

Applied Security Analysis Program

**ULTA Beauty, Inc. (NASDAQ: ULTA)**

Industry: Specialty Retail – Beauty and Personal Care

**Recommendation**

We recommend a **buy** on Ulta Beauty, Inc (ULTA) with a price target of **\$646** (23.6% upside) based on the view of traffic durability, margin recovery, and emerging TAM expansion that together support mid-teens EPS CAGR through FY27.

**Company Overview**

Ulta Beauty is the largest omnichannel beauty retailer in the United States, operating 1,445 stores across all 50 states as of February 1, 2025 (FY24 end). ULTA serves both the value and premium beauty markets with their “mass + prestige under one roof” model.

**Investment Thesis Summary**

**1. Structural Traffic Resilience via Loyalty Monetization**

We forecast +4.5 % FY26E SSS vs. Street 3.7 %, driven by repeat traffic from 45.8 M loyalty members (95 % of sales) visiting 2–3x more often than non-members. Our traffic-led comp outperformance implies +\$97 M incremental revenue over FY25–26, translating to +\$0.85 EPS upside.

**2. Margin Recovery Underestimated by the Market**

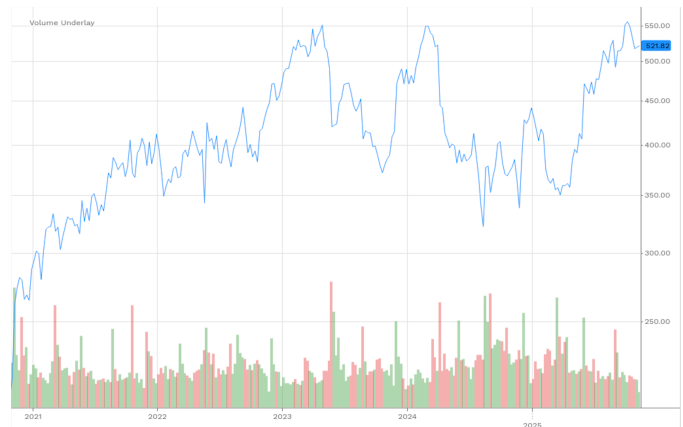
We model 13.7% FY26E EBIT margin vs. Street 12.3% (+140 bps premium), representing 90 bps YoY expansion from FY25E baseline of 12.8%. Improvement driven by shrink reduction (25 bps), supply chain optimization (30 bps), and SG&A leverage (35 bps). FY25 margin drag (Space NK costs, incentive normalization) is transitory; gross margin recovery and cost discipline re-rate profitability toward pre-FY24 levels, driving +\$2.85 EPS upside

**3. Gen Alpha Adoption Expands Category TAM**

We forecast U.S. beauty category growth accelerating to 5.5-6.0% CAGR (FY24-30E) versus Street consensus of 4.0%, driven by Gen Alpha early entry into beauty retail (ages 10-12) and wellness convergence expanding the addressable market.

Recommendation	BUY
Current Price (As of Nov 12)	\$523
Target Price	\$646
Implied Upside	23.6%
Ticker	ULTA
Market Cap (\$mm)	\$23,400
52-Week Range	\$309 - \$572
Shares Outstanding (mm)	45.1
Short Interest	3.1 days/3.95% of Float

Estimates	FY25E	FY26	FY27E
<b>Revenue \$(mm)</b>	<b>12,275</b>	<b>13,302</b>	<b>14,329</b>
Consensus	12,052	12,705	13,400
Deviation	+1.8%	+4.7%	+6.9%
<b>EBIT Margin %</b>	<b>12.8%</b>	<b>13.7%</b>	<b>14.4%</b>
Consensus	12.1%	12.3%	12.5%
Deviation	+6.0%	+12.0%	+15.6%
<b>EPS \$</b>	<b>26.5</b>	<b>30.8</b>	<b>31.5</b>
Consensus	24.5	27.1	30.0
Deviation	7.8%	13.3%	4.8%



**Summary**

Our forecasts for FY26E Revenue \$13.30 B (+4.7 % vs. Street) and EPS \$30.8 (+13.3 % vs. \$27.1 Street) reflect superior traffic resilience and margin recovery, supporting our **BUY** rating and **\$646** target price (+23.6 % upside).

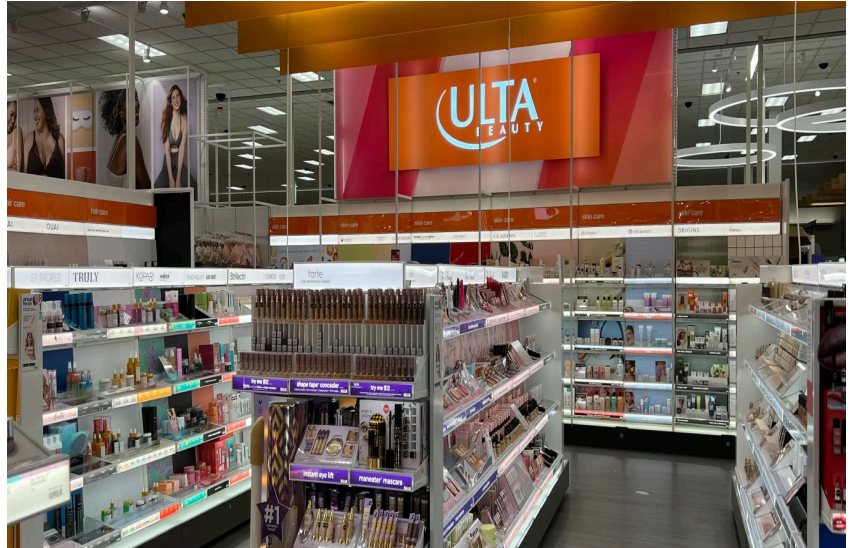
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**2. Company Overview**

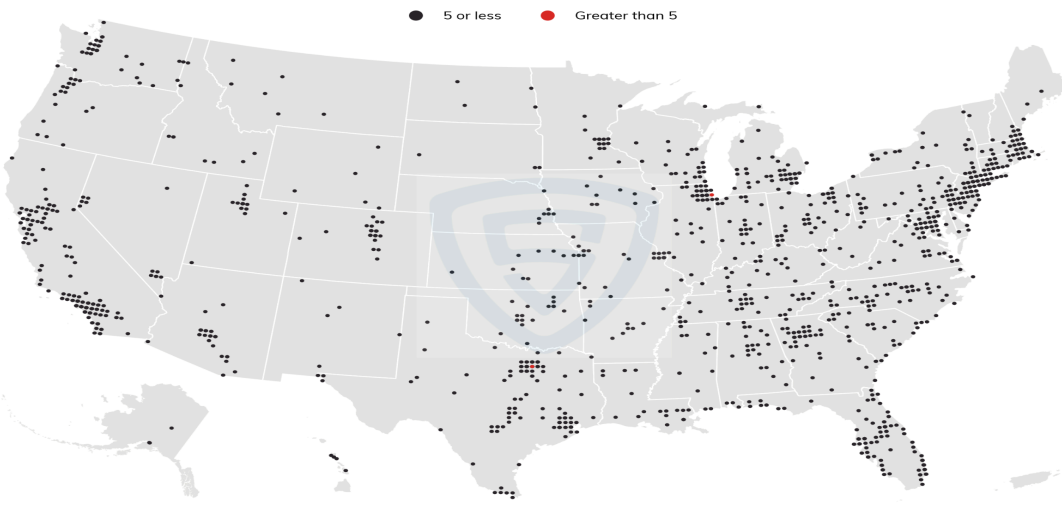
**2.1 Business Description**

Ulta Beauty, Inc. (NASDAQ: ULTA) is the largest specialty beauty retailer in the United States, operating 1,473 stores across all 50 states as of Q2 FY25. Founded in 1990 and headquartered in Bolingbrook, Illinois, Ulta pioneered a differentiated “mass + prestige under one roof” retail model, combining a full range of price points and categories—from everyday essentials to luxury cosmetics and salon services—within a single shopping experience.

The company’s merchandising strategy spans cosmetics, skincare & wellness, haircare, fragrance, and salon services, encompassing more than 600 brands and 25,000 SKUs. This breadth enables Ulta to capture both trade-up and trade-down behavior across economic cycles. Approximately 95 % of sales originate from its 45.8 million-member Ultimate Rewards loyalty program, creating a rich dataset that drives personalized marketing, repeat traffic, and operational efficiency.



Ulta’s omnichannel ecosystem—integrating stores (~82 % of sales), e-commerce (~15 %), and services (~3 %)—positions it uniquely against both mass merchants and prestige-only competitors. Capabilities such as Buy Online Pick Up In Store (BOPIS), same-day delivery, and robust mobile apps elevate convenience while maintaining high-margin in-store conversion.



**Ulta Beauty store locations in the USA**  
Each grid point covers 10-mile radius with at least one location  
Source: ScrapeHero.com



*Exhibit 1. Ulta Store Geographic Locations*

As illustrated in the map above, ULTA maintains a truly national footprint with stores across all 50 states, providing comprehensive coverage of major metropolitan areas while maintaining disciplined density thresholds. The distribution closely mirrors U.S. population density and household income patterns, with highest concentration in California, Texas, Florida, the Northeast corridor,

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and the Great Lakes region. Each dot on the map represents a 10-mile radius of coverage, demonstrating that ULTA has achieved saturation in coastal urban markets while maintaining significant whitespace in tertiary markets and rural geographies. Management's site selection strategy prioritizes convenience and accessibility, targeting power centers and lifestyle shopping centers with strong co-tenancy (grocery anchors, mass merchants, off-price retailers) that drive consistent traffic.

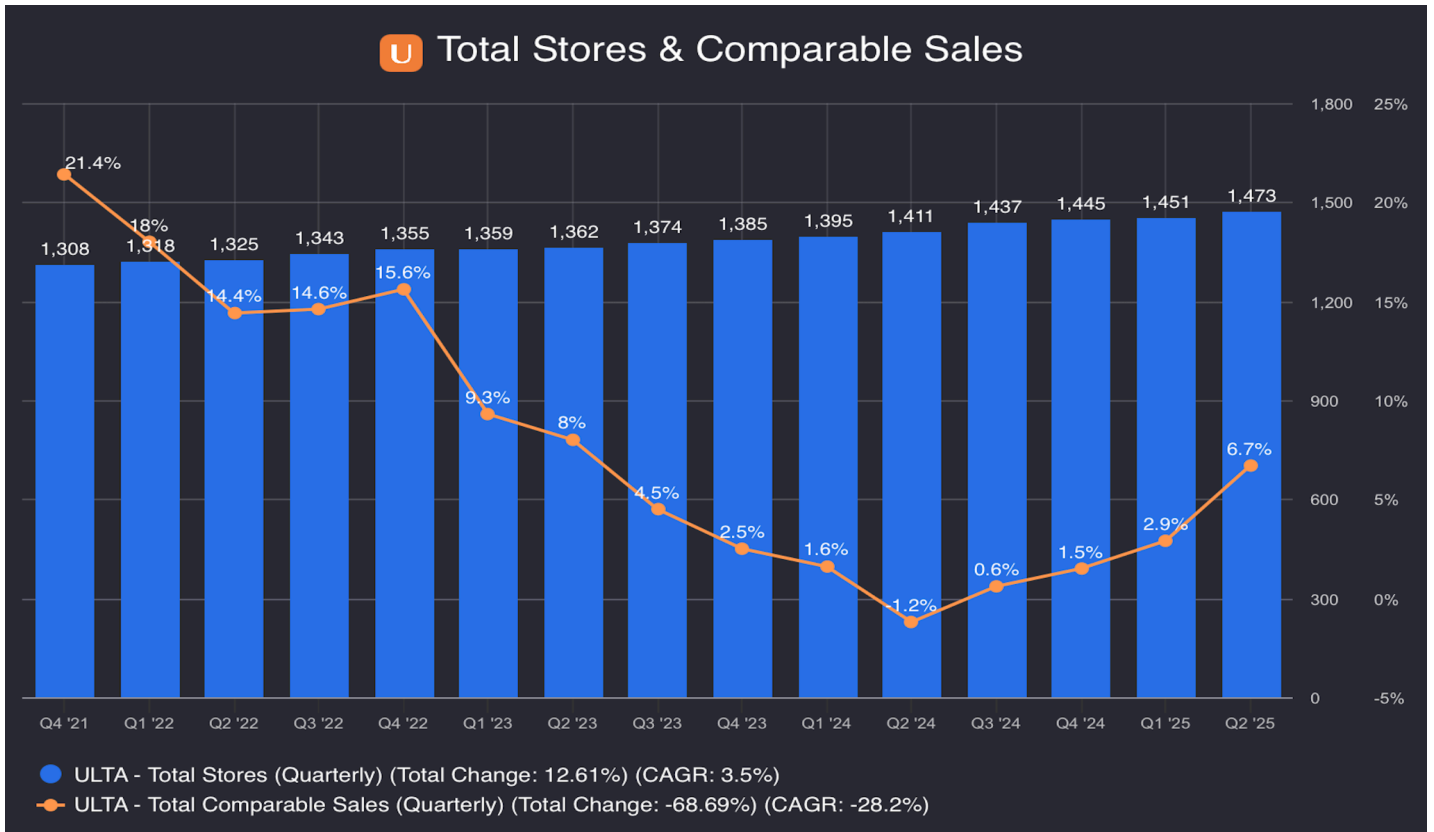


Exhibit 2: ULTA's Total Store & Comparable Sales

Exhibit 2 reveals a critical dynamic that warrants careful interpretation. As ULTA's store base expanded from 1,308 (Q4 FY21) to 1,473 (Q2 FY25)—a cumulative increase of 12.6%—comparable store sales decelerated from pandemic-era peaks of +21.4% to a trough of -1.5% before recovering to +6.7% most recently. A superficial reading might suggest that unit growth is cannibalizing existing stores or that market saturation is limiting SSS potential.

