



ALPHA  **CHALLENGE**
Kenan-Flagler Business School
The University of North Carolina

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Universe Pitch

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NASDAQ: ULTA
LONG – TP \$662 (3-year hold,
66% upside or 18% IRR)



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Executive Summary

- **Recommendation:** **Long Ulta (Nasdaq: ULTA), the largest beauty specialty retailer in the US** offering cosmetics, skincare, haircare and other products in price points ranging from mass to prestige. FYE Jan-2023E net sales of \$11.2B and \$1.9B of EBITDA
- **Core thesis:**
 1. Market is overly pessimistic about future growth prospects (consensus models 5% 2023-2025 revenue CAGR, vs our Base Case of 10%), given Ulta's robust 2022 and 2023 growth. However, we believe **market underappreciates the durability of Ulta's moat**
 - Ulta is structurally advantaged in the beauty industry due to the fact that it is a **"gate keeper" and brand-builder**. This creates a sticky/scaled business, since this drives customer retention, and the management team has strategically positioned the business to grow ahead of beauty trends
 2. Market does not understand the growth drivers of the past ~10 years. **The diversification of Ulta's product portfolio has positioned it for long-term success**
 - The addition of premium/prestige beauty offerings to Ulta's existing mass price-point offerings enables it to weather recessionary environments and capture margin uplifts in strong consumer spending environments
 3. **Market underestimates the remaining store whitespace and store productivity potential.** Ample whitespace remains for store expansion, but market appears to model a slower pace. In addition, we believe market is not appreciating the robust growth capabilities in each store
 - Ulta @ Target shop-in-shops bring in incremental customers and result in existing customers building larger baskets
 - Customers are spending more time in stores and are visiting more often than prior, likely as a result of some of Ulta's store layout changes
- **Modeling/Valuation:**
 - Base Case assumes **~9% 2023E-2027E revenue growth**, driven by modest store footprint expansion, improved productivity per store, and ecommerce growth. This is lower than historical growth rates (17% CAGR 2015-2019 and 11% CAGR 2019-2023). Assumes **EBITDA margins expand slightly from 17% in 2023E to 19% in 2027E**, driven by operating leverage
 - Assume ~15x NTM P/E which is in-line with current multiples but ~8x lower than 5-year averages. However, we believe there is upside here, as the growth proves to be stronger than the market believes
- **Conclusion:** Our analysis projects stronger-than-expected EPS growth in 2024-2026. **Analysis results in 3-year price target of \$662 (66% upside), implying 18% IRR from today's share price of \$398¹**

Company Overview

ULTA is the largest beauty retailer in the US and plays a key role in the beauty ecosystem

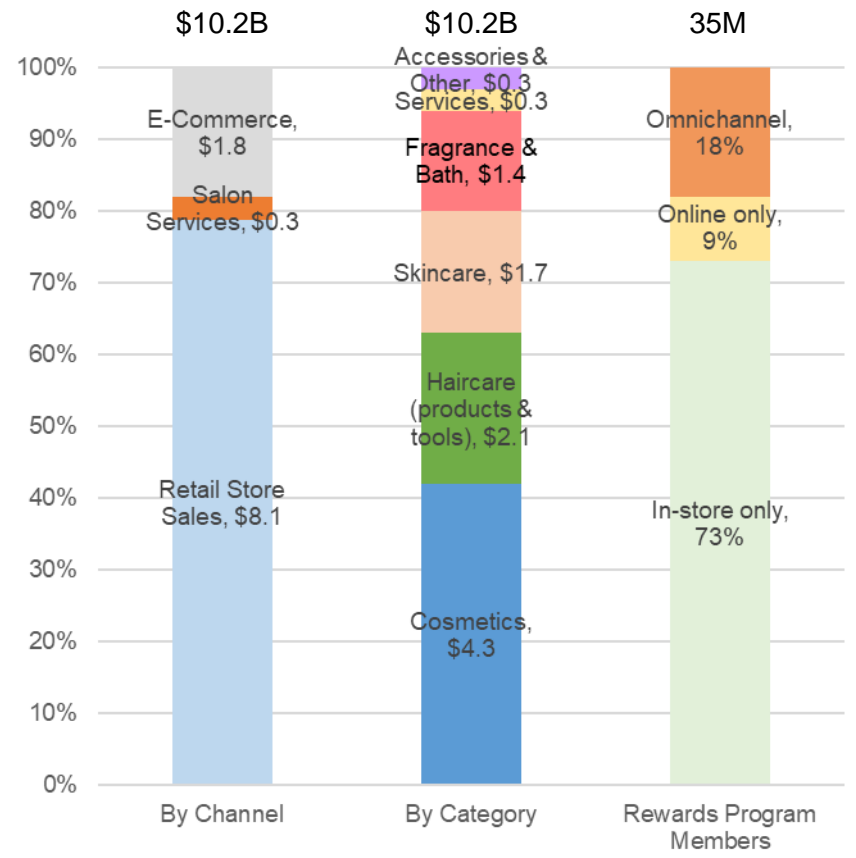
Description

- Ulta is the largest specialty beauty retailer in the US, with 1,350+ stores in high traffic locations (eg in shopping centers) and 350+ Ulta Beauty at Target Shop-in-Shop locations
- Offers 25K+ products from 600+ established and emerging beauty brands, across multiple price points
- Key customer demographic is the “beauty enthusiast” which represents the ~65% of beauty shoppers that comprise of 80%+ of beauty spend
- CY 2023E net sales of ~\$11.2B and adj EBITDA of \$1.9B

Select Brands Carried | By Price Point

Price Points:	Mass	Mass-Tige	Prestige
	COVERGIRL	MORPHE	MAC
	e.l.f.	COLOURPOP	Dior
	CeraVe	Juvia's PLACE	OLAPLEX.
	Neutrogena®	The Ordinary.	FENTY BEAUTY BY RIHANNA

Company Overview



CY 2022 Net Revenue

LTM Jun-2021 Shoppers By Channel

Source: Ulta public filings and investor relationships.

