

Estée Lauder Hit With Derivative Suit Over Gray Market Sales

By **Gina Kim**

Law360 (September 22, 2026, 8:06 PM EDT) -- Estée Lauder Inc. was hit with a shareholder derivative suit in New York federal court Tuesday alleging the cosmetic giant's directors repeatedly touted expectations for sales growth in its Asia travel retail segment, while hiding its over-reliance on prohibited, duty-free "gray market" sales of products in China.

In a 37-page complaint, Estée Lauder investor Portia McCollum accused Estée Lauder's current and former officers and board members of making materially false statements about the company's business operations from Feb. 3, 2022 to Oct. 31, 2023, that artificially inflated the company's stock price. Key company figures, including members of the Lauder family, are tangled in the case.

The misleading statements were issued around the time the company was seeing a drop in net sales because of its dependence on "gray market" sales, also known as "daigou" sales. This was alleged to have propped up Estée Lauder's financial health, specifically during the COVID-19 pandemic.

"The Company's 'travel retail' in Asia, including duty-free locations found in airports and cruise ships in China and South Korea, are critical to Estée's growth and performance," the complaint said. "One particularly important area for the company's travel retail business is China's southern island province of Hainan, a popular vacation destination."

For years, the company's officers assured shareholders that sales growth in the critical Asia travel retail business was driven by sustainable, underlying demand for its products and the brand's strength, the suit said.

"In reality, Estée had been supplying, and was growing dependent on, a pervasive, prohibited gray market resale industry in China and South Korea, called daigou, to drive sales within its Asian travel retail segment — an unsustainable practice that was concealed from stockholders," the suit said.

McCollum noted the company denied using daigou to inflate sales in 2019. However, she alleged, resellers largely fueled Estée Lauder's growth and sales for years, namely, its travel retail business, through large-scale purchasing from duty-free stores in China for resale.

But when the COVID-19 pandemic hit, lockdowns ensued, and those restrictions lasted longer in China than in the U.S., McCollum said. This materially reduced travel and, accordingly, accessibility of the company's products to end users, affecting demand in the travel retail segment, the suit said.

"This made resellers even more critical to the company's sales growth," the suit said. In early 2022, regulators in multiple markets, including China, issued new limitations on resellers that affected Estée Lauder's profitability, McCollum alleged, leading sales to plunge.

However, during the relevant period, the individual defendants hid the material effects of China's restrictions on daigou activity on Estée Lauder's daigou-dependent travel retail business, McCollum alleged. As time went on, the company began issuing incrementally worse financial results throughout multiple quarters related to its travel retail segment.

McCollum's suit noted that the conduct at issue prompted securities violation actions in the Southern District of New York, which were all subsequently consolidated.

In one case filed in December 2023, **investor Bridgett McAlice** claimed the company's shares were artificially inflated between August 2022, when Estée Lauder announced sales growth for its most recent fiscal year and anticipated more growth for the coming year, and May 2023, when Estée was forced to concede that its initial sales projections were overly optimistic.

Another suit was filed against Estée Lauder by the West Virginia Laborers Pension Trust Fund **in January 2024**, which similarly alleged the company concealed stricter regulations on resellers in China, which were critical to the company's business amid the COVID-19 lockdowns that hampered demand in travel retail markets.

In her suit, McCollum claimed the defendants made misrepresentations about the true source of the company's travel retail revenue and the scope and cause of the dip in net sales in its Asia travel retail segment, including the fact that the revenue growth before the relevant period was largely fueled by resellers.

"The truth was slowly revealed over the span of a year from November 2022 until it was fully revealed in November 2023 when Estée announced financial results for its fiscal quarter ended September 30, 2023, wherein the Company disclosed a decline in sales attributable to its travel retail business," McCollum said. "On this news, the company's stock declined nearly 19% in one day, closing at \$104.51 on November 1, 2023."

McCollum pointed out that, in March 2025, U.S. District Judge Arun Subramanian **refused to dismiss the consolidated securities case**, finding that the investors alleged several actionable statements as well as scienter, or knowledge of wrongdoing, by the individual defendants and loss causation. Earlier this past spring, the parties reached an agreement **to resolve the securities case for \$210 million**.

Another stockholder derivative suit **was filed in September 2025** against the company's top brass in Delaware's Court of Chancery, seeking recoveries over a \$41 billion market capitalization plunge after a long-undisclosed reliance on "gray market" sales in China came to light.

The Delaware case – which is not referenced in McCollum's derivative suit – was filed by Monica Sorinas Jimeno, who similarly accused the defendants of covering up the reliance on "daigou" sales in China from February 2022 to October 2023, which propped up the company's financial health during the pandemic.

On Tuesday, McCollum alleged that she sent a litigation demand to Estée Lauder's Board of Directors in June 2024, calling on it to conduct an independent investigation and take action on the company's behalf against the individual defendants. Yet the board has not conducted any such investigation or responded to McCollum's demand, she alleged.

McCollum also noted that the individual defendants caused Estée Lauder to repurchase about 3.4 million shares of its own stock for about \$880 million during the relevant period, while the company's stock price was artificially inflated because of the misleading statements.

"Given that the price of Estée stock was \$104.51 per share on November 1, 2023, after the corrective disclosures were made, the true value of the 3.4 million repurchased shares was roughly \$364.5 million," the suit said. "Accordingly, the individual defendants caused the company to overpay approximately \$515.5 million to repurchase these shares during the relevant period."

The company has also spent millions of dollars defending itself in the securities case, paying legal counsel, accountants and investigators, McCollum said. Other expenses include significant compensation and benefits to the individual defendants who breached their fiduciary duties to Estée Lauder, she argued.

McCollum asserts several causes of action against the individual defendants, including violations of the Exchange Act, breach of fiduciary duty, aiding and abetting fiduciary duty breach, unjust enrichment, and waste of corporate assets.

She asks the court to order the defendants to pay monetary damages, improve corporate governance and internal procedures to protect Estée Lauder and its shareholders, enhance its supervision of operations by the board of directors, internal reporting and financial disclosure controls, and to develop procedures for more shareholder input into the board's policies.

Representatives for the parties did not immediately return inquiries seeking comment Tuesday.

McCollum is represented by Vincent A. Licata and Gina M. Serra of Rigrinsky Law PA, and Joshua H. Grabar of Grabar Law Office.

Counsel information for the defendants was not immediately available.

The case is Portia McCollum, derivatively on behalf of nominal defendant, The Estée Lauder Companies Inc., v. William P. Lauder et al., case number 1:26-cv-08242, in the U.S. District Court for the Southern District of New York.

--Additional reporting by Lauren Berg and Katryna Perera. Editing by Vaqas Asghar.