

# Ulta Beauty Inc. (ULTA)

## Baird Fireside Chat with ULTA CFO/CMO

- **Upbeat on BTS/Holiday.** The team sounded very upbeat on the opportunities ahead for back-to-school and Fall/Holiday. Through weekly conducted surveys, the team has remained very close to the consumer, allowing them an added level of insight and foresight. We were encouraged by the team's confidence, which aligns well with our constructive view of 2H spending as fashion and beauty play a role in the reopening. Ahead of this period, the team plans to invest in brand/performance marketing to capture demand and create emotional connection.
- **Loyalty/CRM.** Ulta has an industry-leading loyalty program with 32M+ active members responsible for >95% of sales allowing for tremendous levels of insight/analytics. While active customers fell during the pandemic as customers focused spending in other categories, the team now believes they will reach 2019 levels by year-end. Looking forward, management sees potential in reaching the 60-70M+ beauty enthusiasts in the US, with the biggest growth opportunities stemming from momentum in LatinX, Gen Z, and African American consumers. At this time, Ulta only has ~1/3 of enthusiast's wallet share, on average; through loyalty insights, personalization, and innovation, the company believes they can grow that over time. Additionally, the company noted the credit card program has been tremendous for them, seeing a sustained lift with customers alongside a very healthy profitability profile.
- **Digital/Social selling.** The company continues to invest and innovate on the digital front, with the Ulta app at the hub, connecting Ultimate Rewards, content, and commerce together. Furthermore, the GLAMlab virtual makeup try-on tool has been an important capability for the company (employing AI/AR powered technology; resulting in 11M engagements and >100M shades tried on LY) alongside Skin Advisor (also AI/AR powered; serves up skincare recommendations while learning more about members). On the social selling front, consumers expect all channels to be shoppable; from Facebook/Instagram to TikTok to Supergreat (video based live-review and live-selling platform; partnership launched today), Ulta is reaching the consumers where they are.
- **Margin implications.** Management encouraged investors to think about the benefits from the CRM / loyalty programs (increased spend/customer; wallet share gains; personalized offers/content) as "scalable wins" vs. a "light switch" moment in terms of margin expansion. The team also directed investors to think about the EFG initiatives (Efficiencies for Growth) such as inventory management, process improvements, and lease optimization as drivers for margin expansion.
- **Wage / supply chain pressures not overly concerning.** When asked about impending cost pressures such as rising wage/labor expenses and supply chain disruptions/out of stocks, the team repeatedly noted that these factors are baked into their 2021 outlooks and nothing they are seeing today points to circumstances being "extraordinarily difficult." To be clear, the company did acknowledge the labor pressures (scaling labor to match demand; importance of retail stores to the overall business amid continued improvements in traffic) and supply chain challenges (vendors experiencing out of stocks but aggressively managing stock targets for top skus; Ulta directly sources little overseas), though at this time they are moderate and appropriately accounted for in the outlook.

### FLASH REPORT

#### 1-Year Price Chart



#### Stock Data

Rating:	Outperform
Suitability:	Higher Risk
Price Target:	\$390
Price (7/14/21):	\$345.74
Market Cap (mil):	\$19,431
Shares Out (mil):	56.2
Average Daily Vol (mil):	0.70
Dividend Yield:	0%

#### Estimates

FY Jan	2020A	2021E	2022E
Q1	(1.39) A	4.10 A	
Q2	0.73 A	2.68 E	
Q3	1.64 A	1.65 E	
Q4	3.41 A	3.80 E	
<b>Fiscal EPS</b>	<b>4.40 A</b>	<b>12.25 E</b>	<b>13.70 E</b>
Fiscal P/E	77.1x	27.7x	24.8x

Chart/Table Sources: FactSet and Baird Data.  
Price chart reflects most recent closing price.

Please refer to Appendix -  
Important Disclosures and  
Analyst Certification

Ulta is a leading omnichannel retailer of beauty products, including mass, prestige, and salon brands. Each store includes a full-service salon.

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**Valuation Synopsis**

Our \$390 price target reflects ~15-16x NTM+1 EBITDA (27x EPS), near current levels (~15x EBITDA; ~28x EPS) but slightly higher than recent ranges (13x EBITDA three-year-average). We believe ULTA can sustain valuation above pre-pandemic ranges as sales/earnings reaccelerate. Furthermore, seemingly conservative F2021 guidance supports our slightly above-average valuation.

**Risk Synopsis**

Risks include global pandemic, managing unit growth, consumer spending trends, attracting new brands, competition, and seasonality.

