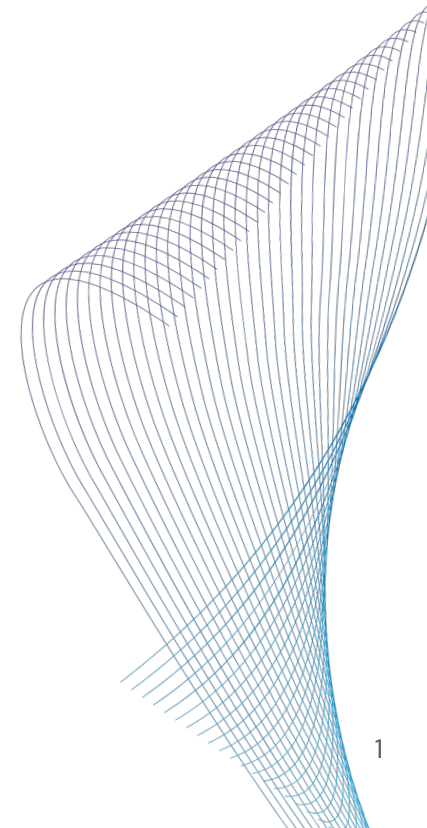


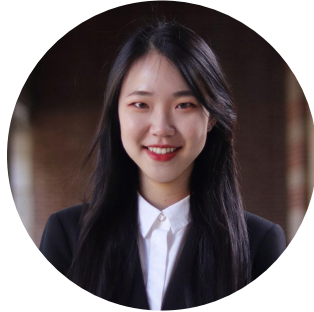


Ultra Beauty [NASDAQ: ULTA]



Stock Report on the Ultra Beauty, Inc.

Research Team



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Industry and Company Summary

Ulta Beauty Introduction

Stock Price (11/29): \$449.88

Ulta Beauty was founded in 1990 as a beauty retail chain with a unique concept that offers a broad range of brands, select beauty services, and a convenient shopping environment.

It is the largest beauty retailer in the US offering more than 25,000 beauty products within more than 1300 stores in the US. It also distributes its products through its website [ulta.com](https://www.ulta.com). It reached a total revenue of \$6.152B in 2021.



1,300+
stores

~14 M
total store square footage

6
distribution and fast fulfillment centers

3 M
square feet in distribution centers

50
states

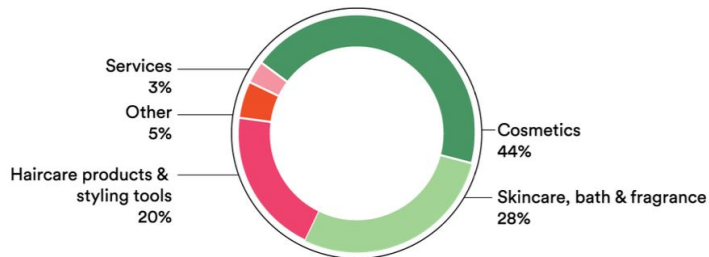
25,000+
products in store

600+
brands offered

\$6.5 B
fiscal 2020 net sales

40,000+
associates as of January 29, 2022

Fiscal 2020 net sales by category



Ulta Beauty ESG Efforts

Diversity & Inclusion

- Received a 77% score on associate engagement survey, five points higher than industry benchmark
- With a keen focus on brand amplification and support, assortment growth, and equitable, welcoming guest and associate experiences, the commitments reflect an investment of more than \$25 million in 2021.
- Today 90% of the associates are women with 54% women directors on Board and 67% women leaders on executive team. In addition, 25% of directors and above at Ulta Beauty are people of color.

