

COMPANY PROFILE

Ulta Salon, Cosmetics & Fragrance Inc

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COMPANY OVERVIEW

Ulta Salon, Cosmetics & Fragrance, Inc. (Ulta or 'the company') is a specialty retailer based in the US. The company specializes in operating beauty shops, which are involved in offering a broad range of beauty products and salon services. Its product portfolio includes cosmetics, fragrance, hair care, skincare, nail products, salon styling tools, skincare and bath and body products. Ulta also offers various services including salon services, e-retail, rewards and gift card services. The company offers products under Ulta brand through its retail stores. It also merchandises products online through an e-commerce website ulta.com. The company also operates distribution centers in the US. Ulta is headquartered in Bolingbrook, Illinois, the US.

The company reported revenues of (US Dollars) US\$5,884.5 million for the fiscal year ended February 2018 (FY2018), an increase of 21.2% over FY2017. In FY2018, the company's operating margin was 13.3%, compared to an operating margin of 13.5% in FY2017. In FY2018, the company recorded a net margin of 9.4%, compared to a net margin of 8.4% in FY2017.

KEY FACTS

| | |
|------------------------------------|---|
| Head Office | Ulta Salon, Cosmetics & Fragrance Inc Suite 120 1000 Remington Boulevard Bolingbrook Illinois Bolingbrook Illinois USA |
| Phone | 1 6304104800 |
| Fax | |
| Web Address | www.ulta.com |
| Revenue / turnover (USD Mn) | 5,884.5 |
| Financial Year End | February |
| Employees | 13,700 |
| NASDAQ Ticker | ULTA |

SWOT ANALYSIS

Ulta Salon, Cosmetics & Fragrance, Inc. (Ulta or 'the company') is a specialty retailer based in the US. Strong financial performance, multiple channels selling, and distribution network are the company's main strengths, whereas increasing trade receivables remains major area of concern. In the future, intense competition, stringent regulations and increasing labor costs in the US could affect the company's business operations. However, expanding retail market in the US, growing e-commerce market in the US and increase in consumer spending in the US are likely to provide growth opportunities to the company.

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|--|---|
| <p>Strength</p> <p>Distribution Network Financial Performance Multi-Channel Selling</p> | <p>Weakness</p> <p>Increasing Trade Receivables</p> |
| <p>Opportunity</p> <p>Increase in Consumer Spending in the US Growing E-commerce Market in the US Expanding Retail Market in the US</p> | <p>Threat</p> <p>Labor costs in the US Intense Competition Stringent Regulations</p> |

Strength

Distribution Network

Ulta has a strong distribution and warehouse channel to cater to its store needs efficiently. Through its logistics business, the company supplies all the merchandise required by retail stores. It manages five distribution processing facilities in the US. These distribution centers are located in Romeoville, Illinois; Phoenix, Arizona; Chambersburg, Pennsylvania; Greenwood, Indiana; and Dallas, Texas. Its Romeoville, Illinois facility covers a retail space 291,000 sq. ft, Phoenix, Arizona covers a retail space of 437,000 sq. ft, Chambersburg, Pennsylvania is located in 373,000 sq. ft, Greenwood, Indiana is located in an area of 671,000 sq. ft and Dallas, Texas distribution center cover a space of 671,000 sq. ft. This business model reduces Ulta's dependence on outside party to provide logistics support. It also minimizes operating costs for the company in the form of selling, general and administrative expenses. Therefore, with its reduced operating expenses, the company enjoys increased profit margins.

Financial Performance

Ulta exhibited a strong financial performance during the review year. Strong financial performance enables the company's ability to provide higher returns to its shareholders and also increases its ability to allocate adequate funds for future growth initiatives. In FY2018, the company generated revenues of US\$5,884.5 million as compared to US\$4,854.7 million in FY2017, with an annual growth of 21.2% over FY2017. This growth in annual revenue was driven by increase in salon and e-commerce services by

12.8% and 64.7%, respectively, in FY2017 over the previous year. The growth in revenue was also due to the opening of 100 new stores and 11% increase in comparable store sales. The company reported an increase in operating income from US\$654.8 million in FY2016 to US\$785.2 million in FY2018, and the net income increased from US\$409.7 million in FY2017 to US\$555.2 million in FY2018.

Multi-Channel Selling

The sale of merchandise through multiple channels increases the company's direct-to-consumer business. Diverse retail and marketing channels helps to increase brand awareness, store traffic and sales. Ulta retails its products through a combination of Domestic and International segments. The company operates a chain of convenience stores primarily located in convenient, high-traffic locations such as power centers. It manages 1,074 retail stores with 10,000 sq. ft of store size covering a retail space across 48 states in the US and the District of Columbia. Through these retail stores, Ulta offers various products including cosmetics, fragrance, hair care, skincare, nail products, salon styling tools, skincare and bath and body. The company retails merchandise online through an e-commerce website Ulta.com advertises through social media websites and mobile applications about the new product and brands.

