprays. These products are mainly offered through salons and free standing retail stores.

Other products are the products which the company offers to the customers but do not belong to any other product categories.

Estee Lauder distributes its products through over 30,000 points of sale comprising upscale department stores, specialty retailers, upscale perfumeries and pharmacies, and prestigious salons and spas. The company also operates freestanding retail stores and spas apart from selling products through own and authorized dealer websites, stores on cruise ships, direct response television, in-flight and duty free shops, and some self-select outlets.

Estee Lauder has wholly-owned operations in over 40 countries and a controlling interest in a joint venture that operates in three countries. The company enters into contractual agreements with local distributors in certain other countries. Estee Lauder, by the end of FY2011, operated around 625 single-branded freestanding stores worldwide and around 125 multi-brand stores. The company sells 15 brands through the e-commerce websites in the US, Canada, the UK, France, Germany, Austria, Brazil, Australia, Korea, China, and Japan.

Apart from the core operations, Estee Lauder also conducts research and development (R&D) to identify shifts in customer preferences, develop new products, and improve and redesign existing products. The company operates R&D facilities at the following locations: Melville, New York; Oevel, Belgium; Markham, Ontario; Blaine, Minnesota; and Shanghai, China.

The company's manufacturing operations are primarily conducted in the US, Belgium, Switzerland, the UK and Canada. Most of the manufacturing plants focus on producing a single product for several brands. Estee Lauder utilizes third parties on a global basis for finished goods production.

The principal raw materials used in the manufacture of the company's products are essential oils, alcohols and specialty chemicals. Estee Lauder's centralized global supplier relations department procures these required raw materials for all its manufacturing facilities.

## HISTORY

Estee Lauder was founded in 1946 by Mrs. Estee Lauder and her husband, Joseph Lauder. The flagship brand, Estee Lauder, was launched with the following four products: super rich all purpose creme, creme pack, cleansing oil and skin lotion. Later, five additional brands (Aramis, Clinique, Prescriptives, Lab Series and Origins) were developed internally. Aramis was launched in 1964, followed by Clinique in 1968. Prescriptives was founded in 1979, Lab Series was introduced in 1987 and Origins was introduced in 1990.

In 1995, the company also acquired two makeup artist brands: MAC and Bobbi Brown. In the same year, Estee Lauder acquired La Mer, a luxury skin care brand, and signed a global licensing agreement with Kiton, an Italian fashion house for beauty products. The company was listed on the New York stock exchange in 1995.

Estee Lauder, in 1997, acquired Sassaby, owner of the color cosmetics brands, Jane and Aveda. In the same year, the company signed a licensing agreement with the American fashion designer Donna Karan.

Estee Lauder created a new division, ELC Online, in 1999 to manage all online activities for its brands. In the same year, the company acquired the Los Angeles-based Stila Cosmetics and the London based Jo Malone. Estee Lauder also signed a license agreement with the handbag designer Kate Spade to develop beauty products, and the line was subsequently discontinued in 2005.

In 2000, Estee Lauder acquired a beauty e-tailer, gloss.com. During the year, the company also initiated purchase of Bumble and bumble, an upscale hair salon and developer, marketer and distributor of quality hair care products.

The company formed a joint venture with the Sarantis group of companies in 2001, to distribute and market the brands of the Estee Lauder in Greece, Romania and Bulgaria, through a jointly owned new company, ELCA Cosmetics.

In 2003, Estee Lauder acquired the Rodan & Fields, a dermatologist-created skin care line. In the same year, Estee Lauder acquired Laboratories Darphin, the Paris-based company dedicated to the development, manufacturing and marketing of prestige skin care and makeup products, from Andre Benet.

Estee Lauder sold its Jane branded product business in 2004. Also, during the same year, the company launched 'Flirt', a range of 250 shades for lips, eyes and cheeks, and 'Good Skin', a line of skin care products. During the year, Estee Lauder introduced a new men's fragrance called Donald Trump, the Fragrance. The "Donald Trump" brand was subsequently discontinued in 2007.

In 2005, the company introduced Grassroots, a range of naturally-sourced skin care products. Estee Lauder entered into an agreement with the world-renowned fashion designer, Tom Ford, for the

development of beauty products, in the same year. The company also signed a licensing agreement with Missoni, the Milan-based fashion house known for its knitwear and graphic designs, in 2005.

Estee Lauder launched fragrance and ancillary products of Missoni under its exclusive global licensing agreement with the company in 2006. In the same year, the company sold the Stila brand to Stila Corporation, an affiliate of Sun Capital Partners, a Boca Raton, Florida-based private equity firm. Also, Estee Lauder established a wholly owned affiliate in Turkey.

In 2007, the company signed Hilary Rhoda, a fashion model, as a new face of Estee Lauder. In the same year, Estee Lauder announced that it had entered into an overnight share repurchase agreement with Bank of America, to repurchase from the bank approximately \$750 million of its outstanding shares of the company's class A common stock.

The company acquired Ojon Corporation, a privately held hair care and skin care company based in Canada, in 2007. In the same year, Estee Lauder launched a men's scent brand, Mustang, in partnership with Ford. In 2007, the company also sold its Rodan + Fields brands.

In 2008, BeautyBank, a subsidiary of Estee Lauder, and HSN, an operating business of IAC, announced plans to launch a first-to-market beauty brand specifically developed for television retail. BeautyBank developed the brand exclusively for distribution on HSN and HSN.com. Estee Lauder planned to launch its namesake brand, Estee Lauder, in India via a standalone outlet in south Mumbai during the same year; the company also planned to open one outlet in Bangalore and two outlets in Delhi.

Furthermore, in 2008, Estee Lauder selected M2M, a media company of Omnicom Media Group, as its media agency in eight European and four Asian countries. Later, the company launched two new skincare products for travel retail market and battery-operated, vibrating mascara.

Estee Lauder entered into an agreement with the Lane Crawford Joyce Group in 2008 to distribute the company's luxury lifestyle brand, Jo Malone, in seven Asian markets. The Lane Crawford Joyce Group is Asia's premiere international brand group, representing luxury and fashion brands through a network of distribution, retailing and franchising. The company also acquired a minority stake in Forest Essentials, a privately held Indian company that manufactures, markets and sells beauty products, based on ayurvedic formulations. Estee Lauder introduced new anti-ageing moisturizers, new time zone line and wrinkle reducing moisturizers in 2008. These moisturizers claimed to reduce the appearance of lines and wrinkles and reverse away the years by helping skin behave in a younger way.

In 2009, the company announced 2,000 job cuts as part of its restructuring strategy within the following two years. Estee Lauder also reported 30% down in profit in the second quarter of FY2009 due to the stronger dollar and weak consumer spending. In the same year, Standard & Poor's Ratings Services revised the rating given to company from "stable" to "negative".

Estee Lauder discontinued the global wholesale distribution of its Prescriptives brand in 2010. In the same year, the company launched the Origins brand in China, at the Parkson Department Store

in Shanghai. Also in 2010, Estee Lauder announced the expansion of Coach Beauty globally, with immediate plans to enter North American department stores and specialty retailers, and later in global markets. Earlier, Coach Beauty line was available exclusively in Coach freestanding stores in the US. Further in 2010, the company approved a restructuring initiative that included reformulation of Ojon brand products. Estee Lauder completed the acquisition of Smashbox Beauty Cosmetics during 2010.

