



DISCOUNTED CASH BROS CAPITAL MANAGEMENT

Overview

- Started in 1990
- 2007 IPO
- largest beauty retailer in the United States
- Product and services include:
 - Cosmetics
 - Fragrance
 - Skin
 - Hair
 - Salon



Recent News

Ulta's Exclusive Deal with Kylie Cosmetic

In Ulta's Q2 2018 Earnings Call Transcript, their CEO stated, "We are thrilled to confirm our **exclusive partnership** with Kylie Cosmetics, which will be launching in all stores and online later this year. Kylie Jenner is a highly influential force in the beauty industry."



ultabeauty  • [Follow](#)

ultabeauty It's true! We're excited to confirm @kyliecosmetics will exclusively be coming to all Ulta Beauty locations and online this holiday season. Stay tuned for details!



Kylie Jenner 
@KylieJenner

[Follow](#)

I'm so excited to let you guys know that @KylieCosmetics will be coming to all @ultabeauty stores around the country this holiday!... More to come...

3:26 PM - 30 Aug 2018

Kylie Cosmetic Success

According to Fortune, after Kylie Cosmetic hit the market, its retail sales reached a total of \$420 million dollars in just 18 months.

Kylie's project sales increased by 25% in 2017 and she is projected to reach 1 billion dollars by 2022.



KYLIE COSMETICS



The Ultra Beauty Charitable Foundation

In 2017, Ulta partnered with Dress for Success to provide skills, knowledge, programs and confidence to help independent women succeed.

Since 2009, they raised over 22 million dollars for the Breast Cancer Research Foundation and helped fund 16 new research projects.



New Stores

In 2014 Ulta Beauty had a total of 715 stores.

In 2017 Ulta Beauty had a total of 974 stores.

In 2018 Ulta Beauty announced they were going to open up 100 new stores to have a total of 1074 stores.

In just the last 4 years we can see an incredible 66% growth in the expansion of their business.



Current CEO of Ulta Beauty

Mary Dillon, Since 2013





Mary Dillon

Graduated from University of Illinois with a BA in marketing and Asian Studies.

She is a non-executive director of Starbucks.

She was the Global CMO and Executive Vice President of McDonalds from 2005-2010

She was the CEO and President of U.S cellular 2010-2013

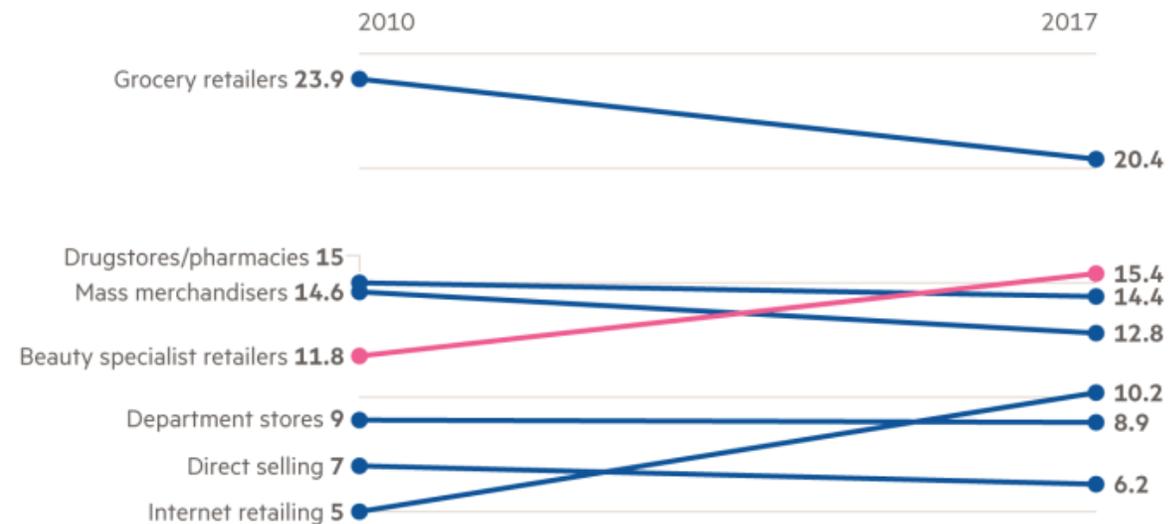
Strategy & Segments

Industry

“Beauty is second only to gaming as the most viewed topic on YouTube” – Financial Times

Sephora and Ulta are capturing a bigger share of beauty sales

Share of US retail sales of beauty and personal care products (%)



Source: Euromonitor
© FT

Moore Beauty Research

- 44% of women have negative feelings when they are not wearing makeup, with 16% saying they feel unattractive, 14% saying they feel self-conscious and 14% saying they feel naked.
- 48% of women wear makeup because they like the way they look with it.
- 32% of women said wearing makeup makes them feel good.
- 11% said they wear makeup because it's a societal norm.
- 3% of women said they feel more attractive going without makeup.

“All Things Beauty. All in One Place”

- Seeks to satisfy all consumer beauty needs
- 20,000 products
- 500 well established brands.
- ALL price points. “77 percent of its shoppers buy both prestige and mass brands.”





“All Things Beauty. All in One Place”



**HAIR. SKIN. BROWS. ALL IN ONE PLACE.
DISCOVER OUR BEAUTY SERVICES.**

HAIR by
the Salon™
AT ULTA BEAUTY

**GET YOUR BEST
HAIR LOOK >**

SKIN by
dermalogica®
skin bar

**GET YOUR BEST
SKIN EVER >**

BROWS by
benefit
SAN FRANCISCO

**GET BROWS
THAT WOW >**

** Salon guests have higher purchase frequencies and spend 3 times more than non salon guests*

“Ultamate” Rewards

BENEFITS	MEMBER	PLATINUM	DIAMOND
Spend per calendar year	FREE	\$450	\$1200
Points earned per dollar	1.0	1.25 \ 25% Faster	1.5 \ 50% Faster
Free birthday gift*			
2X points in your birthday month*			
\$10 birthday coupon*			
Points never expire			
Everyday free shipping (orders of \$25 or more)			
Annual \$25 beauty services reward card			

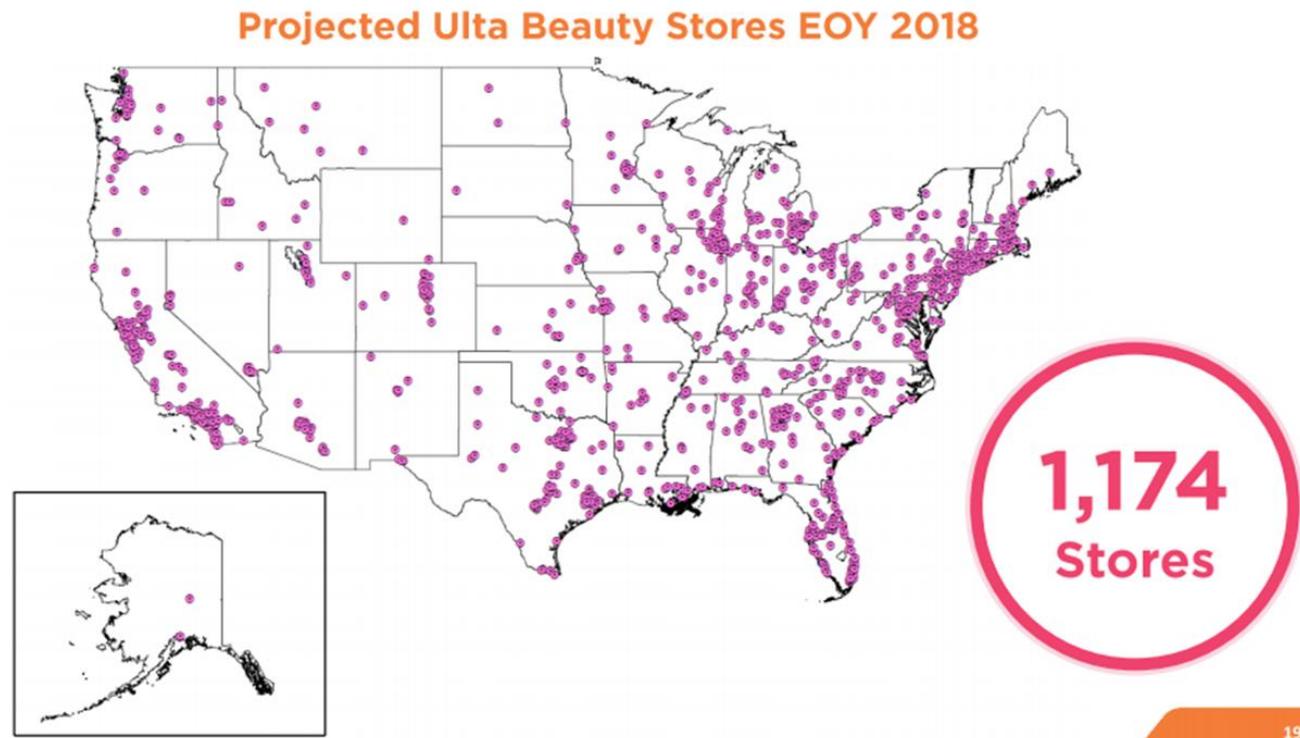
Rewards Customers

- 28 million active Ulta Beauty guests enrolled in “Ultamate Rewards loyalty program”.
- ^ represent **MORE** than 90% of total net sales.
- = **DATA**
- Higher frequency shoppers, more \$ per visit.



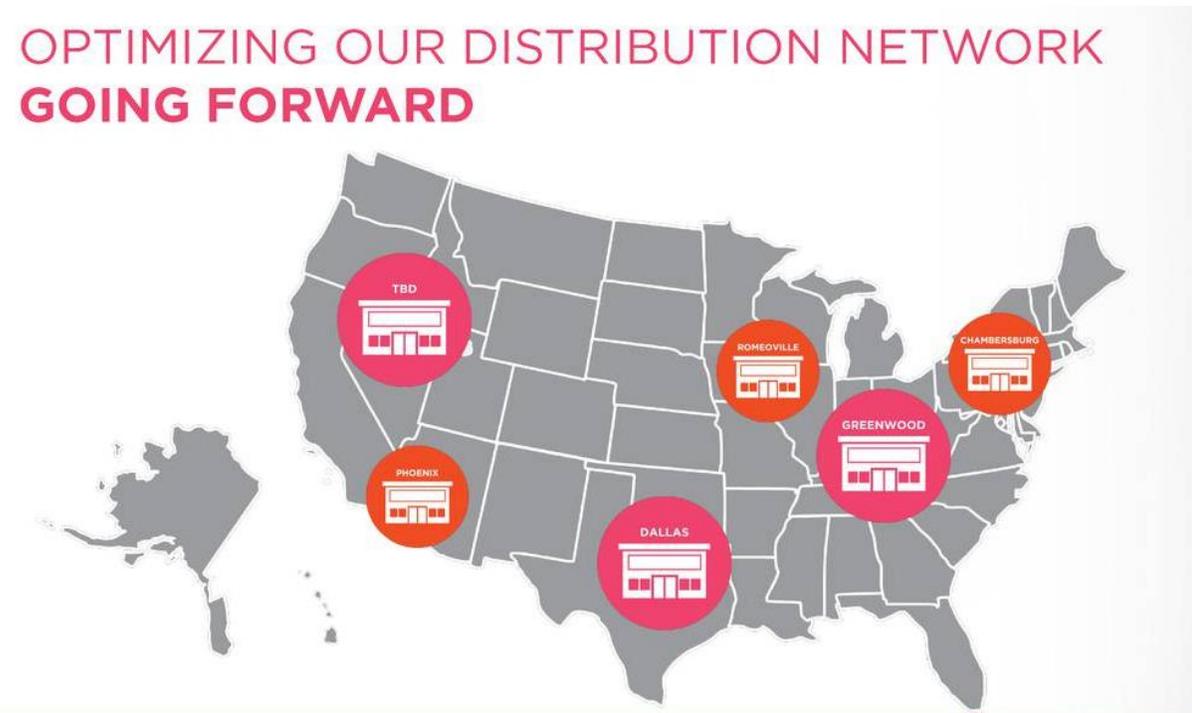
Location Convenience

- Convenient, high – traffic locations
- 90% located in strip centers.



