

**Appendix E - UNIVERSITY HONORS PROGRAM
SENIOR PROJECT - APPROVAL**

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PROJECT TITLE: Estee Lauder Companies

Background and History

I have reviewed this completed senior honors thesis with this student and certify that it is a project commensurate with honors level undergraduate research in this field.

Signed: Paul Gardial, Faculty Mentor

Date: 5/2/02

General Assessment - please provide a short paragraph that highlights the most significant features of the project.

Comments (Optional):

Brooke has done a good job of researching and analyzing the major business themes associated with Estee Lauder's marketplace performance. She merged data from a variety of primary and secondary sources, and did a nice job organizing and analyzing the data.

Brooke was a pleasure to work with, she responded well to my comments and feedback, and she put in significant effort on this report.

The Estee Lauder Companies
Background and History

by
Ashley Brooke Howerton

Executive Summary

I selected the topic of "Estee Lauder Companies Background and History" because I am thoroughly interested in the subject matter. I am a consultant for Clinique at Proffitts Knoxville Center. I am interested in moving forward with the company and developing a future with Clinique by making it a career.

Research on this topic has been extensive. I have gotten basic company information, internal documents, company chronology, press releases, financial institution information and of course first-hand knowledge. The researched information came in most part from the Internet at various sites. The internal documents consist of information sent to consultants worldwide. The financial information came from Morgan Stanley.

I discovered in the research a great deal of knowledge about the Estee Lauder Companies Inc. in which I was unaware of prior to the research. The five key subjects that I focused on were background and history, financial development, operational strategies, brand equity and innovation/social responsibility. One key finding is the number of companies in which the Estee Lauder Companies consist. The Company's products are sold in over 120 countries and territories under well-recognized brand names, including Estee Lauder, Aramis, Clinique, Prescriptives, Origins, MAC, La Mer, Bobbi Brown, Tommy Hilfiger, jane, Donna Karan, Aveda, Stila, Jo Malone and Bumble and bumble. I also discovered a large amount of research from Morgan Stanley about the financial development of the company. The Company has posted a 23% compound annual growth since 1996 and has completed about \$800 million in acquisitions in recent

years. Also, Estee Lauder holds the number one position with a market share of at least 50% in the U.S. prestige beauty market, with a 55% share in makeup and skincare and 30% in fragrances.

I have thoroughly enjoyed researching this topic of choice. I learned a great deal about the Estee Lauder Companies Inc. I feel confident that the company will continue its successfulness in the upcoming years. I look forward to continuing my career with them in the future.

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Estee Lauder Companies Background and History

The Estee Lauder Companies is one of the world's leading manufacturers and marketers of quality skin care, makeup, fragrance and, recently, hair care products. The Company's products are sold in over 120 countries and territories under well-recognized brand names, including Estee Lauder, Aramis, Clinique, Prescriptives, Origins, MAC, La Mer, Bobbi Brown, Tommy Hilfiger, jane, Donna Karan, Aveda, Stila, Jo Malone and Bumble and bumble.

Company Timeline

The Company was founded in 1946 by Mrs. Estee Lauder and her husband, Joseph Lauder. Although the principal brand began with Estee Lauder the company progressed to a great deal more.

- Estee Lauder, was launched with four products: Super Rich All Purpose Crème, Crème Pack, Cleansing Oil, and Skin Lotion.
- Following this launch was Aramis, a line of high prestige fragrance and grooming products for men, in 1964.
- Clinique, the first allergy-tested, dermatologist-guided, fragrance free cosmetics brand, followed in 1968.
- Prescriptives, a color authority with an advanced collection of highly individualized products, was founded in 1979.
- Origins Natural Resources, a line of skin care, makeup, bath/body and Sensory Therapy products that use age-old remedies from nature, was introduced in 1990.

- In the 1990s the Company acquired two important makeup artist brands: MAC and Bobbi Brown. The Company acquired a majority equity interest in MAC in 1994, completing the acquisition in 1998. Bobbi Brown was acquired in 1995.
- In 1997, the Company invented Sassaby, Inc., owner of the color cosmetics brand jane, and Aveda Corporation, a leader in the U.S. prestige hair care industry.
- In 1999, the Company then invented Stila Cosmetics, Inc., a Los Angeles-based prestigious cosmetics company, and Jo Malone, the London-based marketer of prestige skin care and fragrance products.
- In 2000, the Company acquired a majority equity interest in New York-based Bumble and bumble, a premier hair salon, and Bumble and bumble products, a developer, marketer and distributor of quality hair care products.
- The Estee Lauder Companies is also the global licensee for fragrances and cosmetics for the Tommy Hilfiger, Donna Karan New York, DKNY and Kate Spade brands.

Financial Development

The Estee Lauder Companies hoped to accomplish diversity in the marketplace by undertaking this dynamic strategy. According to Morgan Stanley this acquisition became a success for the once meager cosmetics company. Morgan Stanley calculates that the company has posted a 23% compound annual growth since 1996 and has completed about \$800 million in acquisitions in recent years. Trade industry data have shown that

Estee Lauder holds the number one position with a market share of at least 50% in the U.S. prestige beauty market, with a 55% share in makeup and skincare and 30% in fragrances. It has increased its market share, aided by its strong portfolio of brands (7).

For fiscal year 2001, net sales were \$4.6 billion and net earnings before the cumulative effect of a change in accounting principle and before restructuring and other one-time charges were \$347.7 million. The Company has recorded more than 45 years of consecutive annual sales increases. During this time the Americas region represented 61% of net sales and 54% of operating income before restructuring and other nonrecurring charges. Morgan Stanley rates Estee Lauder Outperform, with a \$37 price target, which they calculate to be a fair value, based on a weighted average of traditional multiples and intrinsic valuation. The Estee Lauder Companies shares' drop in 2001 has been deeper in retreats by the company's global peers and the S & P 500-stock index. Yet Estee Lauder is statistically attractive, in Morgan Stanley's view, in terms of its relative price-to-earnings multiple and their estimates of the ratio of the company's earnings before interest, taxes, depreciation, and amortization for calendar 2002. Estee Lauder has dominant market shares, a strong balance sheet, and solid returns on assets, with near-term EPS uncertainties linked to consumer spending. Morgan Stanley believes possible elimination of excess inventories soon could be a catalyst for the stock. Estee Lauder has indicated that excess inventories should be eliminated by the third quarter of fiscal 2002, partly through adjusted production rates and a gradual recovery expected in U.S. and travel retailing (13). Morgan Stanley forecasts Estee Lauder will generate free cash flow of \$222 million, or 63% of the financial corporations estimate of net income, slightly less

than the sector average. Morgan Stanley believes that Estee Lauder is underleveraged, and they project interest coverage and return on net assets that would exceed the company's weighted average cost of capital. With its outsize returns, low debt, strong free cash flow, and a low capital-spending business, the company should be able to accumulate a lot of cash to make further strategic acquisitions and repurchase its shares, in their view.

Press Release

In a recent press release on December 19, 2001, The Estee Lauder Companies Inc. announced it is revising downward its net sales and net earnings expectations for its fiscal 2002 second quarter. This unexpected drop lowered consumer confidence, spending and travel. The lower expectations are primarily due to the significant inventory contraction by U.S. retailers. Despite erosion of economic conditions and consumer sentiment, at this point in the quarter, consumer take away of the Company's products has outpaced sell-in by approximately 5% in the U.S. In addition, the Company's freestanding retail stores continue to generate strong results (9).

Morgan Stanley Research Update

In a recent Morgan Stanley research update on January 30, Estee Lauder was downgraded to neutral from outperform. They also reduced their F2002 EPS ending June to \$1.15 (versus \$1.20 previously). Their initial point estimate for F2003 is \$1.33. While growth has been stymied, reflecting inventory contraction by U.S. retailers and softness at travel retail, Morgan Stanley thinks Estee Lauder needs to do a better job retrenching and restricting capital. With a 46% share in the U.S., Estee Lauder has become a market

leader, and Morgan Stanley has little doubt that two to three years from now the company will remain a dominant player in the industry (13).

Morgan Stanley's sector investment approach has been to try to identify undervalued companies that will likely generate improving return on net operating assets. The company recommended Estee Lauder in 1999 because they believed Estee Lauder was in the early innings of its development as a prestige cosmetics company. While Estee Lauder's competition position is good and getting better, in their view, its ROIC is declining. Morgan Stanley forecasts asset turns to decline to 1.4x in F2002 from 2.0x in F1997, for return on net operating assets of 17-18% versus 32% in 1997. Returns will likely be hampered by working capital inefficiencies and a business model that is becoming more retail-oriented, and consequently more capital intensive. Morgan Stanley expects operating margins to decline to 10.5% from 12.1% a year ago and all while industry demand is slowing. Although the stock has rebounded off its December low, it has not done well. In the last 12 months, the shares are down 21% versus down 20% for the S & P 500 and up 6% for the global peer universe. Still, Morgan Stanley believes the current valuation does not reflect Estee Lauder's deteriorating business fundamentals. The shares are trading at 25 times C2002 P/E versus 24 times for the global peer group. Based on a weighted average of traditional multiples, Morgan Stanley sees 12-month fair value of \$33, below its current price. That said, Morgan Stanley believes this is a stock the market will likely come back to, particularly if the company does a good job of retrenching and restricting capital. Estee Lauder's market shares at Makeup and Skincare

are still strong, the balance sheet is rock solid and travel retail could certainly become more cooperative (13).

Downgrade

Morgan Stanley has lowered their F2002 EPS forecast by \$0.05 to \$1.15 (down 14%) to reflect higher-than-expected marketing investments in the second half of F2002 to bolster revenue growth. Morgan Stanley forecasts F2002 sales to be flat to down 1%. This should be driven by Asia Pacific, while sales should remain virtually flat hit by continuing weakness in travel retail, and Americas should decline 1-2%. Once again, Haircare should be the fastest growing division, followed by Skincare, Makeup, while Fragrance should decline 10%, as a result of lower department store and travel retail revenues. Earnings should be helped by a lower tax rate and reduced interest expenses, partly offset by increased minority interests. The primary reasons for the downgrade are the following:

1. Returns are still under pressure – Estee Lauder's return on invested capital has been trending down over the past five years and they forecast ROIC to fall 340/bps to 17.6% in F2002. Over the past few years, Estee Lauder has been actively opening new free-standing stores under the Aveda, MAC and Origins brands. The company now owns 340 stores and intends to open another 60-160 doors within the next couple of years. The opening of new standing store requires a capital investment of \$350-400 million and sales usually reach \$750,000 to \$1 million in the first year of operation. After two to three years

of business, profitability ramps up to 15%, on average, as strong volume growth more than offsets start-up costs.

2. Deteriorating profitability – Due to the before mentioned F2002 operating margins to 10.5% from 12.1 % a year ago, Estee Lauder management could be more proactive with cost cutting. There is significant potential for overhead cost improvement. Morgan Stanley calculated that a decrease of overhead expenses to the sector average level, would generate \$780 million extra profits, or an additional \$2.00 on earnings.
3. Sluggish industry growth – While Estee Lauder fared somewhat better than the market in 2001, Prestige Beauty sales in U.S. Department stores declined 2% in the fourth quarter versus more normalized growth of 4-5%. The slowdown was triggered by the U.S. recession and compounded by September 11th events. Morgan Stanley expects 2002 to remain challenging with a potential upturn in the economy lying ahead in the back half of the year.

Growth Strategies

One of the ways the Company is growing is by acquiring companies that make sense to the organization. Estee Lauder projects long-term earnings growth at 7-9% annually and has an EBIT margin target of 15%. The following are criteria which the Company uses in acquiring new brands or companies: they must be unique business opportunities that complement – not cannibalize – its existing brands; they must focus on quality and innovation; they must have the potential for global development and they must have the potential for long-term growth both in the U.S. and internationally (4).

