

Ulta Beauty

Making increased investments to drive traffic and market share

Reiterate Rating: NEUTRAL | PO: 575.00 USD | Price: 565.44 USD

4Q beat but F24 OM guide light of Street

We reiterate Neutral as we think long term sales opportunities are balanced by near-term margin pressure. ULTA reported 4Q EPS of \$8.08, beating our/VA consensus of \$7.17/\$7.52 on higher sales (+2.5% comp) and better margins. Mgmt introduced F24 guidance for comps of 4-5%, operating margin of 14-14.3% (-80bp), and EPS of \$26.20-27.00. The comps were slightly better than its 3-5% algorithm but margins are at the low end of 14-15% to account for increased investments to drive traffic and improve the guest experience. We are increasing our F24/F25 EPS estimates by 1% to \$26.30/\$29.00 to reflect a slightly better comp outlook and maintain our PO of \$575.

SG&A deleverage in F24 curtails margins

ULTA expects LDD SG&A growth in 1H as it completes several transformational initiatives (Project SOAR, Digital store of the future), moderating to MSD in 2H (HSD for F24). MSD wage growth, along with marketing to drive traffic and customer experiences, will pressure this line. 1Q OM will be the most challenged, with meaningful deleverage on SG&A (some investments pushed from 4Q into 1Q) and GM; MM to remain pressured this year due to lapping price increases (mostly 1Q/2Q) and promotions.

Comps weighted to 2H

Comp guidance of 4-5% (cons 3.5%) assumes a build through the year (LSD in 1H, MSD in 2H) as newness is rolled out and comparisons versus last year ease. Competitive intensity is increasing as more points of distribution open (ie. Sephora at Kohl's). Management is protecting its position by enhancing the customer experience in stores and digitally, expanding the assortment with compelling and relevant brand launches, amplifying the luxury offering, enhancing its physical footprint, and expanding UB Media.

Prestige share gains remain challenged

Skincare and fragrance/bath remain the fastest growing categories (comps up DD in 4Q), while makeup/haircare declined LSD/MSD. Prestige share gains in makeup & haircare remain challenged from increased competition and lapping strong brand launches. The company is focused on driving growth in cosmetics across mass and prestige given the category accounts for ~40% of sales. ULTA announced a joint venture with an operator in Mexico to launch the Ulta Beauty brand in 2025; this is its first move into international markets but will have no material impact in F24.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	24.02	26.04	26.30	29.00	31.81
EPS Change (YoY)	33.6%	8.4%	1.0%	10.3%	9.7%
Consensus EPS (Bloomberg)			27.08	29.57	NA
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	23.5x	21.7x	21.5x	19.5x	17.8x
EV / EBITDA*	16.4x	16.0x	15.9x	14.9x	14.0x
Free Cash Flow Yield*	3.9%	3.5%	4.4%	4.7%	5.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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15 March 2024

Equity

Key Changes

(US\$)	Previous	Current
2025E Rev (m)	11,737.5	11,825.0
2026E Rev (m)	12,451.7	12,529.6
2027E Rev (m)	NA	13,222.4
2025E EPS	26.06	26.30
2026E EPS	28.58	29.00
2027E EPS	NA	31.81

Lorraine Hutchinson, CFA

Research Analyst
BofAS
+1 646 855 0951
lorraine.hutchinson@bofa.com

Melanie Nuñez

Research Analyst
BofAS
+1 646 855 2279
melanie.nunez@bofa.com

Stock Data

Price	565.44 USD
Price Objective	575.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-2-9
52-Week Range	368.02 USD - 574.76 USD
Mkt Val (mn) / Shares Out (mn)	29,732 USD / 52.6
Free Float	99.5%
Average Daily Value (mn)	335.05 USD
BofA Ticker / Exchange	ULTA / NAS
Bloomberg / Reuters	ULTA US / ULTAQQ
ROE (2025E)	51.9%
Net Dbt to Eqty (Jan-2024A)	-33.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

