

Ulta Beauty

4Q Preview: Expect F24 guidance in line with algorithm

Reiterate Rating: NEUTRAL | PO: 575.00 USD | Price: 556.32 USD

Remain Neutral on margin pressure, increased competition

We remain Neutral as we think long term sales opportunities are balanced by near-term comp and margin pressure. For 4Q, we model comps of 2% (guide flat to up modestly; cons 2%). Looking to F24, ULTA's algorithm is 3-5% comps and 14-15% operating margin. Using the midpoint of those two metrics equates to \$27.00-27.50 (cons \$27.19) but we think management could guide somewhat more cautiously on margins to reflect continued SG&A investment and promotional normalization. We are raising our PO from \$510 to \$575, still 20x P/E, now on our F25 EPS estimate (was F24).

Comps continue to normalize, in line with industry

Our 3% F24 comp is in line with consensus. The beauty category experienced outsized growth exiting the pandemic (double-digit growth in 2021/2022) but slowed throughout F23. Mgmt laid out expectations for continued category normalization (2-5% annual growth, in line with historical growth rates) in F24 and beyond, and has reaffirmed its plans for 3-5% annual comps. We are encouraged by the pipeline of newness (ie. Charlotte Tilbury launch mid-February), and think new product/brand introduction and an enhanced digital offering will drive sustainable comps over the medium-term. However, increased points of distribution (ie. Sephora at KSS) remain a pressure point.

Back to 50 net new stores annually in F25

We expect ULTA will open 70-75 net new stores in F24 as 20-25 stores were shifted from F23. This brings the total new store openings across F23/F24 to 100, consistent with the company's store count target. This 5% square footage growth is a nice offset to slower F24 comps, and we expect a return back to 3-4% footage growth in F25 and beyond as ULTA returns to opening 50 new stores annually. The company also has 500 Target Shops and expects to reach 800 over time.

Near-term margin pressure

We model F24 OM of 13.8% vs F23's 14.5% due to a continued normalization of promotions and ongoing investments. Mgmt expects to complete the transition of its digital store in 1H24, and the ERP implementation in 2H24, with benefits starting in F25. The supply chain transformation (ie. new fulfillment centers, automation) is ongoing and will require continued investment. We think these initiatives will benefit margins over the long-term but see near-term pressure given the level of investment required combined with the continued moderation of comps.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	17.98	24.02	25.14	26.06	28.58
EPS Change (YoY)	308.6%	33.6%	4.7%	3.7%	9.7%
Consensus EPS (Bloomberg)			25.54	27.18	29.52
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	30.6x	22.9x	21.9x	21.1x	19.2x
EV / EBITDA*	19.1x	15.9x	16.0x	15.7x	14.6x
Free Cash Flow Yield*	3.1%	4.0%	3.7%	4.5%	4.8%

* For full definitions of *IQmethod*SM measures, see page 4.

27 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	510.00	575.00
2024E Rev (m)	11,136.0	11,164.6
2025E Rev (m)	11,708.0	11,737.5
2026E Rev (m)	12,420.6	12,451.7
2024E EPS	25.15	25.14
2025E EPS	26.16	26.06
2026E EPS	28.82	28.58

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Stock Data

Price	556.32 USD
Price Objective	575.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-2-9
52-Week Range	368.02 USD - 556.60 USD
Mrkt Val (mn) / Shares Out (mn)	29,252 USD / 52.6
Free Float	99.5%
Average Daily Value (mn)	328.79 USD
BoFA Ticker / Exchange	ULTA / NAS
Bloomberg / Reuters	ULTA US / ULTA.OQ
ROE (2024E)	58.9%
Net Dbt to Eqty (Jan-2023A)	-37.7%
ESGMeter TM	High

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iQprofileSM Ultra Beauty

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	28.4%	36.0%	32.1%	28.4%	26.1%
Return on Equity	55.8%	71.1%	58.9%	51.3%	47.4%
Operating Margin	15.0%	16.1%	14.5%	13.8%	13.9%
Free Cash Flow	887	1,170	1,068	1,310	1,401

