Ulta Beauty, Inc. (ULTA)

Shine Bright Like a Diamond

Downside Scenario	Current Price	Price Target	Upside Scenario
$322.00	$379.43	$468.00	$548.00
(15%)		*23%*	*44%*

- ULTA shares outperformed the S&P 500 at the beginning of CY'23, climbing after an encouraging 4Q'22 and FY'22 earnings beat with Management issuing strong guidance for the upcoming fiscal year. Amid persistent economic uncertainty, investors flocked to the Company for its consistent earnings beats and resiliency in an economic slowdown.
- Shares turned downward near the end of Apr'23 with weakening consumer fundamentals and plummeted after the Company reported waning profitability in 1Q'23 and narrowed its FY'23 operating margin guidance. The strong earnings reports investors appreciated ULTA for vanished, and its NTM P/E multiple contracted by 29.4% in May'23. Rising SG&A costs, inventory shrinkage, and lower merchandise margin appeared to investors as long-term headwinds for ULTA to overcome.
- ULTA's omnichannel presence and $160-180 mn investment to revamp its enterprise resource planning will allow the Company to capitalize on beauty trends while also effectively managing its inventory. Its 41.7 mn Ultamate rewards loyalty members, representing 95.0% of customers provide an invaluable sample size for as ULTA's releases new products.
- As drugstore competitors including Rite-Aid, CVS, and Walgreens close over 1.5k stores over the next three years, ULTA is best-positioned to increase its market share due to its diversified product selection and broad pricing mix. ULTA is also well-positioned to capitalize on increasing foot traffic as it expands its footprint with Target shop-in-shops and individual store buildouts, outlining a goal of 1.8k total stores.
- ULTA trades at a 14.3x NTM P/E multiple, a 24.3% discount to its one-year median of 18.9x. Through a DCF and multiples analyses, our team sees shares returning 23.4% with a price target of $444.00 per share.

Symbol	NASDAQ: ULTA
52-Week Range	$373.80 – 556.60
YTD Performance	(19.1%)
Market Cap (M)	$18,679
Net Debt (M)	($388.6)
Dividend Yield	0.0%
NTM P/E	14.3x
NTM EV/EBITDA	10.4x
ROE	66.1%
ROA	24.8%

FY (Jan)	2022A	2023E	2024E
EPS (Adj.)			
Q1	4.07	6.28	7.28
YoY Change		*54%*	*16%*
Q2	4.52	5.69	6.59
YoY Change		*26%*	*16%*
Q3	3.93	5.32	5.60
YoY Change		*35%*	*5%*
Q4	5.41	6.68	7.89
YoY Change		*24%*	*18%*
Year	17.93	23.97	27.36

COMPANY OVERVIEW

Ulta Beauty, Inc. (ULTA) is the largest beauty retailer in the U.S., offering more than 25k beauty products across 600 brands and its private label. The Company reports sales through five categories: cosmetics, haircare, skincare, fragrances & bath, salon services, and accessories & other. ULTA distributes its products through brick-and-mortar retail stores, website, and mobile app. The Company also operates an "Ultamate Rewards" loyalty program with 40.2 mn active loyalty program members. In CY'20, it partnered with Target to operate Ulta Beauty shop-in-shops within Target stores. Founded in 1990, ULTA rebranded itself from Ulta Salon, Cosmetics & Fragrance to Ulta Beauty in CY'17.

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INVESTMENT SUMMARY

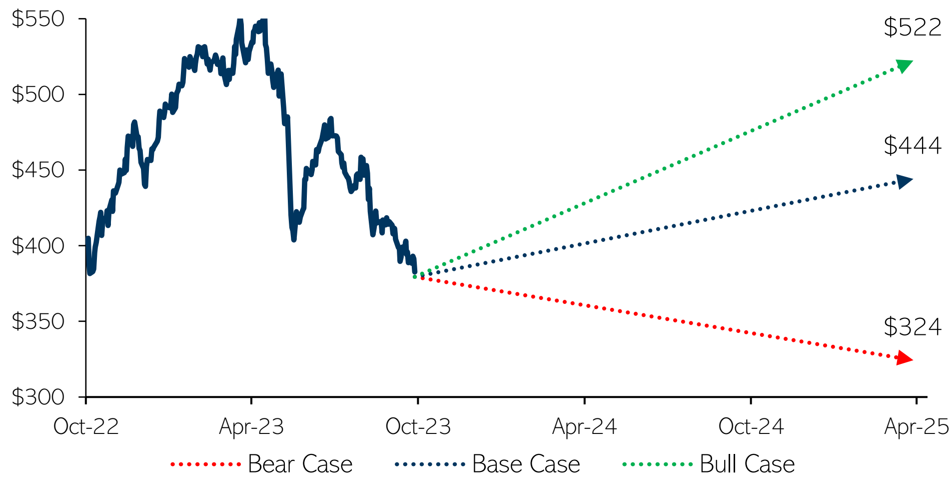
Headquarters
Bolingbrook, IL

Chief Executive Officer
David C. Kimbell

Number of Employees
53,000 (as of FY'22)

GICS Classification
Consumer Discretionary

GICS Sub-Industry
Specialty Retail



PRICE TARGET SCENARIOS

Bull Case Price Target: $522.00

12-18 Month Target Return: +44%

Revenue grows at a 9.8% CAGR from FY'22 to FY'27 driven by an accelerated consumer recovery. Target shop-in-shops are delivered at a faster rate, allowing the Company to capture revenue. A broad assortment of products across all price points allows ULTA to capture substantial market share from closing drug stores, while luxury fragrances and innovative facial products see increased sales as consumers have more to spend on discretionary items. Inventory shrink is addressed efficiently, and operating margins surpass 15.0% in FY'23 and thereafter. The Ultamate rewards program connects with consumers, and innovation within cosmetics and skin care drive outperformance. The Company uses cash toward aggressive share repurchases, driving increased shareholder value.

Base Case Price Target: $444.00

12-18 Month Target Return: +23%

Revenue grows at a 8.1% CAGR from FY'22 to FY'27 as beauty spending accelerates and discretionary spending rebounds. Foot traffic increases throughout the investment horizon, and delivery of Target shop-in-shop stores contribute to top-line growth. The Company captures market share from its drug store peers due to its mass category product mix offering products at an attractive price point. Prestige products drive outperformance from sales in luxury fragrances. ULTA captures beauty trends via insights from its Google Cloud platforms and its ULTA-mate loyalty program, effectively offering products that align with consumer preferences. The Company's internal investments into an upgraded point-of-sale system see inventory converted to sales at a quicker pace than previous years. The Company deploys capital toward share repurchases and internal investments to help drive organic growth.

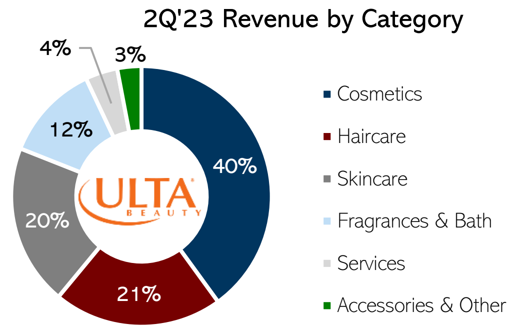
Bear Case Price Target: $324.00

12-18 Month Target Return: (15%)

Revenue grows at a 6.3% CAGR from FY'22 to FY'27. ULTA's sales grow in-line with industry growth projections as spending for beauty products remains stable but is unable to reach previous levels of growth. Operating margins fall below 13.0% from FY'22 to FY'27 as the increased costs for security and additional employees outweigh the realized revenues as inventory shrink is controlled. ULTA is unable to convert inventory into sales as in-store foot traffic for new stores and shop-in-shop store decreases and ULTA is unable to capitalize on shifting consumer trends. Spending per customer is grows incrementally and share repurchases marginally increase shareholder value.

BUSINESS OVERVIEW

ULTA reports sales through six product categories, rather than business segments. Categories comprise Cosmetics (40.0% of 2Q'23 Revenue), Haircare (21.0%), Skincare (20.0%), Fragrance & Bath (12.0%), Services (4.0%), and Accessories & Other (3.0%). The Company generates revenue from the sale of beauty products from its private label, Ulta Beauty Collection, and other established and emerging brands. Products are distributed through its retail stores, e-commerce website, and mobile app. Other revenue sources are its full-service beauty salons, private-label and co-branded credit cards, royalties from its partnership with Target, and its Ultamate Rewards customer loyalty program.



Source: Ulta Beauty, Inc.

Products:

ULTA's beauty products comprise makeup, haircare, skincare, and body care. The Company offers makeup for the face, eyes, and lips, including concealer, eyeshadow, foundation, and lipstick. It also provides a comprehensive range of skincare products, notably cleansers, eye treatments, moisturizers, and sun care. ULTA sells shampoo, conditioner, hair styling products & tools, and coloring products for haircare. In addition, the Company provides body care products, including moisturizers, body washes, deodorant, oral care, and down-there care. Other than its core beauty products, ULTA offers accessories like bath sponges, headbands, supplements, and towels. ULTA also sells fragrances, including cologne and perfume. In FY'22, its top 10 brand partners accounted for ~55.0% of revenue.