DD: double digit

GM: gross margin

HSD: high single digit

LDD: low double digit

iQprofileSM Ultra Beauty

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	36.0%	33.4%	28.8%	26.7%	24.6%
Return on Equity	71.1%	60.9%	51.9%	48.8%	45.1%
Operating Margin	16.1%	15.0%	13.9%	13.9%	14.0%
Free Cash Flow	1,170	1,041	1,295	1,409	1,487

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.2x	1.1x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.3x	1.8x	1.5x	1.5x	1.4x
Tax Rate	24.4%	23.9%	24.2%	24.2%	24.2%
Net Debt-to-Equity Ratio	-37.7%	-33.6%	-41.5%	-50.6%	-58.7%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	10,209	11,207	11,825	12,530	13,222
% Change	18.3%	9.8%	5.5%	6.0%	5.5%
Gross Profit	4,045	4,381	4,587	4,861	5,130
% Change	20.1%	8.3%	4.7%	6.0%	5.5%
EBITDA	1,880	1,922	1,930	2,069	2,204
% Change	20.1%	2.2%	0.4%	7.2%	6.5%
Net Interest & Other Income	5	18	11	12	12
Net Income (Adjusted)	1,242	1,291	1,255	1,333	1,407
% Change	26.0%	3.9%	-2.8%	6.2%	5.5%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	1,242	1,291	1,255	1,333	1,407
Depreciation & Amortization	241	244	285	321	359
Change in Working Capital	(369)	(482)	(163)	(111)	(118)
Deferred Taxation Charge	16	31	0	0	0
Other Adjustments, Net	352	392	353	353	353
Capital Expenditure	(312)	(435)	(435)	(487)	(514)
Free Cash Flow	1,170	1,041	1,295	1,409	1,487
% Change	31.9%	-11.0%	24.4%	8.8%	5.5%
Share / Issue Repurchase	(900)	(996)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	738	767	1,061	1,470	1,957
Trade Receivables	199	208	216	228	240
Other Current Assets	1,772	1,862	2,050	2,183	2,322
Property, Plant & Equipment	1,009	1,182	1,333	1,498	1,654
Other Non-Current Assets	1,652	1,688	1,688	1,688	1,688
Total Assets	5,370	5,707	6,347	7,068	7,861
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,682	1,658	1,691	1,725	1,759
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,729	1,769	2,102	2,435	2,768
Total Liabilities	3,411	3,428	3,793	4,160	4,527
Total Equity	1,960	2,279	2,554	2,907	3,335
Total Equity & Liabilities	5,370	5,707	6,347	7,068	7,861

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Specialty

Company Description

Ulta Beauty (ULTA) is the largest beauty retailer in the United States. The company offers cosmetics, fragrance, skin care products, hair care products, and salon services through an assortment of >25,000 products from approximately 500 brands across a range of categories and price points. Ulta was founded in 1990 and operates 1,264 retail stores across 50 states, Ulta.com, and mobile applications.

Investment Rationale

We rate Ulta Beauty as Neutral. While the category has remained resilient despite inflationary pressures, we expect ULTA to return to LSD comp growth after realizing outsized demand during 2021/2022. We expect ongoing strategic investments will weigh on margins in the near term.

Stock Data

Average Daily Volume 592,541

Quarterly Earnings Estimates

	2024	2025
Q1	6.88A	6.39E
Q2	6.02A	5.94E
Q3	5.07A	5.63E
Q4	8.08A	8.37E



Exhibit 1: ULTA Income Statement

ULTA reported 4Q EPS of \$8.08, beating our/VA consensus of \$7.17/\$7.52 on higher sales (+2.5% comp) and better margins.