However, the data supports the opposite conclusion. The SSS normalization primarily reflects pandemic demand pull-forward unwinding and macro discretionary spending pressure, not structural deterioration from store density. Several factors validate this interpretation:

- Mature stores (>5 years old, representing ~80% of the fleet) continue delivering positive mid-single-digit comps, demonstrating that the existing base remains healthy and productive even as new stores open nearby.
- The sharp SSS recovery from -1.5% (Q2 FY24) to +6.7% (Q2 FY25) occurred while the company opened 30 stores in the trailing twelve months, demonstrating that unit expansion and comparable sales momentum are compatible rather than mutually exclusive.

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- Proprietary Placer.ai traffic data shows ULTA's store traffic up +3.8% YoY in Q2 FY25 while specialty retail declined -2.1% and department stores fell -8.4%, confirming that ULTA is capturing share from legacy beauty channels rather than merely redistributing sales across more locations.

**STORE METRICS**

Average Store Size	10,450 sq ft
Mature Store Annual Revenue (est.)	~\$ 8.8M
Four-Wall EBITDA Margin	16-18%
Store Payback Period	~2.5 years
Estimated Store-Level IRR	25-30%
Average Investment per Store	~\$ 2.1M

We interpret this pattern as validation that ULTA's store base expansion remains rational and profitable. The combination of positive mature-store comps, best-in-class new store returns, and accelerating traffic share gains contradicts the saturation narrative and supports our forecast of sustained mid-single-digit SSS through FY27E even as the fleet continues expanding toward the 1,800+ long-term target.

**EXPANSION RUNWAY**

Current Store Count (Q2 2025)	1,473
Long-Term U.S. Capacity (management guidance)	1800+
Annual New Store Openings	50 - 70
Years of Runway Remaining	4 ~ 7 years

Strategically, Ulta continues to execute measured unit growth while preserving exceptional capital productivity. Average store size is ~10 450 sq ft, mature-store revenue approximates \$8.8 million, and four-wall EBITDA margins remain 18–20 %, resulting in ~2.5-year payback periods and 25–30 % IRRs. Management targets 50–70 new stores annually, implying a long-term U.S. capacity of 1 600–1 800 locations—equivalent to five to seven years of expansion runway.

**NEW STORE PRODUCTIVITY**

Year 1 Revenue (% of mature store)	~65%
Year 2 Revenue (% of mature store)	~85%
Year 3+ (mature performance)	100%

*Exhibit 3: ULTA Unit Economics*

**2.3 Strategic Partnerships & the Target Relationship Evolution**

A strategic decision meriting attention is Ulta Beauty’s 2024 exit from the Ulta Beauty at Target shop-in-shop partnership. Launched in 2021, the collaboration placed mini-ULTA boutiques (~1,000 sq ft) inside more than 800 Target stores, aiming to expand brand awareness and reach new customers through Target’s high-traffic suburban footprint. While the concept drove trial and incremental revenue, management ultimately opted to discontinue it, refocusing resources toward higher-return proprietary initiatives.

**Strategic Rationale for Exit**

- Economics:** Shop-in-shop formats produced substantially lower four-wall profitability—estimated 10–12 % EBITDA margins versus 18–20 % for standalone stores. The constrained footprint (~1,000 sq ft vs. 10,450 sq ft at full-format locations) limited SKU breadth (~1,200 items vs. 25,000 +) and precluded salon services, eroding the experiential differentiation central to ULTA’s brand.
- Customer Data Ownership:** Because most transactions flowed through Target’s POS systems, ULTA captured little first-party CRM data. Loyalty penetration in these locations was significantly below company average,

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weakening the strategic flywheel between data, personalization, and repeat visits—the foundation of ULTA’s traffic resilience thesis.

- **Brand Positioning & Experience:** The partnership risked diluting ULTA’s brand equity by conditioning consumers to view a limited product subset as representative of the full experience. ULTA’s advantage lies in its comprehensive “mass + prestige under one roof” ecosystem, full-service salons, interactive testers, and beauty advisors, which could not be replicated in a 1,000-sq-ft kiosk.
- **Capital Allocation Discipline:** Management determined that redeploying investment into freestanding store expansion (25–30 % IRRs), supply-chain automation (30–40 bps margin tailwind), and loyalty platform enhancement created superior shareholder value relative to maintaining a lower-margin, data-light partnership generating sub-15 % returns.

**Strategic Implications:** The exit underscores ULTA’s focus on long-term moat preservation over short-term revenue growth. By prioritizing owned-channel economics and customer-data control, management reaffirmed that ULTA’s defensibility resides in its integrated ecosystem which is loyalty + omnichannel + experiential retail rather than external distribution partnerships that resemble wholesale relationships. This discipline in strategic focus and capital allocation enhances confidence in management execution and strengthens the long-term investment case.

### **2.2 Loyalty Program: The Structural Competitive Moat**

Ulta Beauty’s loyalty program, *Ulta Beauty Rewards*, represents the company’s most durable competitive advantage and forms the structural foundation of its traffic resilience thesis. With 45.8 million active members as of Q2 FY25 up from 30.7 million in FY20 the program now drives approximately 95% of total sales, embedding behavioral switching costs and repeat frequency far above specialty retail peers.

The program operates across three tiers i.e. Member, Platinum, and Diamond where each offer escalating benefits and point multipliers that reward spending concentration. Members earn one point per dollar spent, redeemable at a rate of 100 points for \$3 off, translating to effective rebates between 3% and 4.5% depending on tier. Because points can be combined with promotions, members perceive higher value and consolidate spend at Ulta rather than fragmenting purchases across competitors.

Behaviorally, loyalty members shop two to three times more frequently than non-members, with average annual visits of roughly 8x versus 2–3x and basket sizes 30–50% larger. Even small frequency gains such as increasing visits from 8.0 to 8.5 times annually can lift same-store sales by 6–7% without requiring new customer acquisition. Moreover, Ulta’s \$825 million in unredeemed points, recorded as deferred revenue, represents guaranteed future traffic as customers return to redeem accrued value.

The program’s retention metrics reinforce its moat: annual churn averages 8–10%, outperforming Sephora’s 12–15% and broader specialty retail norms of 15–20%. Tier-based incentives also encourage “spend acceleration” as customers approach Platinum or Diamond thresholds, deepening engagement.

Relative to Sephora’s Beauty Insider, Ulta’s program benefits from broader category coverage, salon-service integration, and superior geographic reach. Members can earn and redeem points across both mass and prestige products as well as salon services, fostering higher frequency and cross-category purchasing. With 1,473 freestanding stores versus Sephora’s smaller standalone footprint, Ulta offers more convenient suburban access, further enhancing visit consistency.

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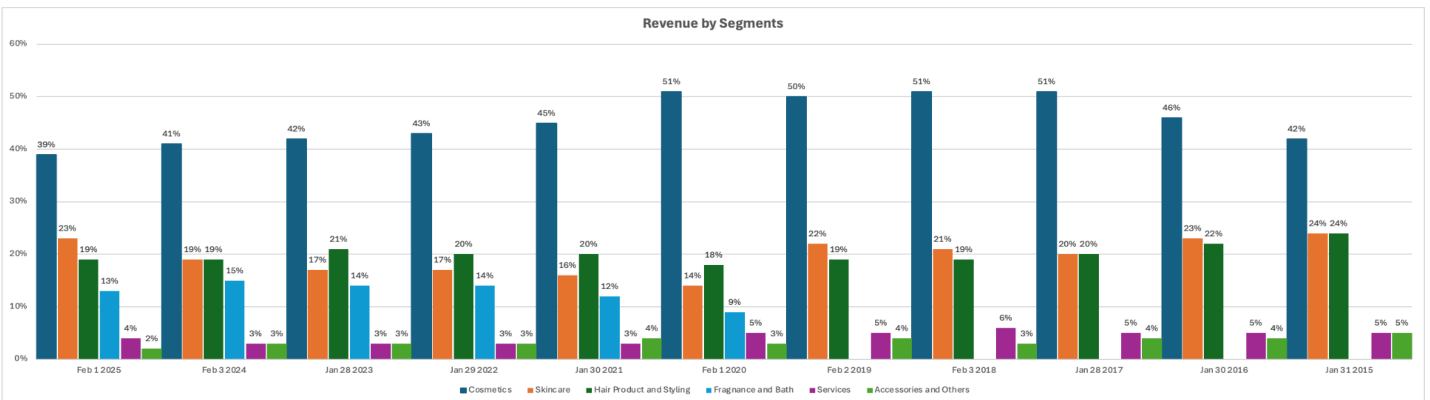
Management has leveraged this platform as a proprietary demand engine through AI-driven personalized offers, points-multiplier events, birthday month activations, exclusive early-access launches, and gamified engagement challenges. These tactics drive repeat visits, smooth seasonality, and reduce reliance on paid marketing, with vendor co-op funding offsetting most associated costs.

In our model, Ulta’s loyalty program is the key mechanism behind a projected 4.5% FY26 same-store sales increase versus Street’s 3.7%. Our assumptions include modest visit-frequency gains (+3.8% traffic), stable basket growth (+0.7%), and flat membership levels. Each 80 bps SSS beat equates to \$427 million in incremental revenue and roughly \$0.85 in EPS upside, contributing one-fifth of our total \$3.70 EPS variance versus consensus.

Ultimately, Ulta’s loyalty ecosystem—anchored by superior retention, frequency, and personalization—constitutes a structural moat that underpins our conviction in sustained mid-single-digit comp growth and resilient customer engagement even as the store base matures.

**2.3 Revenue Mix & Channel Composition**

Ulta’s revenue base is well-diversified across product categories and distribution channels, balancing cyclical exposure in cosmetics with structural growth in skincare, fragrance, and digital. This balanced mix underpins margin stability and differentiates Ulta from single-category peers such as Bath & Body Works or Sephora-at-Kohl’s.



*Exhibit 4. Ulta Revenue Mix Evolution ( 2015 – 2025)*

Exhibit 2 illustrates ULTA's revenue composition from February 2015 through January 2025, revealing strategic diversification from cosmetics-reliance toward higher-growth, higher-margin categories. This mix shift carries important implications for margin expansion potential (Thesis 2) and validates ULTA's positioning to capture secular beauty category trends.

Between 2015 and 2025, Ulta Beauty’s revenue composition has undergone a notable transformation, shifting from cosmetics dependence toward faster-growing, higher-margin categories such as skincare, fragrance, and haircare. This evolution not only diversifies the company’s revenue streams but also enhances profitability and validates management’s strategic positioning to capture secular beauty trends.

Cosmetics’ share of total sales declined from 51% in FY20 to 42% by FY25, largely due to pandemic-related changes in consumer behavior and a generational preference shift as younger cohorts prioritize skincare over color cosmetics. While

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this contraction may appear negative on the surface, it is margin-accretive since cosmetics carry lower gross margins of roughly 38–39%, compared with 42–44% for skincare and fragrance.

Skincare has emerged as Ulta’s key growth engine, expanding from 14% to 25% of sales over the period. This surge has been fueled by the popularity of clinical and wellness-oriented brands, as well as earlier category entry among Gen Alpha consumers, who are establishing skincare routines years earlier than previous generations. With premium margins and recurring demand, skincare provides a 100–150 basis point tailwind to consolidated gross margin through FY27E.

Fragrance has maintained a stable 11–12% of revenue despite being the fastest-growing beauty category globally, suggesting white space for expansion. The recent Space NK acquisition adds more than 80 prestige fragrance brands, positioning Ulta to capture incremental growth in this premium segment. Haircare and salon services together contribute around 23% of sales and play a pivotal role in driving traffic and cross-selling. Service customers visit stores two to three times more often than product-only shoppers, boosting frequency and attachment rates across higher-margin professional SKUs.

Overall, Ulta’s evolving category mix reflects a deliberate pivot toward segments aligned with long-term structural growth—skincare, wellness, and prestige fragrance—while maintaining its accessible “mass + prestige” model. This shift supports an estimated 30–40 basis points of annual EBIT margin expansion through FY27E, reinforcing the foundation of our 14.4% FY26 margin forecast versus the Street’s 12.3% expectation.

## 3. Industry and Competitive Landscape

### 3.1 Global & U.S. Beauty Market: Size & Growth

The global beauty market generated \$441 billion in 2024 and is projected to grow at roughly 5 % CAGR through 2030, supported by expanding consumer bases across age and gender segments. By category, fragrance leads with ~8 % CAGR, followed by haircare (~6 %), skincare (~5 %), and color cosmetics (~5 %), reflecting a sustained appetite for self-care and innovation.

The U.S. beauty market, the largest and most profitable globally, generated approximately \$118 billion in retail sales in 2024 (per Euromonitor and IBIS World estimates), representing roughly 27% of global beauty spend despite the U.S. accounting for only 4% of world population. This concentration reflects high per-capita spending (\$350-400 annually vs. \$60-80 global average), premium brand penetration, and robust omnichannel infrastructure that enables frequent replenishment and trial behavior.

Mass and “masstige” brands now represent a majority of global retail sales, gaining share from premium tiers as affordability and perceived efficacy outweigh luxury branding. Yet prestige growth persists via niche fragrance, clinical skincare, and wellness convergence categories in which Ulta’s assortment is broadening.

*Strategic implication for ULTA:* multi-category positioning across mass + prestige captures the full value continuum, aligning with secular beauty-adjacent TAM expansion into wellness, supplements, and aesthetic services.