In February 2011, a subsidiary of Estee Lauder filed a layoff notice at its Islandia packaging plant resulting in more than 500 layoffs. In March 2011, Unigen entered into an exclusive product license and supply agreement with a subsidiary of Estee Lauder, relating to the development and commercialization of Unigen's proprietary natural ingredients. In the same month, Estee Lauder announced that its Aramis and Designer Fragrances Division will assume the exclusive worldwide license for the fragrance and grooming business of the Ermenegildo Zegna Group, a men's luxury clothing and accessory business, effective July 1, 2011. The new license provides Estee Lauder exclusive global rights to market fragrances under the Ermenegildo Zegna Group's brands and develop new product lines in the grooming segment.

Estee Lauder brand, in April 2011, announced a new collaboration with AERIN LLC, a new luxury lifestyle brand launched by Ms. Aerin Lauder. The Estee Lauder brand will be the exclusive beauty partner to AERIN LLC in launching a beauty line under the AERIN name to be sold at select Estee Lauder counters. In June 2011, Estee Lauder opened Estee Lauder Companies Asia Innovation Center, located in Shanghai, China. The new innovation center would expand the company's existing research capabilities, as well as emphasize its strong commitment to consumers by developing products that meet the specific needs of Chinese and Asian skin.

In September 2011, the company announced that its Aramis and Designer Fragrances Division will assume the exclusive worldwide license for the fragrance business of Marni, a Milan-based luxury fashion company. In the same month, Estee Lauder launched its new official YouTube channel. This channel, Your Source for Expert Beauty Advice (<http://www.youtube.com/esteelauder>) consists of 35 original videos showcasing Creative Makeup Director Tom Pecheux, and global spokesmodels Hilary Rhoda, Constance Jablonski, Liu Wen, Joan Smalls, Carolyn Murphy and Elizabeth Hurley. Through this channel, consumers can view product information, read ratings and reviews, get beauty tips, comment and share.

Aramis and Designer Fragrances and Tory Burch signed a multi-year agreement for the exclusive worldwide license of the Tory Burch fragrance business, in October 2011.

## KEY EMPLOYEES

Name	Job Title	Board	Compensation
Fabrizio Freda	President and Chief Executive Officer	Executive Board	21467044 USD
William P. Lauder	Executive Chairman	Executive Board	8193169 USD
Jane Lauder	Global President, General Manager, Origins and Ojon brands	Executive Board	
Leonard A. Lauder	Chairman Emeritus	Non Executive Board	
Charlene Barshefsky	Director	Non Executive Board	227276 USD
Rose Marie Bravo	Director	Non Executive Board	227276 USD
Wei Sun Christianson	Director	Non Executive Board	19500 USD
Paul J. Fribourg	Director	Non Executive Board	239099 USD
Melody Hobson	Director	Non Executive Board	231276 USD
Irvine O. Hockaday, Jr.	Director	Non Executive Board	256276 USD
Aerin Lauder	Director	Non Executive Board	
Richard D. Parsons	Director	Non Executive Board	250099 USD
Lynn Forester de Rothschild	Director	Non Executive Board	242276 USD
Barry S. Sternlicht	Director	Non Executive Board	227276 USD
Richard F. Zannino	Director	Non Executive Board	231276 USD
John Demsey	Group President	Senior Management	7523703 USD
Cedric Prouve	Group President, International	Senior Management	6900746 USD
Richard W. Kunes	Executive Vice President and Chief Financial Officer	Senior Management	4897639 USD
Amy DiGesio	Executive Vice President, Global Human Resources	Senior Management	
Carl Haney	Executive Vice President, Research and Development, Product Innovation and Brand Product Development	Senior Management	
Ronald S. Lauder	Chairman, Clinique Laboratories	Senior Management	
Sara E. Moss	Executive Vice President and General Counsel	Senior Management	
Gregory F. Polcer	Executive Vice President, Global Supply Chain	Senior Management	
Alexandra C. Trower	Executive Vice President, Global Communications	Senior Management	

## KEY EMPLOYEE BIOGRAPHIES

### **Fabrizio Freda**

Board: Executive Board  
Job Title: President and Chief Executive Officer  
Since: 2009  
Age: 54

Mr. Freda has been the President and Chief Executive Officer at Estee Lauder since 2009. Prior to assuming the role, he was the President and Chief Operating Officer at the company. Before joining Estee Lauder, Mr. Freda was employed with The Procter & Gamble Company (P&G) for 20 years and served as the President, Global Snacks at P&G during 2001–07. He also worked in the Health and Beauty Care division of P&G for a decade. During 1986–88, he worked in the marketing and strategic planning department at Gucci. Mr. Freda has been a Director at Estee Lauder since 2009.

### **William P. Lauder**

Board: Executive Board  
Job Title: Executive Chairman  
Age: 51

Mr. Lauder is the Executive Chairman at Estee Lauder. He was the Chief Executive Officer at the company from 2008 to 2009 and President and Chief Executive Officer from 2004 to 2008. Prior to that, he was the Chief Operating Officer from 2003 to 2004; the Global President responsible for the worldwide business of the Clinique and Origins brands and the company's retail store and online operations from 2001 to 2002; and the President at Clinique Laboratories from 1998 to 2001. Mr. Lauder has been a Director at Estee Lauder since 1996.

### **Jane Lauder**

Board: Executive Board  
Job Title: Global President, General Manager, Origins and Ojon brands  
Since: 2010  
Age: 39

Ms. Lauder has been the Global President, General Manager of the Origins and Ojon brands at Estee Lauder since 2010. From 2008 to 2010, she served as the Senior Vice President/General Manager of the Origins brand. Prior to this, from 2006 to 2008, Ms. Lauder held the position of Senior Vice President, Global Marketing for Clinique. She also served as the Vice President of Marketing for BeautyBank during 2003–06, and as the Vice President of Marketing for the Stila brand from 2001 until 2003. Ms. Lauder has been a Director at Estee Lauder since 2009.

## **Leonard A. Lauder**

Board: Non Executive Board  
Job Title: Chairman Emeritus  
Age: 79

Mr. Lauder is the Chairman Emeritus at Estee Lauder. Prior to this, he served as the Chairman of the Board of Directors at the company from 1995 to 2009, as the Chief Executive Officer from 1982 to 1999, and as the President from 1972 until 1995. Mr. Lauder joined Estee Lauder in 1958.

## **Charlene Barshefsky**

Board: Non Executive Board  
Job Title: Director  
Since: 2001  
Age: 61

Ms. Barshefsky has been a Director at Estee Lauder since 2001. She also serves as Senior International Partner at the law firm of Wilmer Hale. Prior to joining the law firm, Ms. Barshefsky was the US Trade Representative from 1997 to 2001 and Deputy US Trade Representative and Acting US Trade Representative during 1993–97. Currently, she is also a Director at American Express Company, Starwood Hotels & Resorts Worldwide, and Intel.

## **Rose Marie Bravo**

Board: Non Executive Board  
Job Title: Director  
Since: 2003  
Age: 60

Ms. Bravo has been a Director at Estee Lauder since 2003. She serves as a Retail and Marketing Consultant. Ms. Bravo served as the Vice Chairman at Burberry Group from 2006 to 2007. Prior to that, she was the Chief Executive Officer during 1997–2006. Prior to joining Burberry, Ms. Bravo was the President at Saks Fifth Avenue from 1992. Currently, she serves as a Director at Tiffany & Co., Phoenix House Foundation and Williams-Sonoma.