Distribution Network

- New center in Fresno, California.



Stores

- 10,000 sq. feet
- 90% located in strip centers.
- 20 full and part time employees + managers.
- 1.6 million to open store.



Employees

- Non - commissioned
- Trained consultants, licensed professionals
- Contribute to experience



Store Layout

- Open store environment
- Encourage product discovery
- Flexibility to adapt to changes in current trends



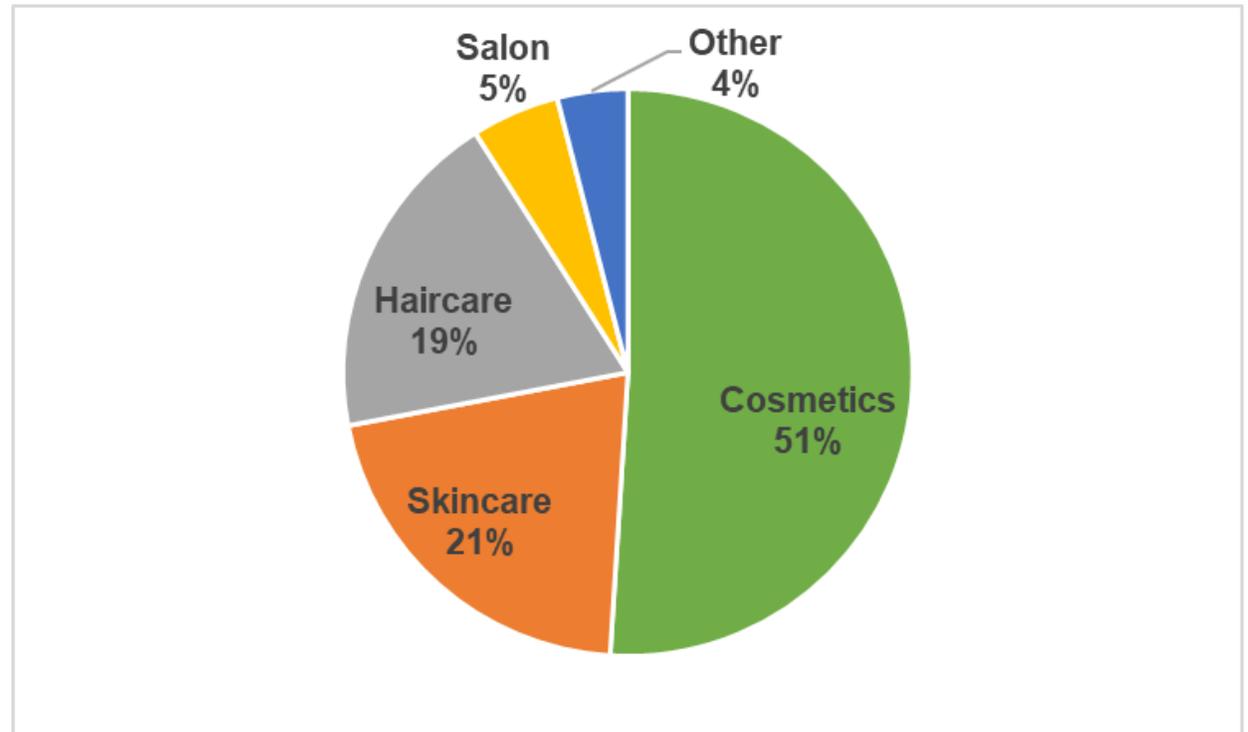
Adaptability

- *Monica Arnaudo*, SVP of Merchandising at Ulta Beauty.

“More visual content, like brand imagery and how-tos, will accompany each brand. Popular products will be grouped by trend, as well as by brand. Store employees will be assigned to assist customers shopping for mass brands, whereas they were typically left to their own devices before. And there will also be the option to test products in store.”

Revenue Reported Categories

- Cosmetics
- Skincare, bath and fragrance
- haircare products and styling tools
- Salon services
- Other (nail products and accessories)



Revenue Recognition

Merchandise sales at Retail store = time of sale

Salon services = upon rendering of service

E-commerce = upon shipment

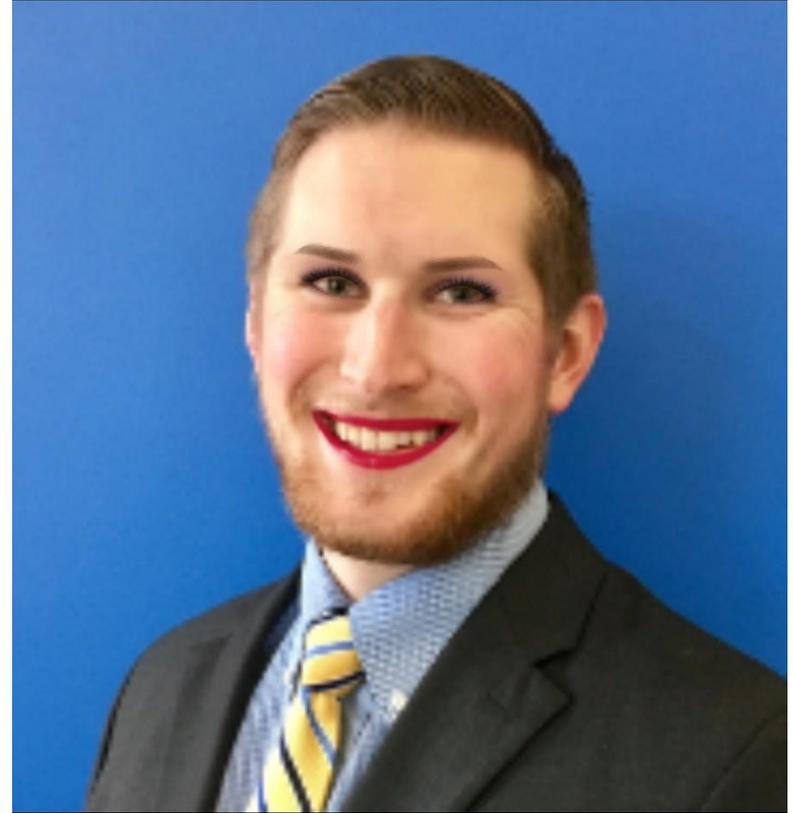
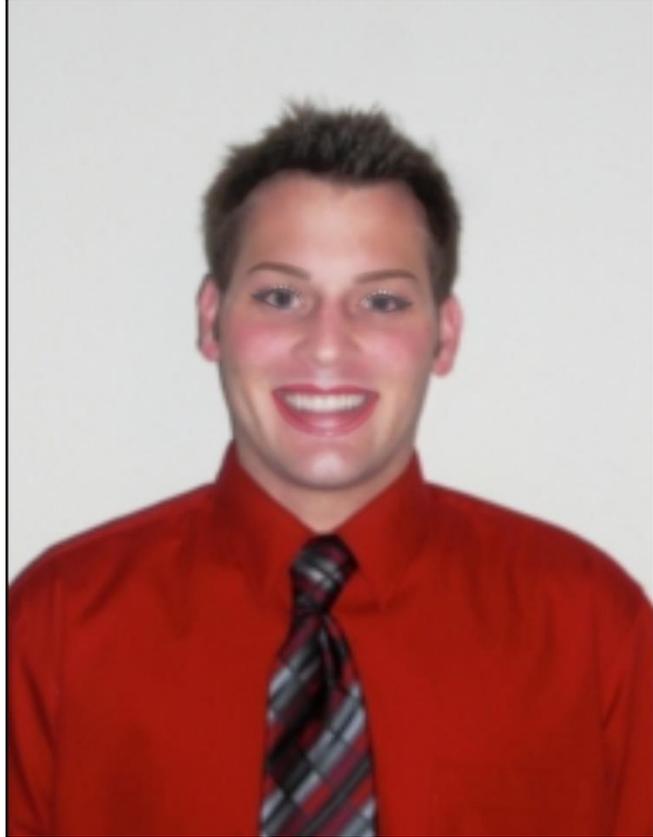


Omni Channel Customers

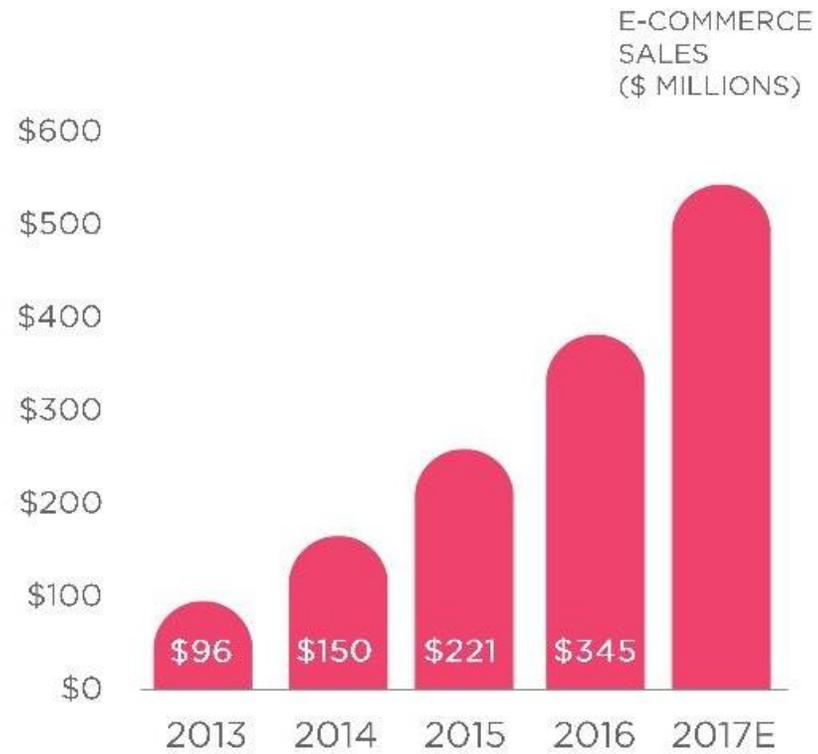
“fully-integrated approach to sales and marketing that gives shoppers a unified experience across online and offline channels.”

- Spend 3 times as much as non Omni channel customers
- Bridging the Gap between Offline and Online.





E-commerce



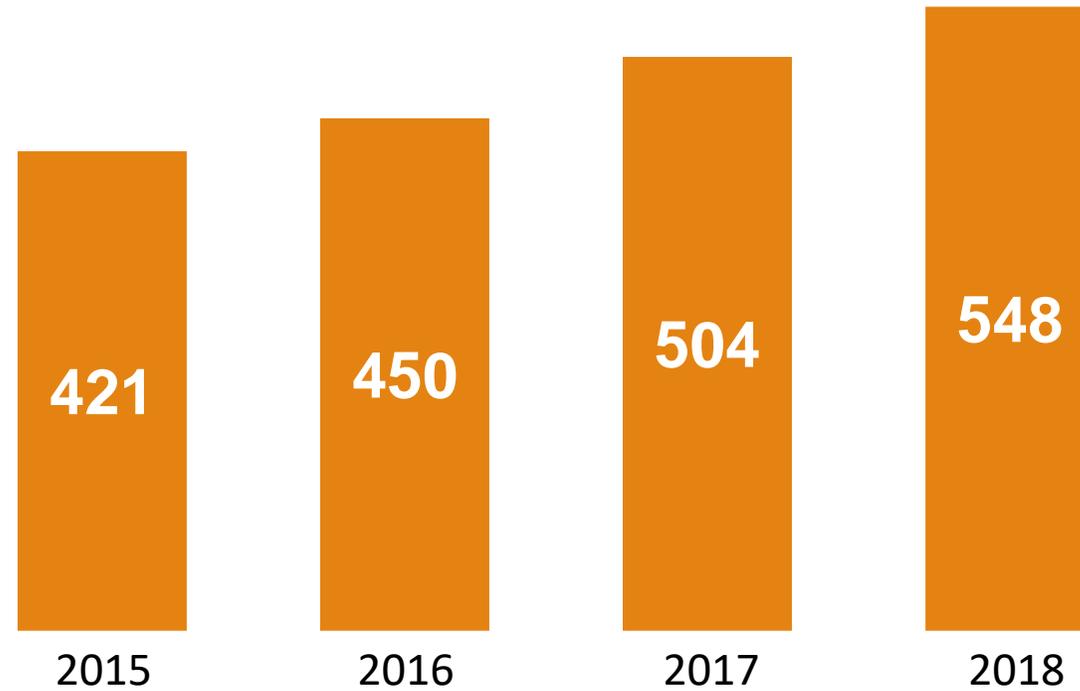
*E-commerce sales increased 37.9% - Q2

GROWTH

- Cosmetic Influencers
- Estimated store growth potential = 1400 – 1700 stores, (40% - 70%)
- Plans for 100 stores per year.
- Ecommerce & Omni channel customers
- Potential room for expansion into Canada and International.