Investment Risks

The Estee Lauder Companies face three key investment risks:

- Susceptibility to economic downturns. Estee Lauder's EPS face pressure from the U.S. recession, doubts about consumer confidence and spending, and U.S. retailers' contraction of inventories. Morgan Stanley's EPS estimates also reflect expected pressure on margins and a more tempered outlook for travel retail in Europe and Japan; this business accounts for 5-6% of sales. In response to slowing economies, and especially effects on U.S. sales, Morgan Stanley has
- lowered their estimate of Estee Lauder's sales growth for fiscal 2002 to 1-2%, after cutting that recently from 2-3%, 4%, and 7%. Morgan Stanley believes proactive management should bode well for cash flow and could be a catalyst for Estee Lauder shares, though they do not expect this to emerge until calendar 2002. The company has taken excess inventories into account in its production forecast and shipped at rates less than those of consumption. Surplus products should work their way through the supply chain with the next two quarters, they expect.
- Foreign-exchange factors. Because Estee Lauder derives about 40% of its sales and operating profit internationally, its results are susceptible to any recession overseas or weakness in currencies. To counter exposure to global markets, Estee Lauder enters into forward-

- exchange contracts to hedge purchases, receivables, and payables in foreign currencies.
- Limited public float. The Lauder family has controlled Estee Lauder since its founding, and owns 90.9% of the voting power of the common stock and 53.7% of the shares outstanding. The public float totals 105 million Class A shares, or 44% of the total common stock outstanding.

Operational Strategies

The Company sells its products basically through limited distribution channels to complement the images associated with its brands. Estee Lauder sells and markets its products at more than 9,000 points-of-sale globally. Its range of brands covers strategically different niche markets, minimizing cannibalization of brand share. They primarily consist of upscale department stores, specialty retailers, upscale perfumeries and pharmacies and, to a lesser extent, freestanding company stores and spas, stores on cruise ships, in-flight and duty free shops in airports and cities. In November 1998, the Company also began to sell certain of its products over the Internet. The Estee Lauder Companies created a new division, ELC Online, responsible for all online strategies and activities for all brands, in the Spring of 1999 (3). Morgan Stanley believes that because of Estee Lauder Companies exclusive distribution, the perceived quality of its brands should heighten, which should in turn generate superior margins. On March 15, 2002, the Estee Lauder Companies said it won a lawsuit that addressed questions about advertising in cyberspace. The New York cosmetics company said that Germany's District Court of

Hamburg ordered Internet companies Excite Inc. and iBeauty to stop using certain Estee Lauder trademarks as keywords to trigger banner ads on Web sites. Estee said the court decided that Excite's sale to iBeauty of the trademarks Estee Lauder, Clinique, and Origins as keywords amounted to unfair competition under Germany law. Estee Lauder has filed similar suits against iBeauty and Excite in France and in U.S. federal court in New York, and said it expects rulings in those cases soon. An iBeauty representative said the German court's ruling "will have little to no effect on iBeauty's business, since iBeauty does not ship these products internationally." Representatives of Excite, a unit of Excite@home Corp, based in Redwood City, California, said they had not reviewed the ruling with their German trademark lawyers, but that the company reserves the right to appeal. Drew Ianni, an analyst for Jupiter Communications in New York, said the case "has major implications for many sites across the Web", since keyword-based ads generate hundreds of millions of dollars in revenue. He said Germany is known for "having strict laws that tend to favor trademark corporations", and said "he did know what effect the ruling could have on Estee's U.S. case". He said the German decision, "is at least a first precedent out there in cyberspace related to this type of conflict. Estee Lauder filed the German suit in January 1999, alleging trademark infringement, false representation, unfair competition and false advertising. It said the court also ordered iBeauty, formerly named Fragrance Counter Inc., to stop shipping products not sold by authorized Estee Lauder retailers to Germany from the U.S. (11).

Supply-Chain Management

The Estee Lauder Companies initiatives to streamline supply-chain management and enhance working capital bode well for process-led growth in the long term, Morgan Stanley believes. The moves include reconfiguring the global brand structure, reevaluating supply-chain systems, and closing underperforming brand-name shops in stores. In fiscal 2003, they expect the launch of new material-requirement planning. The new systems, along with better sales forecasting procedures, should enable Estee Lauder to improve inventory reductions, associated carrying costs, and obsolescence write-offs. The company projects total savings from inventory cuts, transportation and distribution optimization, and quality procurement and manufacturing activities at \$90-110 million in the next three years (7).

Internet Strategy

The Estee Lauder Companies recently announced that it would buy Gloss.com and revamp its Internet strategy. The move would make Estee Lauder the second business to absorb a beauty-oriented pure-play. Terms were not disclosed, but Estee Lauder says the deal would have no impact on its earnings. Estee Lauder says it plans to implement a three-pronged strategy. It says it will protect its brand by developing modules on sites that already sell its products. In addition, it will launch two more branded sites, EsteeLauder.com and MacCosmetics.com. Finally, it will incorporate all of its brands into Gloss.com, on which consumers can buy a range of Estee Lauder beauty products (8).

Company Addition

Recently, there has been an addition to the Estee Lauder Companies. Former executive for Compaq, Edward Straw is the new president of operations for the Estee Lauder Companies. Straw will help the New York-based company manage its complex web of distribution outlets. In his new job, Straw will oversee the corporate senior vice presidents heading Estee Lauder's manufacturing, research and development, information systems, packaging and quality assurance areas. "As the Estee Lauder Companies increases its global presence with innovative products, new brands and expanded distribution, the skill and efficiencies of our operating units become increasingly important to our success," said the president and chief executive Fred Langhammer (10).

On September 6, 2001, American supermodel Carolyn Murphy joined British actress and producer Elizabeth Hurley as spokesmodels for Estee Lauder. In this new dual image, Carolyn Murphy will promote the makeup, skincare and spa products plus the free standing stores. Elizabeth Hurley will continue to appear in ads for the very lucrative fragrance lines. She will also make personal appearances around the world on behalf of Estee Lauder. Leonard Lauder, Chairman of The Estee Lauder Companies Inc., said of the global plan, "Elizabeth and Carolyn complement each other perfectly in both personality and natural beauty". The new Estee Lauder dual global image maximizes the combined beauty and potential of Elizabeth Hurley's captivating persona and Carolyn Murphy's classic American style to convey the unique messages of the brand to consumers worldwide (1).

Brand Equity

Building brand equity is one of the fundamentals the Company was built on. The Estee Lauder Companies Inc. is committed to "Bringing the Best to Everyone We Touch"

(5). From Estee Lauder's core brands to its newer brands, it is number one in prestige.

The Company invests heavily in aggressive, well-funded marketing programs. Each individual brand has a single global image in advertising and merchandising presentation.

On November 30th of last year, the Estee Lauder Companies announced that Jim Nevins would become a senior member of the team leading the conceptual brand renewal process

for the Estee Lauder brand. Due to this new personnel development, the company

believes this will continue to make their aggressive marketing programs a success.

"Clearly, Jim has a strong track record in marketing and brand building, and a deep understanding of the retail business on a worldwide basis," Mr. Bousquet-Chavanne said.

"He is a creative visionary who will work closely with the Estee Lauder leadership group and me as we continue to redefine luxury and aspiration in contemporary terms" (15).

Innovation/Social Responsibility

The Company has been at the forefront of technology over the years by virtue of its investment in Research and Development. Consumer safety has always been top

priority at the Estee Lauder Companies Inc. Therefore, their product safety testing

requires a collaboration of experts across several sciences. Approximately 395 leading

chemists, biologists, microbiologists and physicists are currently on staff. To ensure the

safety of all products brought to market by the Estee Lauder Companies Inc.,

formulations and their packaging must exceed the high Company standards for ingredient

preservation and stability, product efficacy, and package compatibility. All Estee Lauder Companies Inc. products are tested for irritancy and allergy, using biological assays and human volunteers. They do not test their products on animals, nor do they ask others to conduct animal testing on their behalf. They are proud of the enviable safety record the Estee Lauder Companies Inc. has sustained since their Company was founded in 1946 and their continued commitment to producing quality products that are clean, pure, and safe. Generally, one-third of the Company's sales volume in a year comes from products developed at Research and Development within the previous three years. Estee Lauder Companies' Research and Development facilities are located in Melville, New York; Oevel, Belgium; Tokyo, Japan; Markham, Ontario; and Blaine, Minnesota (12).

Safe Environment

The Estee Lauder Companies Inc. is also highly committed to maintaining a safe and healthy work place for all employees, and to protect the environment and the communities in which they operate through continued responsible action. The Company's commitment to excellence begins at the top. The Chief Executive Officer and the Corporate Environmental Committee, comprised of senior level executives from all areas of the Company, provide overall guidance and direction. The President of Operations establishes their environmental and safety philosophy. This is executed through the Senior Vice-President of Global Operations, who directs the activities of the Department of Environmental Affairs & Safety and the Facility Managers/Subsidiary VP's. The success of the Company's environmental and safety programs is a result of the commitment of its employees. All operations and facilities are dedicated to excellence

and to continuous improvement through implementation of environmental and safety initiatives. The Company has set specific objectives to meet these commitments (14):

- To meet or exceed all requirements of applicable environmental, health, and safety laws and regulations, where products are developed, manufactured, and distributed.
- To provide support to all organizational units via the Company's Environmental Affairs & Safety department. This will promote employee safety and minimize environmental impact throughout their products' development, production, and distribution.
- To encourage and apply pollution prevention, resource conservation, waste minimization, reuse, and recycling practices.
- To minimize waste disposal costs and promote application of safe and innovative technologies for waste disposal.
- To promote responsible environmental and safety practices, enhancing awareness among their employees and the communities in which they operate.
- To strive to continuously improve their environmental and safety management systems and practices. This includes an annual review of objectives and targets.

Equal Opportunity Employment

It is the policy and practice of the Estee Lauder Companies Inc. and its officers, to ensure equal opportunities without regard to race, color, religion, sex, age, national

origin, citizenship status, handicap, disabled veteran or Vietnam-era veteran status, and to affirmatively seek to advance the principles of equal employment opportunity to ensure that there is equality of opportunity in all terms and conditions of employment. The above-stated policy and Affirmative Action Plan confirm the Company's commitment to (6):

- Recruit, hire, train and promote in accordance with the principles of equal employment opportunity;
- Ensure that promotion decisions comply with the principles of equal employment opportunity;
- Ensure that all personnel actions, including compensation, benefits, transfers, terminations, company sponsored training, tuition assistance, and social and recreational programs are administered in accordance with the principles of equal opportunity; and
- Reaffirm its policy to provide equal employment opportunities to qualified handicapped persons, disabled veterans and Vietnam-era veterans.

Philanthropy

Over the years, the corporate philanthropy program and community involvement initiatives have supported the activities and growth of numerous organizations dedicated to health and human services, education, the environment and the arts. The Company strives to be responsible citizens in every community they serve: their corporate fund drives help sustain local public schools and needy charities; they work to preserve the

environment through broad-based recycling programs; and they strongly endorse employee volunteerism.

The Company's most significant philanthropic endeavor – initiated by Estee Lauder U.S.A. – is their highly visible “Pink Ribbon” Breast Cancer Awareness Program introduced in October 1992 to draw public attention to breast cancer and spread the message to women that early detection certainly saves lives. The “Pink Ribbon” Breast Cancer Awareness Program is now globally recognized as the symbol of breast health. More than 17 million pink ribbons have been distributed at counters worldwide. In the millenium year the program was implemented in 43 countries, fifteen of which have officially designated a month to Breast Cancer Awareness. In addition, 21 cities around the world launched International Breast Cancer Awareness by joining them in their “2000 Global Landmarks Illumination Initiative.” In 1993, Mrs. Evelyn H. Lauder, Senior Corporate Vice-President, established The Breast Cancer Research Foundation, a not-for-profit organization, to fill critical gaps in medical research funding. Since its founding, more than \$31,000,000 has been raised by the Foundation, of which \$4,200,000 is attributable to their collaborative fund raising endeavors with retailers, and the activities organized and supported by employees of the Estee Lauder Companies Inc. On June 8, 1999, CNN's “Business Un-Usual” featured The Breast Cancer Research Foundation as an exemplary organization in its work to combat breast cancer (5).

