

ESTEE LAUDER COMPANIES INC

Form 10-Q

May 02, 2018

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549-1004

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**FORM 10-Q**

(Mark One)-

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2018

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from                      to

Commission file number: 1-14064

**The Estée Lauder Companies Inc.**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**11-2408943**  
(I.R.S. Employer Identification No.)

**767 Fifth Avenue, New York, New York**  
(Address of principal executive offices)

**10153**  
(Zip Code)

**212-572-4200**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

At April 25, 2018, 223,987,233 shares of the registrant's Class A Common Stock, \$.01 par value, and 143,051,679 shares of the registrant's Class B Common Stock, \$.01 par value, were outstanding.



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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF EARNINGS****(Unaudited)**

| (In millions, except per share data)   | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2018                           | 2017     | 2018                          | 2017     |
| <b>Net Sales</b>   | \$ 3,370                       | \$ 2,857 | \$ 10,388                     | \$ 8,930 |
| Cost of Sales  | 683                            | 591      | 2,147                         | 1,824    |
| <b>Gross Profit</b>  | 2,687                          | 2,266    | 8,241                         | 7,106    |
| <b>Operating Expenses</b>  |                                |          |                               |          |
| Selling, general and administrative  | 2,093                          | 1,780    | 6,268                         | 5,522    |
| Restructuring and other charges  | 97                             | 59       | 198                           | 122      |
| <b>Total operating expenses</b>  | 2,190                          | 1,839    | 6,466                         | 5,644    |
| <b>Operating Income</b>  | 497                            | 427      | 1,775                         | 1,462    |
| Interest expense   | 33                             | 28       | 96                            | 71       |
| Interest income and investment income, net   | 16                             | 8        | 40                            | 19       |
| <b>Earnings before Income Taxes</b>  | 480                            | 407      | 1,719                         | 1,410    |
| Provision for income taxes   | 106                            | 107      | 790                           | 384      |
| <b>Net Earnings</b>  | 374                            | 300      | 929                           | 1,026    |
| Net earnings attributable to noncontrolling interests                                | (2)                            | (2)      | (7)                           | (6)      |
| <b>Net Earnings Attributable to The Estée Lauder Companies Inc.</b>                  | \$ 372                         | \$ 298   | \$ 922                        | \$ 1,020 |
| <b>Net earnings attributable to The Estée Lauder Companies Inc. per common share</b> |                                |          |                               |          |
| Basic  | \$ 1.01                        | \$ .81   | \$ 2.50                       | \$ 2.78  |
| Diluted  | \$ .99                         | \$ .80   | \$ 2.45                       | \$ 2.74  |
| <b>Weighted-average common shares outstanding</b>                                    |                                |          |                               |          |
| Basic  | 367.9                          | 367.0    | 368.3                         | 366.8    |
| Diluted  | 375.7                          | 372.3    | 375.7                         | 372.7    |
| <b>Cash dividends declared per common share</b>                                      | \$ .38                         | \$ .34   | \$ 1.10                       | \$ .98   |

See notes to consolidated financial statements.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

| (In millions)   | Three Months Ended<br>March 31 |               | Nine Months Ended<br>March 31 |               |
|---|--------------------------------|---------------|-------------------------------|---------------|
|   | 2018                           | 2017          | 2018                          | 2017          |
| <b>Net earnings</b>   | \$ 374                         | \$ 300        | \$ 929                        | \$ 1,026      |
| <b>Other comprehensive income (loss):</b>                                       |                                |               |                               |               |
| Net unrealized investment gain (loss)   | (6)                            | 2             | (13)                          | (9)           |
| Net derivative instrument loss  | (14)                           | (51)          | (19)                          | (17)          |
| Amounts included in net periodic benefit cost                                   | 5                              | 7             | 15                            | 23            |
| Translation adjustments   | 72                             | 64            | 154                           | (49)          |
| Provision for deferred income taxes on components of other comprehensive income | (4)                            | 17            | (6)                           | (2)           |
| <b>Total other comprehensive income (loss)</b>                                  | <b>53</b>                      | <b>39</b>     | <b>131</b>                    | <b>(54)</b>   |
| <b>Comprehensive income</b>   | <b>427</b>                     | <b>339</b>    | <b>1,060</b>                  | <b>972</b>    |
| <b>Comprehensive income attributable to noncontrolling interests:</b>           |                                |               |                               |               |
| Net earnings  | (2)                            | (2)           | (7)                           | (6)           |
| Translation adjustments   |                                | 1             | (1)                           |               |
|   | (2)                            | (1)           | (8)                           | (6)           |
| <b>Comprehensive income attributable to The Estée Lauder Companies Inc.</b>     | <b>\$ 425</b>                  | <b>\$ 338</b> | <b>\$ 1,052</b>               | <b>\$ 966</b> |

See notes to consolidated financial statements.

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## THE ESTÉE LAUDER COMPANIES INC.

## CONSOLIDATED BALANCE SHEETS

| (In millions, except share data)  | March 31<br>2018<br>(Unaudited) | June 30<br>2017  |
|---|---------------------------------|------------------|
| <b>ASSETS</b>   |                                 |                  |
| <b>Current Assets</b>   |                                 |                  |
| Cash and cash equivalents   | \$ 2,140                        | \$ 1,136         |
| Short-term investments  | 384                             | 605              |
| Accounts receivable, net  | 1,761                           | 1,395            |
| Inventory and promotional merchandise, net  | 1,533                           | 1,479            |
| Prepaid expenses and other current assets   | 351                             | 349              |
| <b>Total current assets</b>   | <b>6,169</b>                    | <b>4,964</b>     |
| <b>Property, Plant and Equipment, net</b>   | <b>1,726</b>                    | <b>1,671</b>     |
| <b>Other Assets</b>   |                                 |                  |
| Long-term investments   | 1,027                           | 1,026            |
| Goodwill  | 1,931                           | 1,916            |
| Other intangible assets, net  | 1,293                           | 1,327            |
| Other assets  | 626                             | 664              |
| <b>Total other assets</b>   | <b>4,877</b>                    | <b>4,933</b>     |
| <b>Total assets</b>   | <b>\$ 12,772</b>                | <b>\$ 11,568</b> |
| <b>LIABILITIES AND EQUITY</b>   |                                 |                  |
| <b>Current Liabilities</b>  |                                 |                  |
| Current debt  | \$ 296                          | \$ 189           |
| Accounts payable  | 884                             | 835              |
| Other accrued liabilities   | 2,208                           | 1,799            |
| <b>Total current liabilities</b>  | <b>3,388</b>                    | <b>2,823</b>     |
| <b>Noncurrent Liabilities</b>   |                                 |                  |
| Long-term debt  | 3,363                           | 3,383            |
| Other noncurrent liabilities  | 1,284                           | 960              |
| <b>Total noncurrent liabilities</b>   | <b>4,647</b>                    | <b>4,343</b>     |
| <b>Contingencies</b>  |                                 |                  |
| <b>Equity</b>   |                                 |                  |
| Common stock, \$.01 par value; Class A shares authorized: 1,300,000,000 at March 31, 2018 and June 30, 2017; shares issued: 435,079,225 at March 31, 2018 and 429,968,260 at June 30, 2017; Class B shares authorized: 304,000,000 at March 31, 2018 and June 30, 2017; shares issued and outstanding: 143,051,679 at March 31, 2018 and 143,762,288 at June 30, 2017 | 6                               | 6                |
| Paid-in capital   | 3,911                           | 3,559            |
| Retained earnings   | 8,996                           | 8,452            |
| Accumulated other comprehensive loss  | (386)                           | (484)            |
|   | 12,527                          | 11,533           |
| Less: Treasury stock, at cost; 210,829,802 Class A shares at March 31, 2018 and 205,627,082 Class A shares at June 30, 2017   | (7,816)                         | (7,149)          |
| <b>Total stockholders equity The Estée Lauder Companies Inc.</b>  | <b>4,711</b>                    | <b>4,384</b>     |



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|                                     |    |        |    |        |
|-------------------------------------|----|--------|----|--------|
| <b>Noncontrolling interests</b>     |    | 26     |    | 18     |
| <b>Total equity</b>                 |    | 4,737  |    | 4,402  |
| <b>Total liabilities and equity</b> | \$ | 12,772 | \$ | 11,568 |

See notes to consolidated financial statements.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| <b>(In millions)</b>   | <b>Nine Months Ended<br/>March 31</b> |                |
|--|---------------------------------------|----------------|
|  | <b>2018</b>                           | <b>2017</b>    |
| <b>Cash Flows from Operating Activities</b>  |                                       |                |
| Net earnings   | \$ 929                                | \$ 1,026       |
| Adjustments to reconcile net earnings to net cash flows from operating activities: |                                       |                |
| Depreciation and amortization  | 389                                   | 337            |
| Deferred income taxes  | 84                                    | (84)           |
| Non-cash stock-based compensation  | 196                                   | 175            |
| Excess tax benefits from stock-based compensation arrangements                     |                                       | (37)           |
| Net loss (gain) on disposal of property, plant and equipment                       | 12                                    | (4)            |
| Non-cash restructuring and other charges   | 1                                     | 3              |
| Pension and post-retirement benefit expense  | 54                                    | 59             |
| Pension and post-retirement benefit contributions                                  | (65)                                  | (19)           |
| Changes in fair value of contingent consideration                                  | (6)                                   | 1              |
| Other non-cash items   | (13)                                  | (17)           |
| Changes in operating assets and liabilities:                                       |                                       |                |
| Increase in accounts receivable, net   | (325)                                 | (242)          |
| Decrease in inventory and promotional merchandise, net                             |                                       | 59             |
| Decrease (increase) in other assets, net   | 1                                     | (30)           |
| Increase (decrease) in accounts payable  | 20                                    | (168)          |
| Increase in other accrued and noncurrent liabilities                               | 654                                   | 193            |
| <b>Net cash flows provided by operating activities</b>                             | <b>1,931</b>                          | <b>1,252</b>   |
| <b>Cash Flows from Investing Activities</b>  |                                       |                |
| Capital expenditures   | (368)                                 | (316)          |
| Payments for acquired businesses, net of cash acquired                             | (11)                                  | (1,690)        |
| Proceeds from the disposition of investments                                       | 716                                   | 955            |
| Purchases of investments   | (492)                                 | (1,067)        |
| Proceeds from sale of property, plant and equipment                                |                                       | 12             |
| <b>Net cash flows used for investing activities</b>                                | <b>(155)</b>                          | <b>(2,106)</b> |
| <b>Cash Flows from Financing Activities</b>  |                                       |                |
| Proceeds of current debt, net  | 106                                   | 194            |
| Proceeds from issuance of long-term debt, net                                      |                                       | 1,498          |
| Debt issuance costs  |                                       | (10)           |
| Repayments and redemptions of long-term debt                                       | (1)                                   | (4)            |
| Net proceeds from stock-based compensation transactions                            | 157                                   | 94             |
| Excess tax benefits from stock-based compensation arrangements                     |                                       | 37             |
| Payments to acquire treasury stock   | (676)                                 | (363)          |
| Dividends paid to stockholders   | (407)                                 | (361)          |
| Payments to noncontrolling interest holders for dividends                          | (1)                                   | (2)            |
| <b>Net cash flows provided by (used for) financing activities</b>                  | <b>(822)</b>                          | <b>1,083</b>   |

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|  |                 |                 |
|--|-----------------|-----------------|
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 50              | (4)             |
| <b>Net Increase in Cash and Cash Equivalents</b>             | <b>1,004</b>    | <b>225</b>      |
| <b>Cash and Cash Equivalents at Beginning of Period</b>      | <b>1,136</b>    | <b>914</b>      |
| <b>Cash and Cash Equivalents at End of Period</b>            | <b>\$ 2,140</b> | <b>\$ 1,139</b> |

See notes to consolidated financial statements.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of The Estée Lauder Companies Inc. and its subsidiaries (collectively, the Company). All significant intercompany balances and transactions have been eliminated.

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

*Management Estimates*

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, and income taxes. Descriptions of these policies are discussed in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017. See *Income Taxes* for additional discussion regarding tax legislation enacted by the U.S. government in December 2017, the impact of which may affect the estimates and assumptions used to determine the expected future tax consequences of events recognized in the Company's consolidated financial statements. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

*Currency Translation and Transactions*

All assets and liabilities of foreign subsidiaries and affiliates are translated at period-end rates of exchange, while revenue and expenses are translated at weighted-average rates of exchange for the period. Unrealized translation gains (losses), net of tax, reported as cumulative translation adjustments through other comprehensive income (loss) ( OCI ) attributable to The Estée Lauder Companies Inc. were \$65 million and \$67 million, net of tax, during the three months ended March 31, 2018 and 2017, respectively, and \$149 million and \$(53) million, net of tax, during the nine months ended March 31, 2018 and 2017, respectively.

The Company enters into foreign currency forward contracts and may enter into option contracts to hedge foreign currency transactions for periods consistent with its identified exposures. Accordingly, the Company categorizes these instruments as entered into for purposes other than trading.

The accompanying consolidated statements of earnings include net exchange gains (losses) on foreign currency transactions of \$(26) million and \$8 million during the three months ended March 31, 2018 and 2017, respectively, and \$(61) million and \$14 million during the nine months ended March 31, 2018 and 2017, respectively.

#### *Accounts Receivable*

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling \$38 million and \$30 million as of March 31, 2018 and June 30, 2017, respectively.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Concentration of Credit Risk***

The Company is a worldwide manufacturer, marketer and distributor of skin care, makeup, fragrance and hair care products. The Company's sales subject to credit risk are made primarily to department stores, perfumeries, specialty multi-brand retailers and retailers in its travel retail business. The Company grants credit to qualified customers and does not believe it is exposed significantly to any undue concentration of credit risk. The Company does not have any customers that represent 10% or greater of its consolidated net sales in each period presented. The Company's largest customer sells products primarily in the United States and accounted for \$188 million, or 11%, of the Company's accounts receivable at March 31, 2018. This customer represented less than 10% of the Company's accounts receivable at June 30, 2017.

***Inventory and Promotional Merchandise***

Inventory and promotional merchandise, net consists of:

| <b>(In millions)</b>    | <b>March 31<br/>2018</b> | <b>June 30<br/>2017</b> |
|-------------------------|--------------------------|-------------------------|
| Raw materials           | \$ 360                   | \$ 334                  |
| Work in process         | 172                      | 194                     |
| Finished goods          | 849                      | 762                     |
| Promotional merchandise | 152                      | 189                     |
|                         | <b>\$ 1,533</b>          | <b>\$ 1,479</b>         |

During the first quarter of fiscal 2018, the Company adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) that simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost or net realizable value instead of lower of cost or market value. Net realizable value is defined as the estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. The adoption of this guidance did not have an impact on the Company's measurement of inventory and promotional merchandise.

***Property, Plant and Equipment***

| <b>(In millions)</b>        | <b>March 31<br/>2018</b> | <b>June 30<br/>2017</b> |
|-----------------------------|--------------------------|-------------------------|
| <b>Assets (Useful Life)</b> |                          |                         |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Land   | \$ | 30      | \$ | 30      |
| Buildings and improvements (10 to 40 years)    |    | 202     |    | 192     |
| Machinery and equipment (3 to 10 years)        |    | 702     |    | 668     |
| Computer hardware and software (4 to 15 years) |    | 1,160   |    | 1,115   |
| Furniture and fixtures (5 to 10 years)         |    | 105     |    | 96      |
| Leasehold improvements                         |    | 2,153   |    | 1,918   |
|  |    | 4,352   |    | 4,019   |
| Less accumulated depreciation and amortization |    | (2,626) |    | (2,348) |
|  | \$ | 1,726   | \$ | 1,671   |

The cost of assets related to projects in progress of \$206 million and \$183 million as of March 31, 2018 and June 30, 2017, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was \$116 million and \$106 million during the three months ended March 31, 2018 and 2017, respectively, and \$342 million and \$316 million during the nine months ended March 31, 2018 and 2017, respectively. Depreciation and amortization related to the Company's manufacturing process is included in Cost of Sales, and all other depreciation and amortization is included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Income Taxes***

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the TCJA ). The TCJA includes broad and complex changes to the U.S. tax code that impacted the Company's accounting and reporting for income taxes in the current-year period. These impacts primarily consist of the following:

- A reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, which will result in a fiscal 2018 U.S. blended statutory income tax rate for the Company of 28%.
- A one-time transitional repatriation tax on unremitted foreign earnings ( Transition Tax ), which may be paid over an eight-year period.
- The remeasurement of U.S. net deferred tax assets as of the enactment date.

On December 22, 2017, the Securities and Exchange Commission (the SEC ) staff issued Staff Accounting Bulletin No. 118 ( SAB 118 ) to provide guidance that companies should apply each reporting period related to the income tax effects of the TCJA. SAB 118 provides that companies (i) should record the effects of the changes from the TCJA for which the accounting is complete (not provisional), (ii) should record provisional amounts for the effects of the changes from the TCJA for which the accounting is not complete, and for which reasonable estimates can be determined, in the period they are identified, and (iii) should not record provisional amounts if reasonable estimates cannot be made for the effects of the changes from the TCJA, and should continue to apply guidance based on the tax law in effect prior to the enactment on December 22, 2017. In addition, SAB 118 establishes a one-year measurement period (through December 22, 2018) where a provisional amount could be subject to adjustment, and requires certain qualitative and quantitative disclosures related to provisional amounts and accounting during the measurement period.

During the three months ended March 31, 2018, the Company changed its indefinite reinvestment assertion with respect to certain of its foreign earnings resulting in an adjustment to the provisional Transition Tax charge recorded in the fiscal 2018 second quarter. Accordingly, the Company recorded a provisional charge of \$7 million and \$332 million in the provision for income taxes for the three and nine months ended March 31, 2018, respectively. As of March 31, 2018, \$30 million and \$302 million of the provisional charges are included in Other accrued liabilities and Other noncurrent liabilities, respectively, in the accompanying consolidated balance sheet. Such charges remain provisional pending the finalization of earnings estimates of the Company's foreign subsidiaries and any further changes to the Company's indefinite reinvestment assertion on its applicable remaining foreign earnings.



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During the three months ended March 31, 2018, the Company recorded an adjustment to its provisional charge recorded in the fiscal 2018 second quarter associated with the remeasurement of its net deferred tax assets resulting from the reduction in the U.S. corporate income tax rate. This adjustment was due to the revision of certain temporary differences. Accordingly, the Company recorded a provisional credit of \$9 million for the three months ended March 31, 2018 and a provisional charge of \$42 million for the nine months ended March 31, 2018 which adjusted net deferred taxes. Our net deferred tax assets are included in Other assets in the accompanying consolidated balance sheet as of March 31, 2018. The remeasurement of U.S. net deferred tax assets is provisional as the final remeasurement cannot be determined until the underlying temporary differences are known, rather than estimated.

In addition, as a result of the Transition Tax, the Company recorded a provisional charge of \$18 million in the fiscal 2018 second quarter related to foreign withholding taxes for planned repatriation of certain foreign earnings. This net deferred tax liability is recorded as a reduction in net deferred tax assets which is included in Other assets in the accompanying consolidated balance sheet as of March 31, 2018. This charge remains provisional due to uncertainty at this time related to the U.S. tax treatment of such foreign withholding taxes.