## **Wei Sun Christianson**

Board: Non Executive Board  
Job Title: Director  
Since: 2011  
Age: 55

Ms. Christianson has been a Director at Estee Lauder since 2011. She is a Managing Director and Chief Executive Officer for China at Morgan Stanley based in Beijing. Prior to rejoining Morgan Stanley in 2006, Ms. Christianson was the Chairman of China at Citigroup Global Markets (Asia) Ltd and previously served as the Chairman of China and Country Manager at Credit Suisse First Boston. She was Executive Director and Beijing Representative at Morgan Stanley in 1998.

### **Paul J. Fribourg**

Board: Non Executive Board  
Job Title: Director  
Since: 2006  
Age: 58

Mr. Fribourg has been a Director at Estee Lauder since 2006. He has also been the Chairman and Chief Executive Officer at Continental Grain Company since 1997. Mr. Fribourg joined Continental Grain Company in 1976 and held several positions in both the US and Europe. He is also a Director at Loews Corporation, Burger King Holdings, and Apollo Global Management. Mr. Fribourg is also a member of the JPMorgan National Advisory Board and Rabobank International North American Agribusiness Advisory Board.

### **Melody Hobson**

Board: Non Executive Board  
Job Title: Director  
Since: 2005  
Age: 43

Ms. Hobson has been a Director at Estee Lauder since 2005. She has been the President at Ariel Investments since 2000 and the President and Director of its governing member, Ariel Capital Management Holdings. Ms. Hobson also serves as the President and the Chairman of the Board of Trustees at Ariel Investment Trust. She also serves as a Director at Dreamworks Animation SKG, Starbucks Corporation, and Groupon.

### **Irvine O. Hockaday, Jr.**

Board: Non Executive Board  
Job Title: Director  
Since: 2001  
Age: 75

Mr. Hockaday has been a Director at Estee Lauder since 2001. He is the former President and Chief Executive Officer at Hallmark Cards. Prior to joining Hallmark in 1983, Mr. Hockaday was the President and Chief Executive Officer at Kansas City Southern Industries. He also served as a Director at

Hallmark during 1978–2002. Mr. Hockaday is also a Director at Ford Motor Company and Crown Media Holdings.

### **Aerin Lauder**

Board: Non Executive Board  
Job Title: Director  
Since: 2004  
Age: 42

Ms. Lauder has been a Director at Estee Lauder since 2004. She has been the Creative Director and Chairman at AERIN, a luxury lifestyle brand that she formed in 2011. Ms. Lauder also serves as Style and Image Director for the Estee Lauder brand. Prior to this, from 2004 to 2011, she served as Senior Vice President, Creative Director for the Estee Lauder brand. From 2001 to 2004, Ms. Lauder was the Vice President of Global Advertising for the brand. From 1997 to 2001, she was Executive Director, Creative Marketing, helping to define and enhance the Estee Lauder brand image. From 1995 to 1997, Ms. Lauder served as the Director of Creative Product Development for the Estee Lauder brand. She joined the company in 1992 as a member of the Prescriptives marketing team.

### **Richard D. Parsons**

Board: Non Executive Board  
Job Title: Director  
Since: 1999  
Age: 64

Mr. Parsons has been a Director at Estee Lauder since 1999. He has also been the Chairman of the Board at Citigroup since 2009 and a Senior Advisor to Providence Equity Partners since 2009. From 2003 until his retirement in 2008, Mr. Parsons was the Chairman of the Board at Time Warner. During 2002–07, Mr. Parsons was the Chief Executive Officer at Time Warner and during 2001–02 was Co-Chief Operating Officer at AOL Time Warner. From 1995 until the merger with America On-Line, he was the President at Time Warner. Mr. Parsons also serves as a Director at Madison Square Garden.

### **Lynn Forester de Rothschild**

Board: Non Executive Board  
Job Title: Director  
Since: 2000  
Age: 58

Lady de Rothschild has been a Director at Estee Lauder since 2000. She has been the Chief Executive at E.L. Rothschild since 2002. From 2004 to 2007, Lady de Rothschild was the Co-Chairman at

FieldFresh, a joint venture with Bharti Enterprises to develop Indian Agriculture. From 1989 until 2002, she served as the President and Chief Executive Officer at FirstMark Holdings.

### **Barry S. Sternlicht**

Board: Non Executive Board  
Job Title: Director  
Since: 2004  
Age: 51

Mr. Sternlicht has been a Director at Estee Lauder since 2004. He serves as the Chairman and Chief Executive Officer at Starwood Capital Group. Mr. Sternlicht has also been the Chairman and Chief Executive Officer at Starwood Property Trust since 2009. Prior to this, he was the Executive Chairman at Starwood Hotels & Resorts Worldwide from 2004 until 2005, and its Chairman and Chief Executive Officer from 1995 until 2004. Mr. Sternlicht is Chairman of the Board at Societe du Louvre and Baccarat and serves on the Boards at Riviera Holdings Corporation, National Golf, Ellen Tracy, Field & Stream, Granahan McCourt Acquisition Corporation, the Pension Real Estate Association, the National Advisory Board of JPMorgan Chase, the International Advisory Board of EuroHypo Bank, and Starwood Capital Group affiliates.

### **Richard F. Zannino**

Board: Non Executive Board  
Job Title: Director  
Since: 2010  
Age: 53

Mr. Zannino has been a Director at Estee Lauder since 2010. He has been a Managing Director of the private equity firm CCMP Capital Advisors since 2009. Prior to joining CCMP Capital, Mr. Zannino was an independent retail and media advisor from 2008 to 2009. He was also the Chief Executive Officer and member of the Board of Directors at Dow Jones & Company during 2006–08. Mr. Zannino joined Dow Jones in 2001 as Executive Vice President and Chief Financial Officer and in 2002 assumed the role of Chief Operating Officer. During 1998–2001, he was Executive Vice President at Liz Claiborne and during 1993–98 was employed by Saks Fifth Avenue. Mr. Zannino also serves as a Director at IAC/InterActiveCorp. and Francesca's Holdings Corporation.

### **John Demsey**

Board: Senior Management  
Job Title: Group President  
Since: 2006  
Age: 55

Mr. Demsey has been the Group President at Estee Lauder since 2006. In this role, he is responsible for the Estee Lauder, MAC, Prescriptives, Smashbox, Tom Ford Beauty, Bobbi Brown, Jo Malone and La Mer brands. Previously, Mr. Demsey served as the Global Brand President of Estee Lauder and MAC brands during 2005–06, and as the President of MAC during 1998–2005. He held several positions within the company in its headquarters, as well as in the field from 1991 to 1998, including that of Senior Vice President, Sales and Education, Estee Lauder US and Canada; and Vice President, Sales for the West Coast region.

### **Cedric Prouve**

Board: Senior Management  
Job Title: Group President, International  
Since: 2003  
Age: 51

Mr. Prouve has been the Group President, International at Estee Lauder since 2003. Previously, he was President and General Manager of the company's Japanese sales affiliate during 2000–02. From 1997 to 2000, Mr. Prouve served as the Vice President and General Manager of Travel Retailing Worldwide. He joined Estee Lauder in 1994 as General Manager of Travel Retailing for Asia/Pacific Region. Prior to joining the company, Mr. Prouve spent nine years at L'Oreal in sales and management positions.