Increased Efficiency

- Retail Sales per square foot



Risk

- High profile influencers - Sephora or Ulta?
- Online retail pressures
- Serving every demographic = more competitors.
- Slowing

Competitive advantage

- Brand Name
- Economies of scale
- Beauty brands see Beauty retailers as an opportunity for sales
- Omni channel capabilities provide new opportunities
- Exclusive rights with Influencers



Qualitative Analysis

Criteria	Does it pass?
Sustained Competitive Advantage?	Yes
Easily Explainable?	Yes
Heavily Unionized?	No
Heavy Capital Infusion?	No
Heavy Research and Development?	No
Can Inventory become Obsolete?	Yes
Chronic One-Time Write-offs?	No
Can Raise Prices to Offset Inflation?	Yes
Will they be able to sell more in the future?	Yes
Billion-dollar competitor?	Yes
Fighting off Amazon?	Yes

Interpretation of Financial Statements

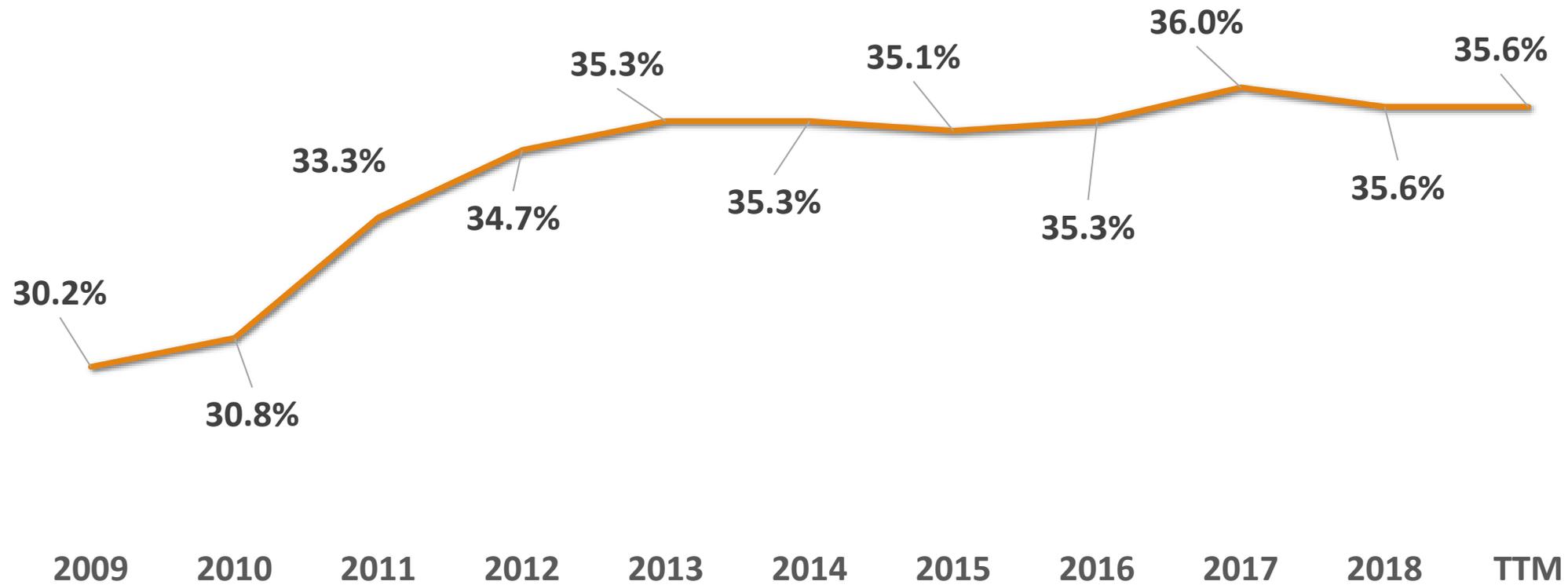
Quantitative Analysis

TTM	Value	Threshold	Does it pass?
Gross Profit Margin	35.63%	$\geq 20\%$	Yes
% SGA	62.41%	$\leq 80\%$	Yes
% Depreciation	11%	$\leq 10\%$	No*
Net Profit Margin	10%	$\geq 10\%$	Yes
Current Ratio	2.85	≥ 1	Yes
Obligation Ratio	4.8 years	< 5 years	Yes
Preferred Stock	None	None	Yes

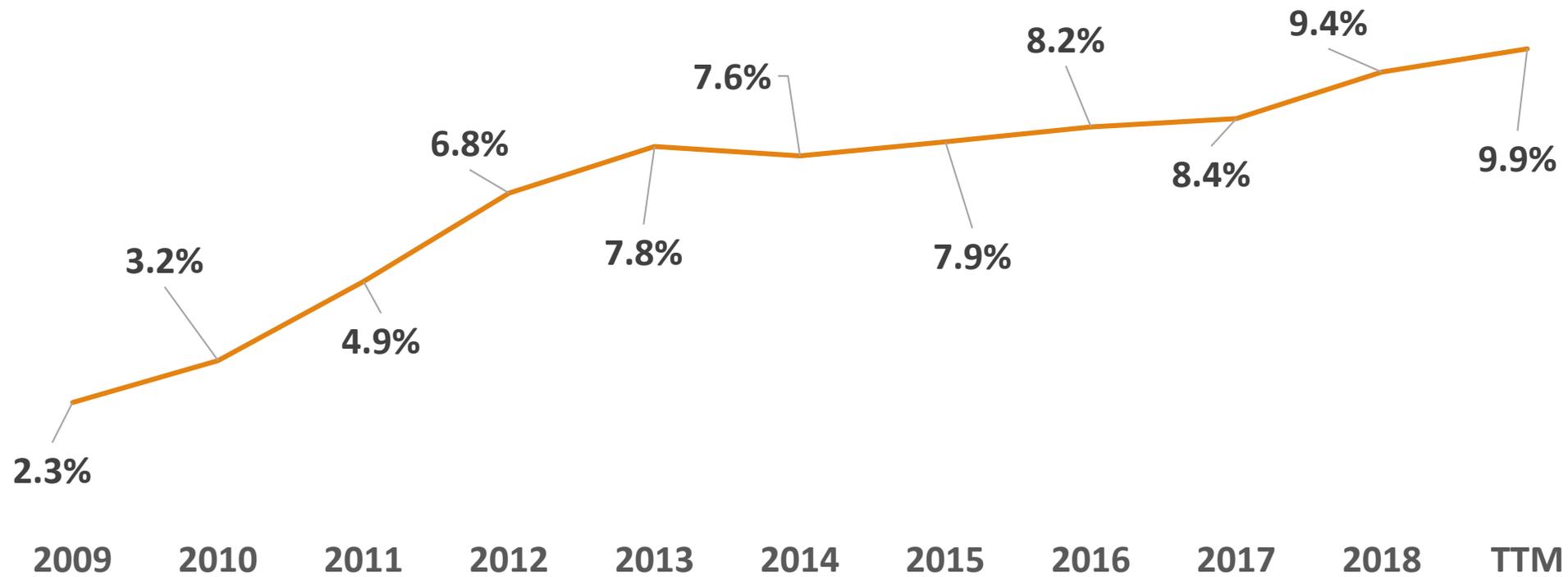
Quantitative Analysis - Continued

	Value	Threshold	Does it pass?
Net Earnings (Trend)	Up	Up	Yes
Retained Earnings (Trend)	Up	Up	Yes
CapEx %	39%	$\leq 25\%$	No
Return on Equity (ROE)	36.28%	$\geq 15\%$	Yes