Base Case Financials vs Consensus

Relative to Consensus, Base Case believes in stronger in-store and ecommerce revenue, resulting in ~7-11% higher 2024 and 2025 revenues

Data as of 11/14/2023 via CapIQ

Ticker	ULTA
Share Price	\$ 397.93
Fully Diluted Shares (mm)	49.8
Market Capitalization	\$ 19,836
Enterprise Value	\$ 19,448
Average Trading Volume (mm)	0.8
Free Float (mm)	49.1
Short Interest	2.6%

Commentary

- Relative to Consensus Case, Base Case believes that Retail Store revenue will grow at 9% CAGR in 2023-2025 vs consensus 5%, as Ulta continues to invest behind store buildouts and improved store layouts. This 9% is in-line with historical 2019-2023 CAGR.
- Ecommerce revenue projected to grow 13% CAGR, above consensus rate of 7%, as 2023 revenues finally surpass the difficult 2020 high comp and are now growing off of a new base
- Base Case believes in lower gross profit margins vs consensus, as the recent promotional activity is likely to continue in a recessionary environment, slightly offset by mix shift towards higher margin products (from category premiumization)
- Higher EBITDA margins vs consensus is largely driven by expanded operating leverage, offset by higher advertising expenses to support this topline growth
- Results in EPS that is 18% ahead of consensus through 2025

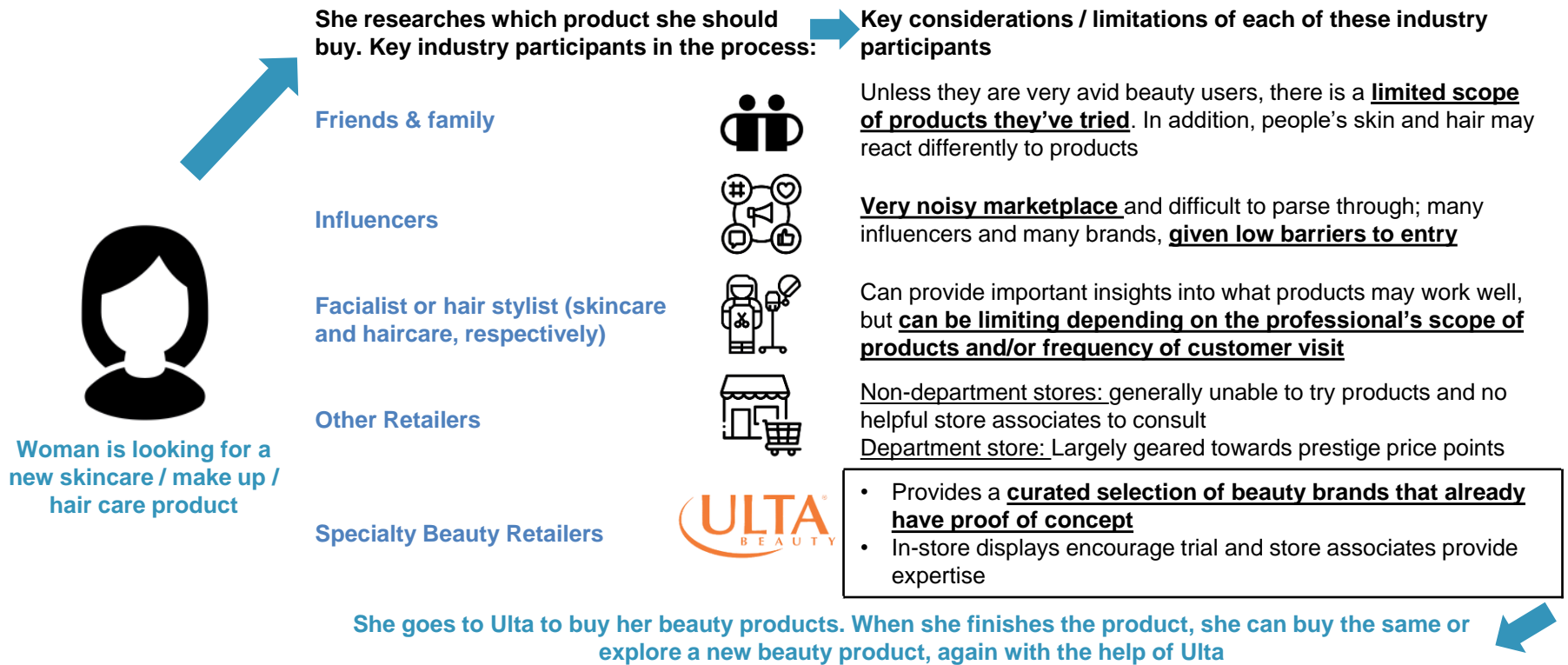
CY	Historical					Base Case			Consensus			% Delta vs Consensus		
	2018	2019	2020	2021	2022	2023	2024	2025	2023	2024	2025	2023	2024	2025
Retail Store & Salon	5,915	6,439	4,159	6,726	8,314	9,106	10,022	10,907	9,028	9,396	9,925	1%	7%	10%
Ecommerce	801	959	1,993	1,905	1,895	2,155	2,456	2,776	2,127	2,277	2,428	1%	8%	14%
Total Revenue	6,717	7,398	6,152	8,631	10,209	11,261	12,478	13,683	11,155	11,672	12,353	1%	7%	11%
% growth		10%	-17%	40%	18%	10%	11%	10%	9%	5%	6%			
Gross Profit	2,409	2,681	1,949	3,369	4,045	4,426	4,742	5,268	4,352	4,543	4,802	<i>bps vs Consensus</i>		
% of net revenues	36%	36%	32%	39%	40%	39%	38%	39%	39%	39%	39%	29bps	-92bps	-37bps
Adj EBITDA	1,160	1,222	676	1,613	1,923	1,962	2,165	2,530	1,885	1,962	2,081			
% of net revenues	17%	17%	11%	19%	19%	17%	17%	18%	17%	17%	17%	52bps	54bps	165bps
EBIT	854	901	351	1,298	1,639	1,638	1,790	2,120	1,640	1,697	1,789			
% of net revenues	13%	12%	6%	15%	16%	15%	14%	15%	15%	15%	14%	-16bps	-20bps	100bps
												% Delta vs consensus		
EPS	\$10.85	\$11.85	\$4.64	\$17.98	\$24.02	\$25.86	\$28.75	\$34.76	\$25.42	\$27.01	\$29.56	2%	6%	18%

Source: Capital IQ, market data as of 11/9/2023. Note: Consensus estimates are available through FY 2025 only. EV and debt excludes operating leases. CY years here represent the closest fiscal year (eg CY 2022 reflects FYE 31-Jan-2023).