Corporate Contributions

The Estee Lauder Companies make corporate contributions each and every year. As part of their strategy to maximize the effectiveness and sustained impact of their

contribution dollars, they carefully screen the recipient institutions, and from the many beneficiaries select a few to which they pledge long-term, significant resources. See Appendix B for a full list of the charities in which the Estee Lauder Companies are involved. This, however, does not reflect the many hundreds of institutions to which they annually contribute in the millions of dollars through contributions of products. Donations support women's "self-help" groups, charity benefit events, fundraisers, auctions, raffles, etc. (5).

Employee Volunteerism

In conjunction with their corporate philanthropy, the Estee Lauder Companies Inc. also sustains numerous volunteer endeavors that exemplify their commitment to "be responsible citizens in every community we serve" (5). Employees are heavily encouraged to contribute their time, enthusiasm and talents to a number of causes: First Step Job Readiness Program, Dear Santa Holiday Program, Look Good...Feel Better, New York Cares Day, Take Our Daughters to Work Day, Lighthouse International, Partnerships with Schools, The Murry Bergtraum H.S. for Business Careers, P.S. 20, JHS 99, Roberto Clemente High School, PS811X, Support/partnerships with other public school related organizations, Corporate Recycling Programs & Collection Drives, and Corporate Drives/Collections (5).

Due to the Estee Lauder Companies Inc. Financial Development, Operational Strategies, Brand Equity and Innovation/Social Responsibility they have been in business for 56 years. They would have been so successful hadn't they had a global marketing

strategic plan and the drive of "Bringing the Best to Everyone We Touch" (5). I feel confident that the company will continue its successfulness in the upcoming years.

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Elizabeth Hurley, Estee Lauder Spokesmodel, Estee Lauder
Intuition

INTUITION
ESTÉE LAUDER



Carolyn Murphy, Estee Lauder
Spokesmodel

Exhibit 12

The Estée Lauder Companies: Annual Balance Sheet, 1995-2005E

Fiscal year ends June 30	1995	1996	1997	1998	1999	2000	2001	2002E	2003E	2004E	2005E
\$ Millions, except per share											
Assets											
Cash and equivalents	281.4	254.8	255.6	277.5	347.5	320.3	346.7	377.7	449.1	524.5	630.5
Receivables	447.5	434.0	471.7	497.8	533.7	550.2	580.6	589.0	606.7	612.3	616.5
Inventories	392.5	452.8	440.6	513.2	513.0	546.3	630.3	555.4	533.2	545.1	556.6
Prepaid Expenses and Other	161.4	148.8	143.2	166.1	176.0	201.7	181.3	179.9	188.2	197.8	207.7
Current assets	1,282.8	1,290.4	1,311.1	1,454.6	1,570.2	1,618.5	1,738.9	1,702.0	1,777.2	1,879.7	2,011.2
Property & equipment, net	199.0	229.3	265.0	335.8	383.6	480.3	528.7	650.2	739.9	805.8	847.1
Intangible assets	42.0	146.6	161.3	563.3	608.5	708.1	699.7	658.1	616.5	574.9	533.3
Other	197.9	113.1	135.7	159.1	184.4	236.4	251.5	251.5	251.5	251.5	251.5
Total Assets	1,721.7	1,779.4	1,873.1	2,512.8	2,746.7	3,043.3	3,218.8	3,261.8	3,385.1	3,511.9	3,643.2
Liabilities & Equity											
Notes Payable	128.5	105.6	31.1	11.5	6.6	7.0	5.8	5.8	5.8	5.8	5.8
Accounts Payable	166.8	175.3	165.8	209.1	223.1	236.5	239.8	228.8	229.8	226.3	221.8
Acc Liabilities	455.3	469.1	505.2	537.4	544.9	574.1	532.1	527.9	552.4	580.4	609.5
Income taxes	62.6	72.9	57.4	79.4	87.6	84.2	79.0	79.0	79.0	79.0	79.0
Current liabilities	813.2	822.9	759.5	837.4	862.2	901.8	856.7	811.7	837.2	861.7	887.3
Long-Term Debt	65.5	21.9	-	425.0	422.5	418.4	410.9	410.9	410.9	410.9	410.9
Other Noncurrent Liabilities	147.9	180.4	205.9	194.0	177.5	202.8	239.1	243.9	248.8	253.7	258.8
Preferred Stock, \$6.50	360.0	360.0	360.0	360.0	360.0	360.0	360.0	360.0	360.0	360.0	360.0
Shareholder's equity	335.1	394.2	547.7	696.4	924.5	1,160.3	1,352.1	1,435.3	1,528.3	1,625.5	1,726.2
Total Liabilities and Equity	1,721.7	1,779.4	1,873.1	2,512.8	2,746.7	3,043.3	3,218.8	3,261.8	3,385.1	3,511.9	3,643.2
As a % of LTM revenues											
Receivables	15.4%	13.6%	13.9%	13.8%	13.5%	12.6%	12.6%	12.9%	12.7%	12.2%	11.7%
Inventories	13.5%	14.2%	13.0%	14.2%	12.9%	12.5%	13.7%	12.1%	11.1%	10.8%	10.5%
Raw Material Inventories	3.9%	3.3%	3.5%	4.0%	4.4%	5.1%	3.9%				
Prepaid Expenses	5.6%	4.7%	4.2%	4.6%	4.4%	4.6%	3.9%	3.9%	3.9%	3.9%	3.9%
Accounts Payable	5.8%	5.5%	4.9%	5.8%	5.6%	5.4%	5.2%	5.0%	4.8%	4.5%	4.2%
Acc Liabilities	15.7%	14.7%	14.9%	14.9%	13.8%	13.1%	11.5%	11.5%	11.5%	11.5%	11.5%
Working Capital	23.2%	22.3%	22.1%	22.2%	20.8%	19.7%	21.0%	20.0%	19.0%	18.5%	18.0%
Liquidity Analysis											
Avg # Days Inventory		211.0	190.6	208.6	187.7	186.1	210.3	224.5	197.0	187.5	184.2
+ Receivables Outstanding		50.4	56.3	53.2	52.8	48.4	49.9	46.6	45.5	44.2	42.4
= Length of Operating Cycle		261.4	246.9	261.9	240.5	234.4	260.2	271.2	242.6	231.7	226.6
- Payables Outstanding		78.9	72.5	73.8	77.1	77.2	74.0	96.2	84.9	78.4	74.2
Length of Cash Cycle		182.5	174.3	188.0	163.4	157.2	186.2	174.9	157.7	153.3	152.5

Exhibit 9

Cosmetics, Household & Personal Care: Global Valuation Table

Ticker	Company	Rating	2/7/2002 Price	12-Mo Target	Implied Upside	Sales 01-05E	EPS 01-05E	P/E 2001E 2002E 2003E	Relative PE 2001E 2002E 2003E	EV/EBITDA 2001E 2002E 2003E
CL.N	Colgate (\$)	N	55	57	3%	4%	10%	29.0 25.4 22.9	123.1 117.3 115.2	16.8 15.8 14.6
G.N	Gillette (\$)	N	33	32	-2%	4%	9%	33.3 29.5 26.8	141.3 135.9 134.9	17.5 15.7 14.2
KMB.N	Kimberly Clark (\$)	OP	60	70	17%	4%	8%	18.3 17.4 16.2	77.7 80.3 81.3	10.8 10.7 10.2
PG.N	Procter & Gamble (\$)	N	83	84	1%	3%	9%	25.4 22.2 20.4	107.9 102.3 102.7	13.6 13.3 12.5
Unc.AS	Unilever NV (euro)	N	65	na	na	4%	14%	18.2 14.8 13.0	77.4 68.3 65.4	11.1 10.3 9.3
ULVR.L	Unilever PLC (p)	N	575	na	na	4%	14%	17.7 14.4 12.6	75.1 66.3 63.5	10.5 9.9 8.9
OREP.PA	L'Oreal (euro)	NR	77	na	na	8%	15%	43.4 37.9 33.1	184.4 174.8 166.3	18.7 16.8 14.8
	Large Cap Average					4%	11%	27.9 24.5 20.7	118.6 113.2 104.2	14.8 13.8 12.1
AVP.N	Avon Products (\$)	N	49	55	14%	5%	11%	23.2 20.9 18.9	98.6 96.6 95.1	13.6 12.1 10.9
BEIG.DE	Beiersdorf (euro)	OP	137	135	-1%	10%	15%	40.7 35.9 30.9	172.9 165.7 155.3	17.7 15.5 13.4
EL.N	Estee Lauder (\$)	N	31	33	7%	4%	9%	24.4 25.0 21.9	103.6 115.4 110.1	11.2 11.4 10.2
IFF.N	Intl Flavors & Frag (\$)	OP	32	36	12%	1%	9%	23.0 16.4 15.2	97.6 75.7 76.4	10.3 9.7 9.0
RB.L	Reckitt Benckiser (p)	OP	1,059	1,150	9%	5%	10%	21.1 19.6 17.4	89.6 90.6 87.5	13.1 11.7 10.4
	Mid & Small Cap Average					4%	11%	24.5 22.1 19.5	103.8 101.8 98.3	12.1 11.3 10.1
	Total Average					4%	11%	27.3 24.1 20.8	115.8 114.7 104.5	14.0 13.0 11.5
	S&P 500 MS Est.		1,084				10%	23.6 21.7 19.9	100.0 100.0 100.0	

Source: Morgan Stanley Research; KMB co-covered by Matt Berler; Unilever, Beiersdorf and Reckitt covered by Sylvain Massot.

Ratings: N = Neutral; OP = Outperform; NR = Not Rated

Exhibit 14

The Estée Lauder Companies: Discounted Cash Flow and Residual Income Valuations

Discounted Cash Flow Analysis

\$Millions, except per share	2001	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010
Compounding period	1	2	3	4	5	6	7	8	9	10
Net PPE	529	650	746	824	829	834	839	844	849	854
Depreciation as a % of beg. net PPE		21.1%	21.9%	23.6%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net CAPEX as a % of incremental revenues		-191.0%	25.5%	15.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Revenue growth	5.7%	-0.8%	4.6%	5.1%	4.9%	4.7%	4.5%	4.3%	4.1%	3.9%
Revenue	4,616	4,580	4,792	5,035	5,280	5,527	5,774	6,021	6,266	6,509
EBITDA margin	15.5%	13.8%	14.4%	15.4%	15.9%	16.4%	16.9%	17.4%	17.9%	18.4%
EBITDA	715	633	692	774	838	905	975	1,046	1,120	1,196
- Depreciation	(102)	(111)	(142)	(176)	(206)	(207)	(208)	(210)	(211)	(212)
- Amort. of non-deduct. goodwill	(54)	(42)	(42)	(42)	(50)	(50)	(50)	(50)	(50)	(50)
EBIT	559	480	508	557	582	648	716	787	859	934
- Imputed taxes on EBIT	(221)	(188)	(198)	(215)	(228)	(251)	(276)	(301)	(327)	(354)
EBIAT	338	292	310	341	355	397	440	485	532	580
+ Depreciation & amortization	156	153	184	218	256	257	258	260	261	262
- Capital expenditures	(190)	(222)	(238)	(254)	(261)	(262)	(263)	(265)	(266)	(267)
- + (Incr./Decr. WC and other assets)	(199)	53	(14)	(19)	(82)	(82)	(81)	(80)	(79)	(87)
Net investment in capital	(233)	(16)	(68)	(56)	(87)	(87)	(86)	(85)	(84)	(92)
Free cash flow to debt & equity	105	276	242	285	268	310	354	400	448	488
FCF growth rate		163.7%	-12.4%	17.8%	-6.1%	15.7%	14.2%	13.0%	11.9%	9.0%
Discount factor	1.000	0.868	0.809	0.753	0.702	0.654	0.609	0.568	0.529	0.493
PV of free cash flow to debt & equity	\$ 105	\$ 240	\$ 196	\$ 215	\$ 188	\$ 203	\$ 216	\$ 227	\$ 237	\$ 240
Sum PV of free cash flow	\$ 7,493									
+ MV of equity investments	\$ -									
+ MV of non-operating assets	\$ -									
+ Other	\$ -									
= Enterprise value	\$ 7,493									
- MV of net debt	\$ (105)									
- Capitalized off balance sheet leases	\$ -									
- Pension & other non-funded liability	\$ -									
- MV of non convert. preferred stock	\$ (360)									
- PV of minority interest	\$ -									
- MV of options outstanding	\$ -									
Equity value	\$ 7,027									
Shares outstanding (mil)	242.2									
Equity value/share 6/01	\$ 29.02									
Equity value/share 6/02	\$ 31.16									
Equity value/share 12/02	\$ 32.29									
Equity value/share 06/03	\$ 33.47									
Equity value/share 12/03	\$ 34.68									
Long-term sustainable growth rate	4.0%									