CHAMPIONING DIVERSITY

In early 2021, we announced **five broad commitments** to create a more inclusive world for our guests, associates, brand partners and communities. Specific goals that map to these commitments include:



\$20 M

allocated to media investments across endemic and multicultural platforms to create more personal connections with Latine, Black and other communities

2x

more Black-owned brands in our assortment by the end of 2021

\$2 M

invested in mandatory quarterly in-store training for all store and salon associates to reinforce inclusivity and address unconscious bias

100%

of field, distribution center and corporate associates required to participate in Stronger Together Leadership Training

\$4 M

dedicated to marketing support of Black-owned brands

15%

of our shelf space devoted to Black-owned businesses, through the **Fifteen Percent Pledge**

Ulta Beauty ESG Efforts

REDUCING EMISSIONS

Committed to set science-based emissions reduction targets with the Science Based Targets initiative

2x
renewable
energy credits
commitment
in 2022

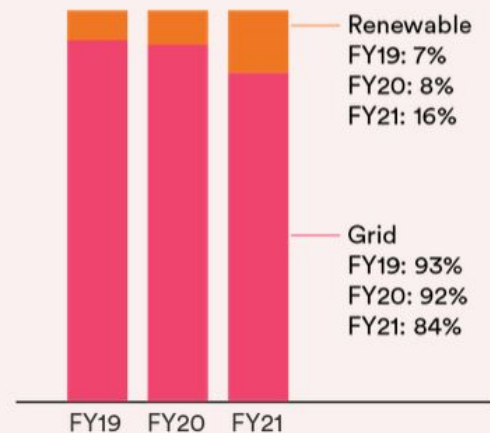


SUSTAINABLE PACKAGING

50%
of packaging sold at Ulta Beauty
will be recyclable, refillable or
made from recycled or bio-
sourced materials by 2025



FY19-21 energy consumption grid vs. renewable



Sector Overview

Beauty

Global beauty industry spending was \$511 billion in 2021, estimated to hit \$716 billion in 2025

Annual compound growth rate of 7%, driven by digital expansion and shifting trends

Historically, largely purchased offline but this is changing especially post Covid - 48% by 2025

70% market share in Asia Pacific and North America (Ulta is US only - major growth opportunity)

Trends

- Diversity and variety
 - Rise of social media
- Natural/clean beauty
- Health and wellness
- Skincare focus
- Hyper-personalisation
 - Research shows that consumers are 80% more likely to make a purchase
- At home treatments - result of Covid
- Men's cosmetics and beauty

Business Overview & Business Model

- Retail brand for beauty selling over 25,000 beauty products and 600 brands
- Products outside of beauty are sold as well
- Salon in every store
- Focuses on a personalized experience regardless of being a major retailer in beauty
- 95% of their sales come from rewards members
- Partnership with Target to reach new customer base
- Rapid expansion of stores from 1300 to 1500



Investment Thesis

Omnichannel

Seamless experience through multiple channels

Focuses on the customer experience rather than the sale of the product

Grow a larger customer base

All Things
Beauty

Brand loyalty from 32 million customers

Enticing rewards program

Defensive in today's industry

Management

CEO: David C Kimbell since June 2021

- Previously held roles as President, Chief Merchandising and Marketing Officer, Chief Marketing Officer at Ulta
- Focus on diversity and inclusivity
- Guest centricity – all price points, personalisation
- Partnership with Target
- 3Q21 sales growth: 29%, 4Q21 sales growth 21%, 1Q22 sales growth 21%, 2Q22 sales growth 17%
- Beaten estimates and as a result bumped up future estimates from 3–4% to 6–8%

Management full of people with experience in the beauty sector such as Chief Merchandising Officer Monica Arnaudo



David C Kimbell
CEO

Competitive Landscape

As Ulta is a US only company, we will be looking at alternatives from a US perspective

Sephora: most similar substitute. Primarily high end. More refined shopping experience both in-store and online (better omnichannel). 17 million loyalty program subscribers as compared to Ulta's 32 million

Target/Walmart: not beauty focused but offers a substitute for most drugstore/cheaper brands (Target partnership with Ulta)

Brand websites and stores: more popular for high end brands as they often include a more luxurious experience but Ulta and other brands listed above offer a one-stop shop and are by far the main way that other brands sell products



Growth Strategy

Targets by 2024

5-7% CAGR

13-14% growth in operating profit

\$150-200 million

to fund new initiatives

50 new stores per year

\$50 million for DEI commitments

All Things Beauty Approach: growth in core categories such as makeup, haircare, skincare, and fragrance + cross-category strategic platforms focusing on Conscious Beauty at Ulta Beauty, Black-owned, Indigenous, and BIPOC founded brands.

