



**ULTA**  
BEAUTY

**Consumer Discretionary  
Committee  
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Abby Pate  
Armani Sowell**



**NASDAQ: ULTA**

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# I. Investment Narrative

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# Investment Narrative

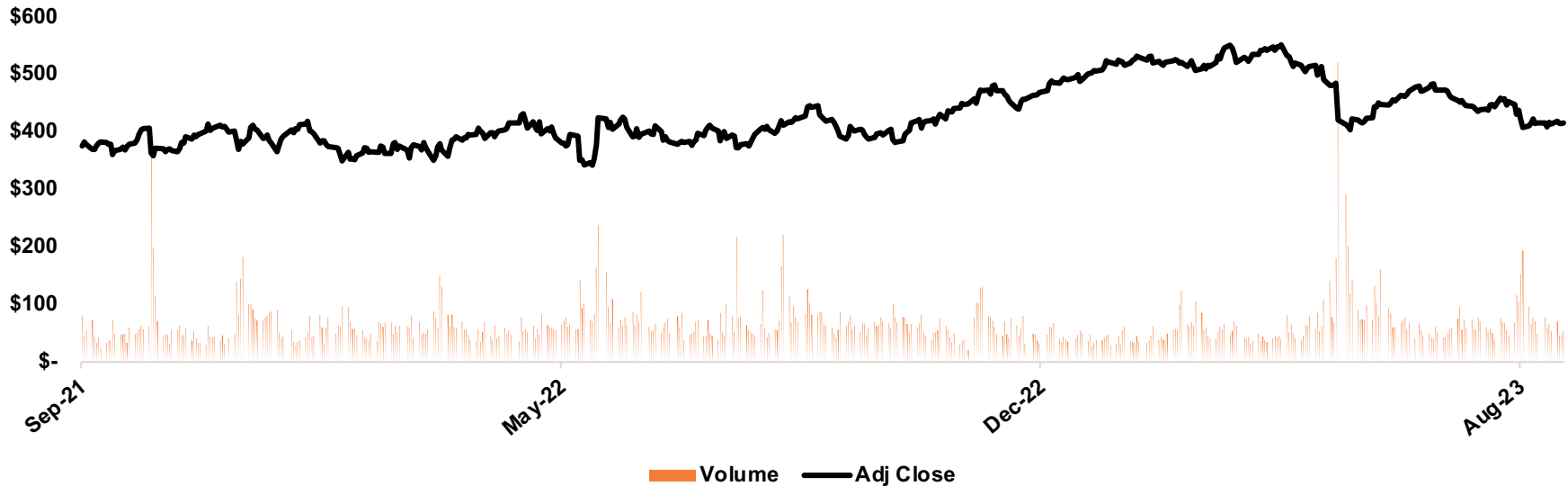


<b>Market Cap</b>	<b>\$20.36B</b>
<b>Last Close (9/15/23)</b>	<b>413.57</b>
<b>52 Week Range</b>	<b>\$373.8 - \$556.6</b>
<b>LTM Revenue</b>	<b>\$10.73B</b>
<b>Operating Margin</b>	<b>16.1%</b>

- Ulta Beauty is the largest specialty beauty retailer in the United States, featuring both prestige and mass products.
- Recommendation: BUY with PT of \$508.35, representing an upside of 23% from 9/17 close at a 2.5% weight

## Investment Thesis Introduction

1. Ulta has faced margin pressure which has led to investor concern, but there is a road to expansion
2. Streamlining e-commerce business will drive traffic in and out of stores
3. Taking action to address decelerating operating margins



## II. Company Overview

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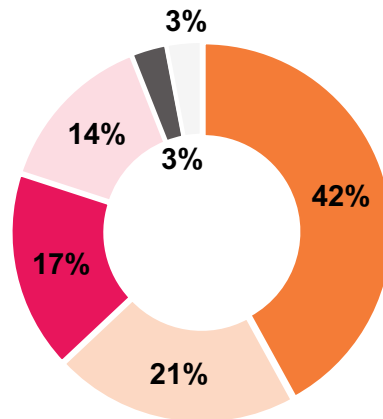
## Segmented Breakdown

