The Estée Lauder Companies Inc.

Equity Valuation Thesis

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Msc in Finance

29-05-2018

Dissertation under the supervision of Professor José Carlos Tudela Martins

Dissertation submitted in partial fulfillment of requirements for the degree Master in Finance at Católica Lisbon School of Business and Economics, May 2018

May 2018 I Equity Research

The Estée Lauder Companies Inc.

Ticker	EL
Price Target:	**$158,44**
Price (08/05/2018)	$133,79
52-Week Range:	$91-153
Shares Outstanding: (MM)	367.04
Market Cap.: (MM)	$49,106.28

Source: Company Data, Calisto Securities, and Reuters

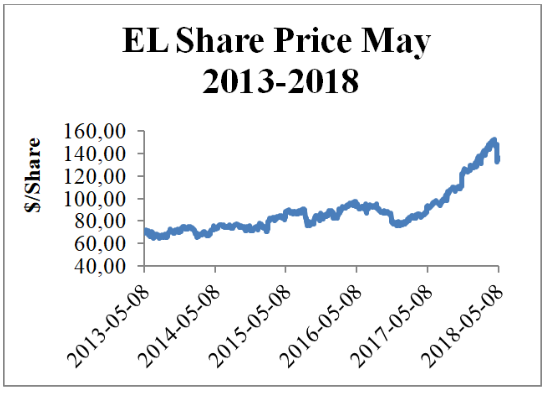
The Estée Lauder Companies Inc. is listed on the New York Stock Exchange under the symbol EL. It is a multinational company based in New York, New York. Today it is one of the world leading companies in manufacturing and selling prestige skin care, makeup, fragrance and hair care products.

The company is present in more than 150 countries and sells its products through more than 25 prestige brands, some owned and others licensed.

Prestige Beauty products are sold all over the world. The beauty market has been growing worldwide, especially in emerging markets. Regions like the Middle East, Africa, East Asia, Latin America and Eastern Europe are experiencing fast growth and the beauty industry is no exception.

In fiscal year 2017 The Estée Lauder Companies reached net sales of $11.82 billion, operating income of $1.69 billion and diluted earnings per share of $3.35.

The company has been increasing its dividend; in 2016 the dividend rate was increased by 25 percent and in 2017 increased yet again by 13 percent. Last fiscal year the company returned $899 million to stock holders' through cash dividends and stock repurchases.



Source: Company Data

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Abstract

This dissertation presents a valuation of The Estée Lauder Companies Inc., this company is listed on the New York Stock Exchange under the symbol EL. At the time of this valuation EL was trading at $133.79 a share, with market capitalization of $49.106,28 million (08/05/2018). Two methods were applied, DCF and Multiples. Some Sensitivity scenarios were made as a complement of the DCF. The multiples used were EV/EBITDA and P/E. The value obtained in the DCF valuation was the one chosen as final Equity Value, corresponding to $58.154.5 million, and a share of $158.44. Multiples method was used only as a market comparison. As a result of this valuation we give Estée Lauder a Buy recommendation. After all analysis complete, a comparison was made between Calisto and Wells Fargo valuations, where major differences were highlighted.

Sumário Executivo

Esta dissertação apresenta a avaliação da The Estée Lauder Companies Inc., esta empresa está cotada na Bolsa de Nova Iorque com o símbolo EL. No momento desta avaliação as ações da EL estavam em bolsa a $133.79, e com uma cotação de mercado de $49.106.28 milhões (08/05/2018). Dois métodos foram realizados, DCF e Múltiplos. Foi realizada uma análise de sensibilidade a alguns dos componentes de modo a complementar o DCF. Os múltiplos utilizados foram o EV/EBITDA e o P/E. O valor final do Capital Próprio foi de $58.154.5 milhões, correspondente a $158.44 por ação, obtido através do modelo DCF. O método dos múltiplos foi calculado apenas para servir de termo de comparação. A recomendação dada com base nesta avaliação é a de Comprar. Após a finalização de todas as análises comparámos as avaliações feitas por Calisto e Wells Fargo, destacando as diferenças entre as duas.

Acknowledgements

First I want to thank my mother for always supporting my decisions, believing in me and making this Master's at Católica Lisbon School possible. I also want to thank her, my sister, my aunt Sara and my cousins for the support they have been given me in these last two years.

I am also grateful for my boyfriend's help and valuable input in this project. I want to thank him and my friends for accompanying me in this journey and making time for listening to me over and over again about my thesis dilemmas.

For this dissertation be possible I had valuable help from my former professor and advisor, José Carlos Tudela Martins.

I want to thank the Professor for his time and attention, and I want to thank as well Wells Fargo Securities Managing Director of Equity Research Bonnie Herzog, for lending me equity research reports of The Estée Lauder Companies.

1. Introduction

The Estée Lauder Companies is a multinational company based in New York. The company operates in the Prestige Beauty Industry, and is one of the industry leaders with $11.82 billion net sales in fiscal 2017. EL is listed on the New York Stock Exchange.

The purpose of this dissertation is to give a buy, hold, or sell recommendation on The Estée Lauder Companies based on Equity Valuations pursued; as well as comparing our valuation results with the ones of an established investment bank.

This Equity Valuation Thesis will first present a Literature Review, with descriptions of several valuation methods and author's perspectives, including, at the end, a selection of the methods that will be used in the valuation. The next chapter will introduce a Global Overview featuring important matters that may affect the company such as U.S. TCJA 2017 and Currency; also under this chapter it will be introduced the Prestige Beauty industry.

Following the introduction of the industry where EL operates, the company itself will be presented. The Estée Lauder Companies Inc. overview includes details on the company's brands and products, geographic areas of business, some important numbers, and a short description of company initiatives.

After the presentation of the models, industry, and the company itself, it will be presented the company valuation. In Company Valuation we will guide you through the models used and explain the forecasts made. With the valuation finished an Investment Note will be presented with an investment recommendation.

The next and final chapter will feature a comparison between our valuation and the one made by the investment bank, Wells Fargo.

2. Literature Review

When analysts and shareholders want to decide to make or not an investment they need to have information on the company to make a decision. For investors be convinced of their sentiment on buying or not a company's stock, a valuation of the company is required. When it comes to making a valuation there are a lot of models that we can use, so many, that the challenge is choosing which to implement. "One reason why such a variety of approaches to valuation has been developed is that different approaches make different aspects of the valuation problem clear at the expense of obscuring other aspects" (Young, et al., 1999).

A short resume about absolute and relative valuation models will be presented. After an insight on the models, its constituents and some commons mistakes to be aware, it will be presented the ones used in the valuation of The Estée Lauder Companies and an explanation why.

2.1 DCF

Valuation is not as objective as it can seem, it is actually really subjective. To make a valuation one has to make several assumptions. Different assumptions can lead to far different outcomes. When making assumptions is important to be as accurate as possible because as Goedhart et al. (2005) said "Any analysis, however, is only as accurate as the forecasts it relies on".

It is known that "the value of a business equals its expected future cash flows discounted to present value at the weighted-average cost of capital" (Luehrman, 1997), so in order to fully understand the DCF model let us introduce its components.

$$Present\ Value = \sum_{t=0}^{n} \frac{E(CF)_t}{(1+k)^t}$$

2.1.1 Cash Flow

The cash flow used in the model is either Free Cash Flow to the Firm or Free Cash Flow to Equity, depending on what our valuation proposes are. It is very common to get the FCFE from the FCFF equation, since the model is easy to adjust. When using FCFF our goal is to evaluate the enterprise, its equity and debt (Young, et al., 1999). While using FCFE in the DCF model our valuation is aiming specifically to valuate only the equity as the name indicates.

$$FCFF = EBIT \times (1-t) + Dep\&Am - \Delta Working\ Capital - CAPEX - Other\ Changes$$

2.1.1.1 FCFF and FCFE

When computing FCFF we have to give particular attention to some aspects of the financial items that we are using, such as adopting the effective tax rate to correctly calculate tax on EBIT and dealing with deferred taxes (Fernandéz, 2004). In the traditional formula of FCFF the *Other Changes* are implied, and sometimes can be forgotten. All items have to be carefully used so it can be the most accurate.

When computing the DCF model we can use as cash flow the FCFE, and for that we can start from the FCFF equation. Being calculated as follows:

$$FCFE = FCFF - Interest \times (1-t) + \Delta Net\ Debt$$

2.1.1.2 Discount Factor

The next step in the DCF model is discounting the factors, the expected future cash flows, for which we need to have a discount factor. Depending if we are using FCFF or FCFE we will have to use different discount factors. When using FCFF as the expected future cash flows the discount factor used will be the weighted average cost of capital, and in case of choosing FCFE to run the model the discount factor used will be the required return to equity (Fernandéz, 2011).

$$Enterprise\ Value = \sum_{n-1}^{\infty} \frac{FCFF_n}{(1+WACC)^n} \qquad Equity\ Value = \sum_{n-1}^{\infty} \frac{FCFE_n}{(1+r_e)^n}$$

2.1.1.2.1 WACC

As we can see below in WACC's formula one of its building blocks is the required rate of return (r_e), which makes absolute sense once the FCFE is computed from the FCFF formula. In order to get the WACC it is needed to first compute the required rate of return as well as the cost of debt. The values of Equity and Debt used must be market values and not book values, as stated by Fernandéz (2011) is one of the most common errors in valuation.

WACC can simply be described as a "tax adjusted discount rate, intended to pick up the value of interest of tax shields that come from using an operation's debt capacity" (Luehrman, 1997).

$$WACC = r_e \times \frac{E}{V} + r_d \times \frac{D}{V} \times (1 - t)$$

2.1.1.2.2 Required rate of return

The required rate of return value can be computed using the Capital Asset Pricing Model (CAPM). CAPM approach states that the required return of an asset is estimate by adding the risk free rate plus beta times market risk premium. The market risk premium is adjusted by beta to reflect the market risk of the asset (Zenner, et al., 2008).

$$r_e = r_f + \beta \times [E(r_m) - r_f]$$

2.1.1.2.3 Market risk premium

Market risk premium "reflects the incremental premium required by investors" (Zenner, et al., 2008). It comes from the difference between the expected market risk and the risk free rate. There are several models to compute the market risk premium, each with strengths and weaknesses. It is recommended to use a range of values instead of a single one. That range can then be tested in a sensitivity analysis.

2.1.1.2.4 Beta

Beta is going to calibrate the equation. If it is higher than one it means that the asset has more risk than the market risk, if lower than one the oposite stands (Zenner, et al., 2008). To find beta calculations have to be made. For the next assumption to hold, the company can not have a lot of leverage.

$$\beta_e = \left[1 + (1-t) \times \frac{D}{E}\right] \times \beta_A$$

Assuming that:

$$\beta_A = \beta_d \times \frac{D(1-t)}{V} + \beta_e \times \frac{E}{V} \qquad \text{and} \quad \beta_d = 0$$

2.1.1.2.5 Risk free rate

The risk free rate "is the rate on a zero-coupon government bond that matches the time horizon of the cash flow being analyzed" (Damodaran, 2001), to know which rate to choose we have to take in consideration our type of investment, its maturity, if it is a short-term or long-term investment; and use in our models the one that is more adequate. When choosing a risk-free rate investors have to be aware that sometimes there is sovereign risk; it is usual to assume that governments do not default, but some do, if our company is from a certain group of developed countries, it might have failed to meet some promised obligations; and some markets just issue short-term rates.

"The riskless rate has to be defined in the same terms as the cash flow on the analysis" (Damodaran, 2001), if a company does its analyses using dollars, it must use a U.S. government security rate; the firm and the project itself do not have to be American, it can be from another country.

2.1.1.2.6 Cost of debt

The cost of debt used in WACC is computed as presented bellow. When determining this cost it has to be taken into account variables such as the current level of interest rates, the default risk of the company, and the tax advantadge associated with debt. When companies hold long term bonds outstanding that are widely traded, it is easier to compute the yield we will use as cost of debt. Companies that hold bonds that do not trade on regular basis can estimate cost of debt by using their ratings and associated default spreads (Damodaran, 2001). Firms that hold private debt can use a discount rate that is similar to the ones used by its peers companies. When valuating private debt, it can be extremely helpful to give it a rating. If the company does not have tax exemption, the r_d must be compute on after tax basis.

$$Cost\ of\ debt = \left(r_f + default\ spread\right) \times (1 - t)$$

2.1.2 Perpetuity

The DCF model is composed by two stages, its "first stage is a period of explicit forecasts while the second one assumes the cash flow to perpetually grow at a constant growth rate" (Cassia, et al., 2006). In order for the calculation to be the most accurate, it has to include the expected value that will be created in perpetuity. Perpetuity or terminal value is what we expect the company to create in an "infinity" time frame. The formula of the terminal value is the rest of the division between FCFF and the difference between the WACC and the growth rate.

$$Terminal\ Value = \frac{FCFF_{1+g}}{WACC - g}$$

2.1.2.1 Growth rate

Growth rate is key to compute the value of a firm, especially when forecasting the 'forever' growth of a company. The Terminal Value is going to be where the majority of our firm valuation is going to be represented, once it is forecasted the perpetuity value of the company. According to Damodaran (2001) "no firm can grow forever at a rate higher than the growth rate of the economy in which it operates", as a result, before reaching a value for the perpetual growth rate, investors should forecast company's results until it stabilizes; where the firm shows a stable-growth rate. Our time frame will then be the explicit period until the company develops into a stable-growth state.

2.2 Multiples

In a relative valuation, all that we are concluding is if a stock is under or overvalued, relative to the comparable group. Multiples valuation supports the decision to buy, hold or sell recommendation.

Multiples are useful as a second opinion on a valuation. After analysts make a valuation using a certain model they should use multiples as a comparison with other firms multiples to be able to identify differences between the two (Fernandéz, 2001).

The concept of this model is that a company is evaluated by comparing the value of its assets with ones valued on the market, or in other words: “Relative valuation methods are those in which market multiples of “comparable” companies are used to value the target company” (Lee, 2003).

Multiples are simple to use and compute (Lee, 2003) and usually do not require as much data as an absolute valuation, however it has to be done properly to be viable or otherwise will not be objective.

There are plenty of different multiples, each one more adequate to a certain industry. The most used market multiples for valuing firms are: P/E multiple, it is widely used due to be very easy to compute and to understand; and enterprise value (EV), in particular EV/EBITDA but it has some limitations as it does not include the changes in Working Capital requirements and does not consider capital investments (Fernandéz, 2001).

$$P/E = \frac{Market\ value\ per\ share}{Earnings\ per\ share}$$

$$EV/EBITDA = \frac{Enterprise\ Value}{Earnings\ before\ interest, taxe, depreciation\ and\ amortization}$$

When using multiples we can also decide between trailing or forward multiples, according to our preferences and evaluation of the market. Trailing multiple is based on historical data while forward multiple looks into the future and is computed on forecasted data (Fabozzi, et al., 2017).

2.2.1 Peer Group

One of the problems that can arise while using multiples is a bad choice of comparable companies. To the group of comparable companies we give the name Peer Group. Lee (2003) observed that "the key to a good multiple based approach is a judicious selection of peers", but it is almost impossible to find a company that is exactly the same as the one you want to value.

According to Damodaran (2001) a comparable company can be from a totally different industry as long as it has the same fundamentals as: risk, growth and cash flow. A company outside the industry of our valuation company is as comparable with ours as a company in the same industry, as long as they share similar fundamental characteristics. In the perspective of (Foushee, et al., 2012) the relevant comparable companies have to be from the same markets and be subjected to the same set of macroeconomic factors.

2.3 Dividend Discount Model

The Dividend discount model measure present values of future dividends. The DCF model and the DDM are similar, they both focus on cash flows but that are at different stages of the wealth distribution process (Lee, 2003). In DCF we value the company based on its cash flows and in DDM on its dividends.

$$Value\ of\ Stock = \frac{DPS}{(1+r_e)^t}$$

The DDM can easily misreflect companies' value once the majority of companies are not stable with their dividends policy (Campbell & Shiller, 1988). Analysts essentially have to make two different forecasts, first estimate the dividends and then anticipate managers' decision about its distribution, but other forecasting problems can arise such as the company deciding to do corporate share buyback (Fabozzi, et al., 2017). For these reasons the model can only be reliable if it is applied to companies where a firm pays stable dividends and there is no projected corporate share buybacks.