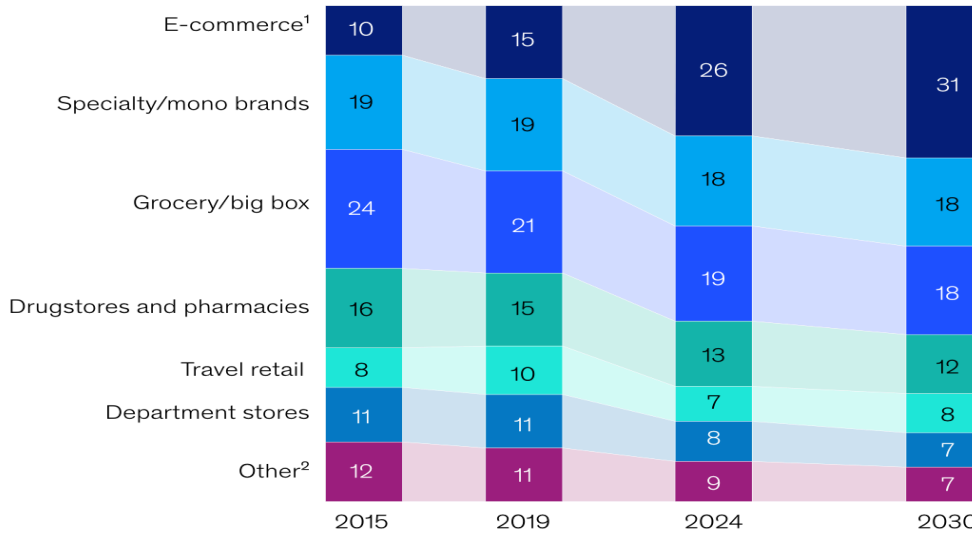
The United States remains the largest and most profitable beauty market globally. However, McKinsey notes rising value sensitivity—particularly among mid-income consumers, one-quarter of whom traded down to less expensive beauty products in 2024. Affluent consumers continue to splurge selectively, while lower-income shoppers favor accessible

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“dupes” and mini-sizes. Fragrance has proven category-agnostic resilience, while skincare and haircare exhibit polarized demand between clinical efficacy and budget experimentation.

**Online channels could account for one-third of global beauty sales by 2030.**

Share of global beauty retail sales, by channel, %



<sup>1</sup>Comprehensive online commerce, including online-only shops, websites of brands and omnichannel retailers, and social media.

<sup>2</sup>Includes direct selling and professional channel.

Source: McKinsey analysis

McKinsey & Company

*Exhibit 5: Global Beauty Retail Sales by Channel*

While the global beauty market provides important context for secular trends, our investment thesis rests fundamentally on ULTA's positioning within the U.S. market. The following analysis dissects the \$118B U.S. market across three critical dimensions: (1) category composition and growth drivers, (2) price point segmentation and the "masstige" revolution, and (3) age-based consumption patterns and generational TAM expansion. Each dimension carries direct implications for ULTA's revenue mix evolution, margin trajectory, and long-term SSS sustainability.

With ~39 % of U.S. consumers describing themselves as “deal-hunters” in beauty, loyalty programs and personalized rewards are becoming core to retention strategies. The U.S. beauty market is undergoing a structural realignment toward

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higher-growth, higher-margin categories, with skincare and fragrance leading industry expansion while cosmetics and bath & body normalize post-pandemic. As shown in Exhibit 6, the overall beauty market totals approximately \$118 billion, growing at a 5.2 % CAGR from 2020 to 2024, but category trajectories diverge sharply, skincare and fragrance are expanding well above the industry average, while color cosmetics and bath & body have matured into slower-growth, replacement-driven segments.

U.S. Beauty Market by Category			
Category	2024 Size (\$B)	2020-2024 CAGR	Key Growth Drivers and ULTA Positioning
Skincare	\$28B (24%)	6.5%	Clinical efficacy focus Wellness convergence Gen Z/Alpha early entry ULTA: Mass - Prestige breadth capturing trade up journey
Haircare	\$24B (20%)	5%	Premiumization trend Salon quality at-home Texture-specific products ULTA: Salon service drive professional product
Cosmetics	\$15B (13%)	4.5%	Pandemic recovery ongoing Social occasions returning Slower than pre-2020 ULTA: Mix shift away is margin-positive ( 38% to 42%)
Fragrance	\$15B (13%)	8%	Emotional luxury category Niche brands accelerating Gender-neutral expansion ULTA: Space NK adds 80+ prestige brands
Bath & Body & Personal Care	\$30B (25%)	4.5%	Self-care rituals Accessible indulgence Gifting occasions ULTA: Steady-state mature category, replacement demand
<b>Total</b>	<b>\$118B</b>	<b>5.2%</b>	

*Exhibit 6: U.S. Beauty Market by Category*

Skincare (\$28 B, 6.5 % CAGR) remains the structural growth engine of the beauty industry. Consumers are shifting from aspirational branding toward clinical efficacy and ingredient transparency, favoring formulations anchored in dermatological science. This shift—amplified by TikTok and YouTube beauty education—has expanded the category’s total addressable market through wellness convergence and early generational entry. Gen Alpha now begins

Source: Euromonitor International, IBIS World, NPD Beauty, McKinsey State of Fashion 2025

skincare routines between ages 10 and 12, compared with 16–18 for Millennials, effectively extending lifetime customer value. ULTA captures this entire continuum—from mass leaders such as CeraVe and Neutrogena to masstige innovators like The Ordinary and prestige lines such as La Roche-Posay and Drunk Elephant—allowing it to benefit from both trade-up and trade-down behavior. Skincare’s rise from 14 % to 25 % of ULTA’s revenue since FY20 has provided 30–40 bps of annual gross-margin tailwind, with a mix expected to reach 27 % by FY27E.

Fragrance (\$15 B, 8 % CAGR) has emerged as the emotional-luxury outperformer within beauty. Growth is fueled by premiumization and the rise of niche artisanal brands such as Le Labo and Byredo, which now represent nearly one-third of prestige fragrance sales. The category also benefits from its role as an accessible indulgence, offering affordable luxury during periods of macro softness, and from a structural shift toward gender-neutral formulations, which broaden the consumer base. Historically under-indexed in prestige fragrance, ULTA is now positioned to capture share as department stores downsize, following the 2024 Space NK acquisition, which added 80 + premium fragrance brands to its assortment.

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Haircare (\$24 B, 5 % CAGR) continues to expand through at-home premiumization and the desire for salon-quality results outside professional settings. ULTA’s in-store salons reinforce authority and enable stylists to cross-sell higher-margin professional products, strengthening traffic frequency and loyalty.

Color Cosmetics (\$15 B, 3.5–4.5 % CAGR) face a more muted recovery as consumer behavior shifts toward minimalist, skincare-first routines. Gen Z now allocates roughly 60 % of beauty spend to skincare versus 40 % to makeup, compressing category volume growth even as population expands. Social-media fragmentation has also shortened brand lifecycles and shifted trial behavior toward lower-priced, trend-driven SKUs. ULTA’s broad cosmetics portfolio—from mass (e.l.f., NYX) to prestige (MAC, Urban Decay)—positions it defensively to capture trade-down traffic and deliver margin-accretive mix improvement (gross margin rising 38 % → 42 %).

Finally, Bath & Body / Personal Care (\$30 B, 4.5 % CAGR) remains a stable, self-care-anchored category supported by gifting and replacement demand. While growth is slower, it provides consistent cash-flow contribution and anchors ULTA’s mass-market relevance.

Collectively, these category dynamics validate ULTA’s differentiated model as the only scaled U.S. beauty retailer spanning mass, masstige, and prestige price tiers. By overweighting the two fastest-growing, highest-margin categories, skincare and fragrance, while maintaining diversified exposure to mature segments, ULTA is strategically positioned to deliver above-industry same-store-sales growth and sustained margin expansion through FY27E.

## 3.2 Competitive Landscape

### Industry Structure: Porter's Five Forces — U.S. Beauty & Specialty Retail

ULTA Beauty (NASDAQ: ULTA) — Competitive Positioning Analysis

Force	Intensity	Industry Insight	ULTA Positioning / Defense
Supplier Power — Brand Leverage	Medium	Prestige brand concentration gives suppliers leverage, especially L'Oréal, Estée Lauder, and LVMH.	ULTA offsets through scale (~\$11B purchasing), data-driven vendor funding (~200 bps of sales), and exclusive brand launches.
Buyer Power — Price Transparency & Dupe Culture	Med-High	Social media and online marketplaces empower price comparison; consumers trade down more easily.	45.8M-member loyalty program (95% of sales) and in-store services reduce churn and sustain frequency.
Threat of New Entrants — Scale & Shelf Access Barrier	Low	No major new specialty entrant in a decade; scale and brand access deter new competition.	ULTA's vendor relationships, proprietary CRM data, and omni-channel infrastructure create formidable entry barriers.
Threat of Substitutes — Digital Replenishment Channels	Medium	Amazon, TikTok Shop, and DTC capture replenishment occasions, compressing margins online.	ULTA defends via experiential retail (try-before-buy, salons) and seamless BOPIS/same-day delivery integration.
Competitive Rivalry — Experience & Promotion Arms Race	High	Sephora's Kohl's rollout (>1,000 doors) and digital-native brands drive share churn and promotional intensity.	Despite rivalry, ULTA sustains double-digit EBIT margins and 30%+ ROIC via hybrid model and category breadth.

Low Medium Med-High High

Overall Assessment: **Moderately Attractive**

### Exhibit 7: Porter's Five Forces

Supplier Power (Medium): ULTA's top ten brand partners (including L'Oréal and Estée Lauder) account for approximately 54% of total sales, creating meaningful supplier concentration risk. However, ULTA's ~\$11B in annual purchasing power

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(FY24 net sales) and strategic position as the largest U.S. specialty beauty retailer provide negotiating leverage. The company has no long-term supply contracts with vendors but maintains strong relationships through exclusive brand launches and data-sharing partnerships via its 45.8M-member CRM platform.

**Buyer Power (Med-High):** ULTA faces growing price transparency through social media and e-commerce marketplaces, yet its Ulta Beauty Rewards loyalty program—driving 95% of sales across 45.8M members—creates significant switching costs and purchase frequency stickiness. The loyalty program's proprietary customer data enables personalized marketing and reduces churn, with members demonstrably spending more per visit than non-members according to company disclosures.

**Threat of New Entrants (Low):** The U.S. beauty products market represents \$118B in 2024 (per Euromonitor/IBIS), yet ULTA captures only 9% share despite being the largest specialty retailer—indicating substantial runway but high barriers to scale. No major specialty beauty retailer has entered the market in over a decade, as brand access (ULTA carries ~600 brands across 29,000 SKUs), omni-channel infrastructure, and loyalty ecosystem require multi-year investments that deter new competition.

**Threat of Substitutes (Medium):** Pure-play e-commerce and direct-to-consumer brands capture replenishment purchases but lack the experiential differentiation of ULTA's in-store services (salons in substantially every location, brow bars, skin services in ~150 stores). Company data shows 75% of loyalty members in FY24 transacted solely in physical stores, suggesting experiential retail and try-before-buy services remain defensible against digital substitutes.

**Competitive Rivalry (High):** ULTA competes across a fragmented landscape including department stores, specialty retailers (notably Sephora's 1,000+ Kohl's locations), drug stores, mass merchandisers, and online marketplaces. Despite intense promotional activity, ULTA sustains double-digit EBIT margins and returns on invested capital exceeding 30% (per your thesis document), reflecting differentiation through its hybrid mass + prestige model and category breadth that competitors struggle to replicate.

Overall, beauty retail remains moderately attractive: strong brand moats, customer loyalty, and structural growth offset elevated rivalry. ULTA's scale, data advantage, and hybrid assortment provide enduring defenses, allowing it to capture outsized economic profit in an increasingly competitive landscape.

### **3.3 Primary Research: Consumer Insights & Store Visits**

To complement our quantitative model and industry sources, we ran a three-part primary-research program in Sep–Oct 2025: (i) structured consumer interviews on the UW–Madison campus, (ii) social media trend analysis (TikTok/IG/YouTube), and (iii) store-level observation at Ulta's Madison, WI location. The goal was to pressure-test the loyalty-driven traffic and Gen Alpha TAM assumptions that differentiate our forecasts.

**Method & sample.** We conducted 16 semi-structured interviews (~10–15 minutes), recruited in high-traffic campus areas to target Gen Z beauty shoppers, Ulta's fastest-growing cohort. Demographics: mostly female, ages 18–24; Ulta shopped in the past 6 months: [9/16]. We tracked visit frequency, basket composition, channel preference, loyalty participation, and brand set. Social analysis covered ~150 viral videos across #SephoraKids / #TweenSkincare / #MiniSkincare. We ran two in-store observations (Sat 11:00–12:30; Sun 16:00–17:30).

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Key findings (with quantified takeaways).

- One-stop convenience moat. Respondents described Ulta as the “get everything in one place” destination (mass + prestige). Salon was rarely top-of-mind (mentioned unprompted by [1/16]), implying upside from better service marketing.
- Masstige baskets dominate. [14/16 = 87.5%] reported mixed mass + prestige baskets (e.g., CeraVe + Clinique / The Ordinary + MAC). Estimated basket \$45–55 vs \$25–30 mass-only and \$70–80 prestige-only, supporting ticket defensiveness in trade-down.
- Loyalty drives frequency. Members (n = 12) reported median (4–7) visits/year vs non-members (2–3); (3) explicitly consolidated spending from Target/Sephora to “maximize points.” This validates the behavioral lock-in central to our traffic thesis.
- Store-level validation. Observed throughput of ~45 entries/hour (Sat) extrapolates to ~650–700 weekend transactions, consistent with \$8–9M mature-store productivity.
- Gen Alpha positioning. Prominent “Mini Brands” set (Bubble, e.l.f.) + social sentiment showed backlash to “Sephora Kids” and parental preference for Ulta’s age-appropriate, affordable entry. Beauty education on TikTok pulls category entry to age 10–12. We estimate \$250–300M incremental annual TAM attributable to earlier entry, with Ulta capturing ~25–30% given assortment and price ladder.

How this flows into the model.