### One-of-a-kind assortment

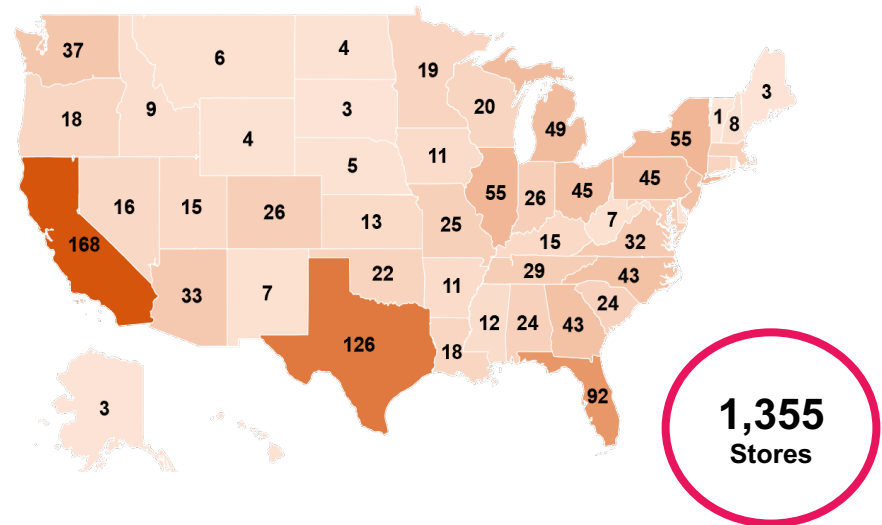
Destination for **Mass & Prestige** across beauty categorized all in one place

- 25000+ products
- 600 + brands

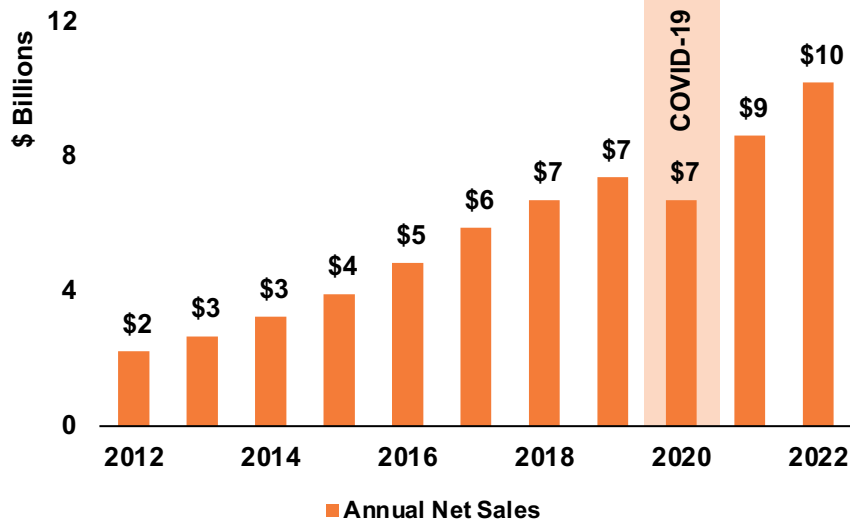
- Cosmetics
- Haircare/styling
- Skincare
- Fragrance and Bath
- Services
- Accessories



## Widespread Store Locations



## Consistent Revenue Growth



## Our Target Customer



Lives, loves and breathes beauty

Leans on to beauty for self-care, self-expression

Finds joy, wellness, and excitement in beauty

Sees beauty as more than just a routine

# III. Industry Overview

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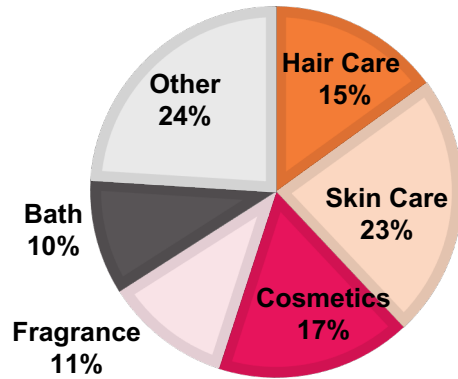
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# Beauty Industry

## Large and Fragmented Market

\$104B U.S. Beauty Product Market



\*Other- Hair Salons, Special Apparel, and Home shopping.

## Forward-Looking Beauty Trends

Global retail sales within the beauty sector are expected to record a **CAGR of 6%** between 2022 and 2027

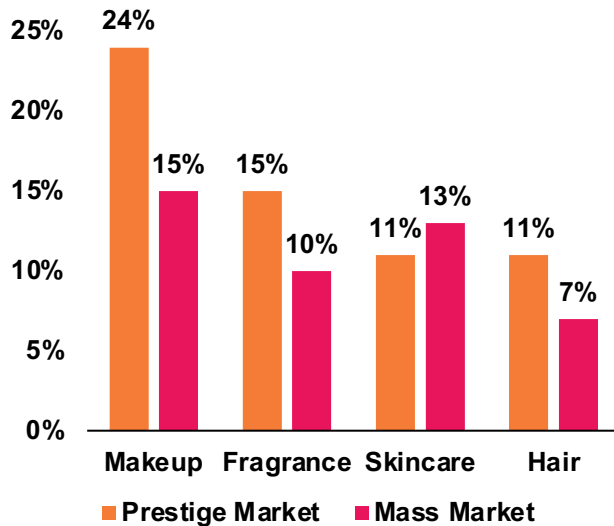
**Ecommerce**  
Online retail share now exceeds 20% in beauty