2.4 Adjusted Present Value

The Adjusted Present Value model values ongoing business, it can be used to value a product, market or even line of business. Valuing operations is difficult, and this model is going to help make such a valuation. The question that this model tries to answer is "How much are the expected future cash flows worth, once the company has made all the major discretionary investments?" (Luehrman, 1997).

APV believes that each part of the company or project can be valued piece by piece and in the end all sum up. The model relies on the principle of 'value additivity'. The APV model is really useful when making valuations with the purpose of selling or to make an acquisition; once managers get to know the value of each piece of the business, the value of synergies, tax savings, and all other specific details that with just a DCF valuation would not be possible to know (Luehrman, 1997).

To get the adjusted present value the FCFF have to be discounted at the cost of capital or cost of debt, and then has to be added to it the tax shields and other possible adjustments. Adjustments as flotation costs or costs of financial distress are usually already included. APV is a more flexible model once it is open to adjustments that are not previously included in the discount factor (Capi´nski & Patena, 2008).

$$APV = Unlevereged\ firm\ value + PV\ Tax\ shield - Expected\ bankruptcy\ costs$$

2.4.1 Tax Shield

The tax shield value is not direct, it has to be found the tax shield for every year and then discount it, to get its present value (Capi´nski & Patena, 2008). The method used to calculate the tax shield and to discount is not straight forward; different academics follow different models. For Fernandéz (2004), if the company expects to increase its debt the required rate of unleveraged return should be used to calculate the tax shield and as well to discount it; if not use the cost of debt for both operations.

$$PV\ of\ tax\ benefits_1 = \sum_{n-1}^{\infty} \frac{Debt \times r_u \times t}{(1+r_u)^n} \qquad PV\ of\ tax\ benefits_2 = \sum_{n-1}^{\infty} \frac{Debt \times r_d \times t}{(1+r_d)^n}$$

2.4.2 Bankruptcy Costs

In the APV approach, after the estimation of the value of the unlevered firm and the expected tax benefit from borrowing, "the third step is to evaluate the effect of the given level of debt on the default risk of the firm and on expected bankruptcy costs" (Damodaran, 2001); in this evaluation it has to be considered direct and indirect costs of bankruptcy.

$$PV\ Expected\ Bankruptcy\ Cost = Probability\ Bankruptcy \times PV\ Bankrupty\ Cost$$

2.5 Option Pricing Theory

"How do corporations typically evaluate opportunities? A common approach is not to value them formally until they mature to the point where an investment decision can no longer be deferred" (Luehrman, 1997).

The basics of option pricing are that a buyer of a call option gets the right to buy the underlying asset at a fixed price; the buyer of a put option has the right to sell the underlying asset at a fixed price (Damodaran, 2001). Fisher Black and Myron Scholes developed a model for financial options that requires a small number of inputs. Today the Black-Scholes model can be used to value investment opportunities in real markets as it allows for a flexible response to the outcomes. Managers can now apply the model to their business situations, especially in investment intensive industries such as oil extraction. With real options managers can decide "whether to invest now, to take preliminary steps reserving the right to invest in the future, or to do nothing" (Leslie & Michaels, 1997).

2.6 Sensitivity Analysis

Sensitivity analysis is very important in valuations, as stated before valuations are not objective, and the more forecasts a valuation has the more subjective it can be. The valuations based in "free-cash-flow methodologies are only truly meaningful when they are complemented by sensitivity analysis and scenario analysis" (Fabozzi, et al., 2017). Free-cash flow methodologies incorporate a large number of projections and, as a result it has more building blocks that can be potentially wrong than other models.

To give the best valuation, an analyst must do a lot of research and know all the valuation models, and even that way he can make mistakes by simply making a forecast that later might not become a reality. It is important to stress test our forecasts to be aware of potential different outlooks, and to identify potential problems or mistakes with certain estimates and critical parameters (Cassia, et al., 2006).

2.7 The Estée Lauder Companies case

Valuation models were presented in the Literature Review, after its analysis some methods were chosen to value The Estée Lauder Companies.

Regarding the Discount Cash Flow Model, the Discounted Free Cash Flow to the Firm appears to be the most suitable method. Some forecasts made in the DCF will be challenged with a Sensitivity Analysis, so we can measure its impacts on the Equity Value.

A relative valuation with the EV/EBITDA and P/E multiples will be made since both match the company's characteristics, and are the most popular amongst analysts.

The Dividend Discount Model will not be applied. EL distributes a quite stable dividend since 2013, but also repurchases stock in a regular basis. It is possible to adjust the DDM for share buybacks, but the model would not be as accurate.

The APV model will not be computed since the company has a quite constant debt to equity ratio. Neither will be the Option Pricing Theory since it is not an investment intense industry.

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3. Global Overview

In order to understand the challenges that The Estée Lauder Companies Inc. faces we have to know what is going on with the world, and specially, know the industry trends. Since the company is from the United States, everything that happens with the country currency and laws will have a major influence in the company's outcomes.

Other countries, political situations and currencies may as well have a significant impact on the company, that impact will differ according to its exposure to the other markets, and if it is or not operating business in them.

3.1 U.S. TCJA 2017

December 22nd 2017 President Trump signed into law the "Tax Cuts and Jobs Act", these changes will affect individuals and companies in the United States. TCJA is effective since December 31st 2017, the major impacts it has on companies is on its business provisions (Brady, 2017). Changes on corporate tax rate, corporate AMT (Alternative Minimum Tax), excess loss limitation, full and immediate capital asset expensing, net business interest expense, and other notable provisions were made.

The most straight forward change was corporate tax rate; the rate is now flat at 21%. Corporate alternative minimum tax rate was eliminated, before it graduated from 10% to 35%. This rate reduction is expected to produce considerable tax savings for corporations.

3.2 Currency

Currently EURO/US dollar spot rate is 1.19 (May 8). In mid 2014 the US dollar started to strengthen in comparison with the euro, reaching almost parity on March 2015 and again on the end of December 2016 and beginning of 2017. Since 2017 the dollar has been weakening, it has been trading at its lowest level in more than three years, not just comparing to euro but also with other currencies.

At first glance there is no reason for this weakened rate since the Federal Reserve has been raising interest rates for the past year. Rate hikes are usually very attractive for foreign investors; higher interest rates lead investors to buy American assets.

The U.S. economy is experiencing a solid growth, and expects to maintain it due to the recent tax cuts. Some reasons that can explain why the dollar has not been boosting are the shift of investors to invest in euro, once countries like Germany and France are having strong performances and showing strong economies. Also strong expectations of changes in the bond-buying program and raise of interest rates by the European Central Bank are making euro so much more attractive.

From another perspective, it can be said that the euro is looking more attractive comparing with the dollar. Political uncertainties in the country are not helping the dollar as well, but so far the weakness of the dollar has not reflected in the U.S. economy or its stock market. As La Monica (2018) stated "A weaker dollar lifts the value of foreign sales and profits for U.S. multinational companies like Apple (AAPL), Microsoft (MSFT), Johnson & Johnson (JNJ), Exxon Mobil (XOM) and Procter & Gamble (PG) once they are translated back into dollars."

3.3 Industry Overview

The Estée Lauder Companies belongs to the Prestige Beauty industry. The Prestige Beauty industry is composed by premium products like body care, including skincare and hair; makeup and fragrances. This is an industry that has been growing worldwide and outpacing most other household and personal care sectors since 2013. According to (Deloitte, 2017) estimations, between 2013 and 2015 the market has grown approximately 4.8%, with the total market valued at about $78 billion a year.

With the new era of digital technologies, social media is gaining more and more power and the e-commerce is becoming key to the business. Companies have to adapt to this online era and be able to rapid change; the market has been seeing a fast emergence of new brands, expansion to new geographic markets and new subcategories.

Today is not as important for consumers the brand itself but the way brands engage with them, awareness and sampling of new products. Thanks to digital commerce and social media, entry barriers have come down, which has helped the beauty and luxury field to expand. Consumers today give more importance to image; they want to look camera ready every day. In order to know what to buy they are relying on advices from their peers, obtained through digital influencers that test products for them.

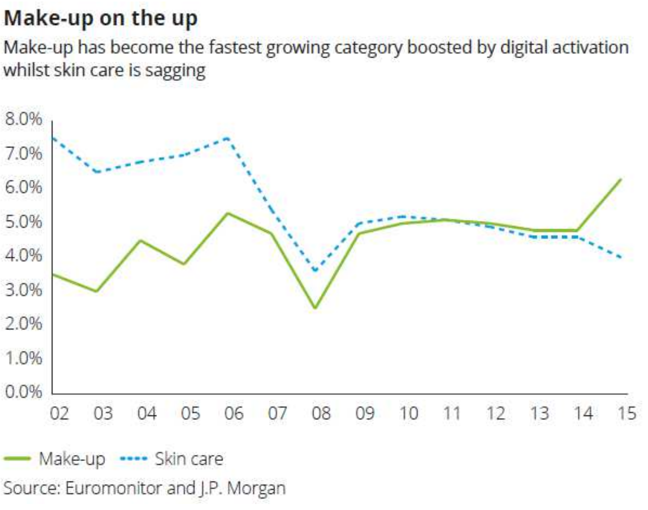
Graph 1 - YoY global market size

Partnerships of brands with influencers are becoming more and more important to raise awareness of their products amongst consumers. Recently, to make sales, is important to have in-store beauty consultants that help the consumer and let them test the products in order to find the product that better suits them.

The Prestige Beauty industry is being confronted with the growth of niche and indie disruptors; companies to fight the loss of market share to new brands are making more mergers and acquisitions. Companies in the industry are focusing in a more inorganic strategy to grow. With current short life of product lunches, this is the way companies found to maintain a viable brand portfolio.

3.3.1 Products

Beauty is driving growth in makeup, not only Millennials and Generation Z, but across demographic groups around the world (EL annual report, 2017). For many years skincare growth was bigger than make up, but with the boost from digital activation makeup took the lead in recent years. This trend is expected to shift in the next decades, with these generations more passionate with beauty and perfection, skincare products are expected to increase sales while Millennails age. Millennials are focusing more in themselves and want to be unique, when they are buying fragrances they are looking more for individuality.



Graph 2 - Make-up and skin care evolution from 2002-2015

3.3.2 Channels

Online is the channel of today and the future of the industry, with majority of clients checking products through digital channels before buying it becomes priority for brands to look appealing on those channels and to provide tools that engage the consumer to come back for future purchases.

Contribution from online sales is still very low but its growth is the only one that has been significant since 2005, either between ranges of products and geographic regions (see appendices 1 and 2).

3.3.3 Demographics

The demographic of consumers is shifting, younger generations are projected to represent a big part of the market, with Millennials expected to represent 30% of total global retail sales by 2020.

Digital engagement is growing importance with this expected new trend; Millennials, a generation defined by individuals born between 1980 and 2000 and Generation Z or iGeneration, born post Millenials, use social media in an everyday basis; before committing to purchase they seek information about the products with online influencers, older demographics are adopting these purchase methods as well.

3.3.4 Geography

Prestige Beauty products are sold all over the world. The beauty market has been growing worldwide, especially in emerging markets. Regions like the Middle East, Africa, East Asia, Latin America and Eastern Europe are experiencing fast growth and the beauty industry is no exception.

Between 2010 and 2015 Prestige Beauty industry grew around 10.5% in the regions of Middle East and Africa, 10% in East Asia, 9.8% in Latin America, and 5.1% in Eastern Europe, against estimated 3% growth in developed regions like North America, developed Asia and Western Europe. In these new fast growing regions new sources of innovation arise, with South Korea leading the innovative regions in producing skin care products.

After a period of low growth for developed regions, the markets are improving; developed region consumers continue to have more purchase power (Deloitte, 2017).

3.3.4.1 United States

According to The NPD Group, an American market research company, the U.S. Prestige Beauty industry reached $17.7 billion in 2017, a 6 percent increase over 2016. Skincare was the category that had the biggest growth in sales, accomplishing a 9 percent figure, and contributing 45 percent of the industry's total gains; makeup was the second category with a 6 percent increase in sales, and fragrance followed with 4 percent growth.

Skincare category saw revitalization this last year, and reached a 9 percent grew on sales, but was not sufficient to outperform total sales of makeup. Its growth was essentially from smaller segments including masks, facial exfoliators, cleansers, and also some larger segments such as facial moisturizers; the body, sun and hair care segments all experienced growth. All these products made skincare category reach $5.6 billion in sales in 2017.

Makeup in 2017 maintained the lead, bringing the most dollar volume of the industry; it reached $8.1 billion in sales last year. Growth was driven by high volume segments including foundation and eye shadow, as well as other face products and key segments such as face primers, concealer, eyebrow makeup and lip color.

With a 4 percent growth and a total of $4 billion in sales was the fragrance category. 2017 was a good year for niche areas of the market, with natural fragrances growing its sales by 32 percent, and artisanal fragrances by 14 percent. Home scents market is booming since 2014, this last year the market made $80.4 million in sales, a growth of 59 percent comparing to 2016, where the growth was already a solid 18 percent.

For the Prestige beauty industry the fourth quarter is key, it includes different holiday's seasons that boost sales. In 2017 this quarter was good in the US; the beauty was the growth leader during several weeks including Thanksgiving and Black Friday. Overall the fragrance category was the one that had the best performance through Christmas week, followed by makeup and skincare face products (Guyduy, 2017).

4. The Estée Lauder Companies Inc. Overview

The Estée Lauder Companies is listed on the New York Stock Exchange under the symbol EL. It is a multinational company based in New York, New York. It was founded in 1946 by Estée Lauder and her husband, Joseph Lauder; in that same year the company launched 4 products. Today it is one of the world leading companies in manufacturing and selling prestige skin care, makeup, fragrance and hair care products.

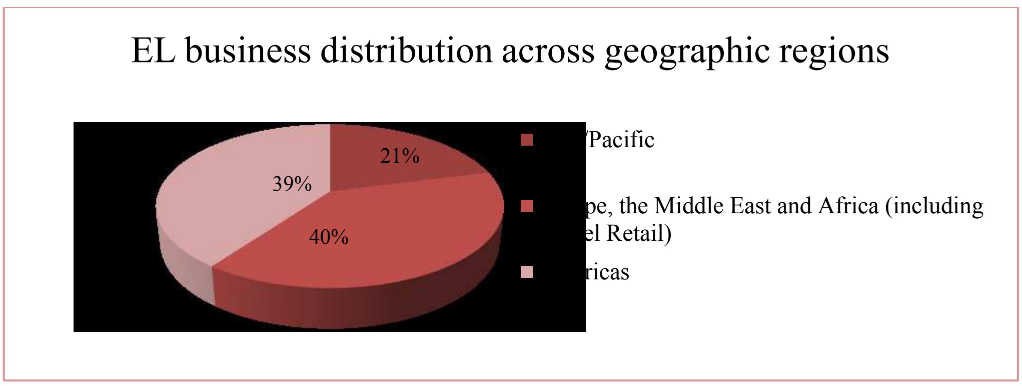
The company is present in more than 150 countries and sells its products through more than 25 prestige brands, some owned and others licensed such as: Estée Lauder, Aramis, Clinique, Prescriptives, Lab Series, Origins, Tommy Hilfiger, MAC, Kiton, La Mer, Bobbi Brown, Donna Karan New York, DKNY, Aveda, Jo Malone London, Bumble and bumble, Michael Kors, Darphin, Tom Ford, Smashbox, Ermengildo Zegna, AERIN, Tory Burch, RODIN olio lusso, Le Labo, Editions de Parfums Frédéric Malle, GLAMGLOW, By Kilian, BECCA and Too Faced.

Beauty is an industry that has been steadily growing in the last years; Global prestige beauty has grown around 4 to 5 percent a year, outpacing some household and personal care sectors (appendix 3). The Estée Lauder Companies believe that the key factor to success is staying ahead; in this online world of today everyone wants to be camera ready, the new generations give more importance to appearance such as Millennials and Generation Z, what is driving growth of the makeup sector. The company has a diverse portfolio of products under several brand names.