Thesis #1: Long-term Value of Ulta as a Specialty Retailer in Beauty

Market believes the strong growth of Ulta post-2020 raises questions about future prospects, but this underestimates the long-term importance of Ulta's role as a "gatekeeper" and "brand-builder" in beauty

Customer Journey



This provides the foundation for Ulta's scaled, sticky business:

- Beauty is a fragmented industry, driven by "low barriers to entry and trend-obsessed customers"¹ – being a retailer who can "back" multiple strong brands puts Ulta in a favorable position in the industry
- Consumers know they can rely on Ulta to provide the best and on-trend beauty products
- Brands want to be in Ulta because it provides distribution and attracts these beauty enthusiast customers; Ulta is a brand-builder

(1) McKinsey "The State of Fashion: Beauty" report

Thesis #2: High Quality Growth

The source of Ulta's growth in the past ~8 years is an important set-up for future sustainable growth in beauty category – we believe ULTA can continue growing at ~9% CAGR in the medium term

Historical Revenue Decom

	CY 15A	CY 19A	CY 20A	CY 22A	LTM H1 2023	CAGR		
						'15-'19	'19 - '22	'19 - LTM H1'23
By Product Category								
Cosmetics	\$1,805	\$3,699	\$2,768	\$4,288	\$4,491	20%	5%	6%
Haircare	863	1,406	1,230	2,144	2,142	13%	15%	13%
Skincare, Bath & Fragrance	903	1,628	1,723	3,165	3,378	16%	25%	23%
Services	196	370	185	306	397	17%	-6%	2%
Accessories & Other	157	296	246	306	322	17%	1%	2%
Total Revenue	\$3,924	\$7,398	\$6,152	\$10,209	\$10,730	17%	11%	11%
By Channel								
EoD Free-Standing Stores	874	1,254	1,264	1,355	1,362	9%	3%	
EoD Ulta @ Target Stores	0	0	0	355	421	NA	NA	
Total Store Count	874	1,254	1,264	1,710	1,783	9%	11%	
(x) Blended Productivity per store	\$4.24	\$5.13	\$3.29	\$4.86	NA	5%	-2%	
Retail Store & Salon	\$3,703	\$6,439	\$4,159	\$8,314	NA	15%	9%	
Ecommerce	\$221	\$959	\$1,993	\$1,895	NA	44%	25%	
Total Revenue	\$3,924	\$7,398	\$6,152	\$10,209	\$10,730	17%	11%	

Strong foundation for continued ~9% revenue CAGR in 2023-2027E

We believe consensus' projected ~5% 2023-2025E growth does not appreciate the implication of Ulta's strong historical growth

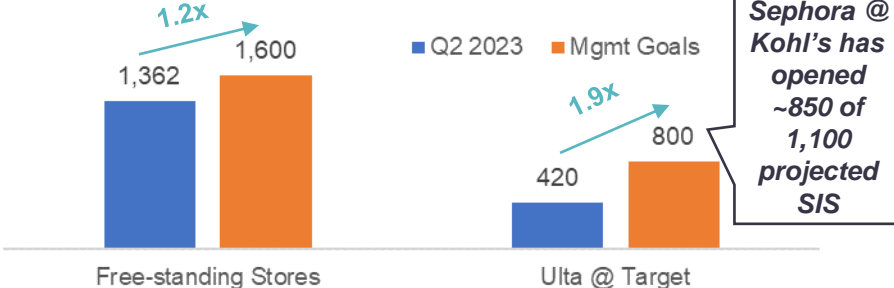
- A** Cosmetics **declined 25% in 2020** (people wore make up less frequently during COVID), but **this has rebounded to 6% CAGR in 2019 - LTM H1 2023. Make-up continues to recover ahead of overall beauty, and grow in 2023 & beyond**
- B** **Skincare saw strong growth last few years as people focused on "beauty on the inside"**. Ulta added more prestige skincare brands and is also taking this to the next step with its health & wellness product offerings - currently nascent but has strong potential
- C** Haircare has benefited from **strong premiumization in the category over the past few years**. Ulta historically had a broad haircare offering and added premium brand Olaplex in 2022
- D** Salon services (eg hair cuts/color, make up application) have been flat, but Ulta notes that salon customers have ~3x higher annual spend (incl. on beauty products) compared to their other customers, so **this will continue to engage an attractive customer base**
- E** New store adds in the past 3 years has continued to drive growth, largely from the new "shop-in-shops" (SIS) at Target starting in 2021. Slight productivity decline is largely from mix shift of the larger free-standing stores vs smaller SIS. As this effect moderates and Ulta continues to invest behind new store layouts (eg remodeled 20 stores in 2022), this will lead to **sustained long-term growth**
- F** Ecommerce revenue is **back at 2020 levels** despite a high comp that year, as Ulta continues to drive their omni-channel approach

Thesis #3: Ample whitespace in store build-outs and store productivity potential

Market understands that there is still whitespace in store count, but seems to be assuming a slow buildout pace and is underestimating the quality and potential growth of that additional store footprint

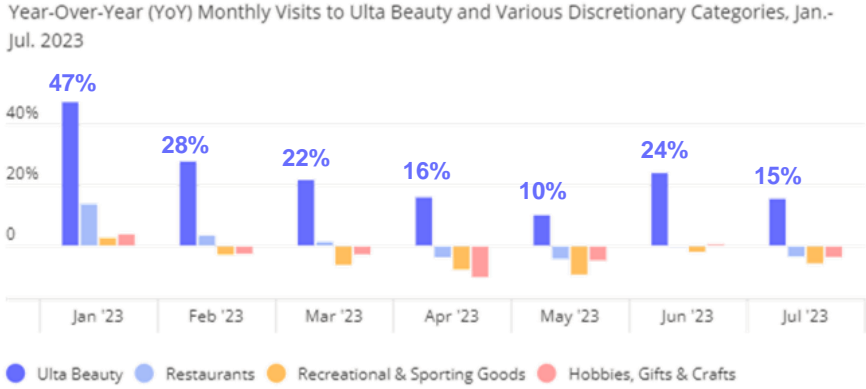
Store Count Potential

Management has communicated these targets to the Street; sellside analysts appear to accept this long-term target