**Human Connection**  
Online influence and social selling continue to influence the consumer

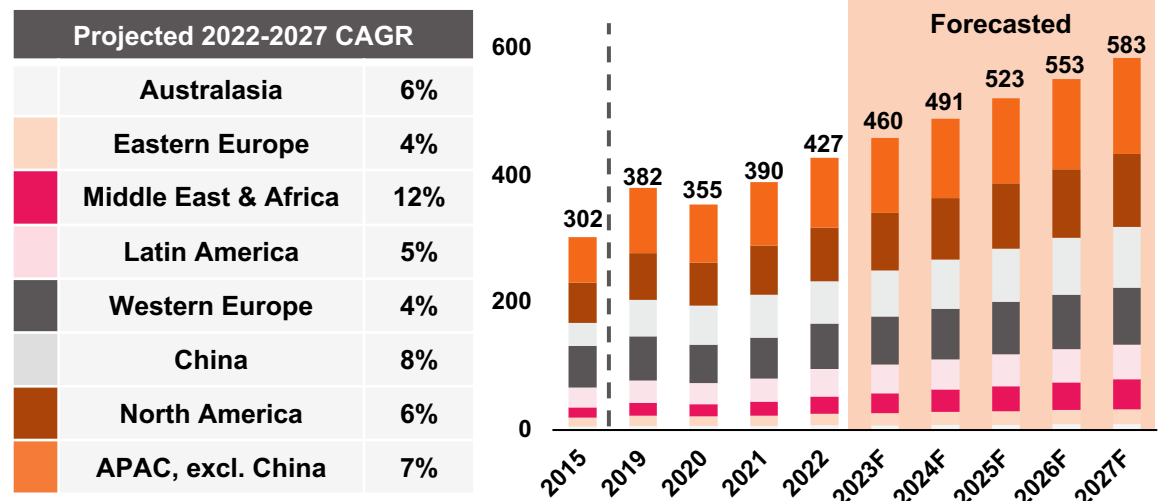
**Globally Competitive**  
Rise of independent brands are diversifying beauty's global reach

**Rise of Wellness**  
Beauty is beginning to become associated with the wellness industry

## 2022 Growth in Beauty Categories



## Beauty Retail Sales By Region (\$ Billions)





# IV. Investment Thesis

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# Short Term Margin Pressure with Road to Expansion

## Margin Pressures

### Short Term

Promotional Activity

Elevated Theft/Loss

Higher Supply Chain Costs

### Long Term

Above pandemic rates and normalizing to 2019 levels

New tactics are mitigating the shrinkage issue

Distribution center upgrades and new facilities

## Unique Mix of Mass and Prestige Products

### Mass

COVERGIRL

e.l.f.

CeraVe<sup>®</sup>  
DEVELOPED WITH DERMATOLOGISTS

Neutrogena<sup>®</sup>

### Mid-Tier

JuVias<sup>®</sup>  
PLACE

MORPHE

The Ordinary.

