

## e.l.f. Beauty

# FQ3 sales robust as marketing benefits accelerate; Reiterate Buy

Reiterate Rating: BUY | PO: 200.00 USD | Price: 173.32 USD

## FQ3 beats on top-line; SG&A costs rise on marketing

e.l.f. Beauty (ELF) FQ3 results saw another top-line beat, with sales +85% y/y (+56% volumes, +29% mix), ahead of our +68% estimate, driven by 46% growth in tracked channels for color cosmetics (vs. the category at +2%) and market share gains of +305bps. Gross margin of 70.8% improved +350bps y/y, due to favorable FX, margin accretive mix, cost savings, and lower transportation costs. Meanwhile, SG&A was a higher 54% of sales (vs. our 47% estimate), primarily due to higher marketing and digital spend, which was a higher 26% of sales. FQ3 adj. EBITDA was \$59m vs. our \$70m estimate due to higher marketing, compensation, and infrastructure investments, which we expect to benefit top-line growth in the long-term.

## Super Bowl marketing spend to bolster FQ4 sales

FQ4 marketing spend is expected to ramp further from FQ3 levels (above 26% of sales) as ELF returns for the second year with a Super Bowl ad ([see Feb 6 report](#)). ELF is targeting the higher end of F24 guidance on marketing spend (22-24% of sales) while 1H was closer to 18%. ELF is tripling its Super Bowl reach this year with the national buy vs. regional buy; notably, ELF is seeing higher ROI on incremental marketing investment and has not yet hit an inflection point of declining returns on marketing spend. We are encouraged by announced shelf space expansions at CVS in Spring 2024 and Walmart in Summer 2024, retailers where ELF is underpenetrated vs. #1 market share at Target.

## F24 guidance raised yet again; raising estimates

ELF raised F24 guidance (see Exhibit 2 within). We continue to view top-line guidance as conservative given marketing ROI accelerating and gross margin guidance may be conservative due to benefits from mix accretion. For FQ4, we raise our net sales estimate to +52% y/y from +40% prior and our adj. EBITDA moves to \$58mm from \$56mm prior with higher marketing spend in FQ4.

## Reiterate Buy rating and raise PO to \$200 from \$190 prior

We reiterate our Buy rating and raise our PO to \$200 from \$190 prior. Our \$200 PO is based on DCF analysis which implies a 32.5x CY25e EV/EBITDA multiple. We believe this premium multiple is warranted as the company is still in a high growth phase and continues to diversify its portfolio across color cosmetics/skincare and customer base.

Estimates (Mar) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.84	1.66	3.20	3.61	3.80
GAAP EPS	0.41	1.11	2.29	2.70	2.79
EPS Change (YoY)	18.3%	97.6%	92.8%	12.8%	5.3%
Consensus EPS (Bloomberg)			2.72	3.29	3.94
DPS	0	0	0	0	0
Valuation (Mar)					
P/E	206.3x	104.4x	54.2x	48.0x	45.6x
GAAP P/E	422.7x	156.1x	75.7x	64.2x	62.1x
EV / EBITDA*	130.5x	83.5x	38.6x	28.6x	26.4x
Free Cash Flow Yield*	0.2%	1.0%	0.7%	2.3%	2.7%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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06 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	190.00	200.00
2024E Rev (m)	940.3	987.6
2025E Rev (m)	1,133.2	1,202.6
2026E Rev (m)	1,246.5	1,347.0
2024E EPS	3.17	3.20
2025E EPS	3.69	3.61
2026E EPS	3.90	3.80

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### Stock Data

Price	173.32 USD
Price Objective	200.00 USD
Date Established	6-Feb-2024
Investment Opinion	C-1-9
52-Week Range	67.59 USD - 174.65 USD
Mkt Val (mn) / Shares Out (mn)	9,557 USD / 55.1
Free Float	96.7%
Average Daily Value (mn)	261.98 USD
BofA Ticker / Exchange	ELF / NYS
Bloomberg / Reuters	ELF US / ELF.N
ROE (2024E)	34.6%
Net Dbt to Eqty (Mar-2023A)	-13.2%
ESGMeter™	Medium

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".