Foot Traffic Shows Stickiness of Ulta's Free-standing Stores¹

Mobile location data shows that Ulta's monthly foot traffic grew 10%+ YoY, compared to other discretionary categories where foot traffic were slower or declined

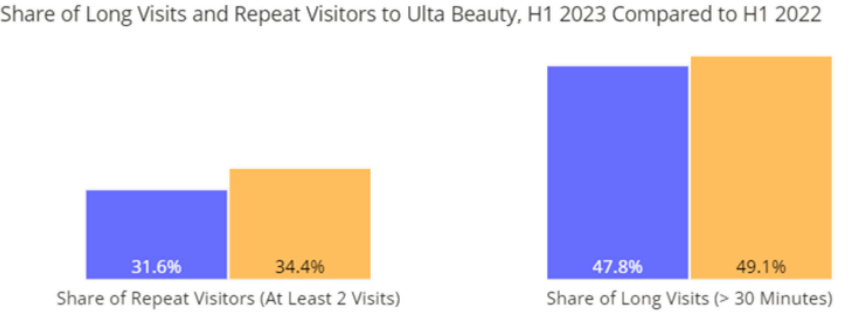


Shop-in-Shop (SIS) Strategy | Launched 2021



	ULTA BEAUTY at TARGET	at SEPHORA KOHL'S
# brands	50+	125+
Avg per-store size	~1,000 sq ft	~750 or 2,500 sq ft, (based on the Kohl's size)
Customer Overlap / Partnership Performance	Strong – both Ulta and Target offer beauty in “mass” pricing, but Ulta also has prestige. This draws in customers from both Ulta and Target’s side. On 8/16/2023 Target mgmt said “sales from Ulta Beauty at Target more than doubled compared with a year ago, showing why we’re so enthusiastic about this exclusive partnership”	Not much – Sephora is majority prestige pricing while Kohl’s is mid-tier. Sephora’s goal was to attract more “mass price-point” customers, but Kohl’s and Sephora initially saw lower revenue than anticipated and had to spend more-than-expected in advertising and training to get to these customers

In addition, Ulta is seeing more repeat visitors and longer visits in H1 2023 vs prior year, leading to a stickier business



(1) All foot traffic data from Placer.ai, which tracks mobile location data. Data does not remove any new locations in 2023 relative to 2022.
 (2) Based on one sellside analyst.

Financials: Case Summary

Base case assumes stronger revenue growth across retail and ecommerce (total 9% CAGR), with margin expansion to ~19%

CY	Historical	Base Case					CAGR
	2022	2023	2024	2025	2026	2027	'23-'27
Retail Store & Salon	\$8,314	\$9,106	\$10,022	\$10,907	\$11,712	\$12,449	8%
% growth	24%	10%	10%	9%	7%	6%	
Ecommerce	\$1,895	\$2,155	\$2,456	\$2,776	\$3,053	\$3,328	11%
% growth	-1%	14%	14%	13%	10%	9%	
Total Revenue	\$10,209	\$11,261	\$12,478	\$13,683	\$14,765	\$15,777	9%
% growth	18%	10%	11%	10%	8%	7%	
Adj EBITDA	\$1,923	\$1,962	\$2,165	\$2,530	\$2,810	\$3,061	12%
% of revenue	19%	17%	17%	18%	19%	19%	
EPS	\$24.02	\$25.86	\$28.75	\$34.76	\$39.60	\$44.16	14%
FCF (CFO - Capex)	\$1,191	\$813	\$1,155	\$1,863	\$2,104	\$2,325	30%
% of net revenues	12%	7%	9%	14%	14%	15%	

	Bull	Base	Bear
CY'23-'25 Revenue CAGR	12%	10%	7%
CY'23-'27 Revenue CAGR	11%	9%	5%
Adj EBITDA margin CY'23	17%	17%	17%
Adj EBITDA margin CY'27	20%	19%	17%
CY'23 EPS	\$25.86	\$25.86	\$25.86
CY'25 EPS	\$35.88	\$34.76	\$31.13
CY'27 EPS	\$49.17	\$44.16	\$32.59
Exit NTM EPS Multiple	18.0x	15.0x	12.0x
1-year Share Price Target	\$646	\$521	\$374
Implied % Upside	62%	31%	-6%
1-year IRR	56%	28%	-6%
3-year Share Price Target	\$885	\$662	\$391
Implied % Upside	122%	66%	-2%
3-year IRR	30%	18%	-1%

Key Drivers	Bull Case	Base Case	Bear Case
Revenue	Higher revenue growth, driven by more store adds (1,561 free-standing and 780 by 2027) and increased productivity per store	Assumes 9% 2023-2027 CAGR, driven by stronger growth in Retail Store channel and even stronger growth in ecommerce, driven by continued execution on top of robust beauty sector trends. This is slower than the 17% historical 2015-2019 revenue CAGR	Growth of 5%, which is significantly below 2015-2019 CAGR of 17%. Assumes slower store expansion and reduced store productivity, with slower ecommerce
Cost	Margin expansion to 20%, based on more favorable pricing and operating leverage from greater productivity per store	Slight margin expansion to 19% driven by operating leverage, slightly offset by higher advertising expense (as % of sales) needed to support growth	Flat margins from 2023 levels; driven by less favorable pricing and lower operating leverage
Multiple	Higher multiple at ~18x, which ~3x above current trading, due to higher EPS growth compared to base case	~15x NTM P/E which is consistent with current trading but ~8x lower than the 5 year average. We believe there is upside potential (ie multiple expansion), since the strong EPS growth rate of 14% (2023-2027E CAGR) should garner a higher multiple over time	Lower multiple at ~12x NTM P/E, which is below current trading

Note: CY years here represent the closest fiscal year (eg CY 2022 reflects FYE 31-Jan-2023).

