

FINAL TRANSCRIPT

Thomson StreetEventsSM

EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Event Date/Time: Oct. 28. 2008 / 9:30AM ET

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

CORPORATE PARTICIPANTS

Dennis D'Andrea

Estee Lauder - VP, IR

William Lauder

Estee Lauder - CEO

Fabrizio Freda

Estee Lauder - President and COO

Rick Kunes

Estee Lauder - EVP, CFO

Dan Brestle

Estee Lauder - Vice Chairman and President of ELC North America

CONFERENCE CALL PARTICIPANTS

Christopher Ferrara

Merrill Lynch - Analyst

Andrew Sawyer

Goldman Sachs - Analyst

Wendy Nicholson

Citigroup - Analyst

Ali Dibadj

Sanford Bernstein - Analyst

Nik Modi

UBS - Analyst

Alice Longley

Buckingham Research - Analyst

John Faucher

JPMorgan - Analyst

Linda Bolton-Weiser

Caris & Company - Analyst

Bill Schmitz

Deutsche Bank - Analyst

Connie Maneaty

BMO Capital Markets - Analyst

Lisa Rachal

Redburn Partners - Analyst

Lauren Liberman

Barclays - Analyst

PRESENTATION

Operator

Good day everyone, and welcome to the Estee Lauder companies Fiscal 2009 first quarter conference call. Today's call is being recorded and Webcast. For opening remarks and introductions I would like to turn the call over to Vice President of Investor

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Relations, Mr. Dennis D'Andrea. Please go ahead, sir.

Dennis D'Andrea - *Estee Lauder - VP, IR*

Good morning, everyone. We have on today's call William Lauder, Chief Executive Officer, Fabrizio Freda, President and Chief Operating Officer, and Rick Kunes, Executive Vice President and Chief Financial Officer. Dan Brestle, our Vice Chairman and President of ELC North America is also here, and Dan will be available for questions. Since many of our remarks today contain forward-looking statements, let me refer you to our press release and our reports filed with the SEC, where you'll find factors that could cause actual results to differ materially from these forward-looking statements.

I'll turn the call over to William.

William Lauder - *Estee Lauder - CEO*

Thank you, Dennis. Good morning and thank you for joining our Fiscal 2009 first quarter conference call. I will divide my comments this morning into three parts.

Our first quarter results current and projected market conditions and lastly, progress made against our strategic imperatives. As we've all seen, worldwide financial markets, the move of consumers and retail sales have clearly worsened in the last two months. Despite these factors our Company had a strong performance for the July to September quarter. This morning we announced that reported sales grew 11%, right in the middle of our forecast and diluted earnings per share were \$0.26, \$0.01 above our forecasted range. With the threat of global recession, we are cautious about the pace of our growth for the remainder of the Fiscal Year. Fabrizio and Rick will elaborate about our expectations and steps we're taking to mitigate the impact on our profits.

In the first quarter our sales grew in all three geographic regions and our market share grew globally. Growth was once again lead by our international businesses where we posted healthy double digit gains. Sales in the Americas rose 4%, quite respectable considering the economic environment. Looking at our business by category we had strong improvements in skin care and makeup, our two largest areas.

In the quarter, beauty performed well. According to NPD, retail sales of cosmetics products in US Prestige Department Stores declined 1% for the three months, which was better than many other areas. Several retailers including Nieman Marcus, Nordstroms, Saks, and [Bonton] cited beauty as a top performer. Our sales in the US were up 2.5% reflecting growth in various channels, including Department Stores, freestanding stores, the Internet, Direct Response TV and Coach stores. We remain committed to working with our Department Store customers to bring excitement into beauty.

In one effort, the Estee Lauder brand aired a television promotion with Macy's, our largest customer, for its Beauty Week event, which helped drive traffic and build sales. The Estee Lauder brands gift program also did well at Macy's. The gift generated a significant increase in average unit sales, which more than compensated for slower traffic.

In North America, the Estee Lauder brand reported a solid increase in sales in the quarter due to several successful launches including Sensuous in fragrance, Perfectionist in skin care and Turbo Lash in makeup. Clinique posted gains in North America thanks to strength in its core products including its classic Three Step Program and higher online sales. The continued success of several treatment products that were introduced in the last year also boosted the brand. In addition, Clinique made initial shipments of Clinique Medical, its new skin care line sold in physician's offices.

In the quarter, two of our strongest performers in the US were luxury brands. Joe Malone, the British lifestyle brand had terrific growth generated by increased retail sales and distribution. La Mer showing was due to strong basic business lead by its core product, Creme. Both brands also had solid growth in Asia Pacific and travel retail. Our makeup artist brands rang up higher

Oct. 28, 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

sales in the US and Canada. Bobbi Brown had strong product offerings, additional airings on QVC, and was in 35 additional doors compared to last year. Mac introduced several new products under its minerals franchise and saw higher results in its freestanding retail stores.

Turning to our international business, sales outside the United States accounted for nearly 60% of total Company sales in Fiscal 2008 and has led our growth for several years. This trend continued in the first quarter. Many international countries generated large gains ranging from established ones like the UK to developing countries such as Russia. In particular, the Estee Lauder and Clinique brands had strong sales growth in every international region resulting in double digit gains on a global basis.

As you saw in the press release our overall European region had terrific sales growth, despite a mixed performance in some of our larger markets. This is consistent with what we stated on our last conference call. We are planning for slower growth rates in some key markets. Our travel retail business grew mid-teens in the quarter led by skin care and makeup. Exclusive products for this channel continue to contribute strongly to its performance. Somewhat offsetting these positives was slower growth in international airline passenger traffic, which declined 4% on average from 6% in the previous six months.

It is projected that the number of travelers may fall further in the coming months. Asia has been a stellar performer for several years and we expect it will continue to lead our growth. Although the region is not immune from the global downturn, we foresee continued strength and believe it will play an instrumental role in driving overall sales. The economy in Japan, our largest market in Asia, has softened but our growth in the quarter out paced that of Prestige Beauty. For now our forecast assumes that the demand for luxury cosmetics will not deteriorate significantly.

Our sales in emerging markets climbed 31% in constant currency, once again driven by China, Russia and the Middle East. Importantly we are continuing to invest in developing countries to further build our presence, consumer awareness and sales momentum. Despite difficulties in many markets we delivered what we expected. Given the challenging economic environment we are very pleased with our results for the quarter.

The current business conditions are evident to everyone and since mid September we have been experiencing softer sales. As a result we are making the following moves. First, we are accelerating our cost savings efforts across the Company. As an example, we are aggressively eliminating the easiest expense reductions in our cost savings plans. Second, we are insuring that we can continue to support and invest behind all core marketing programs with growth areas of the business. It must be remembered that despite what is going on in the world, we are still expected to grow in constant currency.

Third, we will continue to reallocate resources in the portfolio from less profitable to more profitable opportunities. And fourth we see opportunity for us to grow market share and emerge an even stronger leader in Prestige Beauty over the long term. The fundamentals of our business are sound and intact. We have a strong cash position and enjoy the benefits of our historically conservative balance sheet. We remain fully committed to our strategic plan. When consumption returns to normal we expect to once again enjoy our historical growth rates. With our cost savings programs accelerated we should be in a position to deliver improved profitability, strong cash flow, and increased market share.

Finally, we remain committed to the strategic imperatives that have successfully guided our growth and continue to enhance our leadership position in Prestige Beauty. One of our imperatives is to strengthen our product categories and we are focusing on skin care. We believe the skin care category has major opportunities for expansion, particularly in Asia, where our fastest growth is expected. Sales of the Estee Lauder brand rose throughout the region especially in Greater China, largely driven by its advanced skin care products. Clinique and La Mer also had strong skin care growth in Asia due to demand for core products as well as launches. We continue to create products specifically for the needs of consumers in this region such as additions to Clinique's Derma White line.