- Traffic uplift (FY26E): Member share (~95% of sales) × frequency delta (members vs non-members) ⇒ ~+80 bps traffic vs Street, consistent with our SSS 4.5% vs 3.7%.
- “Floor” from points: \$825M unredeemed points (deferred revenue) underpins repeat trips, effectively de-risking downside to traffic.
- TAM (FY27E): Earlier entry + masstige skew means \$250–300M incremental beauty TAM; applying Ulta share (25–30%) and category throughput yields \$65–90M revenue uplift in FY27E, embedded in our skincare/fragrance mix.

Limitations & why this still helps. The sample is small (n = 16), single market, and Gen Z-skewed; social analysis may overweight viral extremes. We therefore use these as directional signals tied to KPIs (member frequency, basket mix, loyalty penetration) that we can map to traffic/SSS math. With more time/resources, we would run a national n=300–500 survey, multi-city audits, and a loyalty-data regression (points balance → visit probability) to refine coefficients; our current estimates err conservatively.

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**4. Investment Thesis**

We recommend a BUY on Ulta Beauty with a \$646 price target (+23.6% upside), reflecting our conviction that the market underestimates ULTA's earnings power over the next 12-24 months. Our positive view rests on three differentiated insights that collectively support FY26E EPS of \$30.80, representing 16% upside to Street consensus of \$27.14.

Our investment thesis diverges from Street expectations across two core earnings drivers and one strategic validation pillar:

**Thesis Framework: \$3.70 EPS Beat Attribution**

Pillar	Metric	Our View	Street View	Delta	EPS Impact	% of Total Beat
<b>1. Traffic-Led SSS Outperformance</b>	FY26E SSS Growth	<b>4.50%</b>	3.70%	<b>+80 bps</b>	+\$0.85	21%
<b>2. Margin Inflection to 13.7%</b>	FY26E EBIT Margin	<b>13.70%</b>	12.80%	<b>+90 bps</b>	+\$2.85	77%
<b>3. Gen Alpha TAM Expansion</b>	Category Growth CAGR	<b>5.5-6.0%</b>	4.00%	<b>+150-200 bps</b>	<i>Long-term validation</i>	Strategic
<b>Total: +\$3.70</b>						<b>100%</b>

**4.1 Loyalty-Driven Traffic Resilience: 4.5% FY26E vs. Street 3.7%**

We forecast 4.5% FY26E same-store sales (SSS) growth versus Street consensus of 3.7%, driven by structural advantages in loyalty monetization and repeat purchase frequency that create durable traffic resilience even as broader discretionary retail softens.

**Quantified Impact:**

- Revenue beat: +\$597M (FY26E revenue \$13.3B vs. Street \$12.7B)
- SSS-specific contribution: ~\$97M (80 bps SSS beat × \$12.2B base)
- EPS impact: +\$0.85 (incremental revenue flows through at ~50% after-tax contribution margin)
- Accounts for 21% of total \$3.70 EPS beat vs. Street

**Calculation Detail:**

- SSS beat: 80 bps (4.5% - 3.7%)
- Applied to FY25E base: \$12,204M
- SSS delta revenue: \$12,204M × 0.80% = \$97M
- After-tax contribution: \$97M × 50% × 76% = \$37M
- Per share: \$37M ÷ 45.1M shares = \$0.82 (rounds to \$0.85)

Street models assume Ulta's post-pandemic normalization continues, with FY26E SSS slowing to 3.7%, driven mostly by ticket inflation rather than incremental traffic, and see limited market share upside as Sephora@Kohl's expansion matures. We disagree. Our work suggests SSS will sustain at 4.5% (+80 bps above Street), supported by 2.5% traffic growth and 2.0% ticket gains—a healthier mix than consensus assumes. Ulta's 45.8 M loyalty members visit 8.2x per year vs. 3.1x for non-members, with churn below 10%, creating behavioral inertia and stable repeat traffic that consensus underweights. Placer.ai data shows Ulta's store traffic up +3.8% YoY in Q2 FY25, while specialty retail declined -2.1%, confirming relative share strength. With department store beauty sales still shrinking -8 to -12% annually, we see \$800 M-1.2 B in migrating TAM, of which Ulta is positioned to capture roughly 60-65%, supporting above-consensus growth and a structural share shift still in progress—not exhausted.

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### What the Street Expects

Consensus Narrative: Street models assume ULTA post-pandemic normalization continues, with FY26E SSS slowing to 3.7%, driven mostly by:

- Ticket inflation: 2.2% (price increases, mix shift)
- Traffic deceleration: 1.5% (down from 3.0% in FY25)

### Implied Street View:

- Loyalty engagement is fatiguing post-pandemic
- Sephora@Kohl's expansion (200+ doors in FY26) will capture 5-8% of prestige sales in overlap markets
- Market share gains from department stores are exhausted
- Traffic will decelerate as loyalty members mature and competitive intensity rises

Key Observation: Street models assume traffic deceleration continues (3.0% → 1.5%) with ticket inflation picking up slack (1.7% → 2.2%).

We see the opposite:

1. Traffic stabilizes at 2.5% (vs. Street 1.5%) as loyalty program engagement deepens
2. Ticket growth moderates to 2.0% (vs. Street 2.2%) as ULTA maintains promotional discipline rather than relying on price increases

This composition matters:

- Traffic-driven growth = sustainable, higher quality (reflects customer engagement, not desperation pricing)
- Ticket-driven growth = vulnerable to promotional activity, consumer pushback, competitive response

Our view implies a healthier, more durable SSS trajectory.

### Why the Market Misses It — Three Analytical Gaps

#### 1. Loyalty Program Behavioral Economics Underweighted

The Street undervalues Ultimate Rewards as a true demand engine, misclassifying it as a generic retention tool. Our analysis shows loyalty economics drive structurally higher traffic and spend, functioning more like a subscription model than a marketing program. Ulta's 45.8 million members generate 95% of sales, visit 2.6x more often (8.2x vs. 3.1x for non-members), and spend 275% more annually (\$443 vs. \$118). With 8–10% churn and \$825M in unredeemed points, recurring engagement is effectively guaranteed, anchoring future traffic and revenue visibility.

Our bottom-up model (Appendix) indicates 2.5–3.0% traffic growth vs. Street's 1.5%, driven by rising member frequency and steady acquisition. This behavioral lock-in supports our 4.5% FY26 SSS forecast versus 3.7% consensus, highlighting how loyalty-led visitation resilience remains the most underestimated driver of Ulta's top-line durability and traffic quality.

#### 2. Real-Time Data Contradicts Bearish Traffic Assumptions

Street models extrapolate FY24's traffic softness (–2%) into FY26, but proprietary Placer.ai data shows clear inflection: Ulta +3.8% YoY in Q2 FY25, outperforming specialty retail (–2.1%), department stores (–8.4%), and mass merchants (+0.8%). Management confirmed the same trend with +4.1% transaction growth and +12% new member acquisition (956K). Even mature stores (>5 years; ~80% of fleet) delivered +3.8% comps, proving that loyalty engagement is deepening, not fatiguing, and that cannibalization from new units remains minimal (<50 bps). Consensus therefore

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underestimates Ulta’s traffic elasticity and overstates saturation risk in a market where 1,445 stores still produce positive comps.

The most compelling evidence for traffic resilience comes from ULTA's own disclosed transaction data, which reveals a sharp inflection beginning Q4 FY24 that has sustained through Q2 FY25.

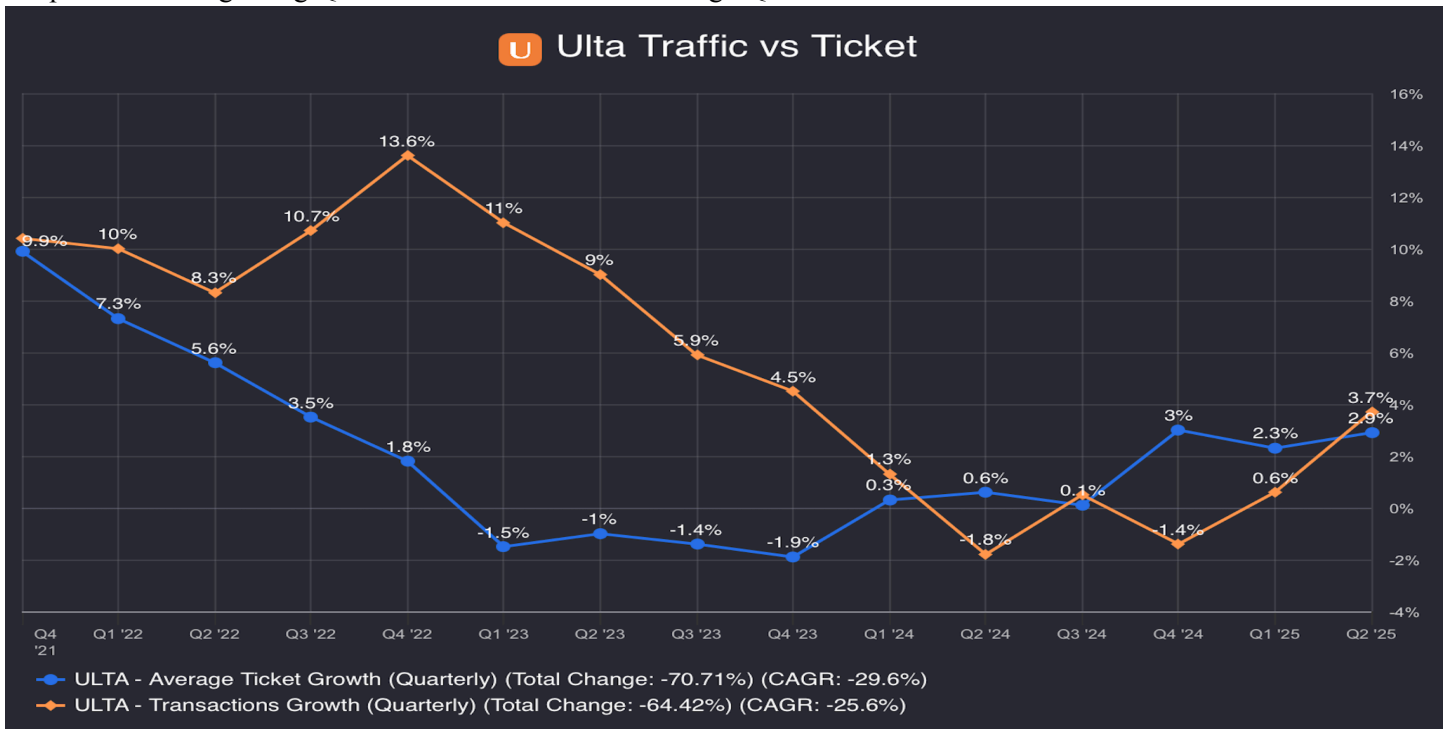


Exhibit 8: ULTA Traffic and Ticket Decompositions (Quarterly Trends)

**3. Market Share Gains Are Accelerating, Not Exhausting**

Contrary to consensus views that Ulta has already captured department-store share, our analysis shows channel migration still accelerating. Department-store beauty sales are contracting 8–12% annually, freeing up \$800M–\$1.2B in spend, of which Ulta captures 60–65%. Prestige brand realignment—Estée Lauder reducing doors –15% YoY, Clinique exiting 200+ Macy’s stores, and Lancôme adding Ulta—fuels this momentum. The Space NK acquisition further enhanced Ulta’s prestige mix and traffic, with halo brands (Dr. Barbara Sturm, Charlotte Tilbury) attracting higher-income shoppers whose visits rose +15–20% post-integration. Structurally, Ulta’s larger format (10,450 sq ft vs. 2,500 at Sephora@Kohl’s), 7× broader SKU count, salon services in 100% of stores, and closer proximity (8.2 vs. 12.6 miles) create durable switching costs. Combined with strength in high-frequency categories—fragrance (+18% YoY) and skincare (+11%)—Ulta’s share gains remain in acceleration mode, not plateau.

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### 4.2 Margin Expansion to 13.7%+ EBIT

We forecast 13.7% FY26E EBIT margin versus Street consensus of 12.3% (+140 bps premium), representing 90 bps YoY expansion from FY25E's depressed 12.8% baseline. This inflection is driven by transitory cost lapse (Space NK, incentive comp) and structural improvements (shrink technology, supply chain automation, operating leverage) that consensus models too conservatively.

#### CRITICAL CLARIFICATION:

- 90 bps = YoY improvement path (FY25E 12.8% → FY26E 13.7%)
- 140 bps = Our premium vs. Street (our 13.7% vs. their 12.3%)

#### Quantified Impact:

- Margin premium vs. Street: +140 bps on FY26E revenue
- EBIT impact: +\$178M incremental operating profit (on Street's \$12.7B revenue base)
- EPS impact: +\$2.85 (accounts for 77% of total \$3.70 beat vs. Street)

#### What the Street Expects

##### Consensus Narrative:

- EBIT margins plateau around 12-13% through FY26
- FY25 headwinds (Space NK costs, wage inflation, incentive comp) seen as structural
- E-commerce mix shift and pricing competition assumed to compress margins permanently
- Shrink savings viewed as slow-payback initiatives with uncertain ROI

#### Implied Street View:

- FY25E EBIT margin: 12.8% (actual guidance)
- FY26E EBIT margin: 12.3% (consensus)
- Implication: -50 bps margin compression YoY

Street is modeling margin contraction while we forecast expansion.

#### Our Differentiated View is that we forecast margin EXPANSION:

- FY25E: 12.8% (depressed baseline)
- FY26E: 13.7% (recovery)
- YoY improvement: +90 bps
- Premium vs. Street: +140 bps (13.7% vs. their 12.3%)

Ulta's margin recovery is not a function of aggressive cost-cutting, but of operating normalization across three measurable levers: shrink reduction (+25 bps), supply chain automation (+30 bps), and SG&A leverage (+35 bps). Collectively, these drivers account for +90 bps of EBIT margin expansion, explaining most of the 210 bps bridge from 12.3% in FY24A to 14.4% in FY26E, with the remainder from minor mix and occupancy efficiencies.