Valuation Summary

Base Case implies ~66% share upside and ~18% IRR after 3-year hold, assuming no multiple expansion

Valuation Build	
Ticker	ULTA
Date	11/14/2023
Most Recent Filing	8/30/2023
Share Price	\$ 397.93
Shares	
Class A Shares	49.8
Fully Diluted Shares	49.8
Market Capitalization	\$ 19,836
(+) Debt	\$0
(-) Cash	(\$389)
Enterprise Value	\$ 19,448
Memo: Operating Lease Liabilities	\$ 1,880
NTM EPS - Base Case	\$26.49
P / NTM EPS	15.0x
NTM EPS - Consensus	\$26.18
P / NTM EPS	15.2x
NTM EBITDA - Base Case	\$2,034
TEV / NTM EBITDA	9.6x

Returns Framework					
CY	2022	2023	2024	2025	2026
CY EPS	\$24.02	\$25.86	\$28.75	\$34.76	\$39.60
CY + 1 EPS	\$25.86	\$28.75	\$34.76	\$39.60	\$44.16
Forward (CY+1) PE Multiple		15.0x	15.0x	15.0x	15.0x
Implied Share Price		\$431.32	\$521.37	\$594.05	\$662.33
Premium / Discount to Today	\$397.93	8.4%	31.0%	49.3%	66.4%
MOIC			1.31x	1.49x	1.66x
IRR Days	Investment Date		397	762	1,127
	12/31/2023				
IRR			28.2%	21.2%	17.9%
EV Build					
EoP Diluted Shares Outstanding		49	48	47	46
Implied Equity Value		21,122	24,994	27,894	30,480
(+) Debt		0	0	0	0
(-) Cash		(614)	(1,206)	(2,506)	(4,046)
TEV		\$20,508	\$23,788	\$25,389	\$26,434
CY Adj EBITDA		\$1,962	\$2,165	\$2,530	\$2,810
CY+1 Adj EBITDA		\$2,165	\$2,530	\$2,810	\$3,061
Implied EV / Adj EBITDA		9.5x	9.4x	9.0x	8.6x

Commentary

- Current trading at ~15x NTM P/E, based on Consensus EPS assumptions, which is ~8x below the 5-year average. Assume same ~15x exit multiple, though there is likely upside in multiple due to the strong EPS growth rate of 15% 2023-2027E
- Assuming 12/31/2023 investment date, analysis results in ~66% upside in 3-year share price, implying ~18% IRR
- Each ~1x increase in NTM P/E multiple at exit adds ~2.5 pctg pts of 3-year IRR
- PT Implies NTM EV/EBITDA of ~8.5x in 2026E, which is ~1x below current trading

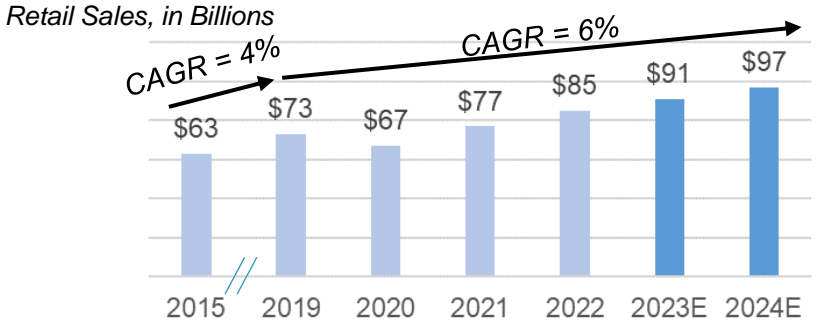
Note: EV and debt excludes operating leases. CY years here represent the closest fiscal year (eg CY 2022 reflects FYE 31-Jan-2023).

Appendix

Industry Overview

The Beauty industry is large and growthful, and Ulta is well-positioned as a specialty retailer given its wide product selection and focus across mass & prestige price points

North America Beauty Market¹

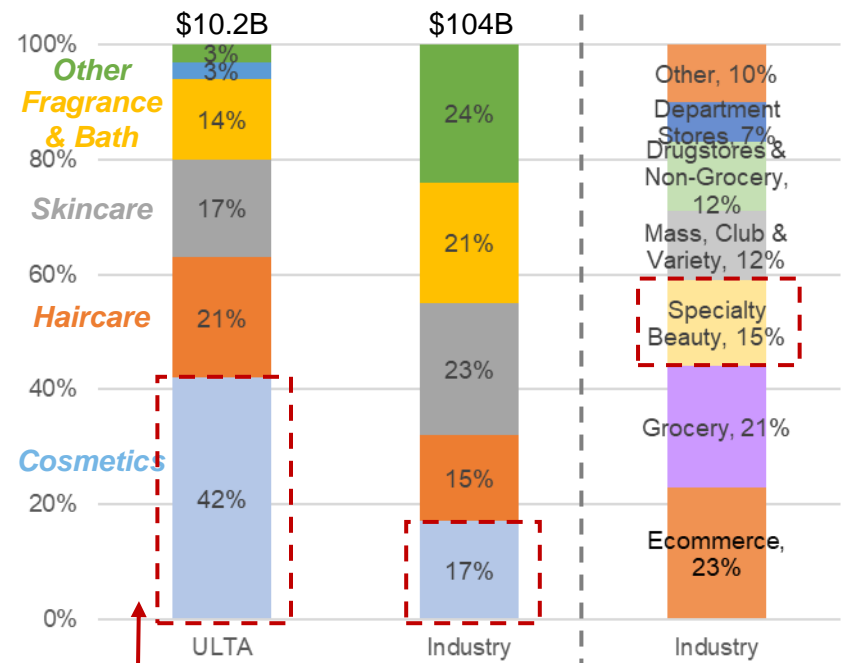


Beauty category is an attractive industry due to its robust historical 4% growth; expected to accelerate to 6% CAGR despite COVID-related contraction in 2020