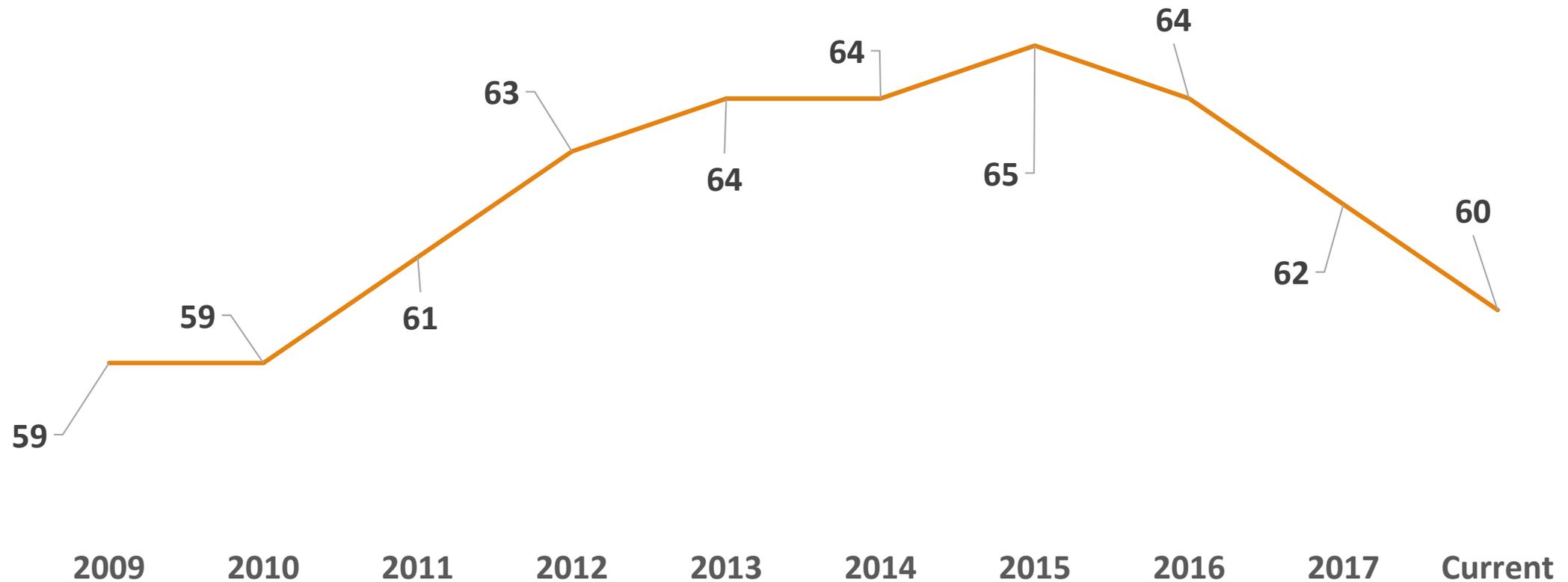
Gross Profit Margin



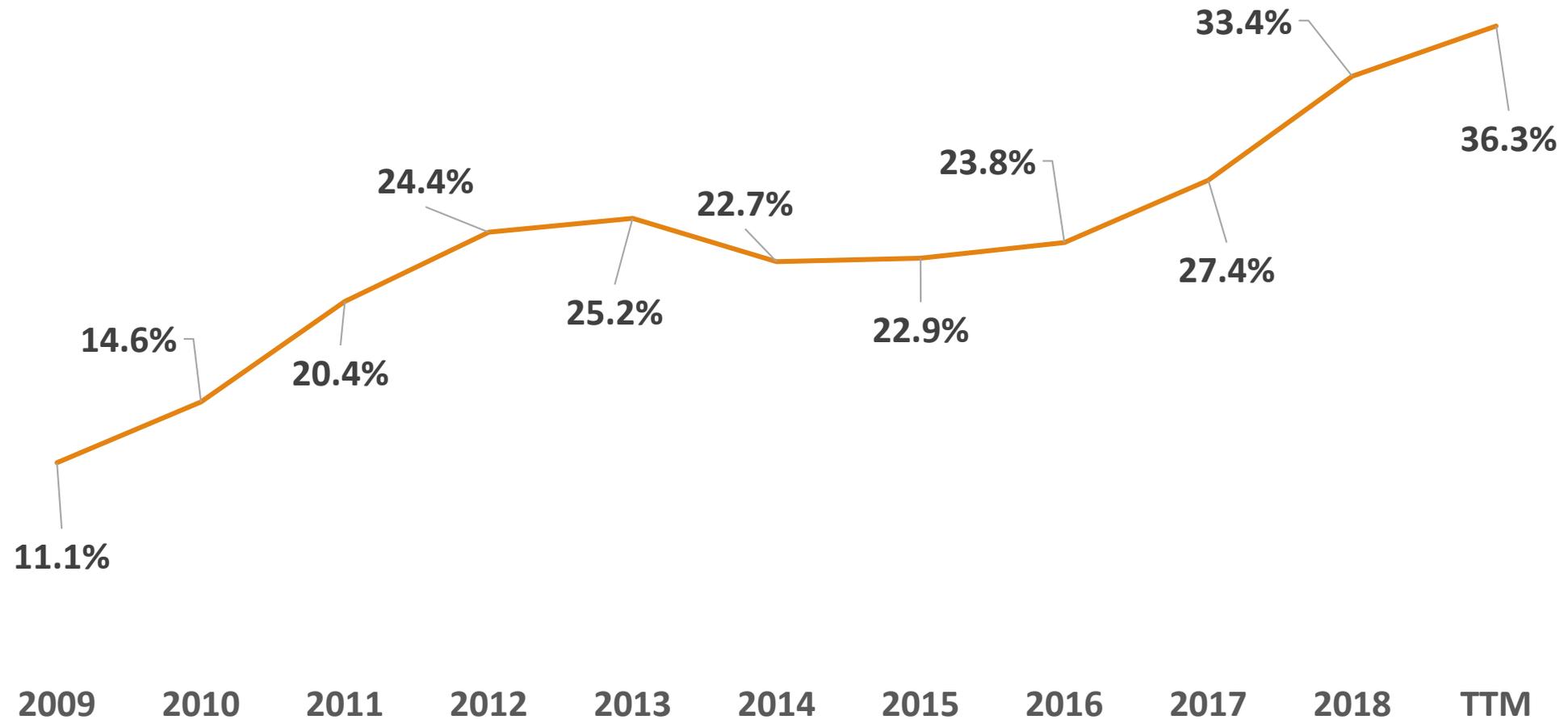
Net Profit Margin



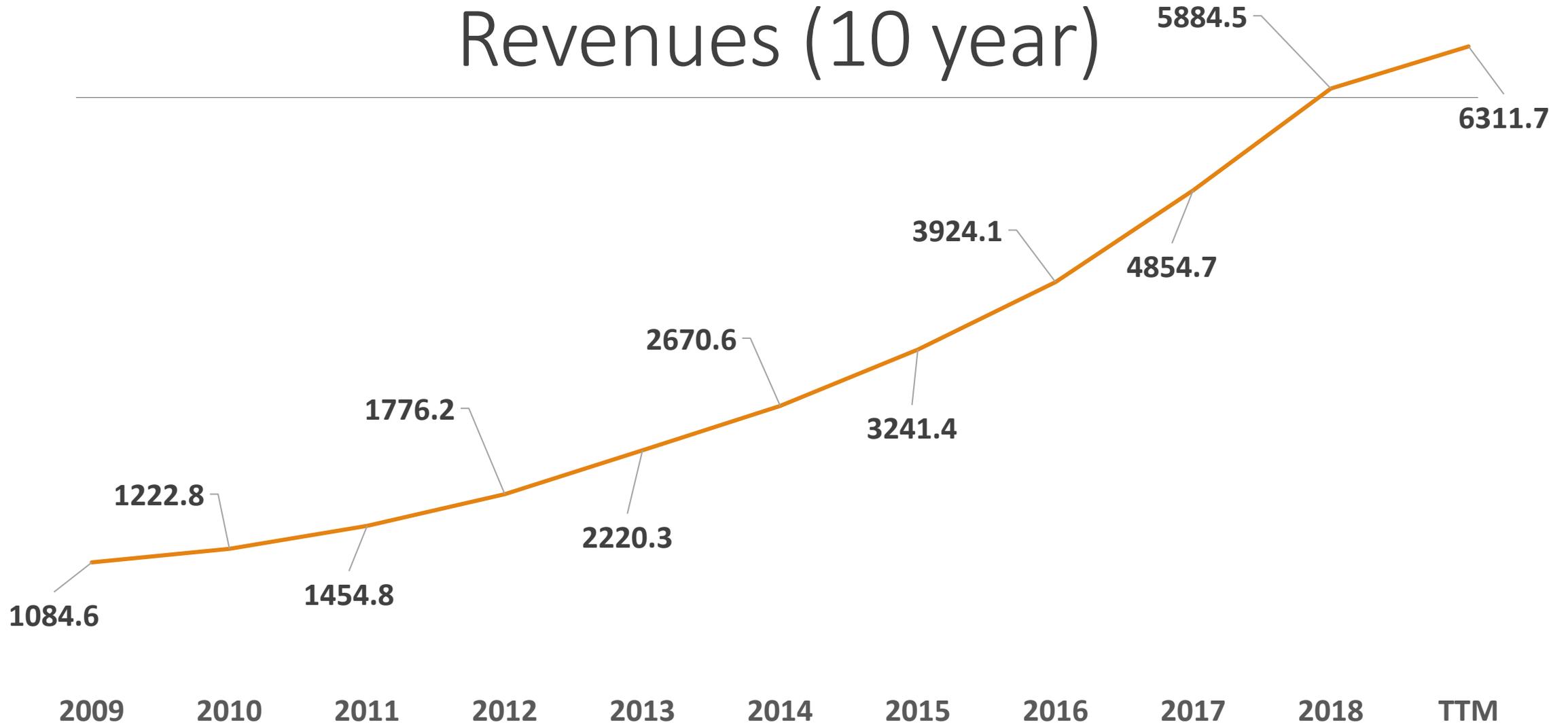
Total Shares Outstanding



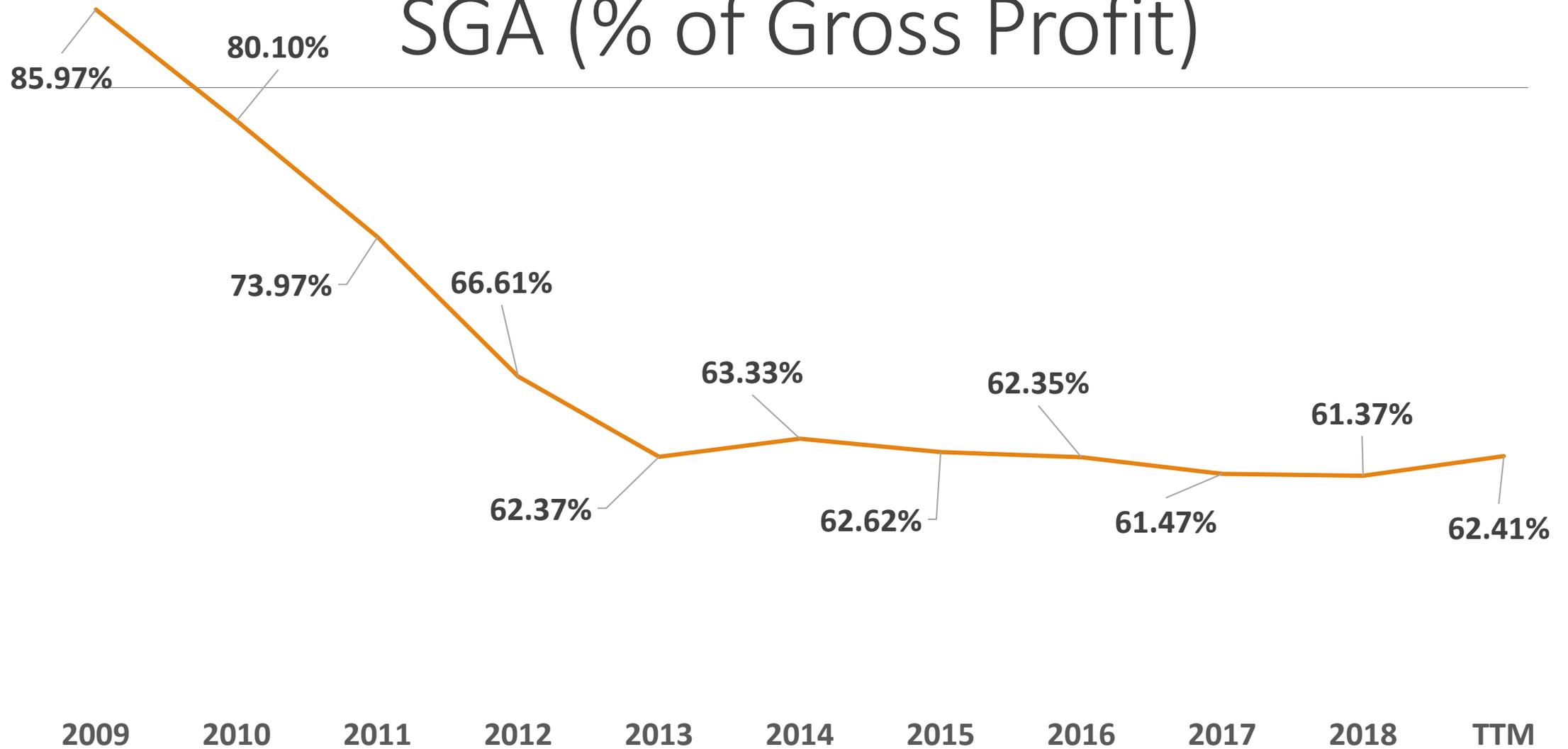
Return on Equity



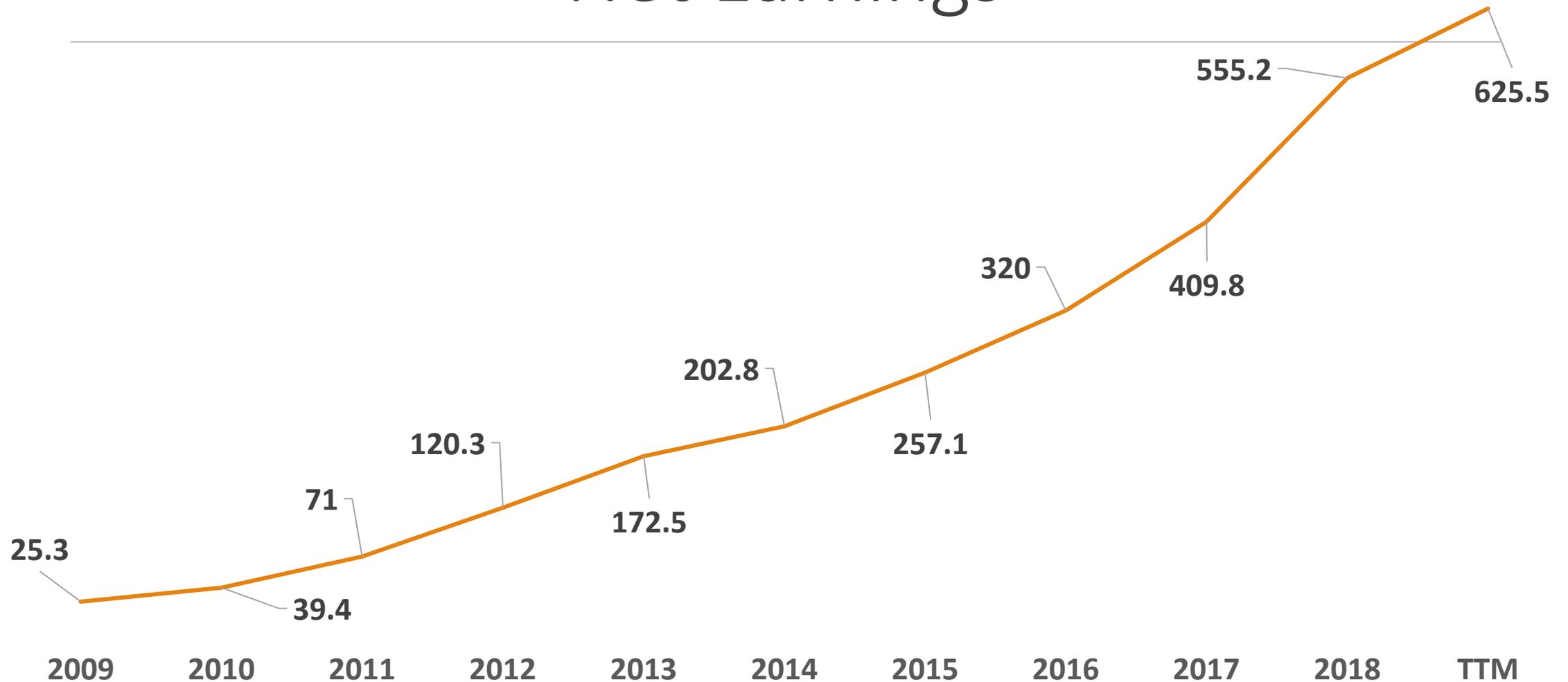
Revenues (10 year)



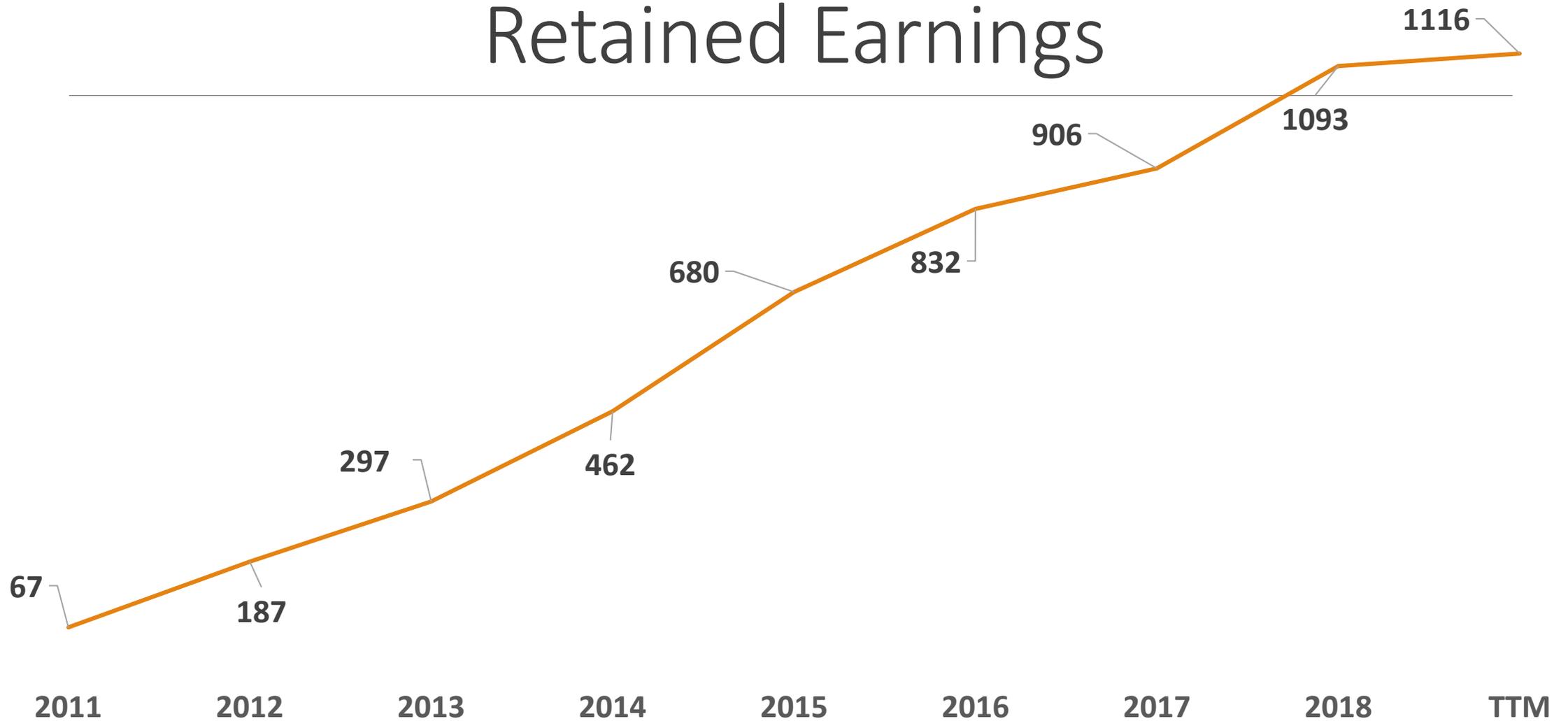
SGA (% of Gross Profit)



Net Earnings



Retained Earnings



Statistical Array Analysis

Statistical Array Analysis	Trend
Sales per Share	Increasing
Earnings per Share	Increasing
Cash Flows per Share	Increasing
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Number of Stores	Increasing
Net Income	Increasing
Net Profit Margin	Increasing
Working Capital	Increasing
Common Shares Outstanding	Decreasing
Long Term Debt	None

DuPont Analysis (Historical)

Years	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity (ROE)
2015	7.93%	1.81	1.59	28.61%
2016	8.15%	1.86	1.55	22.18%
2017	8.44%	2.03	1.65	26.45%
2018	9.44%	2.16	1.64	31.29%
TTM	10%	2.17	1.70	34.55%

DuPont Analysis (Competitors)