### **Richard W. Kunes**

Board: Senior Management  
Job Title: Executive Vice President and Chief Financial Officer  
Since: 2004  
Age: 58

Mr. Kunes has been an Executive Vice President and the Chief Financial Officer at Estee Lauder since 2004. He also serves as the Chairman of Fiduciary Investment Committee of the company. Prior to this, Mr. Kunes was Senior Vice President and the Chief Financial Officer from 2000. During 1998–2000, he was the Vice President, Financial Administration and Corporate Controller at Estee Lauder, and served as the Vice President, Operations Finance Worldwide from 1993.

### **Amy DiGesio**

Board: Senior Management  
Job Title: Executive Vice President, Global Human Resources  
Since: 2006  
Age: 59

Ms. DiGesio has been the Executive Vice President of Global Human Resources at Estee Lauder since 2006. She rejoined the company in 2005 and served as the Senior Vice President of Human

Resources until 2006. From 2001 to 2003, Ms. DiGeso served as Senior Partner of Global Human Resource in charge of the Human Resources Department at PriceWaterhouseCoopers. From 1999 to 2001, she was the President of the Popular Club Plan, a direct sales subsidiary of Federated Department Stores, and from 1992 to 1998 she served in various executive capacities at Mary Kay.

## **Carl Haney**

Board: Senior Management  
Job Title: Executive Vice President, Research and Development, Product Innovation and Brand Product Development  
Since: 2012

Mr. Haney has been the Executive Vice President of Research and Development, Product Innovation, and Brand Product Development at Estee Lauder since January 2012. Prior to this, he served at Procter & Gamble for more than 20 years, most recently as the Vice President of R&D, Male Grooming, Gillette, Braun and Devices.

## **Ronald S. Lauder**

Board: Senior Management  
Job Title: Chairman, Clinique Laboratories  
Since: 1987  
Age: 67

Mr. Lauder has been the Chairman at Clinique Laboratories, a subsidiary of Estee Lauder, since 1987. He was the Chairman of Estee Lauder International from 1987 to 2002. Mr. Lauder was a member of the Board of Directors at the company from 1968 to 1986 and again from 1988 to 2009. He joined Estee Lauder in 1964 and served in various capacities. From 1983 to 1986, Mr. Lauder served as Deputy Assistant Secretary of Defense for European and NATO Affairs. From 1986 to 1987, he was US Ambassador to Austria.

## **Sara E. Moss**

Board: Senior Management  
Job Title: Executive Vice President and General Counsel  
Age: 64

Ms. Moss is Executive Vice President and General Counsel at Estee Lauder. She joined the company as Senior Vice President, General Counsel and Secretary in 2003. Before joining Estee Lauder, Ms. Moss held the position of Senior Vice President and General Counsel at Pitney Bowes from 1996 to 2003. She also served as Senior Litigation Partner for Howard, Smith & Levin (now Covington & Burling) in New York from 1984 to 1996.

## **Gregory F. Polcer**

## **The Estee Lauder Companies Inc.**

Key Employee Biographies



Board: Senior Management

Job Title: Executive Vice President, Global Supply Chain

Since: 2008

Age: 56

Mr. Polcer has been the Executive Vice President of Global Supply Chain at Estee Lauder since 2008. He worked for Unilever from 1988 to 2008. Most recently, from 2006 to 2008, Mr. Polcer served as the Senior Vice President, Supply Chain for Unilever where he integrated the North and Latin American Supply Chains. He served as the Senior Vice President, Supply Chain - North America from 2005 to 2006 and the Senior Vice President, Supply Chain, Home and Personal Care - North America from 2002 to 2004.

### **Alexandra C. Trower**

Board: Senior Management

Job Title: Executive Vice President, Global Communications

Since: 2008

Age: 47

Ms. Trower has been the Executive Vice President of Global Communications at Estee Lauder since 2008. Before joining Estee Lauder, she served as the Senior Vice President of Media Relations at Bank of America from 2004 to 2008. During 1997–2002, Ms. Trower worked at JPMorgan Chase, where she was responsible for corporate communications at JPMorgan Fleming Asset Management. Ms. Trower serves on the Board of Directors at Hollins University.

## MAJOR PRODUCTS AND SERVICES

Estee Lauder is a globally recognized manufacturer and marketer of makeup, skin care, fragrances and hair care products. The company's key products include the following:

### Products:

#### Skin care:

- Moisturizers
- Creams
- Lotions
- Serums
- Cleansers
- Sun screens
- Self-tanning products

#### Makeup:

- Lipsticks
- Lip glosses
- Mascaras
- Foundations
- Eyeshadows
- Nail polishes
- Powders
- Compacts
- Brushes
- Other makeup tools

#### Fragrance:

- Eau de parfum sprays
- Colognes
- Lotions
- Powders
- Creams
- Soaps

#### Hair care:

- Shampoos
- Conditioners
- Styling gels

Hair coloring products  
Hairsprays

Brands

Own brands:

Estee Lauder  
Aramis  
Clinique  
Prescriptives  
Lab Series  
Origins  
MAC  
Bobbi Brown  
La Mer  
Aveda  
Jo Malone  
Bumble and Bumble  
Darphin  
Ojon  
American Beauty  
Flirt!  
GoodSkin  
Smashbox

Licensee brands:

Tommy Hilfiger  
Donna Karan New York  
DKNY  
Kiton  
Michael Kors  
Sean John  
Missoni  
Daisy Fuentes  
Tom Ford  
Coach  
Dr. Andrew Weil  
Ermenegildo Zegna

## REVENUE ANALYSIS

### Overview

The company recorded revenues of \$8,810 million in FY2011, an increase of 13% over FY2010. For FY2011, the Americas, the company's largest geographic market, accounted for 43.1% of the total revenues.

Estee Lauder operates through a single business segment: beauty products. However, the company has classified its revenues based on five product categories: skin care (42.2%\* of the total revenues in FY2011), makeup (38.2%), fragrance (14%), hair care (4.9%) and other (0.6%).

### Revenues by product category\*\*

During FY2011, the skin care product category recorded revenues of \$3,718.6 million, an increase of 15.2% over FY2010.

The makeup product category recorded revenues of \$3,370.8 million in FY2011, an increase of 13.2% over FY2010.

The fragrance product category recorded revenues of \$1,236 million in FY2011, an increase of 8.7% over FY2010.

The hair care product category recorded revenues of \$432.3 million in FY2011, an increase of 4.4% over FY2010.

The other product category recorded revenues of \$56.9 million in FY2011, an increase of 2.7% over FY2010.

### Revenues by geography\*\*

The Americas, Estee Lauder's largest geographical market, accounted for 43.1%\* of the total revenues in FY2011. Revenues from the Americas reached \$3,796.3 million in FY2011, an increase of 10.3% over FY2010.

Europe, the Middle East and Africa accounted for 37% of the total revenues in FY2011. Revenues from Europe, the Middle East and Africa reached \$3,257.6 million in FY2011, an increase of 13.9% over FY2010.

Asia/Pacific accounted for 20% of the total revenues in FY2011. Revenues from Asia/Pacific reached \$1,760.7 million in FY2011, an increase of 16.6% over FY2010.

\*Percentages are rounded off.

\*\*The sum of revenues by product category and by geography differs from the total revenues as returns associated with restructuring activities are not included.