Weighted Average Cost of Debt & Equity Capital (WACC)	
Shares outstanding (mm)	242.2
Price per share	\$ 30.98
Market value of equity (MVE)	\$ 7,503.4
Levered beta for this company	0.85
30 year risk free rate	4.0%
Market risk premium based on size	4.0%
Cost of equity:	7.4%
Market value of total interest bearing debt (MVD)	\$ 105
Marginal cost of long-term debt	4.5%
Marginal tax rate	36.0%
After-tax cost of debt:	2.9%
MVE/(MVD+MVE)	98.6%
MVD/(MVD+MVE)	1.4%
Weighted Average Cost of Capital	7.3%

Residual Income Analysis

	2001	2002E	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010
Beginning capital	\$ 1,625	\$ 1,859	\$ 1,875	\$ 1,943	\$ 2,030	\$ 2,117	\$ 2,203	\$ 2,288	\$ 2,373	\$ 2,465
Revenues / beg. capital	2.8	2.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Capital growth rate		14.4%	0.9%	3.6%	4.5%	4.3%	4.1%	3.9%	3.7%	3.9%
EBIAT	\$ 338	\$ 292	\$ 310	\$ 341	\$ 355	\$ 397	\$ 440	\$ 485	\$ 532	\$ 580
Adjusted return on capital employed (ROCE)	20.6%	15.7%	16.5%	17.6%	17.5%	18.7%	20.0%	21.2%	22.4%	23.5%
WACC based on beta	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.34%
ROCE - WACC	13.5%	8.4%	9.2%	10.2%	10.1%	11.4%	12.6%	13.9%	15.1%	16.2%
EVA	\$ 219	\$ 156	\$ 173	\$ 199	\$ 206	\$ 241	\$ 279	\$ 317	\$ 358	\$ 399
discount factor	1.000	0.868	0.809	0.753	0.702	0.654	0.609	0.568	0.529	0.493
PV EVA	\$ 219	\$ 135	\$ 139	\$ 150	\$ 144	\$ 158	\$ 170	\$ 180	\$ 189	\$ 196
Sum PV EVA	\$ 5,744									
+ Invested capital at mid year	\$ 1,684									
+ MV of equity investments	\$ -									
+ MV of off non-operating assets	\$ -									
+ Other	\$ -									
= Enterprise value	\$ 7,428	100%								
- MV of net debt debt	\$ (105)									
- Capitalized off balance sheet leases	\$ -									
- Pension & other non-funded liability	\$ -									
- Preferred Stock	\$ (360)									
- MV of minority interest	\$ -									
- MV of options outstanding	\$ -									
Equity value	\$ 6,963									
Shares outstanding (mil)	242.2									
Equity value/share 6/01	\$ 28.75									
Equity value/share 6/02	\$ 30.88									
Equity value/share 12/02	\$ 32.00									
Equity value/share 06/03	\$ 33.18									
Equity value/share 12/03	\$ 34.37									

Total Capital Provided	
ST debt	\$ 7
- Cash & securities	\$ (320)
+ LT debt	\$ 418
+ Capitalized leases net of depreciation	\$ -
+ Pension & other non-funded liability	\$ -
+ Deferred tax liability	\$ -
+ Minority interest	\$ -
+ Preferred Stock	\$ 360
+ Equity	\$ 1,160
= Total capital provided	\$ 1,625

Exhibit 10

The Estée Lauder Companies: Annual Income Statement, 1995-2005E

Fiscal year ends June 30	1995	1996	1997	1998	1999	2000	2001	2002E	2003E	2004E	2005E	CAGR 95-00	CAGR 01-05E
\$ Millions, except per share	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05		
Revenue-region													
Americas	1,579.7	1,799.4	1,939.4	2,204.7	2,397.9	2,658.8	2,818.5	2,767.5	2,906.9	3,061.2	3,203.8	11%	3%
Europe, Middle East&Africa	786.0	865.9	909.3	960.8	1,082.4	1,131.0	1,209.0	1,207.6	1,255.8	1,312.3	1,371.8	8%	3%
Asia/ Pacific	533.4	539.2	532.9	462.5	481.2	577.0	590.6	604.7	630.4	671.5	711.7	2%	5%
Revenue- all regions	2,899.1	3,194.5	3,381.6	3,618.0	3,961.5	4,366.8	4,616.1	4,579.8	4,791.9	5,035.0	5,287.1	9%	3%
Revenue-product													
Skincare	1,215.9	1,274.0	1,291.0	1,248.3	1,398.6	1,552.4	1,640.0	1,675.5	1,725.7	1,794.8	1,866.8	5%	3%
Makeup	1,003.3	1,131.6	1,251.7	1,317.7	1,412.8	1,579.5	1,700.0	1,722.5	1,825.9	1,935.4	2,051.6	10%	5%
Fragrance	679.9	769.7	817.9	987.6	1,048.8	1,092.3	1,060.0	952.9	971.9	991.4	1,011.2	10%	-1%
Haircare	19.2	19.2	16.5	52.4	82.4	113.9	180.7	213.7	245.8	275.2	308.3	na	14%
Other	4.7	4.7	4.7	12.0	18.9	28.7	36.4	15.3	22.6	38.2	49.6		
Revenues- all sources	2,899.1	3,194.5	3,381.6	3,618.0	3,961.5	4,366.8	4,616.1	4,579.8	4,791.9	5,035.0	5,287.1	9%	3%
COGS	674.8	731.0	765.1	819.5	899.9	972.1	971.2	963.7	1,008.3	1,049.4	1,091.4	8%	3%
Gross Profit	2,224.3	2,463.5	2,616.5	2,798.5	3,061.6	3,394.7	3,644.9	3,616.2	3,783.6	3,985.6	4,195.8	9%	4%
S,G&A	1,967.7	2,116.0	2,224.6	2,357.6	2,572.1	2,845.7	3,063.7	3,120	3,259.6	3,412.9	3,571.1	8%	4%
Related Party Royalties	36.7	37.2	32.8	31.6	32.6	33.2	22.6	16.1	16.1	16.1	16.1	-1%	-8%
Operating Profit- all sources	230.9	310.3	359.1	409.1	456.9	515.8	558.8	480.3	507.9	555.7	608.7	17%	2%
Interest Income (expense)	2.1	2.7	3.8	(6.3)	(16.7)	(17.1)	(12.3)	(10.7)	(6.9)	(3.9)	0.8		
Pre-tax Income	233.0	313.0	362.9	402.8	440.2	498.7	546.3	469.6	501.1	552.8	609.3	16%	2%
Income tax	108.0	138.3	152.4	161.1	167.3	184.6	196.7	162.0	171.7	188.4	206.4		
Minority Interest	(3.8)	(14.3)	(12.9)	(4.9)	-	-	-	8.2	9.0	9.9	10.9		
Net Income	121.2	160.4	197.6	236.6	272.9	314.1	347.7	299.4	338.4	374.4	413.8	21%	4%
Preferred Dividends	25.3	23.4	23.4	23.4	23.4	23.4	23.4	23.3	23.3	23.3	23.3		
NI to common before charges	95.9	137.0	174.2	213.4	249.5	290.7	324.3	276.1	315.1	351.1	390.5	25%	4%
Extraordinary charges	-	-	-	-	-	-	(39.8)	-	-	-	-		
NI to common after ext charges	95.9	137.0	174.2	213.4	249.5	290.7	284.5	276.1	315.1	351.1	390.5		
EPS before charges	\$0.41	\$0.59	\$0.73	\$0.89	\$1.03	\$1.20	\$1.34	\$1.15	\$1.33	\$1.51	\$1.71	24%	6%
EPS after charges	\$0.41	\$0.59	\$0.73	\$0.89	\$1.03	\$1.20	\$1.18	\$1.15	\$1.33	\$1.51	\$1.71	24%	9%
Diluted shares out., avg.	236	233	237	239	241	243	242	240	236	232	228		
Margin Analysis													
Gross	76.7%	77.1%	77.4%	77.3%	77.3%	77.7%	79.0%	79.0%	79.0%	79.2%	79.4%		
COGS	23.3%	22.9%	22.6%	22.7%	22.7%	22.3%	21.0%	21.0%	21.0%	20.8%	20.6%		
S,G&A Incl goodwill	67.5%	66.2%	66.8%	65.2%	64.9%	65.2%	66.4%	68.2%	68.2%	68.0%	67.7%		
S,G&A	67.5%	66.2%	66.8%	65.2%	64.9%	65.2%	66.4%	68.1%	68.0%	67.8%	67.5%		
Related Party Royalties	1.2%	1.2%	1.0%	0.9%	0.8%	0.8%	0.5%	0.4%	0.3%	0.3%	0.3%		
EBITDA	9.4%	11.2%	12.9%	14.0%	14.0%	14.8%	15.5%	13.9%	14.4%	15.4%	16.3%		
Operating Profit- all sources	8.0%	9.7%	10.6%	11.3%	11.5%	11.8%	12.1%	10.5%	10.6%	11.1%	11.5%		
Pre-tax	8.0%	10.7%	10.7%	11.1%	11.4%	11.4%	11.8%	10.3%	10.6%	11.0%	11.5%		
Tax Rate	46.4%	44.2%	42.0%	40.0%	38.0%	37.0%	36.0%	34.5%	34.3%	34.1%	33.9%		
Net to common	3.3%	4.3%	5.2%	5.9%	6.3%	6.7%	7.0%	6.0%	6.6%	7.0%	7.4%		
Year-over-year changes													
Revenues													
Americas			7.8%	13.7%	8.6%	10.9%	5.9%	-1.7%	5.0%	5.0%	5.0%		
Europe, Middle East&Africa			6.2%	5.7%	12.7%	4.5%	6.9%	-0.1%	4.0%	4.5%	4.5%		
EMEA-local			11.0%	13.0%	12.0%	11.9%	16.0%	0.1%	5.0%	6.0%	6.0%		
EMEA-F/X			-4.8%	-7.3%	0.7%	-7.4%	-9.1%	-0.2%	-1.0%	-1.5%	-1.5%		
Asia/ Pacific			-1.2%	-15.1%	6.3%	19.9%	2.4%	2.4%	4.3%	8.5%	6.0%		
Asia/ Pacific-local			6.0%	-3.0%	7.0%	15.3%	8.4%	11.3%	7.0%	8.0%	8.0%		
Asia/ Pacific-F/X			-7.2%	-12.1%	-0.7%	4.6%	-6.1%	-8.9%	-2.7%	-1.5%	-2.0%		
Revenues- all sources			5.9%	7.0%	9.5%	10.2%	5.7%	-0.6%	4.6%	5.1%	5.0%		
Revenues-all sources-local			9.0%	11.0%	9.6%	11.5%	8.2%	0.7%	5.3%	5.8%	5.6%		
All sources- F/X			-3.1%	-4.0%	-0.1%	-1.3%	-3.5%	-1.5%	-0.7%	-0.5%	-0.5%		
Skincare			1.3%	-3.3%	12.1%	11.0%	5.8%	2.2%	3.0%	4.0%	4.0%		
Makeup			10.8%	5.3%	7.2%	11.8%	7.8%	1.3%	8.0%	8.0%	8.0%		
Fragrance			8.3%	20.7%	6.2%	4.2%	-3.0%	-10.1%	2.0%	2.0%	2.0%		
Haircare			-14.1%	217.8%	57.3%	38.2%	58.8%	18.3%	15.0%	12.0%	12.0%		
Other			nm	nm	57.5%	51.9%	23.4%	-56.9%	48.2%	68.9%	29.7%		
COGS			4.7%	7.1%	9.8%	8.0%	-0.1%	-0.8%	4.6%	4.1%	4.0%		
Gross Margin			6.2%	7.0%	9.4%	10.9%	7.4%	-0.8%	4.6%	5.3%	5.3%		
S,G&A			5.1%	6.0%	9.1%	10.8%	7.7%	1.8%	4.5%	4.7%	4.6%		
Related Party Royalties			-11.8%	-3.0%	2.5%	1.8%	-31.8%	-28.9%	0.0%	0.0%	0.0%		
Operating Profit			15.7%	13.9%	11.7%	12.9%	6.3%	-14.0%	5.7%	9.6%	9.3%		
EBITDA			21.5%	16.4%	9.8%	15.9%	10.8%	-11.4%	9.2%	11.8%	11.3%		
Pre-tax income			15.9%	11.0%	9.3%	13.3%	9.5%	-14.0%	6.7%	10.3%	10.2%		
Net to common			27.2%	22.5%	16.9%	15.5%	11.8%	-14.9%	14.1%	11.4%	11.2%		
EPS			25.0%	21.4%	16.1%	15.9%	11.9%	-14.3%	16.0%	13.3%	13.2%		
Shares outstanding			1.7%	0.9%	0.8%	0.5%	-0.3%	-0.6%	-1.7%	-1.7%	-1.7%		