COLOURPOP

### Prestige

MAC

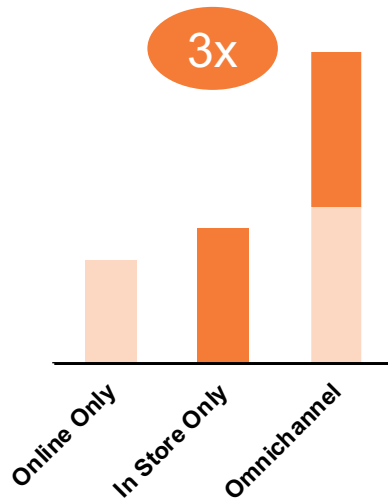
DIOR

CHANEL  
MAKEUP

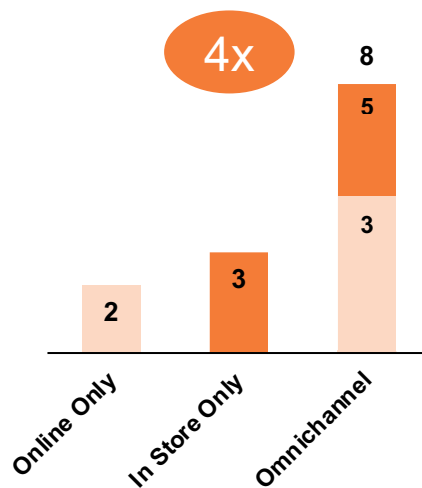
OLAPLEX

## Omnichannel Guests are the Most Valuable

### Spend per member

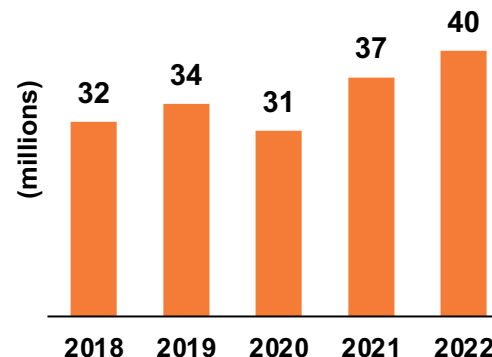


### Frequency (purchase)



## Best-in-Class Loyalty Program

### Loyalty Program Members



~95%

of Ulta Beauty sales are made by program members

Provides Ulta with actionable consumer insights & data



# Streamlining E-Commerce Will Drive Traffic In and Out of Stores

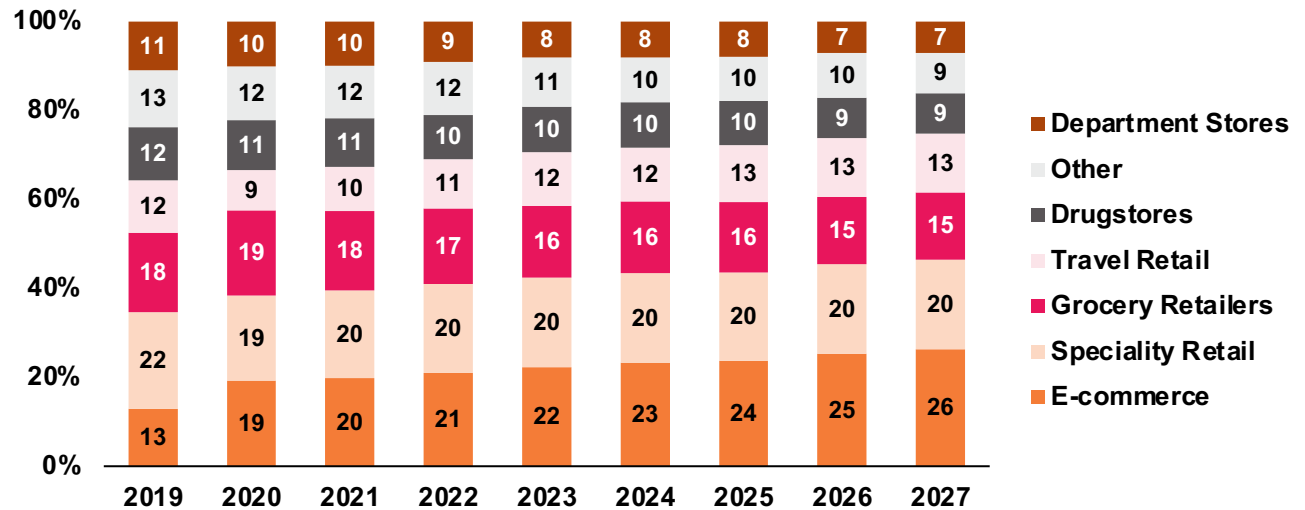
## Leading Digital Experience

E-commerce sales grew by 27% (CAGR) from 2018 to 2022

#1 Social media engagement in beauty retail

#1 Most used beauty app

## Beauty Market E-Commerce Growth



## New Store Openings & Target Partnership



### Freestanding Ulta stores

- 1,360 total stores<sup>(1)</sup>
- 281 net new store openings between 2018 and 2022
- Opening 25-30 in FY23



### Ulta Beauty in Target “shop-in-shops”

- 350+ total stores<sup>(2)</sup>
- Long term goal of Ulta Beauty in 800 Target locations

## Services in Stores

~3x

Higher annual spend by services guests

~50%

Of guest purchase retail products the day of a service

+5

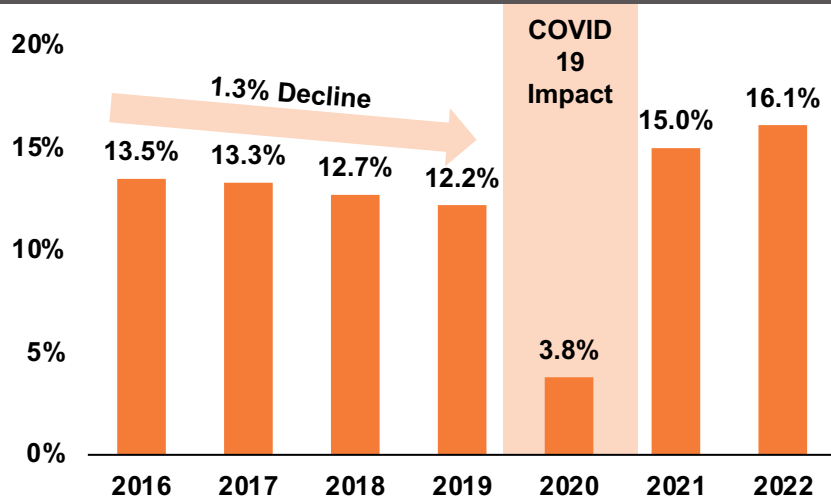
Additional annual trips compared to average Ulta Beauty guest