Services:

ULTA offers extensive beauty services through *The Salon at Ulta Beauty*, consisting of a full-service hair salon and *Benefit™ Brow Bar*. The Company employs five to ten professional stylists and estheticians for each salon to provide hair services, waxing & brows, makeup & lashes, skin services, and ear piercing. Salons feature a concierge desk, five to ten stations, and a shampoo & hair color processing area, with select locations offering a skin treatment area.

Loyalty Program:

ULTA offers a customer loyalty program, "Ultamate Rewards," in which members earn points for every dollar spent. Points are valid for one year and can be redeemed for discounts on any product or service at Ulta Beauty Stores, Ulta Beauty at Target, and digital platforms. The points earned depend on the membership tier; ordinary members earn 1 point per dollar, Platinum members earn 1.25 points per dollar, and Diamond members earn 1.5 points per dollar. Customers must spend $500 or $1.2k annually to qualify for a Platinum or Diamond membership, respectively. ULTA also offers co-branded and private-label credit cards, which provide 2x points per dollar. Along with points, members can receive complimentary gifts, exclusive deals, and early access to select products. ~95.0% of revenue is derived from 40.2 mn active loyalty program members, who spend more per visit than non-members.

Distribution Channels:

ULTA distributes its beauty products and services through its brick-and-mortar retail stores, mobile app, and website. The Company owns and operates ~1.4k stores across the U.S. and ~421 shop-in-shops through its partnership with Target. Retail stores feature an open-sell environment and are located in convenient, high-foot-traffic locations. In addition, ULTA operates an e-commerce website, ulta.com, for online product discovery and purchasing. The Company offers multiple delivery options, including "Buy Online, Pick-up in Store," "Curbside Pick-up," and "Store 2 Door". ULTA utilizes fast fulfillment distribution centers exclusively for digital orders to improve delivery speed. The Company also operates a mobile app, Ulta Beauty: Makeup & Skincare. The app leverages artificial intelligence and augmented reality to provide customers personalized experiences, including GLAMlab virtual makeup try-ons and skin analysis. Historically, digital platform customers generate thrice as much revenue as store-only customers. ~76.0% of loyalty program members transact solely in-store, while ~17.0% of customers shop in-store and online.

INDUSTRY OVERVIEW

Buy Some Makeup with Us?

Consumers possess multiple options to purchase beauty products. Specialty beauty retailers are the most prominent, including Ulta Beauty, Sephora, Thirteen Lune, and SpaceNK, featuring retailer-specific private label brands and third-party brands. For example, Sephora offers its Sephora Collection and other brands such as Anastasia Beverly Hills and Kate Somerville. Mass-market retailers, including Target, Kohl's, and Walmart, and department stores, including Bloomingdale's, Macy's, and Nordstrom, also provide products from many major cosmetics and beauty brands. Other retailers are off-price retailers, like Marshall's, Ross, and TJ Maxx, which offer a slightly less comprehensive selection of products. Unconventional retailers include drugstores, supermarkets, and dollar stores, which carry a limited range of products. E-commerce platforms, such as Amazon and eBay, also provide beauty products, with websites featuring a selection of products comparable to specialty beauty and mass-market retailers.

Consumer demand varies depending on the type of retailer. Lower-income consumers prefer shopping at discount and off-price retailers carrying relatively cheaper products within the segment's budget. Middle-class consumers purchase across the spectrum depending on available disposable income. In an economic slowdown, the segment gravitates to retailers providing cheaper products, while in economic booms, it purchases from specialty and other retailers selling more expensive, higher-quality products. Loyalty programs, such as Sephora's Beauty Insider and ULTA's Ultamate Rewards, comprise consumers from this segment. Wealthier consumers purchase the most expensive, high-end brands like Chanel, Dior, and Hermès, contributing the most revenue to the beauty market.

What Makeup Should We Buy?

Beauty products are divided into two categories depending on affordability and quality: **mass beauty and prestige beauty**. Recently, a third category emerged from a combination of mass and prestige beauty, known as **"masstige."**

- Mass beauty, or "drugstore brands," refers to cheaper beauty products manufactured for widespread distribution at discount retailers and drugstores. Rite-Aid, Walgreens, and Dollar General offer mass beauty products, and examples of brands include Maybelline, Coty, and Glossier. Sales grew 9.0% in 1H'23, surpassing $28.0 bn; however, the growth resulted from price hikes to combat inflation, as prices rose 9.0% on average. Unit sales registered relatively flat, signaling pressure on demand as consumers buying mass beauty have lower incomes.
- Prestige beauty refers to expensive, high-quality beauty products sold at specialty beauty and mass-market retailers. Ulta Beauty, Sephora, and Estée Lauder provide prestige beauty products, and examples of brands include Mario Badescu, By Terry, and Lancer. Sales rose 15.0% in 1H'23, totaling $14.0 bn, with prices only increasing 2.0% on average. Unit sales continued to grow, evidencing a lack of trade-down amongst consumers.
- "Masstige" beauty, or luxury for the masses, refers to affordable and high-quality products for widespread distribution. L'Oréal Paris, MAC Cosmetics, and Olay are examples of "masstige" brands, with retailers like Ulta Beauty using the value proposition of "masstige" beauty to attract a broader range of customers. The category is better prepared to endure a downturn relative to mass beauty yet is more susceptible than prestige beauty.

Takes Two to Tango

Partnerships with specialty beauty retailers are gaining traction as mass-market retailers realize the growth opportunity beauty provides. Recent major collaborations include Target and Ulta Beauty in CY'20, Kohl's and Sephora in CY'21, and Walmart and SpaceNK in CY'22. Mass-market retailers are incentivized to form partnerships rather than invest in building beauty departments to capitalize on established customer bases and brand reputations. Furthermore, the retailers avoid the high costs of developing an independent beauty department. Conversely, specialty beauty retailers acquire additional customers by gaining exposure to areas with limited access to luxury brands, lose exposure to shopping centers with waning foot traffic, and expand their target demographic. Additionally, mass-market retailers manage the fulfillment and shipment of orders, easing pressure on specialty retailers' supply chains. Partnerships function as boutiques, with a department dedicated to the specialty retailer. For instance, Kohl's storefront features an entrance to its Sephora boutique and flyers advertising the partnership.

We LOVE Lipstick!!!!

Interest rate hikes and rampant inflation resulted in an unfavorable environment for consumer spending in CY'23. Additionally, high credit card debt, record-high credit card interest rates, rising credit card delinquencies, low savings rates, and the resumption of student loan repayments further weakened the consumer. ~80.0% of excess savings accumulated in the pandemic have been depleted to fuel spending. The Consumer Confidence Index declined to 103 in September compared to estimates of 105, and spending is forecasted to slow to an annualized rate of 1.2% in 4Q'23, 310 bps lower than 1Q'23. The Expectations Index, a measure of consumers' short-term outlook for the economy, fell below 80, historically indicating a slowdown in the next year with fears of a recession mounting.

Despite multifold headwinds to spending, the beauty market is positioned to prosper in a recessionary environment due to resilient demand. **Consumers indulge in "affordable luxury" in economic uncertainty to experience an emotional uplift without excess spending,** known as **the lipstick effect**. Consumers feel **emotionally connected with beauty and look forward to trying new products**. According to a Bloomberg survey, 50.0-60.0% of consumers would sacrifice other purchases before forgoing spending on beauty and cosmetics. In 2Q'23, demonstrating the lipstick effect, Target reported double-digit sales in its beauty category, with sales from ULTA doubling YoY. Kohl's experienced a ~90.0% rise YoY in beauty sales attributed to its partnership with Sephora. **The replenishment of beauty products also provides consistent demand**. For example, consumers endeavor to replenish their favorite moisturizer or facewash after emptying the bottle, ensuring stable demand for those products.

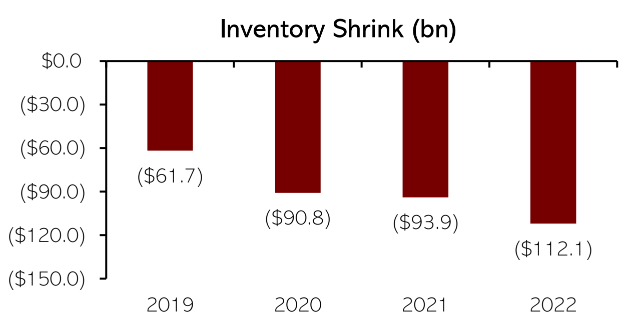
Trendy Makeup

McKinsey & Company values the North American beauty market at $91.0 bn and expects it to grow 8.0% annually, reaching $108.0 bn by CY'26. E-commerce is forecasted to represent ~25.0% of sales, capturing market share from supermarkets, drugstores, and department stores; specialty retail is predicted to maintain its market share of ~20.0%. In the online beauty market, Amazon possesses more than three times the share of Ulta Beauty and is forecasted to surpass Walmart as the largest U.S. beauty retailer by CY'25. The prominence of e-commerce platforms challenges specialty retailers looking to enter online wholesale and maintain higher-margin, direct-to-consumer sales.

