

ESTEE LAUDER COMPANIES INC

Form 10-Q

November 02, 2016

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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 September 30, 2016

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

At October 26, 2016, 222,278,648 shares of the registrant's Class A Common Stock, \$.01 par value, and 144,161,737 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)**

	<b>Three Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In millions, except per share data)</b>	
<b>Net Sales</b>	\$ 2,865	\$ 2,835
Cost of Sales	596	577
<b>Gross Profit</b>	2,269	2,258
<b>Operating Expenses</b>		
Selling, general and administrative	1,825	1,805
Restructuring and other charges	26	
<b>Total operating expenses</b>	1,851	1,805
<b>Operating Income</b>	418	453
Interest expense	21	17
Interest income and investment income, net	6	3
<b>Earnings before Income Taxes</b>	403	439
Provision for income taxes	107	128
<b>Net Earnings</b>	296	311
Net earnings attributable to noncontrolling interests	(2)	(2)
<b>Net Earnings Attributable to The Estée Lauder Companies Inc.</b>	\$ 294	\$ 309
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share</b>		
Basic	\$ .80	\$ .83
Diluted	\$ .79	\$ .82
<b>Weighted-average common shares outstanding</b>		
Basic	366.4	372.5
Diluted	373.3	379.0
<b>Cash dividends declared per common share</b>	\$ .30	\$ .24

See notes to consolidated financial statements.

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

	<b>Three Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>	
<b>Net earnings</b>	\$ 296	\$ 311
<b>Other comprehensive income (loss):</b>		
Net unrealized investment gain (loss)	(4)	1
Net derivative instrument gain (loss)	(6)	11
Amounts included in net periodic benefit cost	8	6
Translation adjustments	1	(79)
Benefit (provision) for deferred income taxes on components of other comprehensive income	(1)	(7)
<b>Total other comprehensive income (loss)</b>	<b>(2)</b>	<b>(68)</b>
<b>Comprehensive income (loss)</b>	<b>294</b>	<b>243</b>
<b>Comprehensive (income) loss attributable to noncontrolling interests:</b>		
Net earnings	(2)	(2)
Translation adjustments	(1)	
	(3)	(2)
<b>Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.</b>	<b>\$ 291</b>	<b>\$ 241</b>

See notes to consolidated financial statements.

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## THE ESTÉE LAUDER COMPANIES INC.

## CONSOLIDATED BALANCE SHEETS

	September 30 2016 (Unaudited)	June 30 2016
	(\$ in millions)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 664	\$ 914
Short-term investments	525	469
Accounts receivable, net	1,624	1,258
Inventory and promotional merchandise, net	1,296	1,264
Prepaid expenses and other current assets	292	320
<b>Total current assets</b>	<b>4,401</b>	<b>4,225</b>
<b>Property, Plant and Equipment, net</b>	<b>1,569</b>	<b>1,583</b>
<b>Other Assets</b>		
Long-term investments	1,050	1,108
Goodwill	1,229	1,228
Other intangible assets, net	340	344
Other assets	759	735
<b>Total other assets</b>	<b>3,378</b>	<b>3,415</b>
<b>Total assets</b>	<b>\$ 9,348</b>	<b>\$ 9,223</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Current debt	\$ 592	\$ 332
Accounts payable	546	717
Other accrued liabilities	1,574	1,632
<b>Total current liabilities</b>	<b>2,712</b>	<b>2,681</b>
<b>Noncurrent Liabilities</b>		
Long-term debt	1,908	1,910
Other noncurrent liabilities	1,053	1,045
<b>Total noncurrent liabilities</b>	<b>2,961</b>	<b>2,955</b>
<b>Contingencies (Note 8)</b>		
<b>Equity</b>		
Common stock, \$.01 par value; Class A shares authorized: 1,300,000,000 at September 30, 2016 and June 30, 2016; shares issued: 425,646,311 at September 30, 2016 and 424,109,008 at June 30, 2016; Class B shares authorized: 304,000,000 at September 30, 2016 and June 30, 2016; shares issued and outstanding: 144,161,737 at September 30, 2016 and 144,770,237 at June 30, 2016	6	6
Paid-in capital	3,286	3,161
Retained earnings	7,876	7,693
Accumulated other comprehensive loss	(548)	(545)
	<b>10,620</b>	<b>10,315</b>
	<b>(6,963)</b>	<b>(6,743)</b>

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Less: Treasury stock, at cost; 203,485,000 Class A shares at September 30, 2016 and  
201,119,435 Class A shares at June 30, 2016

<b>Total stockholders equity</b>	<b>The Estée Lauder Companies Inc.</b>	3,657		3,572
<b>Noncontrolling interests</b>		18		15
<b>Total equity</b>		3,675		3,587
<b>Total liabilities and equity</b>		\$ 9,348	\$	9,223

See notes to consolidated financial statements.



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

	<b>Three Months Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
	<b>(In millions)</b>	
<b>Cash Flows from Operating Activities</b>		
Net earnings	\$ 296	\$ 311
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	106	98
Deferred income taxes	(32)	(21)
Non-cash stock-based compensation	88	69
Excess tax benefits from stock-based compensation arrangements	(10)	(4)
Net (gain) loss on disposal of property, plant and equipment	(7)	2
Non-cash restructuring and other charges	1	
Pension and post-retirement benefit expense	20	18
Pension and post-retirement benefit contributions	(4)	(7)
Change in fair value of contingent consideration	4	5
Other non-cash items	(4)	
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(365)	(389)
Decrease (increase) in inventory and promotional merchandise, net	(31)	17
Decrease (increase) in other assets, net	4	(22)
Decrease in accounts payable	(170)	(101)
Increase (decrease) in other accrued and noncurrent liabilities	(46)	32
<b>Net cash flows provided by (used for) operating activities</b>	<b>(150)</b>	<b>8</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(85)	(90)
Payments for acquired businesses, net of cash acquired	(10)	(19)
Proceeds from disposition of investments	365	233
Purchases of investments	(348)	(688)
Proceeds from sale of property, plant and equipment	12	
<b>Net cash flows used for investing activities</b>	<b>(66)</b>	<b>(564)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds of current debt, net	263	426
Repayments and redemptions of long-term debt	(2)	(2)
Net proceeds from stock-based compensation transactions	26	6
Excess tax benefits from stock-based compensation arrangements	10	4
Payments to acquire treasury stock	(222)	(387)
Dividends paid to stockholders	(111)	(90)
Payments to noncontrolling interest holders for dividends		