Skin Care	Makeup	Fragrance	Hair Care
Moisturizes	Lipsticks	Eau de perfume sprays and colognes	Shampoos
Serums	Lip glosses	Lotions	Conditioners
Cleansers	Mascaras	Powders	Styling products
Toners	Foundations	Creams	Treatment
Body care	Eyeshadows	Candles	Finishing sprays
Exfoliators	Nail polishes	Soaps based on a particular fragrance	Hair color products
Acne and oil correctors	Powders		
Facial masks	Compacts		
Cleansing devices	Brushes		
Sun care products	Other makeup tools		

Table 1 - EL portfolio of products

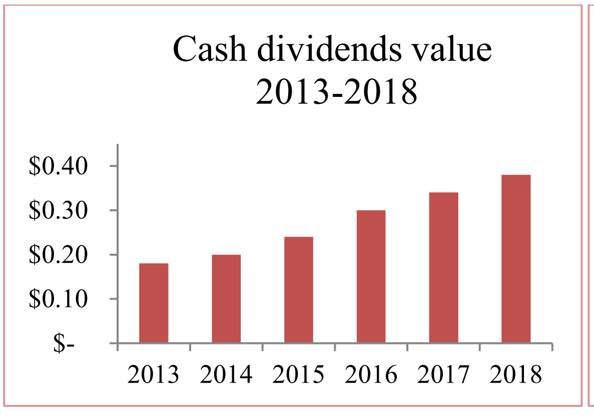
The Estée Lauder Companies operates all over the world; it divides its business in three main geographic regions: Asia/Pacific, with 21% of total net sales; Europe, the Middle East and Africa (including Travel Retail) contributing with 39%; and the Americas with the remaining 40%. The sales of more than a quarter of the company's markets grew by double digits this last fiscal year. It benefited from growth in each region and in some key emerging markets.

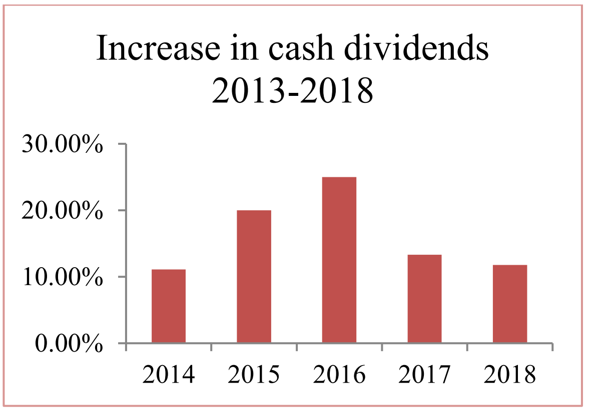


Graph 3 - EL business distribution across geographic regions

The end of fiscal year 2017 The Estée Lauder Companies reached net sales of $11.82 billion ($11.26 billion 2016), operating income of $1.69 billion ($1.61 billion 2016) and diluted earnings per share of $3.35 ($3.20 2016). An evolution of net sales of the period 2013-2017 can be observed in appendix 4.

The company has been increasing its dividend; in 2016 the dividend rate was increased by 25 percent and in 2017 increased yet again by 13 percent. Last fiscal year the company returned $899 million to stock holders' through dividends and stock repurchases.





Graph 4 - Increase in cash dividends from 2013-2018 Graph 5 - Cash dividends value from 2013-2018

The company has been investing in their digital capabilities due to the world of today and the increasing importance of online presence; making partnerships with brands' influencers and integrating digital marketing, social media and e-commerce in their brands' strategies.

Fiscal 2017 was a year with a lot of economic challenges and political uncertainty, but the company kept its focus on long term value creation and achieved good results.

In this second quarter of fiscal 2018 the company had net earnings of $123 million ($428 million 2017), including already provisional one-time charges of $394 million due to the U.S. Tax Cut and Jobs Act that was signed last December, this may still require adjustments due to changes in regulatory interpretation of the Tax Act.

This quarter the diluted earnings decreased to $.33 ($1.15 2017) a share in relation to TCJA provisions. The acquisition of two new makeup brands in fiscal 2017, Too Faced and BECCA, contributed for the incremental sales around 2 percentage points this quarter.

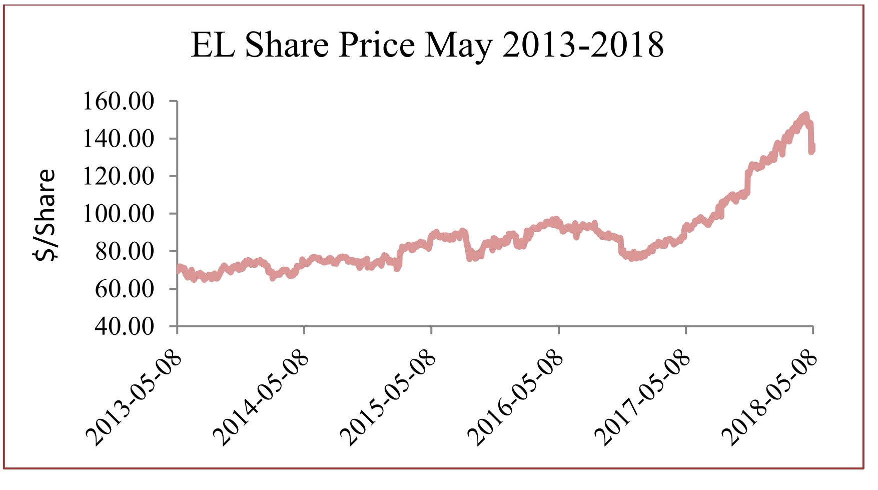
The six months results (ended December 31, 2017) confirmed the strong growth the company had in the last fiscal year, reporting net sales of $7.02 billion ($6.07 billion 2016), a 16% increase compared to the same prior-year period.

Net earnings this period were lower than the prior-year six months due to the already mentioned provisional one time charges, restructuring and other charges; net earnings were $550 million, a decrease comparing with $722 million comparable prior-year six months.

Diluted earnings per share basis were $1.46 ($1.94 2016), but adjusting for the restructuring and other charges and the impact of TCJA provisional charges, diluted net earnings per common share for this six months period were $2.73.

The company is currently valued at $133.79 a share (8/5/2018). From the periods of 2013 till 2014 the share price of the company was between $64 and $77 a share, during 2015 share price increase reaching $90 a share, during the summer months it was observed a decrease in the company's value, which quickly changed from the beginning of September till mid 2016. From mid 2016 till the end of the year share price value decreased sharply and reached $75 a share, the lowest in more than one and a half year. 2017 showed to be the greatest year for the company so far, share price sharply rose through all the year, going from $77.33 to $127.24, corresponding to an increase of around 65%.

In 2018 The Estée Lauder Companies continues the previous year's growth trend; the company hit a new 52-week hit of $153.88 on 8th of April.



Graph 6 - EL Share price May 2013-2018

At year-end 30 June 2017 the company had 368,103.5 thousand common stock outstanding, 224,341.2 thousand Class A, and 143,762.3 thousand Class B. The diluted net earnings were

$3.35 per common share. The company has a share repurchase program, as of June 2017 the Board of Directors had authorized the repurchase of 14.5 million shares of Class A Common Stock. EL returns value to its shareholders through share repurchase programs and by distributing quarterly dividends; on August 17 2017 a dividend was declared in the amount of $0.34 per share on the Company's Class A and Class B Common Stock; for the first quarter (September 2017) a dividend of $0.34 a share was paid as announced, for the followed two quarters a dividend of $0.38 was distributed (appendix 5).

The Estée Lauder Companies Executive Chairman is William P. Lauder, grandson of Estée and Joseph Lauder; and Fabrizio Freda as President and Chief Executive Officer. EL is controlled by the Lauder family, which owns around 40 percent of total common stock (Class A and Class B) and about 87 percent of voting power. Class A shares have one vote per share, and Class B has 10 votes per share.

EL has several big corporations that hold a considerable amount of shares, two of the biggest holders are Fidelity Management and Research Company, with 4.67% of the company; and Vanguard Group Inc, with 4.37%. To consult all the top holders of the company check appendix 6.

The company has been considered as one of the best places to work in several regions. Last year they have been awarded a spot on Indeed's "50 Best Places to Work in the Fortune 500"; a mention in "Top Companies to Work in UAE" by the Great Place to Work Institute UAE; considered "China Top Employer 2017" by the Top Employers Institute; in Mexico honored by Expansion Magazine for the 10th consecutive time in "The Places Everyone Wants to Work"; and in the U.K. and Ireland received a mention on "30 Best Big Companies to Work For" by Sunday Times. These numerous recognitions show the commitment and appreciation that the company has for their employees.

The Estée Lauder Companies continues the tradition initiated by their founder of empower women at all levels of the company. They recently supported the Equal Pay Act and launched the Women's Leadership Network that supports, encourages and engages women across the company to reach their full potential. At the start of the current fiscal 2018 year, about 84 percent of their global workforce is female, with nearly 50 percent of U.S.-based senior positions held by women, and women constitutes 40 percent of their Board of Directors.

The company empowers its employees giving them opportunities, a good place to work, fighting for their rights; and also helps society, supporting and conducting numerous social responsible initiatives. It raises funds and awareness to different important issues such as helping education reach girls across all five continents, under The Estée Lauder Companies Charitable Foundation; through The Breast Cancer Campaign the company wants “a world without breast cancer” (company 2017 report, William lauder), and for that helps with brand contributions and outside donations.

Other project that is dear by the company is MAC AIDS Fund, through each they have annual campaigns to raise funds for treatment and prevention, and gather volunteer from the company to give a hand in several HIV/AIDS organizations. The company is also committed in another important issue: the environment; they want to reduce their carbon footprint and are proud to be part of the fight against climate change.

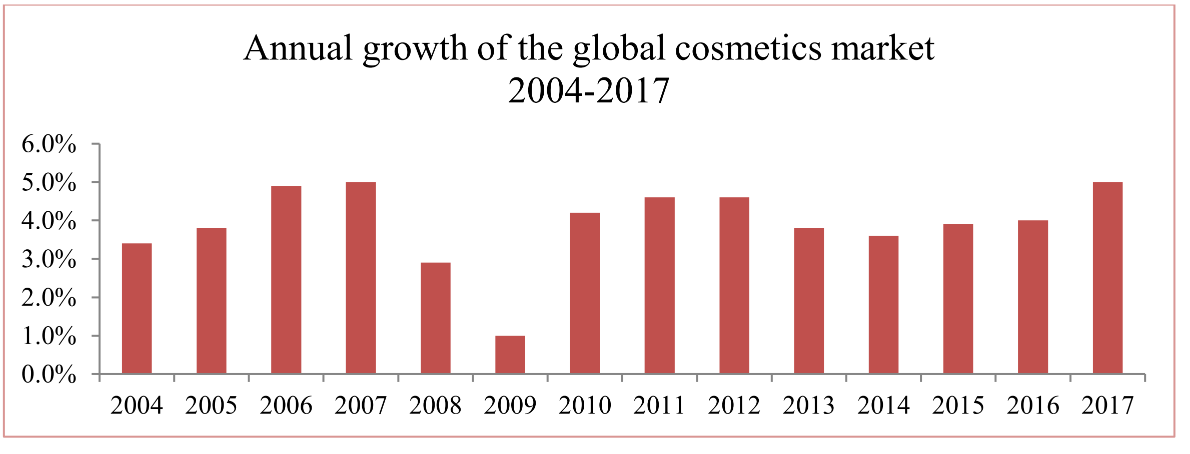

aramis
AVEDA
thickening tonic
Bumble and bumble
ESTÉE LAUDER
LA MER
LAB SERIES
SANTAL 33
RODIN
olio lusso
smashbox

5. Company Valuation

5.1 Revenues

In Estée Lauder Companies yearly report of 2017 (30 June 2017), the company estimates a 5% growth of the market. This estimate seems accurate since studies (Statista, 2018) of the global prestige beauty industry show that global cosmetics market has been constantly growing in the last three years, from an annual growth of 3.6% in 2004 to 5% in 2017.

Growth average for the market in the last 13 years (2004-2017) is around 4%. In 2016 The Estée Lauder Companies grew 4.50% in comparison with the previous year, a bit over the 4% of the industry; and in 2017 the company's growth accompanied the markets with a 5% growth in comparison with the previous year.



Graph 7 - Annual growth of the global cosmetics market from 2004-2017

With exception of 2015, the company's growth since 2013 always outpaced or matched the industry. 2015 was a special year; the company faced some global uncertainties, including significant movement in key currencies. That same year the company expanded their portfolio through the acquisition of four brands.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Revenue -Net Sales	10.182	10.969 7,73%	10.780 -1,72%	11.262 4,47%	11.824 4,99%

Table 2 – Annual growth of EL from 2013-2017

After these analyses we looked carefully at the company's net sales, taking in consideration each trimester growth by geography. We compared trimester results by geography between 2016 and the 3rd trimester of 2018. Big differences stand out comparing fiscal 2018 trimesters' growth to previous years (appendix 7).

	2017		2018					
	30-Jun-2017		30-Sep-2018	31-Dec-2018	31-Mar-2018	3/4	30-Jun-2018	
Net Sales	**2.894**	**11.824**	**3.274**	**3.744**	**3.370**	**10.388**	**3.252**	**13.640**
	9,36%	**4,99%**	**14,28%**	**16,71%**	**17,96%**		**12,37%**	**15,36%**
The Americas	1.173	4.819	1.329	1.308	1.181	3.818	1.214	5.032
	6,35%	2,31%	7,79%	5,31%	0,85%	-20,77%	**3,50%**	4,42%
Europe, the Middle East & Africa	1.173	4.650	1.258	1.562	1.416	4.236	1.408	5.644
	9,37%	6,15%	20,50%	19,51%	25,75%	-8,90%	**20,00%**	21,37%
Asia/Pacific	548	2.357	687	874	773	2.334	630	2.964
	16,05%	8,48%	16,44%	32,63%	38,04%	-0,98%	**15,00%**	25,76%

Table 3 - EL net sales by trimester and geographic region

The growth in the American segment is similar to previous years, but for the segments of Europe, the Middle East & Africa and Asia/Pacific we saw at least a 16% increase in net sales comparing with the same previous periods.

Looking at table 3, in column 3/4 we added the three trimesters of fiscal 2018, and as it can be observed the results of 3/4 of the year for the Asia/Pacific segment are just slightly below net sales of the full previous year (-0.98%), Europe, Middle East & Africa have approximately less 10% of the full previous year. The Americas is the one that stands out with results more similar to previous year.

2018 has been an outstanding year for the company, so when forecasting its final fiscal trimester, the growth rates will be a bit different than the historical ones.

Taking in consideration the results of the past three trimesters, ending the fiscal year with similar growth and bearing in mind trimester usual growth rates, we choose a growth rate of 3.50% for The Americas, 20% for Europe, Middle East & Africa, and 15% for Asia/Pacific. It will reflect a 12.37% growth in comparison with same period last year, and a 15.34% growth of net sales in comparison with fiscal 2017.

For the next years we continued to forecast net sales by geographic region, with each region growth estimated we got the yearly growth of net sales for the company.

	2013	2014	2015	2016	2017
	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	0-Jun-2017
Net Sales	**10.182**	**10.969**	**10.780**	**11.262**	**11.824**
		7,73%	**-1,72%**	**4,47%**	**4,99%**
The Americas	4.303	4.572	4.514	4.710	4.819
		6,25%	-1,27%	4,34%	2,31%
Europe, the Middle East & Afri	3.759	4.164	4.086	4.381	4.650
		10,77%	-1,87%	7,22%	6,14%
Asia/Pacific	2.122	2.233	2.180	2.173	2.357
		5,23%	-2,37%	-0,32%	8,47%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Net Sales	**13.640**	**14.775**	**15.715**	**16.452**	**17.098**	**17.687**	**18.226**	**18.707**	**19.109**	**19.456**
	15,36%	**8,32%**	**6,37%**	**4,69%**	**3,93%**	**3,45%**	**3,04%**	**2,64%**	**2,15%**	**1,81%**
The Americas	5.032	5.158	5.261	5.366	5.474	5.556	5.625	5.681	5.710	5.738
	4,42%	2,50%	2,00%	2,00%	2,00%	1,50%	1,25%	1,00%	0,50%	0,50%
Europe, the Middle East & Africa	5.644	6.208	6.705	7.073	7.392	7.687	7.956	8.195	8.400	8.568
	21,37%	10,00%	8,00%	5,50%	4,50%	4,00%	3,50%	3,00%	2,50%	2,00%
Asia/Pacific	2.964	3.409	3.750	4.012	4.233	4.445	4.645	4.830	4.999	5.149
	25,76%	15,00%	10,00%	7,00%	5,50%	5,00%	4,50%	4,00%	3,50%	3,00%

Table 4 - EL historical and forecasted net sales from 2013-2027

As it can be observed in the previous table, 2018 has an outstanding growth, and the following years we see net sales growth decrease, especially from fiscal 2018 to fiscal 2019. The Americas is a region where EL has been quite stable in the last years, having a moderate growth that with the years will decrease even more once the market is becoming fully explored (appendix 8).