(1) As of Q2 FY23 on 07/29/23, (2) As of Q4 FY22 on 01/28/23

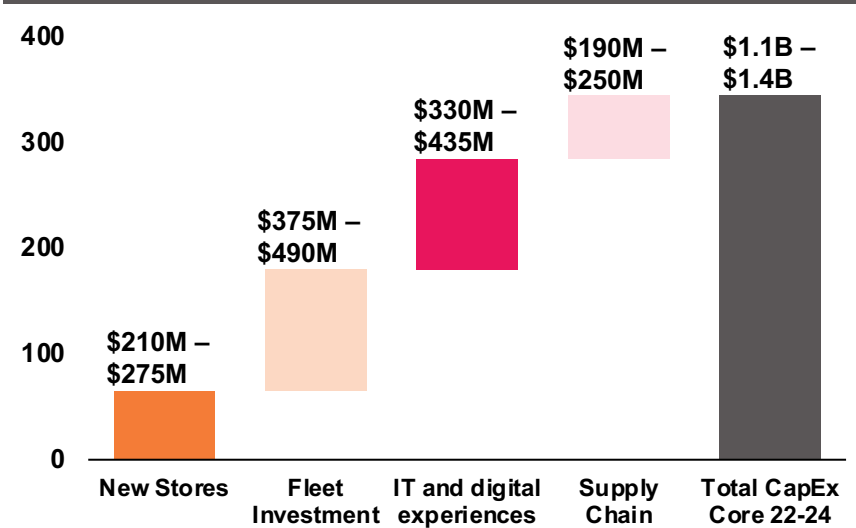


# Took Action to Address Decelerating Operating Margins

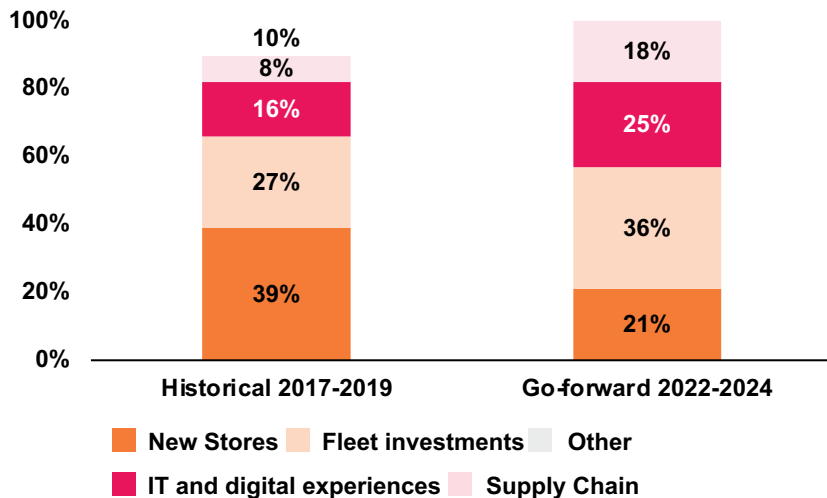
Operating Margin Since 2016



Capital Expenditures – 2022 through 2024, \$M



Categories of CapEx, % of Total



Innovation & Technology to Drive Operating Margin

**Objectives**

- Reduce cycle time
- Increase simplicity for end user
- Support business growth
- Increase efficiency
- Increase automation
- Maximize use of existing assets

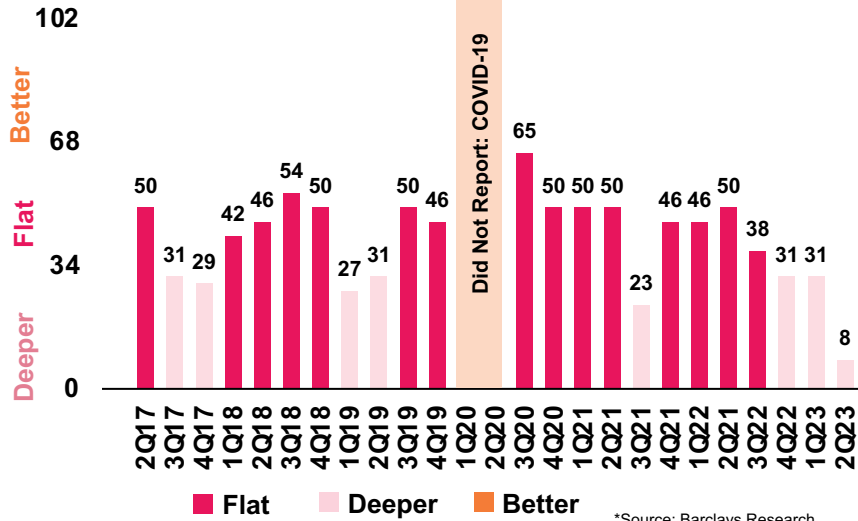
**Benefits**

- Quality improvements
- Indirect hour savings
- Improved space and resource utilization
- Cycle time reduction
- Bottleneck reduction
- Improved safety