[e.l.f. Beauty: ELF continues to shine; raising estimates and PO on anticipated outperformance](#)

[2024 Household, Personal Care & Beauty Primer](#)

# iQprofile<sup>SM</sup> e.l.f. Beauty

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.1%	18.6%	25.1%	20.0%	17.5%
Return on Equity	15.5%	25.4%	34.6%	27.5%	22.4%
Operating Margin	12.5%	16.6%	21.4%	22.8%	22.0%
Free Cash Flow	15	100	69	219	262

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.4x	1.1x	0.4x	1.1x	1.2x
Asset Replacement Ratio	0.2x	0.1x	0.2x	0.1x	0.1x
Tax Rate	19.9%	4.8%	14.1%	22.0%	22.0%
Net Debt-to-Equity Ratio	17.1%	-13.2%	22.6%	-7.9%	-28.6%
Interest Cover	20.1x	47.5x	48.8x	NA	NA

## Income Statement Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	392	579	988	1,203	1,347
% Change	23.3%	47.6%	70.6%	21.8%	12.0%
Gross Profit	252	390	696	854	963
% Change	22.1%	55.1%	78.3%	22.7%	12.8%
EBITDA	75	117	252	341	370
% Change	22.3%	56.4%	116.2%	35.0%	8.5%
Net Interest & Other Income	(12)	(5)	(13)	0	0
<b>Net Income (Adjusted)</b>	<b>45</b>	<b>92</b>	<b>185</b>	<b>214</b>	<b>231</b>
<b>% Change</b>	<b>22.3%</b>	<b>103.0%</b>	<b>101.3%</b>	<b>15.7%</b>	<b>8.2%</b>

## Free Cash Flow Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	45	92	185	214	231
Depreciation & Amortization	27	22	35	54	60
Change in Working Capital	(47)	(5)	(127)	(53)	(34)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(6)	(7)	(15)	12	12
Capital Expenditure	(5)	(2)	(8)	(8)	(9)
<b>Free Cash Flow</b>	<b>15</b>	<b>100</b>	<b>69</b>	<b>219</b>	<b>262</b>
<b>% Change</b>	<b>-36.1%</b>	<b>581.6%</b>	<b>-30.7%</b>	<b>216.4%</b>	<b>19.2%</b>
Share / Issue Repurchase	2	8	3	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(30)	(30)	109	0	0

## Balance Sheet Data (Mar)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	43	121	116	336	597
Trade Receivables	46	68	122	148	166
Other Current Assets	104	115	232	267	288
Property, Plant & Equipment	11	8	15	12	9
Other Non-Current Assets	291	284	633	606	576
<b>Total Assets</b>	<b>495</b>	<b>596</b>	<b>1,118</b>	<b>1,369</b>	<b>1,636</b>
Short-Term Debt	6	6	100	100	100
Other Current Liabilities	59	102	170	177	182
Long-Term Debt	91	61	164	164	164
Other Non-Current Liabilities	26	16	27	27	27
<b>Total Liabilities</b>	<b>182</b>	<b>185</b>	<b>461</b>	<b>469</b>	<b>474</b>
<b>Total Equity</b>	<b>312</b>	<b>411</b>	<b>657</b>	<b>900</b>	<b>1,162</b>
<b>Total Equity &amp; Liabilities</b>	<b>495</b>	<b>596</b>	<b>1,118</b>	<b>1,369</b>	<b>1,636</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Household Products

## Company Description

e.l.f. Beauty, Inc. (ELF) sells professional-quality makeup and skincare products at affordable prices. Its products are vegan, paraben-free, cruelty-free, and focused on clean beauty. e.l.f. Beauty, Inc. operates with five brands: e.l.f. Cosmetics, e.l.f. SKIN, W3LL PEOPLE, Keys Soulcare, and Naturium. Brushes, primers, concealers, brows, and sponges comprise over 50% of ELF's sales. ELF has 15% of its sales outside of the U.S.

## Investment Rationale

We rate ELF shares Buy. The company has a #1 or #2 position across 16 segments of the color cosmetics category, which collectively comprise over 75% of sales. We expect continued market share growth across ELF's categories. Volumes remain strong despite higher priced innovation. ELF has significant whitespace opportunity to increase shelf space with distributors. ELF has an attractive business model with a scalable supply chain, without need for significant capital to fund its manufacturing.