The beauty market has been growing worldwide; and as we referred in the industry overview, emerging markets are experiencing fast growth. The Estée Lauder Companies is not an exception, looking at Europe, the Middle East & Africa, and Asia/Pacific regions on the table we can see that fast growth.

5.2 Cost of Sales

Gross Profit from 2013 to 2017 was around 80% of Net Sales, which is the same that stating that Cost of Sales was around 20% of Net Sales. Since it has been stable during the last 5 years, we choose to compute the following years Cost of Sales as 20% of Net Sales.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Revenue -Net Sales	10.182	10.969	10.780	11.262	11.824
		7,73%	-1,72%	4,47%	4,99%
Cost of Revenue	2.025	2.158	2.101	2.181	2.437
		6,57%	-2,64%	3,81%	11,74%
Gross Profit	8.157	8.811	8.679	9.081	9.387
		80,33%	80,51%	80,63%	79,39%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Revenue -Net Sales	13.640	14.775	15.715	16.452	17.098	17.687	18.226	18.707	19.109	19.456
	15,36%	8,32%	6,37%	4,69%	3,93%	3,45%	3,04%	2,64%	2,15%	1,81%
Cost of Revenue	2.728	2.955	3.143	3.290	3.420	3.537	3.645	3.741	3.822	3.891
	11,94%	8,32%	6,37%	4,69%	3,93%	3,45%	3,04%	2,64%	2,15%	1,81%
	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%
Gross Profit	10.912	11.820	12.572	13.161	13.678	14.150	14.581	14.965	15.287	15.564
	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%

Table 5 - EL historical and forecasted cost of sales from 2013-2027

5.3 Operating Expenses

To forecast the **Restructuring Charge** we based our estimates in the company's plans. In May 2016 the company announced an initiative called Leading Beauty Forward – LBF; this program is designed to "enhance the Company's go-to-market capabilities, reinforce its leadership in global prestige beauty and continue creating sustainable value".

Specific initiatives under LBF such as optimization of select corporate functions, supply chain activities, corporate and regional markets support structures, and exit of underperforming businesses, will start to be approved through fiscal 2019, and are expected to be completed by fiscal 2021.

The Estée Lauder Companies expects that LBF will result in about $600- $700 million of restructuring charges before taxes; in this item are also included charges from the inception through June 30, 2017. These expected charges are the result of employee-relates costs, asset write-offs and other costs needed to implement these initiatives.

After the full implementation of the program, it is expected that LBF yield annual net benefits in Selling, general and administrative expenses between $200- $300 million before taxes. The company expects then to reinvest a portion of these savings in future growth initiatives.

In fiscal 2017 alone the company already incurred in $226 million in charges, and in the first nine months of fiscal 2018 it reported a restructuring cost of $207 million. The company expected restructuring costs between $600-$700 million to be incurred between fiscal 2017 and fiscal 2021.

After analyzing these results we believe that the company in these first years of the project will incur in more costs than it will in the following years, none the less we estimate that the LBF program will result in a bit more than $700 million of restructuring costs.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Restructuring Charge	(15)	3	0	(133)	(226)

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Restructuring Charge	(257)	(160)	(100)	(80)	0	0	0	0	0	(5)

Table 6 - EL historical and forecasted Restructuring Charge from 2013-2027

In the next few years after the conclusion of Leading Beauty Forward initiative we estimate that the company will not incur in restructuring costs, but in our final year of forecast (2027), we will account for a $5 million charge.

We believe that not all years the company will be incurring in restructuring costs, but eventually it will have new programs to adapt the company's performance to the market's evolution.

In order to forecast the following years of **Selling, general and administrative expenses**, a year on year growth rate was computed for each of the last 5 years. Then, an average of the last 5 years growth rates was computed (2.55%) and applied to all the subsequent years. This method was applied because the company did not provide sufficient data for us to forecast each year separately.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Selling/General/Admin. Expenses, Total	6.599	6.984	6.893	7.152	7.288
		5,83%	-1,30%	3,76%	1,90%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Selling/General/Admin. Expenses, Total	7.474	7.664	7.859	8.060	8.015	7.969	7.922	7.874	7.824	7.977
	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	1,95%
						-0,57%	-0,59%	-0,61%	-0,63%	-0,60%

Table 7 - EL historical and forecasted Selling, general and administrative expenses from 2013-2027

Leading Beauty Forward initiative is expected to save costs in Selling, general and administrative expenses from fiscal 2021 onward. The savings are expected to be around \$200-\$300 million per year. We followed the company's expectations and applied a \$250 million reduction in each year from 2022 to 2026; the reduction was not applied in 2027 because we do not believe that the company can cut that precise amount forever, but we do believe that they will keep up with some costs reduction.

To forecast the Selling, general and administrative expenses for 2027, growth rates on Selling, general and administrative expenses were computed for the years 2022-2026 (where we applied a \$250 million reduction). Next an average of those growth rates was computed (-0.60%).

To determine the 2027 growth rate for Selling, general and administrative expenses, we took the average growth rate of the years 2022-2026 (-0.60%) from the already computed and applied growth average (2.55%), giving us a terminal growth of 1.95%. Now, from 2027 onwards the company item will not be growing as much in the following years, reflecting some cost saving from the LBF initiative.

5.4 Depreciation and Amortization

The company informs in their reports that the Depreciation and Amortization is based on the item net sales, for that reason a ratio was computed for the years 2013-2017 between D&A and Net Sales, with this ration we can better analyze their relationship. The percentages are all quite similar, it can be observed in table 8, because of that an average of those percentages was computed and applied to the following years. Finally, to forecast the D&A we multiplied net sales of each year with the average ratio.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Revenue -Net Sales	10.182	10.969	10.780	11.262	11.824
Depreciation/Amortization	337	385	409	415	464
	3,31%	3,51%	3,79%	3,68%	3,92%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Revenue -Net Sales	13.640	14.775	15.715	16.452	17.098	17.687	18.226	18.707	19.109	19.456
Depreciation/Amortization	497	538	573	600	623	645	664	682	696	709
	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%

Table 8 - EL historical and forecasted Depreciation and Amortization from 2013-2027

5.5 Interest

Interest item includes **Interest Expense** and **Interest Income**. Interest Expense was forecasted by computing each year's interest expense on the corresponding debt (appendix 9); for that, special attention was given to maturity dates of bonds and loan. The loan, called New Facility, may be used for general corporate purposes.

The New Facility was not used yet, but to get it the company incurred in approximately $1 million to establish the credit line, this amount will be amortized during the term of the facility. Besides the cost incurred to establish it, there is an annual fee of approximately $1 million.

In our estimates we were conservative and did not account for issues such as new bonds or loans, instead, we maintained the value of interest expense at that time. We are accounting for at least the same interest on debt in the following years, which is not strange since the company is constantly issuing or renegotiating debt.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Interest Expense - Non-Operating	(55)	(51)	(60)	(71)	(103)
Interest Income - Non-Operating	8	9	15	16	28
	-114,55%	-117,65%	-125,00%	-122,54%	-127,18%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Interest Expense - Non-Operating	(118)	(118)	(118)	(109)	(101)	(100)	(94)	(94)	(94)	(94)
Interest Income - Non-Operating	52	30	30	27	25	25	24	24	24	24
	-144,15%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%

Table 9 - EL historical and forecasted Interest from 2013-2027

To forecast Interest Income first we forecasted fiscal 2018 results, using the data available of the first 3 trimesters. Then we computed historical ratios between Interest Expense and Interest Income, from fiscal 2013 to fiscal 2018. An average of those ratios was computed and applied to the following years.

5.6 Taxes

In order to forecast the Provision for income taxes we computed the implied tax rate of past years. With this calculation we could better see how many taxes had the company paid in the last years, but it does not give us a precise estimate for the future, especially in the next years, since the new US tax law was approved.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Net Income Before Taxes	1.483	1.786	1.561	1.555	1.617
Provision for Income Taxes	451	568	467	434	361
tax rate %	30,41%	31,80%	29,92%	27,91%	22,33%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Net Income Before Taxes	2.618	3.369	3.952	4.341	4.965	5.461	5.924	6.339	6.696	6.803
Provision for Income Taxes	602	708	830	912	1.043	1.147	1.244	1.331	1.406	1.429
tax rate %	23,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%

Table 10 - EL historical and forecasted Taxes from 2013-2027

The US now has a flat corporate tax rate of 21%, but it cannot be directly applied to EL in fiscal 2018 due to the impact of TCJA provisional charges. For fiscal 2018 we applied a tax rate of 23%, following company's estimate, and 21% for the remaining years. We believe that the tax rate will be stable at 21%; nevertheless this value will be challenged on a sensitivity analysis. Government changes through the years, so may the laws.

5.7 Minority Interest

The Estée Lauder Companies owns minority investments in Forest Essentials (fiscal 2009), Dr Jart+ (fiscal 2016), and DECIEM (fiscal 2017). We were not able to know the participation taken by EL on DECIEM, but taking in consideration historical data we assume an increase of $1 million on Minority Interest item. For the following years we continued to assume $8 million on Minority Interest.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Minority Interest	(4)	(5)	(5)	(6)	(7)

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Minority Interest	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)

Table 11 - EL historical and forecasted Minority Interest from 2013-2027

5.8 Extraordinary Items

In fiscal 2018 due to TCJA the company incurred in some extraordinary costs, Extraordinary Item forecasted for fiscal 2018 is $325 million. No more extraordinary items are forecasted for the following years (appendix 10).

5.9 Shares, EPS and Cash Dividends

During fiscal 2017 EL returned $899 million to stockholders through dividend and stock repurchases, while in fiscal 2016 they had repurchased $890 million of outstanding shares and returned over 100 percent of free cash flow to stockholders.

Every year the company is authorized by the Board of Directors to repurchase Common Stock, but there is no plan for future years; in order to forecast next year number of Basic Weighted Average Shares we computed the percentage between each year from 2013 to 2017, followed by an average of those percentages and applied it to subsequent years. This method was applied since the company seems to have repurchased similar amounts of shares every year.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Net Income	1.028	1.213	1.089	1.115	1.249
Basic Weighted Average Shares	388	386	379	370	367
		99,48%	98,19%	97,63%	99,19%
Basic EPS	2,65	3,14	2,87	3,01	3,40
	0,26%	0,26%	0,26%	0,27%	0,27%
Diluted Net Income	1.020	1.204	1.089	1.115	1.249
Diluted Weighted Average Shares	395	393	386	377	373
Diluted EPS	2,58	3,06	2,82	2,96	3,35
	0,25%	0,25%	0,26%	0,27%	0,27%

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Net Income	1.683	2.654	3.114	3.421	3.914	4.307	4.672	5.000	5.282	5.366
Basic Weighted Average Shares	362	357	352	347	342	338	333	328	324	319
	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%
Basic EPS	4,65	7,43	8,85	9,85	11,43	12,75	14,03	15,22	16,31	16,80
	0,28%	0,28%	0,28%	0,29%	0,29%	0,30%	0,30%	0,30%	0,31%	0,31%
Diluted Net Income	1.683	2.654	3.114	3.421	3.914	4.307	4.672	5.000	5.282	5.366
Diluted Weighted Average Shares	369	364	359	354	349	345	340	335	331	326
Diluted EPS	4,56	7,29	8,67	9,66	11,20	12,49	13,74	14,91	15,96	16,44
	0,27%	0,27%	0,28%	0,28%	0,29%	0,29%	0,29%	0,30%	0,30%	0,31%

Table 12 - EL historical and forecasted Basic and Diluted Weighted Average Shares and EPS from 2013-2027

To forecast Diluted Weighted Average Shares we analyzed historical results, and saw that every year, with exception of 2017, the difference between Basic and Diluted Weighted Average Shares was 7 million, so, to forecast following years we added 7 million shares to Basic Weighted Average Shares to obtain the item Diluted Weighted Average Shares.

Basic and Diluted EPS presented are a result of the forecasts of Net Income and Basic Weighted Average Shares, and Diluted Net Income with Diluted Weighted Average Shares.

The company distributed quarterly cash dividends from 1996 to 2004; in 2004 and until 2013 they started to distribute an annual dividend, and since fiscal 2013 onward EL returned to their original distribution of quarterly cash dividends.

	2013	2014	2015	2016	2017
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017
Cash Dividend	1,08	0,78	1,03	1,34	1,57
	0,72	0,18	0,20	0,24	0,30
			11,11%	20,00%	25,00%
	0,18	0,20	0,24	0,30	0,34
	0,18	0,20	0,24	0,30	0,34
		0,20	0,24	0,30	0,34

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Cash Dividend	1,61	1,72	2,02	2,37	2,78	3,26	3,82	4,49	5,27	6,18
	0,34	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37
	13,33%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%
	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37	1,61
	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37	1,61
	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37	1,61

Table 13 - EL historical and forecasted Cash Dividend from 2013-2027

Every year on the 2nd quarter of their fiscal year (December), the company has been raising their cash dividend. Following what the company has been doing for the past years, we computed the percentage increase between September and December's dividend each year; an average of those results was computed and applied to the subsequent years (appendix 10). An average of past percentage increase was applied because we believe the company will continue to raise their dividend since they strongly believe in returning wealth to their stockholders, may that be through shares buy-back or distribution of dividends.

The company has a Pension and Post-retirement Plan Funding, every year several factors influence the funding requirements for their pension plans.

5.10 Free Cash Flow to the Firm

After forecasting the Income Statement (appendix 10) and in order to proceed to discount the Free Cash Flows to the Firm we had to give some attention to other items first.

The EBIT used for the valuation was forecasted in the Income Statement as well as the Depreciation. For Tax on EBIT we summed the Provision for Income Taxes present in the Income Statement with the Tax on Interest Expense and Interest Income.

For the item Change in Deferred Taxes we computed the difference between Deferred Taxes present on the Balance Sheet of year N and N-1 (appendix 11). To obtain the values for Deferred Taxes first a ratio was computed between historical values of Deferred Taxes and Operating Income; once the percentages were similar, an average of those was computed and applied to the following years.

Free Cash Flow to the Firm (FCFF)	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
EBIT	2.684,1	3.457,2	4.040,2	4.422,3	5.040,5	5.536,3	5.994,5	6.409,7	6.766,3	6.873,5
(+) Depreciation	497,1	538,5	572,8	599,6	623,2	644,6	664,3	681,8	696,4	709,1
(-) Tax on EBIT	(587,1)	(689,0)	(811,4)	(894,5)	(1.026,7)	(1.131,2)	(1.229,3)	(1.316,5)	(1.391,4)	(1.413,9)
(+) Change in deferred taxes	278,4	172,9	130,4	85,5	138,3	110,9	102,5	92,9	79,8	24,0
(-) Δ working capital	(782,6)	(179,3)	(336,8)	390,6	243,5	13,6	(257,8)	(284,5)	84,2	457,0
(-) Capex	(567,3)	(600,4)	(649,1)	(691,2)	(726,5)	(759,2)	(790,5)	(820,7)	(849,7)	(876,7)
(-) Other investments in fixed assets	(868,2)	(1.146,2)	(1.344,5)	(1.476,8)	(1.689,0)	(1.858,0)	(2.015,4)	(2.156,7)	(2.278,0)	(2.314,4)
Free Cash Flow to the Firm (FCFF)	654,4	1.553,7	1.601,5	2.435,5	2.603,2	2.557,0	2.468,2	2.606,0	3.107,7	3.458,6
growth rate		*137,4%*	*3,1%*	*52,1%*	*6,9%*	*-1,8%*	*-3,5%*	*5,6%*	*19,3%*	*11,3%*

Table 14 - EL Free Cash Flow to the Firm

To compute changes in Working Capital we used as well the forecasts made on the Balance Sheet (appendix 11). Firstly we summed Accounts Receivable to Total Inventory and Other Assets Total and took Accounts Payable, Accrued Expenses (income taxes included) and Other noncurrent Liabilities. Finally a difference was made between year N and N-1(appendix 12).