Source: Morgan Stanley Research

Exhibit 11

The Estée Lauder Companies: Quarterly Income Statement, F2001-2002E

Fiscal year ends June 30	1Q01	2Q01	3Q01	4Q01	2001	2001PF	1Q02	2Q02	3Q02	4Q02E	2002E
\$ Millions, except per share	Sep-00	Dec-00	Mar-01	Jun-01	Jun-01	Jun-01	Sep-01	Dec-01	Mar-02	Jun-02	Jun-02
Revenue- region											
Americas	783.1	747.1	686.5	599.8	2,816.5	2,816.5	765.4	722.7	679.6	599.8	2,767.5
Europe, Middle East&Africa	255.1	366.9	282.4	304.6	1,209.0	1,209.0	272.3	359.5	269.5	306.3	1,207.6
Asia/ Pacific	139.5	177.6	132.8	140.7	590.6	590.6	150.0	175.2	134.3	145.2	604.7
Revenue- all regions	1,177.7	1,291.6	1,101.7	1,045.1	4,616.1	4,616.1	1,187.7	1,257.4	1,083.4	1,051.3	4,579.8
Revenue-product											
Skincare	395.2	423.2	419.1	402.5	1,640.0	1,640.0	393.5	431.7	431.7	418.6	1,675.5
Makeup	431.3	420.5	464.1	384.1	1,700.0	1,700.0	447.5	418.1	459.5	399.5	1,722.5
Fragrance	299.8	396.9	172.9	190.4	1,060.0	1,060.0	291.3	346.7	143.5	171.4	952.9
Haircare	45.6	43.0	39.9	52.2	180.7	180.7	50.0	58.4	47.9	57.4	213.7
Other	5.8	8.0	5.7	15.9	35.4	35.4	5.4	4.5	0.9	4.5	15.3
Revenues- all sources	1,177.7	1,291.6	1,101.7	1,045.1	4,616.1	4,616.1	1,187.7	1,257.4	1,083.4	1,051.3	4,579.8
COGS	263.3	278.0	226.1	203.8	971.2	971.2	254.5	278.4	227.8	205.0	963.7
Gross Profit	914.4	1,013.6	875.6	841.3	3,644.9	3,644.9	933.2	981.0	855.6	846.3	3,616.2
S,G&A	752.9	803.0	766.7	741.1	3,063.7	3,064.0	778.3	832.7	762.4	748.3	3,120
Related Party Royalties	8.2	7.1	3.6	3.7	22.6	22.6	4.0	4.8	3.5	3.7	18.1
Operating Profit- all sources	153.3	203.5	105.3	95.5	558.6	558.3	152.9	143.5	89.7	94.2	480.3
Interest Income (expense)	(5.1)	(4.3)	(2.0)	(0.9)	(12.3)	(12.3)	(3.8)	(1.9)	(2.5)	(2.5)	(10.7)
Pre-tax Income	148.2	199.2	103.3	95.6	546.3	546.0	149.1	141.6	87.2	91.7	469.6
Income tax	53.4	71.7	37.2	34.4	196.7	196.7	51.4	48.9	30.1	31.8	182.0
Minority Interest	0.2	0.2	1.0	0.5	-	-	0.6	2.8	2.5	2.5	8.2
Net Income	94.6	127.3	65.1	60.7	347.7	349.3	97.1	90.1	54.6	57.8	299.4
Preferred Dividends	5.9	5.8	5.9	5.8	23.4	23.4	5.9	5.8	5.8	5.8	23.3
NI to common before charges	88.7	121.5	59.2	54.9	324.3	325.9	91.2	84.3	48.8	51.8	276.1
Extraordinary charges	(2.2)	-	-	(37.6)	(39.8)	(39.8)	-	-	-	-	-
NI to common after extr charges	86.5	121.5	59.2	17.3	284.5	286.1	91.2	84.3	48.8	51.8	276.1
EPS before charges	\$0.37	\$0.50	\$0.24	\$0.23	\$1.34	\$1.38	\$0.38	\$0.35	\$0.20	\$0.22	\$1.16
EPS after charges	\$0.36	\$0.50	\$0.24	\$0.07	\$1.18	\$1.23	\$0.38	\$0.35	\$0.20	\$0.22	\$1.15
Diluted shares out., avg.	242	242	242	241	242	242	242	241	240	239	240
Margin Analysis											
Gross	77.8%	78.5%	79.5%	80.5%	79.0%	79.0%	78.8%	78.0%	79.0%	80.5%	79.0%
COGS	22.4%	21.5%	20.5%	19.5%	21.0%	21.0%	21.4%	22.0%	21.0%	19.5%	21.0%
S,G&A before goodwill	63.9%	62.2%	69.6%	70.9%	66.4%	66.4%	65.6%	66.0%	70.6%	71.4%	68.2%
S,G&A	63.9%	62.2%	69.6%	70.9%	66.4%	66.2%	65.4%	66.2%	70.4%	71.2%	68.1%
Related Party Royalties	0.7%	0.5%	0.3%	0.4%	0.5%	0.5%	0.3%	0.4%	0.3%	0.4%	0.4%
EBITDA	15.8%	19.0%	13.3%	13.2%	15.5%	15.5%	16.1%	14.5%	11.8%	12.8%	13.8%
Operating Profit- all sources	13.0%	15.8%	9.6%	9.2%	12.1%	12.3%	12.8%	11.4%	8.3%	9.0%	10.5%
Pre-tax	12.8%	15.4%	9.4%	9.1%	11.8%	12.0%	12.6%	11.3%	8.0%	8.7%	10.3%
Tax Rate	36.0%	36.0%	36.0%	36.0%	36.0%	36.4%	34.5%	34.5%	34.5%	34.5%	34.5%
Net to common	7.5%	9.4%	5.4%	5.3%	7.0%	7.3%	7.7%	6.7%	4.5%	4.9%	6.0%
Year-over-year changes											
Revenues											
Americas	9.4%	4.0%	4.0%	5.8%	5.9%		-2.3%	-3.3%	-1.0%	0.0%	-1.7%
Europe, Middle East&Africa	-1.0%	5.0%	14.0%	10.2%	6.9%		6.7%	-2.0%	-4.6%	0.6%	-0.1%
EMEA-local	9.0%	19.0%	21.0%	18.8%	18.0%		7.7%	-3.0%	-3.0%	-2.0%	0.1%
EMEA-F/X	-10.0%	-14.0%	-7.0%	-8.5%	-9.1%		-1.0%	1.0%	-1.6%	2.6%	-0.2%
Asia/ Pacific	16.0%	6.0%	0.2%	-9.4%	2.4%		7.5%	-1.4%	1.1%	3.2%	2.4%
Asia/ Pacific-local	16.0%	13.0%	10.0%	-0.8%	8.4%		18.0%	8.0%	10.0%	12.0%	11.3%
Asia/ Pacific-F/X	0.0%	-7.0%	-9.8%	-8.6%	-6.1%		-10.5%	-7.4%	-8.9%	-8.9%	-8.9%
Revenues- all sources	7.7%	4.8%	6.0%	4.6%	5.7%		0.8%	-2.6%	-1.7%	0.8%	-0.8%
Revenues-all sources-local	9.7%	9.8%	9.0%	8.3%	9.2%		2.8%	-1.8%	0.8%	1.0%	0.7%
All sources- F/X	-2.0%	-5.0%	-3.0%	-3.7%	-3.5%		-2.0%	-1.0%	-2.2%	-0.4%	-1.5%
Skincare	11.8%	9.0%	4.0%	-0.5%	5.6%		-0.4%	2.0%	3.0%	4.0%	2.2%
Makeup	6.8%	13.0%	10.0%	0.5%	7.6%		3.8%	-1.0%	-1.0%	4.0%	1.3%
Fragrance	-2.4%	-8.0%	-4.0%	11.7%	-3.0%		-2.8%	-12.6%	-17.0%	-10.0%	-10.1%
Haircare	97.4%	44.0%	40.0%	61.1%	58.6%		9.6%	35.8%	20.0%	10.0%	18.3%
Other	-6.5%	-3.6%	11.6%	74.8%	23.4%		-6.9%	-43.6%	-84.4%	-71.8%	-56.9%
COGS	4.6%	-1.8%	-2.0%	-1.3%	-0.1%		-3.3%	-0.6%	0.7%	0.8%	-0.8%
Gross Margin	6.8%	6.5%	8.3%	8.2%	7.4%		2.1%	-3.2%	-2.3%	0.8%	-0.8%
S,G&A	8.0%	6.1%	9.3%	7.4%	7.7%		3.1%	3.7%	-0.8%	1.0%	1.8%
Related Party Royalties	2.5%	-22.8%	-53.2%	-55.4%	-31.9%		-51.2%	-32.4%	-1.7%	0.6%	-28.9%
Operating Profit	12.3%	9.3%	5.8%	2.9%	8.3%		-0.3%	-29.5%	-14.8%	-2.3%	-14.0%
EBITDA	10.3%	12.1%	11.1%	9.1%	10.8%		2.7%	-25.8%	-12.6%	-3.7%	-11.4%
Pre-tax Income	13.0%	10.1%	7.5%	5.5%	9.5%		0.8%	-26.9%	-15.6%	-4.0%	-14.0%
Net to common	15.6%	12.4%	8.6%	8.6%	11.6%		2.8%	-30.6%	-17.5%	-5.8%	-14.9%
EPS	15.8%	12.4%	9.1%	7.4%	11.9%		2.7%	-30.2%	-16.8%	-4.6%	-14.3%
Shares outstanding	-0.2%	0.0%	-0.5%	-0.5%	-0.3%		0.0%	-0.8%	-0.8%	-1.0%	-0.8%

