

# Ulta Beauty Inc. (NYSE: ULTA)

Sector: Consumer Discretionary



<b>Target Price</b>	<b>Current Price</b>	<b>52 Week High</b>	<b>52 Week Low</b>	<b>P/E</b>	<b>Market Cap.</b>	<b>Dividend Yield</b>	<b>Beta</b>
\$299.57	\$279.10	\$290.30	\$187.96	28.90x	\$16.68 B	0.00%	0.72

## Business Description

Ulta Beauty, Inc. is the largest beauty retailer in the United States and the premier beauty destination for cosmetics fragrance, skin care products, hair care products and salon services. They provide unmatched product breadth, value and convenience in a distinctive specialty retail environment. Their stores are located in convenient, high-traffic locations such as power centers. Ulta Beauty has developed a unique specialty retail concept that offers “All Things Beauty. All in One Place”, a compelling value proposition, and a convenient and welcoming shopping environment. Ulta Beauty serves customers throughout the United States.

## Industry Trends

The current trends for the cosmetic industry outlook over the next five years, revenue is anticipated to grow an annualized 1.2% to \$23.7 billion. Also, the demand of naturally derived products will spur growth in new markets. The beauty, cosmetics, and fragrance stores industry have had an increase in purchases from beauty retailers from consumers due to expertise and loyalty programs. Larger chains are continuing to replace small-scale store. Industry is increasingly catering to new markets, including teenagers and men, to expand their market reach.

## Investment Thesis

We recommend Ulta Beauty Inc because of (1) store growth opportunity, (2) differentiated products, (3) loyalty program. First, we believe with based on Ulta’s stores/population, it has the ability to open over 2,000 more stores in the U.S. Next, Ulta has a mix of low- and high-end brands for cosmetics, hair and skin care. Currently, 6% of sales are from exclusive products. AMZN and WMT do not currently sell Ulta’s top 25 best-selling products. Lastly, Ulta has had great success with their loyalty program. Their target demographic is women from ages 16-25. About 57% of beauty shoppers are considered “beauty enthusiasts”, CEO estimates that Ulta has most of this market share. Ulta’s rewards member count grew 17% in the last quarter. We believe ULTA can drive high double-digit company growth from its store growth opportunity, differentiation of products, and loyalty program.

## Valuation Assumptions

Cost of Equity: 8.1%  
Terminal Dividend Growth: 0.00%  
Upside: 7.3%

## Key Financials

Current stock price: \$279.19  
Intrinsic Value: \$299.57

Sources: Bloomberg, Ibis, JP Morgan, Annual reports

## Corporate Social Responsibility

ESG Disclosure Score: 18.2% (Industry Average: 17.7%)  
Percent Women on Board: 50% (Industry Average: 41.7%)  
ISS Governance Quickscore: 7 (Industry Average: 5)

## 5-Year Stock Performance



## Competitive Analysis

Ulta’s total revenue and growth exceeds its competitors, and its operating income is experiencing the highest growth in the industry.

## Competitive Advantages

The beauty, cosmetics, and fragrance industry are a highly competitive market in terms of the fact that there are few competitors, but with larger market shares. Ulta is one of the leading beauty retailers in the industry with leading market share. Also, Ulta has consistently increased its number of stores and sales per store, while maintaining a constant inventory per store.

## Risks

We recognize a few key risks with an investment in Ulta Beauty which are they are dependent on their subsidiaries and e-commerce threats.

## Report Prepared By:

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