The Company is continuing to analyze the impact of the TCJA. Adjustments to the provisional charges will be recorded as discrete items in the provision for income taxes in the period in which those adjustments become reasonably estimable and/or the accounting is complete. Such adjustments may result from, among other things, future guidance, interpretations and regulatory changes from the Internal Revenue Service, the SEC, the FASB and/or various tax jurisdictions. The Company will complete its analysis no later than December 22, 2018.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

There are other potential impacts under the TCJA that are not effective for the Company until fiscal 2019. These primarily include a new minimum tax on global intangible low-taxed income ( GILTI ), the base erosion anti-abuse tax ( BEAT ) and the foreign derived intangibles income ( FDII ) provisions. The Company has not recorded any impact associated with these provisions at this time.

The effective rate for income taxes was 22.1% and 26.3% for the three months ended March 31, 2018 and 2017, respectively. This decrease reflected a favorable impact of excess tax benefits related to share-based compensation awards of approximately 400 basis points, and an adjustment to the remeasurement of U.S. net deferred tax assets resulting from the TCJA of approximately 190 basis points. Partially offsetting these decreases were an adjustment to the Transition Tax resulting from the TCJA of approximately 150 basis points and tax reserve adjustments of approximately 20 basis points.

The effective rate for income taxes was 46.0% and 27.2% for the nine months ended March 31, 2018 and 2017, respectively. This increase was primarily attributable to the Transition Tax of approximately 1,930 basis points, the remeasurement of U.S. net deferred tax assets of approximately 240 basis points, and the establishment of a net deferred tax liability related to certain foreign withholding taxes on planned repatriation of approximately 100 basis points, with each resulting from the enactment of the TCJA. Partially offsetting this increase was approximately 250 basis points due to a favorable impact of excess tax benefits related to share-based compensation awards, and approximately 140 basis points primarily reflecting a favorable geographic mix of earnings and a favorable impact of the reduced U.S. statutory tax rate.

As of March 31, 2018 and June 30, 2017, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$68 million at the end of each period. The total amount of unrecognized tax benefits at March 31, 2018 that, if recognized, would affect the effective tax rate was \$48 million. The total gross accrued interest and penalty expense related to unrecognized tax benefits during the three months ended March 31, 2018 in the accompanying consolidated statement of earnings was \$1 million. During the nine months ended March 31, 2018, the Company recognized a gross interest and penalty benefit of \$1 million in the accompanying consolidated statement of earnings. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at March 31, 2018 and June 30, 2017 was \$11 million and \$13 million, respectively. On the basis of the information available as of March 31, 2018, the Company does not expect any significant changes to the total amount of unrecognized tax benefits within the next twelve months.

***Other Accrued Liabilities***

Other accrued liabilities consist of the following:

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| (In millions)                           | March 31<br>2018 |       | June 30<br>2017 |       |
|---|------------------|-------|-----------------|-------|
| Advertising, merchandising and sampling | \$               | 429   | \$              | 319   |
| Employee compensation                   |                  | 505   |                 | 522   |
| Payroll and other taxes                 |                  | 221   |                 | 190   |
| Accrued income taxes                    |                  | 187   |                 | 94    |
| Other                                   |                  | 866   |                 | 674   |
|   | \$               | 2,208 | \$              | 1,799 |

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Recently Adopted Accounting Standards***

**Accumulated Other Comprehensive Income**

In February 2018, the FASB issued authoritative guidance that permits a reclassification of the stranded tax effects due to a change in the U.S. federal corporate income tax rate as a result of the TCJA from accumulated OCI ( AOCI ) to retained earnings. This guidance cannot be applied to stranded tax effects from changes previously recognized in AOCI unrelated to the TCJA. Furthermore, this accommodation to reclassify the stranded tax effects resulting from the TCJA does not change the underlying guidance requiring that the effect of a change in tax laws or rates be included in income from continuing operations for future tax rate changes.

*Effective for the Company* Fiscal 2020 first quarter, with early adoption permitted. The guidance may be applied:

- retrospectively for periods in which the income tax effects of the TCJA related to items remaining in AOCI are recognized; or
- at the beginning of the period of adoption.

*Impact on consolidated financial statements* The Company has elected to early adopt this guidance at the beginning of its fiscal 2018 third quarter. As a result, the Company reclassified \$32 million in tax effects from AOCI to retained earnings as of January 1, 2018. It is the Company's policy to use the portfolio approach to release income tax effects from AOCI. The Company may make further adjustments in subsequent periods if changes to the provisional amounts established as a result of the TCJA are recorded.

**Compensation - Stock Compensation**

In March 2016, the FASB issued authoritative guidance that changes the way companies account for certain aspects of share-based payments to employees. This new guidance requires that all excess tax benefits and tax deficiencies related to share-based compensation awards be recorded as income tax expense or benefit in the income statement. In addition, companies are required to treat the tax effects of exercised or vested

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awards as discrete items in the period that they occur. This guidance also permits an employer to withhold up to the maximum statutory withholding rates in a jurisdiction without triggering liability classification, allows companies to elect to account for forfeitures as they occur, and provides requirements for the cash flow classification of cash paid by an employer when directly withholding shares for tax-withholding purposes and for the classification of excess tax benefits. The new guidance prescribes different transition methods for the various provisions.

*Effective for the Company* Fiscal 2018 first quarter.

*Impact on consolidated financial statements* As a result of the adoption of this guidance, during the three and nine months ended March 31, 2018, the Company recognized \$19 million and \$43 million, respectively, of excess tax benefits as a reduction to the provision for income taxes in its consolidated statements of earnings. Additionally, upon adoption the Company has included these excess tax benefits in cash flows from operating activities in the net earnings caption and will continue to classify cash paid for withholding shares for tax-withholding purposes in cash flows from financing activities. This guidance was applied prospectively, and prior-year periods have not been adjusted for these changes. The Company will also continue to accrue for estimated forfeitures each quarter. Finally, as the Company has no outstanding awards classified as a liability due to withholding excess taxes, there was no impact to the Company's consolidated balance sheets related to the adoption of that portion of the guidance.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Recently Issued Accounting Standards*

**Hedge Accounting**

In August 2017, the FASB issued authoritative guidance to simplify hedge accounting. The guidance includes the provisions that:

- enable entities to better portray their risk management activities within the financial statements;
- expand an entity's ability to hedge nonfinancial and financial risk components;
- reduce complexity in fair value hedges of interest rate risk;
- eliminate the requirement to separately measure and disclose hedge ineffectiveness;
- require the entire change in fair value of a hedging instrument to be presented in the same income statement line as the hedged item;
- ease certain documentation and assessment requirements;
- modify the accounting for components excluded from the assessment of hedge effectiveness; and
- require revised tabular footnote disclosure.

The guidance also provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation is required to be modified.

*Effective for the Company* Fiscal 2020 first quarter, with early adoption permitted in any interim period. The guidance must be applied:

- using the modified retrospective approach for cash flow and net investment hedge relationships that exist on the date of adoption; and
- prospectively for the presentation and disclosure requirements.

*Impact on consolidated financial statements* The Company expects to early adopt this guidance in the beginning of its fiscal 2019 first quarter and does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

#### **Pension-related Costs**

In March 2017, the FASB issued authoritative guidance that amends how companies present net periodic benefit cost in the income statement and balance sheet relating to defined benefit pension and/or other postretirement benefit plans. Within the income statement, the new guidance requires companies to report the service cost component within operating expenses and report the other components of net periodic benefit cost below operating income (if one is reported). In addition, within the balance sheet, the guidance changes the components of the pension cost eligible for capitalization to the service cost component only (e.g., as a cost of internally manufactured inventory or a self-constructed asset).

*Effective for the Company* Fiscal 2019 first quarter, with early adoption permitted as of the first interim period in fiscal 2018. The guidance must be applied:

- retrospectively as it pertains to the income statement classification of the components of net periodic benefit cost; and
- prospectively as it pertains to future capitalization of service costs.

*Impact on consolidated financial statements* The Company will adopt this guidance when it becomes effective and although certain components of pension expense will be reclassified out of operating income, the Company does not believe this will have a material impact on reported operating income.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Goodwill**

In January 2017, the FASB issued authoritative guidance that simplifies the subsequent measurement of goodwill by eliminating the second step from the quantitative goodwill impairment test. The single quantitative step test requires companies to compare the fair value of a reporting unit with its carrying amount and record an impairment charge for the amount that the carrying amount exceeds the fair value, up to the total amount of goodwill allocated to that reporting unit. The Company will continue to have the option of first performing a qualitative assessment to determine whether it is necessary to perform the quantitative goodwill impairment test.

*Effective for the Company* Fiscal 2021 first quarter, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

*Impact on consolidated financial statements* The Company did not elect to apply this guidance to its fiscal 2017 impairment testing and will continue to assess the impact of adopting it on future interim and annual impairment tests.

**Measurement of Credit Losses on Financial Instruments**

In June 2016, the FASB issued authoritative guidance that requires companies to utilize an impairment model for most financial assets measured at amortized cost and certain other financial instruments, which include trade and other receivables, loans and held-to-maturity debt securities, to record an allowance for credit risk based on expected losses rather than incurred losses. In addition, this new guidance changes the recognition method for credit losses on available-for-sale debt securities, which can occur as a result of market and credit risk, and requires additional disclosures. In general, modified retrospective adoption will be required for all outstanding instruments that fall under this guidance.

*Effective for the Company* Fiscal 2021 first quarter.

*Impact on consolidated financial statements* The Company is currently evaluating the impact of applying this guidance on its financial instruments, such as accounts receivable and short- and long-term investments.



**Leases**

In February 2016, the FASB issued authoritative guidance that requires lessees to account for most leases on their balance sheets with the liability being equal to the present value of the lease payments. The right-of-use asset will be based on the lease liability adjusted for certain costs such as direct costs. Lease expense will be recognized similar to current accounting guidance with operating leases resulting in a straight-line expense, and financing leases resulting in a front-loaded expense similar to the current accounting for capital leases. This guidance must be adopted using a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, and provides for certain practical expedients.

*Effective for the Company* Fiscal 2020 first quarter, with early adoption permitted.

*Impact on consolidated financial statements* The Company currently has an implementation team in place that is performing a comprehensive evaluation of the impact of the adoption of this guidance. While the Company has not completed its evaluation, it believes the adoption of this standard will have a significant impact on its consolidated balance sheets. As disclosed in *Note 15 Commitments and Contingencies* in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017, the Company had \$2,427 million in future minimum lease commitments as of June 30, 2017. Upon adoption, the Company's lease liability will generally be based on the present value of such payments, and the related right-of-use asset will generally be based on the lease liability, adjusted for initial direct costs.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Revenue from Contracts with Customers**

In May 2014, the FASB issued authoritative guidance that defines how companies should report revenues from contracts with customers. The standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It provides companies with a single comprehensive five-step principles-based model to use in accounting for revenue and supersedes current revenue recognition requirements, including most industry-specific and transaction-specific revenue guidance.

In March 2016, the FASB issued authoritative guidance that amended the principal versus agent guidance in its new revenue recognition standard. These amendments do not change the key aspects of the principal versus agent guidance, including the definition that an entity is a principal if it controls the good or service prior to it being transferred to a customer, but the amendments clarify the implementation guidance related to the considerations that must be made during the contract evaluation process.

In April 2016, the FASB issued authoritative guidance that amended the new standard to clarify the guidance on identifying performance obligations and accounting for licenses of intellectual property.

In May 2016, the FASB issued authoritative guidance that clarified certain terms, guidance and disclosure requirements during the transition period related to completed contracts and contract modifications. In addition, the FASB provided clarification on the concept of collectability, the calculation of the fair value of noncash consideration and the presentation of sales and other similar taxes.

In May 2016, the FASB issued authoritative guidance to reflect the SEC Staff's rescission of its prior comments that covered, among other things, accounting for shipping and handling costs and accounting for consideration given by a vendor to a customer.

In December 2016, the FASB issued authoritative guidance that amends various aspects of the new standard to clarify certain terms, guidance and disclosure requirements. In particular, the guidance addresses disclosure requirements for remaining performance obligations, impairment testing for contract costs and accrual of advertising costs, and clarifies several examples.

*Effective for the Company* Fiscal 2019, with early adoption permitted. An entity is permitted to apply the foregoing guidance retrospectively to all prior periods presented, with certain practical expedients, or apply the requirements in the year of adoption, through a cumulative adjustment.

*Impact on consolidated financial statements* The Company will apply all of this new guidance when it becomes effective in fiscal 2019 using the modified retrospective adoption method. Although the Company has not yet completed its evaluation, it has preliminarily determined that certain promotional goods, such as samples and testers, will be reclassified from Selling, general and administrative expenses to Cost of Sales in the consolidated financial statements upon adoption. The Company has assessed its third-party retailer arrangements and noted that upon adoption of the new revenue recognition standard, the Company will have a change in the classification of certain payments to customers as well as a change in the timing of certain accruals for variable consideration. Additionally, the Company's customer loyalty programs, which have historically been accounted for under the incremental cost approach, will be accounted for as a reduction of revenue based on the fair value of estimated future redemptions when the obligation is created (i.e. upon sale of the product to the consumer). Furthermore, the Company is continuing to assess the impact that its promotional goods and loyalty programs will have on the timing of revenue recognition upon adoption.

No other recently issued accounting pronouncements are expected to have a material impact on the Company's consolidated financial statements.

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Gains and losses recorded in AOCI related to the Company's available-for-sale investments as of March 31, 2018 were as follows:

| (In millions)                            | Cost     | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|----------|------------------------|-------------------------|------------|
| U.S. government and agency securities    | \$ 435   | \$                     | (5)                     | \$ 430     |
| Foreign government and agency securities | 114      |                        | (2)                     | 112        |
| Corporate notes and bonds                | 505      |                        | (7)                     | 498        |
| Time deposits                            | 200      |                        |                         | 200        |
| Other securities                         | 15       |                        |                         | 15         |
| Total                                    | \$ 1,269 | \$                     | (14)                    | \$ 1,255   |

Gains and losses recorded in AOCI related to the Company's available-for-sale investments as of June 30, 2017 were as follows:

| (In millions)                            | Cost     | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|----------|------------------------|-------------------------|------------|
| U.S. government and agency securities    | \$ 464   | 2                      | (2)                     | \$ 464     |
| Foreign government and agency securities | 103      |                        | (1)                     | 102        |
| Corporate notes and bonds                | 506      |                        | (1)                     | 505        |
| Time deposits                            | 410      |                        |                         | 410        |
| Other securities                         | 16       | 1                      |                         | 17         |
| Total                                    | \$ 1,499 | 3                      | (4)                     | \$ 1,498   |

The following table presents the Company's available-for-sale securities by contractual maturity as of March 31, 2018:

| (In millions)                    | Cost     | Fair Value |
|----------------------------------|----------|------------|
| Due within one year              | \$ 385   | \$ 384     |
| Due after one through five years | 884      | 871        |
|                                  | \$ 1,269 | \$ 1,255   |

The following table presents the fair market value of the Company's investments with gross unrealized losses that are not deemed to be other-than temporarily impaired as of March 31, 2018:

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| (In millions)                 | In a Loss Position for Less Than 12 Months |                         | In a Loss Position for More Than 12 Months |                         |
|-------------------------------|--|-------------------------|--|-------------------------|
|                               | Fair Value                                 | Gross Unrealized Losses | Fair Value                                 | Gross Unrealized Losses |
| Available-for-sale securities | \$ 710                                     | \$ (9)                  | \$ 326                                     | \$ (5)                  |

Gross gains and losses on sales of investments included in the consolidated statements of earnings were not material for all periods presented.

The Company utilizes the first-in, first-out method to determine the cost of the security sold. Sales proceeds from investments classified as available-for-sale were \$21 million and \$200 million for the three months ended March 31, 2018 and 2017, respectively, and were \$317 million and \$532 million for the nine months ended March 31, 2018 and 2017, respectively.

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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill by product category and the related change in the carrying amount:

| (In millions)                       | Skin Care |      | Makeup |       | Fragrance |      | Hair Care |      | Total    |
|-------------------------------------|-----------|------|--------|-------|-----------|------|-----------|------|----------|
| <b>Balance as of June 30, 2017</b>  |           |      |        |       |           |      |           |      |          |
| Goodwill                            | \$        | 184  | \$     | 1,176 | \$        | 255  | \$        | 393  | \$ 2,008 |
| Accumulated impairments             |           | (35) |        |       |           | (22) |           | (35) | (92)     |
|                                     |           | 149  |        | 1,176 |           | 233  |           | 358  | 1,916    |
| Goodwill acquired during the period |           |      |        |       |           |      |           |      |          |
|                                     |           |      |        | 7     |           |      |           |      | 7        |
| Translation adjustments             |           |      |        |       |           |      |           |      |          |
|                                     |           |      |        |       |           | 7    |           | 1    | 8        |
|                                     |           |      |        | 7     |           | 7    |           | 1    | 15       |
| <b>Balance as of March 31, 2018</b> |           |      |        |       |           |      |           |      |          |
| Goodwill                            |           | 186  |        | 1,183 |           | 264  |           | 394  | 2,027    |
| Accumulated impairments             |           | (37) |        |       |           | (24) |           | (35) | (96)     |
|                                     | \$        | 149  | \$     | 1,183 | \$        | 240  | \$        | 359  | \$ 1,931 |

Other intangible assets consist of the following:

| (In millions)                             | Gross Carrying Value | March 31, 2018           |  | Total Net Book Value | Gross Carrying Value | June 30, 2017            |  | Total Net Book Value |
|---|----------------------|--------------------------|--|----------------------|----------------------|--------------------------|--|----------------------|
|   |                      | Accumulated Amortization |  |                      |                      | Accumulated Amortization |  |                      |
| <b>Amortizable intangible assets:</b>     |                      |                          |  |                      |                      |                          |  |                      |
| Customer lists and other                  | \$ 698               | \$ 319                   |  | \$ 379               | \$ 696               | \$ 279                   |  | \$ 417               |
| License agreements                        | 43                   | 43                       |  |                      | 43                   | 43                       |  |                      |
|   | \$ 741               | \$ 362                   |  | 379                  | \$ 739               | \$ 322                   |  | 417                  |
| <b>Non-amortizable intangible assets:</b> |                      |                          |  |                      |                      |                          |  |                      |
| Trademarks and other                      |                      |                          |  | 914                  |                      |                          |  | 910                  |
| Total intangible assets                   |                      |                          |  | \$ 1,293             |                      |                          |  | \$ 1,327             |

The aggregate amortization expense related to amortizable intangible assets was \$13 million for the three months ended March 31, 2018 and 2017 and was \$38 million and \$22 million for the nine months ended March 31, 2018 and 2017, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2018 and for each of fiscal

2019 to 2022 is \$14 million, \$51 million, \$44 million, \$43 million and \$42 million, respectively.