Personalization: 95% of sales come from Ultimate Rewards program → curating content based on data collected and launching of UB Media

Omnichannel: partnership with Google to launch GlamLab Virtual try on tool and “Beauty To Go”

Innovation: strategic partnership with Adeptmind to power a personalized search engine & \$20 million Digital Innovation Fund

Risks and Mitigations

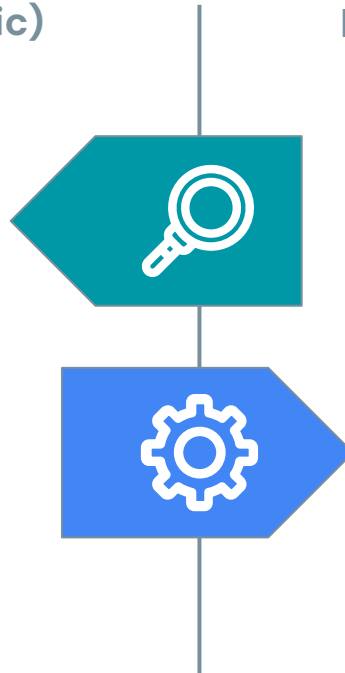
Risks (economic, financial, strategic)

Macroeconomic down trends

Increased price of sourcing

Unable to sustain growth plans and long-term strategic plans

Disruption in operation centers can reduce sales



Mitigants

Diversified Products

Loyalty of Customers

Relative Lower Prices for Products compared to other beauty products

Wide spread of data available

Rapid expansion in stores with omnichannel implementation

Valuation

Public Comps

Company	Ticker	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Ulta Beauty, Inc	(NASDAQGS:ULTA)	2.50	13.51	15.80	19.47
Nordstrom, Inc.	(NYSE:JWN)	0.73	8.81	16.10	8.38
The Gap, Inc.	(NYSE:GPS)	0.90	37.88	NM	NM
Bath & Body Works	(NYSE:BBWI)	2.29	8.19	9.85	8.59
Sally Beauty Holdings, Inc.	(NYSE:SBH)	1.33	10.39	12.99	7.73
Macy's Inc	(NYSE:M)	0.52	4.57	5.76	3.69
Low		0.52	4.57	5.76	3.69
25th Percentile		0.73	8.19	8.83	6.72
Average		1.15	13.97	11.18	7.10
Median		0.90	8.81	11.42	8.06
75th Percentile		1.33	10.39	13.77	8.43
High		2.29	37.88	16.10	8.59

2022 Implied Share Price	EV/Revenue	EV/EBITDA	EV/EBIT	P/E
Low	\$65.50	\$124.77	\$136.54	\$79.84
25th Percentile	\$104.25	\$244.76	\$223.70	\$145.48
Average	\$179.74	\$436.77	\$290.28	\$153.61
Median	\$133.53	\$265.42	\$297.29	\$174.34
75th Percentile	\$211.60	\$318.09	\$363.87	\$182.47
High	\$383.81	\$1,230.81	\$430.00	\$185.90