Source: Morgan Stanley Research; PF F2001 is adjusted for goodwill amortization

Exhibit 13

The Estée Lauder Companies: Annual Cash Flow Statement, 1995-2005E

Fiscal year ends June 30	1995	1996	1997	1998	1999	2000	2001	2002E	2003E	2004E	2005E
\$ Millions, except per share											
Operating Activities											
Net income	121.2	160.4	197.6	236.8	272.9	314.1	305.2	299.4	337.3	372.5	410.9
Depreciation and amortization	42.0	47.7	58.3	79.8	99.6	129.1	156.3	153.0	183.6	217.5	254.8
Amortization of purchased royalty right	-	11.1	17.7	17.7	17.7	17.7	6.6	-	-	-	-
Other non current assets/ liab	(44.1)	17.1	3.3	(55.7)	(42.9)	18.9	36.6	(25.2)	4.9	5.0	5.1
Changes in Working Capital											
Receivables	(31.1)	(27.6)	(56.3)	(31.9)	(38.0)	(24.4)	(57.3)	(8.2)	(29.4)	(31.4)	(32.5)
Inventories	0.8	(75.1)	4.4	(71.8)	-	(31.1)	(102.1)	75.1	(1.8)	(3.1)	(1.6)
Payables	19.7	16.1	(5.5)	40.7	14.0	12.2	14.2	(11.2)	1.0	(3.4)	(4.5)
Other WC Items	52.6	22.3	33.6	42.6	29.0	6.2	(54.1)	(2.8)	16.1	18.5	19.2
Change in Working Capital	42.0	(64.3)	(23.8)	(20.4)	5.0	(37.1)	(199.3)	52.9	(14.0)	(19.4)	(19.5)
Total Cash from Operations	161.1	172.0	253.1	258.2	352.3	442.7	305.4	480.2	511.8	575.6	651.2
Discretionary Sources/ Uses											
Purchase of PP&E	(46.0)	(63.4)	(82.9)	(120.6)	(117.9)	(180.9)	(192.2)	(225.0)	(240.8)	(257.6)	(275.6)
Sale of PP&E	20.2	13.3	-	-	-	3.0	1.9	2.7	3.0	3.3	3.6
Acquisitions	(18.5)	(25.6)	(46.5)	(459.9)	(75.0)	(180.5)	-	(10.3)	-	-	-
Divestitures	-	-	-	-	1.0	-	(16.0)	-	-	-	-
Other	(6.2)	1.2	(1.3)	3.3	(8.4)	(15.9)	-	-	-	-	-
Cash from Investing	(50.5)	(74.5)	(130.7)	(577.2)	(200.3)	(374.3)	(206.3)	(232.6)	(237.8)	(254.3)	(272.0)
Financing Activities											
Purchase of Stock	-	-	-	-	(12.7)	(23.6)	(0.1)	(140.0)	(161.0)	(185.2)	(212.9)
Issuance of Stock	-	60.6	38.1	-	-	-	-	-	-	-	-
Issuance of LT Debt	18.4	-	-	431.2	205.2	-	24.5	-	-	-	-
Repayment of LT Debt	(37.0)	(25.0)	(43.7)	(21.9)	(210.9)	(6.8)	(30.1)	-	-	-	-
Increase/ (decrease) ST Debt	40.0	(41.7)	(52.7)	(10.7)	(5.8)	(0.6)	(0.1)	(0.2)	-	-	-
Exercise of Options	(1.1)	-	4.9	0.2	14.6	14.0	13.3	2.7	-	-	-
Dividends paid	(36.3)	(107.3)	(63.4)	(53.6)	(63.6)	(70.9)	(71.0)	(77.4)	(84.4)	(91.9)	(100.2)
Cash from financing	(16.0)	(113.4)	(116.8)	345.2	(73.2)	(87.9)	(63.5)	(214.9)	(245.4)	(277.1)	(313.1)
Effect of Exchange Rate	2.0	2.8	(4.8)	(4.3)	(8.8)	(7.5)	(9.2)	-	-	-	-
Increase (decrease) in cash	96.6	(13.1)	0.8	21.9	70.0	(27.0)	26.4	32.7	28.6	44.2	66.0
Cash, beginning	171.3	267.9	254.8	255.6	277.5	347.5	320.5	346.9	379.6	408.3	452.4
Cash, ending	267.9	254.8	255.6	277.5	347.5	320.5	346.9	379.6	408.3	452.4	518.5
Free Cash Flow Calculation											
Net Income	121.2	160.4	197.6	236.8	272.9	314.1	347.7	299.4	337.3	372.5	410.9
Plus Depreciation and amortization	42.0	58.8	76.0	97.5	117.3	146.8	162.9	153.0	183.6	217.5	254.8
Less Working Capital Usage	42.0	(86.6)	(57.4)	(63.0)	(24.0)	(43.3)	(145.2)	55.7	(30.1)	(37.9)	(38.7)
Less Capital Expenditures	(46.0)	(63.4)	(82.9)	(120.6)	(117.9)	(180.9)	(192.2)	(225.0)	(240.8)	(257.6)	(275.6)
Less restructuring cash outlays	-	-	-	-	-	-	-	(30.0)	-	-	-
Free Cash Flow	159.2	69.2	133.3	150.7	248.3	236.7	173.2	253.2	250.0	294.5	351.4
as a percent of net income	131%	43%	67%	64%	91%	75%	50%	85%	74%	79%	86%
Ratio Analysis											
Net earnings / revenues	3.3%	4.3%	5.2%	5.9%	6.3%	6.7%	7.0%	6.0%	6.6%	6.9%	7.3%
x revenues / avg. assets	-	1.82	1.85	1.65	1.51	1.51	1.47	1.41	1.44	1.46	1.48
= ROA	-	7.8%	9.5%	9.7%	9.5%	10.0%	10.4%	8.5%	9.4%	10.1%	10.8%
x avg. assets / avg. equity	-	4.80	3.88	3.53	3.24	2.78	2.49	2.32	2.24	2.19	2.14
= ROE	-	37.6%	37.0%	34.3%	30.8%	27.9%	25.8%	19.8%	21.2%	22.1%	23.2%
After Tax Ebit	-	173.2	208.3	245.5	283.3	324.9	357.5	314.7	333.8	367.0	402.5
Invested Capital	607.7	626.9	683.2	1,215.4	1,366.1	1,625.4	1,782.1	1,803.8	1,867.1	1,918.3	1,951.0
Average Invested Capital	-	617.3	655.1	949.3	1,290.8	1,495.8	1,703.8	1,792.9	1,835.4	1,892.7	1,934.6
After-tax Return on Capital	-	28.1%	31.8%	25.9%	21.9%	21.7%	21.0%	17.6%	18.2%	19.4%	20.8%
WACC	-	-	-	-	-	-	7.3%	7.3%	7.3%	7.3%	7.3%
ROIC-WACC	-	-	-	-	-	-	13.6%	10.2%	10.9%	12.1%	13.5%
Current ratio	1.6	1.6	1.7	1.7	1.8	1.8	2.0	2.1	2.1	2.2	2.2
Total Debt / Capital	27.7%	19.4%	9.5%	32.3%	35.6%	30.2%	26.6%	25.4%	24.3%	23.2%	22.1%
Interest coverage	-130.0	-132.6	-114.5	80.4	33.3	37.7	58.1	59.2	81.6	115.1	223.7
Valuation / Performance											
Hist. EV and Price / Hist. Perf.						Today's EV and Price / Forecast Performance					
	1995	1996	1997	1998	1999	2000	2001E	2002E	2003E	2004E	2005E
EV / Revenue	-	-	1.6	1.8	1.9	1.7	1.6	1.7	1.6	1.5	1.4
EV / EBITDA	-	-	12.7	13.2	13.7	11.8	10.6	12.0	11.0	9.8	8.8
EV / EBIT	-	-	15.4	16.3	16.7	14.8	13.6	15.8	15.0	13.7	12.5
EV / Book Capital	-	-	9.1	5.5	5.3	4.6	4.1	3.9	3.8	3.6	3.4
Price / Earnings	-	-	61.5	60.6	29.9	25.8	23.1	27.0	23.3	20.6	18.3
Price / Book Equity	-	-	19.6	18.6	8.1	6.5	5.5	5.2	4.9	4.6	4.4

Source: Morgan Stanley Research

Appendix A (2)

Company Chronology

- | | |
|------|--|
| 1946 | Joseph and Estee Lauder found Estee Lauder in New York City with four Products: Estee Lauder Crème Pack, Estee Lauder Cleansing Oil, Estee Lauder All Purpose Crème and Skin Lotion |
| 1947 | The first deparment store account is established with Saks Fifth Avenue, New York City |
| 1953 | Estee Lauder introduces Youth Dew, the first bath oil to double as a perfume |
| 1957 | Estee Lauder introduces Re-Nutriv |
| 1958 | Leonard Lauder joins the company |
| 1960 | Estee Lauder International operations begin. Markets open in the United Kingdom (first account – Harrods in London)

Canada and Puerto Rico open |
| 1961 | Central America, Denmark and Hong Kong open |
| 1962 | Italy, Spain and Switzerland open

Golden Diamond Collection launches as the Company's first evening makeup collection

Mrs. Estee Lauder receives The Neiman Marcus Award for Distinguished Service in the Field of Fashion |
| 1963 | Austrailia, Belgium, The Netherlands, New Zealand, Portugal and Sweden open |
| 1964 | Ronald Lauder joins the Company

Aramis Inc. is established

France opens |
| 1965 | Manufacturing facilities open in Oevel, Belgium, Finland, Greece, Germany, and Norway open |

- 1966 Austria, Japan, Singapore and Thailand open
- 1967 Mrs. Estee Lauder is named one of ten Outstanding Women in Business in The United States by business and financial editors
- The Whitman Plant opens in the United Kingdom
- The Estee Lauder Melville Plant opens in Melville, Long Island
- 1968 Mrs. Estee Lauder receives the Spirit of Achievement Award given by the Albert Einstein College of Medicine of Yeshiva University
- Clinique Laboratories, Inc. is founded
- Estee, the first superperfume is founded
- 1970 Aramis 900: Scientifically formulated, fragrance free, problem-solving products for men are introduced
- Melville Plant capacity is doubled; separate Research and Development Laboratories
- Mexico opens
- 1971 The Melville plant receives an award from the American Institute of Architects for notable design
- Clinique introduces Aromatics fragrance
- 1972 Estee Lauder introduces Aliage, the first sports fragrance
- 1979 Prescriptives is founded
- 1981 New expanded manufacturing facilities open in Petersfield, U.K.
- Estee Lauder products become available for sale in perfumeries in Moscow, Leningrad and Kiev
- Aramis introduces JHL
- 1982 Estee Lauder introduces Night Repair Cellular Recovery Complex
- 1984 Aramis introduces Tuscany fragrance
- 1985 Mrs. Estee Lauder's autobiography, ESTEE: A Success Story, is published

- Estee Lauder introduces Beautiful fragrance
- Prescriptives introduces Calyx fragrance
- 1986 Clinique is the first cosmetic company to be invited to exhibit at the Academy of Ophthalmology convention
- Aramis introduces the New West fragrance for him
- 1987 Estee Lauder introduces Eyzone Repair Gel
- Aramis introduces Lab Series for Men
- 1990 Estee Lauder introduces Time Zone Moisture Recharging Complex
- Prescriptives introduces Eyewear
- Origins is founded
- Origins introduces Starting Over, the first AHA product sold in department stores
- Origins launches Peace of Mind
- 1991 Estee Lauder introduces Advanced Night Repair Protective Recovery Complex
- Prescriptives introduces All Skins foundation
- Origins opens its first freestanding store in Cambridge, Massachusetts
- Origins International debuts in the KaDeWe department store in Berlin, Germany
- Clinique launches City Block, first chemical sunscreen-free sunblock for daily protection
- Astronauts use Clinique products on space shuttle
- 1992 Mrs. Estee Lauder receives The Neiman Marcus Award for Distinguished Service in the Field of Fashion, making her the first person ever to be twice honored with this award
- Origins opens a freestanding store in SoHo, New York City

Origins launches at Magasin K in Copenhagen, Denmark

Clinique's Turnaround Cream is the first face cream with salicylic acid

1994

Mrs. Estee Lauder is honored by the American Society of Perfumers with their first Living Legend Award

The Skin Cancer Foundation presents the first annual Skin Sense Award to the Lauder family

Clinique opens a freestanding store, its first worldwide, in Budapest, Hungary

Clinique launches "Beauty Isn't About Looking Young But Looking Good" Campaign

Youth Dew receives the Fragrance Foundation's Fifi Award for Perennial Success, celebrating forty years of popularity

Estee Lauder opens its first freestanding store in Prague, Czech Republic

Clinique launches Cyberface – an interactive software program on skin care and makeup

Clinique On Campus launches at Yale University

Clinique launches its first assisted-sell counter at Foley's Memorial City

Origins opens 10th freestanding store in Tampa, Florida

Estee Lauder Companies acquires a majority interest in MAC Cosmetics (December 1994) and assumes distribution for MAC products outside the U.S. and Canada