Company	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity (ROE)
Ulta Beauty (ULTA)	9.43%	2.02	1.63	31.29%
Macy's (M)	6.23%	1.28	3.42	27.27%
Amazon (AMZN)	1.71%	1.35	4.74	10.95%
Walgreens (WBA)	3.45%	1.79	2.40	14.85%

Industry Breakdown

Industry Breakdown

TTM	Ulta Beauty (ULTA)	Macy's (M)	Amazon (AMZN)	Walgreens (WBA)
Market Cap	16.85B	10.71B	939.37B	71.73B
Revenue	5B	24B	177B	118B
P/E	27.42	5.14	151.74	16.83
P/S	2.72	0.32	4.57	0.57
P/B	9.27	1.39	26.65	2.58
EV/EBIT	19.98	8.12	117.23	14.52
ROA	20.34%	7.89%	5.28%	5.88%
ROE	33.40%	30.95%	12.91%	14.22%
Gross Margin	35.63%	38.99%	22.87%	24.67%
Operating Margin	13.35%	6.26%	2.31%	4.59%
Net Margin	9.44%	6.23%	1.71%	3.45%



Ulta vs Sephora

Ulta sells products for consumers of all income levels

Sephora does not, more high-end products

Ulta diversified across many segments, including in store salons

Ulta operates more stand alone stores, Sephora partners with JC Penny



Ulta vs Amazon

Ulta E-Commerce currently 15% of sales, growing 60% YoY

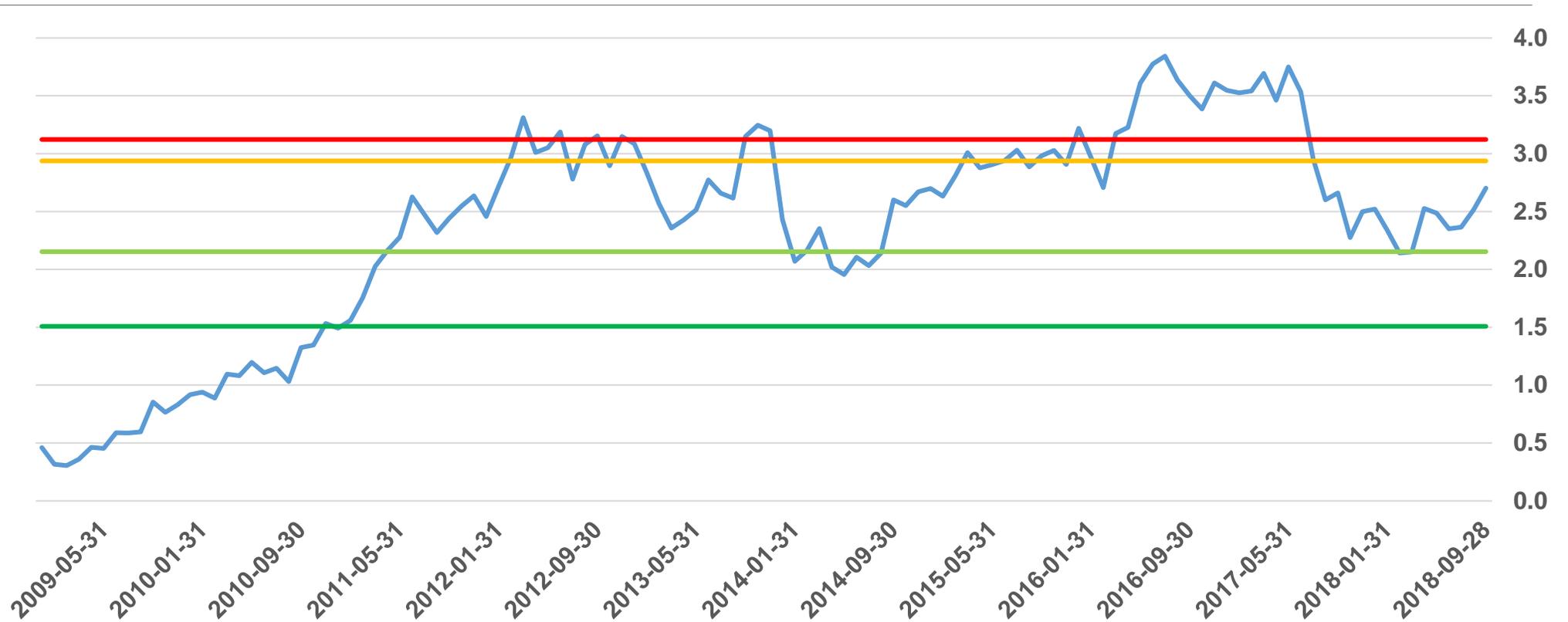
In-store activities a necessity for makeup, trying it on