## SWOT ANALYSIS

Estee Lauder is a globally recognized manufacturer and marketer of makeup, skin care, fragrances and hair care products. The company's wide geographical presence reduces the business risk due to diversified revenue stream and enables participation in fast growing developing markets. However, intense competition in the beauty market may adversely affect the company's market share.

<b>Strengths</b>	<b>Weaknesses</b>
<p>Large geographical footprint diversifies revenue stream</p> <p>Strong brand portfolio well positioned to participate in the revival of consumer spending</p> <p>In-house research and development facilitates high consumer acceptance and quick market penetration</p> <p>Strategic modernization initiative program</p>	<p>Limited distribution strategy increases dependency on specific channels</p>
<b>Opportunities</b>	<b>Threats</b>
<p>Positive outlook for the cosmetics market in China</p> <p>Growing popularity of online retail channel and social networking media offers growth opportunities</p> <p>Retail environment in emerging economies provides strong growth potential</p> <p>Men's personal care products segment offers fast growing and large potential market</p>	<p>Highly competitive market</p> <p>Increase in the counterfeit products may hurt the brand image</p> <p>Increasing labor cost in the US and Europe</p>

### Strengths

Large geographical footprint diversifies revenue stream

Estee Lauder has presence across several countries in the world. The company operates in over 150 countries through various modes including direct presence, majority owned joint ventures, and distribution agreements with local players. Estee Lauder derives a considerable amount of revenues from developed countries such as the US and Western Europe. Additionally, the company also established itself strongly in emerging markets of Asia Pacific, Russia and Africa. Diversified business

presence reduces the business risk of the company. In FY2011, revenues from the Americas increased by 10.3%. This increase was attributable to growth in the US and Canada from the company's own and makeup artist brands, driven by improved retail market, new skin care and makeup product offerings and an increase in sales of higher-end prestige skin care products. In addition, the increase in net sales was due to addition of Smashbox brand to the company's portfolio. Revenues from Europe, the Middle East and Africa increased by 13.9% in FY2011 due to growth in the company's travel retail business, growth from countries such as the UK, Russia, the Middle East, South Africa and France; and growth from each product category. This was driven by improved retail market, launches of skin care products, as well as higher combined sales from the company's makeup artist brands. Revenues from Asia/Pacific increased by 16.6% in FY2011 over FY2010 due to growth from all countries in the region and each product category.

Further in the third quarter of FY2012, the revenues from the Americas grew by 5%. This was mainly due to strong growth in the US, which benefited from attractive new product offerings from the company. Revenues from Europe, the Middle East and Africa grew by 4% during the third quarter of FY2012. This was attributable to increase in most countries in the region and in each product category. Revenues from Asia/Pacific grew by 2%, driven by strong growths in China, Hong Kong and Taiwan, primarily reflecting strong sales of skin care and makeup products.

The diversified global presence of Estee Lauder ensures multiple revenue points for a single innovation as the business model ensures replication of processes and practices. The company is well positioned to take advantage of the large volume markets in the advanced economies as well as high growth rates in the emerging markets.

Strong brand portfolio well positioned to participate in the revival of consumer spending

Estee Lauder's brands include several globally well known brands. The company has a strong brand portfolio; its brands include Estee Lauder, Aramis, Clinique, Origins, Lab Series, Prescriptives, MAC, Bobbi Brown, La Mer, Aveda, Jo Malone, Bumble and Bumble, Darphin, Ojon, American Beauty, Flirt!, GoodSkin, and Smashbox. Apart from developing its own brands, Estee Lauder also licenses several well known brands and offers its products under these brand names. The licensed brands include popular brands like Tommy Hilfiger, Donna Karan, Michael Kors, Sean John and Coach. The company's brands enjoy global recognition. For instance, Estee Lauder brand was ranked eighth in the top 50 cosmetics brands 2012 by an industry source. Further, MAC and Clinique brands were ranked 27th and 37th in the top 50 cosmetics brands 2012.

In a survey conducted by a brand and customer loyalty and engagement consultancy, for 2011, Estee Lauder and Clinique were named as brands that enjoy the highest loyalty and engagement among the luxury cosmetics products and luxury facial moisturizing products categories. In the same survey, Aveda has been ranked in the hair conditioners category. This index surveys the attributes relating to "brand" and the degree to which brands affect customer decision-making. Brands offer strong differentiation opportunities for a company and robust brand equity is a competitive advantage. Although, the consumer spending is cautious and the customers are trading down, Estee Lauder with its brand equity is well positioned to drive sales for its products as and when the markets recover.

In-house research and development facilitates high consumer acceptance and quick market penetration

Estee Lauder has been focusing on building its strength in research and development (R&D) in the last few years. The company's R&D expenditure totaled \$85.7 million in FY2011. The R&D expenditure was \$79.5 million in FY2010, \$81.6 million in FY2009 and \$80.9 million in FY2008. With 550 employees in its principal R&D facilities (Melville, New York; Oevel, Belgium; Markham, Ontario; Blaine, Minnesota; and Shanghai, China), the company is focused on creating products that cater to consumers in specific markets and regions, based on their cultural preferences, skin tones and beauty habits. Furthermore, Estee Lauder intends to identify and create more products that it can customize for its international beauty clientele, and then spread them out around the globe. The company established regional Innovation Centers in Asia and Europe to complement the team in North America. These regional teams are expected to work closely with the existing R&D laboratories to create regionally relevant products and packaging to meet the demanding expectations of consumers in these markets. In addition to these, the company also has long standing working agreements with several US and international medical and educational facilities to supplement its research.

Through such strong R&D capabilities, Estee Lauder was able to develop popular products successfully. For instance, American Beauty's Beloved fragrance won a FIFI fragrance of the year award in 2009. Clinique's redness solutions Instant Relief Mineral Powder became one of the top 10 treatments in the skin care category in the US department stores in FY2009. Furthermore, Grassroots Research Labs' Vitamin C Power Brightening Cream SPF 25, a hydrating cream that brightens the skin and evens out skin tone that was exclusively launched at Kohl's Department Stores, ranked among the top five skin care products at the retailer.

During FY2011, the company has launched breakthrough products, including Estee Lauder's Advanced Night Repair Synchronized Recovery Eye Complex, Clinique's Repairwear Laser Focus, Origins' Plantscription, and La Mer's The Radiant Serum. All of these products contributed significantly to the company's growth. During FY2011, the Repairwear Laser Focus Wrinkle & UV Damage Corrector from Clinique and the Plantscription line of products from Origins contributed approximately \$88 million of the total net sales of skin care product category.

In house R&D facilitates quick response to any shift in customer preference which is a competitive advantage. In addition, product development backed by strong research will enable quick market penetration and customer acceptance of new products.

#### Strategic modernization initiative program

As part of long term efforts to enhance information systems and increase productivity, Estee Lauder is implementing Strategic Modernization Initiative (SMI). This initiative includes an enterprise-wide global program that will deliver a single set of integrated data, processes and technologies, which, in turn, would be scalable and used to standardize business processes across brands, operating units and sales locations. The objective of this initiative is to streamline Estee Lauder's operations, create transparency, and renew all facets of the company's business. This initiative was first deployed

in the company's North American and UK manufacturing facilities and created the North American financial foundation. During 2010–12, this initiative was deployed globally, adding affiliates and brands to existing facilities. Currently, more than 60% of the company's sales are SMI-enabled, this includes majority of the company's global brands and more than half of its affiliate sales volume. As a result of this SMI program, Estee Lauder improved its productivity in Korea; customer ordering improved by four times; labeling is now nearly 30% more efficient; and picking accuracy improved from 97% to 98.6%. At Smashbox, the time it takes from receiving retail order until delivery decreased from 10 days or more to six days.