Aramis introduces Havana in the United States

1995

Origins introduces its first fragrance, Spring Fever

Aramis launches "tommy" the first fragrance under license from Tommy Hilfiger

1996

Origins launches store-with-a-store at Isetan in Tokyo, Japan

The Estee Lauder Companies establish a partnership, called Palladio Fragrances International, with Herbert Frommen

Kiton, a fragrance for men, is launched in select international markets

Clinique opens its first U.S. freestanding store at the Pittsburgh International Airport

Clinique introduces All About Lips and City Base Compact Foundation SPF 15

Clinique launches Website on the Internet,

The Fragrance Foundation awards the newly launched Estee Lauder Pleasures "Fragrance Star of the Year;" "Best Women's Fragrance in Broad Distribution;" and "Best Women's Fragrance Package in Broad/Mass/Alternate Distribution"

The Fragrance Foundation awards "tommy" America's "Men's Fragrance Star of the Year;" "Best Men's Fragrance Introduction of the Year in Limited Distribution;" "Best Package of the Year for a Men's Fragrance in Exclusive/Limited Distribution"; "Best National Print Campaign for a Men's Fragrance Introduction;" and "Best National TV Campaign for a Men's 1995 Fragrance Introduction" (first time ever that one fragrance won 5 Fifi Awards)

First MAC store opens in Paris

Clinique International opens its first store in Prague, Czech Republic

Clinique's Moisture On-Call wins the German Cosmopolitan Prix de Beaute and the Belgian Marie Claire Prix d'Excellence

1998

Clinique launches Weather Everything SPF 15 Environmental Cream

Clinique launches All About Eyes, an eye gel-cream

Clinique launches Smudgesicles, a cream eyeshadow packed in a retractable tube

Clinique launches Quickliner for Eyes and Blushwear

Estee Lauder Re-Nutriv Intensive Lifting Crème is awarded the Prix de Beaute for Face Care by Cosmopolitan in Germany and Annabelle in Switzerland

Estee Lauder DayWear is awarded Best New Skincare Product by the Australian New Woman Beauty Awards

Estee Lauder Body Smoother Exfoliating Cream is Best New Body Product by the UK New Woman Beauty Awards

Estee Lauder introduces Re-Nutriv Intensive Lifting Series and Re-Nutriv Intensive Lifting Eye Cream

Estee Lauder introduces Advanced Night Repair Whitening Recovery Complex, a new reformulation of best-selling Advanced Night Repair, exclusively in Asia-Pacific markets

Estee Lauder introduces a garden of pleasures, three limited-edition fragrances based on the original best-selling Estee Lauder pleasures fragrance, sold exclusively in international markets

Estee Lauder introduces a skin care line for oily skin exclusively in international markets: Clear Difference Purifying Cleansing Gel, Clear Difference Purifying Oil-Control Lotion and Clear Difference Pore Cleansing Mask join Clear Difference Oil-Control Hydrator (launched 1997)

The Estee Lauder Companies Inc. acquires the remaining equity interest in Make-Up Art Cosmetics (MAC) (2/98)

Bobbi Brown launches her first fragrance, bobbi

Prescriptives introduces two new fast-acting makeup removers – Quick Remover for Face Makeup and Quick Remover For Eye Makeup

Prescriptives launches a new women's fragrance, Flirt

Tommy Hilfiger Toiletries launches Hilfiger Athletics

Tommy Hilfiger Toiletries open "tommy's shops" with the launch of 14 new body, hair and face products. The store-within-a-store concept allows the new products to be sold alongside leading "tommy," "tommy girl" and Hilfiger Athletics fragrances

Lab Series for Men introduces Lift Off! Power Wash

Lab Series for men introduces U-Turn Age Defying Formula

For the first time in its history, Estee Lauder launches two completely different fragrances under one brand concept. Dazzling GOLD and

SILVER capture the feeling of celebration and spending time with the people you love

According to the 1998 NPD Report, Estee Lauder pleasures and Beautiful were the number one and two prestige fragrances for calendar year 1997, respectively

Prescriptives launches Anywhere SPF 15, the new age of sunscreen – lightweight enough to wear on bare skin, over moisturizer, even over makeup

Prescriptives launches LSW, Retinol for visible improvement of Lines, Spots and Wrinkles

Origins introduces Never A Dull Moment age-erasing skin polisher with fruit enzymes, which became Origins number one product during the first three months of the launch

Origins introduces Clearance Time to see less oil each day

Origins introduces Let's Circulate Salt rub soap, the first line extension of their highly successful Salt Rub franchise

Origins introduces Night-A-Mins Cream, a creamier, more emollient version of Night-A-Mins Lotion

Clinique launches in Brazil at Iguatemi Mall in Sao Paulo

Clinique wins "Top Brand" category in the UK Marie Claire Health & Beauty Magazine Awards

Clinique's Dramatically Different Moisturizing Lotion wins "Top Product" category in the UK Marie Claire Health & Beauty Magazine Awards

Clinique launches City Cover Compact Concealer SPF 15

Clinique Happy Fragrance expands with Body Wash and Body Smoother

Clinique launches Superlast Cream Lipstick

Clinique launches Smooth Delivery Body Treatment, a body moisturizer and exfoliator in one

Clinique launches Sheer Mattiness T-Zone Shine Control

Clinique launches e-commerce site at www.clinique.com, becoming the first prestige cosmetic brand to sell its entire line of cosmetics over the Internet

The Fragrance Foundation awards Clinique Happy "Fragrance Star of the Year" – "Best Women's Fragrance in Specialty or Department Stores"

Allure Magazine awards Clinique top "Best of Beauty Award" for 1998. In addition to being presented with 10 other "Best of Beauty Awards", Clinique's 3-Step System was inducted into the 1st Annual Allure Hall of Fame, which honors beauty's "Gold Standards"

Clinique conducts global landmark study on the relationship between mothers and daughters

Clinique launches in Bulgaria

Estee Lauder International opens freestanding stores in Morocco and Bulgaria

Estee Lauder Diminish Anti-wrinkle Retinol Treatment is awarded the French Marie Claire Prix d'Excellence award for Best New Skincare Product, the first time a company won two years in a row. Diminish also wins Australia's distinguished New Woman Beauty Award for "Best Anti-Aging Product of the Year"; Spain's Telva Beauty Award for "Best Facial Skincare Product"; Norway's Tique magazine nomination for "Best Skincare Product of 1998"; and placed first in the "Face Care and Treatment Category" in Switzerland's Annabelle magazine's Prix de Beaute

Estee Lauder Uncircle Eye Treatment for Dark Circles and Self-Action Sunless SuperTan recognized as best beauty products at 1998 CEW Beauty Awards Luncheon

Estee Lauder Uncircle Eye Treatment for Dark Circles was named "1998 Product of the Year" in Hong Kong by B-International, a leading English-language beauty magazine

Estee Lauder Futurist Makeup won German Cosmopolitan's Prix de Beaute and in AustrailiaClear Difference Oil Control Hydrator won the New Women Beauty Award for "Best Skincare Product"

Estee Lauder introduces Pure Color Nail Lacquer, an improved nail formula in a "jewel" of a bottle, in France

Estee Lauder launches 100% Time Release Moisture Cream and Lotion

Estee Lauder launches Indelible Lipstick Classic, first transfer-resistant, long-wearing lipstick in traditional lipstick case

In connection with an 18-month independent study on the impact of anti-oxidants when applied to skin, Estee Lauder launches DayWear Protective Anti-Oxidant Crème and Lotion SPF 15 with exclusive SU.VI.MAX blend. The SU.VI.MAX blend was found to reduce the appearance of new lines and wrinkles by 23%

Estee Lauder introduces Attitude Compact, after hours compact with mood cover

Estee Lauder launches DoubleWear Stay-in-Place Concealer

Estee Lauder opens full-service, state-of-the-art day spa at Bloomingdale's 59th Street

Estee Lauder introduces pleasures Body Smoothing Spray

Estee Lauder introduces Soft Clean Rinse-Off Cleanser

Estee Lauder introduces Lash Luxe Conditioning Mascara, treatment mascara in gold case

Estee Lauder launches Resilience Lift Face and Throat Crème and Lotion SPF 15, new skin care product for women in their 40s, 50s and beyond. Former Estee Lauder model Karen Graham is featured in Resilience Lift advertising. This is the first time Estee Lauder targets an ad campaign to a more mature customer. Also, it is the only time a former model is featured in a new campaign

Aramis introduces Aramis Gold, a sensual fragrance that is offered exclusively at Bergdorf Goodman and Neiman Marcus

La Mer introduces The Cleansing Lotion, The Cleansing Gel, The Oil Absorbing Tonic and The Tonic

Tommy Hilfiger Toiletries introduces the tommy home fragrance collection. The collection of scented candles and fragrance room sprays is available in three scents: Townhouse, Country Place and Summer

Prescriptives introduces four new makeup brushes: Foundation Brush, Soft Shadow Brush, Finelining Brush and Buff Brush

Prescriptives introduces 'Lavish Lipsticks' in 40 shades

Prescriptives reaffirms their reign as “The Foundation Authority” by introducing Photochrome Compact Makeup, the first light-adjusting, full

coverage, transfer-resistant cream foundation in the industry and the first patent pending Ergonomic Sponge

Prescriptives introduces Vibrant-Vitamin Infuser for dull, stressed skin – brightens overtired, lackluster skin

Prescriptives develops new “2001” selling concept at retail – putting merchandise on tables and out of caseline

Origins launches Original Skin Pressed makeup with you-control-it coverage, a compact foundation that sweeps on like a second skin and stays fresh-faced all day

Origins launches Peace of Mind Gumballs, an edible form of the number one Sensory Therapy product, Peace of Mind

MAC launches its first partnered store location at Le Printemps in Paris

MAC adds an additional door in Germany at Beck in Munich

MAC launches its first door in Spain at El Corte Ingles Castellana in Madrid – Approximately 1,600 people attended the opening party, hosted by RuPaul

MAC enters the Austrailian market at Grace Bros in Sydney and Myer in Melbourne. Both RuPaul and k.d. lang traveled to Austrailia for the opening events

MAC opens its first shop in an airport – in London Heathrow’s Terminal 3

MAC adds three additional DFS locations in Asia – DFS Sun Plaza in Hong Kong, DFS Saipan, and DFS Millennia in Singapore

MAC PRO Store – a store for makeup artists only – launches in New York City

MAC introduces new packaging with the launch of the Fall 1999 color story, Earth Goddess

MAC introduces three new mascara formulas – Sheer, Natural and Xtra

MAC introduces four Brow Pencils and Brow Set

MAC launches Crème Colour Base, an emollient-based color product that can be used on cheeks, lips and eyes

“tommy’s shops” grows the face, hair, body care lines with the addition of seven face care products, seven hair care products (including the introduction of shampoos, conditioners and hair gels) and five body products (including shower gel and body hydrators)

Aveda’s Volumizing Tonic is awarded Allure’s Reader’s Choice for Best Volumizer

Aveda launches Hand Relief Aveda launches Cuticle Control

Aveda launches Pure-Fume Brilliant Extensions: Pure-Fume Brilliant Shampoo, Pure-Fume Brilliant Conditioner, Pure-Fume Brilliant Retexturing Gel and Pure-Fume Brilliant Thermal Styling Crème

Aveda introduces a Men’s Line: Shampoo Body Bar, Anti-Perspirant, Shave Cream, After-Shave Balm and Pure-Fume Body Tonic

Aveda’s Elixir is chosen as Allure’s Editors’ Choice for Best Conditioner

1999

MAC opens its first door in New Zealand at Smith & Caughey in Auckland

MAC introduces additional hair products – Intensive Conditioner, Hair Gloss, Hair Gel, Clarifying Shampoo

MAC launches 5 Sins of Lipglass, a tinted version of its top-selling Lipglass lip gloss

MAC opens first partnered store location in Austria in Vienna’s Steffl

Estee Lauder launches Futurist Full Treatment Lipstick SPF 15

Estee Lauder launches SunCare line, featuring new Face SPF 15 and 30 and Body SPF 15 and 25

Estee Lauder introduces ReNutriv Intensive Lifting Body Crème

Clinique launches its first anti-aging product – Stop Signs Visible Anti-Aging Serum