Retailers declining, beauty retail is not

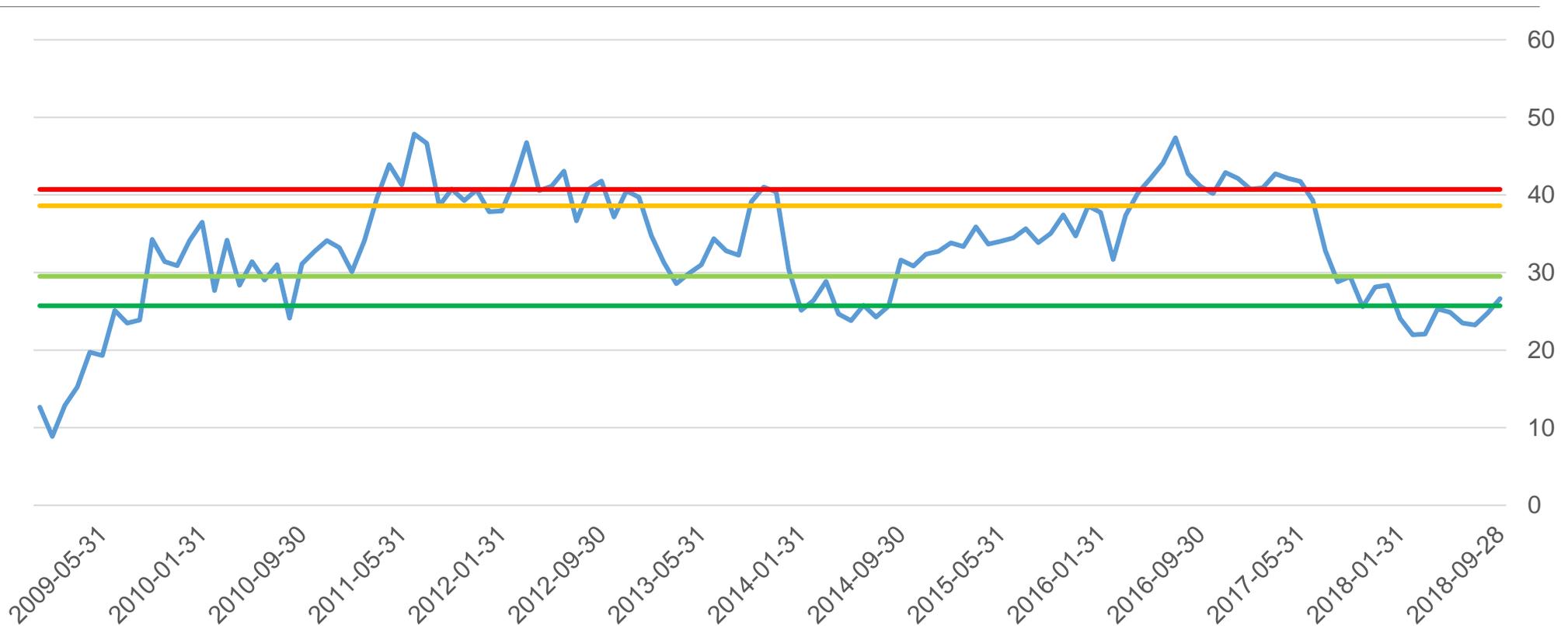
Ulta exclusive brands, recognition by celebrities