DCF - Perpetuity Growth Model

	Historical Period					Projection Period				
	2018	2019	2020	2021	2022	Year 1 2023	Year 2 2024	Year 3 2025	Year 4 2026	Year 5 2027
Revenue	5885	6717	7398	6152	8631	9764	10435	10978	11404	11678
% Change		14.14%	10.15%	-16.84%	40.30%	10.51%	5.50%	4.16%	3.11%	2.40%
Cost of Goods Sold	3788	4307	4351	3817	4873	5772	6168	6489	6741	6903
% of Revenue	64.37%	64.13%	58.81%	62.05%	56.46%	59.11%	59.11%	59.11%	59.11%	59.11%
Operating Expense	1287	1535	2127	2021	2455	3207	3428	3606	3746	3836
% of Revenue	21.87%	22.86%	28.75%	32.85%	28.44%	32.85%	32.85%	32.85%	32.85%	32.85%
EBIT	785	854	901	299	1293	785	839	883	917	939
EBIT Margin	13.35%	12.72%	12.18%	4.86%	14.99%	8.04%	8.04%	8.04%	8.04%	8.04%
EBITDA	1038	1133	1196	596	1561	1178	1228	1259	1274	1270
% of Revenue	17.64%	16.87%	16.16%	9.68%	18.09%	12.06%	11.76%	11.47%	11.17%	10.87%
Effective Tax Rate	29.44%	23.35%	22.09%	23.91%	23.92%	23.92%	23.92%	23.92%	23.92%	23.92%
NOPAT	554	655	702	227	984	598	639	672	698	715
D&A	253	279	295	297	268	392	388	376	357	330
% of Revenue	4.29%	4.16%	3.98%	4.83%	3.10%	4.02%	3.72%	3.42%	3.13%	2.83%
Capital Expenditures	441	319	299	152	172	277	296	311	323	331
% of Revenue	7.49%	4.76%	4.03%	2.47%	2.00%	2.83%	2.83%	2.83%	2.83%	2.83%
Change NWC	62	28	(27)	(277)	187	(24)	(25)	(27)	(28)	(28)
% of Revenue	1.06%	0.41%	-0.36%	-4.50%	2.17%	-0.24%	-0.24%	-0.24%	-0.24%	-0.24%
Unlevered Free Cash Flo	304	587	725	649	892	737	757	763	759	743
Period						1	2	3	4	5
Discounted Unlevered FCF						690	664	628	585	536

Perpetuity Growth

Long Term GDP Growth Rate 3.00%

Terminal Growth Rate 3.00%

Implied Terminal Value \$20,435

Implied Terminal EBITDA Multiple 16.09

(+) PV of Terminal Value \$14,745.2

(+) Sum of PV of Free Cash Flows \$3,102.5

Implied Enterprise Value \$17,847.8

% of Implied TEV from Terminal Va 82.62%

(-) Debt \$1,856.7

(+) Cash \$434.2

Implied Equity Value \$16,425.3

Diluted Shares Outstanding 51.6

Implied Share Price \$318.28

Sensitivity Analysis

Sensitivity Analysis: Discount Rate (WACC) vs Terminal Growth Rate

		Terminal Growth Rate										
		2.25%	2.40%	2.55%	2.70%	2.85%	3.00%	3.15%	3.30%	3.45%	3.60%	3.75%
Discount Rate (WACC)	7.34%	234.30	240.76	247.62	254.92	262.72	271.05	279.97	289.56	299.89	311.04	323.12
	7.19%	242.16	249.05	256.40	264.24	272.61	281.59	291.23	301.61	312.83	324.98	338.19
	7.04%	250.50	257.89	265.77	274.19	283.21	292.91	303.35	314.63	326.85	340.14	354.64
	6.89%	259.38	267.31	275.78	284.85	294.60	305.11	316.45	328.74	342.10	356.68	372.64
	6.74%	268.86	277.38	286.50	296.31	306.87	318.28	330.64	344.07	358.73	374.79	392.46
	6.59%	278.99	288.16	298.03	308.65	320.12	332.55	346.06	360.80	376.95	394.72	414.36
	6.44%	289.84	299.75	310.43	321.97	334.47	348.06	362.88	379.12	396.99	416.74	438.70
	6.29%	301.49	312.24	323.84	336.41	350.07	364.98	381.31	399.28	419.15	441.22	465.90
	6.14%	314.05	325.72	338.36	352.10	367.09	383.52	401.59	421.56	443.77	468.59	496.52

Thank you!

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