## Appendix - Important Disclosures and Analyst Certification

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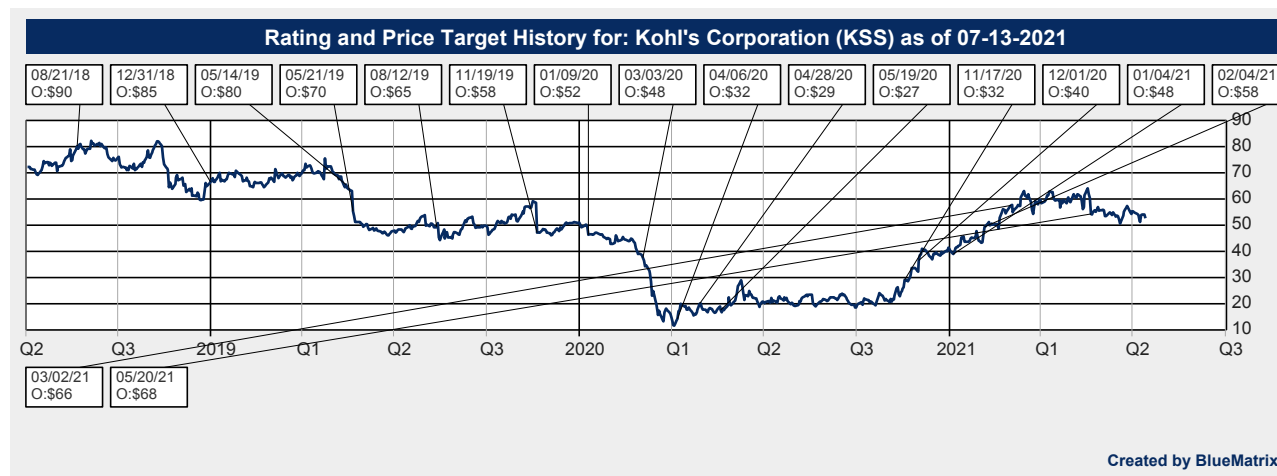
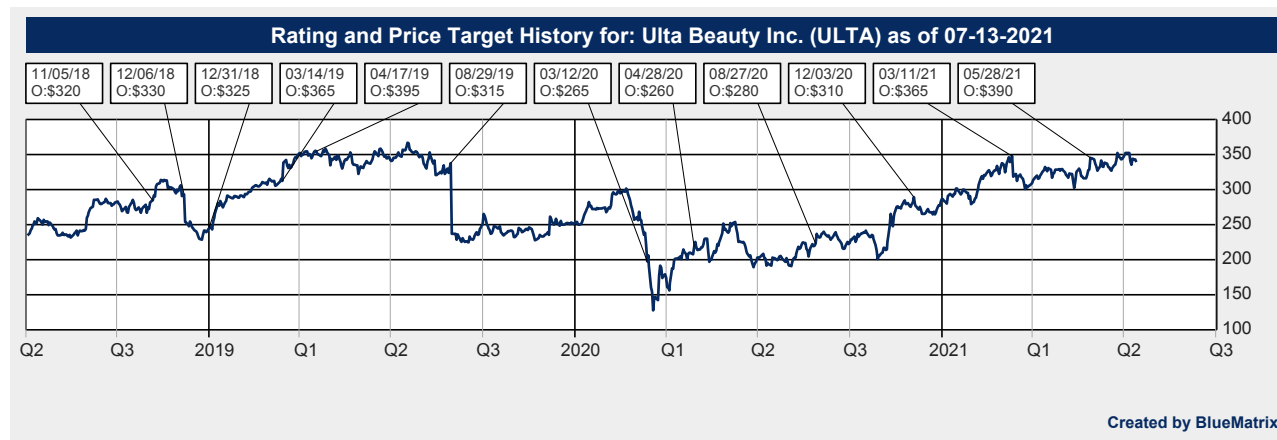
### Covered Companies Mentioned

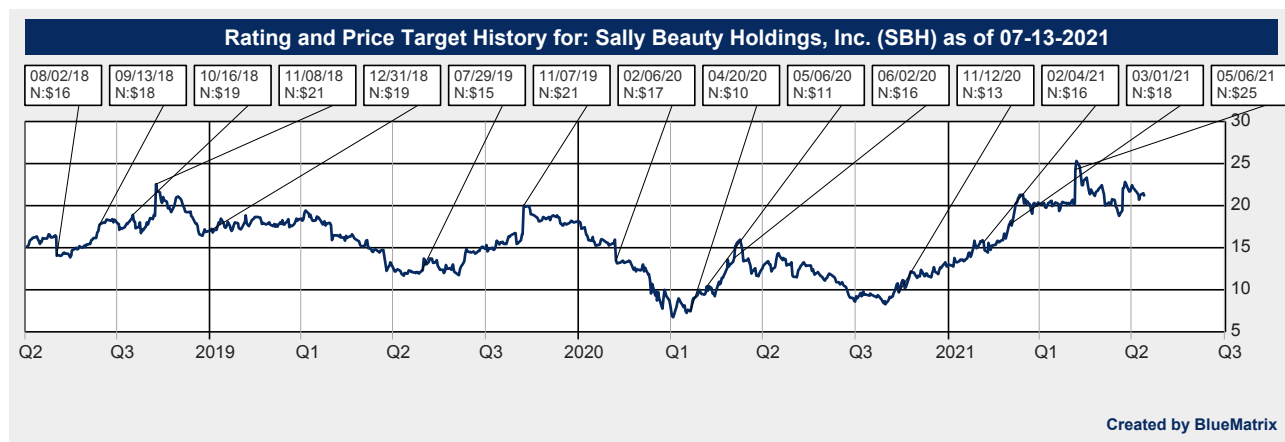
All stock prices below are the 7/13/2021 closing price.

Kohl's Corporation (KSS - \$52.55 - Outperform)

Sally Beauty Holdings, Inc. (SBH - \$21.10 - Neutral)

(See recent research reports for more information)





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