# Why Now?

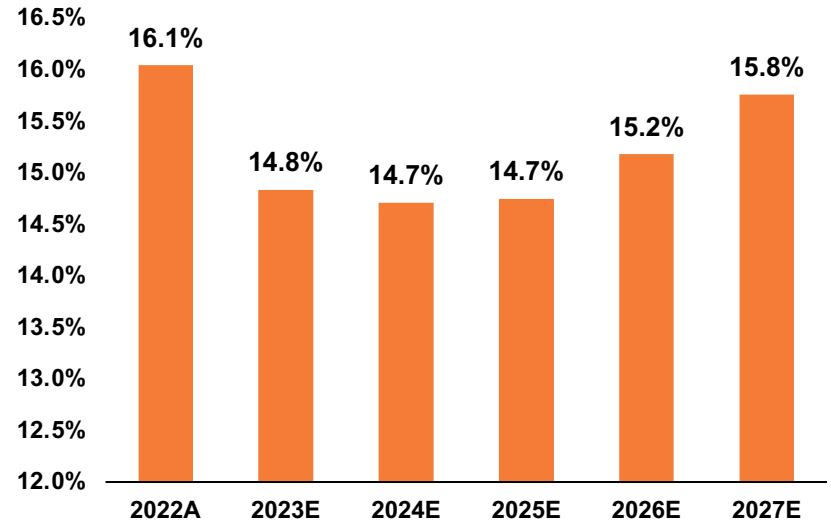


## Increased Promos to Normalize (Indexed to 50)

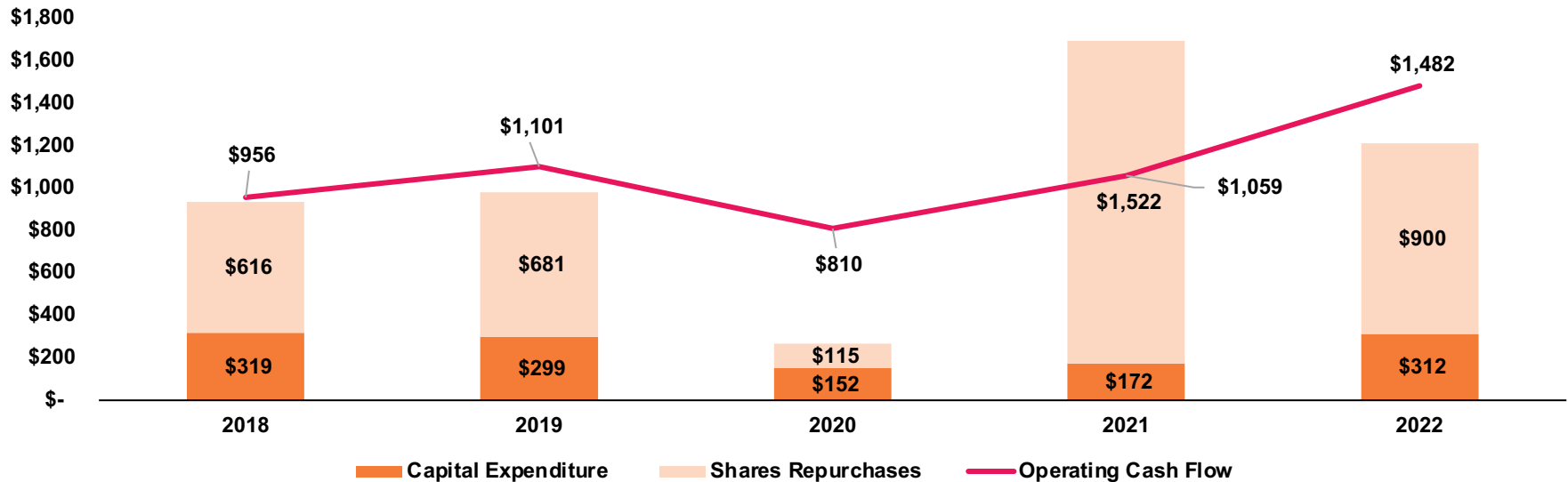


\*Source: Barclays Research

## Expecting Operating Margins to Remain Stable



## And Strong Shareholder Returns Which Can Persist



# V. Valuation

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# Valuation – 23% Upside

## Terminal Multiple and LTGR DCF Valuation

Terminal Multiple EV/EBITDA - 10 Yr. DCF	
Terminal Value	\$ 40,549
PV of Terminal Value	\$ 16,714
PV of Free Cash Flow	\$ 9,898
<b>Enterprise Value</b>	<b>\$ 26,612</b>
Less: Debt	\$ -
Less: Preferred / Other	\$ -
Plus: Cash	\$ 389
<b>Implied Equity Value</b>	<b>\$ 27,001</b>
Diluted Shares Outstanding	50
<b>Implied Share Price</b>	<b>\$ 541.65</b>
<i>Upside / (Downside)</i>	30.97%
<i>PV TV as a % of the Enterprise Value</i>	62.81%
Implied Long Term Growth Rate	4.53%

Long Term Growth Rate Method - 10 Yr. DCF	
Terminal Value	\$ 28,992
PV of Terminal Value	\$ 11,950
PV of Free Cash Flow	\$ 9,898
<b>Enterprise Value</b>	<b>\$ 21,848</b>
Less: Debt	\$ -
Less: Preferred / Other	\$ -
Plus: Cash	\$ 389