CAPEX calculations were also based on Balance Sheet forecasts (appendix 11). We added the increase in Property, Plant and Equipment to Depreciation (appendix 13).

5.10.1 Growth Rate

The perpetuity growth rate chosen was 1.8%, this value was chosen taking in consideration a forecasted real GDP of 2.1% (OECD Data, 2018) . A value under GDP forecasts was chosen because EL is a company in the prestige beauty industry; this industry is very trendy now and we believe it will still be in a few years, but its demand will stabilize with a growth less than the average since is not a primary good and so we believe the same will happen with the company.

5.10.2 Perpetuity Value

After having computed the FCFF and choosing a perpetuity growth rate, it was possible to compute the Perpetuity value. Perpetuity value was calculated according to the Literature review, and a value of $80.321 was obtained (appendix 14).

5.11 DCF

To make a DCF valuation, a discount rate is needed to discount the cash flows. In the table below a resume of the values computed to get to the discount rate are presented, followed by an explanation of each.

Market Risk Premium	5,75%
Tax Rate	21%
Cost of Debt (rd)	3,53%
Cost of Debt (rd) after Tax	2,79%
Required rate of return (re)	6,61%
Risk-free Rate	2,99%
Levered Beta	0,63
Unlevered Beta	0,57
E/V	88,78%
D/V	11,22%
WACC	6,18%

Table 15 - EL WACC calculation

5.11.1 Tax Rate

When making provisions for income taxes, the company has to account for U.S federal, foreign, state and local income taxes. For that reason the 21% U.S. tax rate was directly applied.

5.11.2 Market Risk Premium

5.75% was used as it is a commonly accepted value among analysts.

5.11.3 Beta

The levered beta used was 0.63; it was provided by Thomson Reuters service, and was calculated using 5 years of monthly data of EL.

5.11.4 Risk Free

The Estée Lauder Companies is a multinational company based in America, all of its analysis are conducted in U.S. dollars. For this valuation we will use an U.S. government security rate as a proxy for the risk-free. We chose a Treasury yield with 10 year's maturity, with a corresponding yield of 2.99%.

5.11.5 Cost of debt

To compute the cost of debt we had to choose the according default spread. Once the company releases its annual report in June, some of the bonds featured on the report and that account for the interest expense already reached maturity date last March and April, we opted to recalculate the interest expense. These calculations will deliver a more accurate final cost of debt. The interest coverage ratio with the new values calculations is 16.30x.

We used the table provided by Damodaran (2018) (appendix 15) to associate a rating and a default spread. According to the table The Estée Lauder has a rating of AAA, which corresponds to a 0.54% spread.

With all these data computed, we could use the equation in the literature, with the already explained values of tax rate and risk free to compute the cost of debt with impact of tax shields. The value obtained for cost of debt is 2.79%.

5.11.6 Required Rate of return

We computed the required rate of return according to the equation in the literature review, the value obtained is 6.61%.

5.11.7 WACC

In order to calculate WACC, we were still missing the values of E/V and D/V. So we first calculated the market values of Equity and Debt, and then computed WACC. The value obtained was 6.18%.

5.12 Equity Value

Using the computed values of WACC and the FCFF we were able to compute the Enterprise Value presented on the Literature Review. The value of operations of the discounted cash flows resulted in $59.986 million.

Equity value - Mn $	
Description	
Value of operations	59.985,5
(=) Enterprise value	**59.985,5**
(-) Debt (2017 year end)	-3.572,0
(+) Cash and Short term investments (2017 year end)	1.741,0
(=) Equity value	**58.154,5**
Shares Outstanding	367,04
(=) Share Value	**158,44**

Table 16 - Equity Value calculation

The Equity Value of The Estée Lauder Companies is $58.155 million; to reach this value we took the 2017 year end Debt and added 2017 year end Cash and Short term investments to Enterprise Value. In order to know the Share Value of the company, Equity Value was divided by the Shares Outstanding, resulting in a Share Value of $158.44 (appendix 16).

5.13 Sensitivity analysis

The Equity Value obtained in the DCF valuation is a result of the assumptions made. DCF is a subjective model; the outcome of the valuation is a consequence of the forecasts. When making a valuation several decisions have to be made, in the sensitivity analysis we challenged some of the decisions that have the potential to make large changes in the end result.

Five scenarios were built as it can be observed in the table below. Sales was the first item to be challenged since it is the company's revenue, a pessimistic and optimistic scenarios were created. The sales value chosen for the pessimistic scenario was based in a constant decrease in sales by year and by geography, and the optimistic in a constant increase of the same items. Looking at the table it is possible to realize that a change in sales would be the scenarios that would have more impact on the Equity Value.

Sensitivity scenarios

Description	**Pessimistic**		**Optimistic**
Sales (2018-2027)	165.607,4	170.864,5	179.491,8
Equity value	***52.945,2***	***58.154,5***	***67.034,8***
% change	*-9,0%*		*15,3%*
Cost of Revenue margin (2018-2027)	25,0%	20,0%	18,0%
Equity value	***49.378,3***	***58.154,5***	***61.665,0***
% change	*-15,1%*		*6,0%*
Selling, general, administrative (2018-2027)	-200,0	7.331,3	-300,0
Equity value	***56.205,8***	***58.154,5***	***60.139,6***
% change	*-3,4%*		*3,4%*
Tax rate	24%	21%	21%
Equity Value	***56.157,6***	***58.154,5***	***58.154,5***
% change	*-3,4%*		*0,0%*
Market Risk Premium	6,00%	5,75%	5,50%
Equity Value	***56.109,0***	***58.154,5***	***60.336,7***
% change	*-3,5%*		*3,8%*

Table 17 - Sensitivity Analysis

A 20% margin for the cost of revenue was used to forecast cost of sales in the following years, if the company needs to spend more, possibly due to the fast expansion in Europe, Middle East & Africa, and Asia/Pacific. This expansion can result in an increase of cost of revenue and for that we accounted a 25% margin; or a slight decrease if the company optimizes some of the processes, for that case we accounted an 18% margin. The impact on Equity Value would be significant in case of a pessimistic scenario.

Another item challenged was Selling, general, administrative since its forecasts are based in an ongoing initiative of the company. The company forecasted savings between $200- $300 million, once we used an intermediate value ($250 million) on our forecasts, for the scenarios we used the low and top values expected. The scenarios have some impact on Equity Value.

For Tax rate we only accounted for a pessimistic scenario once we believe that in our forecasts we already used an optimistic value. The law changed recently and the new valued approved of 21% tax rate is one of the best, we do not believe the tax rate will be lower than that, however it can increase, for that pessimistic scenario we accounted for 24%. Changes on Equity Value would be minimal.

Market Risk Premium used is a commonly accepted value among analysts, but those values fluctuate a bit, to account for that fluctuation we challenged the premium using a 6% for the pessimistic scenario and a 5.50% for an optimistic one.

The scenarios for sales and the negative scenario for cost of revenue margin are the ones that alone have bigger impacts on the Equity Value. If some or all the items challenged met our pessimistic scenario it would have a bigger impact on the Equity Value than if our optimistic scenarios happened.

5.14 Multiples

For our multiples based valuation we first started by choosing the peer group. Taking into account some industry reports, the company's report and some independent research; we began to build the company's comparables. Once the Prestige Beauty industry has a wide range of companies with similar business and ratios, we opted to not look into different industries for comparables.

In the beginning of the selection we had ten companies that belong to the Prestige Beauty industry. Two of them were private companies, and the remaining eight public. In the next table it is stated the initial ten companies along with their identifier.

Group Clarins	-
Chanel SA	-
Avon Products Inc.	AVP
LVMH	MC
Procter & Gamble Company	PG
Beiersdorf AG	BEI
L'Oreal SA	OR
Shiseido Company Ltd.	4911
Coty Inc.	COTY
Amorepacific Group	002790

Table 18 - EL original peer group

Clarins and Chanel are both private firms, to use them as comparables transaction multiples would have to be applied. Transaction multiples are not as accurate as the rest, because no two deals are the same, and choosing a transaction over another could easily be perceived as data mining. Little information is given by transaction multiples, and the information that is being made available can be misleading.

We chose to use as comparables more transparent firms, and that have their information disclosed to the public, as so, only public companies will be featuring the peer group.

From the remaining eight companies next we excluded Avon, once the company has a completely different business model and analysis of their revenue and income growth from the last 5 years is quite negative.

We also excluded from the peer group Procter and Gamble and Coty. In 2017 Procter and Gamble sold their specialty beauty brands to Coty, with this sale Procter and Gamble is not part of the Prestige beauty industry anymore. P&G and Coty both had negative growth, concerning the past 5 years; P&G had -19% revenue growth, and Coty had -351% net income growth.

LVMH	MC
Beiersdorf AG	BEI
L'Oreal SA	OR
Shiseido Company Ltd.	4911
Amorepacific Group	002790

Table 19 - EL peer group

Our final peer group is the one stated in the table above. Data on these companies was analyzed, and some multiples were computed (appendices 16 and 17).

JPY/USD	$	0,009167
EUR/USD	$	1,192200
KRW/USD	$	0,000928

Table 20 - Exchange rates

Data of the first eight companies was withdrawn from Reuters on 08/05/2018. We treated all the data in US dollar, once not all the companies use US currency we went to Bloomberg, on the same date, and withdrawn the needed exchange rates.

For our valuation we chose to use the multiples highlighted on the Literature Review. Bellow we present the results adjusted by weighted average.

MULTIPLE VALUATION	EV/EBITDA		P/E	
Enterprise Value	$	44.702,80	$	54.090,68
Equity Value	$	40.237,80	$	49.625,68
Share Price	$	109,63	$	135,21

Table 21 - Multiples Valuations

The EV/EBITDA multiple gave us an Equity Value of $40.237,80 million, and a Share Price of $109,63; while the P/E gave us an Equity Value of $49.625,68 million, and a Share Price of $135,21.

The two values are quite different, EV/EBITDA multiple is under market value ($49.106,28 million), and P/E is slightly above.

6. Investment Note

Valuations were made with two different models, Discounted Cash Flow and Multiples. The DCF valuation gave an equity value of $58.155 million, corresponding to $158.4 a share; while using market multiples of comparable firms we reached an equity value of $40.238 million with the EV/EBITDA multiple, corresponding to $109.6 a share; and an equity value of $49.626 million with the P/E multiple, corresponding to $135.2 a share.

	EV/EBITDA	P/E	DCF
Equity Value	$ 40.237,80	$ 49.625,68	$ 58.154,52
Share Price	$ 109,63	$ 135,21	$ 158,44

Table 22 - Results of EV/EBITDA, P/E and DCF valuations

The equity values given by the DCF model and the multiples are quite different. The multiples were computed on historic data, for this reason and once the company is having an outstanding fiscal 2018 and is fast expanding in emerging markets, historic data may not reflect accurately the company.

After analyzing both of the models, and analyzing possible problems, we believe that the company will reach a value per share similar to the one given by our DCF valuation, $158.4.

With our recommendation that The Estée Lauder Companies has an equity value of $58.155 million, we are assuming that the market is undervaluing the company ($49.106 million) and that in the following 6 to 12 months EL share price will rise approximately 18% and meet our forecasts.

This analysis holds a BUY recommendation.

7. Comparison with Investment Bank Report

Investment bank Wells Fargo latest equity research on The Estée Lauder Companies stated that they reiterate outperform on continued topline growth momentum, giving a valuation of \$150 a share. This valuation was made public on February 2nd 2018, when the company's share price was being traded at \$134.39 (appendix 18).

	Wells Fargo	Calisto
Share Price	$ 150,00	$ 158,44

Table 23 - Share Price Comparison

We had access to two valuations performed by Wells Fargo; one presented on November 14 2016, where the company evaluated EL on three methodologies: forward EV/EBITDA, forward P/E and Sum of the parts by region cash flow analysis, and gave a valuation range of \$94-96 a share.

The most recent valuation presented on February 2nd 2018 is an update price target, and the one we will give more attention. For this update Wells Fargo based its valuation on two methodologies: forward EV/EBITDA implying a complete year of 2019 estimates that gave a multiple of 18.3x; and forward P/E multiple of 25.5x.

	EV/EBITDA	P/E
Wells Fargo - forward	18,3x	25,5x
Calisto - trailing	18,75x	35,39x

Table 24 - Multiples results

In our valuation we used the DCF model, and as well the multiples EV/EBITDA and P/E, 18.75x and 35.39x respectively. While our multiples were computed on historical data, Wells Fargo ones were computed on forecasts.

To be able to compute the forward multiples the investment bank had to forecast the income statement. They made estimates until year 2025, while our estimates were made until year 2027.

After analyzing their Quarterly Earnings Model (apendix19) we saw that Wells Fargo gave more accelerated growth rates to their sales; this, combined with cost of sales around 20%, gave them a higher gross profit ($17.182 million) on 2025 than our forecasts for that year ($14.965 million). These accelerated growth rates on net sales are due to great expectations from Wells Fargo about the American region, which in our valuation were more conservative once the American market is reaching saturation.

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net Sales								
Wells Fargo	$ 13.452,30	$ 14.380,90	$ 15.386,10	$ 16.462,00	$ 17.613,50	$ 18.845,90	$ 20.165,00	$ 21.576,80
Calisto	$ 13.639,86	$ 14.774,65	$ 15.715,32	$ 16.451,78	$ 17.098,07	$ 17.687,48	$ 18.225,99	$ 18.706,71
Gross margin %								
Wells Fargo	79,1%	79,2%	79,3%	79,4%	79,4%	79,5%	79,6%	79,7%
Calisto	80,0%	80,0%	80,0%	80,0%	80,0%	80,0%	80,0%	80,0%
Selling General and Administrative								
Wells Fargo	$ 8.390,80	$ 8.869,20	$ 9.486,00	$ 10.145,90	$ 10.852,00	$ 11.607,50	$ 12.415,80	$ 13.280,70
Calisto	$ 7.473,67	$ 7.664,06	$ 7.859,31	$ 8.059,53	$ 8.014,85	$ 7.969,03	$ 7.922,05	$ 7.873,87
Net Income								
Wells Fargo	$ 1.639,90	$ 1.837,80	$ 1.978,60	$ 2.129,50	$ 2.290,00	$ 2.460,10	$ 2.639,40	$ 2.827,10
Calisto	$ 1.683,11	$ 2.653,55	$ 3.114,13	$ 3.421,29	$ 3.914,11	$ 4.306,55	$ 4.672,00	$ 5.000,04
Dividend growth								
Wells Fargo	22,5%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%	10,0%
Calisto	13,33%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%

Table 25 - Comparison between Calisto and Wells Fargo valuation

A big difference between our forecasts can be seen on the item Selling, general and administrative expenses, where they are accounting for almost the double than us, which does not make sense since the company is in LBF program and is restructuring to lower those costs. In the income statement, other item that stands out is the income taxes expected, Wells Fargo is estimating a 24% tax rate, while we applied a 21%.

The investment bank in what accounts for dividend distributions is forecasting a 10% growth from fiscal 2019 onwards, close to half of the percentage growth of the last years.

8. Conclusion

The dissertation started with a deeper analysis of valuation models on the literature review, followed by an overview of the markets and of the industry where the company is insert. Having all this information enabled us to choose the right models and methods to use in the valuation of The Estée Lauder Companies.

Concerning the valuation models we chose two different approaches, one using DCF and other using Multiples. For the multiples approach two different multiples were applied, EV/EBITDA and P/E. When using multiples we are acknowledging that the companies in our peer group are well valued by the markets, and that does not always happen. The relative valuation was made more as a comparison between our valuation and the markets.

The values obtained in the three valuations were quite different, as it was presented in the Investment Note. We chose to give the final valuation of the company based in the DCF model, giving an Equity Valuation of $58.154,5 million, which translates in $158.44 a share.