Another imperative is to expand our geographic presence. Our products are now sold in more than 140 countries and territories. The 29 brands that make up the Estee Lauder Companies portfolio are at different stages of development. Expansion plans vary

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

by brand, younger brands have more markets left to penetrate and additional doors to open in the existing markets. For example, Bobbi Brown, a mid sized brand, expects to continue expanding into new countries until it reaches its optimum distribution.

Going forward a greater focus will be placed on investing and gaining share in the most promising and important regions. The areas with the greatest pay-offs are large core markets, fast growing emerging markets and Asia Pacific. Japan is a large and crucial country. To further build our presence and gain share, we are expanding into new channels of distribution including Direct Response TV. Origins is launching on QVC in Japan this month as the first step and we expect to air infomercials for [Beauty Banks Successful Triaculene] treatment product later this Fiscal Year. TV home shopping is growing in importance to the Beauty industry and our Japanese affiliate is considering it for other brands.

A third imperative is to diversify distribution. We have made great strides reducing our dependence on our largest channel and we need to continue to explore new avenues to meet the needs of all shoppers. We are investing strongly in channels with good returns. One is eCommerce which has been expanding at a double digit pace for several years. In July, Bumble and Bumble launched an eCommerce site in the United States and Estee Lauder and Clinique expect to start selling online in China before year-end.

Another imperative is to maximize the potential of our existing brands. A great example is Clinique Medical, which just started selling in physician's offices. The collection is used in conjunction with aesthetics procedures and should create a greater awareness and authority for the entire Clinique brand. To conclude my comments let me reiterate that we will face current business challenges with determination and continue to focus on the elements that drive our business.

Now, Fabrizio, who is joining us from France, will talk about what we foresee for the remainder of this Fiscal Year.

Fabrizio Freda - *Estee Lauder - President and COO*

Thank you, William, and good morning, everyone. For the quarter just ended, despite a rapid deterioration in September, we delivered the strong results we expected. As William indicated earlier, our business in the quarter remained robust. We made strong progress across our five strategic imperatives. We began cross the Company to work in new ways that will drive our future results.

First, balancing profit and growth. Second, shifting resources from lower return to higher return areas, investing forcefully in the brands, categories, regions and channels that provide the greatest returns. Third, we have begun to work to address our under performing brands. Fourth, we established new leadership teams to tackle our toughest challenges and to create more globally across boundaries and brands. In short, during the last quarter, in addition to delivering strong results given the market conditions, we also began to lay the critical ground work needed to achieve our new strategic plan.

Now, let me turn to the rapidly deteriorating conditions we have seen across many of our markets since Mid September. Given these conditions we believe it is even more critical to provide our investors with guidance and be as open and transparent as possible. In this unprecedented environment, we can control our business plans and cost structure, but we cannot control consumer reactions to the constant bombardment of negative news and uncertain conditions, nor we can control dramatic fluctuations in exchange over a short period of time. Therefore, in our forecast for the remainder of the Fiscal Year, we have to make transparent assumptions.

First, we have assumed that the market will perform as it has since mid September. It is [as imperative] to forecast further declines in consumer sentiment as it is to speculate improvements. As such, we are comfortable with this first assumption. Second, we are using current exchange rates in our forecast, and are not taking position as to whether the dollar will rise or fall as we believe that our arguments for both. As a result, we are focusing on the aspects of our business we can control.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Let me emphasize that our plans to reduce cost not only remain in place, but are being accelerated. While our top line is softer than we would like, we believe we can create value for our stakeholders even during these difficult times. Importantly, as we said before, we are not reducing from the [mental] business support or needed investments. We are instead developing plans to reduce cost significantly throughout the Company as well as reducing non-essential capital expenditure. Rick will comment on these initiatives later.

Additionally, we are going to use our Company managed strengths to grow market share. The growth of our business exceeds the industry growth globally. For example, in Japan, we grew faster than the market by several points at retail in the quarter. As our industry faces great challenges, we expect to use our financial strengths to take advantage opportunities to grow, positioning ourselves to fully achieve our strategic plan. When consumer spending return to normal we expect to be in an even stronger place with lower costs, higher market share, and improved return on invested capital. Now, let me take a few moments to share our outlook with you.

For the remainder of this year, there are strong notes of caution. As you know, the economy in North America has been weak for awhile and recently deteriorated farther quite rapidly. The financial crisis, plunge in the stock market, and folding housing prices have taken their toll on the consumers, who have drastically cut back their purchasing. This year, the final shopping stretch between Black Friday and Christmas have five fewer days than 2007, and most of the buying is expected to happen toward the end of the period. Holiday spending in general is predicted to be one of the weakest in many years in the US.

A sentiment that is reflected in our forecast. People will still buy gifts, but we believe more shoppers will look for value. We expect the current sublevel of consumption in North America will continue for the remainder of the Fiscal Year. We have all seen that European economies are also deteriorating. Many large countries in Western Europe anticipate weaker traffic and fewer tourists, which will reduce the rate of sales growth. For that reason, we outlook for sales growth in the European region in local currency for this Fiscal Year is lower than earlier expectations, but remains relatively healthy.

As William, described our travel retail business is expected to grow, but at a lower rate. Our outlook for Asia Pacific remains cautiously positive. We see consumption deteriorating, but not significantly. Most affiliates in the region expect continued growth in luxury beauty and further expansion of our brands. We've enjoyed terrific growth in the Middle East and emerging markets lead by China and Russia. Although they are also subject to the global economic turmoil, we are not expecting a significant downturn. With solid growth expected to continue we plan to invest and build on our growing strength in these countries.

Now, I would like to address changes in our plans in light of the new consumption trends economic situation. We must intensify our efforts to create more efficiently and with excellence in all process of our business. Specifically we see an opportunity to accelerate cost cutting in key areas we identified in developing our long term strategy. We intend to invest even more to help stores build traffic, create innovative products and develop promotions to keep up our momentum. An internal part of our strategy is to improve our level of efficiency.

Next week we take a major step toward our strategic modernization initiative. Our UK manufacturing, North American In Direct [recurrent] and North America Financial Reporting process will go live. SMI is a critical piece of our growing effort to be more financially disciplined and operate more effectively. As I mentioned, employees throughout the Company are working out details of the strategic plan we have outlined in previous calls. Currently, brands, regions, and corporate departments are drilling down and developing strategies for their particular area that cascade down from our central cultural strategy.

In addition, cross-fashion teams of employees are focusing on priority initiatives as they relate to the overall Company in areas such as innovation, organizational design, SKU reduction and inventory control. Definite plans beyond our prior initiative are scheduled for completion at the end of December, which will then be consolidated and reviewed. We expect to provide the financial implication of this initiative during the next earnings conference call scheduled for February 5th, 2009. That call will be longer than usual so we can review our second quarter performance as well as take you through the new strategic plan.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Our underlying mission is to deliver sustainable profitable growth for years to come in good times and bad. Now, more than ever, the creativity, ingenuity of our terrific people is essential to drive our business throughout this difficult period, and I'm very proud of their work, energy, and commitment. Throughout the Strategic Planning and Implementation process we are becoming a more cohesive, integrated organization. In the end we all have one goal, to enforce our position as the global leader in luxury beauty. With non stop creativity, fantastic brands, dedicated colleagues and a more competitive cost structure we believe we have a bright future.

Now, I will turn the call over to Rick to provide more financial details.