**NOTE 4 CHARGES ASSOCIATED WITH RESTRUCTURING AND OTHER ACTIVITIES**

In May 2016, the Company announced a multi-year initiative ( Leading Beauty Forward, LBF or the Program ) to build on its strengths and better leverage its cost structure to free resources for investment to continue its growth momentum. LBF is designed to enhance the Company's go-to-market capabilities, reinforce its leadership in global prestige beauty and continue creating sustainable value. The Company plans to approve specific initiatives under LBF through fiscal 2019 related to the optimization of select corporate functions, supply chain activities, and corporate and regional market support structures, as well as the exit of underperforming businesses, and expects to complete those initiatives through fiscal 2021. Inclusive of charges recorded from inception through March 31, 2018, the Company expects that LBF will result in related restructuring and other charges totaling between \$600 million and \$700 million before taxes. In connection with LBF, at this time, the Company estimates a net reduction over the duration of LBF in the range of approximately 900 to 1,200 positions globally, which is about 2.5% of its current workforce. This reduction takes into account the elimination of some positions, retraining and redeployment of certain employees and investment in new positions in key areas.

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Of the \$600 million to \$700 million restructuring and other charges expected to be incurred, total cumulative charges approved by the Company through March 31, 2018, some of which were recorded during fiscal 2018, 2017 and 2016, were:

| (In millions)                      | Sales<br>Returns<br>(included in<br>Net Sales) | Cost of Sales | Operating Expenses<br>Restructuring<br>Charges | Other<br>Charges | Total  |
|------------------------------------|--|---------------|--|------------------|--------|
| <b>Approval Period</b>             |  |               |  |                  |        |
| Fiscal 2016                        | \$ 4   | \$ 28         | \$ 87  | \$ 71            | \$ 190 |
| Fiscal 2017                        | 11   | 10            | 132  | 118              | 271    |
| Nine months ended March 31, 2018   |  | 14            | 141  | 53               | 208    |
| Adjustments through March 31, 2018 | (2)  |               | (26)   |                  | (28)   |
| Cumulative through March 31, 2018  | \$ 13  | \$ 52         | \$ 334   | \$ 242           | \$ 641 |

Included in the above table, cumulative restructuring initiatives approved by the Company through March 31, 2018 by major cost type were:

| (In millions)                      | Employee-<br>Related<br>Costs | Asset-<br>Related<br>Costs | Contract<br>Terminations | Other Exit<br>Costs | Total  |
|------------------------------------|-------------------------------|----------------------------|--------------------------|---------------------|--------|
| <b>Approval Period</b>             |                               |                            |                          |                     |        |
| Fiscal 2016                        | \$ 75                         | \$ 3                       | \$ 5                     | \$ 4                | \$ 87  |
| Fiscal 2017                        | 126                           | 1                          |                          | 5                   | 132    |
| Nine months ended March 31, 2018   | 138                           |                            |                          | 3                   | 141    |
| Adjustments through March 31, 2018 | (25)                          |                            | (1)                      |                     | (26)   |
| Cumulative through March 31, 2018  | \$ 314                        | \$ 4                       | \$ 4                     | \$ 12               | \$ 334 |

During the nine months ended March 31, 2018, the Company continued to approve initiatives to enhance its go-to-market support structures and optimize select corporate functions. These actions will result in a net reduction of the workforce, which includes position eliminations, the re-leveling of certain positions and an investment in new capabilities. The Company also approved consulting and other professional services primarily related to the implementation and integration of new processes and technologies and, to a lesser extent, other costs for temporary labor backfill and training and recruitment related to the new capabilities. The Company also continued to approve consulting fees and implementation costs for an initiative related to supply chain planning activities.



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As initiatives under LBF progress through implementation, the Company has identified certain costs that were approved but will not be incurred. These costs, reflected as adjustments to the cumulative approved restructuring and other charges presented above, were primarily related to estimated employee-related costs for certain employees who either resigned or transferred to other existing positions within the Company.

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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Program-to-Date Restructuring and Other Charges**

The Company records approved charges associated with restructuring and other activities once the relevant accounting criteria have been met. Total cumulative charges recorded associated with restructuring and other activities for LBF were:

| (In millions)                     | Sales Returns<br>(included in<br>Net Sales) | Cost of Sales | Operating Expenses<br>Restructuring<br>Charges | Other<br>Charges | Total  |
|-----------------------------------|---|---------------|--|------------------|--------|
| Fiscal 2016                       | \$ 1  | \$            | \$ 75  | \$ 5             | \$ 81  |
| Fiscal 2017                       | 2   | 15            | 122  | 73               | 212    |
| Nine months ended March 31, 2018  |   | 9             | 125  | 73               | 207    |
| Cumulative through March 31, 2018 | \$ 3  | \$ 24         | \$ 322   | \$ 151           | \$ 500 |

The major cost types related to the cumulative restructuring charges set forth above were:

| (In millions)                     | Employee-<br>Related<br>Costs | Asset-<br>Related<br>Costs | Contract<br>Terminations | Other Exit<br>Costs | Total  |
|-----------------------------------|-------------------------------|----------------------------|--------------------------|---------------------|--------|
| Fiscal 2016                       | \$ 74                         | \$ 1                       | \$                       | \$                  | \$ 75  |
| Fiscal 2017                       | 116                           | 2                          | 2                        | 2                   | 122    |
| Nine months ended March 31, 2018  | 122                           | 1                          |                          | 2                   | 125    |
| Cumulative through March 31, 2018 | \$ 312                        | \$ 4                       | \$ 2                     | \$ 4                | \$ 322 |

Accrued restructuring charges from Program inception through March 31, 2018 were:

| (In millions)            | Employee-<br>Related<br>Costs | Asset-<br>Related<br>Costs | Contract<br>Terminations | Other Exit<br>Costs | Total |
|--------------------------|-------------------------------|----------------------------|--------------------------|---------------------|-------|
| Charges                  | \$ 74                         | \$ 1                       | \$                       | \$                  | \$ 75 |
| Noncash asset write-offs |                               | (1)                        |                          |                     | (1)   |
| Translation adjustments  | (1)                           |                            |                          |                     | (1)   |
| Balance at June 30, 2016 | 73                            |                            |                          |                     | 73    |
| Charges                  | 116                           | 2                          | 2                        | 2                   | 122   |
| Cash payments            | (39)                          |                            | (2)                      | (2)                 | (43)  |

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|                           |        |     |     |        |
|---------------------------|--------|-----|-----|--------|
| Noncash asset write-offs  |        | (2) |     | (2)    |
| Balance at June 30, 2017  | 150    |     |     | 150    |
| Charges                   | 122    | 1   | 2   | 125    |
| Cash payments             | (63)   |     | (2) | (65)   |
| Noncash asset write-offs  |        | (1) |     | (1)    |
| Translation adjustments   | 3      |     |     | 3      |
| Balance at March 31, 2018 | \$ 212 | \$  | \$  | \$ 212 |

Restructuring charges for employee-related costs are net of adjustments to the accrual estimate for certain employees who either resigned or transferred to other existing positions within the Company. These adjustments were not material for all periods presented. Accrued restructuring charges at March 31, 2018 are expected to result in cash expenditures funded from cash provided by operations of approximately \$58 million, \$117 million, \$32 million and \$5 million for the remainder of fiscal 2018 and for each of fiscal 2019, 2020 and 2021, respectively.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5 DERIVATIVE FINANCIAL INSTRUMENTS**

The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The Company enters into foreign currency forward contracts and may enter into option contracts to reduce the effects of fluctuating foreign currency exchange rates. In addition, the Company enters into interest rate derivatives to manage the effects of interest rate movements on the Company's aggregate liability portfolio, including potential future debt issuances. The Company also enters into foreign currency forward contracts and may use option contracts, not designated as hedging instruments, to mitigate the change in fair value of specific assets and liabilities on the balance sheet. The Company does not utilize derivative financial instruments for trading or speculative purposes. Costs associated with entering into derivative financial instruments have not been material to the Company's consolidated financial results.

For each derivative contract entered into where the Company looks to obtain hedge accounting treatment, the Company formally and contemporaneously documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge transaction, the nature of the risk being hedged, how the hedging instruments' effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the inception of the hedges and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that a derivative is not highly effective, or that it has ceased to be a highly effective hedge, the Company will be required to discontinue hedge accounting with respect to that derivative prospectively.

The fair values of the Company's derivative financial instruments included in the consolidated balance sheets are presented as follows:

| (In millions)  | Balance Sheet Location                    | Asset Derivatives |              | Liability Derivatives     |               |              |
|--|---|-------------------|--------------|---------------------------|---------------|--------------|
|  |   | Fair Value (1)    |              | Fair Value (1)            |               |              |
|  |   | March 31 2018     | June 30 2017 | Balance Sheet Location    | March 31 2018 | June 30 2017 |
| <b>Derivatives Designated as Hedging Instruments</b> |   |                   |              |                           |               |              |
| Foreign currency forward contracts                   | Prepaid expenses and other current assets | \$ 3              | \$ 7         | Other accrued liabilities | \$ 58         | \$ 44        |
| Interest rate swap contracts                         | Prepaid expenses and other current assets |                   |              | Other accrued liabilities | 23            | 3            |
| Total Derivatives Designated as Hedging              |   | 3                 | 10           |                           | 81            | 47           |

Instruments

**Derivatives Not  
Designated as Hedging  
Instruments**

|                                       |   |      |       |                              |       |       |
|---------------------------------------|---|------|-------|------------------------------|-------|-------|
| Foreign currency<br>forward contracts | Prepaid expenses<br>and other current<br>assets | 2    | 3     | Other accrued<br>liabilities | 3     | 2     |
| Total Derivatives                     |   | \$ 5 | \$ 13 |                              | \$ 84 | \$ 49 |

(1) See Note 6 *Fair Value Measurements* for further information about how the fair value of derivative assets and liabilities are determined.

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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amounts of the gains and losses related to the Company's derivative financial instruments designated as hedging instruments are presented as follows:

| (In millions)  | Amount of Gain or (Loss)<br>Recognized in OCI on<br>Derivatives (Effective Portion)<br>Three Months Ended<br>March 31 |         | Location of Gain or<br>(Loss) Reclassified<br>from AOCI into<br>Earnings<br>(Effective Portion) | Amount of Gain or (Loss)<br>Reclassified from AOCI into<br>Earnings<br>(Effective Portion) (1)<br>Three Months Ended<br>March 31 |       |
|--|---|---------|---|--|-------|
|  | 2018  | 2017    |   | 2018   | 2017  |
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |   |         |   |  |       |
| Foreign currency forward contracts                     | \$ (32)   | \$ (35) | Cost of sales   | \$ (8)   | \$ 2  |
|  |   |         | Selling, general and administrative   | (10)   | 7     |
| Interest rate-related derivatives                      |   | (6)     | Interest expense  |  | 1     |
| Total derivatives                                      | \$ (32)   | \$ (41) |   | \$ (18)  | \$ 10 |

(1) The gain (loss) recognized in earnings related to the amount excluded from effectiveness testing and the amount related to the ineffective portion of the hedging relationships was not material for all periods presented.

| (In millions)  | Amount of Gain or (Loss)<br>Recognized in OCI on<br>Derivatives (Effective Portion)<br>Nine Months Ended<br>March 31 |       | Location of Gain or<br>(Loss) Reclassified<br>from AOCI into<br>Earnings<br>(Effective Portion) | Amount of Gain or (Loss)<br>Reclassified from AOCI into<br>Earnings<br>(Effective Portion) (1)<br>Nine Months Ended<br>March 31 |       |
|--|--|-------|---|---|-------|
|  | 2018   | 2017  |   | 2018  | 2017  |
| <b>Derivatives in Cash Flow Hedging Relationships:</b> |  |       |   |   |       |
| Foreign currency forward contracts                     | \$ (59)  | \$ 13 | Cost of sales   | \$ (20)   | \$ 8  |
|  |  |       | Selling, general and administrative   | (21)  | 26    |
| Interest rate-related derivatives                      |  | 5     | Interest expense  | 1   | 1     |
| Total derivatives                                      | \$ (59)  | \$ 18 |   | \$ (40)   | \$ 35 |

(1) The gain (loss) recognized in earnings related to the amount excluded from effectiveness testing and the amount related to the ineffective portion of the hedging relationships was not material for all periods presented.

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| (In millions)  | Location of Gain or (Loss)<br>Recognized in Earnings on<br>Derivatives | Amount of Gain or (Loss)<br>Recognized in Earnings on Derivatives (1) |        |         |                               |      |      |
|--|--|---|--------|---------|-------------------------------|------|------|
|  |  | Three Months Ended<br>March 31  |        |         | Nine Months Ended<br>March 31 |      |      |
|  |  | 2018  | 2017   | 2018    | 2017                          | 2018 | 2017 |
| <b>Derivatives in Fair Value<br/>Hedging Relationships</b> |  |   |        |         |                               |      |      |
| Interest rate swap contracts                               | Interest expense   | \$ (11)   | \$ (3) | \$ (23) | \$ (25)                       |      |      |

(1) Changes in the fair value of the interest rate swap agreements are exactly offset by the change in the fair value of the underlying long-term debt.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The amounts of the gains and losses related to the Company's derivative financial instruments not designated as hedging instruments are presented as follows:

| (In millions)  | Location of Gain or (Loss)<br>Recognized in Earnings on<br>Derivatives | Amount of Gain or (Loss)<br>Recognized in Earnings on Derivatives |         |                               |         |
|--|--|---|---------|-------------------------------|---------|
|  |  | Three Months Ended<br>March 31                                    |         | Nine Months Ended<br>March 31 |         |
|  |  | 2018  | 2017    | 2018                          | 2017    |
| <b>Derivatives Not Designated as Hedging Instruments</b> |  |   |         |                               |         |
| Foreign currency forward contracts                       | Selling, general and administrative                                    | \$ (2)  | \$ (11) | \$ (2)                        | \$ (10) |

***Cash-Flow Hedges***

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company's identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The Company may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as cash-flow hedges and have varying maturities through the end of March 2020. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology.

The Company may enter into interest rate forward contracts to hedge anticipated issuance of debt for periods consistent with the Company's identified exposures. The purpose of the hedging activities is to minimize the effect of interest rate movements on the cost of debt issuance.

The ineffective portion of both foreign currency forward and interest rate derivatives is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses in AOCI are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in AOCI are reclassified to current-period earnings. As of March 31, 2018, the Company's foreign currency cash-flow hedges were highly effective.

At March 31, 2018, the Company had foreign currency forward contracts in the amount of \$3,392 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the Swiss franc (\$756 million), Hong Kong dollar (\$444



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million), Euro (\$415 million), British pound (\$401 million), Canadian dollar (\$161 million), Thailand baht (\$158 million), Taiwan dollar (\$125 million), Australian dollar (\$125 million) and Japanese yen (\$121 million).

The estimated net loss on the Company's derivative instruments designated as cash-flow hedges as of March 31, 2018 that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is \$32 million. The accumulated net loss on derivative instruments in AOCI was \$23 million and \$4 million as of March 31, 2018 and June 30, 2017, respectively.

### *Fair-Value Hedges*

The Company enters into interest rate derivative contracts to manage the exposure to interest rate fluctuations on its funded indebtedness. The Company has interest rate swap agreements, with notional amounts totaling \$250 million, \$450 million and \$250 million to effectively convert the fixed rate interest on its 2020 Senior Notes, 2021 Senior Notes and 2022 Senior Notes, respectively, to variable interest rates based on three-month LIBOR plus a margin. These interest rate swap agreements are designated as fair-value hedges of the related long-term debt, and the changes in the fair value of the interest rate swap agreements are exactly offset by the change in the fair value of the underlying long-term debt.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Credit Risk***

As a matter of policy, the Company enters into derivative contracts only with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$5 million at March 31, 2018. To manage this risk, the Company has strict counterparty credit guidelines that are continually monitored. Accordingly, management believes risk of loss under these hedging contracts is remote.

**NOTE 6 FAIR VALUE MEASUREMENTS**

The Company records certain of its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The accounting for fair value measurements must be applied to nonfinancial assets and nonfinancial liabilities that require initial measurement or remeasurement at fair value, which principally consist of assets and liabilities acquired through business combinations and goodwill, indefinite-lived intangible assets and long-lived assets for the purposes of calculating potential impairment. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument's valuation.

The following table presents the Company's hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018:

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| (In millions)                            | Level 1 | Level 2 | Level 3 | Total         |
|--|---------|---------|---------|---------------|
| <b>Assets:</b>                           |         |         |         |               |
| Foreign currency forward contracts       | \$      | \$      | 5       | \$ 5          |
| Available-for-sale securities:           |         |         |         |               |
| U.S. government and agency securities    |         | 430     |         | 430           |
| Foreign government and agency securities |         | 112     |         | 112           |
| Corporate notes and bonds                |         | 498     |         | 498           |
| Time deposits                            |         | 200     |         | 200           |
| Other securities                         |         | 15      |         | 15            |
| Total                                    | \$      | \$      | 1,260   | \$ 1,260      |
| <b>Liabilities:</b>                      |         |         |         |               |
| Foreign currency forward contracts       | \$      | \$      | 61      | \$ 61         |
| Interest rate swap contracts             |         | 23      |         | 23            |
| Contingent consideration                 |         |         | 133     | 133           |
| Total                                    | \$      | \$      | 84      | \$ 133 \$ 217 |

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The following table presents the Company's hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

| (In millions)                            | Level 1 | Level 2 | Level 3 | Total |
|--|---------|---------|---------|-------|
| <b>Assets:</b>                           |         |         |         |       |
| Foreign currency forward contracts       | \$      | \$      | 10      | \$    |
| Interest rate swap contracts             |         |         | 3       |       |
| Available-for-sale securities:           |         |         |         |       |
| U.S. government and agency securities    |         | 464     |         | 464   |
| Foreign government and agency securities |         | 102     |         | 102   |
| Corporate notes and bonds                |         | 505     |         | 505   |
| Time deposits                            |         | 410     |         | 410   |
| Other securities                         |         | 17      |         | 17    |
| Total                                    | \$      | \$      | 1,511   | \$    |
| <b>Liabilities:</b>                      |         |         |         |       |
| Foreign currency forward contracts       | \$      | \$      | 46      | \$    |
| Interest rate swap contracts             |         |         | 3       |       |
| Contingent consideration                 |         |         |         | 139   |
| Total                                    | \$      | \$      | 49      | \$    |

The estimated fair values of the Company's financial instruments are as follows:

| (In millions)                                       | March 31<br>2018   |               | June 30<br>2017    |               |
|---|--------------------|---------------|--------------------|---------------|
|   | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| <b>Nonderivatives</b>                               |                    |               |                    |               |
| Cash and cash equivalents                           | \$                 | 2,140         | \$                 | 2,140         |
| Available-for-sale securities                       |                    | 1,255         |                    | 1,255         |
| Current and long-term debt                          |                    | 3,659         |                    | 3,827         |
| Additional purchase price payable                   |                    | 38            |                    | 38            |
| Contingent consideration                            |                    | 133           |                    | 139           |
| <b>Derivatives</b>                                  |                    |               |                    |               |
| Foreign currency forward contracts (liability), net |                    | (56)          |                    | (56)          |
| Interest rate swap contracts (liability), net       |                    | (23)          |                    | (23)          |

The following methods and assumptions were used to estimate the fair value of the Company's financial instruments for which it is practicable to estimate that value:

*Cash and cash equivalents* Cash and all highly-liquid securities with original maturities of three months or less are classified as cash and cash equivalents, primarily consisting of cash deposits in interest bearing accounts, money market funds and time deposits. The carrying amount approximates fair value, primarily due to the short maturity of cash equivalent instruments.