Weakness

Increasing Trade Receivables

Increasing receivables could adversely affect the company's cash flows. Ulta has reported increase in its trade receivables. The company's trade receivables stood at US\$99.7 million in FY2018, and US\$88.6 million in FY2017. The company maintains a substantial amount of current assets in the form of receivables. In the FY2018, the company's trade and other receivables accounted for 5.9% of its current assets. Such increasing accounts receivable reflects inefficient credit management by the company. In the backdrop of recovering economic slowdown, the probability of defaults by any of creditors increased, may impact the overall financial position of the company.

Opportunity

Increase in Consumer Spending in the US

The company could benefit from the increase in consumer spending in the US. Growing personal income, disposable personal income and personal consumption expenditure indicate improved consumer spending in the US, which could increase the purchase of its products and its performance. According to the US Bureau of Economic Analysis (BEA), in February 2018, the personal income (PI) in the US increased by 0.4% or US\$67. billion, disposable personal income (DPI) increased by 0.4% or US\$53.9 billion and the personal consumption expenditure increased by 0.2% reaching US\$27.7 billion from the previous month. In February 2018, the real DPI increased by 0.2% and real personal consumption expenditures PCE increased by 0.1% from previous month.

Growing E-commerce Market in the US

Ulta stands to benefit from growing online retailing, which provides consumers the convenience of shopping from home. Apart from its brick and mortar stores, the company also sells products through its online retail platform. Successful execution of its online business strategy may help the company attract new customers and generate higher revenue. It sells merchandise through established websites such as Ulta.com. With the increase in interactive methods and limitless content, the retail e-commerce is growing at a faster rate. According to the report published by the Census Bureau of the Department of Commerce in February 2018, the estimated retail e-commerce sales in the US for the fourth quarter of 2017 was US\$143.1 billion, an increase of 33.7% from the third quarter of 2017. The estimated retail e-commerce sales in the US for the fourth quarter of 2017 were increased by 5.3% from the fourth quarter of 2016. E-commerce sales in the fourth quarter of 2017 accounted for 10.5% of total sales.

Expanding Retail Market in the US

Ulta offers a wide range of cosmetics, fragrance, hair care, skincare, salon styling tools, skincare and bath and body, nail polish and nail care products through its retail stores. In FY2018, the company invested US\$440.7 million as compared to US\$373.4 million for new and remodeled stores, supply chain investments, short-term investments and investments in information technology systems. In FY2018, Ulta opened 102 new stores, remodeled 11 existing stores and relocated seven stores. As the company has a strong presence in the US. Therefore, growing retail market in the US could offer it further growth avenues. According to in-house research, the retail sales in the US grew by 3.2% in 2015 and are expected to reach US\$3,722.4 billion in 2020 growing at a CAGR of 3.1% during 2015-2020. Food and grocery is expected to lead with a share of 47.7% of overall retail sales, followed by apparel, accessories, luggage and leather goods (15.9%), home and garden products (14.9%), electrical and electronics (9.3%), furniture and floor coverings (3.6%), Books, news and stationery (2.6%), Sports and leisure equipment (2.7%), health and beauty (2.5%), and Music, video and entertainment software (0.8%) in 2020.

Threat

Labor costs in the US

Increasing manpower costs could impact its stability and operational efficiency. The tight labor markets, government mandated increases in minimum wages and a higher proportion of full-time employees could result in an increase in labor costs. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA). As of January 2018, the minimum wage rate in the US was US\$7.5 per hour. The minimum wage rate in 29 states and the District of Columbia is more than the federal rate. These wages range from US\$11 in Massachusetts, US\$8.25 in Florida, US\$8.25 per hour in Illinois, US\$9.25 per hour in Michigan, US\$9.25 per hour in Maryland, US\$10.1 per hour in Hawaii and Connecticut and US\$10.5 in California. The minimum wage in the District of Columbia reached US\$12.5 per hour.

Intense Competition

The company operates in a highly competitive market. American Eagle faces intense competition from both domestic and international companies in the retail market, which is based on fashion, selection,

quality, service and price. The company faces competition from national, regional and local operators of specialty stores, department stores, discount retailers, and online retailers. Its key competitors include Avon Products, Inc., Bath & Body Works, LLC, Macy's Inc and Regis Corporation, Sephora Usa, Inc. among others. Some of the competitors of the company have greater financial, marketing and other resources, which enables them to pursue more vigorous marketing and expansion activities. Moreover, the growth potential in the retail industry is driving the entry of several new players into the marketplace and increased competition from established firms. Intense competition may have a material adverse impact on the company's operations.

Stringent Regulations

The company is subject to the adoption, interpretation and enforcement by governmental agencies in the US (including on federal, state and local levels) and abroad of laws, rules, regulations or policies, including any changes thereto, such as competition, restrictions on trade, license, manufacturing and permit requirements, privacy and data protection laws, import and export license requirements, anti-corruption laws, records and information management, environmental laws, tariffs and taxes, health care reform requirements such as the Patient Protection and Affordable Healthcare Act, laws relating to the sourcing of 'conflict minerals', regulation of its brochures, product claims or ingredients, which may enable the company to adjust its operations and systems in certain markets where it conducts business. For instance, Avon is subject to government review of its brochures in Venezuela. Its privacy and data protection laws are subject to frequently changing rules and regulations, and may vary among the various jurisdictions where it has operations. If the company is unable to adhere to or successfully implement processes in response to changing regulatory requirements, its business and/or reputation could be adversely affected.

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