Rick Kunes - Estee Lauder - EVP, CFO

Thank you, Fabrizio, and good morning, everyone. In local currency, sales this quarter were up 10% over last year, within the range we predicted on our last call. Currency translation added another percentage point of growth resulting in reported sales growth of 11% to \$1.9 billion. Net earnings for the quarter rose 31% to \$51.1 million compared with \$39.1 million in the prior year quarter and diluted EPS was \$0.26 compared to \$0.20 in the prior year, \$0.01 above the high end of our expectations.

We saw robust growth in the key skin care and makeup categories. In skin care, sales rose 14% in local currency lead by strong double digit growth in Asia and Europe where new products and emerging markets aided the category. Skin care sales in the Americas rose nearly 7% on double digit growth from La Mer and recent launches from Clinique and Estee Lauder. In makeup, local currency sales saw an 11% increase on double digit growth from our makeup artist brands. Recent launches from Clinique and its Estee Lauder also helped the category. Our fragrance business grew a more modest 3% excluding currency, with more profitable European sales contributing about 60% of the increase. In hair care, sales fell 4% due primarily to the conclusion of an amended ease at Bumble and Bumble program and soft salon sales in the US.

When looking at our geographic results, our strongest sales came from the Asia Pacific region, which saw a 21% rise in local currency with every country recording increases. Among the top markets in the region, we are pleased that our business in Japan continued to grow at a healthy mid single digit pace. While the retail environment in the country has been slow, luxury beauty was a bright spot. Korea, our second largest market in the region grew 35% and Australia rose in the mid teens. Those three markets represent nearly 60% of the regions sales.

China, our major developing market in Asia Pacific, rose over 40% fueled by growth and expanded distribution. Europe, the Middle East and Africa posted 14% local currency sales gains. Travel retail grew nearly 15% for the quarter, despite a slowing growth in the international travelers. Almost all countries were higher with our UK business up double digits lead by makeup artist brands and overall business in boots. Travel retail and UK affiliate represent just over half of our sales in the region. Among developing markets, Russia once again was up, contributing nicely to the regions growth, and the Middle East rose strongly after converting to an affiliate last year.

Importantly, the major western European countries held up relatively well. The only country that showed a decline for the quarter was Spain. The 4% increase in sales in the Americas reflected higher holiday shipments to Department Stores. Sales in our Internet, Direct Response TV, Company owned freestanding retail stores, Kohl's and Coach channels, along with Canada and Latin America, all grew nicely. Our business in the salon and self-select channels declined in the quarter. In total, sales in the Americas region, outside of the US Department Store channel, rose 6%.

Moving on to gross margin, we had a 40 basis point improvement this quarter to 73.7%. Contributing to the increase was favorable mix of 40 basis points, lower promotional costs of 30 basis points and positive currency of 20 basis points. Partially offsetting these improvements was an increase in obsolescence charges of about 50 basis points.

Operating expenses as a percentage of sales for the quarter were relatively flat at 68.9% compared with 68.8% last year. Some initial companywide cost containment efforts netted a 140 basis point improvement. These efforts were offset by net losses

Oct. 28, 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

from currency transactions of 110 basis points and higher IT systems and infrastructure costs of 50 basis points. As a result, operating income increased 19% to \$92.5 million compared to \$77.9 million last year, and operating margin rose 30 basis points.

Looking at operating results by category, skin care saw operating income improvements reflecting growth at some of our core brands. Makeup also improved from growth at our makeup artist brands and certain core brands. Fragrance had a larger operating loss impacted by lower sales of designer fragrances, but partially offset by favorable results from the recent launch of Sensuous from its Estee Lauder. A decline in hair care profitability reflected the absence of high margin amenity sales at Bumble and Bumble and higher selling and marketing spending to develop Ojon.

By region, operating profit increased substantially in Asia Pacific across several large markets including Japan, Korea, Hong Kong, China and Australia. The increase in the Americas was driven by growth in our makeup artist and certain core brands along with cost containment efforts. In Europe, the Middle East And Africa, we generated solid growth in travel retail, the UK, and Germany. These improvements were more than offset by lower results in Russia, Spain and France including additional provisions for certain receivables and inventory.

Regarding our net interest expense, we reported \$15.3 million this quarter versus \$18.4 million in last years first quarter. The decrease is primarily due to lower rates and average debt. The effective tax rate for the quarter was 35.8%. Our Fiscal first quarter cash flow always reflects seasonal working capital levels as we gear up for the holiday season. As such, cash out flows for the quarter ended September 30, 2008, were \$196 million compared with \$133 million last year.

Our Day Sales Outstanding were 55 days this quarter, one day lower than last year. Inventory days improved to 188 days compared with 196 days last year. In Fiscal 2008 as part of our SKU reduction initiative, we cut the number of SKUs by 10% and we have the same goal for Fiscal 2009. During the quarter, we repurchased approximately 1.2 million shares of our stock at a cost of \$57 million. We spent \$76 million for Capital Expenditures, which includes incremental spending for our companywide systems initiative.

We're actively reducing discretionary spending and capital by 10% for this Fiscal Year. For Fiscal '09 we expect to generate around \$720 million of cash flow from Operations and to use about \$340 million for Capital Expenditures. I know you are all concerned about the impact of the credit crunch and tough economic situation on the companies you cover. I want to take some time here to discuss the impacts on our business, our outlook for the next eight months, and actions we are taking to preserve financial flexibility and protect profits.

We have historically maintained a conservative balance sheet and that has helped us during this credit squeeze. We continue to have access to short-term borrowings under our commercial paper program at reasonable rates due to our high credit ratings. We also have a \$750 million line of credit which is backed by 14 banks, none of which account for a significantly larger share than the others. So far, none of the banks we do business with has run into serious difficulty. We have the option to issue long term debt both as a defensive measure and to provide flexibility for business opportunities.

Additionally, we have ample cash on the balance sheet to meet our near term needs. Thus far, we have seen no material issues with either our retailers or our suppliers. Orders continue to flow normally and we are being paid regularly. We will continue to keep an eye on the financial health of all parties we do business with. Looking ahead, we're definitely cautious about the impact the credit crunch and resulting economic slowdown will have on consumers around the world.

For the year, on a constant currency basis, international sales are expected to lead our growth. Domestic sales are forecasted to grow at a slower rate than the Company as a whole reflecting troubled economy. We now expect Fiscal 2009 local currency sales growth of about 3% to 5% down from our previous range of 6% to 8%. Breaking this down geographically, the growth is projected to be lead by Asia Pacific, where the Company expects sales gains of approximately 13 to 15% and to increase share.

In Europe, the Middle East and Africa, we also expect to achieve share gains and are forecasting local currency sales growth in the range of 4% to 6%. Sales in the Americas are forecasted to be flat to up 2% and we anticipate maintaining our share position.

Oct. 28, 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

At current spot rates, foreign currency translation is likely to lower our reported sales by approximately 6.5 percentage points. Our assumptions for the Euro are \$1.24 per Euro, for the Yen, 92.5 Yen to the dollar and for the Pound, \$1.53 to the pound. If the dollar strengthens or weakens against these major currencies it will further impact our financial results.

As we have done historically, we will take advantage of economic conditions around the world and invest for growth and increased share in our priority market in Asia and Europe. We plan to spend behind our fastest growing brands and countries and to continue their momentum. We are also continuing to invest in our IT infrastructure. At the same time we have implemented belt tightening plans at every affiliate, brand, and function to protect profits during this uncertain period. These plans encompass 2% to 3% of readily identifiable expense reductions. They include hiring freezes and reductions in travel, professional fees, lower priority marketing programs, and selling costs where appropriate.