*Available-for-sale securities* Available-for-sale securities are classified within Level 2 of the valuation hierarchy and are valued using third-party pricing services, and for time deposits, the carrying amount approximates fair value. To determine fair value, the pricing services use market prices or prices derived from other observable market inputs such as benchmark curves, credit spreads, broker/dealer quotes, and other industry and economic factors.

*Foreign currency forward contracts* The fair values of the Company's foreign currency forward contracts were determined using an industry-standard valuation model, which is based on an income approach. The significant observable inputs to the model, such as swap yield curves and currency spot and forward rates, were obtained from an independent pricing service. To determine the fair value of contracts under the model, the difference between the contract price and the current forward rate was discounted using LIBOR for contracts with maturities up to 12 months, and swap yield curves for contracts with maturities greater than 12 months.

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*Interest rate swap contracts* The fair values of the Company's interest rate swap contracts were determined using an industry-standard valuation model, which is based on the income approach. The significant observable inputs to the model, such as treasury yield curves, swap yield curves and LIBOR forward rates, were obtained from independent pricing services.

*Current and long-term debt* The fair value of the Company's debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities. To a lesser extent, debt also includes capital lease obligations for which the carrying amount approximates the fair value. The Company's debt is classified within Level 2 of the valuation hierarchy.

*Additional purchase price payable* The Company's additional purchase price payable represents fixed minimum additional purchase price that was discounted using the Company's incremental borrowing rate, which was approximately 1%. The additional purchase price payable is classified within Level 2 of the valuation hierarchy.

*Contingent consideration* Contingent consideration obligations consist of potential obligations related to the Company's acquisitions in previous years. The amounts to be paid under these obligations are contingent upon the achievement of stipulated financial targets by the business subsequent to acquisition. The fair values of the contingent consideration related to certain acquisition earn-outs were estimated using a probability-weighted discount model that considers the achievement of the conditions upon which the respective contingent obligation is dependent ( Monte Carlo Method ).

The Monte Carlo Method has various inputs into the valuation model, in addition to the risk-adjusted projected future operating results of the acquired entities, which include the following ranges at March 31, 2018:

|  |                |
|--|----------------|
| Risk-adjusted discount rate  | 2.7% to 3.1%   |
| Revenue volatility   | 4.7% to 5.4%   |
| Asset volatility   | 20.9% to 24.0% |
| Revenue and earnings before income tax, depreciation and amortization correlation coefficient factor | 80.0%          |
| Revenue discount rates   | 4.7% to 4.8%   |
| Earnings before income tax, depreciation and amortization discount rates                             | 12.9% to 14.2% |

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Significant changes in the projected future operating results would result in a significantly higher or lower fair value measurement. Changes to the discount rates, volatilities or correlation factors would have a lesser effect. The implied rates are deemed to be unobservable inputs and, as such, the Company's contingent consideration is classified within Level 3 of the valuation hierarchy.

Changes in the fair value of the contingent consideration obligations for the nine months ended March 31, 2018 are included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings and were as follows:

| <b>(In millions)</b>                       | <b>Fair Value</b> |     |
|--|-------------------|-----|
| Contingent consideration at June 30, 2017  | \$                | 139 |
| Changes in fair value                      |                   | (6) |
| Contingent consideration at March 31, 2018 | \$                | 133 |

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 7 PENSION AND POST-RETIREMENT BENEFIT PLANS**

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. The Company also maintains post-retirement benefit plans that provide certain medical and dental benefits to eligible employees. Descriptions of these plans are included in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

The components of net periodic benefit cost for the three months ended March 31, 2018 and 2017 consisted of the following:

| (In millions)                  | Pension Plans |              |      |                       |      |      | Other than Pension Plans Post-retirement |      |    |     |    |   |
|--------------------------------|---------------|--------------|------|-----------------------|------|------|--|------|----|-----|----|---|
|                                | 2018          | U.S.<br>2017 | 2018 | International<br>2017 | 2018 | 2017 | 2018                                     | 2017 |    |     |    |   |
| Service cost                   | \$            | 10           | \$   | 9                     | \$   | 7    | \$                                       | 7    | \$ | 1   | \$ |   |
| Interest cost                  |               | 9            |      | 8                     |      | 3    |  | 3    |    | 2   |    | 2 |
| Expected return on plan assets |               | (13)         |      | (13)                  |      | (4)  |  | (4)  |    | (1) |    |   |
| Amortization of:               |               |              |      |                       |      |      |  |      |    |     |    |   |
| Prior service cost             |               |              |      |                       |      |      |  |      |    |     |    |   |
| Actuarial loss                 |               | 3            |      | 4                     |      | 2    |  | 3    |    |     |    |   |
| Special termination benefits   |               |              |      |                       |      |      |  | 1    |    |     |    |   |
| Net periodic benefit cost      | \$            | 9            | \$   | 8                     | \$   | 8    | \$                                       | 10   | \$ | 2   | \$ | 2 |

The components of net periodic benefit cost for the nine months ended March 31, 2018 and 2017 consisted of the following:

| (In millions)                  | Pension Plans |              |      |                       |      |      | Other than Pension Plans Post-retirement |      |    |     |    |     |
|--------------------------------|---------------|--------------|------|-----------------------|------|------|--|------|----|-----|----|-----|
|                                | 2018          | U.S.<br>2017 | 2018 | International<br>2017 | 2018 | 2017 | 2018                                     | 2017 |    |     |    |     |
| Service cost                   | \$            | 28           | \$   | 27                    | \$   | 22   | \$                                       | 21   | \$ | 2   | \$ | 2   |
| Interest cost                  |               | 25           |      | 23                    |      | 9    |  | 9    |    | 5   |    | 5   |
| Expected return on plan assets |               | (39)         |      | (39)                  |      | (11) |  | (12) |    | (2) |    | (1) |
| Amortization of:               |               |              |      |                       |      |      |  |      |    |     |    |     |
| Prior service cost             |               |              |      | 1                     |      |      |  | 1    |    | 1   |    |     |
| Actuarial loss                 |               | 10           |      | 12                    |      | 4    |  | 8    |    |     |    | 1   |
| Special termination benefits   |               |              |      |                       |      |      |  | 1    |    |     |    |     |
| Net periodic benefit cost      | \$            | 24           | \$   | 24                    | \$   | 24   | \$                                       | 28   | \$ | 6   | \$ | 7   |



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As part of its ongoing review of pension funding, the Company made a discretionary contribution of \$40 million to its domestic trust-based, noncontributory qualified defined benefit pension plan in March 2018.

During the nine months ended March 31, 2018, the Company made contributions to its international pension plans totaling \$13 million.

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The amounts recognized in the consolidated balance sheets related to the Company's pension and post-retirement benefit plans consist of the following:

| <b>(In millions)</b>                 | <b>March 31<br/>2018</b> | <b>June 30<br/>2017</b> |
|--------------------------------------|--------------------------|-------------------------|
| Other assets                         | \$ 140                   | \$ 100                  |
| Other accrued liabilities            | (28)                     | (28)                    |
| Other noncurrent liabilities         | (414)                    | (397)                   |
| Funded status                        | (302)                    | (325)                   |
| Accumulated other comprehensive loss | 314                      | 325                     |
| Net amount recognized                | \$ 12                    | \$                      |

**NOTE 8 CONTINGENCIES***Legal Proceedings*

The Company is involved, from time to time, in litigation and other legal proceedings incidental to its business. Management believes that the outcome of current litigation and legal proceedings will not have a material adverse effect upon the Company's business, results of operations, financial condition or cash flows. However, management's assessment of the Company's current litigation and other legal proceedings could change in light of the discovery of facts with respect to legal actions or other proceedings pending against the Company not presently known to the Company or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or proceedings. Reasonably possible losses in addition to the amounts accrued for such litigation and legal proceedings are not material to the Company's consolidated financial statements.

*Contingencies*

The Company recently learned that some of its testing related to certain product advertising claims did not meet the Company's standards and needs to be further validated. This was determined pursuant to a Company review initiated in its fiscal 2018 third quarter pursuant to its internal procedures. This review is ongoing, and certain advertising claims will be modified.

This is not a product safety issue and does not relate to the quality of the ingredients or the manufacturing of the Company's products. At this time, the Company does not know whether the results of this ongoing review will be material to the Company, and no accrual has been

recorded. However, it is possible that the Company could be the subject of litigation, other disputes or regulatory proceedings.

## NOTE 9 STOCK PROGRAMS

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of stock options, restricted stock units ( RSUs ), performance share units ( PSUs ), PSUs based on total stockholder return, long-term PSUs, and share units. Compensation expense attributable to net stock-based compensation is as follows:

| (In millions)        | Three Months Ended<br>March 31 |       |        | Nine Months Ended<br>March 31 |      |      |
|----------------------|--------------------------------|-------|--------|-------------------------------|------|------|
|                      | 2018                           | 2017  | 2018   | 2017                          | 2018 | 2017 |
| Compensation expense | \$ 64                          | \$ 41 | \$ 196 | \$ 175                        |      |      |
| Income tax benefit   | 13                             | 14    | 41     | 58                            |      |      |

Beginning with September 2017 equity grants, employee award agreements contain a new provision regarding award forfeiture, the effect of which requires the recording of stock-based compensation expense for retirement-eligible employees over the new requisite service period (six months) rather than at the date of grant.

### *Stock Options*

During the nine months ended March 31, 2018, the Company granted approximately 2.1 million stock options with an exercise price per share of \$108.20 and a weighted-average grant date fair value per share of \$27.76. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The aggregate intrinsic value of stock options exercised during the nine months ended March 31, 2018 was \$209 million.

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Restricted Stock Units***

The Company granted approximately 1.2 million RSUs during the nine months ended March 31, 2018 with a weighted-average grant date fair value per share of \$108.58 that, at the time of grant, were scheduled to vest as follows: 0.4 million in fiscal 2019, 0.5 million in fiscal 2020 and 0.3 million in fiscal 2021. Vesting of RSUs granted is generally subject to the continued employment or the retirement of the grantees. The RSUs are accompanied by dividend equivalent rights, payable upon settlement of the RSUs either in cash or shares (based on the terms of the particular award) and, as such, were valued at the closing market price of the Company's Class A Common Stock on the date of grant.

***Performance Share Units***

During the nine months ended March 31, 2018, the Company granted PSUs with a target payout of approximately 0.2 million shares with a grant date fair value per share of \$107.95, which will be settled in stock subject to the achievement of the Company's net sales, diluted net earnings per common share and return on invested capital goals for the three fiscal years ending June 30, 2020, all subject to continued employment or retirement of the grantees. For PSUs granted, no settlement will occur for results below the applicable minimum threshold. PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSUs and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant.

In September 2017, approximately 0.2 million shares of the Company's Class A Common Stock were issued, and related accrued dividends were paid, relative to the target goals set at the time of the issuance, in settlement of 0.3 million PSUs which vested as of June 30, 2017.

***Long-term Performance Share Units***

In February 2018, the Company granted to an executive of the Company PSUs with an aggregate payout of 195,940 shares (in two tranches of 97,970 shares each) of the Company's Class A Common Stock, generally subject to continued employment through the end of the respective performance periods ending June 30, 2021 and 2022. No portion of the award will generally vest unless the Company has achieved positive Cumulative Operating Income, as defined in the performance share unit award agreement, during the relevant performance period. Payment, if any, with respect to both tranches will be made on September 3, 2024. The PSUs are accompanied by dividend equivalent rights that will be payable in cash at the same time as any payment of shares of Class A Common Stock. The grant date fair value of these PSUs of \$27 million was estimated using the closing stock price of the Company's Class A Common Stock as of the date of grant.

*Performance Share Units Based on Total Stockholder Return*

In August 2017, 30,267 shares of the Company's Class A Common Stock were issued, and related dividends were paid, in accordance with the terms of the grant related to the final performance period of the award, which ended June 30, 2017.

**NOTE 10 NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE**

Net earnings attributable to The Estée Lauder Companies Inc. per common share ( basic EPS ) is computed by dividing net earnings attributable to The Estée Lauder Companies Inc. by the weighted-average number of common shares outstanding and contingently issuable shares (which satisfy certain conditions). Net earnings attributable to The Estée Lauder Companies Inc. per common share assuming dilution ( diluted EPS ) is computed by reflecting potential dilution from stock-based awards.

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A reconciliation between the numerator and denominator of the basic and diluted EPS computations is as follows:

| (In millions, except per share data)  | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |          |
|---|--------------------------------|--------|-------------------------------|----------|
|   | 2018                           | 2017   | 2018                          | 2017     |
| <b>Numerator:</b>   |                                |        |                               |          |
| Net earnings attributable to The Estée Lauder Companies Inc.                          | \$ 372                         | \$ 298 | \$ 922                        | \$ 1,020 |
| <b>Denominator:</b>   |                                |        |                               |          |
| Weighted-average common shares outstanding Basic                                      | 367.9                          | 367.0  | 368.3                         | 366.8    |
| Effect of dilutive stock options  | 5.6                            | 3.5    | 5.1                           | 3.8      |
| Effect of PSUs  | 0.3                            | 0.2    | 0.2                           | 0.2      |
| Effect of RSUs  | 1.9                            | 1.6    | 2.1                           | 1.9      |
| Weighted-average common shares outstanding Diluted                                    | 375.7                          | 372.3  | 375.7                         | 372.7    |
| <b>Net earnings attributable to The Estée Lauder Companies Inc. per common share:</b> |                                |        |                               |          |
| Basic   | \$ 1.01                        | \$ .81 | \$ 2.50                       | \$ 2.78  |
| Diluted   | .99                            | .80    | 2.45                          | 2.74     |

As of March 31, 2018 and 2017, the number of shares of Class A Common Stock underlying options that were excluded in the computation of diluted EPS because their inclusion would be anti-dilutive was de minimis and 2.5 million shares, respectively. As of March 31, 2018 and 2017, 1.2 million shares and 1.3 million shares, respectively, of Class A Common Stock underlying PSUs have been excluded from the calculation of diluted EPS because the number of shares ultimately issued is contingent on the achievement of certain performance targets of the Company, as discussed in *Note 9 Stock Programs*.

**NOTE 11 EQUITY**

| (In millions)              | Total Stockholders |                 | The Estée Lauder Companies Inc. |          |                | Non-controlling Interests | Total Equity |
|----------------------------|--------------------|-----------------|---------------------------------|----------|----------------|---------------------------|--------------|
|                            | Common Stock       | Paid-in Capital | Equity Retained Earnings        | AOCI     | Treasury Stock |                           |              |
| Balance at June 30, 2017   | \$ 6               | \$ 3,559        | \$ 8,452                        | \$ (484) | \$ (7,149)     | \$ 18                     | \$ 4,402     |
| Net earnings               |                    |                 | 922                             |          |                | 7                         | 929          |
| Common stock dividends     |                    | 2               | (410)                           |          |                |                           | (408)        |
| Other comprehensive income |                    |                 | 32                              | 98       |                | 1                         | 131          |
|                            |                    |                 |                                 |          | (605)          |                           | (605)        |

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|                               |    |   |     |       |    |       |    |       |    |         |    |       |    |    |    |       |
|-------------------------------|----|---|-----|-------|----|-------|----|-------|----|---------|----|-------|----|----|----|-------|
| Acquisition of treasury stock |    |   |     |       |    |       |    |       |    |         |    |       |    |    |    |       |
| Stock-based compensation      |    |   | 350 |       |    | (62)  |    | 288   |    | 288     |    |       |    |    |    |       |
| Balance at March 31, 2018     | \$ | 6 | \$  | 3,911 | \$ | 8,996 | \$ | (386) | \$ | (7,816) | \$ | 4,711 | \$ | 26 | \$ | 4,737 |

During the nine months ended March 31, 2018, the Company reclassified \$32 million of the stranded tax effects due to a change in the U.S. federal corporate income tax rate as a result of the TCJA from AOCI to retained earnings.

The following is a summary of quarterly cash dividends declared per share on the Company's Class A and Class B Common Stock during the nine months ended March 31, 2018:

| Date Declared    | Record Date       | Payable Date       | Amount per Share |
|------------------|-------------------|--------------------|------------------|
| August 17, 2017  | August 31, 2017   | September 15, 2017 | \$ .34           |
| October 31, 2017 | November 30, 2017 | December 15, 2017  | \$ .38           |
| February 1, 2018 | February 28, 2018 | March 15, 2018     | \$ .38           |

On May 1, 2018, a dividend was declared in the amount of \$.38 per share on the Company's Class A and Class B Common Stock. The dividend is payable in cash on June 15, 2018 to stockholders of record at the close of business on May 31, 2018.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Common Stock*

During the nine months ended March 31, 2018, the Company purchased approximately 5.5 million shares of its Class A Common Stock for \$676 million.

During the nine months ended March 31, 2018, approximately 0.7 million shares of the Company's Class B Common Stock were converted into the same amount of shares of the Company's Class A Common Stock.

*Accumulated Other Comprehensive Income (Loss)*

The following table represents changes in AOCI, net of tax, by component for the nine months ended March 31, 2018:

| (In millions)                             | Net<br>Unrealized<br>Investment<br>Gain (Loss) | Net<br>Derivative<br>Instrument<br>Gain (Loss) | Amounts<br>Included in<br>Net Periodic<br>Benefit Cost | Translation<br>Adjustments | Total    |
|---|--|--|--|----------------------------|----------|
| Balance at June 30, 2017                  | \$ (1)   | \$ (3)   | \$ (213)   | \$ (267)                   | \$ (484) |
| OCI before reclassifications              | (13)   | (41)   | (4)(1)   | 149                        | 91       |
| Amounts reclassified to Net Earnings      |  | 27   | 12   |                            | 39       |
| Amounts reclassified to Retained Earnings |  | 2  | (34)   |                            | (32)     |
| Net current-period change in OCI          | (13)   | (12)   | (26)   | 149                        | 98       |
| Balance at March 31, 2018                 | \$ (14)  | \$ (15)  | \$ (239)   | \$ (118)                   | \$ (386) |

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(1) Consists of foreign currency translation losses.