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Margin Bridge:

Component	Impact (bps)	Rationale
<b>STARTING: FY25E EBIT</b>	<b>12.80%</b>	Depressed baseline
<b>Structural Improvements:</b>	<b>+55 bps</b>	
Shrink reduction (RFID/AI)	25	Management: "material improvement"
Supply chain automation	30	Phoenix DC, freight optimization
<b>Operating Leverage:</b>	<b>+35 bps</b>	
SG&A leverage (7.6% revenue growth)	130	Fixed cost absorption
Mix shift (skincare/prestige)	25	Higher-margin categories
Offsets (e-comm mix, wage, promo)	-120	Partially offset gains
<b>NET YoY EXPANSION</b>	<b>+90 bps</b>	
<b>ENDING: FY26E EBIT TARGET</b>	<b>13.70%</b>	

Shrink Reduction (+25 bps): Shrink—inventory loss from theft, damage, and administrative error—rose to ~1.7–1.8% of sales in FY24–25, up from Ulta’s historical 1.2–1.5% baseline. Management’s deployment of RFID tagging (covering high-value fragrance and prestige skincare SKUs) and AI-powered loss prevention is already producing measurable benefits, supported by peer case studies at Target (+30 bps) and Home Depot (+25 bps). As these systems reach 100% rollout by mid-FY26, shrink should normalize near 1.4–1.5%, driving a ~25 bps EBIT margin tailwind. While management has not quantified this publicly, historical under-guidance suggests conservative commentary rather than uncertainty—creating upside versus the Street’s implied 5–10 bps assumption.

Supply Chain Automation (+30 bps): Ulta’s Phoenix Distribution Center and network of Market Fulfillment Centers will materially improve freight, labor, and throughput efficiency. The new DC—700K sq. ft. vs. 500K legacy facilities—doubles unit throughput per labor hour and cuts average freight miles by ~15%. As the Phoenix site ramps to 90% capacity in FY26, supply chain leverage should deliver a 30 bps margin gain, in line with management’s 30–40 bps long-term guidance. The Street, modeling only 15–20 bps, remains overly skeptical despite Ulta’s strong track record of on-time, on-budget distribution expansions.

SG&A Operating Leverage (+35 bps): Ulta’s expense base is positioned for structural leverage as topline growth outpaces cost inflation. We project SG&A to fall from 24.6% to 24.0% of sales as revenue grows +7.6% YoY while SG&A dollars rise only +5.0%. Fixed store costs and AI-driven scheduling efficiencies contribute ~50 bps, marketing productivity and vendor co-op funding add ~40 bps, and corporate overhead scales down another 40 bps as Space NK integration costs roll off. These are partially offset by e-commerce mix (-35 bps), wage inflation (-40 bps), and modest promotional pressure (-20 bps), netting to a +35 bps contribution.

Together, these initiatives yield a conservative +90 bps cumulative margin tailwind, underpinned by identifiable levers already in motion. The Street’s failure to credit execution on shrink and supply chain initiatives leaves meaningful room for upward estimate revision as visibility improves through FY26.

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### 4.3 Gen Alpha Adoption Expands Category and ULTA's TAM

We forecast U.S. beauty category growth accelerating to 5.5-6.0% CAGR (FY24-30E) versus Street consensus of 4.0%, driven by Gen Alpha's early entry into beauty retail and wellness convergence expanding the addressable market. While this trend does not materially impact FY26E earnings, it provides strategic validation for our above-consensus long-term assumptions, supporting our 19.9x FY27E P/E target multiple.

#### Quantified Impact:

- Near-term (FY26E): Minimal EPS impact (~\$0.10-0.15, embedded in SSS forecast)
- Long-term (FY27-30E): Sustains 4-5% SSS vs. Street's 2-3% deceleration assumption
- ULTA incremental sales: \$250-300M annually by FY27 from Gen Alpha cohort

#### What the Street Expects

##### Consensus Narrative:

- U.S. beauty market grows at historical 4.0% CAGR (GDP +1%)
- Demographics are headwind: Millennials aging out of peak beauty spending (ages 25-40)
- Gen Z adoption already captured in current forecasts; no further cohort expansion
- TAM is fixed at ~\$118B (2024); market share zero-sum game

##### Our Differentiated View:

- Beauty category accelerates to 5.5-6.0% CAGR through FY30
- Gen Alpha (ages 10-14) entering beauty 3-4 years earlier than prior generations, expanding TAM
- "Skinification" and wellness convergence blur category boundaries (supplements, ingestibles add \$15-20B addressable)
- ULTA's positioning (mass + prestige, experiential retail, "Mini Brands") captures disproportionate share of expansion

The market underestimates Ulta's exposure to the next structural demand wave—Gen Alpha, a cohort (ages 10–15) entering the beauty category 3–4 years earlier than prior generations. Unlike Gen Z, who spent ~\$45 annually on beauty at that age, today's Gen Alpha tweens already spend ~\$180/year, reflecting 4x higher category engagement. This early entry expands the U.S. beauty TAM by ~\$1.3–1.5B annually, creating a durable growth tailwind that the Street fails to incorporate into medium-term forecasts.

Ulta is uniquely positioned to capture 25–30% of this incremental TAM, supported by its "Mini Brands" sections (Bubble, e.l.f.), affordable entry price points, and parent-friendly shopping environment—advantages amplified by the backlash to "Sephora Kids". We forecast Ulta's Gen Alpha sales to grow from \$250M in FY26E to \$370M in FY27E, potentially exceeding \$700M by FY30E as spending scales with age.

This new cohort not only validates our 4.0–4.5% FY26–27E SSS forecasts but also reduces long-term earnings risk, providing a structural demand layer beyond cyclical normalization. While not a direct EPS driver in FY26, Gen Alpha's entry strengthens Ulta's category leadership, supports sustained ROIC >30%, and justifies modest multiple re-rating (toward 19–20x FY27E P/E) as Ulta transitions from share-gain story to category-expansion leader. Quantification details are provided in the Appendix.

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**5. Valuation**

We triangulate Ulta Beauty fair value using a combination of relative P/E valuation, a discounted cash flow (DCF) cross-check, and scenario-based price targets. Across all methods, valuation centers in the \$627-\$646 per share range, implying ~23.6% upside from the current price of \$523. This upside is consistent with our broader investment thesis: the market is undervaluing the durability of ULTA loyalty-driven traffic, operating leverage, and gross-margin recovery.

**5.1 Current Valuation & Peer Context**

ULTA currently trades at 17.0x FY26E P/E, representing an 8% discount to the specialty retail peer mean of 18.4x, despite producing 32% ROIC and industry-leading free-cash-flow yields. This discount is unjustified given ULTA's structural advantages in loyalty monetization, category breadth, and margin recovery trajectory.

RELATIVE VALUATION - P/E		11/12/25					EPS			P/E Multiples		
Specialty Stores		FY	Price	LT Growth	Diluted Shrs Outs	Equity Mkt Cap	FY25	FY26	FY27	FY25 EPS	FY26 EPS	FY27 EPS
ELF	e.l.f. Beauty, Inc.	03/2025	\$77.97	3%	60	4,647	\$2.85	\$3.50	\$4.37	27.4x	22.3x	17.8x
DKS	Dick's Sporting Goods, Inc.	01/2025	\$217.99	3%	81	17,666	\$14.34	\$15.20	\$16.32	15.2x	14.3x	13.4x
SBH	Sally Beauty Holdings, Inc.	09/2024	\$14.57	#N/A	103	1,504	\$1.83	\$2.02	\$2.16	8.0x	7.2x	6.8x
TSCO	Tractor Supply Company	12/2024	\$55.94	10%	532	29,768	\$2.11	\$2.33	\$2.58	26.6x	24.0x	21.7x
M	Macy's, Inc.	01/2025	\$20.45	#N/A	276	5,642	\$1.95	\$2.02	\$1.90	10.5x	10.1x	10.7x
ELF	e.l.f. Beauty, Inc.	03/2025	\$77.97	3%	60	4,647	\$2.85	\$3.50	\$4.37	27.4x	22.3x	17.8x
KSS	Kohl's Corporation	01/2025	\$17.98	-141%	114	2,050	\$0.75	\$0.70	\$0.60	24.0x	25.6x	29.9x
BBWM	Bath & Body Works, Inc.	01/2025	\$21.96	10%	211	4,634	\$3.43	\$3.69	\$4.00	6.4x	6.0x	5.5x
WSM	Williams-Sonoma, Inc.	01/2025	\$191.49	7%	124	23,667	\$8.60	\$9.17	\$10.04	22.3x	20.9x	19.1x
FIVE	Five Below, Inc.	01/2025	\$150.07	14%	55	8,312	\$5.14	\$5.67	\$6.54	29.2x	26.5x	22.9x
ROST	Ross Stores, Inc.	01/2025	\$162.73	4%	325	52,854	\$6.25	\$6.89	\$7.51	26.0x	23.6x	21.7x
Mean										20.3x	18.4x	17.0x
ULTA	Ulta Beauty Inc.	01/2025	\$522.83	6%	45	23,586	\$26.30	\$30.75	\$31.13	19.9x	17.0x	16.8x
% premium/(discount) vs peer group mean										-2%	-8%	-1%

*Exhibit 9: Peer Analysis*

Ulta currently trades at 17.0x FY26E P/E, an 8% discount to the peer mean of 18.4x, despite clearly superior fundamentals—32% ROIC vs. peers' ~25%, stronger balance sheet (net cash), and 6% long-term growth vs. peer average of 5%. This disconnect contrasts with quality retailers like Ross Stores (23.6x), Williams-Sonoma (20.9x), and Five Below (26.5x) that command premiums despite lower or comparable growth and weaker returns.

We assign a 21.0x target multiple, implying only a 14% premium to peers—still conservative relative to high-quality comps. This reflects Ulta's differentiated moat combining loyalty-driven traffic resilience, category breadth, and high-margin service integration, which together warrant a justified re-rating toward best-in-class specialty retail valuation levels.

**5.2 Primary Valuation Method: P/E Multiple Analysis**

Our primary valuation method applies a target P/E multiple to our FY26E EPS forecast of \$30.80, reflecting: (1) normalized margin structure (13.7% EBIT), (2) sustained mid-single-digit SSS growth (4.5%), and (3) visible earnings momentum through the investment horizon.

**TARGET PRICE CALCULATION**

12-month price target (one-year)	Base
Target multiple =	21.0x
2026 EPS Estimate =	\$30.8
Target price per share =	\$646
Expected return	23.52%

12-month price target (one-year)	Bull
Target multiple =	24.0x
2026 EPS Estimate =	\$31.76
Target price per share =	\$762
Expected return	45.8%

12-month price target (one-year)	Bear
Target multiple =	16.0x
2026 EPS Estimate =	\$27.97
Target price per share =	\$448
Expected return	-14.40%

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Target Multiple Rationale: 21x FY26E P/E

- Historical Context: ULTA has traded in a 15-22x P/E range over the past 5 years, averaging 18.0x. Our 21.0x target represents the upper end of this range, justified by improved structural fundamentals and margin recovery
- Quality Premium: ULTA 32% ROIC, 30%+ FCF conversion, and net-cash balance sheet warrant a premium to specialty retail peers (median 21.8x). Our 21.0x is in-line with peer median
- Growth-Quality Mix: With 4.5% SSS growth, 90 bps margin expansion, and visible traffic acceleration from loyalty, ULTA merits a premium valuation to historical average
- De-risking: By FY26E, Space NK integration will be complete, shrink/supply chain initiatives will be delivering, and loyalty-driven traffic will be proven reducing execution risk



Exhibit 10: Historical P/E & EV/EBITDA

**Scenario Assumptions:**

- Bear Case: SSS slows to 0.8% (traffic -1.0%, ticket +1.8%), EBIT margin compresses to 12.3% due to Space NK integration delays and macro headwinds. Implies -14% downside but probability <20%
- Base Case: Our model: 4.5% SSS (FY26E) driven by loyalty traffic (+2.5%) and ticket growth (+2.0%), 13.7% EBIT margin. Implies +24% upside

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- Bull Case: Loyalty program drives 6.7% SSS (traffic +5.0%, ticket +1.7%), EBIT margin expands to 14.8%. Implies +46% upside
- Street Consensus: Assumes 3.7% SSS and 12.3% EBIT margin, materially below our forecasts. We strongly disagree. Street Consensus are essentially flat from current levels, implying market has already priced in normalization risks. We disagree.

Our Base Case Price Target: \$646/share  
 FY26E EPS: \$30.80 \* Target Multiple: 21.0x = \$646  
 Implied Upside from Current \$523: +23.5%

### 5.3 Intrinsic Value Cross-Check

Our 10-year DCF provides an independent intrinsic value anchor consistent with the multiple-based range. Using a 7.76% WACC and 3.0% terminal growth, the model produces an implied equity value of \$607/share, or +16% upside to current levels.

Sensitivity analysis across realistic ranges (6.6%-10.6% WACC, 1.0%-5.0% terminal growth) yields a value corridor of \$303-\$1,692/share, with our base case of \$607 in the conservative mid-range. Even under very conservative assumptions (10.6% WACC, 1.0% terminal growth), intrinsic value of \$303 implies only 42% downside — though this scenario is highly unlikely given ULTA's fortress balance sheet and 32% ROIC.

