ULTA Beauty (ULTA)

Earnings Update

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Jenna Lindemann | April 14, 2023

Overview

Summary

Overall, Ulta Beauty had a successful fourth quarter, beating both revenue and earnings estimates to cap off their fiscal 2022. The quarterly results for diluted EPS increased 23.5% to $6.68 per share. In addition, revenue increased … for quarter and .. to $ for the full year. Comparable sales comparable sales increase of 15.6% in fiscal 2022, compared to an increase of 37.9% in fiscal 2021, was driven by a 10.8% increase in transactions and an increase of 4.3% in average ticket.

Management provided strong fiscal 2023 guidance, forecasting

Starting with the fourth quarter, net sales increased 18.2% to $3.2 billion. Operating profit increased to 13.9% of sales, *increased our market share*

4Q23 Earnings

Results

	Fourth-Quarter		CAGR
	2023	2022	1-year
Net sales	**$ 3,226**	**$ 2,729**	**18.2%**
Cost of sales	$ 2,014	$ 1,702	18.3%
Gross profit	**$ 1,212**	**$ 1,027**	**18.0%**
Gross profit margin	*37.6%*	*37.6%*	*-0.2%*
Operating expenses	**$ 762**	**$ 649**	**17.4%**
Operating expenses as a percentage of sales	*23.6%*	*23.8%*	*-0.7%*
Operating income	**$ 448**	**$ 375**	**19.5%**
Operating margin	*13.9%*	*13.7%*	*1.1%*
Interest and other (expense) income	$ (4,378)	$ 467	
Income before taxes	$ 452	$ 375	20.5%
Income taxes	$ 111	$ 86	
Net income	**$ 341**	**$ 289**	**18.0%**
Net margin	*10.6%*	*10.6%*	*-0.2%*
Diluted EPS	**$ 6.73**	**$ 5.44**	**23.7%**
Shares outstanding *(in thousands)*	50,624	53,163	-4.8%

Sales

Sales growth for the quarter of …... which was driven by Ulta Beauty's skin care category. For the skin care category, the sales were driven by serums, moisturizers, acne treatments, and holiday gift sets. While also reaching sales of double digits. Overall, all categories had double digit growth. The main drivers of these categories are new products, holiday sales, and special events.

Breakdown of segment growth

	13 Weeks Ended	
	January 28, 2023	January 29, 2022
Cosmetics	40%	41%
Haircare products and styling tools	20%	20%
Skincare	16%	15%
Fragrance and bath	18%	18%
Services	3%	3%
Accessories and other	3%	3%
	100%	100%

Fiscal 2022	Total stores open at beginning of the quarter	Number of stores opened during the quarter	Number of stores closed during the quarter	Total stores open at end of the quarter
1st Quarter	1,308	10	0	1,318
2nd Quarter	1,318	7	0	1,325
3rd Quarter	1,325	18	0	1,343
4th Quarter	1,343	12	0	1,355

Gross Profit

Gross profit increased $676.0 million, or 20.1%, to $4.0 billion in fiscal 2022, compared to $3.4 billion in fiscal 2021. Gross profit as a percentage of net sales increased 60 basis points to 39.6% in fiscal 2022 compared to 39.0% in fiscal 2021. This was due to credit card income growth, royalty income with partnership, higher loyalty point redemption, favorable channel mix shifts, inventory shrink, and deleverage in merchandise margins.

Net sales

Net sales increased $1.6 billion, or 18.3%, to $10.2 billion in fiscal 2022 compared to $8.6 billion in fiscal 2021. This was due to resilience in the beauty category, retail price increases, new brands and products, and fewer Covid restrictions.

Comparable sales

Comparable sales for the quarter went from 37.9% in fiscal 2021 to 15.6% in fiscal 2022. This is a result of a 10.8% increase in transactions and a 4.3% increase in average tickets.

SG&A

Selling, general and administrative (SG&A) expenses increased $333.8 million, or 16.2%, to $2.4 billion in fiscal 2022 compared to $2.1 billion in fiscal 2021. As a percentage of net sales, SG&A expenses decreased 40 basis points to 23.5% in fiscal 2022 compared to 23.9% in fiscal 2021. This was due to lower marketing expenses, incentive compensation, partially offset by deleverage of corporate overhead, and deleverage of store payroll and benefits due to wage investments.

Other Commentary & Items

Target Partnership

Recently Ulta Beauty has entered a long-term partnership with Target Corporation to allow Ulta Beauty to operate within Target. Ulta is now available in over 350 Targets and on target.com. These partnerships

allow Ulta 1,000 square feet of space to have their products on display products, along with a Target employee trained by Ulta Beauty to provide assistance to customers.

Ultamate Rewards

Ulta Beauty is known for their “best-in-class" loyalty program. This program is called Ultamate Rewards and allows members to earn points for every dollar of products they buy, along with paying for beauty services. This includes purchases on their private label, co-branded credit cards, and Ulta Beauty within Target stores. The points can be redeemed for discounts, products, and services. This is important for Ulta because more than 95% of total sales come from members of the rewards program. This allows for understanding of customers and their preferences, which leads to personalized experiences and recommendations.