Beauty retailers are combatting the e-commerce threat by capitalizing on consumers' willingness to visit brick-and-mortar stores. Consumers are inclined to view and test beauty products in person to ensure they meet preferences. For instance, customers visit stores to test makeup in person to ascertain the product does not irritate their skin. Retailers are incentivizing store visits by providing mirrors, makeup removers, and disinfectants for product testing; the rise in foot traffic also increases impulsive purchases. Additionally, **retailers encourage consumers to purchase in-store and from brand websites rather than e-commerce platforms through omnichannel initiatives.** Examples include new digital features and new product and brand offerings. Almost all retailers have implemented a loyalty program, providing benefits for frequent purchasing; Sephora's loyalty program generates ~80.0% of its revenue. Retailers like Many's and Nordstrom also offer in-store beauty services to drive foot traffic.

Ouuuu, He Stealin'

Inventory shrinkage, an industry euphemism for retail theft, poses a constant headwind for brick-and-mortar retailers. Recently, however, many retailers have emphasized the increase in organized retail crime (ORC), with Walmart, Home Depot, and Target reporting an increase in shrinkage. Beauty retailers are also exposed to ORC; **Ulta Beauty reported a 20 bps decrease in gross margin from shrinkage**. In CY'22, retailers lost a record $112.1 bn from shrinkage, accounting for 1.6% of total sales. The figures are a substantial increase from CY'21, which realized $94.0 bn lost to shrinkage, representing 1.4% of total sales. In Sep'23, Target shuttered nine stores, blaming high shrinkage. To combat the problem, retailers are installing locked cases and 24/7 surveillance, increasing security, and removing specific expensive stock-keeping units from stores.



Source: NRF's National Retail Security

UNDERVALUATION

Don't Hate on Makeup

ULTA shares significantly outperformed the broader market for the first four months of CY'23, appreciating 16.9% relative to the S&P 500 gaining 9.0%. The strong performance resulted from sustained positive sentiment after its 4Q'22 and FY'22 earnings beat. ULTA delivered a 17.6% earnings surprise and 6.6% revenue surprise for 4Q'22, with FY'22 revenue eclipsing $10.0 bn and net income passing $1.0 bn for the first time in its history. Additionally, Management issued a favorable outlook for FY'23, guiding $11.0 bn in revenue and $25.05 in EPS, compared to the Street estimating $10.7 bn and $24.25, respectively. Investors were willing to pay a premium for the resiliency of the beauty category and consistent earnings beats; the NTM P/E multiple expanded 8.1% from Jan'23 to Apr'23.

Investors were bullish as the Company approached its 1Q'23 earnings release, with multiple analysts upgrading price targets. Oppenheimer's Rupesh Parikh emerged as the lone bear, downgrading his price target from $600 to $575 due to concerns over profitability; shares sold off ~4.4%. One week later, the Company confirmed Parikh's thesis. ULTA printed a gross margin of 40.0%, a 10 bps decrease YoY, and an operating margin of 16.8%, a 190 bps decrease YoY. Furthermore, Management lowered its FY'23 operating margin guidance from 14.7-15.0% to 14.5-14.8%, attributed to inventory shrink headwinds, increased promotional activity, SG&A deleveraging, and higher supply chain costs. Shares immediately sold off 13.4% after the report, with the multiple contracting by 14.6%. In May'23, shares depreciated 23.0% while the market remained flat, and the multiple contracted by 29.4%.

Shares quickly rebounded after the earnings call, rising 15.3% and causing the multiple to expand 14.4%. The rally ended after Oppenheimer issued another negative outlook for ULTA in Jul'23, sparking a 2.4% sell-off and an 8.9% drop over the next month. As its 2Q'23 earnings call drew nearer, investors were looking for increased profitability from the Company. However, ULTA reported that margins continued to contract. Gross margin fell 110 bps YoY and 70 bps QoQ, while operating margin decreased by 150 bps YoY and 130 bps QoQ. Similar to 1Q'23, Management stated that an increase in inventory shrink, lower merchandise margin, and rising supply chain costs pressured margins. After the earnings call, ULTA shares fell 3.7% and dropped another 4.3% over the next month.

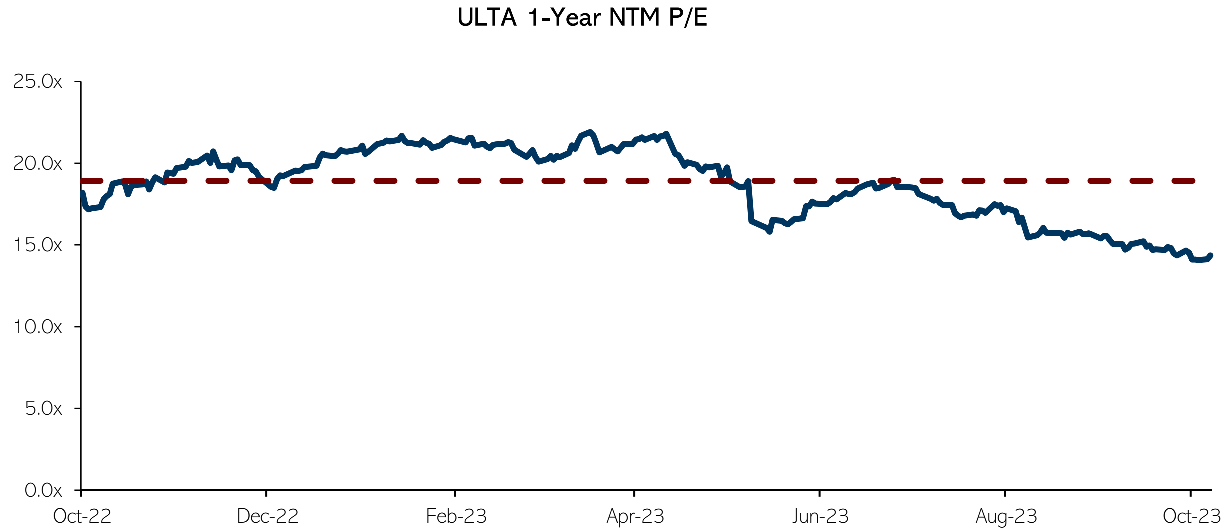
The Margins Will Makeup

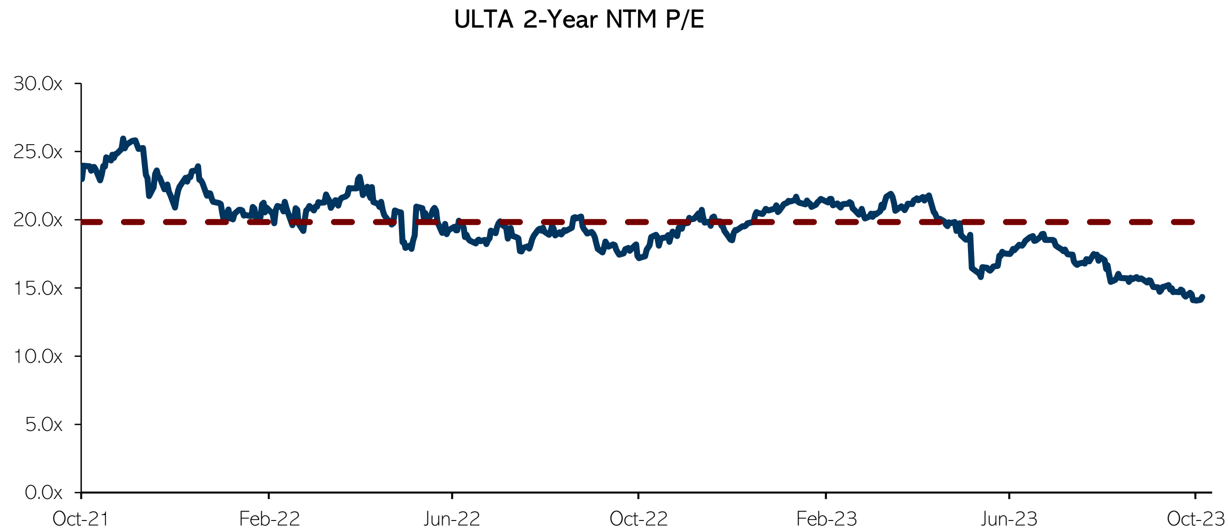
Investors are **neglecting the short-term nature of margin headwinds.** ULTA will **see a margin reacceleration in FY'24** after its investments in anti-theft, supply chain, and technology are completed and SG&A spending slows. Additionally, its merchandise margins will expand as promotional activity falls and category growth and mix recovers.