DCF model for us is the most accurate and realistic method, adding a sensitivity analysis makes it more reliable once some critical items were challenged and we were able to see how it could affect the overall valuation.

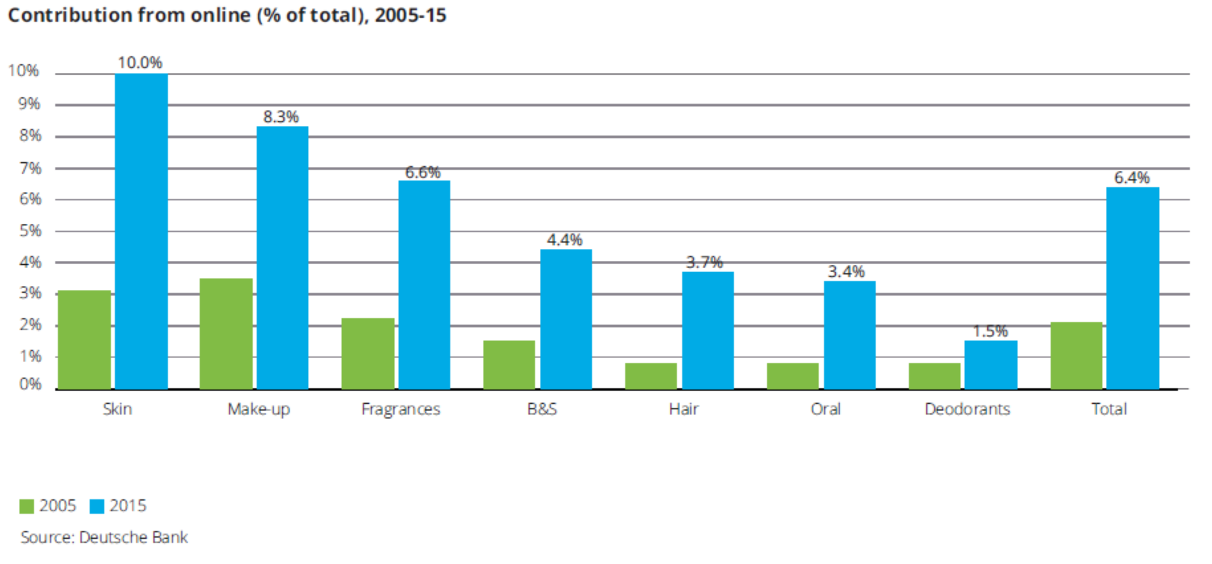
After analyzing the forecasts and methods made in the investment bank valuation we still stand by our own; we understand why they made their forecasts in a certain way, but we just do not agree with some of them.

Any valuation is subjective and is depending on several different factors; sensitivity analysis help to measure some of the possible impacts on the Equity Value that we cannot predict.

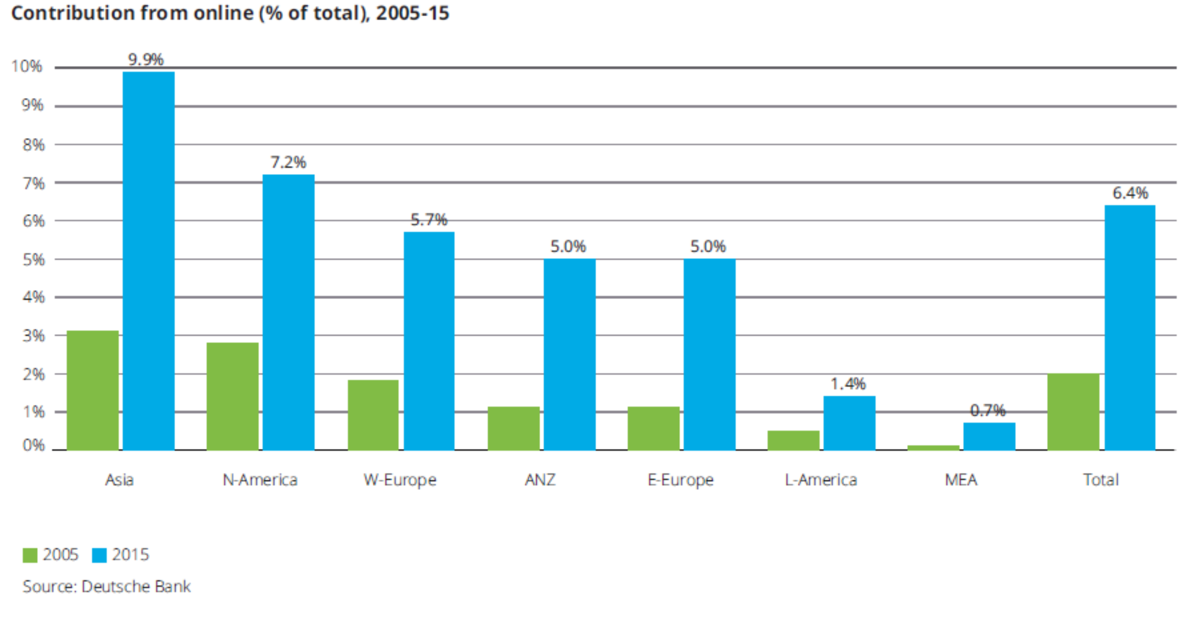
Different analysts have different ways to analyze and read the industries and markets, some are more positive and others more negative. Either way it is obvious that the Prestige Beauty industry is experiencing growth and is a trendy market, we believe that EL will accompany that growth, especially with the help of Asia/Pacific and Europe, the Middle East and Africa fast growth.

9. Appendix

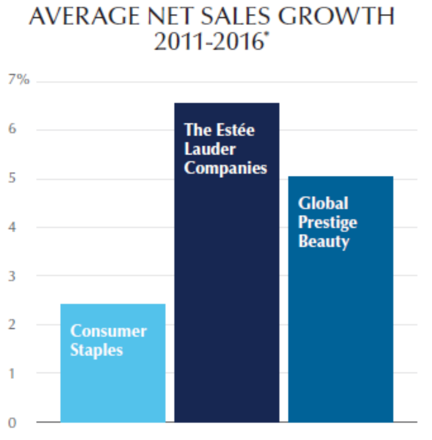
9.1 Appendix 1 – Contribution from online sales between ranges of products



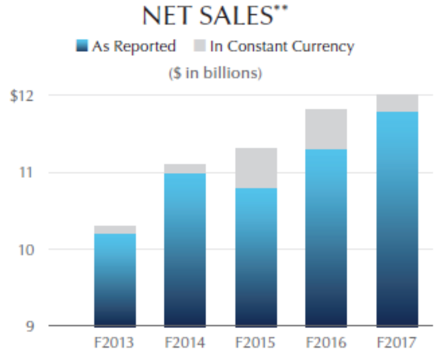
9.2 Appendix 2 – Contribution from online sales through geographic regions



9.3 Appendix 3 – Average net sales growth 2011-2016, year ended June 30

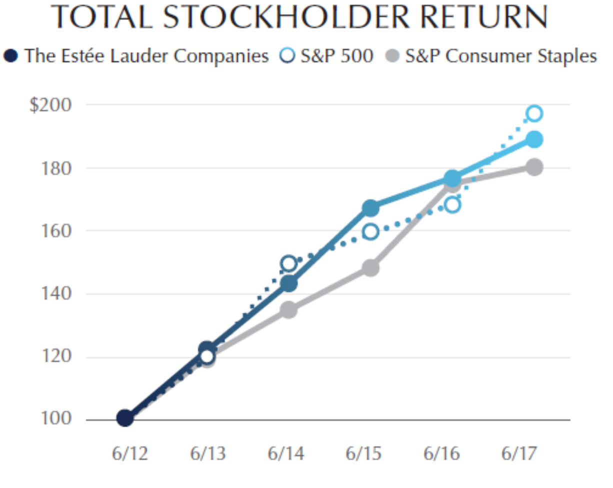


9.4 Appendix 4 – Net sales as reported and in constant currency, year ended June 30



	F2013	F2014	F2015	F2016	F2017
As Reported	5%	8%	-2%	4%	5%
In Constant Currency	6%	8%	3%	9%	7%

9.5 Appendix 5 –Total stockholders return 2012-2017, year ended June 30



9.6 Appendix 6 – Top outside holders of The Estée Lauder Companies

NAME	SHARES HELD	% O/S*	SHARES CHANGE**	13F FILING DATE
Fidelity Management and Research Company	17,202,294	4.67	(1,023,447)	December 31, 2017
Vanguard Group Inc	16,073,929	4.37	513,837	December 31, 2017
Jennison Associates LLC	9,533,553	2.59	3,372,279	December 31, 2017
State Street Corp	9,298,058	2.53	240,190	December 31, 2017
BlackRock Inc	8,966,595	2.44	700,087	December 31, 2017
BlackRock Institutional Trust Company NA	6,823,800	1.85	244,910	December 31, 2017
MFS Investment Management KK	4,570,361	1.24	(114,013)	December 31, 2017
HHG PLC	4,322,486	1.17	(172,041)	December 31, 2017
Fundsmith LLP	3,844,901	1.04	0	December 31, 2017
Northern Trust Investments N A	3,778,222	1.03	525	December 31, 2017
Janus Capital Management LLC	3,768,103	1.02	(352,686)	December 31, 2017
TIAA-CREF Investment Management LLC	3,640,428	0.99	(317,901)	December 31, 2017
Brown Investment Advisory Incorporated	3,464,707	0.94	(378,758)	December 31, 2017

American Century Inv Mgt Inc	2,993,905	0.81	(471,718)	December 31, 2017
Royal Bank Of Canada	2,742,076	0.74	109,032	December 31, 2017
State Street Global Advisors (Aus) Ltd	2,663,429	0.72	(193,094)	March 29, 2018
Wellington Management Company LLP	2,467,339	0.67	(285,119)	December 31, 2017
Geode Capital Management, LLC	2,426,219	0.66	108,813	December 31, 2017
Alecta Pensionsforsakring, Omsesidigt	2,090,300	0.57	(730,000)	December 31, 2017
Goldman, Sachs & Co.	1,728,777	0.47	389,720	December 31, 2017

* Of total Class A and Class B shares

** As of previous filing

9.7 Appendix 7 – Net sales 2016- 2017 and forecasted net sales 2018

	2016					2017					2018					
	30-Sep-2015	31-Dec-2015	31-Mar-2016	30-Jun-2016		30-Sep-2016	31-Dec-2016	31-Mar-2017	30-Jun-2017		30-Sep-2018	31-Dec-2018	31-Mar-2018	3/4	30-Jun-2018	
Net Sales	**2.835**	**3.125**	**2.657**	**2.646**	**11.262**	**2.865**	**3.208**	**2.857**	**2.894**	**11.824**	**3.274**	**3.744**	**3.370**	**10.388**	**3.252**	**13.640**
						1,07%	**2,66%**	**7,55%**	**9,36%**	**4,99%**	**14,28%**	**16,71%**	**17,96%**		**12,37%**	**15,36%**
The Americas	1.268	1.227	1.112	1.103	4.710	1.233	1.242	1.171	1.173	4.819	1.329	1.308	1.181	3.818	1.214	5.032
						-2,78%	1,22%	5,31%	6,35%	2,31%	7,79%	5,31%	0,85%	-20,77%	**3,50%**	4,42%
Europe, the Middle East & Africa	1.017	1.268	1.023	1.073	4.381	1.044	1.307	1.126	1.173	4.650	1.258	1.562	1.416	4.236	1.408	5.644
						2,68%	3,04%	10,07%	9,37%	6,15%	20,50%	19,51%	25,75%	-8,90%	**20,00%**	21,37%
Asia/Pacific	550	629	522	472	2.173	590	659	560	548	2.357	687	874	773	2.334	630	2.964
						7,35%	4,70%	7,38%	16,05%	8,48%	16,44%	32,63%	38,04%	-0,98%	**15,00%**	25,76%

9.8 Appendix 8 – Net sales 2013-2017 and forecasted net sales 2018-2027 (annual standardized in Millions of U.S. Dollars)

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	0-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Net Sales	**10.182**	**10.969**	**10.780**	**11.262**	**11.824**	**13.640**	**14.775**	**15.715**	**16.452**	**17.098**	**17.687**	**18.226**	**18.707**	**19.109**	**19.456**
		7,73%	**-1,72%**	**4,47%**	**4,99%**	**15,36%**	**8,32%**	**6,37%**	**4,69%**	**3,93%**	**3,45%**	**3,04%**	**2,64%**	**2,15%**	**1,81%**
The Americas	4.303	4.572	4.514	4.710	4.819	5.032	5.158	5.261	5.366	5.474	5.556	5.625	5.681	5.710	5.738
		6,25%	-1,27%	4,34%	2,31%	4,42%	2,50%	2,00%	2,00%	2,00%	1,50%	1,25%	1,00%	0,50%	0,50%
Europe, the Middle East & Afri	3.759	4.164	4.086	4.381	4.650	5.644	6.208	6.705	7.073	7.392	7.687	7.956	8.195	8.400	8.568
		10,77%	-1,87%	7,22%	6,14%	21,37%	10,00%	8,00%	5,50%	4,50%	4,00%	3,50%	3,00%	2,50%	2,00%
Asia/Pacific	2.122	2.233	2.180	2.173	2.357	2.964	3.409	3.750	4.012	4.233	4.445	4.645	4.830	4.999	5.149
		5,23%	-2,37%	-0,32%	8,47%	25,76%	15,00%	10,00%	7,00%	5,50%	5,00%	4,50%	4,00%	3,50%	3,00%

9.9 Appendix 9 – Debt and Facility tables

Bonds	Description	Issue Date	Maturity Date	Debt	Interest rate	Interest paid
2020	EL 1.8000 07-Feb-2020	09-Feb-2017	07-Feb-2020	498	1,80%	9,0
2021	EL 1.7000 10-May-2021 '21	10-May-2016	10-May-2021	445	1,70%	7,6
2022	EL 2.3500 15-Aug-2022	02-Aug-2012	15-Aug-2022	252	2,35%	5,9
2027	EL 3.1500 15-Mar-2027 '26	09-Feb-2017	15-Mar-2027	497	3,15%	15,7
2033	EL 5.7500 15-Oct-2033	29-Sep-2003	15-Oct-2033	197	5,75%	11,3
2037	EL 6.0000 15-May-2037	01-May-2007	15-May-2037	294	6,00%	17,6
2042	EL 3.7000 15-Aug-2042	02-Aug-2012	15-Aug-2042	247	3,70%	9,1
2045	EL 4.3750 15-Jun-2045 '44	04-Jun-2015	15-Jun-2045	455	4,38%	19,9
2047	EL 4.1500 15-Mar-2047 '46	09-Feb-2017	15-Mar-2047	493	4,15%	20,5

Loans	Facility Type	Issue Date	Maturity Date	Facility Amt (USD)	Base Rate/Spd
2016	Revolver/Line >= 1 Yr.	03-Oct-2016	03-Oct-2021	1.500	LIBOR+69.5