## Stock Data

Average Daily Volume 1,511,566

## Quarterly Earnings Estimates

	2023	2024
Q1	0.39A	1.10A
Q2	0.36A	0.82A
Q3	0.48A	0.74A
Q4	0.42A	0.55E

**Exhibit 1: ELF F3Q24 Earnings Variance**

F3Q24 vs. BofAe, Consensus, and Year ago results; \$ in millions, except per share data

Adjusted (Non-GAAP) Earnings Summary

	3Q24	3Q23	% Diff.	Street	% Diff.	BofA est.	% Diff.	\$ Diff
Net Sales	\$271	\$147	84.9%	\$236	14.8%	\$246	10.1%	\$25
COGS	79	48	65.2%	73	8.2%	74	7.3%	5
Gross Profit	192	99	94.4%	163	17.8%	173	11.2%	19
Selling & Administrative	147	68	116.1%	119	23.8%	116	27.1%	31
Operating Income	45	31	46.1%	44	1.4%	57	-21.2%	(12)
Adj. EBITDA	59	37	61.4%	51	15.5%	70	-15.1%	(11)
Interest Expense	\$4	\$0	760.7%		N/A	\$0	N/A	\$4
Other (Income) Expense	(5)	(3)	97.7%		N/A	-	N/A	(5)
Pre-tax Income	46	33	40.4%	42	9.3%	56	-18.1%	(10)
Tax Exp.	(3)	(6)	-46.7%	(10.0)	-67.9%	(14)	-76.2%	10
Net Income	43	27	60.0%	32	33.5%	43	0.3%	0
EPS	\$0.74	\$0.48	54.0%	\$0.57	29.5%	\$0.74	-0.2%	\$0.00
Diluted Shares Out.	58.0	55.8	3.9%	56.3	3.1%	57.7	0.5%	

**Income Statement Ratios**

	3Q24	3Q23	Pts. Diff.	Street	Pts. Diff.	BofA est.	Pts. Diff.
Gross Margin	70.8%	67.4%	3.5 pts.	69.1%	1.8 pts.	70.1%	0.8 pts.
Selling & Administrative Ratio	54.4%	46.5%	7.8 pts.	50.4%	4.0 pts.	47.1%	7.3 pts.
Operating Margin	16.5%	20.8%	-4.4 pts.	18.6%	-2.2 pts.	23.0%	-6.5 pts.
Tax Rate	7.0%	18.4%	-11.4 pts.	23.8%	-16.8 pts.	24.0%	-17.0 pts.
Net Margin	15.8%	18.3%	-2.5 pts.	13.6%	2.2 pts.	17.4%	-1.5 pts.

Source: Company reports, BofA Global Research estimates, and Bloomberg consensus estimates.

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**Exhibit 2: ELF BofA estimates vs. guidance vs. consensus**

BofA estimates remain above consensus despite a higher bar

ELF OUTLOOK	5/24/2023	8/1/2023	11/1/2023	2/6/2024					
(\$ in mm, except per share)					FY24 BofAe	FY24 Street	FY25 BofAe	FY25 Street	Long-term outlook
Net revenues	\$705-\$720	\$792-\$802	\$896-\$906	\$980-\$990	\$988	\$934	\$1,203	\$1,162	Grow +MSD to +HSD net sales CAGR
% change y/y	+22-24%	+37-39%	+55-57%	+69-71%	70.6%	61.4%	21.8%	24.4%	
Gross margin (bps)	+100	+150	+225	+280	304	260	52	40	
Marketing and digital investment	+22-24% of net sales	+22-24% of net sales	+22-24% of net sales	+22-24% of net sales					
Adjusted EBITDA	\$144.5-\$147.5	\$171-\$174	\$197-\$200	\$218-\$220	\$252	\$213	\$341	\$276	Adj. EBITDA CAGR to outpace sales growth
% change y/y	+24-26%	+46-49%	+69-71%	+87-88%	116.2%	82.4%	35.0%	29.6%	
Tax rate	21-22%	17-18%	17-18%	14%	14.1%	16.4%	22.0%	19.8%	
Adjusted net income	\$98.5-\$100.5	\$125-\$127	\$144-\$146	\$164-\$166	\$184.9	\$160.6	\$213.9	\$197.0	
EPS	\$1.73-\$1.76	\$2.19-\$2.22	\$2.47-\$2.50	\$2.84-\$2.87	\$3.20	\$2.77	\$3.61	\$3.34	
Share count	57.0	57.0	58.0	58.0	57.7	58.0	59.3	59.0	

Source: Company reports, BofA Global Research estimates, Bloomberg consensus estimates.