Clinique launches Superfit Makeup, an ingenious blend of featherlight, high performance fibers – never before used in the cosmetics industry –

that absorb sebum and draw excess moisture away from skin for immediate evaporation

Clinique Happy Fragrance expands with the introduction of Happy Hydrating Mist, a lightly fragranced, luxurious hydrating spray

Clinique's All About Eyes is awarded "Best Skin Care Product in Limited Distribution" by Cosmetic Executive Women (CEW)

Clinique Happy is awarded the American Marketing Association's "Edison Best New Products Award" as one of the best new products of 1998 in the Women's Fragrance Category

Origins expands its strategy of creating a General Store by introducing two products designed for the home, Knock on Wood Wood Therapy cream and Cleaning Service Nature's Household Cleaner

Origins launches its Baby line with seven products formulated with calming, child-safe essential oils to soothe and comfort babies. The key product in the line is Bare Hugs Baby massage cream

Origins introduces As Good As It Gets Foundation/concealer/finishing powder in one

Origins launches two new sun products, Beach Blanket SPF 15 with no chemical sunscreen and Cover Your Mouth Lip protector with SPF 8

Origins introduces Origins For the Bath, a line of 36 bath and body products that deal with emotional as well as physical well-being

Origins launches its own Website with interactive activities designed to cope with and reduce stress, as well as shop on-line

Origins unveils its newest concept for total well-being at the NorthPark Center in Dallas, Texas. The new flagship store is a 2,600 square foot, multi-dimensional, shopping experience that also features a Feel-Good Spa with a unique spa-experience called "100 Minutes of Pure Heaven", a Tea Room and outdoor Garden in the same location

Origins opens its first freestanding stores in Brighton, England and Tienmu, Taiwan

Origins opens the Singapore market at one of the country's premier retailers, Isetan on Scotts Road

Estee Lauder launches Pure Color Nail Lacquer in international markets

Estee Lauder introduces Swiss Whitening Protectective Foundation With Advanced Whitening Formula SPF 15+, a wet/dry foundation, in Asian markets

Prescriptives introduces Potent – the first luxuriously comfortable, transfer-resistant lipstick in the preferred traditional bullet form

Prescriptives introduces Super Line Preventor, smart stress-sensitive skin care

Prescriptives introduces Vibrant Instant Eye Brightener for Dark Circles and Puffiness

Estee Lauder launches Perfectly Clean Cleansers

Estee Lauder launches Uline Total Eyecare

Estee Lauder launches dazzling touch-on perfume sticks

La Mer introduces The Face Mist, The Eye Balm, The Body Serum and The Body Lotion

Tommy Hilfiger Toiletries introduces Tommy Hilfiger Color, a comprehensive color cosmetics line (186 sku's) that includes: Fresh Talk Conditioning Lip Color, All Talk Lip Crayon, Small Talk Lip Pencil, Fast Talk Lip Shine, Double Feature wet/dry Eye Color, Border Line Eye Pencil, Retro Liner Liquid Eyeliner, Big Deal Volumizing Lash Color, Glow For It Cheek Color, Front Row Nail Polish and Get Lost Makeup Remover

Tommy Hilfiger Freedom for her and Freedom for him fragrances are launched

Bobbi Brown introduces baby essentials with 5 pampering and gently formulated products for babies

Estee Lauder Companies creates a new division, ELC Online, responsible for all online strategies and activities for all brands in Spring 1999

The Estee Lauder Companies acquires Stila Cosmetics Inc.

The Estee Lauder Companies acquires Jo Malone Limited

The Estee Lauder Companies signs a licensing agreement with Kate Spade LLC, owner of the Kate Spade trademark. Under the agreement,

Prescriptives Inc. obtains exclusive worldwide rights to the Kate Spade trademark and related trademarks for the manufacture, marketing, distribution and sale of beauty and beauty-related products, including fragrances, cosmetics, skin care products, toiletries and beauty-related accessories

Clinique launches in Poland

Clinique launches City Stick SPF 15 – a versatile, swivel-up foundation stick that does double-duty as a concealer

Clinique Happy is honored by Marie Claire in the magazine's Fashion and Beauty Awards as "Best Fragrance"

Clinique launches Longstemmed Lashes, an innovative lengthening mascara that applies the latest in hair technology to the lashes

Clinique introduces Happy for Men, a unique men's fragrance that takes freshness beyond the initial impression

Clinique launches Acne Solutions, a super-efficacious system of medicated over-the-counter anti-acne products. The products work synergistically to gently provide four crucial anti-acne benefits: exfoliation, antibacterial and anti-irritation action and oil control

For the fourth consecutive year, Allure's October issue spotlights the "Best of Beauty" with 122 beauty products chosen by the magazine's editors and readers. Clinique takes home the most Readers' Choice Awards for the "Best of Beauty" As a way to reach new customers and better service current customers,

Clinique opens six open-service "Kiosks" in malls throughout the U.S.

Lab Series introduces Frequent Flier Daily Face Lotion

Prescriptives introduces *magic by Prescriptives – a collection of first-of-their kind products that manipulate light and shadow and obscure imperfections to create the illusion of flawless skin. The collection includes illuminating Liquid Potion, Illuminating Cream Potion, Liquid Powder, Cooling Globe, Cooling Wand and Invisible Line Smoother

Estee Lauder introduces Spotlight Skin Tone Perfector

Estee Lauder opens full-service state-of-the-art day spa at Bloomingdale's, Tysons Corner, Virginia

Estee Lauder Resilience Lift Crème recognized as one of ten healthiest beauty products for 1999 by Health Magazine

Estee Lauder extends its Resilience Lift Franchise with the launch of Resilience Lift Eye Cream

Estee Lauder extends its popular Re-Nutriv Line with Re-Nutriv Intensive Lifting Crème

Estee Lauder introduces Airiness Long Last Makeup in Asia

Elizabeth Hurley appears as part of the 25th Anniversary Celebration of the brand in Greece

Estee Lauder continues the success of its Solid Perfume Compact Museum exhibitions in Italy, Spain and Australia

Lab Series for Men introduces four products (two new formulas) to the Lab Series Shave Series: Mega Foam Shave Formula, Close Call Shave Solution, Razor Burn Relief Plus, Tri Gel Extra Shave Formula

Tommy Hilfiger Color introduces 'Tommy's Top 100' – musically named lipstick wall of 100 shades launched in the Pacific Northwest. Includes 'Tommy's Top Five' – five lipsticks named after current recording artists: Dido, Vitamin C, Luscious Jackson, Mya and Kendall Payne

Tommy Hilfiger Color launches 'Sweet Stix' – six flavored lipsticks

"tommy's shops" further expands the face, hair and body care lines by adding Tommy's Lip Calm, six new hair products, eight new flavored shower gels, eight flavored moisturizing body creams and eight flavored bath fizz balls

MAC introduces the Essences of MAC: Hyper Souk, Synthetic Nirvana and Asphalt Flower potions. These scents have a very high concentration of perfume in an oil base

MAC continues to expand internationally, entering several new markets: Mexico City, Mexico; Buenos Aires, Argentina; Copenhagen, Denmark; Stockholm, Sweden; Amsterdam, The Netherlands; Seoul, Korea; Kuwait City, Kuwait

Origins continues to offer alternative solutions to everyday problems by introducing Sensory Therapy Sleep, seven products to help combat sleep deprivation

Origins expands the successful Salt Rub franchise and introduces Salt Suds Foaming Body Wash, Salt Butter Skin Softening Bath Soak and Ginger Body Scrub Smoothing Body Buffer

Origins opens a freestanding store in Bath, England

Origins expands into Northern Europe and opens a store-within-a-store in NK department store in Stockholm, Sweden

Origins expands in Asia, opening a store-within-a-store in Isetan Kuala Lumpur in Malaysia

Talk show host Oprah Winfrey declares Origins Ginger Souffle Whipped Body Cream one of her "favorite" products on her annual holiday gift show. Sales of the product increase 1000% in the weeks following the mention

Origins further expands the Sensory Therapy category launching a line of Cold Care products, four botanically-based products to help relieve symptoms associated with a cold, flu or allergies

Bobbi Brown launches in Spain at El Corte Ingles in Barcelona

Aveda launches Rosemary Mint Shampoo

Aveda launches Shampure Conditioner

Aveda launches Tourmaline Charged Hydrating Crème

Aveda's Lip Saver wins Allure's Editors' Choice for Best Lip Balm

Health Magazine chooses All-Sensitive Shampoo as Healthiest Shampoo

2000

On January 1, Fred H. Langhammer assumes position of Chief Executive Officer, Estee Lauder Companies – Leonard A. Lauder remains Chairman

Estee Lauder Companies signs a licensing agreement with Toni Gard Fashion GmbH, owner of the Toni Gard trademark

The Estee Lauder Companies announces a comprehensive Internet strategy; as part of the strategy, Estee Lauder Companies acquires gloss.com

Aramis introduces Surface – a new collection of seven grooming products for men that work In-An-Instant

Estee Lauder extends its Futurist franchise with the launch of Futurist Full Treatment Eye Makeup and Futurist Lash-Extending Mascara

Estee Lauder introduces three new formulas in the mask category – So Polished, So Moist and So Clean

Estee Lauder launches Go Pout Lipcolor – ten new shades offering dimensional color in a blue enamel case

Estee Lauder celebrates Beautiful's 15th Anniversary with three new body products and new print and television advertisements

Estee Lauder unveils Idealist – a first of its kind non-acid skin refinisher

Estee Lauder introduces the WhiteLight Brightening System in Asia – a five-product line created by a collaboration between Asian, European and American Research & Development

Estee Lauder makes its first foray into the European body line market with Body Power – a five-product collection which combines skin care benefits with aromachology

2001

MAC opens its first locations in Moscow, Russia and Athens, Greece

Bobbi Brown launches Extra, a skin care collection in Bergdorf Goodman, Neiman Marcus and Holt Renfrew

Bobbi Brown launches in the Middle East

Bobbi Brown celebrates the 10th anniversary of her business

Jo Malone introduces Red Roses, a new fragrance available in the United States

Jo Malone opens U.S. flagship store in New York City's Flatiron Building

DKNY For Men launches in all international markets

Crème de la Mer launches in Benelux, Nordic and Argentina

Prescriptives launches Luxe Soft Glow Moisture Makeup in all international markets

Origins adds two key retail stores: one in the historic Flatiron Building in New York City and another in Century City, California. The Century City location is the largest Origins store in the world and boasts a Zen Garden

Origins updates its skin care collection with five new products for all skin types: Grin from Year to Year Brightening face firmer, Look Alive Vitality moisture cream, Calm Balm Sensitive skin eye cream, Checks and Balances Frothy face wash, United State Balancing Tonic and Balanced Diet Lightweight moisture cream

Origins initiates phase II of the re-launch of its color collection with 42 new shades for lips, eyes and cheeks. The second phase introduces Liquid Lip Color (nine shades) and Transforming Lip Glaze, as well as ten new blush shades and 22 new eyeshadow shades (7)

Appendix B (5)

Charities

- The Breast Cancer Foundation
- The Coalition for the Homeless' First Step Job Readiness Program
(which in 1997, 1999 and 2001 honored The Estee Lauder
Companies Inc. for their corporate philanthropy)
- New York Cares
- Pencil, Inc.
- Materials for the Arts
- American Cancer Society
- March of Dimes
- City of Hope
- Lighthouse International
- Mount Sinai Medical Center
- Memorial Sloan-Kettering Cancer Center
- The Momentum AIDS Project
- Kips Bay Boys & Girls Club
- Girl Scout Counsel of Greater New York
- The Museum of Modern Art
- Whitney Museum of American Art
- American Museum of Natural History

- The Metropolitan Museum of Art
- Natural Resources Defense Council
- Central Park Conservancy
- Citymeals-on-Wheels
- New York City Outward Bound Center
- Action Against Hunger
- The University of Pennsylvania
- OHEL Children's Homes and Family Services
- Fresh Air Fund
- Institute of International Education
- Scholarship Fund
- Vassar College
- Parsons School of Design
- Versailles Foundation (for Monet's gardens)
- Many, many others