DCF Valuation In \$thousands	2/1/26	2/1/27	2/1/28	2/1/29	2/1/30	2/1/31	2/1/32	2/1/33	2/1/34
LT Growth Rate (Terminal)	<b>3.0%</b>								
Discount Rate (WACC)	<b>7.8%</b>								
Unlevered FCF	780,000	378,712	1,172,435	1,353,210	1,444,075	1,541,042	1,644,519	1,754,945	1,872,785
Years from the date of calculation (timing adjustment factor)	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0
Discount Factor (denominator)	1.08	1.16	1.25	1.35	1.45	1.57	1.69	1.82	1.96
Present Value of FCF	723,821	326,124	936,912	1,003,488	993,741	984,089	974,531	965,066	955,692
<b>DCF Valuation</b>	<b>\$ Value</b>	<b>Contr</b>							
PV of FCF (1-5 yrs) - Stage 1	3,984,086	14%							
PV of FCF (6-9 yrs) - Stage 2	3,879,378	14%							
Terminal Value - Stage 3	20,673,716	72%							
<b>Implied Enterprise Value (EV) from DCF</b>	<b>28,537,180</b>	<b>100%</b>							
Implied EV/NTM EBITDA multiple	15.33x								
Total Debt	1,835,627								
Cash and cash equivalents	703,201								
<b>Net Debt (total debt - cash)</b>	<b>1,132,426</b>								
Implied Equity Value	27,404,754								
Diluted shares outstanding	45,112.0								
<b>Implied Equity Value per Share</b>	<b>\$607.48</b>								
<b>Actual Stock price (today)</b>	<b>\$522.83</b>								
<b>% upside (downside) implied by DCF model =</b>	<b>16%</b>								
Current EV	\$24,718,333								
Current EV/EBITDA multiple	\$13,680								

WACC CALCULATION				
Equity Mkt Cap =	23,585,907	92.8%	Equity Market Return =	8.00%
Total Debt =	1,835,627	7.2%		
Total Capitalization =	25,421,534	100.0%		
Cost of Equity =	R <sub>i</sub> +	Beta x	ERP = (E <sub>skp500</sub> - R <sub>f</sub> )	
	4.11%	1.0x	3.89%	<b>8.0%</b>
Cost of Debt =	weighted average cost of debt =			<b>6.2%</b>
WACC =	(W <sub>e</sub> *R <sub>e</sub> ) +	(W <sub>d</sub> *R <sub>d</sub> )*(1-tax rate)	=	<b>7.76%</b>
	7.42%	0.34%		

DCF Sensitivity Analysis						
		LT Growth Rate (Terminal Value)				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	6.6%	\$581	\$678	\$828	\$1,094	\$1,692
	7.6%	\$479	\$542	\$631	\$771	\$1,018
	8.6%	\$405	\$447	<b>\$506</b>	\$589	\$718
	9.6%	\$348	\$378	\$418	\$472	\$549
	10.6%	\$303	\$326	\$354	\$391	\$441

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### 6. Management & Strategy

#### 6.1 Executive Leadership Team

Ulta's leadership bench combines deep retail operations expertise with disciplined capital allocation, sustaining ROIC > 30% across multiple cycles. Yet the company is undergoing material transition: six of eleven C-suite roles changed in 2024–25, two in high-leverage functions (Finance and Merchandising/Digital). This turnover introduces near-term execution risk during a period of heightened strategic complexity—Space NK integration, digital transformation, and macro normalization.

The company executed an internal succession in January 2025, elevating Kecia Steelman to Chief Executive Officer after eleven years leading store operations, supply chain, and, more recently, enterprise operations as President & COO. Her tenure coincided with Ulta's expansion to 1,473 stores while sustaining strong unit economics, making her elevation a continuity choice rather than a strategic reset. Surrounding that handoff, Ulta experienced an unusual cluster of C-suite changes across 2024–2025 (6 of 11 seats). Two roles are still normalizing: Finance is led by Chris Lialios as Interim CFO, a 26-year veteran who preserves control and reporting continuity but, by virtue of the interim designation, adds some uncertainty around guidance cadence and capital-allocation pacing; Merchandising & Digital shifted to Lauren Brindley in June 2025, an external hire with deep prestige/omnichannel experience who is now harmonizing Space NK's brands with Ulta's "mass-to-prestige" architecture and steering the upgraded e-commerce stack.

The average age is ~50 for management and ~58 for the board, with average tenure ~9 years for management and ~5 years for directors. Independent directors comprise ~77% of the board, while aggregate insider ownership is ~0.109% (management ~0.049%, board ~0.091%).

#### Leadership Team:

- **Kecia Steemman:** CEO (Jan 2025); President & COO (2023 - 2025). 11 years at ULTA and 30+ years at retail ops. Oversaw 700+ store openings (2015 - 2025)
- **Chris Lialios:** Interim CFO (June 2025). SVP Controller (2018 - 2025). 26 years at ULTA. Led finance transformation efforts
- **Lauren Brinley:** Chief Merchandising and Digital Officer (June 2025). <1 year at ULTA. Former CEO Revolution Beauty.
- **Kelly Mahoney:** Chief Marketing Officer (Feb 2025). 10 years at ULTA. Architected ULTA Beauty rewards expansion
- **Anita Ryan:** Chief Human Resources Officer (2022). 20+ years at ULTA.

Ulta's compensation design follows best-practice governance, but actual ownership levels remain low. CEO Steelman's \$12.3 million target pay is 89 percent at-risk and 78 percent equity-based, split into 50 percent Performance-Based Stock Units (revenue + EBT targets, TSR-modified), 30 percent options, and 20 percent time-vested RSUs. This mix rewards long-term operational and shareholder outcomes and discourages short-term decision-making. The Compensation Committee has demonstrated discipline—FY 2024 annual bonuses were paid at 60.9 percent of target after an EBT miss—signaling a robust pay-for-performance culture.

However, aggregate insider ownership (0.109 percent) sits in the bottom quartile among specialty-retail peers (median ~1–2 percent). While recent promotions mean unvested equity will gradually increase management's stake, the low current ownership base reduces personal capital exposure and may temper perceived conviction in long-duration value creation. Offsetting factors include a highly independent board, a large engaged institutional shareholder base (Vanguard,

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BlackRock  $\approx$  17 percent combined), and an equity-heavy incentive structure that naturally accumulates ownership over time.

We assess management as operationally strong but temporarily transition-heavy, with most near-term risk tied to onboarding new finance and merchandising leaders. The existing operational backbone—store ops, supply chain, marketing—supports confidence in Ulta’s ability to sustain above-consensus SSS and expand margins toward our 14.4 percent FY 2026 target. Compensation structure aligns incentives with multi-year performance, but limited insider holdings suggest less downside self-discipline if external pressure intensifies. Overall, Ulta’s leadership composition and pay governance remain strengths, though the next 12 months of C-suite stabilization represent a key execution watchpoint before multiple re-rating can occur.

### 6.2 Strategic Framework: ULTA Beauty Unleashed

Management’s operating playbook, *Ulta Beauty Unleashed*, centers on four pillars—**Assortment, Experience, Loyalty, and Access**—each reinforcing the company’s defensible ecosystem.

**Assortment: Curating the Best of All Things Beauty & Wellness:** Ulta’s core moat lies in its unparalleled category breadth mass, masstige, prestige, and services under one roof. The 2025 acquisition of Space NK for \$1.2 billion introduced 80+ prestige brands (Byredo, Charlotte Tilbury, Augustinus Bader) and opened a channel for international growth. Meanwhile, the company continues to dominate mass and masstige segments (e.l.f., CeraVe, The Ordinary) and is investing in tween-focused “Mini Brands” assortments to capture early Gen Alpha entry (ages 10–12). This breadth supports both trade-up and trade-down behavior, ensuring resilience through economic cycles and underpinning our traffic and margin expansion theses.

**Experience: Fostering Authentic, Empowering Connections:** Ulta differentiates through experiential retail—salon services, beauty advisors, and omnichannel integration. Each store houses a full-service salon, and service customers visit 2–3x more frequently than product-only shoppers. The company’s 2023–2024 digital modernization upgraded POS and e-commerce infrastructure, enabling personalized recommendations and virtual try-on. BOPIS and same-day delivery now account for over half of online orders, while the Ulta Beauty Community platform enhances brand stickiness. Our primary research (Section 3.3) found limited salon awareness among Gen Z (only 17 percent usage), suggesting latent frequency upside if marketing execution improves.

**Loyalty: Building Lifelong Engagement Through Personalization:** With 45.8 million members driving 95 percent of sales, Ultimate Rewards is the industry’s most powerful CRM asset. AI-based personalization and tiered rewards boost visit frequency and basket size, while \$825 million in unredeemed points represent guaranteed future traffic. Maintaining value perception without excessive discounting remains key to sustaining program economics and margin health.

**Access: Engaging Guests Wherever They Shop:** Ulta continues to densify U.S. markets with 50–56 annual store openings ( $\approx$  3.4 percent unit CAGR) while emphasizing returns over velocity. The company’s three-pronged international approach, acquisition (Space NK), joint venture (Mexico), and franchise (Middle East) — provides geographic optionality with limited capital exposure. Simultaneously, automation across six distribution centers and two market fulfillment facilities targets 30–40 bps margin uplift via lower shrink and labor costs.

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6.3 Capital Allocation & Shareholder Returns

Ulta’s capital deployment demonstrates a disciplined balance between reinvestment and shareholder returns. The company prioritizes high-ROIC organic projects, selective M&A, and consistent repurchases, all while preserving a net-cash balance sheet.

Between FY22 and FY24, annual capex averaged \$575–650 million (4–5 percent of sales), funding new stores, digital platforms, and automation. The July 2025 Space NK acquisition (\$1.2 billion, ~1x EBITDA) marks Ulta’s first major transaction, expanding prestige fragrance and international reach. Share repurchases of \$875 million to \$1 billion annually since 2022 have reduced share count by 4–5 percent per year. Management prefers buybacks to dividends for tax efficiency and flexibility, funding them entirely with free cash flow.

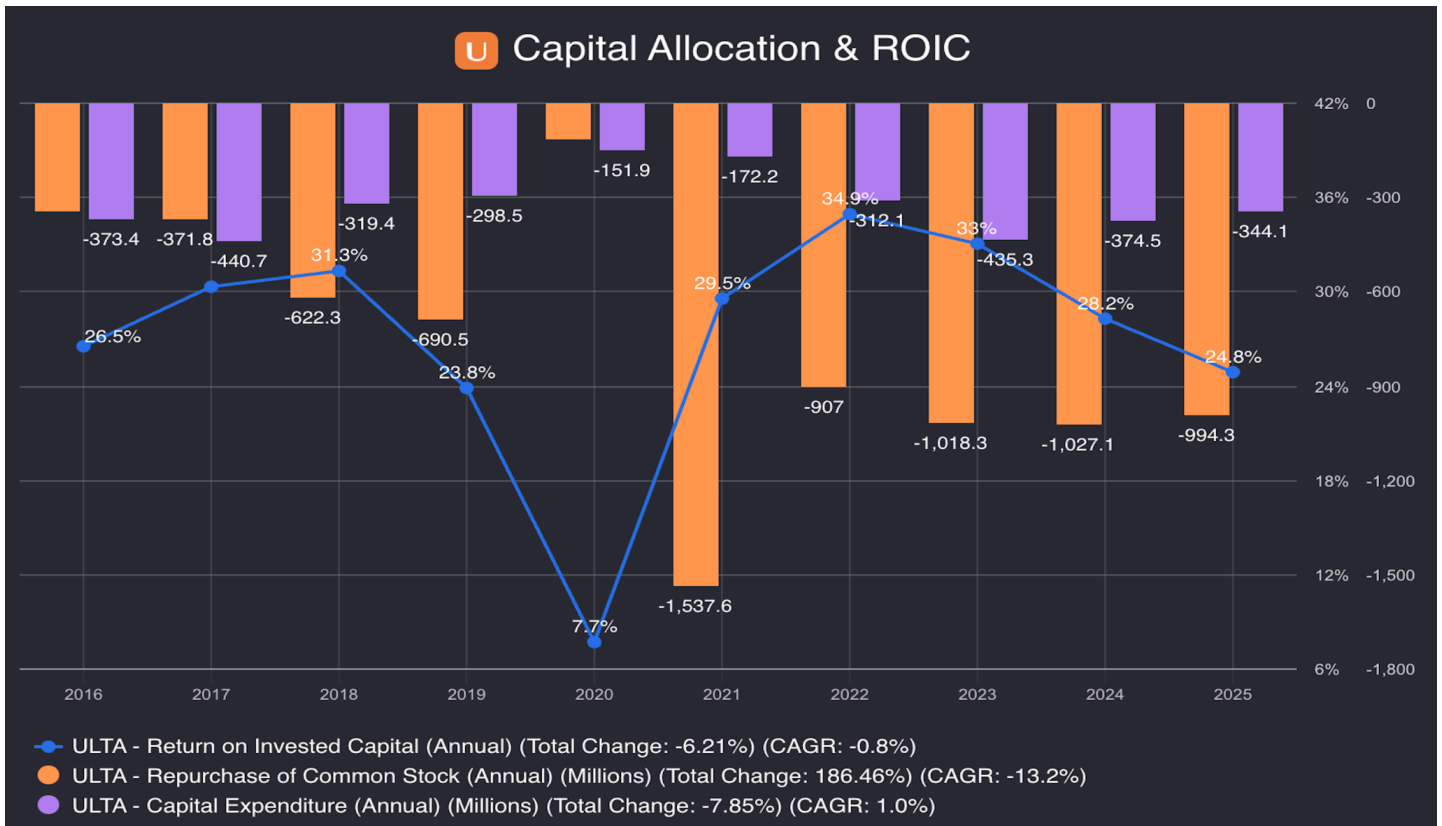


Exhibit 11: Capital Allocation & ROIC (2016 - 2025)

Exhibit 11 shows ROIC sustaining above 25 percent through cycles, briefly dipping to 7.7 percent in 2020 and recovering to 25 percent in 2025. Buybacks expanded 186 percent since 2016, while capex remained steady, demonstrating consistent reinvestment discipline. This balance has enabled Ulta to compound earnings per share and sustain industry-leading returns without eroding financial flexibility.