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**Exhibit 3: ELF Income Statement**

Fiscal year end March; \$ in millions, except per share data

	FY23				Mar-23 2023	FY24E				Mar-24 2024
	Jun-22 Q1	Sep-22 Q2	Dec-22 Q3	Mar-23 Q4		Jun-23 Q1	Sep-23 Q2	Dec-23 Q3	Mar-24 Q4	
<b>Total Sales</b>	<b>122.6</b>	<b>122.3</b>	<b>146.5</b>	<b>187.4</b>	<b>578.8</b>	<b>216.3</b>	<b>215.5</b>	<b>270.9</b>	<b>284.8</b>	<b>987.6</b>
% change y/y	26.3%	33.2%	49.3%	78.2%	47.6%	76.5%	76.1%	84.9%	52.0%	70.6%
Cost of Goods Sold	<b>39.6</b>	<b>42.8</b>	<b>47.8</b>	<b>58.2</b>	<b>188.4</b>	<b>63.8</b>	<b>63.1</b>	<b>79.0</b>	<b>85.6</b>	<b>291.5</b>
% change y/y	12.7%	26.3%	41.6%	54.7%	34.2%	61.0%	47.6%	65.2%	47.0%	54.7%
<b>Gross Profit</b>	<b>83.0</b>	<b>79.6</b>	<b>98.7</b>	<b>129.1</b>	<b>390.4</b>	<b>152.6</b>	<b>152.4</b>	<b>192.0</b>	<b>199.2</b>	<b>696.1</b>
Gross Margin %	67.7%	65.0%	67.4%	68.9%	67.4%	70.5%	70.7%	70.8%	69.9%	70.5%
Gross margin change (bps)	389.7	190.0	179.7	471.7	325.2	283.7	567.4	347.6	102.2	304.0
% change y/y	34.1%	37.2%	53.4%	91.3%	55.1%	83.9%	91.5%	94.4%	54.3%	78.3%
Increase in gross profit	21.1	21.6	34.4	61.6	138.7	69.6	72.8	93.2		255.6
<b>Operating expenses</b>										
SG&A- reported	<b>61.6</b>	<b>64.2</b>	<b>75.4</b>	<b>121.1</b>	<b>322.3</b>	<b>91.9</b>	<b>112.2</b>	<b>160.1</b>	<b>167.1</b>	<b>531.3</b>
SG&A- ex-charges	<b>55.0</b>	<b>55.4</b>	<b>68.2</b>	<b>113.9</b>	<b>292.5</b>	<b>84.4</b>	<b>97.8</b>	<b>147.4</b>	<b>157.2</b>	<b>486.7</b>
SG&A as % of sales	44.9%	45.3%	46.5%	60.8%	50.5%	39.0%	45.4%	54.4%	55.2%	49.3%
y/y change	20.7%	22.6%	40.2%	88.4%	46.4%	53.4%	76.7%	116.1%	38.0%	66.4%
Share-based comp expense	<b>6.5</b>	<b>8.0</b>	<b>7.2</b>	<b>7.2</b>	<b>29.0</b>	<b>7.2</b>	<b>11.2</b>	<b>11.0</b>	<b>15.7</b>	<b>45.1</b>
% of sales	5.3%	6.6%	4.9%	3.8%	5.0%	3.3%	5.2%	4.1%	5.5%	4.6%
Amortization expense	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>8.1</b>	<b>2.0</b>	<b>2.0</b>			<b>4.1</b>
Other non-cash and non-recurring	<b>0.0</b>	<b>0.8</b>	<b>0.0</b>	<b>1.3</b>	<b>2.1</b>	<b>(1.7)</b>	<b>(4.5)</b>			<b>(6.2)</b>
Restructuring & other	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		<b>1.5</b>	<b>3.2</b>			<b>4.7</b>
Operating income GAAP	<b>21.4</b>	<b>14.6</b>	<b>23.3</b>	<b>6.7</b>	<b>66.0</b>	<b>60.6</b>	<b>41.5</b>	<b>31.8</b>	<b>32.1</b>	<b>166.0</b>
<b>Operating income</b>	<b>28.0</b>	<b>23.4</b>	<b>30.5</b>	<b>13.9</b>	<b>95.8</b>	<b>68.4</b>	<b>55.9</b>	<b>44.6</b>	<b>42.0</b>	<b>210.9</b>
Operating margin %	22.8%	19.1%	20.8%	7.4%	16.6%	31.6%	25.9%	16.5%	14.8%	21.4%
y/y change	82.1%	87.6%	116.2%	94.4%	95.1%	144.6%	138.7%	46.1%	202.3%	120.1%