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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table represents the effects of reclassification adjustments from AOCI into net earnings for the three and nine months ended March 31, 2018 and 2017:

| (In millions)  | Amount Reclassified from AOCI |      |                            |      |    |      | Affected Line Item in Consolidated Statement of Earnings |      |                                     |
|--|-------------------------------|------|----------------------------|------|----|------|--|------|-------------------------------------|
|  | Three Months Ended March 31   |      | Nine Months Ended March 31 |      |    |      |  |      |                                     |
|  | 2018                          | 2017 | 2018                       | 2017 |    |      |  |      |                                     |
| <b>Gain (Loss) on Investments</b>                    |                               |      |                            |      |    |      |  |      |                                     |
| Gain (loss) on investments                           | \$                            | \$   | (1)                        | \$   | \$ |      | Interest income and investment income, net               |      |                                     |
| Benefit (provision) for deferred taxes               |                               |      |                            |      |    |      | Provision for income taxes                               |      |                                     |
|  | \$                            | \$   | (1)                        | \$   | \$ |      | Net earnings   |      |                                     |
| <b>Gain (Loss) on Cash-Flow Hedges</b>               |                               |      |                            |      |    |      |  |      |                                     |
| Foreign currency forward contracts                   | \$                            | (8)  | \$                         | 2    | \$ | (20) | \$   | 8    | Cost of sales                       |
| Foreign currency forward contracts                   |                               | (10) |                            | 7    |    | (21) |  | 26   | Selling, general and administrative |
| Interest rate-related derivatives                    |                               |      |                            | 1    |    | 1    |  | 1    | Interest expense                    |
|  |                               | (18) |                            | 10   |    | (40) |  | 35   | Earnings before income taxes        |
| Benefit (provision) for deferred taxes               |                               | 6    |                            | (3)  |    | 13   |  | (12) | Provision for income taxes          |
|  | \$                            | (12) | \$                         | 7    | \$ | (27) | \$   | 23   | Net earnings                        |
| <b>Amounts Included in Net Periodic Benefit Cost</b> |                               |      |                            |      |    |      |  |      |                                     |
| Amortization of prior service cost                   | \$                            |      | \$                         |      | \$ | (1)  | \$   | (2)  | (1)                                 |
| Amortization of actuarial loss                       |                               | (5)  |                            | (7)  |    | (14) |  | (21) | (1)                                 |
|  |                               | (5)  |                            | (7)  |    | (15) |  | (23) | Earnings before income taxes        |
| Benefit (provision) for deferred taxes               |                               |      |                            | 2    |    | 3    |  | 7    | Provision for income taxes          |
|  | \$                            | (5)  | \$                         | (5)  | \$ | (12) | \$   | (16) | Net earnings                        |
| <b>Total reclassification adjustments, net</b>       | \$                            | (17) | \$                         | 1    | \$ | (39) | \$   | 7    | Net earnings                        |

(1) See Note 7 Pension and Post-Retirement Benefit Plans for additional information.

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Supplemental cash flow information for the nine months ended March 31, 2018 and 2017 is as follows:

| (In millions)  | 2018 |     | 2017 |     |
|--|------|-----|------|-----|
| <b>Cash:</b>   |      |     |      |     |
| Cash paid during the period for interest                           | \$   | 97  | \$   | 58  |
| Cash paid during the period for income taxes                       | \$   | 283 | \$   | 324 |
| <b>Non-cash investing and financing activities:</b>                |      |     |      |     |
| Capital lease and asset retirement obligations incurred            | \$   | 4   | \$   | 10  |
| Noncash purchases (sales) of short- and long-term investments, net | \$   |     | \$   | 1   |
| Property, plant and equipment accrued but unpaid                   | \$   | 32  | \$   | 26  |

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**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 SEGMENT DATA AND RELATED INFORMATION**

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Chief Executive ) in deciding how to allocate resources and in assessing performance. Although the Company operates in one business segment, beauty products, management also evaluates performance on a product category basis. Product category performance is measured based upon net sales before returns associated with restructuring and other activities, and earnings before income taxes, interest expense, interest income and investment income, net, and charges associated with restructuring and other activities. Returns and charges associated with restructuring and other activities are not allocated to the product categories because they result from activities that are deemed a Company-wide initiative to redesign, resize and reorganize select corporate functions and go-to-market structures.

The accounting policies for the Company's reportable segments are substantially the same as those for the consolidated financial statements, as described in the notes to consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein. There has been no significant variance in the total or long-lived asset values associated with the Company's segment data since June 30, 2017.

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## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| (In millions)   | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|---|--------------------------------|----------|-------------------------------|----------|
|   | 2018                           | 2017     | 2018                          | 2017     |
| <b>PRODUCT CATEGORY DATA</b>  |                                |          |                               |          |
| <b>Net Sales:</b>   |                                |          |                               |          |
| Skin Care   | \$ 1,447                       | \$ 1,105 | \$ 4,216                      | \$ 3,455 |
| Makeup  | 1,388                          | 1,271    | 4,275                         | 3,743    |
| Fragrance   | 382                            | 336      | 1,423                         | 1,275    |
| Hair Care   | 139                            | 126      | 419                           | 399      |
| Other   | 14                             | 19       | 55                            | 60       |
|   | 3,370                          | 2,857    | 10,388                        | 8,932    |
| Returns associated with restructuring and other activities  |                                |          |                               | (2)      |
| Net Sales   | \$ 3,370                       | \$ 2,857 | \$ 10,388                     | \$ 8,930 |
| <b>Operating Income (Loss) before charges associated with restructuring and other activities:</b> |                                |          |                               |          |
| Skin Care   | \$ 440                         | \$ 265   | \$ 1,219                      | \$ 828   |
| Makeup  | 119                            | 192      | 514                           | 562      |
| Fragrance   | 23                             | 16       | 195                           | 157      |
| Hair Care   | 13                             | 12       | 45                            | 38       |
| Other   | 2                              | 4        | 9                             | 11       |
|   | 597                            | 489      | 1,982                         | 1,596    |
| <b>Reconciliation:</b>  |                                |          |                               |          |
| Charges associated with restructuring and other activities  | (100)                          | (62)     | (207)                         | (134)    |
| Interest expense  | (33)                           | (28)     | (96)                          | (71)     |
| Interest income and investment income, net  | 16                             | 8        | 40                            | 19       |
| Earnings before income taxes  | \$ 480                         | \$ 407   | \$ 1,719                      | \$ 1,410 |
| <b>GEOGRAPHIC DATA</b>  |                                |          |                               |          |
| <b>Net Sales:</b>   |                                |          |                               |          |
| The Americas  | \$ 1,181                       | \$ 1,171 | \$ 3,818                      | \$ 3,646 |
| Europe, the Middle East & Africa  | 1,416                          | 1,126    | 4,236                         | 3,477    |
| Asia/Pacific  | 773                            | 560      | 2,334                         | 1,809    |
|   | 3,370                          | 2,857    | 10,388                        | 8,932    |
| Returns associated with restructuring and other activities  |                                |          |                               | (2)      |
| Net Sales   | \$ 3,370                       | \$ 2,857 | \$ 10,388                     | \$ 8,930 |
| <b>Operating Income (Loss):</b>   |                                |          |                               |          |
| The Americas  | \$ 33                          | \$ 87    | \$ 231                        | \$ 236   |
| Europe, the Middle East & Africa  | 385                            | 288      | 1,194                         | 956      |
| Asia/Pacific  | 179                            | 114      | 557                           | 404      |
|   | 597                            | 489      | 1,982                         | 1,596    |
| Charges associated with restructuring and other activities  | (100)                          | (62)     | (207)                         | (134)    |
| Operating Income  | \$ 497                         | \$ 427   | \$ 1,775                      | \$ 1,462 |



Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.****RESULTS OF OPERATIONS**

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories, which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results for the three and nine months ended March 31, 2018 and 2017, and reflects the basis of presentation described in *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the "other" category.

| (In millions)  | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2018                           | 2017     | 2018                          | 2017     |
| <b>NET SALES</b>   |                                |          |                               |          |
| <b>By Product Category:</b>                                |                                |          |                               |          |
| Skin Care  | \$ 1,447                       | \$ 1,105 | \$ 4,216                      | \$ 3,455 |
| Makeup   | 1,388                          | 1,271    | 4,275                         | 3,743    |
| Fragrance  | 382                            | 336      | 1,423                         | 1,275    |
| Hair Care  | 139                            | 126      | 419                           | 399      |
| Other  | 14                             | 19       | 55                            | 60       |
|  | 3,370                          | 2,857    | 10,388                        | 8,932    |
| Returns associated with restructuring and other activities |                                |          |                               | (2)      |
| Net Sales  | \$ 3,370                       | \$ 2,857 | \$ 10,388                     | \$ 8,930 |
| <b>By Region:</b>  |                                |          |                               |          |
| The Americas   | \$ 1,181                       | \$ 1,171 | \$ 3,818                      | \$ 3,646 |
| Europe, the Middle East & Africa                           | 1,416                          | 1,126    | 4,236                         | 3,477    |
| Asia/Pacific   | 773                            | 560      | 2,334                         | 1,809    |
|  | 3,370                          | 2,857    | 10,388                        | 8,932    |
| Returns associated with restructuring and other activities |                                |          |                               | (2)      |
| Net Sales  | \$ 3,370                       | \$ 2,857 | \$ 10,388                     | \$ 8,930 |
| <b>OPERATING INCOME (LOSS)</b>                             |                                |          |                               |          |
| <b>By Product Category:</b>                                |                                |          |                               |          |
| Skin Care  | \$ 440                         | \$ 265   | \$ 1,219                      | \$ 828   |
| Makeup   | 119                            | 192      | 514                           | 562      |
| Fragrance  | 23                             | 16       | 195                           | 157      |
| Hair Care  | 13                             | 12       | 45                            | 38       |
| Other  | 2                              | 4        | 9                             | 11       |
|  | 597                            | 489      | 1,982                         | 1,596    |
| Charges associated with restructuring and other activities | (100)                          | (62)     | (207)                         | (134)    |
| Operating Income   | \$ 497                         | \$ 427   | \$ 1,775                      | \$ 1,462 |
| <b>By Region:</b>  |                                |          |                               |          |
| The Americas   | \$ 33                          | \$ 87    | \$ 231                        | \$ 236   |
| Europe, the Middle East & Africa                           | 385                            | 288      | 1,194                         | 956      |
| Asia/Pacific   | 179                            | 114      | 557                           | 404      |
|  | 597                            | 489      | 1,982                         | 1,596    |
| Charges associated with restructuring and other activities | (100)                          | (62)     | (207)                         | (134)    |

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|                  |    |     |    |     |    |       |    |       |
|------------------|----|-----|----|-----|----|-------|----|-------|
| Operating Income | \$ | 497 | \$ | 427 | \$ | 1,775 | \$ | 1,462 |
|------------------|----|-----|----|-----|----|-------|----|-------|

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The following table presents certain consolidated earnings data as a percentage of net sales:

|  | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |        |
|--|--------------------------------|--------|-------------------------------|--------|
|  | 2018                           | 2017   | 2018                          | 2017   |
| Net sales  | 100.0%                         | 100.0% | 100.0%                        | 100.0% |
| Cost of sales  | 20.3                           | 20.7   | 20.7                          | 20.4   |
| Gross profit   | 79.7                           | 79.3   | 79.3                          | 79.6   |
| Operating expenses:  |                                |        |                               |        |
| Selling, general and administrative                          | 62.1                           | 62.3   | 60.3                          | 61.8   |
| Restructuring and other charges                              | 2.9                            | 2.1    | 1.9                           | 1.4    |
| Total operating expenses                                     | 65.0                           | 64.4   | 62.2                          | 63.2   |
| Operating income   | 14.7                           | 14.9   | 17.1                          | 16.4   |
| Interest expense   | 1.0                            | 1.0    | 1.0                           | 0.8    |
| Interest income and investment income, net                   | 0.5                            | 0.3    | 0.4                           | 0.2    |
| Earnings before income taxes                                 | 14.2                           | 14.2   | 16.5                          | 15.8   |
| Provision for income taxes                                   | 3.1                            | 3.7    | 7.6                           | 4.3    |
| Net earnings   | 11.1                           | 10.5   | 8.9                           | 11.5   |
| Net earnings attributable to noncontrolling interests        | (0.1)                          | (0.1)  |                               | (0.1)  |
| Net earnings attributable to The Estée Lauder Companies Inc. | 11.0%                          | 10.4%  | 8.9%                          | 11.4%  |

In order to meet the demands of consumers, we continually introduce new products, support new and established products through advertising, merchandising and sampling, and phase out existing products that no longer meet our objectives. The economics of developing, producing, launching, distributing, supporting and discontinuing products impact our sales and operating performance each period. The introduction of new products may have some cannibalizing effect on sales of existing products, which we take into account in our business planning.

### ***Non-GAAP Financial Measures***

We use certain non-GAAP financial measures, among other financial measures, to evaluate our operating performance, which represent the manner in which we conduct and view our business. Management believes that excluding certain items that are not comparable from period to period helps investors and others compare operating performance between periods. While we consider the non-GAAP measures useful in analyzing our results, they are not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with U.S. GAAP. See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

We operate on a global basis, with the majority of our net sales generated outside the United States. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations. Therefore, we present certain net sales, operating results and diluted net earnings per common share information excluding the effect of foreign currency rate fluctuations to provide a framework for assessing the performance of our underlying business outside the United States. Constant currency information compares results between periods as if exchange rates had remained constant period over period. We calculate constant currency information by translating current year results using prior year



weighted-average foreign currency exchange rates.

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*Overview*

We believe the best way to increase stockholder value is to continue providing superior products and services in the most efficient and effective manner while recognizing consumers' changing behaviors and shopping preferences. Accordingly, we are implementing our long-term strategy, which has numerous initiatives across geographic regions, product categories, brands, channels of distribution and functions, that is designed to grow our sales, provide cost efficiencies, leverage our strengths and make us more productive and profitable. We plan to continue building upon and leveraging our history of outstanding creativity and innovation, high quality products and services, and engaging communications while investing for long-term sustainable growth. Elements of our strategy are described in the *Overview* on pages 24-28 of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, as well as below.

During the third quarter of fiscal 2018, we continued to build global net sales momentum, fueled by our multiple engines of growth. Net sales grew 18.0% as compared with the prior-year period, led by our skin care, makeup and fragrance product categories. We have seen a continued resurgence of global prestige skin care growth during the third quarter of fiscal 2018. Makeup net sales also continued to grow, however at a slower pace than in prior periods. The Estée Lauder brand, La Mer, Tom Ford and Jo Malone London grew strong double digits, and M A C grew high single digits. Certain of our brands have benefited from new product introductions, which have driven further growth in iconic products that are major components of our brands such as Advanced Night Repair from Estée Lauder. Internationally, net sales grew in substantially all of our markets, led by our businesses in travel retail and China. We believe that our success has been due, in part, to our focus on strengthening our consumer engagement by leveraging digital marketing and enhancing our social media strategies and execution, as we continue to pivot towards areas of prestige beauty where we see the greatest opportunities.

While our business is performing well overall, we continue to face strong competition globally and economic challenges in certain countries. In particular, we are cautious of the continued decline in retail traffic primarily related to some brick-and-mortar stores in the United States as a result of the impact of shifts in consumer preferences as to where and how they shop. We are also cautious of foreign currency movements, including their impact on tourism. Additionally, we continue to monitor the effects of the macroeconomic environments in certain countries such as Brazil and in the Middle East; the United Kingdom's anticipated exit from the European Union; social and political issues; regulatory matters, including the imposition of tariffs; geopolitical tensions; and global security issues.

We believe we can, to some extent, offset the impact of these challenges by accelerating areas of strength among our geographic regions, product categories, brands and channels of distribution. However, if economic conditions or the degree of uncertainty or volatility worsen, or the adverse conditions previously described are further prolonged, there could be a negative effect on consumer confidence, demand, spending and willingness or ability to travel and, as a result, on our business. We will continue to monitor these and other risks that may affect our business.

We recently learned that some of our testing related to certain product advertising claims did not meet our standards and needs to be further validated. This was determined pursuant to a Company review initiated in our fiscal 2018 third quarter in accordance with our internal procedures. This review is ongoing, and certain advertising claims will be modified. This is not a product safety issue and does not relate to the quality of the ingredients or the manufacturing of our products. We are diligently addressing this matter and will make any necessary changes to product advertising claims as soon as possible. At this time, we do not know whether the results of this ongoing review will be material to the Company.

During the fourth quarter of fiscal 2017, we recognized impairment charges for the goodwill and trademark related to its Editions de Parfums Frédéric Malle reporting unit. If the softness in the retail environment that impacted our growth projections for this reporting unit is more severe than we have anticipated, or other business disruptions arise, a resulting change in the long-term plans could have a negative impact on the estimated fair values of the related goodwill and trademark, and it is possible we could recognize an impairment charge in the future. As of March 31, 2018, the carrying values of the Editions de Parfums Frédéric Malle goodwill and trademark were \$7 million and \$34 million, respectively. Based on the latest quantitative assessment, as of April 1, 2017, the fair values of all other reporting units with material goodwill and other indefinite-lived intangible assets, with the exception of our fiscal 2017 acquisitions of Too Faced and BECCA, were substantially in excess of their respective carrying values. With regard to Too Faced and BECCA, the \$1.3 billion combined carrying values of the related goodwill and other indefinite-lived intangible assets as of the assessment date approximated their fair values. If these brands were adversely impacted by any number of factors (e.g., a soft retail environment for their products) that causes a change to their long-term financial projections from the financial targets set at the date of acquisition, there could be a negative effect on the fair values of these reporting units and, accordingly, could result in an impairment charge in the future.

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Our heritage brands are Estée Lauder, Clinique and Origins. Our makeup artist brands are M A C and Bobbi Brown. Our luxury brands are La Mer, Jo Malone London, Tom Ford, AERIN, RODIN olio lusso, Le Labo, Editions de Parfums Frédéric Malle and By Kilian. Our designer fragrances are sold under the Tommy Hilfiger, Donna Karan New York, DKNY, Michael Kors, Kiton, Ermenegildo Zegna and Tory Burch brand names, which we license from their respective owners.

**Leading Beauty Forward**

In May 2016, we announced a multi-year initiative ( Leading Beauty Forward ) to build on our strengths and better leverage our cost structure to free resources for investment to continue our growth momentum. Leading Beauty Forward is designed to enhance our go-to-market capabilities, reinforce our leadership in global prestige beauty and continue creating sustainable value. We plan to approve specific initiatives under Leading Beauty Forward through fiscal 2019 related to the optimization of select corporate functions, supply chain activities, and corporate and regional market support structures, as well as the exit of underperforming businesses, and expect to complete those initiatives through fiscal 2021. Inclusive of charges recorded from inception through March 31, 2018, we expect that Leading Beauty Forward will result in related restructuring and other charges totaling between \$600 million and \$700 million, before taxes, consisting of employee-related costs, asset write-offs and other costs to implement these initiatives. After its full implementation, we expect Leading Beauty Forward to yield annual net benefits, primarily in Selling, general and administrative expenses, of between \$200 million and \$300 million, before taxes. We expect to reinvest a portion of these savings in future growth initiatives. For additional information about Leading Beauty Forward, see *Notes to Consolidated Financial Statements, Note 4 Charges Associated with Restructuring and Other Activities*.