In addition, we'll continue to focus on cost savings in the area of indirect procurement, cost of goods and distribution. For example, the consolidation of our media buying we began last Fiscal Year. It is important to note that our cost reduction efforts are perfectly aligned with the direction of our long term strategy and in effect represent acceleration of some of those initiatives. At this time we estimate our effective tax rate will be approximately 35.1%. We are lowering our full year EPS forecast to between \$2.20 and \$2.50. This includes approximately \$0.33 related to the negative impact of foreign currency translation.

When we provided our Fiscal 2009 full year guidance back in August, we had built in about \$0.06 negative currency impact. Since August, the rapid strengthening of the dollar is forecasted to negatively affect us by an additional \$0.27. Also included in our estimated EPS is \$0.03 to \$0.04 due to anticipated higher debt levels. We will of course update our outlook when we communicate the details of our strategy in February, since the financial ramifications of our strategy are not included in the current forecast.

Reflecting a weak retail outlook for the holiday, our sales growth for the second quarter is forecasted to come in around 2% to 3% in local currency. The negative impact of foreign exchange translation is expected to lower sales growth by about 8.5 percentage points. We expect EPS for the three months ending December 31, 2008, to be between \$0.97 and \$1.05. This includes \$0.11 related to the expected negative impact of foreign currency translation.

Summing up, we delivered terrific results for the quarter. In the short-term, we will focus on accelerating value creation through cost savings. Long term, we will develop a strategy that we believe will deliver sustainable, profitable growth to enable us to emerge from this challenging period stronger than ever. And that concludes my comments for today and we would be happy to take your questions now.

QUESTIONS AND ANSWERS

Operator

The floor is now open for questions. (OPERATOR INSTRUCTIONS). Our first question today comes from Chris Ferrara with Merrill Lynch.

Christopher Ferrara - Merrill Lynch - Analyst

Hi, guys. Just wanted to ask about, I think you said that the Americas growth this quarter was helped by faster selling ahead of the holiday season. Is that right? Did I catch that right?

Oct. 28, 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

William Lauder - *Estee Lauder - CEO*

You did, and Chris, you recognized that we sell in primarily in our first quarter for what the Department Store s are anticipating to sell at Christmas time. So effectively what's happened is that since this kind of rapid deterioration in the middle of September, we're anticipating the second quarter our sell-in to be obviously much much lower because in all probability and some respects, the stores have brought in more anticipating a better Christmas than they now think is going to happen. And we're seeing that our sales in the second quarter and even in the third quarter will be somewhat lower.

Christopher Ferrara - *Merrill Lynch - Analyst*

Okay, so in other words so you saw higher year-over-year sell-in related to holiday's in this quarter but you expect it reverse next quarter? Is that right?

William Lauder - *Estee Lauder - CEO*

Well effectively, we saw Christmas go in, sell in be relatively similar to what we saw last year. So anticipating a reasonably normal Christmas period. And then what's happening is that most recently that Christmas period is deteriorating so we do not anticipate the stores would buy into the level they would normally do in the second quarter and even the third quarter. And there might even be some returns although what usually happens is it's just the orders that come in in the second and third quarter are lower.

Christopher Ferrara - *Merrill Lynch - Analyst*

Okay and then just a follow-up I guess. The 300 basis point reduction to your projected organic sales growth rate for 2009, can you sort of parse that out? How much of that is sheer category deceleration relative to what you thought before versus the mix of what you thought share gain might or might not have been?

William Lauder - *Estee Lauder - CEO*

I think I said in my remarks that we anticipated basically holding our share in North America, that we would gain share in Europe although not to the extent that we were originally anticipating and that we are certainly gaining share in Asia. So overall on a global basis we're anticipating gaining market share but not to the extent that was originally built into our forecast.

Christopher Ferrara - *Merrill Lynch - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Andrew Sawyer with Goldman Sachs.

Andrew Sawyer - *Goldman Sachs - Analyst*

I just had a quick one on the guidance. If you cut the revenue guidance, let's call it \$250 million in sales and maybe \$180 million in gross margin. And it doesn't sound like you've changed your currency neutral operating earnings expectations much since you took the range down \$0.30 and that's all currency. So are we correct, am I correct in thinking that you're thinking about

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

incremental cost savings to the tune of \$150 to \$200 million or if that's wrong can you just help me through what would be the difference there?

Rick Kunes - *Estee Lauder - EVP, CFO*

No, and Andrew, your math is pretty good. And that is correct. We are being aggressive and as I mentioned, accelerating some of our initiatives that are within our strategic plan and we're being quite aggressive on cost to protect our profits to the extent we can. But it is difficult with that huge currency impact to be able to protect it all, but you are absolutely correct. There is built into our numbers some aggressive cost reductions.

Andrew Sawyer - *Goldman Sachs - Analyst*

And then just maybe then just taking that a step further. You talked about hiring freeze and some other items. Can you just bucket out like which of those are the biggest in thinking about that \$150 to \$200 million?

Rick Kunes - *Estee Lauder - EVP, CFO*

Well, the hiring freeze is certainly a big piece of it but we're looking at lots of areas, travel and entertainment, professional fees, our distribution costs and other savings and cost of goods, reduction in some non-essential marketing spending, point-of-sales efficiency is one as well.

We're looking very carefully at our selling efficiency in store and indirect procurement continues to be a big piece of it. If you were to rank them in order, certainly the hiring freeze is one piece of it, but indirect procurement and cost of goods and distribution savings and point-of-sales efficiencies. I think those are probably the biggest

Andrew Sawyer - *Goldman Sachs - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Wendy Nicholson with Citi Investment Research.

Wendy Nicholson - *Citigroup - Analyst*

Hi. My first question has to do with your discussion of expanding the distribution of some of the brands, I think you called out Bobbi Brown for example, and trying to get them up to "Optimal distribution". Can you give us not only a sense of what that optimal distribution is, I mean is Bobbi Brown ultimately going to be twice its size, in twice the number of retail outlets? But also can you comment on the current environment? Are Department Stores excited to take more of your brands or how is that working?

William Lauder - *Estee Lauder - CEO*

Wendy, it's an ironic situation but basically, when times get tough, the retail stores are extraordinarily anxious to add brands because they add interest and excitement for their customers. And incremental brand sales are perceived to increment sales total because they don't believe this is a zero sum game, the consumers just shift from one brand to the other.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

As far as optimizing distribution, that's a dynamically adjusting target and every given time there's no given fixed number for which they are happily there, a third of the way there, three quarters of the way there. What we look at is for door buy-in for brands like a Bobbi Brown which is based where the premise is based on a very high service model with makeup artists in the stores. We look for productivity per store in markets and regions and as the brand awareness expands into certain markets and regions we can expand the distribution. And as we've seen for years in more developed Markets for Bobbi Brown like the United States, as the brand awareness expands, the potential for productivity per door and expanded distribution grows.

The same applies in many markets around the world. And what we're looking at is if you will, what's that hurdle of profitability per door that we expect? Do these doors have the consumers to support the brand? Does the brand have traction in the market, in the region in the store, and can they be successful? Where Bobbi Brown is along this path, I would say on a market basis, not on a door basis within markets but on a market basis, Bobbi is probably more than half way towards being in most of the markets where they ought to be on an optimized basis somewhere in the future. And within individual markets they are anywhere between a tenth of the way there to three quarters of the way there or more.

Wendy Nicholson - Citigroup - Analyst

Okay, and then as you push out on that distribution strategy let's call it over the next 12 to 24 months whatever, you still feel confident that your operating margins are going to rise? Because I would assume there would be investment spending that goes along with that incremental distribution. But is it just there are so many areas of improvement to be had on the cost savings side that you could still manage to fund all of that reinvestment?