Comparison with Largest Competitor

	ULTA BEAUTY	SEPHORA
Ownership	Public	By LVMH
2022 Revenue	~\$10B	\$5-6B
No. of US Stores	1,350	500
Global Presence	No	Total 2,700+ stores in 35 countries
Product price points	Mass, Mass-tige, Prestige	Mostly Prestige, w/ some Mass-tige
Locations	Primarily off-mall	Primarily at malls
Avg per-store size	~10,000 sq ft	~5,500 sq ft
Shop-in-shop strategy	In Target (will have 800 stores)	In Kohl's (will have 1,000 stores)

Industry and Ulta Breakdown²



Relative to Industry, ULTA is more weighted towards cosmetics, given its competitive advantage in allowing trial in brick & mortar locations

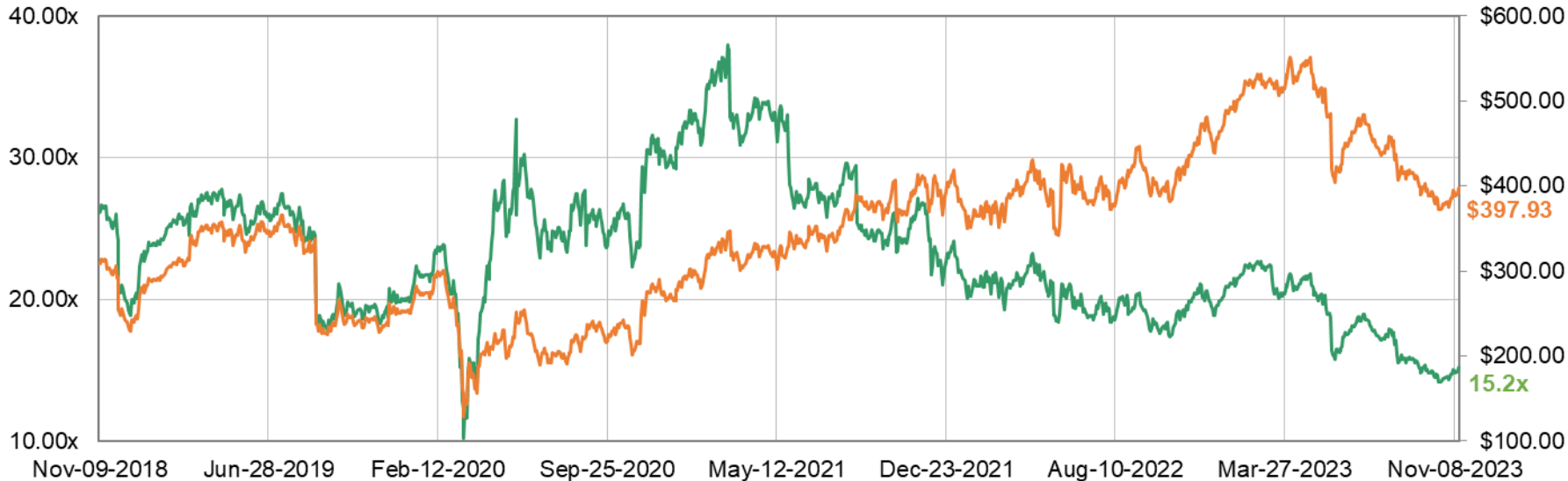
Both are specialty retailers, but Ulta is better positioned to succeed in the near and long-term given its larger store formats (allowing for more beauty discovery) and broader range of price points

(1) Source: Based on Euromonitor data and McKinsey analysis.
(2) Source: ULTA Investor presentation

Historical Share Price Performance

ULTA share price is at ~71% of its 52-week high and down 6% vs prior year, and its P/E multiple has declined ~8x from 5 year averages, driven by Street's pessimism about future growth prospects

ULTA | Last 5 Year Share Price Performance



— NTM P/E — Share Price

Average Multiples	Averages					Current
	10Y	5Y	3Y	2Y	1Y	
NTM P/E	26.3x	23.2x	23.0x	19.7x	18.8x	15.2x
NTM EV/EBITDA	14.1x	14.5x	14.8x	13.5x	13.1x	10.9x

Share Price Performance	Current Share Price vs Historical					Current
	10Y	5Y	3Y	2Y	1Y	
Share Price Performance	203%	27%	52%	0%	-6%	\$397.93

Median Wall Street Analyst Price Target (12-18 months): \$525

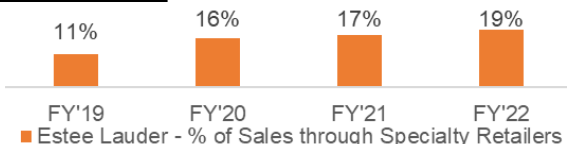
Source: Capital IQ, market data as of 11/14/2023. Reflects consensus EPS. 2013-2017 data not pictured on chart but is included in averages and historical share price performance chart.

Thesis #1: Long-term Value of Ulta as a Specialty Retailer in Beauty (cont'd)

Structural / foundational aspects of the beauty industry as well as adjacent sector trends will enable Ulta to maintain this competitive advantage of being a “gate keeper” and “brand builder” over the long-term

Ulta’s Drivers of Enduring Strength

Structural / Foundational

Aspect	Description	Implication
Beauty Landscape – where to play	<ul style="list-style-type: none"> Beauty is a fragmented industry, driven by “low barriers to entry and trend-obsessed customers”¹ For example, skincare industry in US has <ul style="list-style-type: none"> 30 brands with >\$200M annual revenue each 500+ brands <\$200M each¹ 	<ul style="list-style-type: none"> Beauty industry has attractive growth at ~6% projected CAGR. Investing behind a specialty retailer enables backing multiple high-growth brands, vs betting on an individual brand in a highly competitive industry
Voice of Authority in Beauty	<ul style="list-style-type: none"> Consumers view Ulta and Sephora as the “gatekeepers of beauty trends” and trust them for the best brands  <p>■ Estee Lauder - % of Sales through Specialty Retailers</p>	<ul style="list-style-type: none"> Ulta is a brand-builder and continues to gain share in beauty market – it provides brands with distribution and customers with education on trends Beauty brands want to be where their consumers already shop <p><i>An increasing % of Estee Lauder sales are through specialty retailers such as Sephora / Ulta³</i></p>
Importance of In-person Trial	<ul style="list-style-type: none"> Majority of consumers value in-store shopping for beauty so they can try products and ask beauty consultants <ul style="list-style-type: none"> 50% of consumers prefer in-store shopping, and another 22% prefer hybrid. Only 29% prefer online-only shopping² In parallel, 2019-2022 saw an influx of DTC beauty brands as COVID encouraged ecommerce and trial 	<ul style="list-style-type: none"> Ulta’s large-store format allows for trial and discovery, especially for make-up After the Apple privacy changes (IDFA) in Apr-2021, it is much harder for DTC beauty brands to target key customers; they are increasingly moving into physical stores to lower their customer acquisition costs