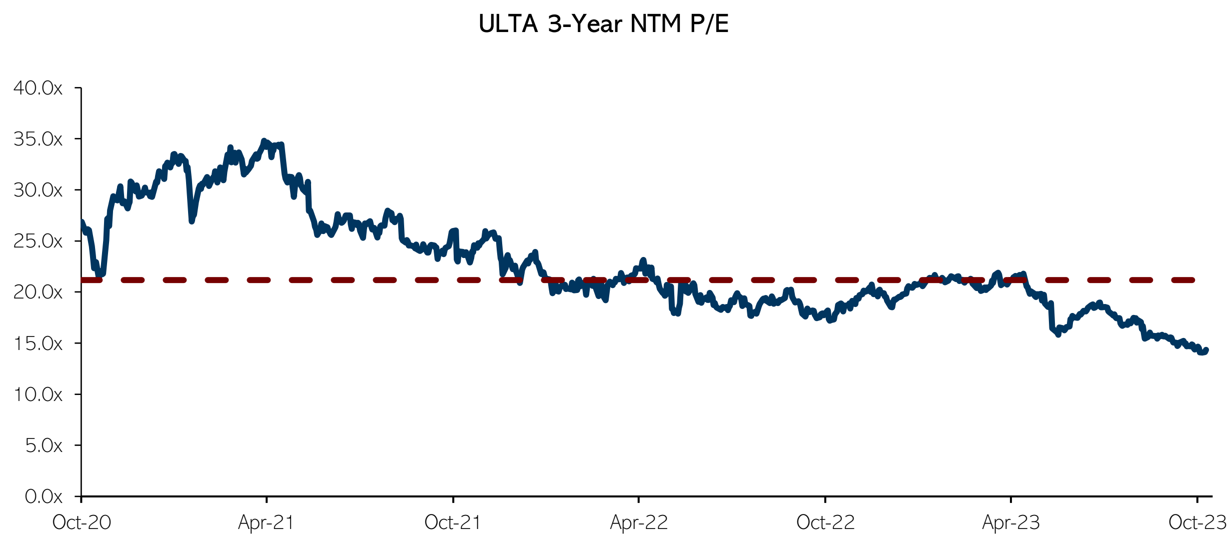
- ULTA is acting to decrease inventory shrinkage and improve the security of its stores, hiring armed guards, adding anti-theft tags on products, and high-quality cameras with 24/7 video surveillance. ULTA also installed new fragrance fixtures in more than 50.0% of stores and expects to have them installed in 70.0% by year-end.
- SG&A deleveraging and rising supply chain costs resulted from the Company's investments to position itself for future growth. ULTA is actively progressing with Project SOAR, which is overhauling its Enterprise Resource Planning systems and operations to remove inefficiencies and improve productivity. ULTA is also expanding its advertising platform, UB Media, and transforming its supply chain by retrofitting its existing distribution centers.
- Merchandise margin suffered due to rising promotional activity, category mix changes, and poor price change timing. Promotional activity appeared high as ULTA lapsed its FY'21 and FY'22 results when the promotional environment was unsustainably low due to strong demand and category growth. Management emphasized that it expects promotion levels to moderate as category growth reverts to its long-term growth rate and that levels are below FY'19. Category mix will normalize with growth, enabling the Company to sell higher-margin products.

ULTA trades at a 14.3x NTM P/E, representing a 24.3% discount to its one-year median of 18.9x. **Our team believes that investors are underappreciating shares due to conservative guidance from Management** and **concerns surrounding the broader consumer discretionary sector, especially the relatively weaker consumer**. Furthermore, **investors are wrongfully discounting growth prospects for the Company from product innovation and new omnichannel initiatives**, which will drive consistent outperformance for the Fund.

ULTA BEAUTY, INC. (ULTA) VALUATION ANALYSIS







Source: Bloomberg

CATALYSTS & DRIVERS

As consumer fundamentals decline, demand for beauty products remains resilient. Therefore, ULTA is well-positioned to generate stable revenue in a bear market as consumers continuously replenish beauty products, including facial cleaners, cosmetics, and haircare products. In addition to its stability, the Company can drive outperformance in a bull market through **product innovation and value proposition**. Through its **omnichannel presence and comprehensive product pricing**, ULTA will capitalize on rising foot traffic by **expanding its retail footprint and increase its market share** as competitors close stores. Furthermore, its e-commerce website collects customer data with each transaction, allowing the Company to obtain valuable insights used to **guide targeted promotions and adapt to recent consumer trends**. Regardless of economic headwinds, ULTA can generate outperformance.

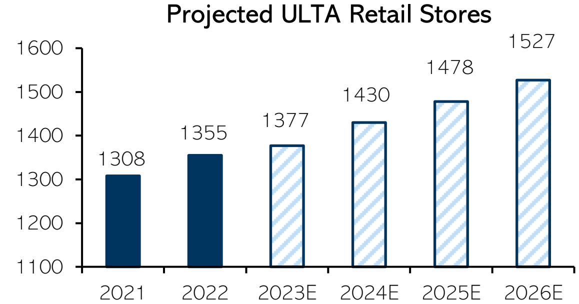
It's All Routine, Baby

During the COVID-19 pandemic, personal care and wellness emerged as a priority for consumers, with many confined due to lockdowns. Consumers added more steps to their daily routines, including facial cleansers, moisturizers, anti-aging creams, and supplements. Americans spend, on average, $722 on skincare annually as these products assimilate into daily routines. ULTA has realized 10.8% YoY growth in skincare sales, primarily driven by new product offerings and product innovation. Social media and online outlets have led to consumers prioritizing sustainable ingredients within personal care products and gravitating towards brands that transparently share ingredients. Using the data collected through its loyalty program, ULTA can offer these products to its customers.

A Target Run Heals Everything

In FY'20, ULTA and TGT entered a partnership allowing each stakeholder to increase exposure to its intended target market. As a leading mass-market retailer, TGT offered an array of discretionary and staples products, but looked to offer more diversified and robust beauty products. ULTA also sought to increase its footprint and expand its customer base. Since the partnership began, ULTA has created 421 shop-in-shops with Target as of 2Q'23 and has outlined **a long-term goal of 800 Target shop-in-shops**. Additionally, Management guided a **long-term goal of 1.7k total retail stores**, and the Company has a historical delivery rate of **~69 stores per year**. With ULTA's 1.3k retail stores and $10.2 bn in revenue for FY'22, each store contributes ~$7.5 mn annually.

Projected ULTA Retail Stores



Source: Bloomberg

Online Presence and Loyalty Program

In Oct'21, ULTA outlined **Project SOAR**, a three-year plan to modernize its enterprise resource planning (ERP) systems and upgrade its internal operation systems. Through this transition, Management aimed to improve productivity and improve data generation to enable innovation. Management also outlined an investment of $160.0-180.0 mn from FY'22-FY'24 to support the transition and improve the ULTA's supply chain. The modernization of ERP systems provides it with visibility into in-store inventory through upgraded point-of-sale systems. ULTA also announced a migration of its data and analytics platform to Google Cloud, as the Company looks to expand its e-commerce platform. The transition allows for facilitated data accessibility to offer trending products before its peers.

Loyalty Program

ULTA's competitive advantage is its loyal customer base, with 41.7 mn loyalty members representing ~95.0% of sales as of 2Q'23. With a large percentage of sales generated from loyalty members, ULTA realizes increased sales conversions and gains valuable insights into its customer base. The Company uses this information to develop targeted discounts and promotions, and as it looks to maintain competitive pricing, customer insights provide an advantage. Management reported that data suggests consumers are less focused on product pricing tiers and choose to engage with brands offering on-trend newness, innovation, and compelling social media content.

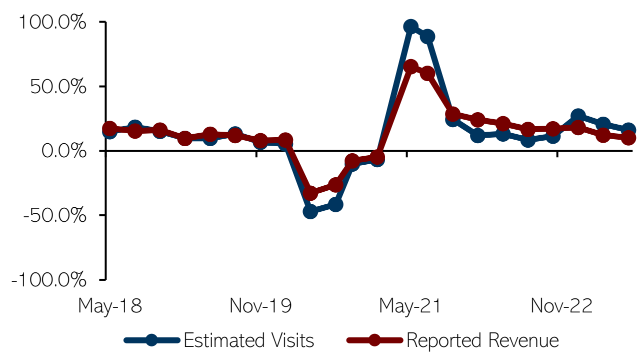
Trendy Drivers in Plenty & Fenty

New releases from brands such as The Ordinary, Drunk Elephant, and Supergoop! are driving growth of luxury facial care for younger generations. ULTA noted the increasing popularity of premium facial products, resulting in robust sales, and in response, introduced ULTA Luxury in 200 select stores. Furthermore, the Company's retail media network, UB Media, partners with beauty enthusiasts to create personalized social media interactions to target younger audiences. Dermatologist-endorsed brands like La Roche-Posay and CeraVe continue to yield stable revenue as consumers replenish these essential products for their daily regimens. Growth is also spurred by the surge in online interest for Good Molecules, Hero Cosmetics, and Peach Slices during the summer of FY'23. Promotional events such as 21 Days of Beauty and Spring/Fall Haul are used to promote the launch of new products. For 3Q'23, ULTA introduced another launch of exclusive products available in its stores. Offerings include HALF MAGIC, a vegan and cruelty-free makeup brand; Polite Society Makeup; hair styling tools from Shark Beauty; PanOxyl, a facial care brand popular with Gen-Z; and snif, a fragrance brand offering gender-neutral scents. Additionally, the launch of new products from Fenty, Ariana Grande, and No. 1 De Chanel will further bolster top-line growth, particularly among affluent consumers. **Cosmetics and facial care products are achieving double-digit growth YoY, with all segments, except haircare, maintaining mid-double-digit growth over two years.**

In Our Post-Pandemic Era

As global travel and in-person shopping return to normalized levels following COVID-19, ULTA's partnership with TGT allows it to capitalize on increased foot traffic. The growth rate for estimated visits nearly doubled in FY'21 due to a low FY'20 benchmark, but Placer.ai data indicates that **ULTA is still experiencing a median 16.6% growth YoY in estimated visits to retail stores YTD**; Management noted that ~75.0% of its members transact only in-store. As ULTA continues building out stores, the Company is poised to see top-line growth in tandem. Bloomberg indicates a 94.6% correlation between estimated visits and the Company's reported revenue.