6 Core Pillars

- Drive breakthrough and disruptive growth through an expanded definition of All Things Beauty.
- Evolve the omnichannel experience through connected physical and digital ecosystems, All In Your World
- Expand and deepen our presence across the beauty journey, solidifying Ulta Beauty at the Heart of the Beauty Community
- Drive operational excellence and optimization.
- Protect and cultivate our world-class culture and talent
- Expand our environmental and social impact

Yearly Recap

For the first time in history, annual revenue surpassed $10 million. Along with that, annual net income exceeded $1 billion. Over the past year, there were 40 million new members in the Ultamate Rewards program. In relation to stores Ulta opened 47 new stores and renovated 32 locations. With the target partnership, there were 254 Targets that now have an Ulta Beauty section.

Guidance

- In fiscal 2023, Ulta Beauty plans to continue into the next phase of Project SOAR, which involves transitioning key supply chain and merchandising processes to the new platform. Ulta also plans to open 25 to 30 stores and relocate 20 to 30 stores throughout the next year. In addition, they plan to accelerate growth across digital platforms.
- Next year will be an extra week making it a 53-week analysis which creates an additional $165 million to $175 million in sales and about $.40 of earnings per share.
- Finally, Ulta plans to spend between $400 million to $475 million in capex, including about $200 to $220 million for supply chain and IT. Also $155 million to $205 million for new stores, remodels, and merchandise fixture. And, $45 million to $50 million for store Maintenace and other.

Events

There were several events during the fourth quarter that helped drive growth and sales. These events include Jumbo Love and Love Your Skin. Jumbo love was about show casing products for major hair care brands. Love Your Skin was about promoting healthy skin and skin care products.

IOFS

Gross profit margin, operating margin, net profit margin, return on equity, return on capital, obligation ratio. Have they gotten better or worse?

Paragraph

For the fiscal 2022- year gross margin ….. and increased … Financials over the past few years have been stable and improving. Ulta Beauty is at a 10 year high..... Operating margin has consistently ……..... The net profit margin has …... Return on equity has ……..... The obligation ratio ….Free Cash Flow Margin..... Overall, Ulta Beauty meets all of our thresholds and is continuing to become more efficient even after the effect of Covid.

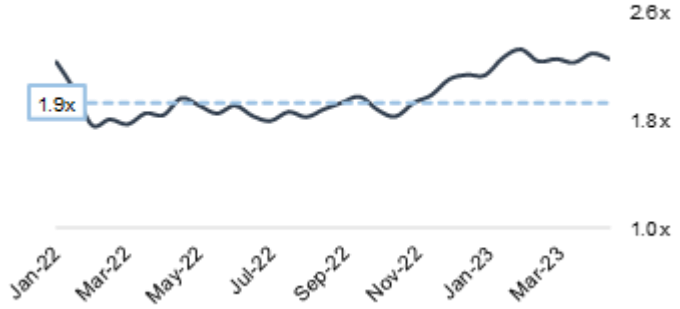
Price to Sales

Price to Earnings

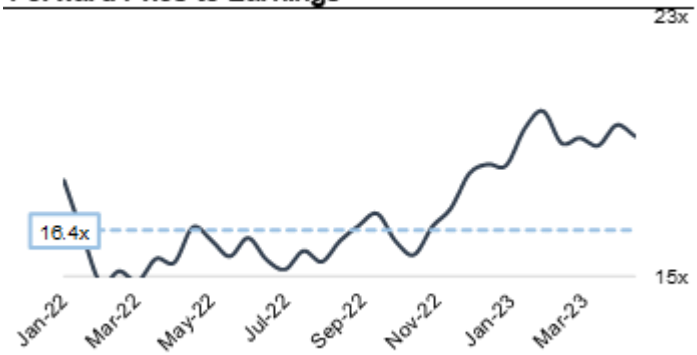
Price to Free Cash Flow

EV to Sales

Forward Price to Sales



Forward Price to Earnings



Valuation

Valuation table, value bands, discounted cash flow, any detail that helps frame the valuation, etc.

Straight graphs

Ticker: ULTA

Price: $522.51

5 Year EPS Forecast

		Current	2023	2024	2025	2026	2027	P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	$24.02	$24.74	$25.73	$26.76	$27.83	$28.94	16.0x	$463.09	$287.54	(11.4)%	(2.4)%
			3%	4%	4%	4%	4%	21.0x	$607.80	$377.40	16.3%	3.1%
								26.0x	$752.52	$467.25	44.0%	7.6%
Base	EPS	$24.02	$25.22	$26.99	$28.88	$30.90	$33.06	16.0x	$528.96	$328.44	1.2%	0.2%
			5%	7%	7%	7%	7%	21.0x	$694.25	$431.08	32.9%	5.8%
								26.0x	$859.55	$533.71	64.5%	10.5%
Bull	EPS	$24.02	$25.70	$27.76	$29.98	$32.38	$34.97	16.0x	$559.46	$347.38	7.1%	1.4%
			7%	8%	8%	8%	8%	21.0x	$734.30	$455.94	40.5%	7.0%
								26.0x	$909.13	$564.50	74.0%	11.7%

Total RoR Sensitivity

P / E	Est. EPS growth rate 3%	5%	7%
16.0x	(2.4)%	0.2%	1.4%
21.0x	3.1%	5.8%	7.0%
26.0x	7.6%	10.5%	11.7%

Discount rate: 10%