The multiyear investment in SMI includes installing new systems and software. Estee Lauder focuses on three significant areas under SMI program. These include people, who are expected to adapt to new ways of working; processes, leading to new systems and capabilities that focus on speed and agility; and technology, including new SAP software to automate processes, improve transparency and gain efficiencies. The areas of business using SMI processes and SAP technology include the company's manufacturing facilities in North America and the UK, as well as 15 affiliates including Italy, Spain, Germany, Singapore, Korea, Australia and Thailand. Further in January 2012, 13 sites began using SMI processes and SAP technology, including eight affiliates, two global brands, Bumble and bumble and Smashbox, some third-party manufacturing, as well as key account planning for North America. Further, as part of SMI, the company intends to migrate majority of its operations to SAP through FY2013.

Therefore, SMI program will enable the company to improve service levels, enhance operating efficiencies, improve inventory management, as well as provides a leaner supply chain.

## **Weaknesses**

Limited distribution strategy increases dependency on specific channels

Estee Lauder distributes its products through limited prestige department stores, free standing retail stores and prestige salons and spas. For instance, the company's Bobbi Brown line of cosmetics which includes color cosmetics, skin care, professional makeup brushes and tools, accessories and fragrances are sold through a limited number of department and specialty stores. Estee Lauder's limited distribution strategy is a competitive disadvantage especially as the company competes with several value products. This limits Estee Lauder's reach to the consumers. Additionally, the limited distribution strategy has led to high reliance on certain department stores. For instance, Macy's accounted for 11% of Estee Lauder's consolidated sales for FY2011 and 10% of its account receivables as of FY2011. The company's sales could be affected adversely with any adverse change in Macy's customer base. This increases the business risk for Estee Lauder as it has very limited control over the practices and processes of Macy's retail customers.

## **Opportunities**

#### Positive outlook for the cosmetics market in China

The cosmetics market in China has been growing at a fast pace over a period of time. According to National Bureau of Statistics, the retail sales of cosmetics in China totaled CNY110.3 billion (\$17 billion) in 2011, an increase of 18.7% over 2010. In the first five months of 2012, the retail sales of cosmetics in China reached CNY53.1 billion (8.2 billion), an increase of 16.5% over the first five months of 2011. Further, the overall prestige beauty (skincare, makeup, and fragrance products sold mainly in department stores and Sephora stores in the top 10 cities in the mainland of China) industry in China grew by 21% in 2011 over 2010 according to industry experts. The skincare and makeup product categories grew by 23% and 17%, respectively, during the same period. The increase in the middle class population and disposable income, the influence of the western culture and aggressive marketing strategies by companies are all expected to drive the growth.

The company has been focusing on expanding its presence in the cosmetics segment in China as it is one of the fastest-growing beauty markets in the world. In China, the company's sales grew by nearly 14% in the third quarter of FY2012. With its strong focus on improving its market share in China, Estee Lauder stands well positioned to capture the growth potential of China.

#### Growing popularity of online retail channel and social networking media offers growth opportunities

Online channel has been growing in popularity as the most preferred channel for several customers. This has increased the sales from the channel making it an attractive means for retailers to drive top line growth. According to Office for National Statistics, non-seasonally adjusted average weekly value for internet retail sales in the UK was £420.3 million (\$672.1 million) in March 2011, this increased to £484 million (\$774 million) in March 2012, representing an increase of 15.2%. Internet sales accounted for 8.5% of the total retail sales (excluding fuel) in March 2012. Furthermore, online sales could get a boost as the internet provides a platform for price comparisons for consumers as VAT increases further. Similarly, the online retail sales in the US have been growing over a period of time. According to the US Department of Commerce, online retail sales in the US increased from \$144.6 billion in 2009 to \$193.7 billion in 2011, an increase of 15.7%. Further, in 2011, e-commerce accounted for 4.7% of the total retail sales in the US. In the first quarter of 2012, the online retail sales reached \$53.2 billion, an increase of 3.1% from the fourth quarter of 2011. The online shopping activity is also increasingly becoming popular in China. According to industry estimates, the e-commerce market in China grew by more than 100% in 2011.

Internet retail has several counter recessionary characteristics like low operational costs which can be passed on to the customers. Additionally, more and more customers are opting for online shopping because of the convenience factor. In line with this, Estee Lauder offers its products through online channel, which has gained popularity in the recent times. The company has increased its online presence and launched The Bumble and bumble brand's first e-commerce site. Furthermore, Estee Lauder and Clinique launched websites in China and MAC launched a website in Korea. In April 2011, Ojon brand launched a new interactive ecommerce website. The e-commerce sales of the company grew at a CAGR of 30% during 2007–11, despite recession as many of the company's brands launched comprehensive social networking and online campaigns. Such initiatives will help the company leverage the growing online retail market to drive the top line growth.

In addition to these, Estee Lauder has been focusing on adding to its customer base through social networking. It has launched several marketing initiatives in the realm of social media and many of its brands increased capabilities to attract new consumers and keep existing ones up to date on their latest news through sites like Twitter, Facebook and YouTube. Currently, the company's brands have 67 facebook pages across 27 countries with more than 5 million fans. According to industry sources, one fifth of the world's population is expected to use social networks in the current year increasing by nearly 19% over 2011. The company also has m-commerce presence. Clinique's "Forecast" mobile application provides weather information geo-targeted to a consumer's location. This application available in six languages provides skin care tips related to weather conditions with a built-in store finder.

The company has remarkably expanded and improved its online capabilities by leveraging facebook, iPads, twitter and blogosphere. It intends to continue investment in digital social media. Estee Lauder is well positioned to leverage on the growing e-commerce market across the globe and is able to effectively use the online marketing options to further increase the customer base.

#### Retail environment in emerging economies provides strong growth potential

Emerging economies in the world have been recording strong growth and positive trends in the retail environment. Asia's retail sales are estimated to increase with China and India driving the growth. According to industry experts, China's retail sales are estimated to increase from approximately CNY20 trillion (\$3 trillion) in 2012 to approximately CNY26 trillion (\$4 trillion) in 2016, representing an increase of around 30%. Key factors that contribute to the retail market expansion in China include positive economic trends, rising population, and increasing wealth of individuals. Korea's economy is correlated to China and as the economy grows, the retail market in the country is also estimated to record strong growth. The Indian retail industry is the fifth largest in the world and is expected to grow further. According to the industry sources, India's retail market is expected to grow at a CAGR of 7% over the next 10 years, to reach a value of \$850 billion by 2020. Rising population, increasing wealth of individuals, and increased construction of organized retail infrastructure are key factors behind the forecast growth. The retail sector in the UAE is also poised for growth in the coming years. Industry experts estimate the retail sales in the UAE to grow from an estimated \$31 billion in 2011 to \$41.2 billion by 2015. The key factors that contribute to this growth include strong underlying economic growth, increasing household consumption, growing preference of modern retailing concepts and increasing wealth.