Ulta Beauty INCOME STATEMENT	1Q 23 Apr	2Q 23 Jul	3Q 23 Oct	4Q 23 Jan	FY 2023	1Q 24E Apr	2Q 24E Jul	3Q 24E Oct	4Q 24E Jan	FY 2024E	1Q 25E Apr	2Q 25E Jul	3Q 25E Oct	4Q 25E Jan	FY 2025E	1Q 26E Apr	2Q 26E Jul	3Q 26E Oct	4Q 26E Jan	FY 2026E
Net sales	2,634.3	2,529.8	2,488.9	3,554.3	11,207.3	2,760.7	2,696.0	2,684.7	3,683.6	11,825.0	2,932.2	2,862.6	2,845.3	3,889.4	12,529.6	3,095.5	3,021.3	3,002.3	4,103.3	13,222.4
COGS	1,579.4	1,536.2	1,496.9	2,213.7	6,826.2	1,669.0	1,643.8	1,621.3	2,303.5	7,237.6	1,772.7	1,745.4	1,718.3	2,432.2	7,668.6	1,871.4	1,842.2	1,813.1	2,565.9	8,092.7
Gross profit	1,054.9	993.6	992.1	1,340.6	4,381.1	1,091.7	1,052.1	1,063.4	1,380.1	4,587.3	1,159.5	1,117.2	1,127.0	1,457.2	4,860.9	1,224.1	1,179.1	1,189.2	1,537.4	5,129.7
SG&A	612.1	600.7	661.4	820.4	2,694.6	685.6	672.8	707.7	858.4	2,924.4	728.2	714.4	750.0	906.4	3,098.9	768.7	753.9	791.4	956.2	3,270.3
Pre-opening expenses	0.7	1.3	3.5	3.1	8.5	2.0	6.4	5.2	4.1	17.6	1.3	6.4	4.3	2.4	14.4	1.3	6.4	4.3	2.4	14.4
Operating income	442.1	391.6	327.2	517.1	1,678.0	404.1	373.0	350.5	517.6	1,645.3	430.0	396.4	372.7	548.5	1,747.6	454.0	418.7	393.5	578.8	1,845.0
Interest expense (income), net	(7.3)	(4.4)	(2.5)	(3.3)	(17.6)	(2.8)	(2.8)	(2.8)	(2.8)	(11.0)	(3.0)	(3.0)	(3.0)	(3.0)	(12.0)	(3.0)	(3.0)	(3.0)	(3.0)	(12.0)
Pre-tax income	449.4	396.1	329.7	520.4	1,695.7	406.9	375.7	353.3	520.4	1,656.3	433.0	399.4	375.7	551.5	1,759.6	457.0	421.7	396.5	581.8	1,857.0
Income taxes	102.4	96.0	80.2	126.0	404.6	97.6	91.1	86.0	126.6	401.3	103.9	96.8	91.4	134.2	426.3	109.7	102.2	96.5	141.6	450.0
Tax rate	22.8%	24.2%	24.3%	24.2%	23.9%	24.0%	24.2%	24.3%	24.3%	24.2%	24.0%	24.2%	24.3%	24.3%	24.2%	24.0%	24.2%	24.3%	24.3%	24.2%
Net income	347.1	300.1	249.5	394.4	1,291.0	309.2	284.7	267.3	393.8	1,254.9	329.1	302.6	284.2	417.3	1,333.2	347.3	319.5	300.0	440.2	1,407.0
Earnings per share	\$6.88	\$6.02	\$5.07	\$8.08	\$26.04	\$6.39	\$5.94	\$5.63	\$8.37	\$26.30	\$7.06	\$6.55	\$6.21	\$9.21	\$29.00	\$7.74	\$7.19	\$6.82	\$10.10	\$31.81
Diluted shares outstanding	50.5	49.8	49.2	48.8	49.6	48.4	47.9	47.5	47.1	47.7	46.6	46.2	45.8	45.3	46.0	44.9	44.4	44.0	43.6	44.2
Margins:																				
Gross margin	40.0%	39.3%	39.9%	37.7%	39.1%	39.5%	39.0%	39.6%	37.5%	38.8%	39.5%	39.0%	39.6%	37.5%	38.8%	39.5%	39.0%	39.6%	37.5%	38.8%
bp change y/y	(7)	(113)	(131)	14	(53)	(50)	(25)	(25)	(25)	(30)	0	0	0	0	0	0	0	0	0	0
GM vs. 2019	305	292	281	272	285															
SG&A expense	23.2%	23.7%	26.6%	23.1%	24.0%	24.8%	25.0%	26.4%	23.3%	24.7%	24.8%	25.0%	26.4%	23.3%	24.7%	24.8%	25.0%	26.4%	23.3%	24.7%
bp change y/y	188	48	104	(56)	58	160	121	(21)	22	69	0	0	0	0	0	0	(0)	0	(0)	0
SG&A y/y growth	22.2%	12.4%	10.8%	7.6%	12.5%	12.0%	12.0%	7.0%	4.6%	8.5%	6.2%	6.2%	6.0%	5.6%	6.0%	5.6%	5.5%	5.5%	5.5%	5.5%
SGA vs. 2019	11	17	(13)	72	24															
Operating income	16.8%	15.5%	13.1%	14.5%	15.0%	14.6%	13.8%	13.1%	14.1%	13.9%	14.7%	13.8%	13.1%	14.1%	13.9%	14.7%	13.9%	13.1%	14.1%	14.0%
bp change y/y	(188)	(156)	(232)	68	(108)	(214)	(165)	(9)	(50)	(106)	3	1	4	5	3	0	1	1	0	1