Estimated Visits vs. Reported Revenue



Source: Bloomberg

Up for Grabs

Drugstores and pharmacy stores have been challenged following the pandemic, with **Walgreens, CVS, and Rite Aid closing a total of 1.5k stores**. As CVS looks to reposition and focus on online sales, the Company decided to close 900 stores from CY'22-CY'24, with 300 stores already closing shop amid a rapid increase in shoplifting. Rite Aid proposed a bankruptcy plan that involves closing 400-500 of its 2.1k stores across 17 states. Walgreens announced that it would close 150 stores as it seeks to cut costs. As drugstores close over the next two years, ULTA has an attractive opportunity to capture market share using its vast product offerings and competitive pricing.

Beauty for the Masses

Compared to its competitors, ULTA offers a greater selection of drugstore-like products to create a one-stop-shop experience. Although products including facial care, hair care tools, and bath & body products can be found at competing retail stores, ULTA is the only beauty retailer that provides all the above with a range of product pricing. ULTA's stores fill the gap between mass and prestige, offering attractive price points for lower-income and middle-income consumers, but can capitalize in a market revival when middle-income consumers have extra money to spend and can explore new emerging brands that would be difficult to purchase elsewhere. In its earnings call. **Management noted that despite a 1.0% decrease in average ticket size, the decrease in spending was offset by a 9.0% increase in total transaction volume.** Although ULTA offers high-end products, its mass offerings also provide consumers with a more significant value proposition. **Given its diverse product offerings, ULTA is best-positioned to capture market share from drug stores as it also increases its retail footprint.**

PEER GROUP ANALYSIS

Bath&BodyWorks

(30.0%) YTD (8.0%) 1Y

Bath & Body Works, Inc. (BBWI) is a specialty retailer of home fragrance products, body care products, soaps, and sanitizers. The Company offers its products under multiple brands, including Bath & Body Works and White Barn. BBWI distributes its products through brick-and-mortar retail stores and e-commerce websites. It operates in the United States, Canada, and select international stores via partners functioning under wholesale, franchising, and licensing agreements.

COTY SINCE 1904

+10.3% YTD +45.2% 1Y

Coty Inc. (COTY) is a global manufacturer, distributor, and seller of beauty products, including makeup, skincare, and body care. COTY operates through two business segments: Prestige and Consumer Beauty. Prestige sells prestige beauty products through department stores, websites, and e-tailers, offering higher-end brands. Consumer Beauty sells mass beauty products through supermarkets, drug stores, and pharmacies.

e.l.f. eyes lips face

+83.2% YTD +144.3% 1Y

e.l.f. Beauty, Inc. (ELF) is a holding company providing cosmetic and skincare products worldwide. e.l.f. is an abbreviation for eyes, lips, and face. ELF provides solely vegan products developed with no animal testing. The Company sells under multiple brands, including e.l.f Cosmetics, e.l.f. Skin, Well People, and Keys Soulcare. The Company distributes through retailers, DTC channels, and third-party e-commerce platforms. It lacks a retail presence.

ESTĒE LAUDER COMPANIES

(45.8%) YTD (35.4%) 1Y

The Estée Lauder Companies Inc. (EL) is a global beauty product manufacturer and distributor offering skincare, haircare, makeup, and fragrances. EL operates through three business segments: Skin Care, Makeup, Fragrance, and Other. Examples of products include moisturizers, eyeshadows, nail polishes, colognes, shampoos, and creams. EL sells its products under brands such as Estée Lauder, Bobbi Brown Cosmetics, and Jo Malone London. It distributes through department stores, specialty stores, perfumeries, pharmacies, its website, and third-party e-commerce platforms.

SALLY BEAUTY

(43.3%) YTD (43.7%) 1Y

Sally Beauty Holdings, Inc. (SBH) is a specialty retailer operating stores and franchises selling beauty products across North America, Central America, and Europe. The Company reports sales through two segments: Sally Beauty Supply and Beauty Systems Group. Sally Beauty Supply provides a range of products, including skincare, nail care, hair care, hair coloring products, styling tools, and other products for retail customers. The Beauty Systems Group sells products for salons and salon professionals through professional-only stores and the Company's Armstrong McCall franchises.

Primary Peer Group																			
												Enterprise Value /							
		Market	Enterprise	Sales		EPS		EBITDA Margin		Profit Margin		EBITDA		Sales		Price / Earnings			
	Ticker	Cap	Value	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E	LTM	2023E		
Ulta Beauty, Inc.	ULTA	$19,141	$20,633	14.5%	9.2%	17.0%	5.9%	17.5%	16.9%	11.8%	11.3%	8.8x	10.9x	1.9x	1.9x	15.2x	15.1x		
The Estée Lauder Companies Inc.	EL	50,595	57,717	(10.3)%	5.9%	(57.4)%	29.7%	15.8%	16.6%	6.3%	7.7%	17.5x	20.6x	3.5x	3.4x	49.3x	38.9x		
e.l.f. Beauty, Inc.	ELF	5,258	5,195	61.0%	41.8%	235.8%	121.9%	18.5%	22.8%	14.9%	16.7%	42.4x	27.7x	8.1x	6.3x	56.9x	38.4x		
Coty Inc.	COTY	9,177	13,923	4.7%	8.9%	747.6%	(18.1)%	17.4%	17.8%	9.1%	6.6%	12.5x	12.9x	2.4x	2.3x	16.9x	22.9x		
Sally Beauty Holdings, Inc.	SBH	859	2,475	(1.9)%	(2.1)%	(27.4)%	12.9%	11.8%	12.5%	4.3%	5.5%	3.4x	5.3x	0.6x	0.7x	4.9x	4.2x		
Bath & Body Works, Inc.	BBWI	7,358	12,460	(4.2)%	(2.0)%	(27.3)%	(10.3)%	19.7%	20.2%	9.5%	9.5%	6.4x	8.3x	1.6x	1.7x	9.9x	10.5x		
High		$50,595	$57,717	61.0%	41.8%	747.6%	121.9%	19.7%	22.8%	14.9%	16.7%	42.4x	27.7x	8.1x	6.3x	56.9x	38.9x		
Mean		15,398	18,734	10.6%	10.3%	148.0%	23.6%	16.8%	17.8%	9.3%	9.6%	15.2x	14.3x	3.0x	2.7x	25.5x	21.7x		
Median		8,268	13,191	1.4%	7.4%	(5.2)%	9.4%	17.5%	17.4%	9.3%	8.6%	10.7x	11.9x	2.1x	2.1x	16.1x	19.0x		
Low		859	2,475	(10.3)%	(2.1)%	(57.4)%	(18.1)%	11.8%	12.5%	4.3%	5.5%	3.4x	5.3x	0.6x	0.7x	4.9x	4.2x		

Company		General Statistics			Returns Analysis			2022A Leverage Analysis			2022A Coverage Analysis			Liquidity Profile		Credit Profile	
								Total Debt /									
				Dividend							EBITDA /	(EBITDA -	EBIT /	Quick	Current		
	Ticker	Tax Rate	Beta	Yield	ROIC	ROE	ROA	Cap	EBITDA	Equity	Int. Exp.	Capex)/Int.	Int. Exp.	Ratio	Ratio	S&P	Outlook
Ulta Beauty, Inc.	ULTA	24.4%	1.36	0.0%	35.1%	66.1%	20.1%	0.5x	0.8x	1.0x	0.0x	0.0x	0.0x	0.56	1.61	0	0
The Estée Lauder Companies Inc.	EL	27.7%	1.06	1.9%	10.1%	15.7%	5.0%	0.6x	3.2x	1.6x	12.6x	8.7x	7.0x	0.88	1.46	A+	Negative
e.l.f. Beauty, Inc.	ELF	4.0%	1.50	0.0%	25.2%	24.8%	11.5%	0.2x	0.9x	0.2x	22.5x	22.1x	17.1x	1.75	2.81	0	0
Coty Inc.	COTY	25.8%	1.88	0.0%	4.7%	13.4%	2.7%	0.5x	4.3x	1.1x	4.1x	3.2x	2.1x	0.32	0.75	BB	Positive
Sally Beauty Holdings, Inc.	SBH	24.8%	1.42	0.0%	12.2%	41.7%	8.0%	0.9x	2.4x	5.9x	7.8x	6.8x	4.1x	0.21	1.70	BB-	Stable
Bath & Body Works, Inc.	BBWI	24.0%	1.82	2.5%	31.5%	-	15.1%	1.6x	3.1x	-	5.7x	4.7x	4.0x	1.06	1.64	BB	Stable
High		27.7%	1.88	2.5%	35.1%	66.1%	20.1%	1.6x	4.3x	5.9x	22.5x	22.1x	17.1x	1.75	2.81		
Mean		21.8%	1.50	0.7%	19.8%	32.4%	10.4%	0.7x	2.4x	2.0x	8.8x	7.6x	5.7x	0.79	1.66		
Median		24.6%	1.46	0.0%	18.7%	24.8%	9.7%	0.6x	2.7x	1.1x	6.8x	5.8x	4.0x	0.72	1.63		
Low		4.0%	1.06	0.0%	4.7%	13.4%	2.7%	0.2x	0.8x	0.2x	0.0x	0.0x	0.0x	0.21	0.75		

RISKS TO INVESTMENT THESIS

Inventory Shrink

ULTA's most significant risk is continued inventory shrink. Although the Company accounts for a predetermined level of theft per quarter, it experienced elevated levels during FY'22, which outpaced losses from discounting. In FY'22, ULTA realized a $71.5 mn increase in shrink costs compared to FY'21. The costs resulted in a 70 bps decrease in operating margins for FY'22 and contributed to a 110 bps decrease in operating income in 4Q'22. Shrink has decelerated the Company's growth. In its 1Q'23 earnings call, Management reiterated its FY'23 guidance, whereas it historically raises estimates. In its 2Q'23 earnings call, Management lowered its FY'23 operating margin outlook by 20 bps, citing inventory shrink as the primary cause, and added $22.0 mn of losses from shrink and promotions.