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.1x	1.2x	1.2x	1.4x	1.4x
Asset Replacement Ratio	0.6x	1.3x	1.7x	1.5x	1.5x
Tax Rate	23.9%	24.4%	24.0%	24.1%	24.1%
Net Debt-to-Equity Ratio	-28.1%	-37.7%	-36.8%	-46.2%	-55.2%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,631	10,209	11,165	11,738	12,452
% Change	40.3%	18.3%	9.4%	5.1%	6.1%
Gross Profit	3,369	4,045	4,335	4,516	4,791
% Change	72.8%	20.1%	7.2%	4.2%	6.1%
EBITDA	1,566	1,880	1,868	1,906	2,044
% Change	148.3%	20.1%	-0.6%	2.0%	7.2%
Net Interest & Other Income	(2)	5	18	20	12
Net Income (Adjusted)	986	1,242	1,248	1,248	1,321
% Change	296.1%	26.0%	0.5%	0%	5.9%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	986	1,242	1,248	1,248	1,321
Depreciation & Amortization	268	241	245	282	315
Change in Working Capital	(498)	(369)	(367)	(136)	(102)
Deferred Taxation Charge	(26)	16	2	0	0
Other Adjustments, Net	329	352	357	332	332
Capital Expenditure	(172)	(312)	(416)	(416)	(465)
Free Cash Flow	887	1,170	1,068	1,310	1,401
% Change	34.7%	31.9%	-8.7%	22.6%	7.0%
Share / Issue Repurchase	(1,522)	(900)	(951)	(951)	(951)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	432	738	838	1,197	1,647
Trade Receivables	234	199	217	224	237
Other Current Assets	1,616	1,772	1,849	2,013	2,142
Property, Plant & Equipment	914	1,009	1,160	1,294	1,445
Other Non-Current Assets	1,569	1,652	1,685	1,685	1,685
Total Assets	4,764	5,370	5,748	6,413	7,156
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,558	1,682	1,664	1,700	1,740
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,671	1,729	1,809	2,121	2,433
Total Liabilities	3,229	3,411	3,473	3,821	4,173
Total Equity	1,535	1,960	2,275	2,592	2,983
Total Equity & Liabilities	4,764	5,370	5,748	6,413	7,156

* For full definitions of iQmethodSM measures, see page 4.

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 591,014

Quarterly Earnings Estimates

	2023	2024
Q1	6.30A	6.88A
Q2	5.70A	6.02A
Q3	5.34A	5.07A
Q4	6.68A	7.17E

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

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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	EW CZ	EW CZ 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
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
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
	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
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA



US - Softline Retailing and Dept Stores Coverage Cluster

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iQmethodSM 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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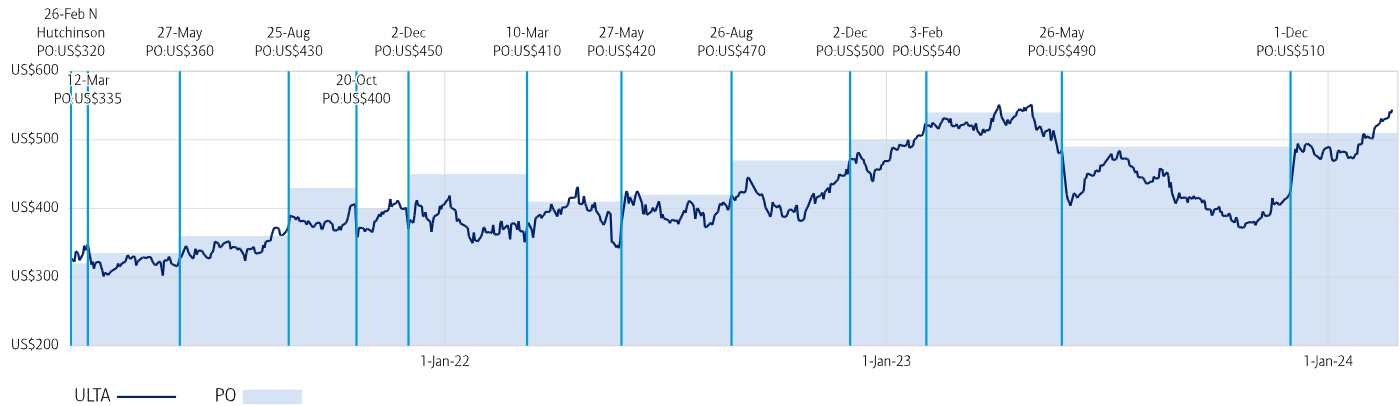
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Ulta Beauty (ULTA) Price Chart



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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