Additionally, the luxury market in emerging economies is expected to experience robust growth. While developed economies are estimated to record flat or no growth in the luxury segment, Asia is estimated to record high growth in the coming years driven by China, which is the fastest growing market for luxury products in the world. According to industry estimates, the Chinese luxury market has been growing at annual rates ranging from 25–30% of the world market. According to industry estimates, China would become the world's most powerful luxury consumer purchasing country. Growing high net worth individuals (HNWI) concentration in emerging countries is estimated to drive the sales of luxury goods. The number of high net worth individuals in Asia Pacific is estimated to surpass that in North America by 2013, as per the recent industry estimates. These factors are estimated to improve the demand for luxury goods.

The retail market in the emerging economies buoyed by the consumer spending and specifically increased demand for luxury goods provides Estee Lauder immense opportunities to drive sales growth in these economies. The revenues from the company's business in the Asia-Pacific region increased 16.6% in FY2011. Estee Lauder aims to increase sales from international markets; the emerging economies provide an opportunity to the company to increase its revenues.

Men's personal care products segment offers fast growing and large potential market

The male grooming market has been growing at a faster pace compared to the overall beauty or grooming retail markets in many countries of the world. According to industry estimates, the male grooming market globally increased by more than 7% from 2009 to 2010, to reach a value of \$29.5 billion. The global market for male-specific grooming products is estimated to exceed \$33 billion by 2015. Toiletries (bath and shower products, hair care products, skin care products, and deodorants) is the fastest growing product category in the men's grooming market. As per MarketLine report (a unit of Informa plc), the global male toiletries market grew by 4.2% in 2010 to reach a value of \$20.4 billion. By 2015, this market is estimated to reach a value of \$24.7 billion, an increase of 21.4% since 2010.

Men are spending more on grooming and the factors that contributed to the growth are the rise of middle-class sectors, the enhanced connectivity of even the poorest corners of the world through internet, and marketers' more sophisticated appeals to men. The market for men's grooming is not tapped to the potential in the US and Canada, BRIC (Brazil, Russia, India, and China) France, Germany, Italy, Japan, Spain, and other countries and regions. Estee Lauder offers several products targeting men and the Lab series is a skincare product line offered exclusively for men. Additionally, the company also offers several fragrances, hair care and other products across several brands for men.

Asia-Pacific is among the fastest growing markets for men's grooming products. The company is expanding its presence in the men's personal care products segment in the region. Estee Lauder, in 2011, announced that its Aramis and Designer Fragrances Division acquired the exclusive worldwide license for the fragrance and grooming business of the Ermenegildo Zegna Group, a men's luxury clothing and accessory business. The new license provided Estee Lauder exclusive global rights to market fragrances under the Ermenegildo Zegna Group's brands and develop new product lines in the grooming segment. This agreement expands the company's presence in priority luxury markets, particularly in Asia with a focus on high potential growth in China and travel retail. The agreement also provides it with an opportunity to further strengthen its portfolio in the men's business across fragrance and skin care. Men's personal care segment is expected to outpace the overall beauty products segment and provides Estee Lauder to drive sales by effectively targeting this low penetrated market.

## **Threats**

Highly competitive market

Estee Lauder operates in a highly competitive market. The company faces strong competition from established international as well as regional and local players. The competitors of the company include L'Oreal, Shiseido Company, LVMH Moet Hennessey Louis Vuitton, Coty, Procter & Gamble, and Avon Products. Estee Lauder also faces competition from independent brands and some retailers that have developed their own beauty brands. Some of these competitors have greater resources than Estee Lauder and may be able to respond quickly to the changing economic environmental needs. Brand recognition, quality, performance and price are factors on basis of which the companies compete. For instance, in July 2011, the company increased the price of its brands in China by an average of 8% to 10% due to increased costs of commodities used to manufacture these products, as well as due to price increases by its competitors. Such price increases could affect the sales of the company as customers buying decisions change. Other factors such as advertising, promotion, merchandising, the pace and timing of new product introductions, and line extensions also impact consumers' buying decisions. In particular, the fragrance product line in the US has been influenced by the high volume of new product launches by diverse companies across different distribution channels.

Furthermore, the trend toward consolidation in the retail trade in developed markets such as the US and Western Europe, has made the company increasingly dependent on key retailers, including large-format retailers. This affects the company's bargaining power and has added to its risk related to the concentration of customers. Therefore, increasing competition could adversely affect the company's market share.

Increase in the counterfeit products may hurt the brand image

The counterfeit products market has been growing in the recent years driven by the internet counterfeit market. The abundance of counterfeit goods and accessories is adversely affecting the sales of branded products. With the advent of digital channels there has been a surge in the sale of counterfeit products. The spread of counterfeit goods has become global and the range of goods subject to infringement has increased significantly.

According to the Intellectual Property Rights (IPR) Seizure Statistics by Customs and Border Protection (CBP) Office of International Trade, the number of IPR seizures in 2011 increased by 24% to 24,792 in 2011 from 19,959 in 2010. Counterfeit trade in perfume/cologne and health/personal care accounted for 15% and 7%, respectively, of the entire counterfeit trade in the US in 2011. There have been several instances in the past when counterfeits of Estee Lauder's products were seized. In November 2009, the US Immigration and Customs Enforcement (ICE) agents seized more than 17,000 counterfeit items worth an estimated \$643,000 from 21 businesses in the Minneapolis-Saint Paul twin cities region in the US and the consignment included 3,524 bottles of perfume. Estee Lauder's brands were among the seized counterfeit products. During the holiday shopping season at the end of 2010, more than 5,000 fake products, including phony Estee Lauder and MAC cosmetics, were seized at a flea market in Springfield, New Jersey. Further, in 2011, five parcels containing counterfeit MAC/Estee Lauder make-up brushes worth an estimated retail price of \$112,500 were confiscated at Los Angeles International Airport.

Similarly in Europe, the market for counterfeit products is increasing significantly. In 2007, the customs office at Berlin Airport retained a shipment consisting of counterfeit perfumes which were being transported to Moscow by a German transport company. Estee Lauder Companies GmbH requested the transport company to refrain from transporting the products to Russia and to surrender them for the purpose of destruction. When the transport company failed to comply with it, Estee Lauder initiated legal action against it claiming that the products would infringe its trademark rights both in Germany and in Russia.

Personal care product category is considered among the categories that recorded the highest increases in terms of actual cases of IPR infringement that were registered. Low quality counterfeits reduce consumer confidence in branded products. Also, what differentiates the offerings of companies such as Estee Lauder from its competitors is exclusivity; widespread counterfeits reduce this exclusivity. Counterfeits not only deprive revenues for the company but also dilute its brand image.

#### Increasing labor cost in the US and Europe

In recent years, labor costs have been rising in the US and Europe. The tight labor markets increased overtime, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs. The federal minimum wage rate in the US, which remained at \$5.15 per hour since 1998, increased to \$5.85 per hour in 2008. Further, it increased to \$6.55 per hour in 2009 and to \$7.25 per hour in 2010. Additionally, many states and municipalities in the country have minimum wage rate higher than the federal minimum wage rate due to higher cost of living. Similarly, in Europe, the hourly labor costs in the EA17 zone increased by 2.8% in the fourth quarter of 2011 compared with 1.7% in the fourth quarter of 2010. In comparison, in EU27 zone, the hourly labor costs increased by 2.7% in the fourth quarter of 2011 compared with 1.9% in the fourth quarter of 2010. The increase in labor costs in its key markets could affect Estee Lauder's margins.