<b>D&amp;A</b>	<b>5.7</b>	<b>4.3</b>	<b>4.386</b>	<b>4.6</b>	<b>19.0</b>	<b>3.9</b>	<b>5.6</b>	<b>10.3</b>	<b>10.3</b>	<b>30.0</b>
D&A margin %	4.7%	3.5%	3.0%	2.5%	3.3%	1.8%	2.6%	3.8%	4.4%	3.0%
EBITDA reported	<b>25.5</b>	<b>17.6</b>	<b>28.2</b>	<b>11.6</b>	<b>83.0</b>	<b>63.9</b>	<b>46.6</b>	<b>44.7</b>	<b>42.4</b>	<b>197.6</b>
<b>Adj. EBITDA</b>	<b>31.7</b>	<b>27.3</b>	<b>36.6</b>	<b>21.2</b>	<b>116.8</b>	<b>74.3</b>	<b>61.0</b>	<b>59.1</b>	<b>58.0</b>	<b>252.5</b>
EBITDA margin %	25.8%	22.3%	25.0%	11.3%	20.2%	34.3%	28.3%	21.8%	20.4%	25.6%
y/y change	46.0%	47.4%	68.8%	65.8%	56.4%	134.5%	124.0%	61.4%	173.2%	116.2%
<b>Interest Expense</b>	<b>0.7</b>	<b>0.8</b>	<b>0.5</b>	<b>0.1</b>	<b>2.0</b>	<b>0.3</b>	<b>-</b>	<b>4.0</b>	<b>-</b>	<b>4.3</b>
Other expense (income) GAAP	<b>1.7</b>	<b>1.3</b>	<b>(0.6)</b>	<b>(0.3)</b>	<b>2.1</b>	<b>0.6</b>	<b>0.4</b>	<b>(2.6)</b>		<b>(1.5)</b>
Other expense (income) ex-charges	<b>(0.4)</b>	<b>0.9</b>	<b>(2.8)</b>	<b>(0.3)</b>	<b>(2.6)</b>	<b>(2.8)</b>	<b>(0.3)</b>	<b>(5.5)</b>		<b>(8.6)</b>
Pretax income GAAP	<b>19.1</b>	<b>12.5</b>	<b>23.4</b>	<b>6.9</b>	<b>61.9</b>	<b>59.7</b>	<b>41.0</b>	<b>30.4</b>	<b>32.1</b>	<b>163.2</b>
Pretax income ex-charges	<b>27.7</b>	<b>21.8</b>	<b>32.8</b>	<b>14.1</b>	<b>96.4</b>	<b>71.0</b>	<b>56.2</b>	<b>46.1</b>	<b>42.0</b>	<b>215.3</b>
Pretax margin %	22.6%	17.8%	22.4%	7.5%	16.7%	32.8%	26.1%	17.0%	14.8%	21.8%
<b>Income tax benefit (provision)</b>	<b>(4.6)</b>	<b>(1.6)</b>	<b>(4.3)</b>	<b>8.0</b>	<b>(2.5)</b>	<b>(6.7)</b>	<b>(6.5)</b>	<b>(3.5)</b>	<b>(10.1)</b>	<b>(26.8)</b>
Income taxes ex-charges	<b>(6.6)</b>	<b>(1.7)</b>	<b>(6.0)</b>	<b>9.7</b>	<b>(4.6)</b>	<b>(8.1)</b>	<b>(9.0)</b>	<b>(3.2)</b>	<b>(10.1)</b>	<b>(30.4)</b>
Tax rate ex-charges %	23.7%	7.9%	18.4%	-68.9%	4.8%	11.4%	16.1%	7.0%	24.0%	14.1%
<b>Minority interest</b>										
Adjusted minority interest										
Net income GAAP	<b>14.5</b>	<b>11.7</b>	<b>19.1</b>	<b>16.2</b>	<b>61.5</b>	<b>53.0</b>	<b>30.1</b>	<b>26.9</b>	<b>22.0</b>	<b>132.0</b>
Net income ex-charges	<b>21.1</b>	<b>20.1</b>	<b>26.8</b>	<b>23.8</b>	<b>91.8</b>	<b>62.9</b>	<b>47.1</b>	<b>42.9</b>	<b>31.9</b>	<b>184.9</b>
<b>EPS from continuing operations</b>										
EPS - reported	<b>0.27</b>	<b>0.21</b>	<b>0.34</b>	<b>0.29</b>	<b>1.11</b>	<b>0.93</b>	<b>0.52</b>	<b>0.49</b>	<b>0.38</b>	<b>2.29</b>
<b>EPS - ex-charges</b>	<b>0.39</b>	<b>0.36</b>	<b>0.48</b>	<b>0.42</b>	<b>1.66</b>	<b>1.10</b>	<b>0.82</b>	<b>0.74</b>	<b>0.55</b>	<b>3.20</b>
Basic shares	<b>51.7</b>	<b>52.3</b>	<b>52.7</b>	<b>53.2</b>	<b>52.5</b>	<b>53.9</b>	<b>54.4</b>	<b>55.1</b>	<b>55.3</b>	<b>54.7</b>
Diluted shares	<b>53.8</b>	<b>55.0</b>	<b>55.8</b>	<b>56.6</b>	<b>55.3</b>	<b>57.2</b>	<b>57.4</b>	<b>58.0</b>	<b>58.3</b>	<b>57.7</b>

