



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Ulta Beauty Inc.

Ticker	ULTA		2022A	2023E	2024E	2025E	2026E
Price	\$475	Hedgeye EPS	\$ 24.01	\$ 24.77	\$ 25.85	\$ 26.75	\$ 28.29
Market Cap	21.1 bn	Street EPS		\$ 25.22	\$ 26.70	\$ 28.92	\$ 34.08
Enterprise Value	20.7 bn	Variance		-2%	-3%	-8%	-17%
Short Interest	2.8%	P/E		19.2x	18.4x	17.8x	16.8x
Net Debt/EBITDA		Target P/E		15.0x	14.0x	13.0x	12.0x
Sell Side Target	\$536	Implied Price		\$372	\$362	\$348	\$340
Return to SS Tgt	12.8%	Price Variance %		-22%	-24%	-27%	-29%

HEDGEYE EDGE | Story Cracking -- New Existential Threat

To many Best Idea Short ULTA looks cheap at a high teens multiple, but we wouldn't touch it long side until its trades at 7-8x REAL EBITDA, which suggests a stock in the low \$300s - a far cry from where it trades at today. We're also seeing clear evidence that the Kohl's stores opening Sephora shops (the entire 1,150 store fleet) are taking incremental visits share from ULTA given their close proximity. It's competitive moat is shrinking. Ultimately, we think ULTA will protect its market share, but it will come at the expense of promotions and Gross Margin. The positive impact of price increases ULTA took last year is starting to wain and merch margins were lower in the quarter because of it. This impact will continue into Q4 to a larger extent. All the PODs are going the wrong way for this company - and that equals multiple compression. We're 17% below consensus over a TAIL duration.

NEAR-TERM (TREND) | Reversion Will Continue

Revenue growth has been decelerating for the last few quarters and we expect that to continue, especially with the company lapping the biggest price increases in Q3. Margins will also get hit by that anniversary, with not being able to have that YY bump while simultaneously having higher shrink, higher supply chain costs, and higher store and corporate expenses. Big mean reversion towards pre-pandemic margin levels when this concept put up a 13% EBIT margins vs ~16% today. The consensus has margins settling slightly above 15%, but management has only underwritten 14-15% targets. EBIT SHRINKING on a YY basis, the only EPS growth coming from share repo, and the supply/demand economics in this category likely to negatively inflect over the next 12-24 months, none of this works to ULTAs benefit, the stock should re-rate accordingly.

KEY RISKS TO THE CALL | Be Careful Shorting Quality

The reality is that ULTA is a quality retailer -- one that guides conservatively and usually over-delivers. To be clear, the massive period of sales gains and margin slift is behind the company. But it is the leader in beauty, and will likely never trade at 'junk retail' multiples.

COMPANY DESCRIPTION

Ulta Beauty operates retail stores in the U.S. selling products across the beauty spectrum and offering in-store beauty services. Ulta carries both wholesale merchandise and private label products under Ulta Beauty Collection. It currently operates 1,355 stores.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$ 10,209	\$ 11,144	\$ 11,999	\$ 12,552	\$ 13,301
YY % Change		9.2%	7.7%	4.6%	6.0%
Gross Margin %	39.6%	38.9%	38.7%	38.2%	37.7%
EBIT Margin %	16.1%	14.4%	13.6%	13.1%	12.6%
EBITDA	\$ 1,923	\$ 1,899	\$ 1,986	\$ 2,043	\$ 2,094
Net Debt	\$ (738)	\$ (615)	\$ (1,056)	\$ (1,687)	\$ (2,364)
Net Debt/EBITDA					
FCF/Share	\$22.61	\$15.94	\$21.79	\$24.46	\$26.45