- *Mitigant:* The Company outlined plans to invest in preventative security measures, including high-quality cameras, GPS trackers on certain products, and lock cases for luxury products to reduce losses attributed to inventory shrink. The Company will also increase its employee count and hire 24/7 security. Management noted progress demonstrated by an increase in the weekly inventory count and new fragrance fixtures.

In our bear case, we modeled operating margins decreasing to 12.4% in FY'23 and reaching a ceiling of 13.2% after FY'25 to reflect pressure from inventory shrinkage with the Company not finding a solution.

Elevated SG&A Costs

As ULTA combats inventory shrink, the Company will likely see elevated SG&A and capex expenses attributed to preventative measures. ULTA noted plans to increase security and in-store employees, install more cameras, incorporate GPS units in select systems, and invest in lock boxes to secure high-end products. Management intends to install fixtures in 70.0% of stores by the end of FY'23. Increased security may reduce the appeal of shopping at a beauty retailer in person. ULTA may lose consumers as a result from decreased foot traffic, and if the Company cannot generate revenues to support increasing costs, investors will punish ULTA for contracting operating margins.

- *Mitigant:* An increased labor force may allow the Company to realize more revenues as employees can upsell products as they unlock the lock boxes and recommend complementary products to the consumer.

- *Mitigant:* We note that the cost of elevated capex and increasing SG&A will be offset by the revenues the Company will realize from selling the products rather than simply posting losses from inventory shrinkage.

In our bear case, we modeled SG&A expenses remaining stagnant at 25.3% of revenue in FY'24 and increasing to 25.0% thereafter to reflect increased labor costs due to increase of in-store retail employees.

Concerning Consumer

In addition to weakening consumer fundamentals, changing consumer preferences presents a risk to ULTA. Lower-than-expected holiday spending may reduce the Company's 4Q'23 earnings. Additionally, ULTA stores located in shopping malls are likely to see less foot traffic as consumers shift to shopping at open-air malls, free-standing stores, or e-commerce platforms. Although ULTA noted significant losses from inventory shrink, Management remained vague regarding the additional $22.0 mn of losses attributed to shrink or rising promotional activity. If the Company cannot realize sales while maintaining pricing, ULTA may have to sell its inventory at a discounted rate.

- *Mitigant:* With approximately 95% of ULTA's revenue generated directly from its loyalty members, the Company is best positioned to understand the shifting consumer trends and adjust its inventory accordingly. By releasing new products, the Company is establishing itself as one of the most innovative and attractive brands in the beauty industry. Furthermore, the replenishing nature of beauty products will drive consistent cash flows as consumers repurchase products such as facial cleansers, cosmetics, and hair care products.

In our bear case, our team modeled inventory days outstanding of 102.0 in FY'23 and an average of 100.0 days thereafter to reflect shifting consumer preferences to either other purchasing platforms or other beauty retailers, which would materially pressure the Company's ability to turn over its inventory.

VALUATION ANALYSIS

DCF Assumptions

In our FY'23 base case, our team assumes that revenue grows at 11.0% and growth slows thereafter, coming off historic growth in FY'21 and FY'22. Our team also assumed that operating margins would be slightly below management guidance amidst lower projections for holiday spending and increased wages attributed to combatting inventory shrinkage. Elevated capex assumptions of 3.5% reflect the Company's investments towards long-term preventative security measures, including cameras and lock boxes. Capex would also incorporate the Company's investments towards building new Target shop-in-shops and its $160.0 -180.0 mn investment towards upgrading its internal operations and supply chain networks. We drove projections for days inventory outstanding down to 95.0 days to reflect the faster conversion of inventory due to its upgraded enterprise resource planning and point-of-sale systems. With no debt to pay down, our team also assumed the Company would continue increasing its share repurchases even after it completed purchases of the remaining amount left in its share repurchase program.

Discounted Cash Flow	2020	2021	2022	1Q23	2Q23	3Q23e	4Q23e	2023e	2024e	2025e	2026e	2027e
Revenue	$6,152.0	$8,630.9	$10,208.6	$2,634.3	$2,529.8	$2,570.1	$3,596.9	$11,331.1	$12,334.2	$13,197.0	$14,094.3	$15,056.2
EBITDA	534.6	1,565.9	1,880.0	500.0	453.6	406.2	507.0	1,866.7	2,225.8	2,586.2	2,910.9	3,262.8
EBIT	236.8	1,297.5	1,638.6	442.1	391.6	341.8	442.4	1,618.0	1,949.8	2,283.1	2,579.2	2,905.8
Income Tax Benefit (Expense)	(55.3)	(310.0)	(401.1)	(102.4)	(96.0)	(102.4)	(96.0)	(396.7)	(477.7)	(559.4)	(631.9)	(711.9)
NOPAT (EBITA)	$181.6	$987.5	$1,237.5	$339.7	$295.7	$239.5	$346.4	$1,221.2	$1,472.1	$1,723.7	$1,947.3	$2,193.9
% YoY Growth		*443.9%*	*25.3%*					*(1.3%)*	*20.5%*	*17.1%*	*13.0%*	*12.7%*
Depreciation & Amortization				57.9	61.9	64.4	64.5	248.8	276.0	303.1	331.7	357.0
Stock-Based Compensation				9.7	11.8	12.0	16.8	50.3	57.6	61.6	65.8	70.3
Capital Expenditures				(109.8)	(95.0)	(66.8)	(100.7)	(372.3)	(427.1)	(422.3)	(436.9)	(451.7)
Goodwill Impairment				-	-	-	-	-	-	-	-	-
(Increase)/Decrease in Working Capital				(76.9)	(148.4)	284.7	(212.3)	(152.9)	(96.0)	(163.6)	(65.5)	(76.8)
(Increase)/Decrease in LT Items				-	-	(2.5)	(2.7)	(5.2)	(12.7)	(4.8)	(5.1)	(5.4)
Unlevered Free Cash Flow				$220.7	$126.0	$531.3	$112.0	$990.0	$1,270.1	$1,497.9	$1,837.5	$2,087.5
% YoY Growth									*28.3%*	*17.9%*	*22.7%*	*13.6%*
Discountable Unlevered Free Cash Flow				$0.0	$0.0	$531.3	$112.0	$643.3	$1,270.1	$1,497.9	$1,837.5	$2,087.5
Full-Year Discount								*0.68*	*1.68*	*2.68*	*3.68*	*4.68*
Mid-Year Discount								*0.34*	*1.18*	*2.18*	*3.18*	*4.18*
Discount Factor								*0.97*	*0.89*	*0.80*	*0.72*	*0.65*
Present Value of Future Free Cash Flow								$621.3	$1,126.0	$1,199.4	$1,329.0	$1,363.7
% Growth									*81.2%*	*6.5%*	*10.8%*	*2.6%*

Exit Multiple

	9.0x	10.0x	11.0x	12.0x	13.0x
9.7%	$523.24	$567.65	$612.06	$656.48	$700.89
10.2%	$514.39	$557.97	$601.55	$645.12	$688.70
10.7%	$505.75	$548.51	$591.27	$634.02	$676.78
11.2%	$497.30	$539.26	$581.22	$623.18	$665.14
11.7%	$489.04	$530.22	$571.39	$612.57	$653.75

Perpetuity Growth Rate

	1.5%	2.0%	2.5%	3.0%	3.5%
9.7%	$436.53	$456.13	$478.10	$502.92	$531.19
10.2%	$429.32	$448.54	$470.11	$494.46	$522.20
10.7%	$422.27	$441.13	$462.29	$486.19	$513.40
11.2%	$415.38	$433.89	$454.65	$478.10	$504.81
11.7%	$408.64	$426.81	$447.18	$470.20	$496.41

Multiples Valuation

NTM P/E

	16.3x	17.3x	18.3x	19.3x	20.3x
$20.95	$341.99	$362.94	$383.89	$404.84	$425.80
$23.57	$384.73	$408.31	$431.88	$455.45	$479.02
$26.19	$427.48	$453.67	$479.86	$506.05	$532.24
$28.81	$470.23	$499.04	$527.85	$556.66	$585.47
$31.43	$512.98	$544.41	$575.84	$607.27	$638.69