Adjacent Sector Trends

Consumer spending macro	<ul style="list-style-type: none"> Beauty is seen as “affordable luxury”. Ulta and other public beauty brands have not called out trade-down yet (ie customers are not moving from prestige to mass), but are cautious given much of the beauty growth in the past few years has been driven by premiumization 	<ul style="list-style-type: none"> Ulta has products across multiple price points (vs competitor Sephora which is mostly prestige) and is well-positioned to appeal to a broad range of consumers, especially in a recessionary period
Health & Wellness	<ul style="list-style-type: none"> Post COVID, consumers are increasingly focused on health & wellness across all sectors 	<ul style="list-style-type: none"> Ulta recently launched products for beauty on the inside, eg vitamins/supplements, relaxation (bath/sleep).

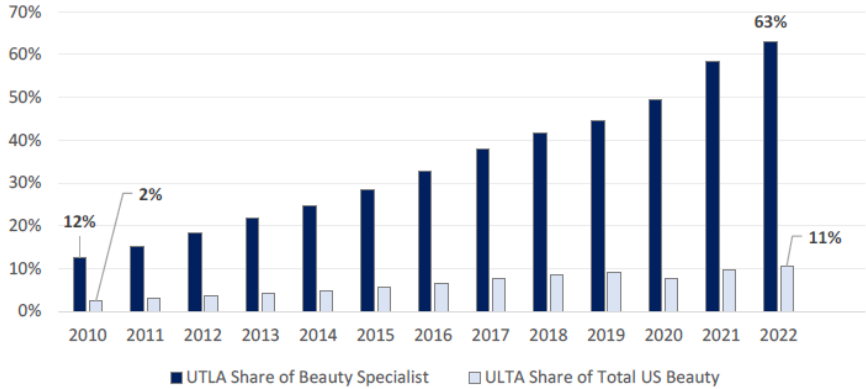
(1) (McKinsey “The State of Fashion: Beauty”) (2) Based on consumer survey done by Statista Research Department (3) Data from Wall Street equity research.

Additional Revenue Detail

ULTA has strong SSS growth, and has consistently grown store footprint, even during COVID

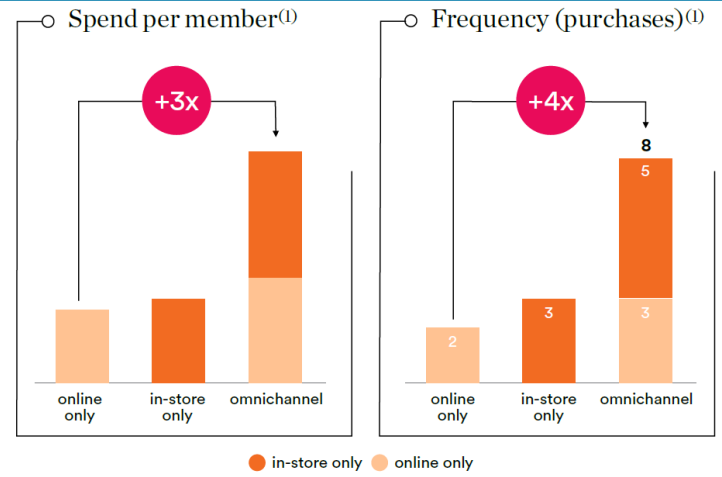
Ulta Market Share¹

Ulta has consistently gained market share, largely at the expense of department stores, grocery, and drugstores



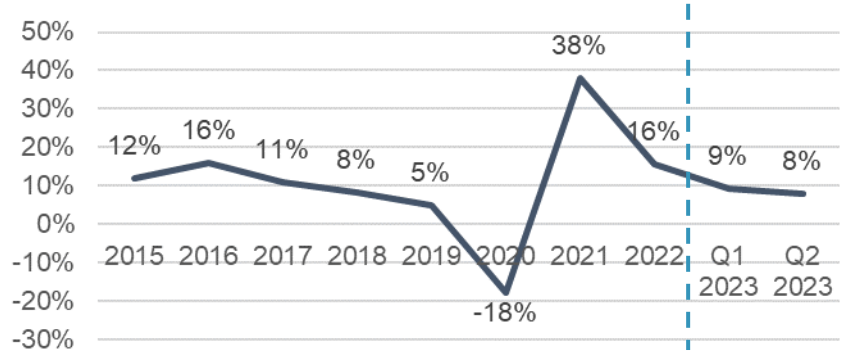
Ulta's Omnichannel Approach²

Ulta's omnichannel approach leads to its highest-spend customers



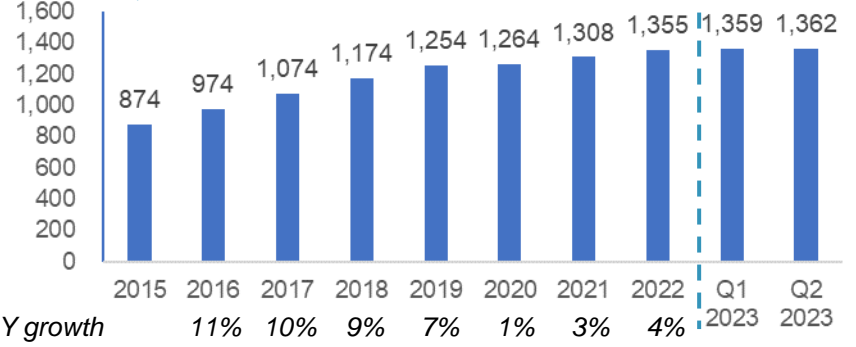
Ulta SSS % Growth²

SSS growth has seen strong historical growth; growth is decelerating but still above 2019/2019 levels