**NET SALES**

| (\$ in millions)                                     | Three Months Ended<br>March 31 |          | Nine Months Ended<br>December 31 |          |
|--|--------------------------------|----------|----------------------------------|----------|
|  | 2018                           | 2017     | 2018                             | 2017     |
| <b>As Reported:</b>                                  |                                |          |                                  |          |
| Net Sales  | \$ 3,370                       | \$ 2,857 | \$ 10,388                        | \$ 8,930 |
| \$ Change from prior-year period                     | 513                            |          | 1,458                            |          |
| % Change from prior-year period                      | 18%                            |          | 16%                              |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |          |                                  |          |
| % Change from prior-year period in constant currency | 13%                            |          | 13%                              |          |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

For the three and nine months ended March 31, 2018, reported net sales increased in each major product category and grew in each geographic region. Skin care net sales primarily benefited from higher sales of Estée Lauder and La Mer products. Makeup net sales primarily reflected increases from Estée Lauder and M A C, while incremental net sales from our fiscal 2017 second quarter acquisitions of Too Faced and BECCA also contributed to the category's growth for the

nine months ended March 31, 2018. Our fragrance category primarily benefited from net sales increases from Jo Malone London and Tom Ford. Each of our product categories benefited from targeted expanded consumer reach, new product offerings, the continued success of certain hero franchises, growth from emerging markets, strength in our travel retail business and the specialty-multi and online channels.

Returns associated with restructuring activities are not allocated to our product categories or geographic regions because they result from activities that are deemed a Company-wide initiative to redesign, resize and reorganize select corporate functions and go-to-market structures.

Table of Contents**Product Categories****Skin Care**

| (\$ in millions)                                     | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2018                           | 2017     | 2018                          | 2017     |
| <b>As Reported:</b>                                  |                                |          |                               |          |
| Net Sales  | \$ 1,447                       | \$ 1,105 | \$ 4,216                      | \$ 3,455 |
| \$ Change from prior-year period                     | 342                            |          | 761                           |          |
| % Change from prior-year period                      | 31%                            |          | 22%                           |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |          |                               |          |
| % Change from prior-year period in constant currency | 25%                            |          | 19%                           |          |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Reported skin care net sales increased, reflecting higher net sales from Estée Lauder and La Mer, combined, of approximately \$271 million and \$641 million for the three and nine months ended March 31, 2018, respectively. In both periods, the higher net sales from Estée Lauder were primarily due to increases in travel retail and China, including the launch of Advanced Night Repair Eye Concentrate Matrix, which created a halo effect on the Advanced Night Repair line of products, as well as the launch of Perfectionist Pro Rapid Firm + Lift Treatment. Net sales of La Mer products grew in all regions in both periods, reflecting recent product launches such as The Moisturizing Matte Lotion and The Moisturizing Cool Gel Creme, and targeted expanded consumer reach. Also contributing to the net sales growth from La Mer for the nine months ended March 31, 2018 was the expansion of the Genaissance line of products, including The Eye & Expression Cream and The Infused Lotion.

Partially offsetting the increase in net sales for the three and nine months ended March 31, 2018, were lower net sales from Aveda of approximately \$2 million and \$13 million, respectively. The lower net sales of Aveda products for both periods primarily reflected an unfavorable comparison to the prior-year periods due to the launch of the Tulasara line of products.

The net sales increase for skin care included favorable foreign currency translation of approximately \$64 million and \$105 million for the three and nine months ended March 31, 2018, respectively.

**Makeup**

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| (\$ in millions)                                     | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2018                           | 2017     | 2018                          | 2017     |
| <b>As Reported:</b>                                  |                                |          |                               |          |
| Net Sales  | \$ 1,388                       | \$ 1,271 | \$ 4,275                      | \$ 3,743 |
| \$ Change from prior-year period                     | 117                            |          | 532                           |          |
| % Change from prior-year period                      | 9%                             |          | 14%                           |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |          |                               |          |
| % Change from prior-year period in constant currency | 5%                             |          | 11%                           |          |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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Reported makeup net sales growth for the three months ended March 31, 2018 reflected higher net sales from Estée Lauder and M A C of approximately \$101 million, combined. Contributing to the reported net sales growth for the nine months ended March 31, 2018 were incremental net sales from our fiscal 2017 second quarter acquisitions of Too Faced and BECCA, as well as higher net sales from Estée Lauder, M A C and Tom Ford of approximately \$532 million, combined. In both periods, increased net sales of Estée Lauder products were due, in part, to higher sales of Double Wear foundation products and the Pure Color franchise. Higher net sales from M A C in both periods were driven by our travel retail business; the growth in online sales and the strength of the makeup category in China and Hong Kong; and success in the specialty-multi channel in the United States as a result of targeted expanded consumer reach. Net sales growth from Tom Ford for the nine months ended March 31, 2018 was driven by higher sales of eyeshadow products, in particular from our travel retail business.

Partially offsetting these increases for the three and nine months ended March 31, 2018 were approximately \$8 million and \$16 million, respectively, of lower net sales of Smashbox products due primarily to a soft retail environment for our products in the United States, particularly in the specialty-multi channel, reflecting slower retail traffic.

The net sales increase for makeup included favorable foreign currency translation of approximately \$55 million and \$102 million for the three and nine months ended March 31, 2018, respectively.

**Franchise**

| (\$ in millions)                                     | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|--------|-------------------------------|----------|
|  | 2018                           | 2017   | 2018                          | 2017     |
| <b>As Reported:</b>                                  |                                |        |                               |          |
| Net Sales  | \$ 382                         | \$ 336 | \$ 1,423                      | \$ 1,275 |
| \$ Change from prior-year period                     | 46                             |        | 148                           |          |
| % Change from prior-year period                      | 14%                            |        | 12%                           |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |        |                               |          |
| % Change from prior-year period in constant currency | 7%                             |        | 8%                            |          |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Reported fragrance net sales increased for the three and nine months ended March 31, 2018, reflecting higher net sales from our luxury fragrance brands of approximately \$54 million and \$169 million, combined, respectively. Contributing to the growth for both periods were higher net sales from Jo Malone London, primarily driven by the travel retail channel and Asia/Pacific region reflecting targeted expanded consumer reach and recent product launches, such as the English Fields collection. Also contributing to the increase were higher net sales from Tom Ford, reflecting, in part, the continued success of the Private Blend franchises, including new products, such as the Oud Wood franchise, and growth from existing fragrances. Net sales increased from Le Labo, By Kilian and Editions de Parfums Frédéric Malle, reflecting growth



from existing products and targeted expanded consumer reach.

Partially offsetting these increases were lower net sales from Estée Lauder of approximately \$22 million and \$17 million for the three and nine months ended March 31, 2018, respectively. These lower net sales for both periods primarily reflected product rationalization of certain underperforming fragrances, as well as an unfavorable comparison with greater launch activity in the prior-year periods.

The net sales increase for fragrance included favorable foreign currency translation of approximately \$23 million and \$45 million for the three and nine months ended March 31, 2018, respectively.

Table of Contents*Hair Care*

| (\$ in millions)                                     | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |        |
|--|--------------------------------|--------|-------------------------------|--------|
|  | 2018                           | 2017   | 2018                          | 2017   |
| <b>As Reported:</b>                                  |                                |        |                               |        |
| Net Sales  | \$ 139                         | \$ 126 | \$ 419                        | \$ 399 |
| \$ Change from prior-year period                     | 13                             |        | 20                            |        |
| % Change from prior-year period                      | 10%                            |        | 5%                            |        |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |        |                               |        |
| % Change from prior-year period in constant currency | 7%                             |        | 4%                            |        |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Reported hair care net sales increased for the three and nine months ended March 31, 2018, reflecting growth from Aveda and Bumble and bumble. In both periods, the higher net sales from Aveda were primarily driven by growth from the online and travel retail channels, as well as the launch of the Invati Advanced line of products. The growth from Bumble and bumble in both periods reflected the launch of the brand in Ulta Beauty. Partially offsetting the net sales growth in hair care was softness in the salon channel in North America, which impacted both brands, and lower sales for the nine months ended March 31, 2018 in freestanding stores for Aveda.

*Geographic Regions**The Americas*

| (\$ in millions)                                     | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2018                           | 2017     | 2018                          | 2017     |
| <b>As Reported:</b>                                  |                                |          |                               |          |
| Net Sales  | \$ 1,181                       | \$ 1,171 | \$ 3,818                      | \$ 3,646 |
| \$ Change from prior-year period                     | 10                             |          | 172                           |          |
| % Change from prior-year period                      | 1%                             |          | 5%                            |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |          |                               |          |
| % Change from prior-year period in constant currency | 1%                             |          | 4%                            |          |

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(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Net sales in Latin America and Canada, combined, increased \$20 million and \$39 million for the three and nine months ended March 31, 2018, respectively, driven by growth in most brands. Net sales in the United States decreased approximately \$10 million for the three months ended March 31, 2018, primarily reflecting lower net sales from our makeup artist brands and Smashbox. The decline in our makeup artist brands was driven by the soft retail environment negatively impacting net sales in some department stores and certain of our freestanding stores, partially offset by growth in the specialty-multi channel as a result of targeted expanded consumer reach from M A C. The decrease in net sales from Smashbox was driven by a soft retail environment for our products in the specialty-multi channel. Partially offsetting these decreases were increased net sales from Estée Lauder, primarily reflecting the launch of Perfectionist Pro Rapid Firm + Lift Treatment and higher sales from the Double Wear line of products, and from La Mer due to recent product launches and targeted expanded consumer reach.

Net sales in the United States increased \$133 million for the nine months ended March 31, 2018 driven by incremental net sales from Too Faced and BECCA of approximately \$195 million, combined. Net sales increases from Estée Lauder and La Mer skin care products were more than offset by lower net sales from our makeup artist brands, Clinique, Smashbox and certain of our designer fragrances.

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The lower net sales from our makeup artist brands and Smashbox for both periods were a result of a softer retail environment for our products. The lower net sales of Clinique products for the nine months ended March 31, 2018 primarily reflected an unfavorable comparison due to the higher level of expansion within the specialty-multi channel in the prior-year periods. The decrease in net sales of our designer fragrances for the nine months ended March 31, 2018 reflected product rationalization of certain underperforming fragrances, as well as an unfavorable comparison with greater launch activity in the prior-year periods.

The net sales increase for the Americas included favorable foreign currency translation of approximately \$4 million and \$16 million for the three and nine months ended March 31, 2018, respectively.

*Europe, the Middle East & Africa*

| (\$ in millions)                                     | Three Months Ended<br>March 31 |          | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|----------|-------------------------------|----------|
|  | 2018                           | 2017     | 2018                          | 2017     |
| <b>As Reported:</b>                                  |                                |          |                               |          |
| Net Sales  | \$ 1,416                       | \$ 1,126 | \$ 4,236                      | \$ 3,477 |
| \$ Change from prior-year period                     | 290                            |          | 759                           |          |
| % Change from prior-year period                      | 26%                            |          | 22%                           |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |          |                               |          |
| % Change from prior-year period in constant currency | 17%                            |          | 17%                           |          |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Reported net sales in Europe, the Middle East & Africa increased, primarily reflecting higher sales from our travel retail business and, to a lesser extent, the United Kingdom and Italy of approximately \$233 million and \$626 million, combined, for the three and nine months ended March 31, 2018, respectively. In our travel retail business, the sales growth for both periods reflected higher net sales from virtually all of our brands including Estée Lauder, La Mer, Tom Ford, Jo Malone London and M A C, driven, in part, by an increase in international passenger traffic, particularly by Chinese travelers, as well as targeted expanded consumer reach and new product offerings. The higher net sales in the United Kingdom in both periods were primarily driven by the favorable impact of foreign currency translation. The net sales growth in Italy was driven by M A C, partially reflecting targeted expanded consumer reach, and Estée Lauder, primarily due to higher net sales from the Double Wear and Pure Color Envy line of products.

Partially offsetting the net sales increases for the three and nine months ended March 31, 2018 were lower net sales in the Middle East of approximately \$10 million and \$15 million, respectively, primarily driven by the continuing rebalancing of inventory levels by certain of our distributors caused by the impact of the macroeconomic environment on consumer purchases.

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The net sales increase in Europe, the Middle East & Africa included favorable foreign currency translation of approximately \$99 million and \$185 million for the three and nine months ended March 31, 2018, respectively.

Table of Contents*Asia/Pacific*

| (\$ in millions)                                     | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |          |
|--|--------------------------------|--------|-------------------------------|----------|
|  | 2018                           | 2017   | 2018                          | 2017     |
| <b>As Reported:</b>                                  |                                |        |                               |          |
| Net Sales  | \$ 773                         | \$ 560 | \$ 2,334                      | \$ 1,809 |
| \$ Change from prior-year period                     | 213                            |        | 525                           |          |
| % Change from prior-year period                      | 38%                            |        | 29%                           |          |
| <b>Non-GAAP Financial Measure (a):</b>               |                                |        |                               |          |
| % Change from prior-year period in constant currency | 30%                            |        | 26%                           |          |

(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

Reported net sales in Asia/Pacific increased, reflecting higher net sales in China and Hong Kong of approximately \$169 million and \$450 million, combined, for the three and nine months ended March 31, 2018, respectively. In both periods, the higher net sales in China were led by Estée Lauder, M A C and La Mer, and reflected, in part, targeted expanded consumer reach and continued increased demand for makeup and skin care products. In addition, most distribution channels grew, led by department stores and online. The net sales growth in Hong Kong in both periods was primarily driven by Estée Lauder, La Mer, M A C and Tom Ford, reflecting an improved macroeconomic environment, an increase in tourism, targeted expanded consumer reach and the continued success of certain hero franchises.

The net sales increase in Asia/Pacific included favorable foreign currency translation of approximately \$44 million and \$58 million for the three and nine months ended March 31, 2018, respectively.

**GROSS MARGIN**

Gross margin increased to 79.7% for the three months ended March 31, 2018 as compared with 79.3% in the prior-year period, and decreased to 79.3% for the nine months ended March 31, 2018 as compared with 79.6% in the prior-year period. Favorable (unfavorable) basis point changes for the three and nine months ended March 31, 2018 as compared with the prior-year periods are as follows:

|                               | March 31, 2018     |                   |
|-------------------------------|--------------------|-------------------|
|                               | Three Months Ended | Nine Months Ended |
| Foreign exchange transactions | 20                 | 10                |
| Mix of business               | (20)               |                   |
| Manufacturing costs and other | 10                 |                   |
| Fiscal 2017 acquisitions      | 30                 | (40)              |

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|  |    |      |
|--|----|------|
| Subtotal   | 40 | (30) |
| Charges associated with restructuring and other activities |    |      |
| Total basis point favorable (unfavorable) change           | 40 | (30) |

The favorable impact of the fiscal 2017 second quarter acquisitions for the three months ended March 31, 2018 relates to the inventory step-up amortization of \$10 million, or approximately 40 basis points, recorded in the prior year. The unfavorable variance for the nine months ended March 31, 2018 was primarily due to a higher cost of sales related to Too Faced and BECCA.

Table of Contents**OPERATING EXPENSES**

Operating expenses as a percentage of net sales increased to 65.0% for the three months ended March 31, 2018 as compared to 64.4% in the prior-year period, and decreased to 62.2% for the nine months ended March 31, 2018 as compared with 63.2% in the prior-year period. Favorable (unfavorable) basis point changes for the three and nine months ended March 31, 2018 as compared with the prior-year periods are as follows:

|  | March 31, 2018     |                   |
|--|--------------------|-------------------|
|  | Three Months Ended | Nine Months Ended |
| General and administrative expenses                          | 30                 | (20)              |
| Advertising, merchandising, sampling and product development | (110)              | (20)              |
| Selling  | 170                | 220               |
| Shipping   | (10)               | (10)              |
| Store operating costs  | 30                 | 30                |
| Stock-based compensation                                     | (50)               | 10                |
| Foreign exchange transactions                                | (60)               | (40)              |
| Fiscal 2017 gain on sale of property, plant and equipment    |                    | (10)              |
| Other  |                    | (20)              |
| Subtotal   |                    | 140               |
| Charges associated with restructuring and other activities   | (80)               | (50)              |
| Changes in fair value of contingent consideration            | 20                 | 10                |
| Total basis point favorable (unfavorable) change             | (60)               | 100               |

For the three months ended March 31, 2018, the higher operating expense margin was driven by an increase in advertising and promotional activities due to increased spend on digital advertising, including costs associated with influencers. The improvement in operating expense margin for the nine months ended March 31, 2018, reflected disciplined expense management across many areas and favorable mix shifts in the growth of our brands and channels. Selling expenses for both periods were favorable, reflecting lower demonstration costs, partially due to changes in distribution channel mix. Beginning with September 2017 equity grants, employee award agreements contain a new provision regarding award forfeiture, the effect of which requires the recording of stock-based compensation expense for retirement-eligible employees over the new requisite service period (six months). Without this provision, the awards for retirement-eligible employees would have been expensed at the date of grant, rather than through our fiscal 2018 third quarter, and would have resulted in stock-based compensation expense having a favorable impact on the operating expense margin comparison of approximately 30 basis points for the three months ended March 31, 2018.

**OPERATING RESULTS**

| (\$ in millions)                 | Three Months Ended |                  | Nine Months Ended |                  |
|----------------------------------|--------------------|------------------|-------------------|------------------|
|                                  | 2018               | March 31<br>2017 | 2018              | March 31<br>2017 |
| <b>As Reported:</b>              |                    |                  |                   |                  |
| Operating Income                 | \$ 497             | \$ 427           | \$ 1,775          | \$ 1,462         |
| \$ Change from prior-year period | 70                 |                  | 313               |                  |
| % Change from prior-year period  | 16%                |                  | 21%               |                  |
| Operating Margin                 | 14.7%              | 14.9%            | 17.1%             | 16.4%            |



**Non-GAAP Financial Measure (a):**

% Change in operating income from the prior-year period  
 adjusting for the impact of charges associated with  
 restructuring and other activities and changes in fair value  
 of contingent consideration

21%

24%

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(a) See *Reconciliations of Non-GAAP Financial Measures* beginning on page 46 for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

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The reported operating margin for three months ended March 31, 2018 decreased from the prior-year period, driven by the impact of charges associated with restructuring and other activities, partially offset by the higher gross margin and changes in the fair value of contingent consideration, as previously noted. Reported operating results and operating margin were impacted by favorable currency translation of \$50 million for the three months ended March 31, 2018.

The reported operating margin for the nine months ended March 31, 2018 increased from the prior-year period, reflecting the lower operating expense margin, partially offset by the decrease in gross margin, as previously noted. Reported operating results and operating margin were impacted by favorable currency translation of \$86 million for the nine months ended March 31, 2018.

Charges associated with restructuring and other activities are not allocated to our product categories or geographic regions because they result from activities that are deemed a Company-wide initiative to redesign, resize and reorganize select corporate functions and go-to-market structures. Accordingly, the following discussions of Operating Income by *Product Categories* and *Geographic Regions* exclude the impact of charges associated with restructuring and other activities.