William Lauder - Estee Lauder - CEO

Let's just use Bobbi Brown as a case in point because as you know we've got 29 brands, each has their own dynamics. For a brand like a Bobbi Brown where there are expanding distribution in an existing market, let's call it the UK, as an example. Bobbi Brown already has the existing infrastructure to support expanded distribution and the discipline they apply to expanding their distribution is a pretty typical distribution of is there demand for it in this store? Do we have the infrastructure to support it? And incremental sales bring incremental profit accordingly.

In investing in the brand in a new market where the brand is not yet available for distribution you're right. There is an investment period with an expected return on that investment in profitability within an 18 to 24 month period at the longest. So the dynamics are different market by market and there's no one universal rule. Now, each of our brands has different dynamics within their markets and on a global basis and we are looking to expand those brands which have the most profit opportunity, share growth opportunity, and return on investment.

Wendy Nicholson - Citigroup - Analyst

Fair enough. Sounds great. Thank you very much.

Operator

Your next question comes from the line of Ali Dibadj with Sanford Bernstein.

Ali Dibadj - Sanford Bernstein - Analyst

How are you, guys?

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

William Lauder - *Estee Lauder - CEO*

Good morning.

Ali Dibadj - *Sanford Bernstein - Analyst*

Couple questions. One is could you just help clarify a little bit of I guess a disconnect for me? In your comments, you said that, let me try to find it here, we will communicate details of our strategy in February since the financial ramifications of our strategy are not included in the current forecast. So you say that and at the same time, it does look like there's an increase in margins in the back half of this year, call it \$ 175 million roughly. How do those two jive together, I guess is my disconnect. Does that mean there's even more savings or on the flip side does it mean you expect some sort of charge or something of that nature? Do you understand my disconnect? I'm trying to clarify that a little bit.

Rick Kunes - *Estee Lauder - EVP, CFO*

Well I think two things. One is on the savings side we are certainly looking for and accelerating as best as we can savings opportunity that are in line with our strategic plan. So that is how we're doing the best that we can to offset this rather rapid deterioration that we've seen since the mid September in consumption as well as the strengthening of the US dollar. So that's on that side of it.

Our strategic plan that we hope to outline in February we'll touch on areas that potentially could include restructuring. But since we don't have the details completely worked out on each of those areas and the exact timing of when those would happen, we are holding off if you will any guidance related to our strategic plan until we actually have that discussion in February.

Ali Dibadj - *Sanford Bernstein - Analyst*

Okay so the ones, just to clarify, the \$175ish in the back half of this year is not the " restructuring" plan. You were looking for A) above and beyond that and B) no restructuring charges associated with that \$175?

Rick Kunes - *Estee Lauder - EVP, CFO*

There are no restructuring associated with that \$175. That's absolutely true. The \$175 are just related to protecting our profitability this year. But again, those \$175, some of those things are specifically in line with where we hope to go from a strategic point of view and are just accelerating some of those initiatives.

Ali Dibadj - *Sanford Bernstein - Analyst*

Okay. So as a separate question on margins. What do you guys expect or what are your assumptions because you very kind to add some assumptions. What are your assumptions for travel retail growth for the rest of this year? Will it always be positive? How do you think about that and particularly I'm asking this in the context of if it's still important for your margins.

William Lauder - *Estee Lauder - CEO*

I'll ask Fabrizio if we can address that issue. He's actually at the global travel retail conference in Cannes right now.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Ali Dibadj - Sanford Bernstein - Analyst

Perfect.

Fabrizio Freda - Estee Lauder - President and COO

Yes, thank you, William. Yes, we expect to continue to grow in travel retail, although at a lower pace during this crisis period than in the past and then go back to stronger pace immediately everything become more normal. Here at the travel retail Congress where I am seeing most of our customers, I think there's kind of a positive sense. Because it's clear that there is today less traffic particularly in the airport. So but the reduction of traffic doesn't leave out the possibility of acting on other drivers of business, specifically.

The amount of people that are traveling, that we're able to attract in the store is still more of a percentage. So people today are focusing how to attract more of the travelers within the -- in the stores. And second when they're in the store how to increase the conversion from people just visiting the store to buying. And finally, how to increase the people to buy our product as far as the share of Estee Lauder Company is concerned. So we see a lot of opportunities to keep growing in the phase despite the lower forecast on traffic and then go back to normal as soon as possible.

Ali Dibadj - Sanford Bernstein - Analyst

But still positive growth, yes?

Fabrizio Freda - Estee Lauder - President and COO

Still positive growth, but as I said lower than in the previous year.

Ali Dibadj - Sanford Bernstein - Analyst

Okay. And then just my last question about Asia Pacific. Certainly, you've taken down a little bit of numbers and are tempering that but relying more and more on Asia-Pac. What are you guys looking for going forward? Do you feel those numbers are solid or is there some risk associated with Asia Pacific slowing down even further than you anticipate?

William Lauder - Estee Lauder - CEO

Well, we are avoiding any absolutes yes. As we expect that Asia is both the fastest growing region for us in the world we expect in the future that it will represent an obviously and ever increasing share of our total sales. There is always a risk that there could -- might not deliver the growth we expect. And there's a history of course if you recall in the past 15 years or so, the last Asian currency issues. But what we see is pretty solid fundamentals India what will eventually be the largest market in Asia, China.

You see some back and fourth on the edge about Japan, whether it's strong or not as strong, but we've seen reasonable improvement and that's today, the single largest market for us in Asia. And then you have a number of other markets which seem to be growing fairly nicely. So I would expect that over the next three to five years you'll continue to see Asia Pacific as an ever larger portion of our total sales. But there is always a risk that retail demand will not be as robust as it is today.

Rick Kunes - Estee Lauder - EVP, CFO

Yes, and we had given you some numbers as to refresh those numbers. We grew 21% on a comparable currency basis in the first quarter and we're saying that for the year we're anticipating 13 to 15% in comparable currency growth. So obviously we

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

are assuming that there's some deceleration if you will in the growth of Asia, but still a very strong performer as William just mentioned.

Ali Dibadj - Sanford Bernstein - Analyst

Okay, thanks.

Operator

Your next question comes from the line of Nik Modi with UBS.

Nik Modi - UBS - Analyst

Good morning guys.

William Lauder - Estee Lauder - CEO

Good morning.

Nik Modi - UBS - Analyst

Just two quick questions. You talked -- seems like you guys are gaining market share out there. Is there any way you can help quantify specific share gains that perhaps by channel or by major geography? And then the second question is within the emerging markets can you help us understand the like-for-like growth in some of those regions? You had talked about 31% but just curious how much of that is distribution and how much of that is kind of same-store sales? Thanks.

Rick Kunes - Estee Lauder - EVP, CFO

Well, maybe the second part first. There is certainly some distribution expansion in some of our emerging markets. So when you look at China, in particular, we are growing as new distribution opens up, we are going into that distribution so there is some point of distribution.

The other distribution I guess growth that's out there is as we expand some of our newer brands, geographically as William was mentioning earlier those enter into new distributions. But for the most part, our growth is primarily driven internationally, especially in Asia, by gaining market share, so we're doing fairly well in that area. And the first part of your question again, I'm sorry?

Nik Modi - UBS - Analyst

It was just Rick, the share gains, if you can try to quantify some degree how much we're gaining or where you're gaining in terms of share?

Rick Kunes - Estee Lauder - EVP, CFO

As we anticipate for the year in North America, we're really defending share in a sense. We don't anticipate much in the way of share growth in the Americas region. We are gaining some share. We mentioned that our growth in Europe would be about

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

5% to 6% in the European region and we are gaining share there. And in Asia, with the growth rate of 13 to 15% that's well in excess of the Prestige market in that area. So specifics by channel I'm sorry, Nik, I can't give you at the moment but we are fairly confident in share gains in Asia for sure and in Europe as well.