Value Bands

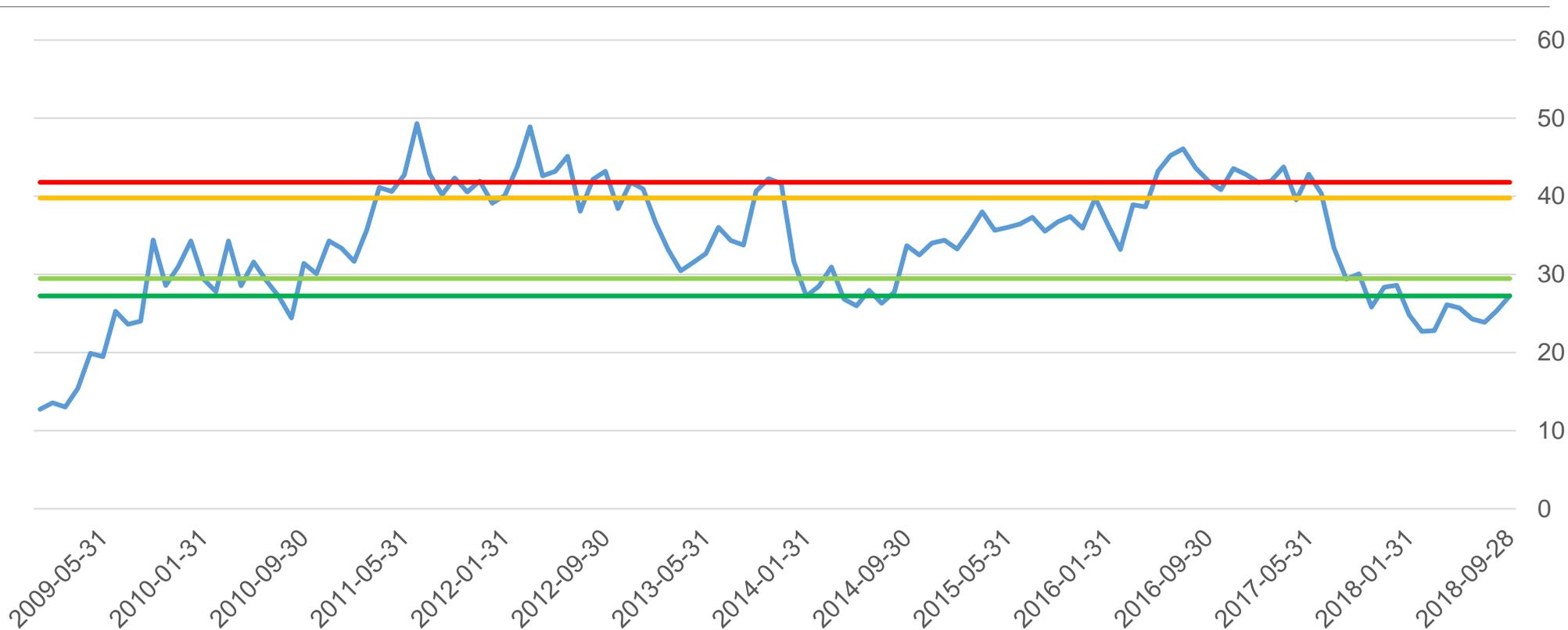
Price/Sales



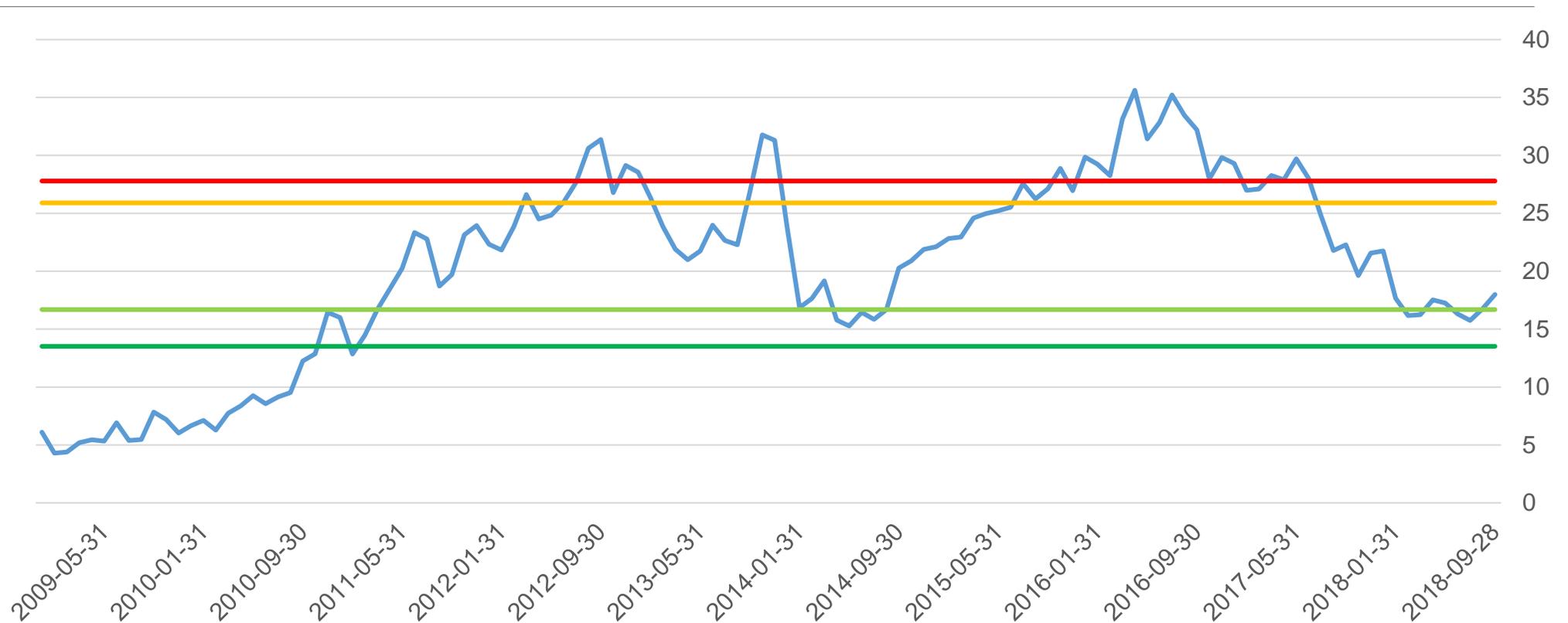
Price/Earnings less Cash



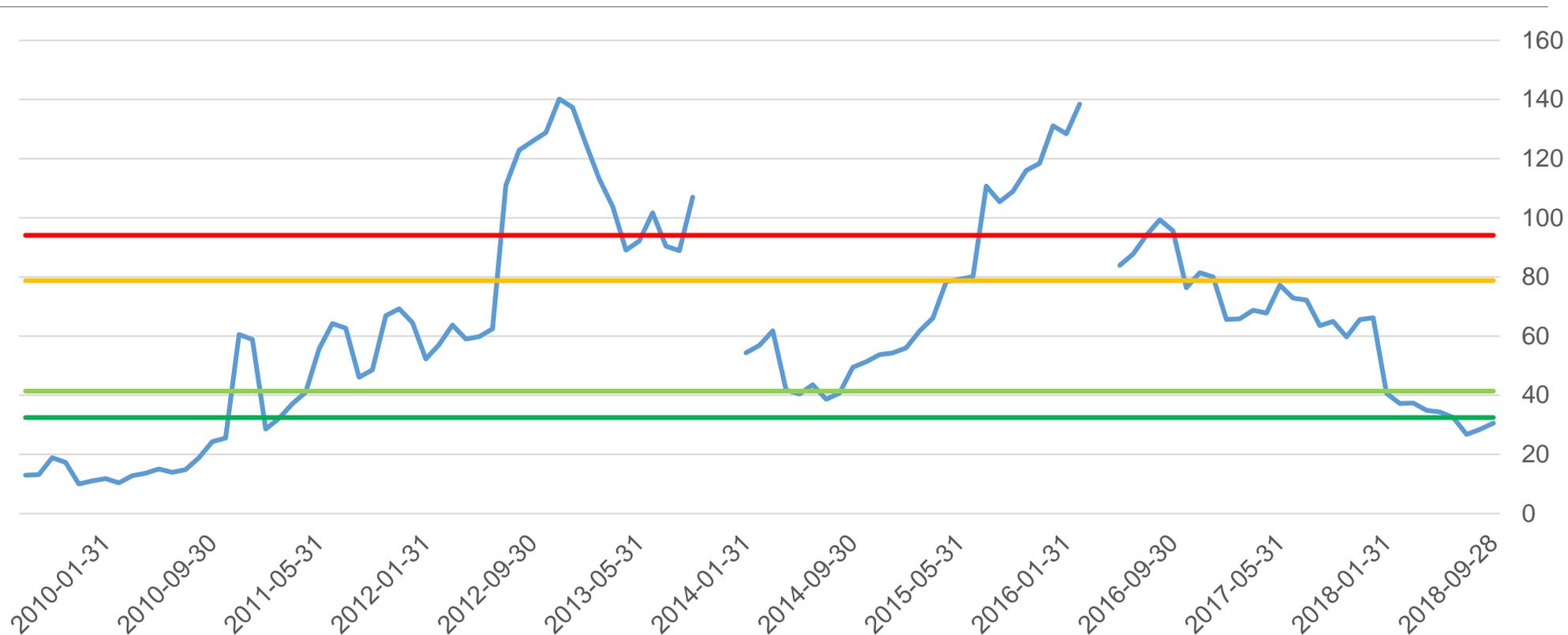
Price/Earnings



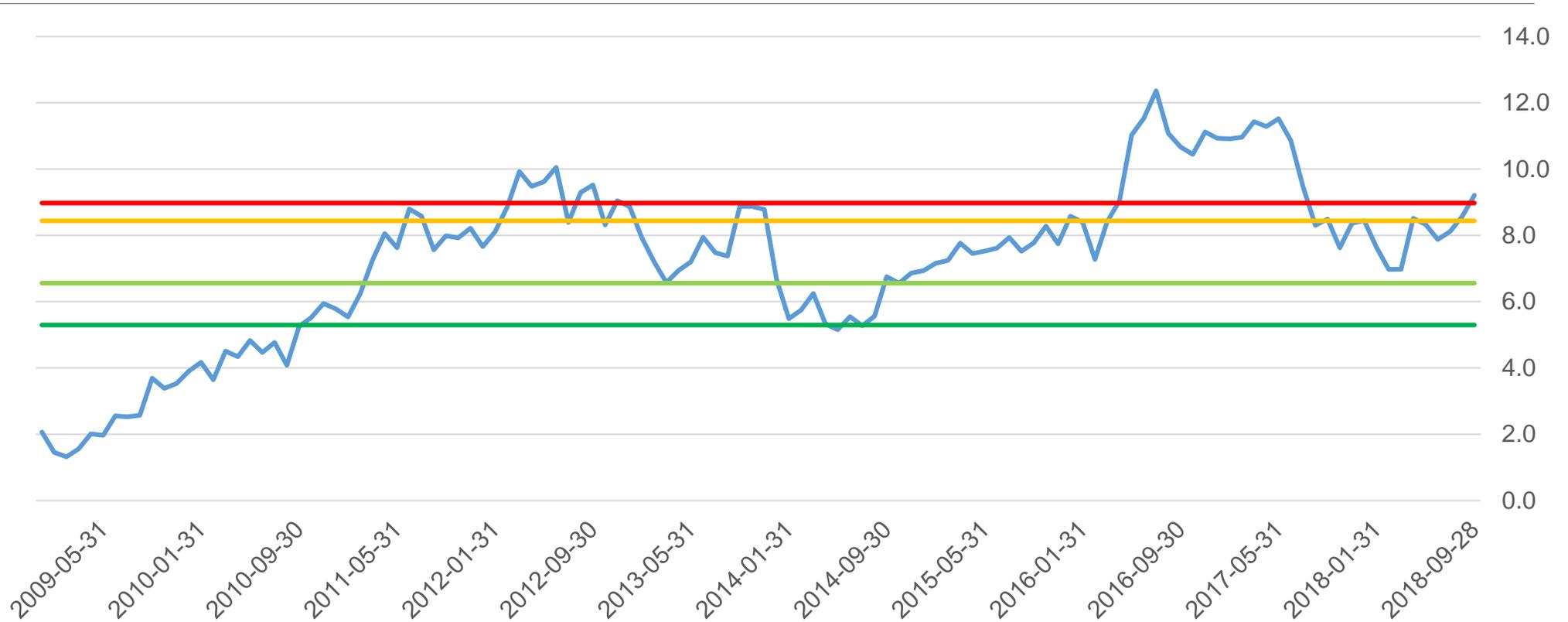
Price/Cashflow



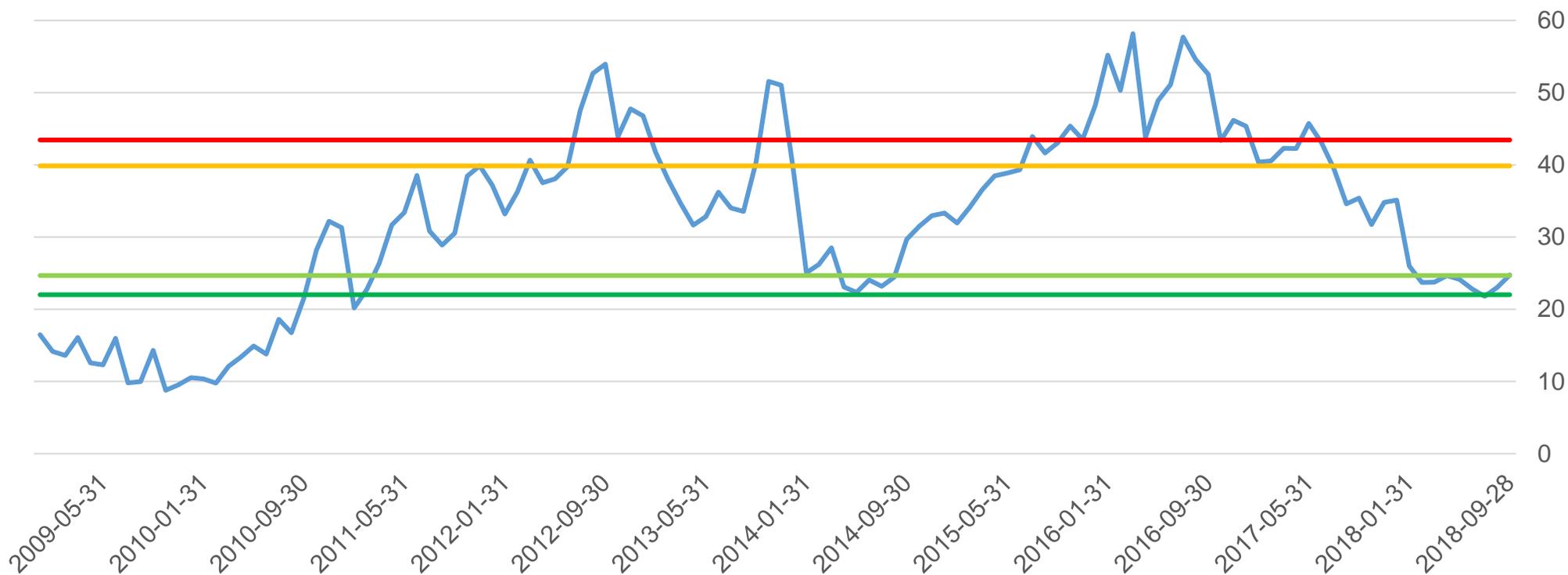
Price/Free Cashflow



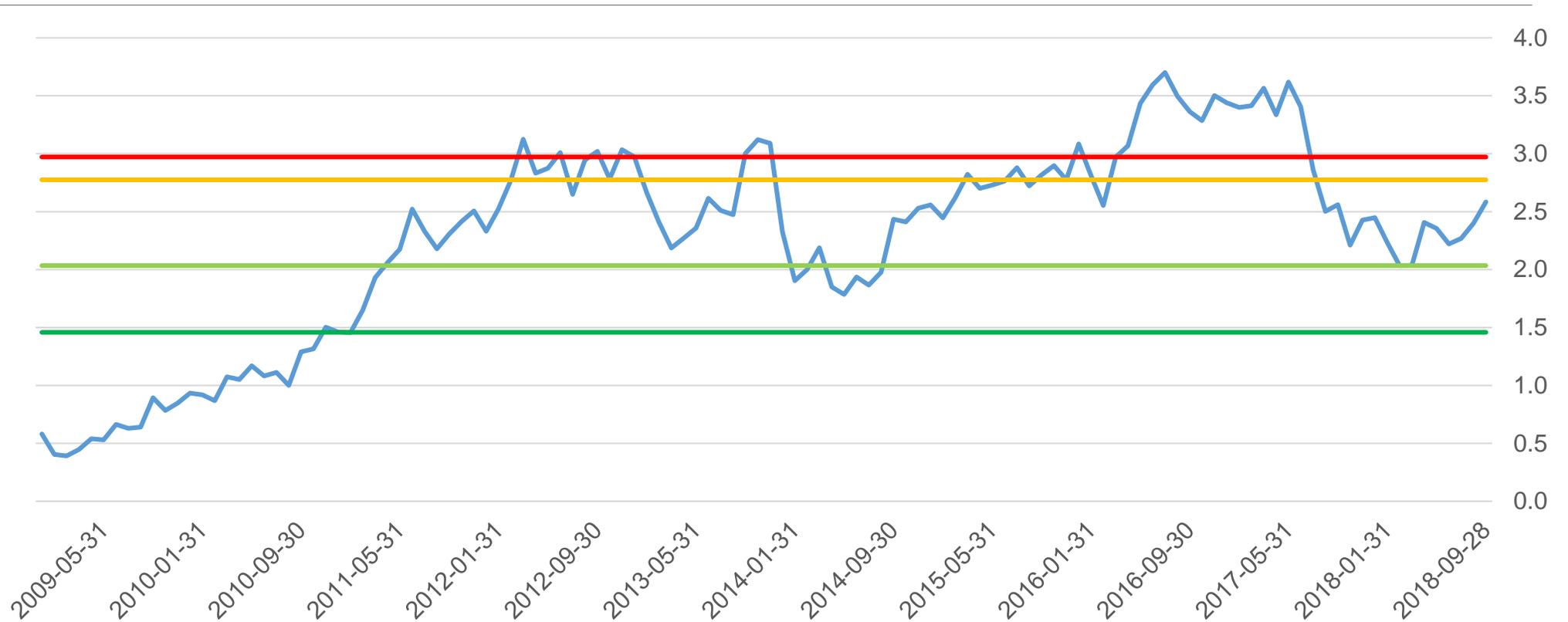
Price/Book



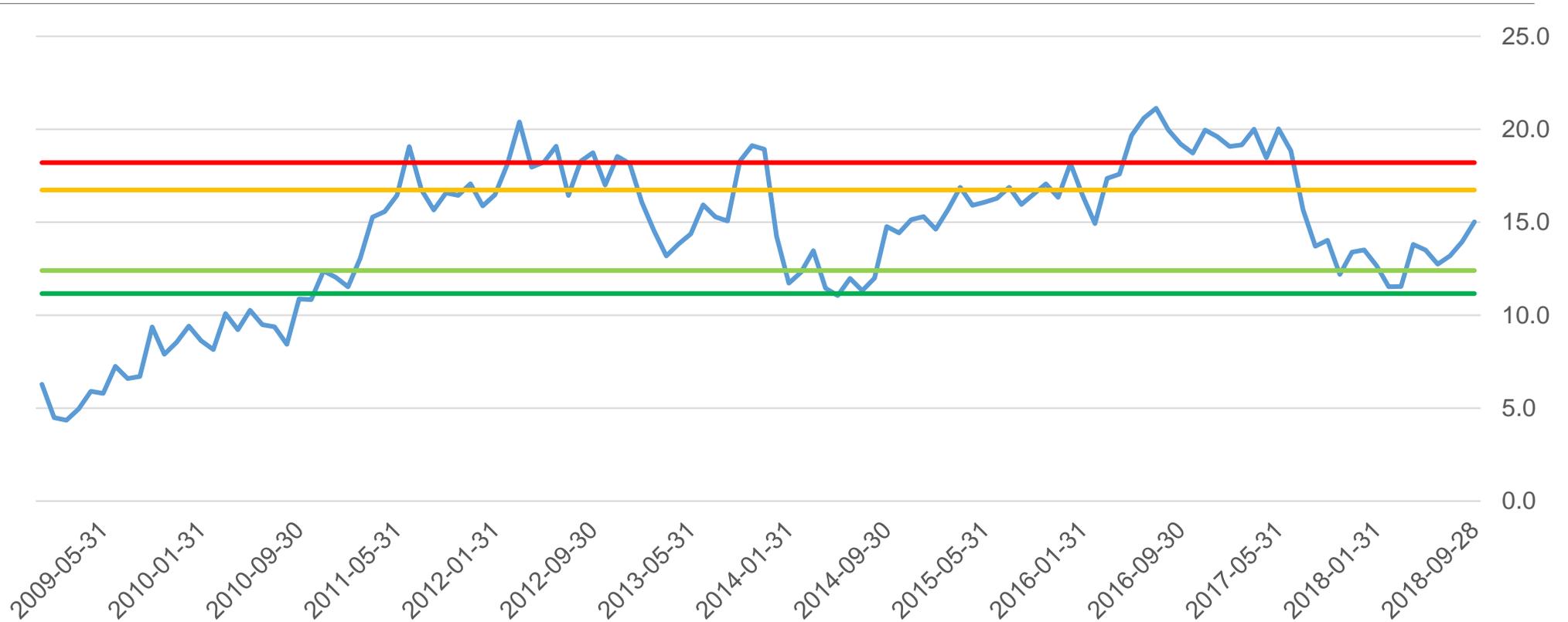
Price/Owners Earnings



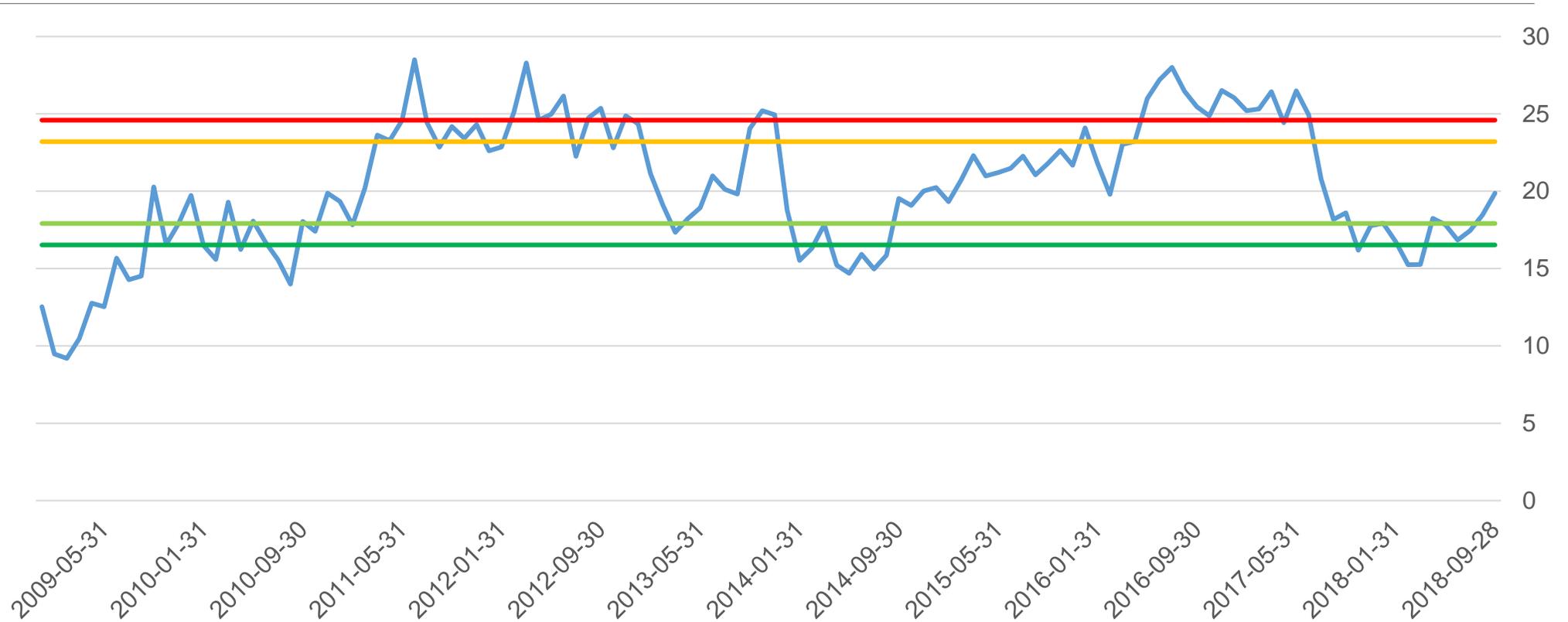
EV/Revenue



EV/EBITDA



EV/EBIT



INTRAPORTFOLIO

Return on Equity

Symbol	ROE %
HD	438.07
UNP	52.31
OMC	46.42
CHRW	40.25
PEP	39.88
ULTA	36.28
TSCO	34.85
PII	28.86
DG	28.78

Symbol	ROE %
DIS	27.53
UHAL	24.80
MSFT	19.84
NKE	17.34
BRK.B	14.28
NSRGY	13.63
ORCL	7.97
MCK	-3.56
AIG	-9.73
QCOM	-15.81

Return on Invested Capital

SYMBOL	ROIC %
MSFT	52.48
ULTA	44.58
HD	43.51
UNP	31.90
TSCO	26.60
OMC	24.87
CHRW	23.96
NKE	21.00
DG	20.84

SYMBOL	ROIC %
DIS	18.76
UHAL	17.72
BRK.B	17.20
PII	15.94
PEP	15.04
NSRGY	12.96
MCK	12.36
ORCL	10.61
AIG	-23.68
QCOM	-66.07

Price / Free Cashflow

SYMBOL	P / FCF
OMC	10.17
MCK	14.34
ORCL	15.01
DIS	17.38
QCOM	19.66
DG	20.52
BRK.B	24.12
HD	24.27

SYMBOL	P / FCF
PII	24.44
MSFT	27.65
TSCO	27.66
PEP	27.80
CHRW	27.93
NSRGY	27.98
UNP	28.05
ULTA	30.73
NKE	35.33
AIG	404.81

Price / Earnings



SYMBOL	P / E
UHAL	8.65
BRK.B	11.36
UNP	11.44
OMC	14.11
DIS	14.20
DG	16.71

SYMBOL	P / E
TSCO	23.50
CHRW	23.67
HD	24.49
PII	25.93
ULTA	27.43
NSRGY	29.83
PEP	34.99
MSFT	54.36
ORCL	56.31
NKE	73.26

Price / Sales

SYMBOL	P / S
MCK	0.13
CHRW	0.86
AIG	1.05
OMC	1.06
DG	1.19
PII	1.19
TSCO	1.50
UHAL	1.86
BRK.B	2.28

SYMBOL	P / S
HD	2.33
PEP	2.49
ULTA	2.72
NSRGY	2.73
DIS	2.93
NKE	3.82
QCOM	4.78
ORCL	5.33
UNP	5.79
MSFT	8.07

Enterprise Value / Earnings Before Interest & Tax

SYMBOL	EV / EBIT
OMC	8.99
UHAL	10.66
DIS	12.87
ORCL	12.88
DG	14.94
TSCO	16.48
PEP	16.64
PII	16.66
UNP	16.74

SYMBOL	EV / EBIT
HD	17.04
BRK.B	17.51
CHRW	17.70
ULTA	20.01
MSFT	20.96
NSRGY	23.41
NKE	30.02
AIG	37.42
QCOM	38.73
MCK	544.31

CONSCIOUS INVESTOR

Conscious Investor (10 year)

	1/09	1/10	1/11	1/12	1/13	1/14	1/15	1/16	1/17	1/18
EPS (\$)	0.430	0.660	1.160	1.900	2.680	3.150	3.980	4.980	6.520	8.960
SPS (\$)	18.807	21.021	24.166	28.551	34.815	41.577	50.501	61.758	78.140	96.479

	HGROWTH	STAAGR
EPS (\$)	37.64%	82.01%
SPS (\$)	20.35%	96.13%

Conscious Investor (6 year)

	1/13	1/14	1/15	1/16	1/17	1/18
EPS (\$)	2.680	3.150	3.980	4.980	6.520	8.960
SPS (\$)	34.815	41.577	50.501	61.758	78.140	96.479

	HGROWTH	STAAGR
EPS (\$)	27.29%	96.51%
SPS (\$)	22.86%	98.97%

Conscious Investor (3 year)

	1/16	1/17	1/18
EPS (\$)	4.980	6.520	8.960
SPS (\$)	61.758	78.140	96.479

	HGROWTH	STAEGR
EPS (\$)	34.13%	99.31%
SPS (\$)	24.99%	99.70%

Conscious Investor (6 year Kill it)

	PRICE	EPSttm	P/E RATIO	HGROWTH	STRET
DEFAULT	277.46	\$10.24	32.64	37.64%	41.98%
KILL IT	277.46	\$10.24	20.50	10.00%	5.00%

Cut P/E Ratio by 37%

Cut Growth by 73%

Conscious Investor (6 year Kill it again)