**Product Categories****Skin Care**

| (\$ in millions)                 | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |        |
|----------------------------------|--------------------------------|--------|-------------------------------|--------|
|                                  | 2018                           | 2017   | 2018                          | 2017   |
| Operating Income                 | \$ 440                         | \$ 265 | \$ 1,219                      | \$ 828 |
| \$ Change from prior-year period | 175                            |        | 391                           |        |
| % Change from prior-year period  | 66%                            |        | 47%                           |        |

Reported skin care operating income increased in both periods, primarily from Estée Lauder and La Mer, due to higher net sales, in particular, from our travel retail business, China and Hong Kong.

**Makeup**

| (\$ in millions)                 | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |        |
|----------------------------------|--------------------------------|--------|-------------------------------|--------|
|                                  | 2018                           | 2017   | 2018                          | 2017   |
| Operating Income                 | \$ 119                         | \$ 192 | \$ 514                        | \$ 562 |
| \$ Change from prior-year period | (73)                           |        | (48)                          |        |
| % Change from prior-year period  | (38)%                          |        | (9)%                          |        |

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Reported makeup operating income decreased for the three and nine months ended March 31, 2018. Growth from our heritage brands was more than offset by lower operating results from Smashbox, our makeup artist brands and Too Faced. The higher results from our heritage brands primarily reflected an increase in net sales from Estée Lauder and disciplined expense management from Clinique and Origins. The lower results from Smashbox reflected lower net sales. The decrease in operating income from our makeup artist brands was driven primarily by the increased investment in digital advertising and social media. The lower results from Too Faced reflected higher investment spending behind new and existing products.

Table of Contents***Fragrance***

| (\$ in millions)                 | Three Months Ended<br>March 31 |       | Nine Months Ended<br>March 31 |        |
|----------------------------------|--------------------------------|-------|-------------------------------|--------|
|                                  | 2018                           | 2017  | 2018                          | 2017   |
| Operating Income                 | \$ 23                          | \$ 16 | \$ 195                        | \$ 157 |
| \$ Change from prior-year period | 7                              |       | 38                            |        |
| % Change from prior-year period  | 44%                            |       | 24%                           |        |

Reported fragrance operating income increased for the three and nine months ended March 31, 2018, reflecting higher results from Jo Malone London, Estée Lauder and Tom Ford. The higher results from Jo Malone London and Tom Ford were primarily due to the increase in net sales. The improved results from Estée Lauder reflected a favorable comparison to the prior-year period due to higher investment spending behind new products.

***Hair Care***

| (\$ in millions)                 | Three Months Ended<br>March 31 |       | Nine Months Ended<br>March 31 |       |
|----------------------------------|--------------------------------|-------|-------------------------------|-------|
|                                  | 2018                           | 2017  | 2018                          | 2017  |
| Operating Income                 | \$ 13                          | \$ 12 | \$ 45                         | \$ 38 |
| \$ Change from prior-year period | 1                              |       | 7                             |       |
| % Change from prior-year period  | 8%                             |       | 18%                           |       |

Reported hair care operating income increased for the three months ended March 31, 2018 primarily due to the growth in net sales. For the nine months ended March 31, 2018, the higher results were driven by both the increase in net sales and disciplined expense management from Aveda and Bumble and bumble.

***Geographic Regions******The Americas***

| (\$ in millions)                 | Three Months Ended<br>March 31 |       | Nine Months Ended<br>March 31 |        |
|----------------------------------|--------------------------------|-------|-------------------------------|--------|
|                                  | 2018                           | 2017  | 2018                          | 2017   |
| Operating Income                 | \$ 33                          | \$ 87 | \$ 231                        | \$ 236 |
| \$ Change from prior-year period | (54)                           |       | (5)                           |        |
| % Change from prior-year period  | (62)%                          |       | (2)%                          |        |

Reported operating income in the Americas decreased for the three and nine months ended March 31, 2018, reflecting lower results from our makeup artist brands and Smashbox, due to the decrease in net sales in the United States, as well as lower results from certain of our luxury brands and Too Faced. The decrease for both periods reflected the increase in advertising and promotional activities, including increased investments in digital advertising and social media. The decrease in reported operating income for the three months ended March 31, 2018 also reflected higher stock-based compensation expense of \$16 million as previously discussed. For the nine months ended March 31, 2018, the lower net sales from Clinique and certain of our designer fragrances also contributed to the decline in reported operating income. Partially offsetting these decreases in both periods were higher results from Estée Lauder as a result of higher net sales.

Table of Contents*Europe, the Middle East & Africa*

| (\$ in millions)                 | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |        |
|----------------------------------|--------------------------------|--------|-------------------------------|--------|
|                                  | 2018                           | 2017   | 2018                          | 2017   |
| Operating Income                 | \$ 385                         | \$ 288 | \$ 1,194                      | \$ 956 |
| \$ Change from prior-year period | 97                             |        | 238                           |        |
| % Change from prior-year period  | 34%                            |        | 25%                           |        |

Reported operating income in Europe, the Middle East & Africa increased for the three months ended March 31, 2018 driven by higher results from our travel retail business of approximately \$119 million, partially offset by lower results from the United Kingdom and the Middle East of approximately \$33 million, combined. Reported operating income for the nine months ended March 31, 2018 increased, reflecting higher results from our travel retail business of approximately \$308 million, partially offset by lower results from the United Kingdom, the Middle East, Switzerland and Germany of approximately \$76 million, combined. The higher results from our travel retail business for both periods were due to the increased net sales. The lower results in the United Kingdom for both periods reflected a soft retail environment for certain of our products, an increase in store operating expenses associated with targeted expanded consumer reach and higher cost of sales due, in part, to the timing and level of gifts with purchase shipments. The lower results in the Middle East were due to a decrease in net sales. The operating results in Switzerland declined during the nine months ended March 31, 2018 due to an unfavorable comparison to the prior-year period gain on the sale of property, plant and equipment. The lower results in Germany for the nine months ended March 31, 2018 were primarily due to higher spending on marketing, advertising and promotion behind new and existing products.

*Asia/Pacific*

| (\$ in millions)                 | Three Months Ended<br>March 31 |        | Nine Months Ended<br>March 31 |        |
|----------------------------------|--------------------------------|--------|-------------------------------|--------|
|                                  | 2018                           | 2017   | 2018                          | 2017   |
| Operating Income                 | \$ 179                         | \$ 114 | \$ 557                        | \$ 404 |
| \$ Change from prior-year period | 65                             |        | 153                           |        |
| % Change from prior-year period  | 57%                            |        | 38%                           |        |

Reported operating income increased in Asia/Pacific, reflecting higher results in China and Hong Kong of approximately \$60 million and \$142 million, combined, for the three and nine months ended March 31, 2018, respectively, driven by net sales growth.

**INTEREST AND INVESTMENT INCOME**

| (In millions)                              | Three Months Ended<br>March 31 |       | Nine Months Ended<br>March 31 |       |
|--|--------------------------------|-------|-------------------------------|-------|
|  | 2018                           | 2017  | 2018                          | 2017  |
| Interest expense                           | \$ 33                          | \$ 28 | \$ 96                         | \$ 71 |
| Interest income and investment income, net | \$ 16                          | \$ 8  | \$ 40                         | \$ 19 |

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Interest expense increased for both periods, primarily due to the issuance of additional long-term debt in February 2017. Interest and investment income, net increased for both periods primarily due to an increase in interest rates and higher cash balances.

Table of Contents**PROVISION FOR INCOME TAXES**

The provision for income taxes represents U.S. federal, foreign, state and local income taxes. The effective rate differs from the federal statutory rate primarily due to the effect of state and local income taxes, the tax impact of share-based compensation, the taxation of foreign income and income tax reserve adjustments, which represent changes in our net liability for unrecognized tax benefits including tax settlements and lapses of the applicable statutes of limitations. Our effective tax rate will change from quarter to quarter based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax reserve adjustments, the tax impact of share-based compensation and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of change.

|   | Three Months Ended<br>March 31 |       | Nine Months Ended<br>March 31 |       |
|---|--------------------------------|-------|-------------------------------|-------|
|   | 2018                           | 2017  | 2018                          | 2017  |
| Effective rate for income taxes               | 22.1%                          | 26.3% | 46.0%                         | 27.2% |
| Basis-point change from the prior-year period | (420)                          |       | 1,880                         |       |

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the TCJA ). The TCJA includes broad and complex changes to the U.S. tax code that impacted our accounting and reporting for income taxes in the current-year period. These impacts primarily consist of the following:

- A reduction in the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, which will result in a fiscal 2018 U.S. blended statutory income tax rate for the Company of 28%.
- A one-time transitional repatriation tax on unremitted foreign earnings ( Transition Tax ), which may be paid over an eight-year period.
- The remeasurement of U.S. net deferred tax assets as of the enactment date.

For further discussion related to the TCJA, see *Notes to Consolidated Financial Statements, Note 1 Summary of Significant Accounting Policies Income Taxes*.

The effective rate for income taxes was 22.1% and 26.3% for the three months ended March 31, 2018 and 2017, respectively. This decrease reflected a favorable impact of excess tax benefits related to share-based compensation awards of approximately 400 basis points, and an adjustment to the remeasurement of U.S. net deferred tax assets resulting from the TCJA of approximately 190 basis points. Partially offsetting these decreases was an adjustment to the Transition Tax resulting from the TCJA of approximately 150 basis points and tax reserve adjustments of approximately 20 basis points. Excluding the impact of the provisional adjustments under the TCJA noted above, and the net impact on the effective tax rate from charges associated with restructuring and other activities and the change in fair value of contingent consideration of approximately 30 basis points and 140 basis points for the three months ended March 31, 2018 and 2017, respectively, the effective tax rate for the three months ended March 31, 2018 and 2017 would have been 22.8% and 27.7%, respectively.



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The effective rate for income taxes was 46.0% and 27.2% for the nine months ended March 31, 2018 and 2017, respectively. This increase was primarily attributable to the Transition Tax of approximately 1,930 basis points, the remeasurement of U.S. net deferred tax assets of approximately 240 basis points, and the establishment of a net deferred tax liability related to certain foreign withholding taxes on planned repatriation of approximately 100 basis points, with each resulting from the enactment of the TCJA. Partially offsetting this increase was approximately 250 basis points due to a favorable impact of excess tax benefits related to share-based compensation awards, and approximately 140 basis points primarily reflecting a favorable geographic mix of earnings and a favorable impact of the reduced U.S. statutory tax rate. Excluding the impact of the provisional adjustments under the TCJA noted above, and the net impact on the effective tax rate from charges associated with restructuring and other activities and the change in fair value of contingent consideration of approximately 80 basis points for the nine months ended March 31, 2017, the effective tax rate for the nine months ended March 31, 2018 and 2017 would have been 23.3% and 28.0%, respectively.

Table of Contents**NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.**

| (\$ in millions, except per share data)  | Three Months Ended |        | Nine Months Ended  |          |
|--|--------------------|--------|--------------------|----------|
|  | 2018               | 2017   | 2018               | 2017     |
|  | <b>March 31</b>    |        | <b>December 31</b> |          |
| <b>As Reported:</b>  |                    |        |                    |          |
| Net earnings attributable to The Estée Lauder Companies Inc.   | \$ 372             | \$ 298 | \$ 922             | \$ 1,020 |
| \$ Change from prior-year period   | 74                 |        | (98)               |          |
| % Change from prior-year period  | 25%                |        | (10)%              |          |
| Diluted net earnings per common share  | \$ .99             | \$ .80 | \$ 2.45            | \$ 2.74  |
| % Change from prior-year period  | 24%                |        | (10)%              |          |
| <b>Non-GAAP Financial Measure (a):</b>   |                    |        |                    |          |
| % Change in diluted net earnings per common share from the prior-year period adjusting for the impact of charges associated with restructuring and other activities, changes in fair value of contingent consideration, and the Transition Tax, the remeasurement of U.S. net deferred tax assets and the establishment of a net deferred tax liability related to certain foreign withholding taxes on planned repatriation resulting from the TCJA |                    | 30%    |                    | 31%      |

(a) See *Reconciliations of Non-GAAP Financial Measures* below for reconciliations between non-GAAP financial measures and the most directly comparable U.S. GAAP measures.

**RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES**

We use certain non-GAAP financial measures, among other financial measures, to evaluate our operating performance, which represent the manner in which we conduct and view our business. Management believes that excluding certain items that are not comparable from period to period, or do not reflect the Company's underlying ongoing business, provides transparency for such items and helps investors and others compare and analyze our operating performance from period to period. In the future, we expect to incur charges or adjustments similar in nature to certain of those presented below; however, the impact to the Company's results in a given period may be highly variable and difficult to predict. Our non-GAAP financial measures may not be comparable to similarly titled measures used by, or determined in a manner consistent with, other companies. While we consider the non-GAAP measures useful in analyzing our results, they are not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with U.S. GAAP. The following tables present Net Sales, Operating Income and Diluted net earnings per common share adjusted to exclude the impact of charges associated with restructuring and other activities, the changes in the fair value of contingent consideration, the impact of the Transition Tax, the establishment of a net deferred tax liability related to certain foreign withholding taxes on planned repatriation and the remeasurement of U.S. net deferred tax assets resulting from the TCJA, as well as the effects of foreign currency translation.

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The tables provide reconciliations between these non-GAAP financial measures and the most directly comparable U.S. GAAP measures. Certain information in the prior-year periods has been restated to conform to current period presentation.

| (\$ in millions, except per share data)   | Three Months Ended<br>March 31 |          |        | Variance | %<br>Change | % Change<br>in<br>Constant<br>Currency |
|---|--------------------------------|----------|--------|----------|-------------|--|
|   | 2018                           | 2017     |        |          |             |  |
| Net Sales, as reported  | \$ 3,370                       | \$ 2,857 | \$ 513 | 18%      | 13%         |  |
| Returns associated with restructuring and other activities  |                                |          |        |          |             |  |
| Net Sales, as adjusted  | \$ 3,370                       | \$ 2,857 | \$ 513 | 18%      | 13%         |  |
| Operating Income, as reported   | \$ 497                         | \$ 427   | \$ 70  | 16%      | 5%          |  |
| Charges associated with restructuring and other activities  | 100                            | 62       | 38     |          |             |  |
| Changes in fair value of contingent consideration   | (9)                            | (3)      | (6)    |          |             |  |
| Operating Income, as adjusted   | \$ 588                         | \$ 486   | \$ 102 | 21%      | 10%         |  |
| Diluted net earnings per common share, as reported  | \$ .99                         | \$ .80   | \$ .19 | 24%      | 12%         |  |
| Charges associated with restructuring and other activities  | .20                            | .11      | .09    |          |             |  |
| Changes in fair value of contingent consideration   | (.02)                          | (.01)    | (.01)  |          |             |  |
| Transition Tax resulting from the TCJA  | .02                            |          |        |          |             |  |
| Remeasurement of U.S. net deferred tax assets resulting from the TCJA   | (.02)                          |          |        |          |             |  |
| Net deferred tax liability related to certain foreign withholding taxes on planned repatriation resulting from the TCJA |                                |          |        |          |             |  |
| Diluted net earnings per common share, as adjusted  | \$ 1.17                        | \$ .90   | \$ .27 | 30%      | 17%         |  |

| (\$ in millions, except per share data)                    | Nine Months Ended<br>March 31 |          |          | Variance | %<br>Change | % Change<br>in<br>Constant<br>Currency |
|--|-------------------------------|----------|----------|----------|-------------|--|
|  | 2018                          | 2017     |          |          |             |  |
| Net Sales, as reported                                     | \$ 10,388                     | \$ 8,930 | \$ 1,458 | 16%      | 13%         |  |
| Returns associated with restructuring and other activities |                               | 2        | (2)      |          |             |  |
| Net Sales, as adjusted                                     | \$ 10,388                     | \$ 8,932 | \$ 1,456 | 16%      | 13%         |  |
| Operating Income, as reported                              | \$ 1,775                      | \$ 1,462 | \$ 313   | 21%      | 16%         |  |
| Charges associated with restructuring and other activities | 207                           | 134      | 73       |          |             |  |
| Changes in fair value of contingent consideration          | (6)                           | 1        | (7)      |          |             |  |
| Operating Income, as adjusted                              | \$ 1,976                      | \$ 1,597 | \$ 379   | 24%      | 18%         |  |
| Diluted net earnings per common share, as reported         | \$ 2.45                       | \$ 2.74  | \$ (.29) | (10)%    | (16)%       |  |
| Charges associated with restructuring and other activities | .42                           | .24      | .18      |          |             |  |
| Changes in fair value of contingent consideration          | (.01)                         | (.01)    |          |          |             |  |

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|   |     |      |    |      |    |     |         |
|---|-----|------|----|------|----|-----|---------|
| Transition Tax resulting from the TCJA  | .88 |      |    | .88  |    |     |         |
| Remeasurement of U.S. net deferred tax assets resulting from the TCJA   | .11 |      |    | .11  |    |     |         |
| Net deferred tax liability related to certain foreign withholding taxes on planned repatriation resulting from the TCJA | .05 |      |    | .05  |    |     |         |
| Diluted net earnings per common share, as adjusted  | \$  | 3.90 | \$ | 2.97 | \$ | .93 | 31% 26% |

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As diluted net earnings per common share, as adjusted, is used as a measure of the Company's performance, we consider the impact of current and deferred income taxes when calculating the per-share impact of each of the reconciling items.