Nik Modi - UBS - Analyst

Okay, thanks, Rick.

Operator

Your next question comes from the line of Alice Longley with Buckingham Research.

Alice Longley - Buckingham Research - Analyst

I'm looking for more clarification of the North American Department Store arena, for the first quarter, you said that Beauty sales at retail were down 1%. How much were your brands down in the Department Store arena and specifically how much were your shipments up into Department Stores?

Rick Kunes - Estee Lauder - EVP, CFO

Alice, our first quarter results from an NPD basis if that's what you were looking at were somewhat impacted by the shift of a Clinique gift in particular that's really moved into the second quarter from a sell-through perspective. But on a sell-in basis, that affect wasn't really felt as strongly for us. So our sell-in numbers were as we reported which was reasonable growth on a sell-in basis but when you look at NPD data there's a bit of a disconnect which is why we always say you have to look for NPD data over a longer period of time than just a quarter. But, okay. So if Beauty was down 1% how much were you down, two or 3%?

Alice Longley - Buckingham Research - Analyst

On an NPD basis we were down 5% but on a sell-in basis, we didn't see anything like that.

Rick Kunes - Estee Lauder - EVP, CFO

On an NPD basis, we were down 5%, but on a sell-in basis, we didn't see anything like that.

Alice Longley - Buckingham Research - Analyst

And how much is your sell-in up? 3%?

Rick Kunes - Estee Lauder - EVP, CFO

It was approximately 2.5%.

Oct. 28, 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

William Lauder - *Estee Lauder - CEO*

Let me just clarify. Rick was commenting just on NPD. That's not the total. They don't capture all of our sell-in nor do they capture our retail stores so it wasn't a relationship between -1 versus -5. It was more like -1 NPD, -3.5 for our total businesses through September.

Alice Longley - *Buckingham Research - Analyst*

So if you include all of the Department Stores maybe you were down 3.5% at retail?

Rick Kunes - *Estee Lauder - EVP, CFO*

Yes.

Alice Longley - *Buckingham Research - Analyst*

Okay, and then when we go into the second quarter, we understand that you've shifted a promotion to the second quarter so the disconnect would not be as much. But the Department Store Beauty business overall, the sector might have deteriorated. So again, does it make sense to think that in the second quarter, in US Department Stores at retail, your sales might be down 3.5-4% or something like that?

William Lauder - *Estee Lauder - CEO*

We see no reason to suspect that the trend won't continue. There's a lot of uncertainties going into the quarter, Fabrizio talked about the five abbreviated shopping days. There's just a lot of uncertainties. We have and we're positioned with value. We have gift sets out there. We're positioned with value.

We have a tremendous advantage during the end of the holiday season because we have 25,000 Beauty Advisors selling our products. So we're hoping to come out of the selling season in better shape than the industry or other groups selling in Department Stores. But it's going to be a crap shoot right to the end.

Alice Longley - *Buckingham Research - Analyst*

Do you think you can gain share within the Department Store arena in the second quarter?

William Lauder - *Estee Lauder - CEO*

Yes, we do. We dominate with our Beauty Advisors. We have a tremendous organization out there and we think that when it gets hectic and People just need to have sales rung up, I think we have a tremendous advantage.

Alice Longley - *Buckingham Research - Analyst*

Okay and then just one final clarification because this is a big an important sector for you, so if I think that maybe at retail putting all of those factors together, your sales might be down mid single digits in the second quarter, is that reasonable?

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Rick Kunes - *Estee Lauder - EVP, CFO*

Maybe in a like door comparison but I wouldn't want to guess that number, not in a total door comparison but maybe in comp door comparison.

Alice Longley - *Buckingham Research - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of John Faucher with JPMorgan.

John Faucher - *JPMorgan - Analyst*

Good morning. So continuing with that theme, in terms of talking about expectations. If I take your percentage of sales in the first fiscal quarter last year and apply that to the growth this year, what it seems to be applying is somewhere around 2.4% currency neutral revenue growth over the balance of the year globally and 1% in the US.

And you've said that or at least in the Americas, excuse me. And you've said that you're going with guidance over the balance of the year similar to recent trends so is it safe to say that those are similar to the numbers that you've been seeing over the past couple of weeks since you talked about this mid September slowdown?

Rick Kunes - *Estee Lauder - EVP, CFO*

John, we said that we were anticipating that trend to continue and one of the basis of our making that assumption is what we seen over the last few weeks certainly.

John Faucher - *JPMorgan - Analyst*

Okay, so those numbers are representative of what you've seen over the last couple weeks and what you would expect going forward? That's a fair statement?

Rick Kunes - *Estee Lauder - EVP, CFO*

That's a fair statement.

John Faucher - *JPMorgan - Analyst*

Okay, thank you.

Operator

Your next question comes from the line of Linda Bolton-Weiser with Caris.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Linda Bolton-Weiser - *Caris & Company - Analyst*

Thank you. Just one more question on travel retail since it is so important for you. Can you clarify if with the slowdown in the rest of your business starting in mid September did you also see a significant slowing down in the travel retail sales growth rate?

Rick Kunes - *Estee Lauder - EVP, CFO*

Well if you look at from an airline traveler point of view, in the beginning of the year that airline travel was growing year-over-year about 6% and most recently that growth rate as William mentioned in his remarks has slowed down to about a 4% growth year-over-year. We did see last year our travel retail business, our business grow about 19% year-over-year, and this year obviously we're seeing that number come down rather substantially. So there is certainly a slowdown that we're anticipating for the rest of the year in that business and it's built into our forecast for the European region as well as in our guidance on an EPS basis.

Linda Bolton-Weiser - *Caris & Company - Analyst*

And is it still about 15 to 20% of your total operating profit?

Rick Kunes - *Estee Lauder - EVP, CFO*

Yes. That's a fair assumption.

Linda Bolton-Weiser - *Caris & Company - Analyst*

Okay. And then just on your inventory, it did look like I think you said your inventory days improved and inventory was up only 8% year-over-year in improvement versus last quarter. What was the reason for the reduction I guess or the less of an increase and are you getting closer to where you need to be there or what are the additional initiatives that are going on with regard to inventory?

Rick Kunes - *Estee Lauder - EVP, CFO*

We came into the year with a very aggressive plan to reduce our inventory levels and at the end of the first quarter, some of the effects of our plan were working rather nicely. So we saw a reduction in our inventory days of about eight days last year at the end of the first quarter versus this year at the end of the first quarter. What unfortunately is happening now is as our sales projections come down dramatically, that is going to put pressure on our inventory performance. We continue to strive for those reductions.

We are looking out and putting in place plans to look even further into the full calendar year of next year to aggressively reduce our inventory plans in line with what we see the business environment telling us. But as you know, with a rather lengthy Supply Chain, it will put pressure on our inventory days for this year. We entered into this year with a target ourselves of reducing our inventory days by 10%. We're going to be challenged to achieve that kind of savings by year-end because of this rapid slowdown in sales that we're seeing.

Linda Bolton-Weiser - *Caris & Company - Analyst*

Okay. And then can you just comment on in terms of -- it seemed like the fragrance, the operating loss was a little bit bigger this quarter versus last. Is there any changes you're making in the marketing approach for fragrance going into the holiday's or are you not yet making changes to the strategy based on all of the studies you've been doing?