Source: Company reports and BofA Global Research estimates.

BofA GLOBAL RESEARCH



## Price objective basis & risk

### e.l.f. Beauty (ELF)

Our PO of \$200 is based on a DCF analysis and implies a 32.5x CY25e EV/EBITDA multiple. Our DCF is predicated on a WACC of 9.9% and terminal growth rate of 4%. This is a premium to publicly traded beauty and HPC peers given stronger volume growth, price/mix gains, and market share momentum. We believe this multiple is warranted as the company is still in a high growth phase and continues to diversify its portfolio and customer base.

Downside risks to our price objective are: 1) changing consumer preferences, particularly among younger consumers, 2) difficulty diversifying sales into older demographic groups, 3) operational and geopolitical risk from third-party manufacturing in China. ELF uses several third party suppliers and manufacturers in China to source and manufacture nearly all of its products. Any disruption to their relationships may be detrimental to the company's sales.

## Analyst Certification

I, Anna Lizzul, 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 - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
<b>NEUTRAL</b>				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA



**US - Consumables Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLK	KLK US	Peter T. Galbo, CFA
<b>UNDERPERFORM</b>				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
<b>RSTR</b>				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**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

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**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**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

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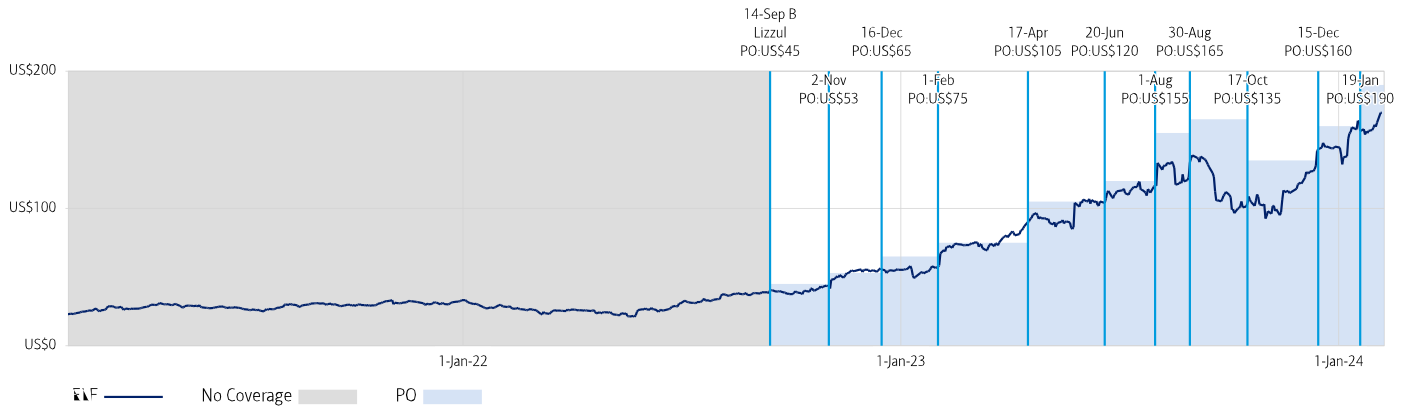
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Consumer Products Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	32	50.00%	Buy	16	50.00%
Hold	19	29.69%	Hold	8	42.11%
Sell	13	20.31%	Sell	7	53.85%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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