The following tables reconcile the change in net sales by product category and geographic region, as reported, to the change in net sales excluding the effects of foreign currency translation:

| (In millions)  | Three months ended March 31, 2018 | As Reported Three months ended March 31, 2017 | Variance | Impact of foreign currency translation | Variance, in constant currency | % Change, as reported | % Change, in constant currency |
|--|-----------------------------------|---|----------|--|--------------------------------|-----------------------|--------------------------------|
| <b>By Product Category:</b>                                |                                   |   |          |  |                                |                       |                                |
| Skin Care  | \$ 1,447                          | \$ 1,105                                      | \$ 342   | \$ (64)                                | \$ 278                         | 31%                   | 25%                            |
| Makeup   | 1,388                             | 1,271   | 117      | (55)                                   | 62                             | 9                     | 5                              |
| Fragrance  | 382                               | 336   | 46       | (23)                                   | 23                             | 14                    | 7                              |
| Hair Care  | 139                               | 126   | 13       | (4)                                    | 9                              | 10                    | 7                              |
| Other  | 14                                | 19  | (5)      | (1)                                    | (6)                            | (26)                  | (32)                           |
|  | 3,370                             | 2,857   | 513      | (147)                                  | 366                            | 18                    | 13                             |
| Returns associated with restructuring and other activities |                                   |   |          |  |                                |                       |                                |
| Total  | \$ 3,370                          | \$ 2,857                                      | \$ 513   | \$ (147)                               | \$ 366                         | 18%                   | 13%                            |

| (In millions)  | Three months ended March 31, 2018 | As Reported Three months ended March 31, 2017 | Variance | Impact of foreign currency translation | Variance, in constant currency | % Change, as reported | % Change, in constant currency |
|--|-----------------------------------|---|----------|--|--------------------------------|-----------------------|--------------------------------|
| <b>By Region:</b>  |                                   |   |          |  |                                |                       |                                |
| The Americas   | \$ 1,181                          | \$ 1,171                                      | \$ 10    | \$ (4)                                 | \$ 6                           | 1%                    | 1%                             |
| Europe, the Middle East & Africa                           | 1,416                             | 1,126   | 290      | (99)                                   | 191                            | 26                    | 17                             |
| Asia/Pacific   | 773                               | 560   | 213      | (44)                                   | 169                            | 38                    | 30                             |
|  | 3,370                             | 2,857   | 513      | (147)                                  | 366                            | 18                    | 13                             |
| Returns associated with restructuring and other activities |                                   |   |          |  |                                |                       |                                |
| Total  | \$ 3,370                          | \$ 2,857                                      | \$ 513   | \$ (147)                               | \$ 366                         | 18%                   | 13%                            |

| (In millions)  | Nine months ended March 31, 2018 | As Reported Nine months ended March 31, 2017 | Variance | Impact of foreign currency translation | Variance, in constant currency | % Change, as reported | % Change, in constant currency |
|--|----------------------------------|--|----------|--|--------------------------------|-----------------------|--------------------------------|
| <b>By Product Category:</b>                                |                                  |  |          |  |                                |                       |                                |
| Skin Care  | \$ 4,216                         | \$ 3,455                                     | \$ 761   | \$ (105)                               | \$ 656                         | 22%                   | 19%                            |
| Makeup   | 4,275                            | 3,743  | 532      | (102)                                  | 430                            | 14                    | 11                             |
| Fragrance  | 1,423                            | 1,275  | 148      | (45)                                   | 103                            | 12                    | 8                              |
| Hair Care  | 419                              | 399  | 20       | (6)                                    | 14                             | 5                     | 4                              |
| Other  | 55                               | 60   | (5)      | (1)                                    | (6)                            | (8)                   | (10)                           |
|  | 10,388                           | 8,932  | 1,456    | (259)                                  | 1,197                          | 16                    | 13                             |
| Returns associated with restructuring and other activities |                                  | (2)  | 2        |  | 2                              |                       |                                |
| Total  | \$ 10,388                        | \$ 8,930                                     | \$ 1,458 | \$ (259)                               | \$ 1,199                       | 16%                   | 13%                            |

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| <b>By Region:</b>  |    |        |    |       |    |       |    |       |    |       |     |     |
|--|----|--------|----|-------|----|-------|----|-------|----|-------|-----|-----|
| The Americas   | \$ | 3,818  | \$ | 3,646 | \$ | 172   | \$ | (16)  | \$ | 156   | 5%  | 4%  |
| Europe, the Middle East & Africa                           |    | 4,236  |    | 3,477 |    | 759   |    | (185) |    | 574   | 22  | 17  |
| Asia/Pacific   |    | 2,334  |    | 1,809 |    | 525   |    | (58)  |    | 467   | 29  | 26  |
|  |    | 10,388 |    | 8,932 |    | 1,456 |    | (259) |    | 1,197 | 16  | 13  |
| Returns associated with restructuring and other activities |    |        |    | (2)   |    | 2     |    |       |    | 2     |     |     |
| Total  | \$ | 10,388 | \$ | 8,930 | \$ | 1,458 | \$ | (259) | \$ | 1,199 | 16% | 13% |

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**FINANCIAL CONDITION**

**LIQUIDITY AND CAPITAL RESOURCES**

*Overview*

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At March 31, 2018, we had cash and cash equivalents of \$2,140 million compared with \$1,136 million at June 30, 2017. Our cash and cash equivalents are maintained at a number of financial institutions. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength, and we perform ongoing evaluations of these institutions to limit our concentration risk exposure.

Our business is seasonal in nature and, accordingly, our working capital needs vary. From time to time, we may enter into investing and financing transactions that require additional funding. To the extent that these needs exceed cash from operations, we could, subject to market conditions, issue commercial paper, issue long-term debt securities or borrow under our revolving credit facilities.

Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available-for-sale securities, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, acquisitions, dividends, stock repurchases, restructuring initiatives, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents and short- and long-term investment balances at March 31, 2018 include cash and short- and long-term investments in offshore jurisdictions.

The recently enacted TCJA resulted in the Transition Tax on unrepatriated earnings of certain of our foreign subsidiaries and changed the tax law in ways that present potential opportunities to repatriate cash without additional U.S. federal income tax. During the three months ended March 31, 2018, we changed our indefinite reinvestment assertion related to certain foreign earnings and continue to analyze the indefinite reinvestment assertion on our remaining applicable foreign earnings. We do not believe that continuing to reinvest our foreign earnings impairs our ability to meet our domestic debt or working capital obligations. If these reinvested earnings were repatriated into the United States as dividends, we would be subject to state income taxes and foreign withholding taxes in certain jurisdictions.

The effects of inflation have not been significant to our overall operating results in recent years. Generally, we have been able to introduce new products at higher prices, increase prices and implement other operating efficiencies to sufficiently offset cost increases, which have been moderate.

*Credit Ratings*

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of April 25, 2018, our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's, and our long-term debt is rated A+ with a stable outlook by Standard & Poor's and A2 with a stable outlook by Moody's.



Table of Contents**Debt**

At March 31, 2018, our outstanding borrowings were as follows:

| (\$ in millions)   | Long-term<br>Debt | Current<br>Debt | Total Debt |
|--|-------------------|-----------------|------------|
| 4.15% Senior Notes, due March 15, 2047 ( 2047 Senior Notes(1)), (10)           | \$ 494            | \$              | \$ 494     |
| 4.375% Senior Notes, due June 15, 2045 ( 2045 Senior Notes(2)), (10)           | 455               |                 | 455        |
| 3.70% Senior Notes, due August 15, 2042 ( 2042 Senior Notes(3)), (10)          | 247               |                 | 247        |
| 6.00% Senior Notes, due May 15, 2037 ( 2037 Senior Notes(4)), (10)             | 294               |                 | 294        |
| 5.75% Senior Notes, due October 15, 2033 ( 2033 Senior Notes(5))               | 197               |                 | 197        |
| 3.15% Senior Notes, due March 15, 2027 ( 2027 Senior Notes(6)), (10)           | 497               |                 | 497        |
| 2.35% Senior Notes, due August 15, 2022 ( 2022 Senior Notes(7)), (10)          | 244               |                 | 244        |
| 1.70% Senior Notes, due May 10, 2021 ( 2021 Senior Notes(8)), (10)             | 434               |                 | 434        |
| 1.80% Senior Notes, due February 7, 2020 ( 2020 Senior Notes(9)), (10)         | 495               |                 | 495        |
| Commercial paper that matures through April 2018 (1.81% average interest rate) |                   | 280             | 280        |
| Other borrowings   | 6                 | 16              | 22         |
|  | \$ 3,363          | \$ 296          | \$ 3,659   |

(1) Consists of \$500 million principal, net unamortized debt discount of \$1 million and debt issuance costs of \$5 million.

(2) Consists of \$450 million principal, net unamortized debt premium of \$10 million and debt issuance costs of \$5 million.

(3) Consists of \$250 million principal, unamortized debt discount of \$1 million and debt issuance costs of \$2 million.

(4) Consists of \$300 million principal, unamortized debt discount of \$3 million and debt issuance costs of \$3 million.

(5) Consists of \$200 million principal, unamortized debt discount of \$2 million and debt issuance costs of \$1 million.

(6) Consists of \$500 million principal and debt issuance costs of \$3 million.

(7) Consists of \$250 million principal, a \$5 million adjustment to reflect the fair value of interest rate swaps and debt issuance costs of \$1 million.

(8) Consists of \$450 million principal, a \$14 million adjustment to reflect the fair value of interest rate swaps and debt issuance costs of \$2 million.

(9) Consists of \$500 million principal, a \$4 million adjustment to reflect the fair value of interest rate swaps and debt issuance costs of \$1 million.

(10) The Senior Notes contain certain customary incurrence based covenants, including limitations on indebtedness secured by liens.

As of April 25, 2018, we had approximately \$309 million of commercial paper outstanding, which we may refinance or pay as it matures.

Total debt as a percent of total capitalization (excluding noncontrolling interests) was 44% and 45% at March 31, 2018 and June 30, 2017, respectively.

Table of Contents**Cash Flows**

| (In millions)  | Nine Months Ended |          |          |
|--|-------------------|----------|----------|
|  | 2018              | March 31 | 2017     |
| Net cash provided by operating activities            | \$                | 1,931    | \$ 1,252 |
| Net cash used for investing activities               | \$                | 155      | \$ 2,106 |
| Net cash provided by (used for) financing activities | \$                | (822)    | \$ 1,083 |

The change in net cash flows from operations primarily reflected higher earnings before income taxes and an increase in other accrued and noncurrent liabilities, reflecting higher advertising and promotional accruals, a change in accrued employee incentive compensation, and a change in legal accruals in the prior-year period. The TCJA provisional charges, which lowered net earnings, contributed an additional increase of \$332 million in other accrued and noncurrent liabilities, reflecting the Transition Tax, as well as \$60 million, combined, relating to deferred income taxes as a result of the revaluation of U.S. net deferred tax assets due to the change in the corporate tax rate and the withholding taxes on planned repatriation. The Transition Tax may be paid over an eight-year period, of which \$30 million is classified as short-term. These charges had no impact on our reported cash flows from operations for the nine months ended March 31, 2018. The improvement in net cash flows from operations also reflected favorable changes in accounts payable, primarily due to extended supplier payment terms.

The change in net cash flows from investing activities primarily reflected cash paid in the prior-year period for the fiscal 2017 second quarter acquisitions of Too Faced and BECCA, and lower purchases, net of proceeds, of investments in connection with our cash investment strategy. Partially offsetting these changes were an increase in capital expenditures, primarily related to counters.

The change in net cash flows from financing activities reflected the prior year issuance of the 2020 Senior Notes, 2027 Senior Notes and 2047 Senior Notes. The change also reflected higher treasury stock purchases and dividends in the current year, partially offset by an increase in net proceeds from stock-based compensation transactions.

**Dividends**

For a summary of quarterly cash dividends declared per share on our Class A and Class B Common Stock during the nine months ended March 31, 2018, see *Notes to Consolidated Financial Statements, Note 11 Equity*.

**Pension and Post-retirement Plan Funding**

As part of our ongoing review of pension funding, we made a discretionary contribution of \$40 million to our domestic trust-based, noncontributory qualified defined benefit pension plan in March 2018. There have been no other significant changes to our pension and post-retirement funding as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

***Commitments, Contractual Obligations and Contingencies***

There have been no significant changes to our commitments and contractual obligations as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017. For a discussion of contingencies, see *Notes to Consolidated Financial Statements, Note 8 Contingencies*.

***Derivative Financial Instruments and Hedging Activities***

For a discussion of our derivative financial instruments and hedging activities, see *Notes to Consolidated Financial Statements, Note 5 Derivative Financial Instruments*.

***Foreign Exchange Risk Management***

For a discussion of foreign exchange risk management, see *Notes to Consolidated Financial Statements, Note 5 Derivative Financial Instruments (Cash-Flow Hedges)*.

***Credit Risk***

For a discussion of credit risk, see *Notes to Consolidated Financial Statements, Note 5 Derivative Financial Instruments (Credit Risk)*.

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***Market Risk***

We address certain financial exposures through a controlled program of market risk management that includes the use of foreign currency forward contracts to reduce the effects of fluctuating foreign currency exchange rates and to mitigate the change in fair value of specific assets and liabilities on the balance sheet. To perform a sensitivity analysis of our foreign currency forward contracts, we assess the change in fair values from the impact of hypothetical changes in foreign currency exchange rates. A hypothetical 10% weakening of the U.S. dollar against the foreign exchange rates for the currencies in our portfolio would have resulted in a net decrease in the fair value of our portfolio of approximately \$45 million and \$26 million as of March 31, 2018 and June 30, 2017, respectively. This potential change does not consider our underlying foreign currency exposures.

In addition, we enter into interest rate derivatives to manage the effects of interest rate movements on our aggregate liability portfolio, including future debt issuances. Based on a hypothetical 100 basis point increase in interest rates, the estimated fair value of our interest rate derivatives would decrease by \$27 million and \$34 million as of March 31, 2018 and June 30, 2017, respectively.

Our sensitivity analysis represents an estimate of reasonably possible net losses that would be recognized on our portfolio of derivative financial instruments assuming hypothetical movements in future market rates and is not necessarily indicative of actual results, which may or may not occur. It does not represent the maximum possible loss or any expected loss that may occur, since actual future gains and losses will differ from those estimated, based upon actual fluctuations in market rates, operating exposures, and the timing thereof, and changes in our portfolio of derivative financial instruments during the year. We believe, however, that any such loss incurred would be offset by the effects of market rate movements on the respective underlying transactions for which the derivative financial instrument was intended.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities, other than operating leases, that would be expected to have a material current or future effect upon our financial condition or results of operations.

**CRITICAL ACCOUNTING POLICIES**

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements that have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, and income taxes. Since June 30, 2017, there have been no significant changes to the assumptions and estimates related to our critical accounting policies.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

For a discussion regarding the impact of accounting standards that were recently issued but not yet effective, on the Company's consolidated financial statements, see *Notes to Consolidated Financial Statements, Note 1 - Summary of Significant Accounting Policies*.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION**

We and our representatives from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission, in our press releases and in our reports to stockholders. The words and phrases "will likely result," "expect," "believe," "planned," "may," "should," "could," "anticipate," "estimate," "project," "intend," "forecast" or similar expressions are used in our forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include our expectations regarding sales, earnings or other future financial performance and liquidity, product introductions, entry into new geographic regions, information systems initiatives, new methods of sale, our long-term strategy, restructuring and other charges and resulting cost savings, and future operations or operating results. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, actual results may differ materially from our expectations. Factors that could cause actual results to differ from expectations include, without limitation:

(1) increased competitive activity from companies in the skin care, makeup, fragrance and hair care businesses;

(2) our ability to develop, produce and market new products on which future operating results may depend and to successfully address challenges in our business;

(3) consolidations, restructurings, bankruptcies and reorganizations in the retail industry causing a decrease in the number of stores that sell our products, an increase in the ownership concentration within the retail industry, ownership of retailers by our competitors or ownership of competitors by our customers that are retailers and our inability to collect receivables;

(4) destocking and tighter working capital management by retailers;

(5) the success, or changes in timing or scope, of new product launches and the success, or changes in the timing or the scope, of advertising, sampling and merchandising programs;

(6) shifts in the preferences of consumers as to where and how they shop;

(7) social, political and economic risks to our foreign or domestic manufacturing, distribution and retail operations, including changes in foreign investment and trade policies and regulations of the host countries and of the United States;

(8) changes in the laws, regulations and policies (including the interpretations and enforcement thereof) that affect, or will affect, our business, including those relating to our products or distribution networks, changes in accounting standards, tax laws and regulations, environmental or climate change laws, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory

proceedings, and any action we may take as a result;

(9) foreign currency fluctuations affecting our results of operations and the value of our foreign assets, the relative prices at which we and our foreign competitors sell products in the same markets and our operating and manufacturing costs outside of the United States;

(10) changes in global or local conditions, including those due to the volatility in the global credit and equity markets, natural or man-made disasters, real or perceived epidemics, or energy costs, that could affect consumer purchasing, the willingness or ability of consumers to travel and/or purchase our products while traveling, the financial strength of our customers, suppliers or other contract counterparties, our operations, the cost and availability of capital which we may need for new equipment, facilities or acquisitions, the returns that we are able to generate on our pension assets and the resulting impact on funding obligations, the cost and availability of raw materials and the assumptions underlying our critical accounting estimates;

(11) shipment delays, commodity pricing, depletion of inventory and increased production costs resulting from disruptions of operations at any of the facilities that manufacture our products or at our distribution or inventory centers, including disruptions that may be caused by the implementation of information technology initiatives, or by restructurings;



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(12) real estate rates and availability, which may affect our ability to increase or maintain the number of retail locations at which we sell our products and the costs associated with our other facilities;

(13) changes in product mix to products which are less profitable;

(14) our ability to acquire, develop or implement new information and distribution technologies and initiatives on a timely basis and within our cost estimates and our ability to maintain continuous operations of such systems and the security of data and other information that may be stored in such systems or other systems or media;

(15) our ability to capitalize on opportunities for improved efficiency, such as publicly-announced strategies and restructuring and cost-savings initiatives, and to integrate acquired businesses and realize value therefrom;

(16) consequences attributable to local or international conflicts around the world, as well as from any terrorist action, retaliation and the threat of further action or retaliation;

(17) the timing and impact of acquisitions, investments and divestitures; and

(18) additional factors as described in our filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2017.

We assume no responsibility to update forward-looking statements made herein or otherwise.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk.***

The information required by this item is set forth in Item 2 of this Quarterly Report on Form 10-Q under the caption *Liquidity and Capital Resources - Market Risk* and is incorporated herein by reference.

**Item 4. *Controls and Procedures.***

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Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of March 31, 2018 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the third quarter of fiscal 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **PART II. OTHER INFORMATION**

#### **Item 1. *Legal Proceedings.***

For a discussion of legal proceedings, see *Notes to Consolidated Financial Statements, Note 8 Contingencies.*

Table of Contents**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Share Repurchase Program**

We are authorized by the Board of Directors to repurchase shares of our Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. The following table provides information relating to our repurchase of Class A Common Stock during the referenced periods:

| Period        | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares that May Yet Be Purchased Under the Program(2) |
|---------------|-------------------------------------|------------------------------|--|---|
| January 2018  | 623,383                             | \$ 130.82                    | 602,616  | 10,989,894  |
| February 2018 | 700,273                             | 137.48                       | 700,273  | 10,289,621  |
| March 2018    | 692,710                             | 143.80                       | 692,500  | 9,597,121   |
|               | 2,016,366                           | 137.59                       | 1,995,389  |   |

(1) Includes shares that were repurchased by the Company to satisfy tax withholding obligations upon the payout of certain stock-based compensation arrangements.

(2) The current repurchase program for up to 40.0 million shares was authorized by the Board of Directors on November 1, 2012. Our repurchase program does not have an expiration date.

Subsequent to March 31, 2018 and as of April 25, 2018, we purchased approximately 0.5 million additional shares of our Class A Common Stock for \$72 million pursuant to our share repurchase program.

**Item 6. Exhibits.**

| Exhibit Number | Description   |
|----------------|---|
| 31.1           | <u>Certification pursuant to Rule 13a-14(a) (CEO).</u>  |
| 31.2           | <u>Certification pursuant to Rule 13a-14(a) (CFO).</u>  |
| 32.1           | <u>Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO). (furnished)</u> |
| 32.2           | <u>Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)</u> |
| 101.INS        | XBRL Instance Document  |

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|         |  |
|---------|--|
| 101.SCH | XBRL Taxonomy Extension Schema Document                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document   |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE ESTÉE LAUDER COMPANIES INC.**

Date: May 2, 2018

By: /s/TRACEY T. TRAVIS  
Tracey T. Travis  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)