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

William Lauder - *Estee Lauder - CEO*

Well there's a number of different changes we're making to the strategies we're doing. Most important of which is we are meaningfully shifting our resources out of loss making fragrance activity into more profitable fragrance making activity. And we are still challenged by some structural issues which will continue to challenge us until we're able to really truly make some meaningful structural changes to the way our fragrance business operates. At the end of the day, I think I've said this many times before, the fragrance business is the movie business, it's a hit based business and we must continue to strive to create blockbuster hits which generate the vast majority of profit in the industry.

Linda Bolton-Weiser - *Caris & Company - Analyst*

And then on the fragrance, in terms of the structural changes that need to be made, is that something on the agenda for Fiscal Year 2010 after Fabrizio gets his modified strategic plan going, is that something later on that will come?

William Lauder - *Estee Lauder - CEO*

We certainly hope you'll be seeing results long before 2010.

Linda Bolton-Weiser - *Caris & Company - Analyst*

In terms of hearing about structural changes?

William Lauder - *Estee Lauder - CEO*

Certainly hearing about it structural but but we're also talking about results, not just talk.

Linda Bolton-Weiser - *Caris & Company - Analyst*

Okay, very good. Thank you.

Operator

Your next question comes from the line of Bill Schmitz with Deutsche Bank.

Bill Schmitz - *Deutsche Bank - Analyst*

Can you just talk about how this downturn is going to be different than the September 11th downturn? I think margins got hit pretty dramatically. Is it mostly the change in the cost savings philosophy or is the consumer different or how would you compare this versus the September 11th period?

William Lauder - *Estee Lauder - CEO*

Well, Bill I'd say there's far more sage pundits out there would can understand the psychology that's going on with the consumer. I think it's safe to say that we are living in an extraordinary economic times at the moment that the current economic conditions have not spared anybody, perhaps other than undertakers and tax collectors, from the current economic environment. And I

Oct. 28, 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

think as a result, all consumers at all levels of all sectors have been meaningfully impacted and as a result, have had a great deal of their confidence shaken in what their economic future and well being will be about.

As a result, I think everyone is taking a very hard look at what they spend their money on, where they spend their money on, and why they spend their money. And I would hesitate to compare it to 9/11 which was an extraordinary time which had an extraordinary impact. But where I think this differs materially is this appears to be not just an impact to a specific region or a specific area, but is touching all areas, all aspects, virtually around the world in the ripple effects. I don't think we have seen yet the final ripple effects.

Rick Kunes - *Estee Lauder - EVP, CFO*

And Bill, one thing, one of the reasons that we gave such specific, if you will, guidance as to what we're anticipating by region and what exchange rate we're using is for that very reason, because there's so much uncertainty that we felt it was better for us to give guidance but to also give the parameters under which that guidance developed. And if that business changes dramatically, if conditions deteriorate significantly or the exchange rates move one way or the other that obviously affects our results for the year.

William Lauder - *Estee Lauder - CEO*

I mean, just to give you an example, I don't think any of us would have sat here a month ago and anticipated that the dollar would have regained five years of erosion in four weeks.

Bill Schmitz - *Deutsche Bank - Analyst*

Right. Yes, that's totally fair but how about the margin compression after September 11? Was that mostly travel retail fall off because I think it was a 300 basis point year-over-year reduction in operating margin.

William Lauder - *Estee Lauder - CEO*

Yes, right. That was an extraordinary short-term event which drove an enormous number of paying customers off the airlines and out of the travel retail environment. And you saw that that lasted for some period of time, but then the consumer came to traveling consumer came back with a vengeance.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, alright. That's fair and then one last thing. I don't know if it's just limited apparel but it seems like a lot of the retailers are renigging on their commitments on the holiday season. Are you guys seeing that in Beauty as well?

Rick Kunes - *Estee Lauder - EVP, CFO*

No, Bill. We haven't seen it. They've bought into the goods. We are checking inventories. We don't have any excess laying around. Everyone has bought into their commitments for the holiday programs. We have not heard anyone backing off any of the plans as we speak.

Bill Schmitz - *Deutsche Bank - Analyst*

Okay, great. Thanks very much.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Rick Kunes - *Estee Lauder - EVP, CFO*

Okay.

Operator

Your next question comes from the line of Connie Maneaty with BMO Capital Markets.

Connie Maneaty - *BMO Capital Markets - Analyst*

Today on the call you mentioned pretty specifically inventory obsolescence charges of about 50 basis points. I think this might be one of the few times you've called that out. So I'm wondering how that charge compares to prior quarters and if it should increase going forward as you right size the portfolio?

Rick Kunes - *Estee Lauder - EVP, CFO*

There are a couple reasons for that. One is related specifically to one of our businesses where we plan to make some changes in the configuration of that business and where it's manufactured and that could result in some obsolescence charges. That's part of that number, Connie.

The other is that when we calculate our obsolescence provision which is a if you will a reserve for what potentially might become obsolete in our inventory as our sales projections forward go down it requires in a sense a greater reserve based on your existing inventory. Because you aren't going to sell as much therefore you don't have usage plans from that inventory and therefore we have to provide a greater reserve if you will for the potential that obsolescence may happen.

But our plans are to adjust our manufacturing plans and adjust our inventory going forward to sync up if you will with our future sales plans but that's why I mentioned earlier there will be pressure against us achieving our inventory reduction targets in terms of days of inventory this year because of the sudden slowdown in sales.

Connie Maneaty - *BMO Capital Markets - Analyst*

So that suggests that the 50 basis points would pick up at least in the next couple of quarters, is that right?

Rick Kunes - *Estee Lauder - EVP, CFO*

There will be pressure on cost of goods from an obsolescence perspective until we get our forecasted manufacturing plans, our inventory levels adjusted to the current reality that we see in the marketplace from a consumption point of view, absolutely.

Connie Maneaty - *BMO Capital Markets - Analyst*

And which business is it that you mentioned was changing in some way?

Rick Kunes - *Estee Lauder - EVP, CFO*

That's just one of our businesses which Connie at this point, I'd rather not speak about but which would certainly be something related to our strategic plan that you would hear about in February.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Connie Maneaty - *BMO Capital Markets - Analyst*

Okay. Your pension program is currently underfunded. Will you be making an extra contribution this year and should we look for pension expense to be higher in '09?

Rick Kunes - *Estee Lauder - EVP, CFO*

I think Connie on an ABO basis, our pension plan is actually quite well funded. I think when you say that it's underfunded, there's a couple of things. There's this restoration plan which I'm not allowed to fund against which when you combine it all together but if you look at the underlying basic plan and the funding against that basic plan you can see it's quite well funded. And we aren't anticipating making any incremental contributions.

Connie Maneaty - *BMO Capital Markets - Analyst*

And my final question is on South Korea. You were pretty specific in highlighting some regions and in the quarter you just reported South Korean sales rose 35%. But with the currency and banking crisis there, are you already seeing a slowdown there or are consumers still spending as always?

William Lauder - *Estee Lauder - CEO*

I'm going to ask Fabrizio to answer that question because he would probably be more aware of those issues than we might be.

Fabrizio Freda - *Estee Lauder - President and COO*

Yes. Actually, in Korea, we don't see a slowdown. Actually in Seoul, we see continuous good consumer purchasing. Where the slowdown is actually in the travel retail of Korea where we saw a slowdown because the currency impact actually is impacting consumers behaviors in travel retail in Korea more than consumer behaviors in Korea itself.

Connie Maneaty - *BMO Capital Markets - Analyst*

Oh, that's very interesting. Then finally, have you factored in the possibility of a default in Argentina and what would that mean?

Rick Kunes - *Estee Lauder - EVP, CFO*

No, we haven't, but our business in Argentina is extremely small. I would not venture that it even be material if there was an issue.

Connie Maneaty - *BMO Capital Markets - Analyst*

Okay, thank you very much.