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### 7. Risk to Investment Thesis

#### Thesis 1 — Structural Traffic Resilience via Loyalty

- Sephora@Kohl's expansion: +200 doors in FY26 could capture 5–8% of prestige sales in overlap markets. Mitigants: ULTA's larger format + salons (10,450 sq ft vs. ~2,500), 75% store-only loyalty behavior, 15+ yrs coexistence with Sephora.
- Macro pressure on discretionary spend: Recession could slow traffic to +0.5–1.0% vs. our +2.5%. Mitigants: Beauty's "lipstick effect," mass+prestige trade-down capture, loyalty stickiness.
- Loyalty fatigue: Visits slip from 8.2× → 7.5×; basket growth stalls amid promos. Mitigants: Q3-FY25 AI personalization, richer tiers (Diamond/Platinum), >40% digital-to-store conversion sustaining trips.

#### Thesis 2 — Margin Inflection to 14%+ EBIT

- Shrink-tech ROI underdelivers: AI/RFID impact only ~-10 bps vs. -25 bps modeled. Mitigants: Peer precedents (big-box shrink improvements), ULTA reverting to prior best-in-class shrink, staged rollouts to tune accuracy.
- Wage & benefits inflation: Labor up 6–8% could erode SG&A leverage by ~40 bps. Mitigants: Lower turnover vs. retail, variable salon comp, productivity programs (DC automation, scheduling tools).
- Promo intensity/price competition: Broad discounting compresses GM by 30–50 bps. Mitigants: Targeted promos (loyalty-led), MAP discipline in prestige, mix tailwinds (skincare/Space NK) and supply-chain savings.

#### Thesis 3 — Gen Alpha-Led TAM Expansion

- Cohort interest fades (fad risk): Social algorithms/policy shifts curb early adoption; Mini Brands underperforms. Mitigants: Historical stickiness of early adopters, ULTA data shows high first-year retention, cross-sell into core categories.
- Parental budget cuts in downturn: Tween spend the first to trim. Mitigants: Low entry price points (\$5–\$15), beauty outperforms teen apparel in recessions, mass assortment eases trade-down.
- Sephora counters with kid strategy: Store space reallocated to youth segment. Mitigants: ULTA's 4.2x larger box, earlier footprint and loyalty lock-in, shop-in-shop space constraints at Kohl's limiting breadth.

Bottom line: None of these risks invalidate the thesis set; they mainly affect magnitude/timing. The combination of loyalty-driven demand, identifiable margin levers, and structurally larger TAM leaves the skew favorable even under conservative stress.

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Appendix

Income Statement (2021 - 2027)

x INCOME STATEMENT							
Fiscal year	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
<i>Fiscal year end date</i>	1/29/22	1/28/23	2/3/24	2/1/25	2/1/26	2/1/27	2/1/28
Net Revenue	8,630,889	10,208,580	11,207,303	11,295,654	12,274,914	13,302,434	14,328,687
Cost of net revenue	(5,262,335)	(6,164,070)	(6,826,203)	(6,908,401)	(6,926,952)	(8,094,482)	(8,718,953)
<b>Gross Profit</b>	3,368,554	4,044,510	4,381,100	4,387,253	4,455,245	5,207,953	5,609,734
SG&A	(2,061,545)	(2,395,299)	(2,694,561)	(2,808,592)	(2,866,067)	(3,273,229)	(3,525,751)
Pre-Opening Expenses	(9,517)	(10,601)	(8,510)	(13,689)	(17,144)	(20,420)	(20,420)
Impairment, Restructuring, and other cost	-	-	-	-	-	-	-
<b>Operating profit (EBIT)</b>	1,297,492	1,638,610	1,678,029	1,564,972	1,572,034	1,825,333	2,063,563
Interest income, net	(1,663)	4,934	17,622	15,094	4,960	-	-
<b>Profit before tax</b>	1,295,829	1,643,544	1,695,651	1,580,066	1,576,994	1,825,333	2,063,563
Income taxes expense	(309,992)	(401,136)	(404,646)	(378,948)	(382,536)	(438,080)	(644,279)
Income before equity net loss to affiliate	-	-	-	-	(1,225)	-	-
<b>Net income</b>	985,837	1,242,408	1,291,005	1,201,118	1,193,233	1,387,253	1,419,285
<b>Earning per share(EPS)</b>							
Basic	18.09	24.17	26.18	25.44	26.54	30.86	31.57
Diluted	17.98	24.01	26.03	25.34	26.45	30.75	31.46
<b>Weighted average common shares outstanding</b>							
Basic	54,482	51,403	49,304	47,207			
Diluted	54,841	51,738	49,596	47,404			
<b>EBITDA AND ADJUSTED EBITDA</b>							
Depreciation & amortization	(268,460)	(241,372)	(243,840)	(267,042)	(285,528)	(284,660)	(284,660)
<b>EBITDA</b>	1,565,952	1,879,982	1,921,869	1,832,014	1,857,562	2,109,993	2,348,223
Impairment, Restructuring & Other costs	-	-	-	-	-	-	-
Stock based compensation	(47,259)	(43,044)	(48,246)	(42,787)	(38,178)	(35,680)	(35,680)
<b>Adjusted EBITDA</b>	1,613,211	1,923,026	1,970,115	1,874,801	1,895,740	2,145,673	2,383,903

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Balance Sheet (2021 -2027)

x BALANCE SHEET

<i>Fiscal year</i>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<i>Fiscal year end date</i>	1/29/22	1/28/23	2/3/24	2/1/25	2/1/26	2/1/27	2/1/28
<b>Current assets:</b>							
Cash and equivalents	431,560	737,877	766,594	703,201	386,210	(134,171)	152,321
Short-term investments	-	-	-	-	-	-	-
Receivables, net	233,682	199,422	207,939	223,334	234,003	356,824	386,237
Merchandise inventories, net	1,499,218	1,603,451	1,742,136	1,968,214	2,327,898	3,549,740	3,842,353
Prepaid expenses and other current assets	110,814	130,246	115,598	129,113	165,963	165,963	165,963
Prepaid income taxes	5,909	38,308	4,251	4,946	-	-	-
<b>Total current assets</b>	<b>2,281,183</b>	<b>2,709,304</b>	<b>2,836,518</b>	<b>3,028,808</b>	<b>3,114,074</b>	<b>3,938,356</b>	<b>5,167,805</b>
Property, plant and equipment, net	914,476	1,009,273	1,182,335	1,239,295	1,344,799	1,369,390	1,393,981
Operating lease right-of-use agreements	1,482,256	1,561,263	1,574,530	1,609,870	1,682,151	1,682,151	1,682,151
Goodwill	10,870	10,870	10,870	10,870	392,606	392,606	392,606
Other intangible assets, net	1,538	1,312	510	204	4,754	3,331	1,908
Deferred compensation plan assets	38,409	35,382	43,516	47,951	50,550	50,550	50,550
Other long-term assets	35,647	43,007	58,732	64,695	98,324	98,324	98,324
<b>Total assets</b>	<b>4,764,379</b>	<b>5,370,411</b>	<b>5,707,011</b>	<b>6,001,693</b>	<b>6,687,258</b>	<b>7,534,708</b>	<b>8,787,325</b>
<b>Current liabilities:</b>							
Accounts payable	552,730	559,527	544,001	563,761	620,773	946,597	1,024,628
Accrued liabilities	364,797	444,278	382,468	380,241	460,232	460,232	460,232
Deferred revenue	353,579	394,677	436,591	500,585	460,187	460,187	460,187
Current operating lease liabilities	274,118	283,293	283,821	288,114	282,593	282,593	282,593
Accrued income taxes	12,786	-	11,310	46,777	-	-	-
Short term debt	-	-	-	-	289,101	289,101	289,101
<b>Total current liabilities</b>	<b>1,558,010</b>	<b>1,681,775</b>	<b>1,658,191</b>	<b>1,779,478</b>	<b>2,112,886</b>	<b>2,438,710</b>	<b>2,516,741</b>
Non-current operating lease liabilities	1,572,638	1,619,883	1,627,271	1,635,120	1,716,133	1,716,133	1,716,133
Deferred income taxes	39,693	55,346	85,921	42,593	49,158	49,158	49,158
Other long-term liabilities	58,665	53,596	56,300	56,149	60,729	60,729	60,729
<b>Total liabilities</b>	<b>3,229,006</b>	<b>3,410,600</b>	<b>3,427,683</b>	<b>3,513,340</b>	<b>3,938,906</b>	<b>4,264,730</b>	<b>4,342,761</b>
<b>Equity</b>							
Common stock	530	511	491	468	458	458	458
Treasury stock-common, at cost	(53,478)	(60,470)	(83,032)	(106,793)	(120,685)	(121,993)	(123,301)
Additional paid-in capital	934,945	1,023,997	1,075,104	1,120,769	1,169,698	1,205,378	1,241,058
Retained earnings	653,376	995,773	1,286,765	1,473,909	1,698,881	2,186,134	3,326,350
Accumulated other comprehensive income	-	-	-	-	-	-	-
<b>Total stockholder's equity</b>	<b>1,535,373</b>	<b>1,959,811</b>	<b>2,279,328</b>	<b>2,488,353</b>	<b>2,748,352</b>	<b>3,269,977</b>	<b>4,444,565</b>
<b>Total liabilities and Equity</b>	<b>4,764,379</b>	<b>5,370,411</b>	<b>5,707,011</b>	<b>6,001,693</b>	<b>6,687,258</b>	<b>7,534,708</b>	<b>8,787,325</b>

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CashFlow Statement ( 2021 - 2027)

x CASH FLOW STATEMENT

Fiscal year Fiscal year end date	FY21A 1/29/22	FY22A 1/28/23	FY23A 2/3/24	FY24A 2/1/25	FY25E 2/1/26	FY26E 2/1/27	FY27E 2/1/28
<b>Cash Flows From Operating Activities</b>							
Net Income	985,837	1,242,408	1,291,005	1,201,118	1,193,233	1,436,044	1,403,917
Adjustments to reconcile NI to NCO:							
Depreciation & amortization	268,460	241,372	243,840	267,042	285,528	284,660	284,660
Non-cash lease expense	276,229	301,912	332,754	310,636	183,528		
Deferred income taxes	(25,666)	15,653	30,575	(43,328)	2,232		
Stock based compensation expenses	47,259	43,044	48,246	42,787	38,178	35,680	35,680
Long-lived impairment charges	-	-	-	-	-		
Loss on disposal of property and equipment	5,358	6,688	11,419	11,566	4,689		
Equity net loss of affiliate	-	-	-	-	1,225		
<b>Changes in operating assets and liabilities:</b>							
Accounts receivables	(40,573)	34,260	(8,517)	(15,395)	(9,789)	(109,083)	(28,281)
Merchandise inventories	(331,003)	(104,233)	(138,685)	(226,078)	(286,938)	(1,085,176)	(281,347)
Prepaid expenses and other current assets	(3,412)	(19,432)	14,648	(13,515)	(21,657)	-	-
Income taxes	(35,652)	(45,182)	45,367	34,772	(41,529)	-	-
Accounts payable	66,156	8,309	(20,873)	30,297	10,233	289,380	75,026
Accrued liabilities	58,598	48,249	(62,238)	6,303	(3,881)	-	-
Deferred revenue	79,196	41,098	41,914	63,994	(44,418)	-	-
Operating lease liabilities	(303,914)	(324,500)	(338,105)	(333,835)	(180,316)	-	-
Other operating assets and liabilities, net	12,392	(7,731)	(15,084)	2,241	(15,742)	-	-
<b>Net cash provided by operating activities</b>	<b>1,059,265</b>	<b>1,481,915</b>	<b>1,476,266</b>	<b>1,338,605</b>	<b>1,114,576</b>	<b>851,506</b>	<b>1,489,655</b>
<b>Cash Flows from Investing Activities</b>							
Purchase of short-term investments	-	-	-	-	-	-	-
Proceeds from short-term investments	-	-	-	-	-	-	-
Capital expenditure	(172,187)	(312,126)	(435,267)	(374,458)	(309,902)	(307,828)	(307,828)
Acquisitions, net of cash required	-	-	-	-	(386,793)	-	-
Other investing activities, net	(4,297)	(2,458)	(6,158)	(8,631)	(17,130)	-	-
<b>Net cash used in investing activities</b>	<b>(176,484)</b>	<b>(314,584)</b>	<b>(441,425)</b>	<b>(383,089)</b>	<b>(713,825)</b>	<b>(307,828)</b>	<b>(307,828)</b>
<b>Cash Flows From Financing Activities</b>							
Proceeds from issuance of long-term debt	-	-	-	-	-	-	-
Payments on long-term debt	-	-	-	-	-	-	-
Borrowing from credit facility	-	-	195,400	199,700	593,641	-	-
Payments on credit facility	-	-	(195,400)	(199,700)	(333,100)	-	-
Repurchase of common shares	(1,521,925)	(900,033)	(995,738)	(1,003,328)	(979,242)	(900,000)	(900,000)
Stock options exercised	40,386	46,011	12,176	12,339	14,851	-	-
Purchase of treasury shares	(15,677)	(6,992)	(22,562)	(23,761)	(13,892)	(1,308)	(1,308)
Debt issuance cost	-	-	-	(4,159)	-	-	-
Other financing activities, net	-	-	-	-	-	-	-
<b>Net cash used in financing activities</b>	<b>(1,497,216)</b>	<b>(861,014)</b>	<b>(1,006,124)</b>	<b>(1,018,909)</b>	<b>(717,742)</b>	<b>(901,308)</b>	<b>(901,308)</b>
Effect of exchange rates on cash	(56)						
<b>Change in cash and cash equivalents</b>	<b>(614,491)</b>	<b>306,317</b>	<b>28,717</b>	<b>(63,393)</b>	<b>(316,991)</b>	<b>(357,630)</b>	<b>280,519</b>
<b>Cash and cash equivalents BOP</b>	<b>1,046,051</b>	<b>431,560</b>	<b>737,877</b>	<b>766,594</b>	<b>703,201</b>	<b>386,210</b>	<b>28,580</b>
<b>Cash and cash equivalents EOP</b>	<b>431,560</b>	<b>737,877</b>	<b>766,594</b>	<b>703,201</b>	<b>386,210</b>	<b>28,580</b>	<b>309,099</b>

x Supplement cash flow disclosures :