## **TOP COMPETITORS**

The following companies are the major competitors of The Estee Lauder Companies Inc.

Beiersdorf AG  
Coty Inc  
Limited Brands  
Unilever  
Revlon, Inc.  
Avon Products, Inc.  
Johnson & Johnson  
Shiseido Company, Limited  
LVMH Moet Hennessy Louis Vuitton SA  
Procter & Gamble Company, The  
L'Oreal S.A.  
Elizabeth Arden, Inc.  
Inter Parfums, Inc.  
Mary Kay Inc.

## COMPANY VIEW

A statement by Fabrizio Freda, the President and Chief Executive Officer at Estee Lauder, is given below. The statement has been taken from the company's Annual Report for FY2011.

Dear Fellow Stockholders,

I am pleased to report that fiscal 2011 was another outstanding year for The Estée Lauder Companies. Driven by fantastic momentum across our brands, regions and product categories, we made significant progress against our strategic goals, outperformed the global prestige beauty industry and set many financial records for our Company. Today, we are more than two years into our strategy and by virtually all measures have made tremendous strides. As a result of our success, we are extending our strategy for another year, through fiscal 2014, with even more ambitious goals.

We experienced many outstanding achievements during the past year. First, we grew sales by 13 percent—three times the growth of global prestige beauty. Additionally, we saw double-digit sales increases across our largest product categories of skin care and makeup, as well as in our geographic regions. We had our best year in North America in a decade, achieved prestige beauty leadership in China and became the leader in skin care in travel retail, the fastest-growing category in one of the fastest-growing prestige beauty channels. It is clear our strategy is working, we are executing with excellence and we remain focused on our vision—to be the global leader in prestige beauty: a brand-building powerhouse of unrivaled creativity and innovation.

Fiscal 2011 milestones\* include:

- Record net sales of \$8.8 billion
- Record gross margin of 78.1%
- Operating margin of 13.0%
- Record net earnings of \$743 million
- Record earnings per share of \$3.69
- Record cash flow from operations of more than \$1 billion

Our strategic journey began in 2009. Since that time, we have stepped forward with confidence and better aligned our organization and infrastructure to support our new corporate strategy. In the process, we reduced non-value-added costs and imposed new financial discipline across the Company. At the same time, we developed the necessary capabilities to improve our competitiveness

and, today, we are better positioned to manage our business more effectively and allocate our resources to the most promising opportunities.

The qualities that have been central to The Estée Lauder Companies since our beginning shape who we are and inspire us to deliver uncompromising quality and unparalleled service to our consumers.

In fiscal 2011, we updated our strategy to prioritize those opportunities with the biggest potential and, as a result, increased our share in several key product categories and geographic regions. For example, we saw the luxury sector recover significantly and prestige beauty gain against mass in many important countries and categories. Our continued commitment to providing prestige product and service innovations has been paying off.

We recognize that in order to be a truly global company we need to be even more locally relevant. This year, we grew our capabilities to innovate closer to where our consumers live and shop, especially in emerging markets. We opened a larger research and development facility in Shanghai to help us develop breakthrough technologies and products based on the preferences of Chinese consumers. We also expanded our distribution in the most locally relevant channels within each of our geographies. In Brazil, for instance, M.A.C expanded its distribution by increasing the number of its freestanding stores.

We enhanced our capabilities within the digital space to take advantage of this increasingly important communications area. One of the ways we did this was by leveraging game-changing technologies, such as mobile applications and social media platforms, to allow our brands to connect with consumers in new and interactive ways. Since the digital universe is fundamentally changing how consumers research and buy beauty products, we will continue investing in ways to evolve our digital capabilities.

Another exciting opportunity is the travel retail channel, where in fiscal 2011 we were one of the fastest-growing beauty companies. As airports continue to become more vibrant shopping destinations, we are creating innovative new products and services that will help us fully leverage this important channel. However, we recognize the potential volatility and risks associated with the travel retail business, which can change in an instant due to events beyond our control, so we will manage our expectations accordingly.

By staying focused and disciplined, we will continue moving forward on the path toward a very promising future.

The qualities that have been central to The Estée Lauder Companies since our beginning shape who we are and inspire us to deliver uncompromising quality and unparalleled service to our consumers. One such strength is our innate creativity. Today, we are focusing on fewer, but more impactful product launches. We are supporting these launches with an effective mix of pull-push marketing efforts, combining television, print and digital activities to attract consumers to our counters, stores and websites and then treating them with our High-Touch services. This year, we utilized our improved marketing techniques to support several of our breakthrough product launches— Estée Lauder's Advanced Night Repair Synchronized Recovery Eye Complex, Clinique's Repairwear Laser

Focus, Origins' Plantscription and La Mer's The Radiant Serum—all of which benefited and contributed significantly to our growth.

Our outstanding results this year reinforce that our strategy is working. I want to express my sincerest thanks to our Board of Directors for its sage guidance and ongoing support. I also extend my appreciation to our retailers, consumers and you, our stockholders, for your partnership and passion for our products and unique High-Touch service approach.

Naturally, strong results are only possible when outstanding people unite and deliver their best—together. I want to express my sincerest thanks to William Lauder and Leonard Lauder for their partnership and guidance, and for building a Company of such great people. I am also honored to have at the helm of our Company, alongside the Lauder family, a talented management team whose strategic focus and discipline has been crucial to our success. Their efforts on a day-to-day basis have kept our global workforce motivated and on course. I extend my deep appreciation to our employees around the globe, as they are truly what make our Company extraordinary.

As we start fiscal 2012, there is a significant amount of economic uncertainty in many parts of the world. Recent volatility may make it harder to predict both the full recovery of prestige beauty growth, as well as how global consumer confidence, demand and spending will be impacted. However, our fundamentals are solid, our business strategies are designed to strengthen the Company over the long-term and we believe we are well positioned to manage our business more effectively and efficiently. We are energized by our momentum and are committed to refining our strategy as needed to continue to capture the biggest opportunities that will sustain us for the years to come. I am confident that by staying focused and disciplined, we will continue moving forward on the path toward a very promising future of sustained profitable growth.

## LOCATIONS AND SUBSIDIARIES

### Head Office

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### Other Locations and Subsidiaries

Estee Lauder Pty. Ltd. 21 Rosebery Avenue Rosebery New South Wales 2018 AUS	Estee Lauder CZ, S.R. O. Ovocny Trh 2 110 00 Praha 1 CZE
ELCA (Shanghai) Cosmetics, Ltd. 38F The Center 989 Chang Le Road Shanghai 200031 CHN	Estee Lauder Companies GmbH Leopoldstrasse 256 D-80807 Munich DEU
ELCA Cosmetics Pvt Ltd 302 3rd Floor Nirman Kendra Dr. E. Moses Road Famous studio lane Mahalaxmi Mumbai 400 011 IND	EstEe Lauder S.r.L. Via Turati 3 Milano 20121 ITA
Estee Lauder Poland SP Z.O.O. Postepu 21 b 3rd floor 02-676 Warsaw POL	Estee Lauder Companies (Pty) Limited 6 Kyalami Boulevard Kyalami 1685 ZAF

**The Estee Lauder Companies Inc.**  
Locations and Subsidiaries



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