NTM EV/EBITDA

	9.8x	10.8x	11.8x	12.8x	13.8x
$1,546	$311.30	$342.31	$373.33	$404.34	$435.35
$1,739	$349.24	$384.13	$419.02	$453.91	$488.80
$1,932	$387.18	$425.94	$464.71	$503.47	$542.24
$2,126	$425.11	$467.76	$510.40	$553.04	$595.68
$2,319	$463.05	$509.57	$556.09	$602.61	$649.13

NTM P/E

	16.3x	17.3x	18.3x	19.3x	20.3x
$20.95	(9.9%)	(4.3%)	1.2%	6.7%	12.2%
$23.57	1.4%	7.6%	13.8%	20.0%	26.2%
$26.19	12.7%	19.6%	26.5%	33.4%	40.3%
$28.81	23.9%	31.5%	39.1%	46.7%	54.3%
$31.43	35.2%	43.5%	51.8%	60.0%	68.3%

NTM EV/EBITDA

	9.8x	10.8x	11.8x	12.8x	13.8x
$1,546	(18.0%)	(9.8%)	(1.6%)	6.6%	14.7%
$1,739	(8.0%)	1.2%	10.4%	19.6%	28.8%
$1,932	2.0%	12.3%	22.5%	32.7%	42.9%
$2,126	12.0%	23.3%	34.5%	45.8%	57.0%
$2,319	22.0%	34.3%	46.6%	58.8%	71.1%

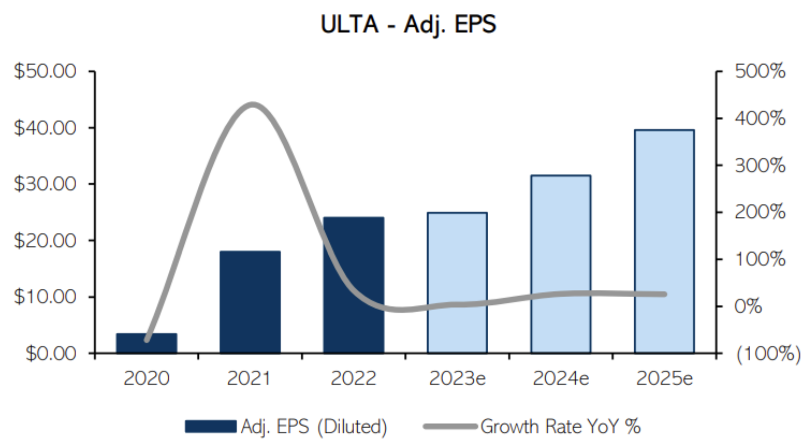
Returns Profile

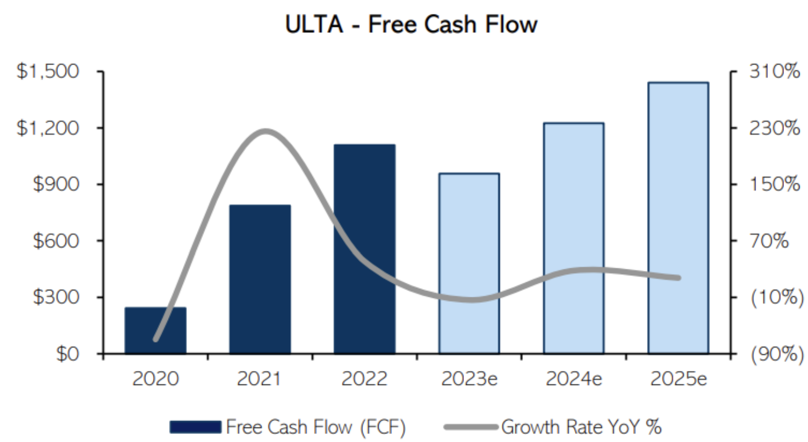
	Methodology	Implied PT	Implied Return
	DCF		
50.0%	*Perpetual Growth Rate*	*$462*	*21.8%*
	Historical Multiples		
30.0%	*NTM P/E*	*$480*	*26.5%*
20.0%	*NTM EV/EBITDA*	*$465*	*22.5%*
	Blended Average	*$604*	*59.1%*
	Weighted Average	*$468*	*23.4%*

FINANCIAL ANALYSIS

Revenue Build

Summary	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
Total Company Revenue	$6,152.0	$8,630.9	$10,208.6	$11,331.1	$12,334.2	$13,197.0	$14,094.3	$15,056.2
% Growth YoY		*40.3%*	*18.3%*	*11.0%*	*8.9%*	*7.0%*	*6.8%*	*6.8%*
Cosmetics Revenue	$2,704.2	$3,680.8	$4,252.2	$4,698.8	$5,125.5	$5,535.5	$5,978.4	$6,456.6
% Growth YoY		*36.1%*	*15.5%*	*10.5%*	*9.1%*	*8.0%*	*8.0%*	*8.0%*
% of Total Revenue	*44.0%*	*42.6%*	*41.7%*	*41.5%*	*41.6%*	*41.9%*	*42.4%*	*42.9%*
Skincare Revenue	$954.6	$1,458.8	$1,735.5	$2,032.5	$2,235.2	$2,414.0	$2,607.1	$2,815.7
% Growth		*52.8%*	*19.0%*	*17.1%*	*10.0%*	*8.0%*	*8.0%*	*8.0%*
% of Total Revenue	*15.5%*	*16.9%*	*17.0%*	*17.9%*	*18.1%*	*18.3%*	*18.5%*	*18.7%*
Healthcare Products & Styling Tools Revenue	$831.6	$1,262.0	$1,483.2	$1,644.8	$1,789.8	$1,897.2	$1,982.6	$2,071.8
% Growth		*51.8%*	*17.5%*	*10.9%*	*8.8%*	*6.0%*	*4.5%*	*4.5%*
% of Total Revenue	*13.5%*	*14.6%*	*14.5%*	*14.5%*	*14.5%*	*14.4%*	*14.1%*	*13.8%*
Fragrance & Bath Revenue	$1,241.2	$1,719.1	$2,143.3	$2,286.2	$2,481.2	$2,630.1	$2,787.9	$2,955.2
% Growth		*38.5%*	*24.7%*	*6.7%*	*8.5%*	*6.0%*	*6.0%*	*6.0%*
% of Total Revenue	*20.2%*	*19.9%*	*21.0%*	*20.2%*	*20.1%*	*19.9%*	*19.8%*	*19.6%*
Services Revenue	$167.8	$251.3	$288.1	$340.3	$360.7	$371.5	$382.6	$394.1
% Growth		*49.7%*	*14.6%*	*18.1%*	*6.0%*	*3.0%*	*3.0%*	*3.0%*
% of Total Revenue	*2.7%*	*2.9%*	*2.8%*	*3.0%*	*2.9%*	*2.8%*	*2.7%*	*2.6%*
Accessories & Other Revenue	$252.5	$258.9	$306.3	$328.6	$341.8	$348.7	$355.6	$362.7
% Growth		*0.0%*	*0.0%*	***7.3%***	***4.0%***	***2.0%***	***2.0%***	***2.0%***
% of Total Revenue	***4.1%***	***3.0%***	***3.0%***	***2.9%***	***2.8%***	***2.6%***	***2.5%***	***2.4%***





APPENDIX

Exhibit I: Discussion Summary

Anonymous Associate | Neutral Rating | Guggenheim

- **Outlook:** Although consumer fundamentals are weakened, per conversations with Management, this is not a primary concern for ULTA. The Company is discretionary in nature. However, loyalty program members prioritize skincare and makeup routines over other spending categories, as those routines are established in their daily lives. As consumers empty their products, they will continuously replenish those products they prefer most. ULTA's robust loyalty program ensures they will return to the Company for the purchase. During the pandemic, consumers accumulated excess free time, leading to trying different makeup looks or following different TikTok trends. Additionally, prioritization of health and wellness has elevated spending on masks, cleansers, and lotions.
- **Combatting E-Commerce:** Vendor exclusivity is critical. The breadth and depth of product offerings incentivize consumers to purchase from the Company instead of online marketplaces. Due to its value proposition, loyalty programs and rewards will also serve as key drivers for purchasing from ULTA. Furthermore, the in-store experience and how consumers shop in the category is an important consideration, as customers are willing to visit stores to test the beauty products. This ties into the consumer consideration process, as visiting stores allows customers to compare different color schemes or try multiple fragrances that cannot be replicated through e-commerce platforms. The large percentage of consumers engaging in the Ultamate rewards program increases the likelihood that a sale will be realized after testing. Beauty retailers can also leverage their own e-commerce platforms, including brand websites, to realize sales, and ULTA has a sizeable omnichannel presence.

Anonymous Associate | Hold Rating

- **Narrative:** ULTA's earnings power remains intact, and its omnichannel presence is a strong economic moat for the Company. However, the conversation is primarily surrounded by investors' opinions of whether it deserves a richer staples multiple or a discretionary multiple in FY'23 and FY'24. The other aspect investors are considering is traffic and an industry-wide beauty slowdown. Moving forward, the Company can leverage its omnichannel presence and its online data to generate systematic promotions to drive accelerated traffic. Most recently, its Fall Haul promotion contributed to increased foot traffic. There are two reasons why the stock dropped: a deceleration in credit card sales and foot traffic, and the first time Management did not raise guidance when they issued guidance in 1Q'23. Management maintained its fiscal year guidance following first-quarter earnings for the first time in the last five years. The question remains if shares have reached a bottom.
- **Inventory Shrink:** By implementing preventative measures, ULTA can realize revenues previously lost from inventory shrink. We recognize there may be a risk associated with turning customers away if stores cannot adequately provide an enjoyable experience for the customers. However, with proper training, employees can enhance the experience by describing different products and providing recommendations while unlocking the cases. ULTA can benefit from increased sales if employees can effectively market other products and upsell the consumer. Concerns surrounding inventory shrinkage are likely overblown amidst the weakening consumer.