Source: Company filings and reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

Ulta Beauty (ULTA)

Our \$575 PO is 20x our F25 EPS estimate, which is comparable to the average for a group of high growth consumer peers. We think such a multiple is warranted given strong sales and earnings growth and Ulta's leading position in the Beauty category.

Downside risks to our PO are a pullback in consumer demand and further margin pressure from promotions. Upside risks to our PO are if beauty category strength continues at the same rate seen over the past two years, and if new beauty trends emerge that serve as catalysts to category expansion.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EWZC	EWZC US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Skechers USA Inc	SKX	SKX US	Christopher Nardone
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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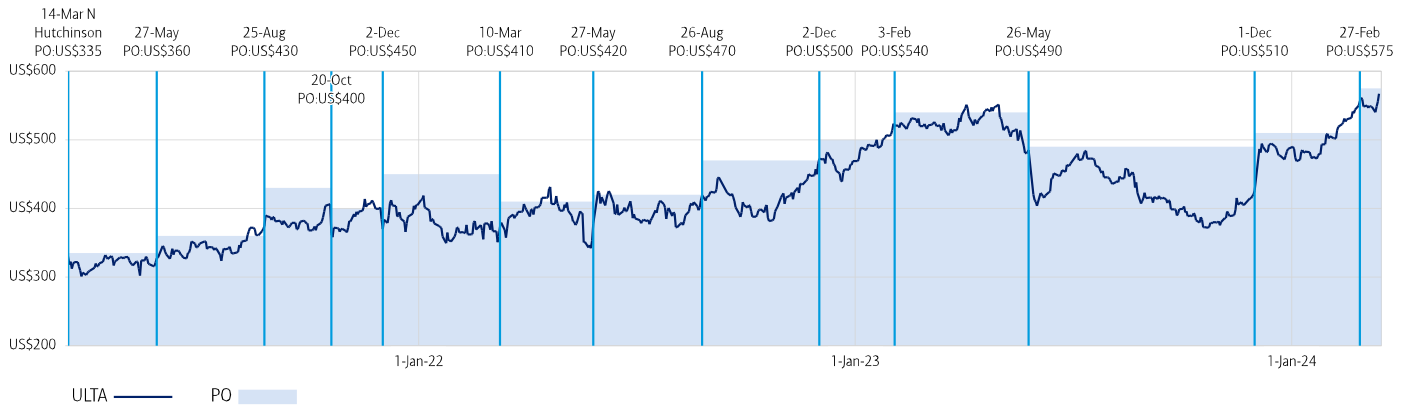
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Disclosures

Important Disclosures

Ulta Beauty (ULTA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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