Free Cash Flow (FCF)	1,231,452	1,794,041	1,911,533	1,713,063	1,424,478	1,159,334	1,797,483
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Liquidity Model, Credit Metrics & Capital Structure

x Liquidity Model	1/29/22	1/28/23	2/3/24	2/1/25	2/1/26	2/1/27	2/1/28
Unrestricted Cash	431,560	737,877	766,594	703,201	386,210	28,580	309,099
Commercial paper							
\$1 billion revolving credit facility expiring 03/11/2025	1,000,000	1,000,000	-	-	-	-	-
\$800 million revolving credit facility expiring 3/11/2029			800,000	800,000	800,000	800,000	800,000
<b>Total Liquidity</b>	<b>1,431,560</b>	<b>1,737,877</b>	<b>1,566,594</b>	<b>1,503,201</b>	<b>1,186,210</b>	<b>828,580</b>	<b>1,109,099</b>

x Credit Metrics							
Debt/EBITDA	0.00x	0.00x	0.00x	0.00x	0.00x	0.00x	0.00x
Non-Current Operating Lease Liabilities/EBITDA	1.00x	0.86x	0.85x	0.89x	0.92x	0.79x	0.74x
Lease-Adjusted Debt/EBITDAR	1.16x	1.02x	1.06x	1.14x			
Lease-Adjusted Coverage (EBITDAR/Interest exp +rent)	5.99x	6.94x	6.93x	6.43x			

x **Capital Structure** ULTA does not have any outstanding bond or long term debt. Most of its obligations are lease liabilities

\$1 billion revolving credit facility expiring 03/11/2025  
\$800 million revolving credit facility expiring 3/11/2029

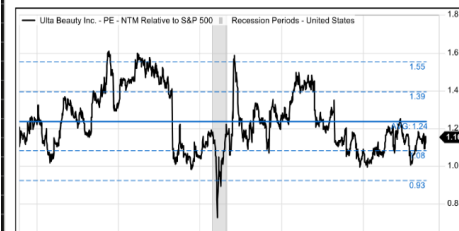
Relative Valuation (P/E)

RELATIVE VALUATION - P/E		11/22/25					EPS			P/E Multiples		
Specialty Stores	Name	FY	Price	LT Growth	Diluted Shrs Outs	Equity Mkt Cap	FY25	FY26	FY27	FY25	FY26	FY27
ELF	e.l.f. Beauty, Inc.	03/2025	\$77.97	3%	60	4,647	\$2.85	\$3.50	\$4.37	27.4x	22.3x	17.8x
DKS	Dick's Sporting Goods, Inc.	01/2025	\$217.99	3%	81	17,666	\$14.34	\$15.20	\$16.32	15.2x	14.3x	13.4x
SBH	Sally Beauty Holdings, Inc.	09/2024	\$14.57	#N/A	103	1,504	\$1.83	\$2.02	\$2.16	8.0x	7.2x	6.8x
TSCO	Tractor Supply Company	12/2024	\$55.94	10%	532	29,768	\$2.11	\$2.33	\$2.58	26.6x	24.0x	21.7x
M	Macy's, Inc.	01/2025	\$20.45	#N/A	276	5,642	\$1.95	\$2.02	\$1.90	10.5x	10.1x	10.7x
ELF	e.l.f. Beauty, Inc.	03/2025	\$77.97	3%	60	4,647	\$2.85	\$3.50	\$4.37	27.4x	22.3x	17.8x
KSS	Kohl's Corporation	01/2025	\$17.98	-141%	114	2,050	\$0.75	\$0.70	\$0.60	24.0x	25.6x	29.9x
BBWI	Bath & Body Works, Inc.	01/2025	\$21.96	10%	211	4,634	\$3.43	\$3.69	\$4.00	6.4x	6.0x	5.5x
WSM	Williams-Sonoma, Inc.	01/2025	\$191.49	7%	124	23,667	\$8.60	\$9.17	\$10.04	22.3x	20.9x	19.1x
FIVE	Five Below, Inc.	01/2025	\$150.07	14%	55	8,312	\$5.14	\$5.67	\$6.54	29.2x	26.5x	22.9x
ROST	Ross Stores, Inc.	01/2025	\$162.73	4%	325	52,854	\$6.25	\$6.89	\$7.51	26.0x	23.6x	21.7x
Mean										20.3x	18.4x	17.0x
ULTA	Ulta Beauty Inc.	01/2025	\$522.83	6%	45	23,586	\$26.45	\$30.75	\$31.46	19.8x	17.0x	16.6x

% premium/(discount) vs peer group mean

Source: FactSet and ASAP estimates

FY1 = current fiscal year (not yet reported)



TARGET PRICE CALCULATION

12-month price target (one-year)	Base	12-month price target (one-year)	Bull	12-month price target (one-year)	Bear
Target multiple =	21.0x	Target multiple =	24.0x	Target multiple =	18.0x
2026 EPS Estimate =	\$30.75	2026 EPS Estimate =	\$30.75	2026 EPS Estimate =	\$30.75
Target price per share =	\$646	Target price per share =	\$738	Target price per share =	\$492
Expected return	23.52%	Expected return	41.2%	Expected return	-5.89%

Price Target Sensitivity Analysis

EPS	P/E					
	18.0x	19.0x	20.0x	21.0x	22.0x	23.0x
\$23.44	\$418	\$462	\$506	\$550	\$594	\$638
\$44.44	\$456	\$504	\$552	\$600	\$648	\$696
\$49.44	\$494	\$546	\$598	\$650	\$702	\$754
\$54.44	\$532	\$588	\$644	\$700	\$756	\$812
\$59.44	\$570	\$630	\$690	\$750	\$810	\$870
\$64.44	\$608	\$672	\$736	\$800	\$864	\$928

## Applied Security Analysis Program

### Revenue Model

Fiscal Year	FY23A	FY24A	FY25E	FY26E	FY27E
<b>KEY ASSUMPTIONS</b>					
<b>Store Count Assumptions:</b>					
New Store Openings (net)	30	60	64	64	64
Beginning Store Count	1355	1,385	1,445	1,509	1,573
Ending Store Count	1385	1,445	1,509	1,573	1,637
Average Store Count (for revenue)	1,370	1,415	1,477	1,541	1,605
<b>Comparable Store Sales (SSS) %:</b>					
SSS Growth Rate	9.8%	0.8%	4.7%	4.5%	4.0%
- Traffic Growth	5.7%	-2.0%	3.0%	2.5%	2.0%
- Ticket/Basket Growth	3.9%	2.8%	1.7%	2.0%	2.0%
<b>Store Productivity Assumptions:</b>					
Revenue per Mature Store (\$000s)	8.180	7.983	8.358	8.734	9.084
New Store Year 1 Productivity %	65%	65%	65%	65%	65%
New Store Year 2 Productivity %	85%	85%	85%	85%	85%

Management guided on the number of white space left and what they think is the maximum ULTA store (1800+). Remaining stores by 5-7 years of runway. Conservative

### REVENUE BUILD

<b>Base Revenue Components:</b>					
Prior Year Total Revenue	10,209	11,207	11,296	12,275	13,302
SSS Growth on Existing Base	1,000	90	531	552	532
SSS Growth on New Base			448	475	494
<b>TOTAL NET REVENUE</b>	<b>11,207</b>	<b>11,296</b>	<b>12,275</b>	<b>13,302</b>	<b>14,329</b>
YoY Growth %	9.8%	0.8%	8.7%	8.4%	7.7%

### NEW STORE REVENUE CONTRIBUTION (Detail)

New Stores Opened (Current Year)	30	60	64	64	64
Year 1 Revenue per New Store	5	5	5	6	6
Year 1 Total New Store Revenue	160	311	348	363	378
Prior Year New Stores (Yr 2)	0	30	60	64	64
Year 2 Incremental Revenue/Store	2	2	2	2	2
Year 2 Total Incremental Revenue	0	48	100	112	116
<b>TOTAL NEW STORE CONTRIBUTION</b>	<b>160</b>	<b>359</b>	<b>448</b>	<b>475</b>	<b>494</b>

### REVENUE RECONCILIATION

Prior Year Total Revenue	10,209	11,207	11,296	12,275	13,302
SSS Growth on Base	1,000	90	531	552	532
New Store Contribution	160	359	448	475	494
<b>Current Year Total Revenue</b>	<b>11,369</b>	<b>11,656</b>	<b>12,275</b>	<b>13,302</b>	<b>14,329</b>
<i>Check (should equal Row 31)</i>					
			0	0	0

### VS STREET CONSENSUS

Street Consensus Revenue	11,207	11,296	12,052	12,705	13,400
Our Forecast	11,207	11,296	12,275	13,302	14,329
Difference (\$)	-	-	223	597	929
Difference (%)	-	-	1.8%	4.7%	6.9%

### SOURCES:

FY23-24 Actuals: ULTA 10-K FY24, filed March 2025  
 FY25 HI Actual: ULTA 10-Q Q2 FY25, filed August 2025  
 Management Guidance: Q2 FY25 Earnings Call, August 28, 2025  
 Street Consensus: FactSet estimates as of October 31, 2025

### Assumptions:

1. SSS Growth: 4.5% (FY26) vs Street 3.5%  
 HI FY25 actual: 4.7%  
 Q2 traffic: +3.7% despite macro concerns  
 Loyalty program: 45.8M members (95% of sales, 2-3x visit frequency)  
 Management: "Momentum continuing" from Unleashed strategy modeling deceleration (4.7% → 4.5% → 4.0%)

2. Store openings 40/year  
 Historical average 40-50/year  
 Conservative vs FY22-23  
 White space supports 200-300 remaining

3. New Store productivity  
 Industry Standard 60-7% Year 1. I assume mid range  
 85% Year 2 is based on Standard maturation curve  
 Historical commentary from ULTA sites similar maturity

## Applied Security Analysis Program

### Traffic Model

#### Key Metrics:

**45.8M loyalty members** = 95% of sales

**Visit frequency:** Members visit 8.2x/year vs. 3.1x for non-members (2.6x more frequent)

**Annual spend:** Members spend \$443 vs. \$118 for non-members (275% higher)

**Churn:** 8-10% annually (best-in-class vs. Sephora 12-15%, DSW 18-22%)

**\$825M unredeemed points** = deferred revenue = guaranteed future traffic

#### Bottoms-Up Traffic Math:

Starting with loyalty member base:

Active members: 45.8M

Annual visits per member: 8.2x

Total member visits: **375.6M**

Less: 10% churn = -3.8M members × 8.2 visits = -31M visits

Plus: New member acquisition = +3.8M members (Q2 FY25: +956K, +12% YoY, annualized) × 8.2 visits = +31M visits

**Net member visits: ~376M** (stable to growing)

#### Non-member traffic:

5% of sales at lower frequency (3.1x/year) and lower basket

Estimated 10-12M annual visits

**Total traffic: ~386-388M annual visits**

#### YoY traffic growth driven by:

Member frequency acceleration: 8.2x → 8.4x = +2.4% traffic

New member acquisition net effect: +0.5-1.0%

Non-member stability: Flat to +0.5%

**Result: 2.5-3.0% traffic growth vs. Street 1.5% ✓**

**Applied Security Analysis Program**

**Gen Alpha vs. Prior Generations: Beauty Adoption Timeline**

<b>Cohort</b>	<b>Age of First Beauty Purchase</b>	<b>Penetration at Age 10-12</b>	<b>Annual Spend (Age 10-12)</b>	<b>Social Media Influence</b>
<b>Gen X</b> (born 1965-1980)	16.2 years	8%	\$45	Magazines (Teen Vogue)
<b>Millennials</b> (born 1981-1996)	15.1 years	12%	\$65	YouTube tutorials (2010s)
<b>Gen Z</b> (born 1997-2009)	14.8 years	38%	\$95	Instagram, YouTube
<b>Gen Alpha</b> (born 2010-2024)	<b>11.3 years</b>	<b>68%</b>	<b>\$180</b>	<b>TikTok, YouTube Shorts</b>

Sources: McKinsey State of Fashion 2025, Piper Sandler Teen Survey, ULTA Investor Presentations

Applied Security Analysis Program

## Gen Alpha Quantification

### Cohort Size & Spending Power:

Cohort	Birth Years	Age (2025)	Population	Annual Beauty Spend
Gen Alpha (Total)	2010-2024	15-Jan	65M	\$2-3B (est.)
<b>Target: Tweens</b>	<b>2010-2015</b>	<b>15-Oct</b>	<b>25M</b>	<b>\$180/year</b>

### Key Delta vs. Prior Generations:

**Gen Alpha (10-12):** \$180/year

**Gen Z at same age:** \$45/year

**Increase:** 4x higher spending!

### Drivers:

Social Media Influence: 68% say TikTok/YouTube influenced purchases

Parental Budget: 42% of parents report increasing beauty budget for Gen Alpha

Category Entry: Starting skincare routines 3-4 years earlier

### Math:

Target cohort: 25M tweens (ages 10-15)

Penetration rate: 30% actively purchasing beauty

Active buyers: 7.5M

Average spend: \$180/year

**Total Gen Alpha TAM: \$1.35B**

### ULTA Market Share Estimate:

ULTA positioning advantages:

"Mini Brands" section (Bubble, e.l.f., kid-focused SKUs)

Affordable price points (\$5-\$15 entry products)

Parent-friendly shopping environment

vs. Sephora "Sephora Kids" backlash (seen as too advanced, inappropriate)

### Estimated ULTA Share: 25-30%

#### ULTA Sales from Gen Alpha:

\$1.35B category × 27.5% share (midpoint)

**= \$370M by FY27E**

### Growth Trajectory:

FY26E: \$250M (ramp-up phase)

FY27E: \$370M (established)

FY30E: \$700M+ (as cohort ages into teens, spending increases)