GUGGENHEIM

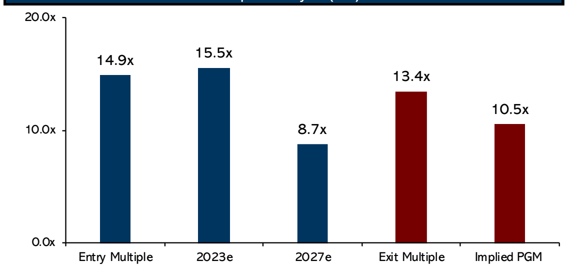
Exhibit II: Model Output

Ulta Beauty, Inc. (ULTA) Valuation Overview

$ in Millions Except Per Share Data

Price Target Scenario:	Base Case
Current Share Price:	$379.43
Valuation Date:	10/16/2023

Multiples Analysis (P/E)

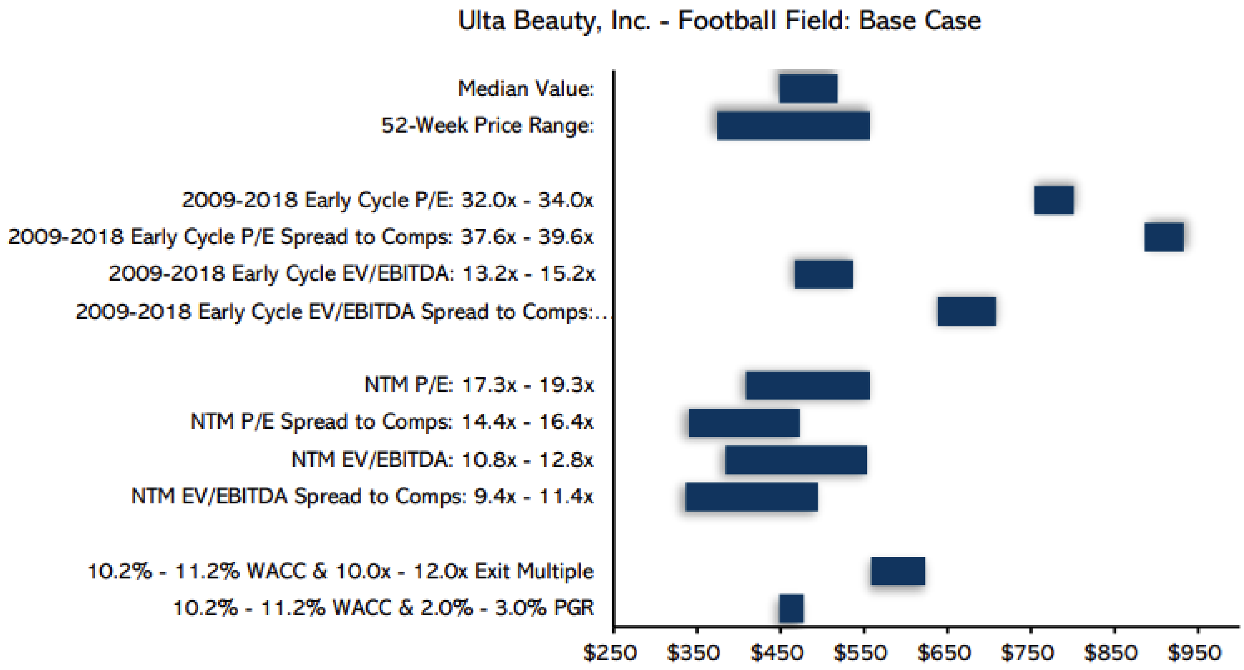


Return Summary	
Exit Multiple Method	
Implied Enterprise Value:	$29,085
Implied Equity Value:	29,474
Implied Share Price:	$591
% Return:	55.8%
Perpetuity Growth Method	
Implied Enterprise Value:	$22,656
Implied Equity Value:	23,045
Implied Share Price:	$462
% Return:	21.8%

	Annuals							CAGR	CAGR
Consolidated Financials	2021	2022	2023e	2024e	2025e	2026e	2027e	Historical	Projected
Revenue	$8,631	$10,209	$11,331	$12,334	$13,197	$14,094	$15,056	*28.8%*	*8.1%*
YoY % Growth	*40.3%*	*18.3%*	*11.0%*	*8.9%*	*7.0%*	*6.8%*	*6.8%*		
Gross Profit	$3,369	$4,045	$4,436	$4,969	$5,345	$5,779	$6,248	*44.0%*	*9.1%*
% Margin	*39.0%*	*39.6%*	*39.1%*	*40.3%*	*40.5%*	*41.0%*	*41.5%*		
YoY % Growth	*72.8%*	*20.1%*	*9.7%*	*12.0%*	*7.6%*	*8.1%*	*8.1%*		
EBITDA	$1,566	$1,880	$1,867	$2,226	$2,586	$2,911	$3,263	*163.0%*	*12.1%*
Margin	*18.1%*	*18.4%*	*16.5%*	*18.0%*	*19.6%*	*20.7%*	*21.7%*		
YoY % Growth	*447.9%*	*26.3%*	*(1.3%)*	*20.5%*	*17.1%*	*13.0%*	*12.7%*		
Net Income (Loss)	$986	$1,242	$1,233	$1,472	$1,724	$1,947	$2,194	*165.8%*	*12.0%*
Margin	*11.4%*	*12.2%*	*10.9%*	*11.9%*	*13.1%*	*13.8%*	*14.6%*		
YoY % Growth	*460.7%*	*26.0%*	*(0.8%)*	*19.4%*	*17.1%*	*13.0%*	*12.7%*		
Adj. EPS (Diluted)	$18	$24	$25	$31	$40	$48	$60	*165.8%*	*20.0%*
YoY % Growth	*428.7%*	*33.6%*	*3.7%*	*26.5%*	*25.7%*	*22.4%*	*23.3%*		
Free Cash Flow	$786	$1,108	$957	$1,225	$1,441	$1,777	$2,022	*113.7%*	*20.6%*
YoY % Growth	*223.8%*	*41.0%*	*(13.7%)*	*28.0%*	*17.6%*	*23.3%*	*13.8%*		

	Annuals							Average	Average
Capitalization and Key Ratios	2021	2022	2023e	2024e	2025e	2026e	2027e	Historical	Projected
Leverage									
Total Debt / EBITDA	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	*0.0x*	*0.0x*
Total Debt / Equity	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	*0.0x*	*0.0x*
Total Debt / Total Assets	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	0.0x	*0.0x*	*0.0x*
Liquidity									
Current Ratio	1.8x	1.9x	1.8x	1.8x	2.1x	2.5x	2.9x	*2.0x*	*2.2x*
Quick Ratio	0.5x	0.7x	0.6x	0.6x	0.8x	1.1x	1.5x	*0.8x*	*0.9x*
Cash Ratio	0.3x	0.5x	0.4x	0.5x	0.6x	0.9x	1.3x	*0.6x*	*0.7x*
Profitability									
Return on Assets (ROA)	20.7%	23.1%	20.8%	22.8%	25.0%	25.8%	25.9%	*15.8%*	*24.1%*
Return on Equity (ROE)	64.2%	63.4%	57.4%	58.3%	56.3%	51.6%	46.5%	*45.5%*	*54.0%*
Return on Inv. Capital (ROIC)	64.2%	63.4%	57.4%	58.3%	56.3%	51.6%	46.5%	*45.5%*	*54.0%*
Coverage									
Interest Expense	$2	$0	$0	$0	$0	$0	$0	*$3*	*$0*
Capital Expenditures	172	312	372	427	422	437	452	*212*	*422*
EBIT / Interest	780.2x	4086.3x	N/A	N/A	N/A	N/A	N/A	*1635.9x*	*#DIV/0!*
EBITDA / Interest	941.6x	4688.2x	N/A	N/A	N/A	N/A	N/A	*1907.7x*	*#DIV/0!*
(EBITDA - CapEx) / Interest	838.1x	3909.9x	N/A	N/A	N/A	N/A	N/A	*1604.9x*	*#DIV/0!*
Efficiency									
Asset Turnover	1.8x	1.9x	1.9x	1.9x	1.9x	1.9x	1.8x	*1.6x*	*1.9x*
Days Sales Outstanding	9.0	7.7	7.3	8.2	7.6	8.0	8.2	*8.3*	*7.9*
Days Inventory Outstanding	92.5	91.9	93.3	99.3	98.0	96.0	95.0	*100.0*	*96.3*
Days Payables Outstanding	35.7	32.9	35.5	41.3	33.8	34.0	34.5	*36.1*	*35.8*
Cash Conversion Cycle	65.8	66.7	65.2	66.2	71.8	70.0	68.7	*72.2*	*68.4*

Exhibit III: Football Field



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- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.

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