Ulta EoP Store Counts²

Meaningful runway remaining to implement additional stores across the US. These store counts exclude Ulta Beauty at Target locations, which started in 2021 and total 420+ locations



(1) Source: Wall Street Research, based on Euromonitor and Company materials.
 (2) Source: ULTA public filings and investor presentations

Risks & Mitigants and Event Path / Catalyst

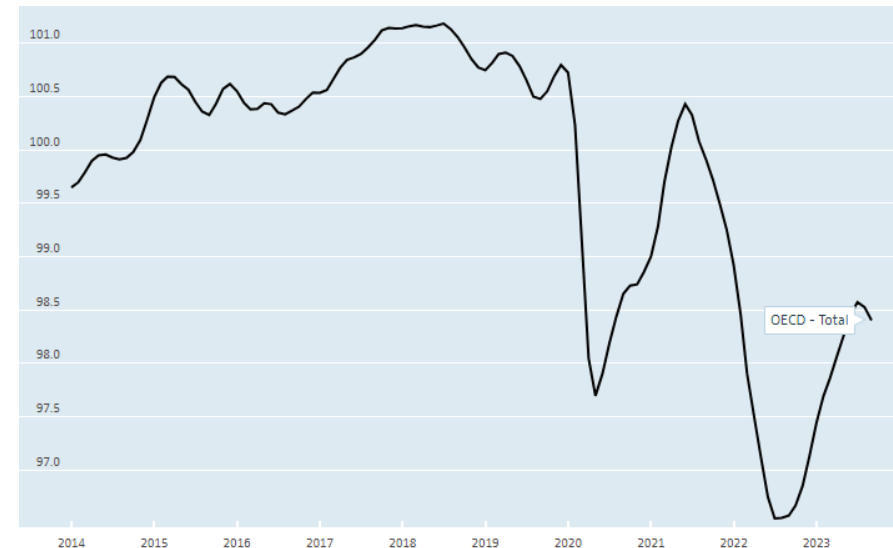
Risks across broader macroeconomic and competitive landscape; however, ULTA is well positioned given its status as a specialty retailer and the its balanced portfolio across multiple price points

Risks & Mitigants

- After strong 2023 growth, Ulta's topline growth will decelerate as we move into a recessionary environment
 - Mitigant: Ulta has positioned its portfolio to address multiple price points, from mass to prestige
 - Mitigant: Many of the trends seen in COVID will be here long-term, for example skincare addressing a more intrinsic beauty need, people wearing makeup more for themselves/their own enjoyment instead of external purposes
- Ulta is dependent on its ability to curate the best or most on-trend beauty brands
 - Mitigant: Given its role as a "brand-builder" in beauty, where getting into Ulta meaningfully expands a brand's distribution reach and consumer awareness, Ulta will continue to attract high-quality brands
 - Mitigant: Given privacy changes made from Apple, DTC brands are turning towards entering brick & mortar retailers to help reduce customer acquisition costs
- Ulta has no international exposure, which may adversely impact its long-term growth trajectory especially compared to key competitor Sephora which has large global presence
 - Mitigant: Ulta has continued to expand its footprint through own-store expansion and Ulta @ Target; plenty of whitespace remains for domestic growth
 - Mitigant: Management has considered international expansion¹, but this is likely far-off

Event Path / Catalyst

- Next earnings (FQ3 2023 earnings on 11/30/2023)
 - While other market sources can capture a sense of revenue trending (eg credit card data), the Street is also focused on margin impacts from promotional activity and previously-pushed-back SG&A spend
- Brands' distribution choices
 - Popular brands may choose to be exclusive with either Ulta or Sephora; to monitor how this trend evolves over time
- Consumer spending sentiment trends
 - Consumer confidence index (*below*) has recovered from Sep-2022 lows, but is still down vs pre-COVID periods



(1) Based on interviews on Tegus.

Current Trading Comps

Ulta has slightly stronger revenue growth and higher margins vs closest retail peers; it trades higher on EV/EBITDA but lower on P/E multiple

Company Information		Trading Statistics		Enterprise Value		Rev. Growth	EBITDA Margin	Revenue Multiples		EBITDA Multiples		P/E Multiples	
Ticker	Name	Current Price	% of 52-Week High	Market Cap.	TEV	2023E	2023E	2023E	2024E	2023E	2024E	2023E	2024E
ULTA	Ulta	\$397.93	71%	19,634	19,246	9%	17%	1.7x	1.7x	10.2x	9.8x	15.6x	14.7x
Retail Peers													
TSX:ATZ	Aritzia	\$17.93	47%	2,011	2,028	10%	16%	1.2x	1.1x	7.9x	5.7x	26.0x	15.3x
BURL	Burlington Stores	\$132.22	55%	8,475	9,275	11%	9%	1.0x	0.9x	10.8x	9.1x	23.2x	17.9x
FIVE	Five Below	\$182.32	83%	10,155	9,719	15%	15%	2.7x	2.4x	18.7x	15.6x	33.5x	27.9x
LULU	Lululemon	\$430.33	100%	54,611	53,504	18%	26%	5.6x	4.9x	21.1x	18.5x	35.4x	30.8x
BBWI	Bath & Body Works	\$31.51	64%	7,165	11,044	(2%)	20%	1.5x	1.4x	7.4x	6.8x	10.3x	9.0x
SBH	Sally Beauty	\$8.80	48%	948	1,891	(2%)	12%	0.5x	0.5x	4.4x	3.9x	5.2x	4.3x
URBN	Urban Outfitters	\$35.60	94%	3,304	2,828	7%	10%	0.6x	0.5x	5.5x	5.2x	10.9x	10.5x
VSCO	Victoria's Secret	\$20.22	42%	1,562	2,722	(3%)	10%	0.4x	0.4x	4.6x	4.4x	9.3x	8.1x
Retail Peers Median						8%	13%	1.1x	1.0x	7.6x	6.2x	17.1x	12.9x