9.11 Appendix 10 – Income Statement (annual standardized in Millions of U.S. Dollars)

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Revenue -Net Sales	10.182	10.969	10.780	11.262	11.824	13.640	14.775	15.715	16.452	17.098	17.687	18.226	18.707	19.109	19.456
		7,73%	-1,72%	4,47%	4,99%	15,36%	8,32%	6,37%	4,69%	3,93%	3,45%	3,04%	2,64%	2,15%	1,81%
Cost of Revenue	2.025	2.158	2.101	2.181	2.437	2.728	2.955	3.143	3.290	3.420	3.537	3.645	3.741	3.822	3.891
		6,57%	-2,64%	3,81%	11,74%	11,94%	8,32%	6,37%	4,69%	3,93%	3,45%	3,04%	2,64%	2,15%	1,81%
						20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%	20,00%
Gross Profit	8.157	8.811	8.679	9.081	9.387	10.912	11.820	12.572	13.161	13.678	14.150	14.581	14.965	15.287	15.564
		80,33%	80,51%	80,63%	79,39%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%	80,00%
Selling/General/Admin. Expenses, Total	6.599	6.984	6.893	7.152	7.288	7.474	7.664	7.859	8.060	8.015	7.969	7.922	7.874	7.824	7.977
		5,83%	-1,30%	3,76%	1,90%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	2,55%	1,95%
											-0,57%	-0,59%	-0,61%	-0,63%	-0,60%
Corporate Expense/ other	(18)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Restructuring Charge	(15)	3	0	(133)	(226)	(257)	(160)	(100)	(80)	0	0	0	0	0	(5)
EBITDA	1.844	2.213	2.015	2.025	2.156	3.181	3.996	4.613	5.022	5.664	6.181	6.659	7.092	7.463	7.583
Depreciation/Amortization	337	385	409	415	464	497	538	573	600	623	645	664	682	696	709
	3,31%	3,51%	3,79%	3,68%	3,92%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%	3,64%
Operating expense	8.994	9.524	9.403	9.881	10.415	10.956	11.317	11.675	12.029	12.058	12.151	12.232	12.297	12.343	12.582
Operating Income	1.507	1.828	1.606	1.610	1.692	2.684	3.457	4.040	4.422	5.040	5.536	5.994	6.410	6.766	6.873
Interest Inc.(Exp.),Net-Non-Op., Total	(47)	(42)	(45)	(55)	(75)	(66)	(88)	(88)	(81)	(76)	(75)	(70)	(70)	(70)	(70)
Interest Expense - Non-Operating	(55)	(51)	(60)	(71)	(103)	(118)	(118)	(118)	(109)	(101)	(100)	(94)	(94)	(94)	(94)
Interest Income - Non-Operating	8	9	15	16	28	52	30	30	27	25	25	24	24	24	24
	-114,55%	-117,65%	-125,00%	-122,54%	-127,18%	-144,15%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%	-125,18%
Other Non-Operating Income (Expense)	23	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income Before Taxes	1.483	1.786	1.561	1.555	1.617	2.618	3.369	3.952	4.341	4.965	5.461	5.924	6.339	6.696	6.803

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Provision for Income Taxes	451	568	467	434	361	602	708	830	912	1.043	1.147	1.244	1.331	1.406	1.429
tax rate %	30,41%	31,80%	29,92%	27,91%	22,33%	23,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%	21,00%
Net Income After Taxes	1.032	1.218	1.094	1.121	1.256	2.016	2.662	3.122	3.429	3.922	4.315	4.680	5.008	5.290	5.374
Minority Interest	(4)	(5)	(5)	(6)	(7)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Net Income Before Extra. Items	1.028	1.213	1.089	1.115	1.249	2.008	2.654	3.114	3.421	3.914	4.307	4.672	5.000	5.282	5.366
Extraordinary Item	0	0	0	0	0	(325)	0	0	0	0	0	0	0	0	0
Net Income	1.028	1.213	1.089	1.115	1.249	1.683	2.654	3.114	3.421	3.914	4.307	4.672	5.000	5.282	5.366
Basic Weighted Average Shares	388	386	379	370	367	362	357	352	347	342	338	333	328	324	319
		99,48%	98,19%	97,63%	99,19%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%	98,62%
Basic EPS	2,65	3,14	2,87	3,01	3,40	4,65	7,43	8,85	9,85	11,43	12,75	14,03	15,22	16,31	16,80
	0,26%	0,26%	0,26%	0,27%	0,27%	0,28%	0,28%	0,28%	0,29%	0,29%	0,30%	0,30%	0,30%	0,31%	0,31%
Diluted Net Income	1.020	1.204	1.089	1.115	1.249	1.683	2.654	3.114	3.421	3.914	4.307	4.672	5.000	5.282	5.366
Diluted Weighted Average Shares	395	393	386	377	373	369	364	359	354	349	345	340	335	331	326
Diluted EPS	2,58	3,06	2,82	2,96	3,35	4,56	7,29	8,67	9,66	11,20	12,49	13,74	14,91	15,96	16,44
	0,25%	0,25%	0,26%	0,27%	0,27%	0,27%	0,27%	0,28%	0,28%	0,29%	0,29%	0,29%	0,30%	0,30%	0,31%
Cash Dividend	1,08	0,78	1,03	1,34	1,57	1,61	1,72	2,02	2,37	2,78	3,26	3,82	4,49	5,27	6,18
	0,72	0,18	0,20	0,24	0,30	0,34	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37
			11,11%	20,00%	25,00%	13,33%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%	17,36%
	0,18	0,20	0,24	0,30	0,34	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37	1,61
	0,18	0,20	0,24	0,30	0,34	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37	1,61
		0,20	0,24	0,30	0,34	0,38	0,45	0,52	0,61	0,72	0,85	0,99	1,17	1,37	1,61

9.11 Appendix 11 – Balance Sheet (annual standardized in Millions of U.S. Dollars)

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Assets ($ Millions)															
Cash and Short Term Investments	1.496	1.629	1.525	1.383	1.741	2.472	2.677	2.587	2.663	2.767	2.863	2.950	3.028	3.093	3.149
Cash & Equivalents	1.496	1.629	1.021	914	1.136	1.774	1.921	1.827	1.867	1.940	2.007	2.068	2.123	2.168	2.208
Short Term Investments	0	0	504	469	605	698	756	760	796	827	856	882	905	924	941
Accounts Receivable - Trade, Net	1.171	1.379	1.174	1.258	1.395	1.626	1.761	1.821	1.906	1.981	2.049	2.112	2.167	2.214	2.254
Accounts Receivable - Trade, Gross	1.194	1.355	1.195	1.282	1.425	1.644	1.781	1.842	1.928	2.004	2.073	2.136	2.192	2.240	2.280
Provision for Doubtful Accounts	(23)	24	(21)	(24)	(30)	(18)	(20)	(21)	(22)	(23)	(24)	(24)	(25)	(26)	(26)
Total Inventory	1.114	1.295	1.216	1.263	1.479	1.590	1.723	1.832	1.918	1.994	2.062	2.125	2.181	2.228	2.269
Prepaid Expenses and other current assets	516	523	268	320	349	494	535	569	596	619	641	660	678	692	705
Total Current Assets	4.297	4.826	4.183	4.224	4.964	6.182	6.696	6.810	7.083	7.362	7.615	7.847	8.054	8.227	8.377
Property/Plant/Equipment, Total - Net	1.351	1.503	1.491	1.583	1.671	1.774	1.878	1.988	2.107	2.234	2.370	2.516	2.672	2.840	3.020
Property/Plant/Equipment, Total - Gross	3.228	3.530	3.580	3.796	4.019	4.238	4.484	4.748	5.031	5.335	5.659	6.008	6.381	6.782	7.213
Buildings - Gross	1.545	1.771	1.807	1.976	2.110	2.283	2.470	2.673	2.892	3.129	3.385	3.663	3.963	4.288	4.640
Land/Improvements - Gross	15	15	15	15	30	18	18	18	18	18	18	18	18	18	18
Machinery/Equipment - Gross	1.596	1.669	1.684	1.721	1.783	1.833	1.885	1.938	1.993	2.049	2.107	2.166	2.227	2.290	2.354
Other Property/Plant/Equipment - Gross	72	75	74	84	96	103	111	120	129	139	149	161	173	187	201
Accumulated Depreciation, Total	(1.877)	(2.027)	(2.089)	(2.213)	(2.348)	(2.463)	(2.607)	(2.760)	(2.925)	(3.101)	(3.290)	(3.492)	(3.709)	(3.942)	(4.193)
Goodwill, Net	882	893	1.145	1.228	1.916	1.213	1.213	1.213	1.213	1.213	1.213	1.213	1.213	1.213	1.213
Intangibles, Net	170	157	326	345	1.327	642	461	461	461	461	461	461	461	461	461
Intangibles - Gross	417	417	598	632	1.649	960	779	779	779	779	779	779	779	779	779
Accumulated Intangible Amortization	(247)	(260)	(272)	(287)	(322)	(317)	(317)	(317)	(317)	(317)	(317)	(317)	(317)	(317)	(317)
Long Term Investments	0	14	420	1.108	1.026	1.019	1.104	1.174	1.229	1.277	1.321	1.362	1.398	1.428	1.453
Other Assets Total	446	477	661	735	664	978	1.151	1.281	1.367	1.505	1.616	1.718	1.811	1.891	1.915
Defered Income Tax	0	0	351	422	322	600	773	904	989	1.127	1.238	1.341	1.434	1.513	1.537
Other Assets	446	477	310	313	342	378	378	378	378	378	378	378	378	378	378
Total Assets	7.146	7.870	8.226	9.223	11.568	11.808	12.503	12.928	13.460	14.052	14.597	15.117	15.609	16.060	16.440

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Liabilities ($ Millions)															
Accounts Payable	482	525	635	717	835	958	1.098	1.260	1.445	1.657	1.900	2.179	2.499	2.866	3.287
Accrued expenses	1.434	1.514	1.465	1.633	1.799	1.850	1.914	1.977	2.039	2.046	2.065	2.081	2.094	2.103	2.144
Other Current liabilities, Total	90	114	0	26	49	70	76	81	85	88	91	94	96	98	100
Income Taxes Payable	81	114	0	0	0	0	0	0	0		0	0	0	0	0
Other Current Liabilities	9	0	0	26	49	0	0	0	0	0	0	0	0	0	0
Current debt	18	18	30	332	189	118	118	616	554	353	100	94	94	94	591
Total Current Liabilities	1.934	2.057	2.130	2.682	2.823	2.925	3.130	3.853	4.037	4.056	4.065	4.354	4.687	5.063	6.022
Total Long Term Debt	1.326	1.325	1.595	1.910	3.383	3.380	3.380	2.882	2.436	2.183	2.183	2.183	2.183	2.183	2.183
Minority Interest	15	15	11	15	18	28	28	28	28	28	28	28	28	28	28
Other noncurrent Liabilities	583	618	848	1.046	960	660	716	455	856	1.168	1.168	843	430	311	411
Total Liabilities	3.858	4.015	4.584	5.653	7.184	6.993	7.254	7.217	7.357	7.435	7.444	7.408	7.328	7.585	8.644

Shareholders Equity ($ Millions)															
Common Stock, Total	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6
Additional Paid-In Capital	2.290	2.563	2.872	3.161	3.559	3.974	4.437	4.954	5.532	6.177	6.897	7.701	8.599	9.601	10.721
Retained Earnings (Accumulated Deficit)	5.364	6.266	7.004	7.693	8.452	9.338	10.471	11.743	13.076	14.678	16.474	18.488	20.747	22.890	24.464
Treasury Stock - Common	(4.215)	(4.879)	(5.857)	(6.743)	(7.149)	(8.167)	(9.329)	(10.658)	(12.175)	(13.908)	(15.888)	(18.150)	(20.734)	(23.686)	(27.058)
Unrealized Gain (Loss)	0	1	0	7	(1)	0	0	0	0	0	0	0	0	0	0
Other Equity, Total	(157)	(102)	(383)	(554)	(483)	(336)	(336)	(336)	(336)	(336)	(336)	(336)	(336)	(336)	(336)
Translation Adjustment	37	132	(190)	(299)	(267)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)	(117)
Minimum Pension Liability Adjustment	(214)	(233)	(235)	(285)	(213)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)	(236)
Other Comprehensive Income	20	(1)	42	30	(3)	18	18	18	18	18	18	18	18	18	18
Total Equity	3.288	3.855	3.642	3.570	4.384	4.815	5.249	5.710	6.103	6.617	7.153	7.709	8.282	8.475	7.796
Total Liabilities & Shareholders' Equity	7.146	7.870	8.226	9.223	11.568	11.808	12.503	12.927	13.460	14.052	14.597	15.117	15.609	16.060	16.440

9.12 Appendix 12 - Working Capital table

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Changes in Working Capital															
Accounts Receivable - Trade, Net	1.171,0	1.379,0	1.174,0	1.258,0	1.395,0	1.625,6	1.760,8	1.820,8	1.906,1	1.981,0	2.049,3	2.111,7	2.167,4	2.214,0	2.254,2
Total Inventory	1.114,0	1.295,0	1.216,0	1.263,0	1.479,0	1.590,4	1.722,7	1.832,4	1.918,3	1.993,6	2.062,3	2.125,1	2.181,2	2.228,1	2.268,5
Other Assets Total	446,0	477,0	661,0	735,0	664,0	978,0	1.150,9	1.281,3	1.366,8	1.505,0	1.615,9	1.718,4	1.811,3	1.891,1	1.915,0
Subtotal 1	2.731,0	3.151,0	3.051,0	3.256,0	3.538,0	4.194,0	4.634,4	4.934,5	5.191,2	5.479,7	5.727,6	5.955,3	6.159,9	6.333,2	6.437,7
Accounts Payable	482,0	525,0	635,0	717,0	835,0	957,6	1.098,3	1.259,5	1.444,5	1.656,6	1.899,9	2.178,9	2.498,9	2.865,9	3.286,8
Accrued expenses	1.434,0	1.514,0	1.465,0	1.633,0	1.799,0	1.849,7	1.914,3	1.977,3	2.038,6	2.046,5	2.064,7	2.080,5	2.093,6	2.103,1	2.143,8
Other noncurrent Liabilities	583,0	618,0	848,0	1.046,0	960,0	660,0	716,0	455,0	856,0	1.168,0	1.168,0	843,0	430,0	311,0	411,0
Subtotal 2	2.499,0	2.657,0	2.948,0	3.396,0	3.594,0	3.467,4	3.728,6	3.691,8	4.339,1	4.871,1	5.132,6	5.102,5	5.022,6	5.280,0	5.841,6
Working capital	232,0	494,0	103,0	(140,0)	(56,0)	726,6	905,9	1.242,7	852,1	608,5	595,0	852,8	1.137,3	1.053,2	596,2
wc/sales	2,28%	4,50%	0,96%	-1,24%	-0,47%	5,33%	6,13%	7,91%	5,18%	3,56%	3,36%	4,68%	6,08%	5,51%	3,06%
changes in WC		262,0	(391,0)	(243,0)	84,0	782,6	179,3	336,8	(390,6)	(243,5)	(13,6)	257,8	284,5	(84,2)	(457,0)

9.13 Appendix 13 – CAPEX table

	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Period End Date	30-Jun-2013	30-Jun-2014	30-Jun-2015	30-Jun-2016	30-Jun-2017	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
Increase in Property/Plant/Equipment, Total - Net		152,2	(12,2)	92,1	88,0	103,3	103,3	110,6	118,5	126,9	136,0	145,9	156,5	167,9	180,2
Depreciation		337,0	385,0	409,0	415,0	464,0	497,1	538,5	572,8	599,6	623,2	644,6	664,3	681,8	696,4
Capex		489,2	372,8	501,1	503,0	567,3	600,4	649,1	691,2	726,5	759,2	790,5	820,7	849,7	876,7

9.14 Appendix 14 – FCFF and DCF valuation

Free Cash Flow to the Firm (FCFF)	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
	30-Jun-2018	30-Jun-2019	30-Jun-2020	30-Jun-2021	30-Jun-2022	30-Jun-2023	30-Jun-2024	30-Jun-2025	30-Jun-2026	30-Jun-2027
EBIT	2.684,1	3.457,2	4.040,2	4.422,3	5.040,5	5.536,3	5.994,5	6.409,7	6.766,3	6.873,5
(+) Depreciation	497,1	538,5	572,8	599,6	623,2	644,6	664,3	681,8	696,4	709,1
(-) Tax on EBIT	(587,1)	(689,0)	(811,4)	(894,5)	(1.026,7)	(1.131,2)	(1.229,3)	(1.316,5)	(1.391,4)	(1.413,9)
(+) Change in deferred taxes	278,4	172,9	130,4	85,5	138,3	110,9	102,5	92,9	79,8	24,0
(-) Δ working capital	(782,6)	(179,3)	(336,8)	390,6	243,5	13,6	(257,8)	(284,5)	84,2	457,0
(-) Capex	(567,3)	(600,4)	(649,1)	(691,2)	(726,5)	(759,2)	(790,5)	(820,7)	(849,7)	(876,7)
(-) Other investments in fixed assets	(868,2)	(1.146,2)	(1.344,5)	(1.476,8)	(1.689,0)	(1.858,0)	(2.015,4)	(2.156,7)	(2.278,0)	(2.314,4)
Free Cash Flow to the Firm (FCFF)	654,4	1.553,7	1.601,5	2.435,5	2.603,2	2.557,0	2.468,2	2.606,0	3.107,7	3.458,6
growth rate		*137,4%*	*3,1%*	*52,1%*	*6,9%*	*-1,8%*	*-3,5%*	*5,6%*	*19,3%*	*11,3%*
DCF Valuation										
Perpetuity										80.320,7
"g"										***1,8%***
Discount factor										
@ WACC	*6,2%*	*6,2%*	*6,2%*	*6,2%*	*6,2%*	*6,2%*	*6,2%*	*6,2%*	*6,2%*	*6,2%*
@ Discount factor	0,9	0,9	0,8	0,8	0,7	0,7	0,7	0,6	0,6	0,5
(=) Discounted cash flows	616,3	1.378,0	1.337,7	1.915,8	1.928,5	1.784,0	1.621,8	1.612,6	1.811,0	45.979,8
(=) Value of operations	**59.985,5**									