	PRICE	EPSttm	P/E RATIO	HGROWTH	STRET
DEFAULT	277.46	\$10.24	32.64	37.64%	41.98%
KILL IT	277.46	\$10.24	19.50	5.64%	0.00%

Cut P/E Ratio by 40%

Cut Growth by 85%

Discounted Cash Flow Model

Guru Default

Earnings Per Share  : \$

Growth Rate In the Next  : Years: %

Terminal Growth Rate  : %

Years of Terminal Growth  :

Discount Rate  : %

Business Predictability  :  



DCF Reverse DCF NEW 

Fair Value  : **291.52**

Tangible Book Value  : \$
 Add to Fair Value

Growth Value  : 152.61

Terminal Value  : 138.9

Stock Price: \$

Margin Of Safety: **5%**

Guru Default

Earnings Per Share : \$

Growth Rate In the Next : Years: %

Terminal Growth Rate : %

Years of Terminal Growth :

Discount Rate : %

Business Predictability :



DCF Reverse DCF

Fair Value : 291.52

Tangible Book Value : \$
 Add to Fair Value

Growth Value : 152.61

Terminal Value : 138.9

Stock Price: \$

Margin Of Safety: 5%

Guru Adjusted

Earnings Per Share [?] : \$ 10.24

Growth Rate In the Next [?] : 10 Years: 12 %

Terminal Growth Rate [?] : 4 %

Years of Terminal Growth [?] : 10

Discount Rate [?] : 10 %

Business Predictability [?] : [?]

[Save Parameters](#)



DCF [Reverse DCF](#) ^{NEW}

Fair Value [?] : 204.46

Tangible Book Value [?] : \$ 30.27
 Add to Fair Value

Growth Value [?] : 113.22

Terminal Value [?] : 91.24

Stock Price: \$ 278.33

Margin Of Safety: **-36%**

EPS without NRI Growth (%)	36.90	27.30	36.20
----------------------------	-------	-------	-------

Guru Adjusted

Earnings Per Share [?] : \$ 10.24

Growth Rate In the Next [?] : 10 Years: **12** %

Terminal Growth Rate [?] : 4 %

Years of Terminal Growth [?] : 10

Discount Rate [?] : 10 %

Business Predictability [?] : [?]

[Save Parameters](#)



DCF [Reverse DCF](#) ^{NEW}

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Business Predictability [?] : ★★★★★ [?]

Save Parameters



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Discount Rate [?] : 10 %

Business Predictability [?] : ★★★★★ [?]

Save Parameters



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----------------------------	-------	-------	-------

Reverse DCF

Earnings Per Share [?] : \$

Growth Rate In the Next [?] : Years

Terminal Growth Rate [?] : %

Years of Terminal Growth [?] :

Discount Rate [?] : %

Business Predictability [?] :  [?]



DCF Reverse DCF ^{NEW} ←

Growth Rate [?] : 16.54%

Stock Price: \$

Revenue Growth Rate [?] : 19.30%(10y) 22.60%(5y) 21.70%(1y)

EBITDA Growth Rate [?] : 28.20%(10y) 24.80%(5y) 14.70%(1y)

EPS without NRI Growth Rate [?] : 36.90%(10y) 27.30%(5y) 36.20%(1y)

Free Cash Flow Growth Rate [?] : 0.00%(10y) 40.80%(5y) 163.20%(1y)

Book Value Growth Rate [?] : 25.00%(10y) 18.30%(5y) 14.10%(1y)

Conclusion

- Great returns and margins
- ULTA Brand & distribution network
- Plans for more store locations
- Omni channel capabilities
- Differentiation form Sephora



Recommendation

- Based on Buy Alert 40% value bands:
- Limit Order: \$231

- Calls for 18% Drop

Questions?