<b>Implied Equity Value</b>	<b>\$ 22,237</b>
Diluted Shares Outstanding	50
<b>Implied Share Price</b>	<b>\$ 446.09</b>
<i>Upside / (Downside)</i>	7.86%
<i>PV TV as a % of the Enterprise Value</i>	54.70%
Implied Terminal Multiple	8.22x

		Discount Rate				
		8.00%	9.00%	10.00%	11.00%	12.00%
Terminal Multiple	6.00x	\$ 431.71	\$ 405.43	\$ 381.29	\$ 359.10	\$ 338.68
	8.00x	\$ 500.87	\$ 468.91	\$ 439.61	\$ 412.71	\$ 388.00
	10.00x	\$ 570.03	\$ 532.39	\$ 497.92	\$ 466.32	\$ 437.32
	12.00x	\$ 639.19	\$ 595.87	\$ 556.23	\$ 519.92	\$ 486.64
	14.00x	\$ 708.35	\$ 659.35	\$ 614.54	\$ 573.53	\$ 535.95

		Discount Rate				
		8.00%	9.00%	10.00%	11.00%	12.00%
Long Term Growth Rate	1.00%	\$ 524.40	\$ 456.07	\$ 403.21	\$ 361.15	\$ 326.95
	2.00%	\$ 577.90	\$ 493.24	\$ 430.01	\$ 381.04	\$ 342.05
	2.50%	\$ 611.95	\$ 516.11	\$ 446.09	\$ 392.74	\$ 350.80
	3.00%	\$ 652.80	\$ 542.80	\$ 464.46	\$ 405.90	\$ 360.51
	3.50%	\$ 702.73	\$ 574.33	\$ 485.67	\$ 420.82	\$ 371.37

## Multiples

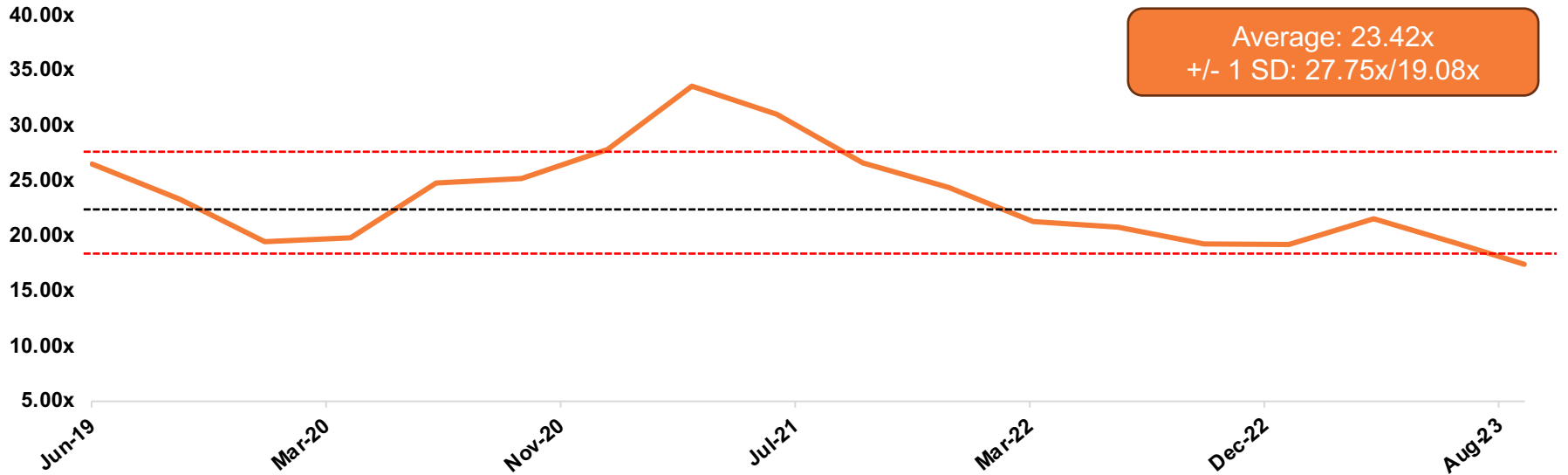
Multiple Valuation	
P/E	19.0x
2024E EPS	\$ 29.06
<b>Implied Share Price</b>	<b>\$ 552.11</b>
<i>Upside / (Downside)</i>	33%