Operator

Your next question comes from the line of Lauren Lieberman with Barclays.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Lauren Liberman - *Barclays - Analyst*

Thanks. Two questions. First was you commented already on holiday shipments this quarter in the Americas. But I was curious about inventory levels at retail outside the US, and if kind of inventory drawdown in non-US Markets is part of this plan or not?

Rick Kunes - *Estee Lauder - EVP, CFO*

Well, Lauren, one of the key things you need to know, in the United States and Canada, we have 95% of our retailers are on an EDI system. We get realtime looks at their current inventory and sell-through and we have a better ability to forecast and look at the reality of the inventory levels on a going forward basis. Outside of North America, we really are not on EDI systems and we do not have much visibility into retail inventories.

And so we can imply and infer retail inventories essentially through the sell-in rates and the order rates that we are getting from the retailers. One would assume if there's less confidence by the retailer, less confidence by the consumer, sell-in ought to begin to reflect those factors and we are seeing some of that for sure and we would expect that would continue.

Lauren Liberman - *Barclays - Analyst*

Okay, just I'm sorry just to be clear though, so the slowdown you think you've seen since mid September was both a matter of customer ordering as well as consumer take away or was it more of a commentary around consumer behavior?

Rick Kunes - *Estee Lauder - EVP, CFO*

Again, Lauren you were talking theory and if you will, customer ordering sell-in ought to be reflective of both a confidence factor as well as sell-through. In sell-through on basic items ought to be replenished, essentially on a one-to-one basis and/or with some confidence factor of the retailer in what the future will hold. What we're seeing is exactly as I described it. I wouldn't say there is extraordinary demand above the retail sales trend in one way or another.

Lauren Liberman - *Barclays - Analyst*

Okay, except that sell-in has probably been a healthy contributor to growth outside the US as you have been expanding doors. So it's a reasonable question, not just a theoretical one.

Rick Kunes - *Estee Lauder - EVP, CFO*

It's totally reasonable to say that as we expand distribution our sell-in ought to improve and as consumer demand softens the sell-in ought to be reflective of that and largely that's the case.

Lauren Liberman - *Barclays - Analyst*

Okay, great.

Rick Kunes - *Estee Lauder - EVP, CFO*

But as you said we've been gaining share and therefore our sell-in growth and the reflective sell-through growth as a result has been much healthier in regions like Europe and Asia than it has been in the past.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Lauren Liberman - *Barclays - Analyst*

Okay, great. Then my other question was around the cost savings. So certainly from the dialogue, I understand that a better balance between sales and profits is part of the, it's been part of the plan for the last couple of quarters and going forward. But I just, these are very big numbers and my experience with Estee Lauder so far has been that cost savings don't always come through as planned.

And that some of these beyond the hiring freeze and the things that are fairly easy I would think for you to quantify early on is quite different than things like eliminating "Non-essential Marketing", or getting greater efficiency at the point-of-sale. I just, I'm trying to get a sense of your degree of confidence in the ability to deliver on these pretty significant numbers at a more accelerated rate when I would think these are things that require quite a bit more planning and understanding of the impact on the consumer.

William Lauder - *Estee Lauder - CEO*

Well, I appreciate your skepticism and it's up to us to prove you wrong. Essentially one of the things we're going to be doing from a Management or leadership perspective is properly balancing the use of both the carrot and stick inside of our companies to motivate all aspects of the organization to achieve the savings which we have actively encouraged them to find and to make them permanent.

Fabrizio Freda - *Estee Lauder - President and COO*

William, can I have one comment on this?

William Lauder - *Estee Lauder - CEO*

Plea, of course.

Fabrizio Freda - *Estee Lauder - President and COO*

There is also another aspect that we were working on these savings since a few months because of our long term strategic plan. So many of these activities, the activity we've been thinking thoroughly through and we are preparing also in the way we operate in order to deliver them. And specifically, we, for example, have a new team called PMT meaning a team of the functional and brand and regional experts that meet now regularly, every two weeks and that to follow-up the activity of the clear established project team on savings.

This is something that we're not doing in the past that with the same focus and attention. And then when the crisis or at least the consumption crisis hit us as of mid September particularly in the US, we have decided to accelerate the savings in order to offset some of the issues we see from the dollar and from the consumption reduction within this Fiscal Year. So that's why I personally have a lot of trust that the large majority of the savings will hit already in this Fiscal Year as they are in anticipation of plans that we are going to do anyway long term or at least in early part of these plans.

Lauren Liberman - *Barclays - Analyst*

Thanks. That's really helpful. Thank you.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Operator

We have time for one more question. Your last question comes from the line of Lisa Rachal with Redburn Partners.

Lisa Rachal - Redburn Partners - Analyst

Good morning can you hear me?

William Lauder - Estee Lauder - CEO

Yes, we can.

Lisa Rachal - Redburn Partners - Analyst

Sorry. Just two quick questions. One is actually follow-up on that line of questioning on cost cutting. How easy are you finding it to negotiate your cost at the moment with some of your partners and suppliers? I assume everyone is in kind of defense mode and also, are you finding any opportunities to negotiate some of your trading terms with some of your major retail customers? That's the first question. And then the second question is are there any areas of surprise in the most recent months of trading, perhaps on the positive side either by category within brands or within the pricing curve in terms of positive surprise, or more market share gains than you would have anticipated? Thank you.

William Lauder - Estee Lauder - CEO

Well let me answer the second part of the question first, is there were some surprises or some trends which actually you wouldn't find that surprising but the magnitude may be surprise. I'll give you just some examples. I wouldn't necessarily call then endemic.

The value proposition offers in many markets around the world are proving to be very strong and consumers are responding very nicely to value propositions at many different levels and sectors. In addition, just a snapshot, our online business where it was growing very aggressively at 39% growth is now only growing at 27%. I say only with somewhat of a sarcastic term because you look at that, a 27% retail growth year on year for a business that's been going in the very aggressive double digits now for ten plus years, it shows that there are consumers that are shopping and they are shopping meaningfully in the same way. But the online business is also showing when they are making meaningful value proposition offers to that consumer online that she's responding.

Those are just a couple of examples, the consumers there in one way, shape, or form it's just a matter of how do we get our attention and motivate her to respond in a certain way. As far as the first part of your question, in negotiation of trading terms with either our vendors and suppliers and with our retailers. We believe the vast majority of the efficiencies we're going to gain is internal to ourselves, how we operate, how we buy, how we look at what we do. We have been very aggressive for a number of years with our trading partners in getting the very best prices possible. And if you look at our cost of good trends over a long period of time over the last five years you'll see we've been very successful at delivering meaningful cost of goods improvement, largely because of the way we work with our vendor partners to supply us with the best prices possible for the componentries and supplies we use to make our product.

When it comes to our retail trading terms, I would venture to say that given our strengthen the marketplace we have very good trading terms with most of our retail partners at the moment. It is always an active negotiation between us. Where each of us is looking to improve the trading terms with the other. And at the moment, I think it's safe to say that we are all satisfied with the trading terms that exist with each other. I wouldn't want to say whether or not our retailers would like improvement, of course. We would like improvement of course, but we think they're fairly balanced on a market by market and retailer by retailer basis around the world.

Oct. 28. 2008 / 9:30AM, EL - Q1 2009 The Estée Lauder Companies Inc. Earnings Conference Call

Lisa Rachal - *Redburn Partners - Analyst*

Great. Thank you very much.

Operator

That concludes today's question and answer session. If you were unable to join the entire call, a playback will be available at 12 noon Eastern Time today through November 11th. To hear a recording of the call, please dial 800-642-1687, passcode is 67473274. That concludes today's Estee Lauder conference call. I would like to thank you all for your participation and wish you all a good day.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.