9.15 Appendix 15 – Rating and Spread table based on interest coverage ratio

If interest coverage ratio is			
>	≤ to	Rating	Spread
-100000	0,1999	D2/D	18,60%
0,2	0,6499	C2/C	13,95%
0,65	0,7999	Ca2/CC	10,63%
0,8	1,2499	Caa/CCC	8,64%
1,25	1,4999	B3/B-	4,37%
1,5	1,7499	B2/B	3,57%
1,75	1,9999	B1/B+	2,98%
2	2,2499	Ba2/BB	2,38%
2,25	2,4999	Ba1/BB+	1,98%
2,5	2,9999	Baa2/BBB	1,27%
3	4,2499	A3/A-	1,13%
4,25	5,4999	A2/A	0,99%
5,5	6,4999	A1/A+	0,90%
6,5	8,4999	Aa2/AA	0,72%
8,5	**100000**	**Aaa/AAA**	**0,54%**

9.16 Appendix 16 – Multiples data

	Currency	Levered Beta	Unlevered Beta	Short term Debt (m)	Long term debt (m)	Cash & Equ.	Net Debt	EV	Shares outstanding (m)	Stock Price ($)	Market Capitalization (m)
Group Clarins	dollar										
Chanel	dollar										
Avon Products Inc.	dollar	1,43	0,38	$ 1.559,60	$ 1.872,20	$ 881,50	$ 2.550,30	$ 3.517,58	441,68	$ 2,19	$ 967,28
Procter and Gamble Company	dollar	0,55	0,45	$ 30.210,00	$ 18.038,00	$ 15.137,00	$ 33.111,00	$ 213.780,80	2510,00	$ 71,98	$ 180.669,80
Coty Inc.	dollar	0,37	0,22	$ 3.804,00	$ 6.928,00	$ 535,40	$ 10.196,60	$ 22.374,33	749,86	$ 16,24	$ 12.177,73
LVMH	euro	1,12	1,00	$ 17.886,58	$ 8.400,24	$ 5.070,43	$ 21.216,39	$ 195.609,05	502,76	$ 346,87	$ 174.392,66
Beiersdorf AG	euro	0,60	0,55	$ 2.622,84	$ 4,77	$ 2.172,19	$ 455,42	$ 26.004,21	226,82	$ 112,64	$ 25.548,79
L'Oreal SA	euro	0,64	0,60	$ 10.936,05	$ 15,50	$ 3.660,29	$ 7.291,26	$ 139.523,48	559,75	$ 236,23	$ 132.232,22
Shiseido Company Ltd.	jpy	0,67	0,60	$ 2.671,00	$ 1.191,24	$ 1.599,40	$ 2.262,83	$ 28.599,73	399,54	$ 65,92	$ 26.336,90
Amorepacific Group	krw	1,38	1,32	$ 970,70	$ 39,80	$ 591,07	$ 419,43	$ 19.389,69	58,43	$ 324,67	$ 18.970,25
Average		**0,88**	**0,82**	**$ 7.017,43**	**$ 1.930,31**	**$ 2.618,68**	**$ 6.329,07**	**$ 81.825,23**	**349,46**	**$ 217,27**	**$ 75.496,16**
Estée Lauder	dollar	0,63	0,57	$ 2.823,00	$ 3.383,00	$ 1.741,00	$ 4.465,00	$ 53.571,28	367,04	$ 133,79	$ 49.106,28

	D/E	Net income 2013 (m)	Net income (m)	Revenue 2013 (m)	Revenue (m)	EBIT (m)	Depreciation + A (m)	EBITDA (m)	EPS Last 12m	EPS
Group Clarins										
Chanel										
Avon Products Inc.	-	$ -56,40	$ 22,00	$ 8.496,80	$ 5.715,60	$ 334,10	$ 114,00	$ 448,10	$ 0,03	$ 0,03
Procter and Gamble Company	58,31%	$ 11.312,00	$ 15.326,00	$ 80.116,00	$ 65.058,00	$ 14.685,00	$ 2.820,00	$ 17.505,00	$ 4,14	$ 3,89
Coty Inc.	76,63%	$ 168,00	$ -422,20	$ 4.649,10	$ 7.650,30	$ 853,10	$ 551,10	$ 1.408,20	$ 0,14	$ 0,65
LVMH	40,01%	$ 4.096,40	$ 6.114,79	$ 34.592,88	$ 50.830,64	$ 9.853,53	$ 2.831,48	$ 12.025,72	$ 12,38	$ 12,39
Beiersdorf AG	0,08%	$ 636,63	$ 801,16	$ 7.321,30	$ 8.412,16	$ 1.306,65	$ 178,83	$ 1.485,48	$ 3,53	$ 3,54
L'Oreal SA	4,73%	$ 3.526,53	$ 4.269,27	$ 26.376,23	$ 31.025,46	$ 5.569,36	$ 1.452,70	$ 6.964,59	$ 8,57	$ 8,55
Shiseido Company Ltd.	19,20%	$ 239,71	$ 208,53	$ 6.985,49	$ 9.213,15	$ 737,35	$ 401,95	$ 1.139,30	$ 1,05	$ 1,27
Amorepacific Group	3,12%	$ 248,58	$ 365,49	$ 2.876,00	$ 4.752,95	$ 553,23	$ 207,48	$ 759,76	$ 2,12	$ 2,34
Average	**13,43%**	**$ 1.749,57**	**$ 2.351,85**	**$ 15.630,38**	**$ 20.846,87**	**$ 3.604,02**	**$ 1.014,49**	**$ 4.474,97**	**$ 5,53**	**$ 5,62**
Estée Lauder	81,48%	$ 1.020,00	$ 1.249,00	$ 10.183,00	$ 11.824,00	$ 1.920,00	$ 464,00	$ 2.384,00	$ 4,23	$ 3,82

9.17 Appendix 17 – Multiples analysis

	EBITDA/Sales	EBIT/Sales	Price/Sales	P/E	EV/Sales	EV/EBITDA	EV/EBIT	Revenue growth 13-17	Net income growth 13-17
Avon Products Inc.	8%	6%	0,17x	73,00x	0,62x	7,85x	10,53x	-33%	-139%
Procter and Gamble Company	27%	23%	2,78x	18,50x	3,29x	12,21x	14,56x	-19%	35%
Coty Inc.	18%	11%	1,59x	24,98x	2,92x	15,89x	26,23x	65%	-351%
LVMH	24%	19%	3,43x	28,00x	3,85x	16,27x	19,85x	47%	49%
Beiersdorf AG	18%	16%	3,04x	31,81x	3,09x	17,51x	19,90x	15%	26%
L'Oreal SA	22%	18%	4,26x	27,64x	4,50x	20,03x	25,05x	18%	21%
Shiseido Company Ltd.	12%	8%	2,86x	52,10x	3,10x	25,10x	38,79x	32%	-13%
Amorepacific Group	16%	12%	3,99x	139,04x	4,08x	25,52x	35,05x	65%	47%
Average	18%	15%	3,52x	55,72x	3,72x	20,89x	27,73x	35%	26%
Weighted Average	22%	17%	3,68x	35,39x	3,98x	18,75x	23,76x		
Estée Lauder	20%	16%	4,15x	35,02x	4,53x	22,47x	27,90x	16%	22%

9.18 Appendix 18 – Wells Fargo recommendation

Ticker	EL
Price Target/Prior:	$150/NC
Price (02/02/2018)	**$134.39**
52-Week Range:	$80-139
Shares Outstanding: (MM)	376.1
Market Cap.: (MM)	$50,544.1
S&P 500:	2,762.13
Avg. Daily Vol.:	1,409,620
Dividend/Yield:	$1.51/1.1%
LT Debt: (MM)	$3,383.0
LT Debt/Total Cap.:	44.9%
ROE:	34.0%
3-5 Yr. Est. Growth Rate:	13.0%
CY 2018 Est. P/EPS-to-Growth:	2.2x
Last Reporting Date:	02/02/2018 Before Open

9.19 Appendix 19 – Wells Fargo Quarterly Earnings Model

	FY14 Jun-14	FY15 Jun-15	FY16 Jun-16	FY17 Jun-17	1Q18 Sep-17	2Q18 Dec-17	3Q18E Mar-18	4Q18E Jun-18
Net Sales	**$10,968.7**	**$10,780.4**	**$11,263.0**	**$11,826.0**	**$3,274.0**	**$3,744.0**	**$3,232.5**	**$3,201.8**
COGS - normalized	2,158.1	2,100.6	2,181.0	2,422.0	707.0	751.0	671.7	679.1
Gross profit - normalized	**8,810.6**	**8,679.8**	**9,082.0**	**9,404.0**	**2,567.0**	**2,993.0**	**2,560.7**	**2,522.7**
Gross Margin (%)	*80.3%*	*80.5%*	*80.6%*	*79.5%*	*78.4%*	*79.9%*	*79.2%*	*78.8%*
Change (bps)	*21*	*19*	*12*	*-112*	*-91*	*-33*	*-20*	*-20*
Selling, General & Administrative	**6,947.6**	**7,068.2**	**7,330.0**	**7,522.0**	**1,960.0**	**2,212.0**	**2,005.8**	**2,213.0**
SG&A Margin (%)	*63.3%*	*65.6%*	*65.1%*	*63.6%*	*59.9%*	*59.1%*	*62.1%*	*69.1%*
Change (bps)	*-162*	*223*	*-48*	*-147*	*-365*	*-68*	*-25*	*-17*
Operating Income - normalized	**1,863.0**	**1,611.6**	**1,752.0**	**1,882.0**	**607.0**	**781.0**	**554.9**	**309.8**
Operating Income Margin (%)	*17.0%*	*14.9%*	*15.6%*	*15.9%*	*18.5%*	*20.9%*	*17.2%*	*9.7%*
Change (bps)	*182*	*-204*	*61*	*36*	*274*	*35*	*5*	*-3*
Interest Expense	59.4	60.0	71.0	103.0	31.0	32.0	32.9	32.9
Interest Income	(8.6)	(14.3)	(16.0)	(28.0)	(12.0)	(12.0)	(6.0)	(6.0)
Pretax Income	1,812.2	1,565.9	1,697.0	1,807.0	588.0	761.0	528.0	282.8
as % of sales	*16.5%*	*14.5%*	*15.1%*	*15.3%*	*18.0%*	*20.3%*	*16.3%*	*8.8%*
Income Taxes	566.6	467.2	478.0	500.0	131.0	186.0	126.7	67.9
Tax Rate	*31.3%*	*29.8%*	*28.2%*	*27.7%*	*22.3%*	*24.4%*	*24.0%*	*24.0%*
Minority Interest	(5.0)	(4.5)	(6.0)	(7.0)	(3.0)	(2.0)	(2.2)	(1.1)
Net to Common	**1,240.6**	**1,094.2**	**1,213.0**	**1,300.0**	**454.0**	**573.0**	**399.1**	**213.9**
Avg Shares Outstanding—Diluted	393.1	385.7	376.6	373.0	375.4	376.1	374.4	372.6
EPS - ex-charges	**$3.16**	**$2.84**	**$3.22**	**$3.49**	**$1.21**	**$1.52**	**$1.07**	**$0.57**
Dividends	$0.78	$0.92	$1.14	$1.32	$0.38	$0.41	$0.41	$0.41
% Growth	*-27.8%*	*17.9%*	*23.9%*	*15.8%*	*26.7%*	*21.3%*	*21.3%*	*21.3%*
Depreciation & Amortization	384.6	409.3	415.0	464.0	127.0	129.0	134.0	133.8
EBITDA	2,247.6	2,020.9	2,167.0	2,346.0	734.0	910.0	688.9	443.6
as % of sales	*20.5%*	*18.7%*	*19.2%*	*19.8%*	*22.4%*	*24.3%*	*21.3%*	*13.9%*

	FY18E Jun-18	FY19E Jun-19	FY20E Jun-20	FY21E Jun-21	FY22E Jun-22	FY23E Jun-23	FY24E Jun-24	FY25E Jun-25
Net Sales	**$13,452.3**	**$14,380.9**	**$15,386.1**	**$16,462.0**	**$17,613.5**	**$18,845.9**	**$20,165.0**	**$21,576.8**
COGS - normalized	2,808.8	2,991.4	3,188.2	3,397.9	3,621.5	3,859.8	4,113.9	4,384.6
Gross profit - normalized	**10,643.4**	**11,389.5**	**12,198.0**	**13,064.1**	**13,992.0**	**14,986.1**	**16,051.1**	**17,192.2**
Gross Margin (%)	*79.1%*	*79.2%*	*79.3%*	*79.4%*	*79.4%*	*79.5%*	*79.6%*	*79.7%*
Change (bps)	*-40*	*8*	*8*	*8*	*8*	*8*	*8*	*8*
Selling, General & Administrative	**8,390.8**	**8,869.2**	**9,486.0**	**10,145.9**	**10,852.0**	**11,607.5**	**12,415.8**	**13,280.7**
SG&A Margin (%)	*62.4%*	*61.7%*	*61.7%*	*61.6%*	*61.6%*	*61.6%*	*61.6%*	*61.6%*
Change (bps)	*-123*	*-70*	*-2*	*-2*	*-2*	*-2*	*-2*	*-2*
Operating Income - normalized	**2,252.7**	**2,520.3**	**2,712.0**	**2,918.2**	**3,140.0**	**3,378.6**	**3,635.3**	**3,911.5**
Operating Income Margin (%)	*16.7%*	*17.5%*	*17.6%*	*17.7%*	*17.8%*	*17.9%*	*18.0%*	*18.1%*
Change (bps)	*83*	*78*	*10*	*10*	*10*	*10*	*10*	*10*
Interest Expense	128.9	113.6	113.6	113.6	113.6	113.6	113.6	113.6
Interest Income	(36.0)	(26.0)	(24.0)	(24.0)	(24.0)	(24.0)	(24.0)	(24.0)
Pretax Income	2,159.8	2,432.7	2,622.4	2,828.6	3,050.4	3,289.0	3,545.7	3,821.9
as % of sales	*16.1%*	*16.9%*	*17.0%*	*17.2%*	*17.3%*	*17.5%*	*17.6%*	*17.7%*
Income Taxes	511.6	583.8	629.4	678.9	732.1	789.4	851.0	917.3
Tax Rate	*23.7%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*	*24.0%*
Minority Interest	(8.3)	(11.1)	(14.4)	(20.2)	(28.3)	(39.6)	(55.4)	(77.5)
Net to Common	**1,639.9**	**1,837.8**	**1,978.6**	**2,129.5**	**2,290.0**	**2,460.1**	**2,639.4**	**2,827.1**
Avg Shares Outstanding—Diluted	374.6	366.6	359.9	353.7	347.4	341.2	334.9	328.6
EPS - ex-charges	**$4.38**	**$5.01**	**$5.50**	**$6.02**	**$6.59**	**$7.21**	**$7.88**	**$8.60**
Dividends	$1.62	$1.78	$1.96	$2.15	$2.37	$2.60	$2.87	$3.15
% Growth	*22.5%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Depreciation & Amortization	523.8	522.2	535.8	558.4	597.1	638.6	683.1	730.6
EBITDA	**2,776.5**	**3,042.5**	**3,247.8**	**3,476.5**	**3,737.1**	**4,017.3**	**4,318.4**	**4,642.1**
as % of sales	*20.6%*	*21.2%*	*21.1%*	*21.1%*	*21.2%*	*21.3%*	*21.4%*	*21.5%*

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