Multiple Valuation	
EV/EBITDA	12.0x
2024E EBITDA	2,018
Enterprise Value	\$ 24,213.65
Less: Debt	\$ -
Less: Preferred / Other	\$ -
Plus: Cash	\$ 388.63
<b>Implied Equity Value</b>	<b>\$ 24,602.28</b>
Diluted Shares Outstanding	50
<b>Implied Share Price</b>	<b>\$ 493.54</b>
<i>Upside / (Downside)</i>	19%

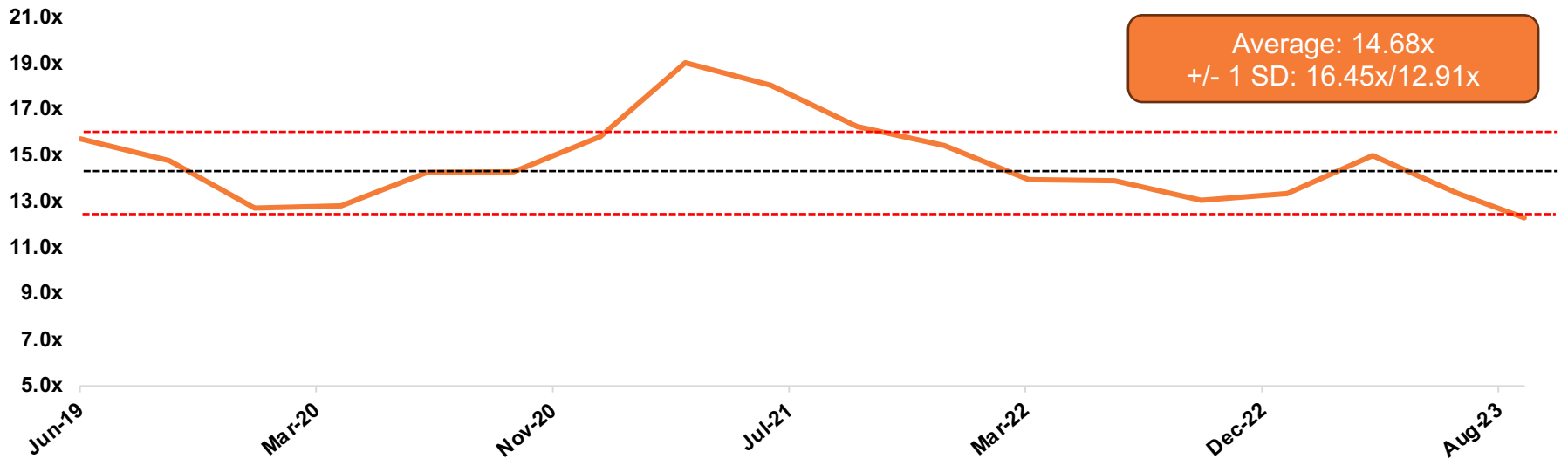


# Historical Trading Multiples

NTM P/E 2019 - Present








NTM EV/EBITDA 2019 - Present







# Comps Analysis

	22-23 Revenue Growth	22-23 EBITDA Growth	EV/EBITDA	P/E	EBITDA Margin
	9%	0%	11.6x	16.3x	16.9%
<b>Beauty Comparables</b>					
	6%	9%	13.9x	24.9x	17.7%
	-36%	-61%	10.5x	15.7x	37.8%
<b>Median</b>	<b>-15%</b>	<b>-26%</b>	<b>12.2x</b>	<b>20.3x</b>	<b>27.8%</b>
<b>Mature Retailer Comparables</b>					
	11%	23%	15.8x	26.1x	8.9%
	7%	12%	15.3x	22.6x	13.3%
<b>Median</b>	<b>9%</b>	<b>17.5%</b>	<b>15.6x</b>	<b>24.4x</b>	<b>11.1%</b>