

Ulta Beauty Inc

All Things Beauty, All in One Place

Strategy: The US beauty market is highly fragmented with over 70,000 places to buy beauty products. It is also huge with 2016 sales estimated at US\$134 billion.

Ulta Beauty stepped into this market in 1990 with a single store. Since then the company has built a network of over 1000 stores across the US which provide, as it says, “All Things Beauty, All in One Place”. The stores aim to be premier beauty destinations for cosmetics, fragrance, skin and hair care products and salon services (hair, skin and brow). It offers more than 20,000 products from over 500 well-established and emerging beauty brands across all categories and price points, including ULTA Beauty's own private label. It also has an online division through its website, which includes tips, tutorials and social content.

Despite this growth, Ulta Beauty estimates that it has just 4% of the national market.

Success Drivers: Ulta Beauty targets what they call “beauty enthusiasts”, people (generally women) who have a “high passion for beauty”.

The company refers to its customers as guests. This is part of their differentiation strategy by making their customers feel special. They try to provide a distinctive and personalised experience and have bright, open stores with non-commissioned sales teams.

Customers are encouraged to become members of the company's loyalty program called Ultamate. Currently this program has around 25 million members. Ulta uses sophisticated mining of the database resulting in greater personalization and precision of its marketing campaigns, including special deals from manufacturers.

Company Said: CEO and Director, Mary Dillon, said recently: “We're in all the places that a shopper is engaged to learn about beauty.” Also she explained that they try to create a fun and welcoming environment.

Economic Moats: Primary moat is that all the stores have salon services: salon clients spend 3 times more and visit 2 times more than those who don't use these services. This makes their stores “one-stop” shops for beauty products and salon services resulting in more “sticky” customers. A second moat is its loyalty program with its associated data on their buying habits: 25 million members contribute 90% of sales. Finally, convenient, high-traffic locations help customer traffic.

Main Future Risks: The company loses its edge in providing beauty products and services wanted by their current and potential customers. Also online sales (Amazon, etc) eat away at their margins.

Dividend Yield	ROE	5 Year Growth	
		SPS	EPS
0.0%	27.4%	21.9%	26.7%

• Market Cap: \$14.5 billion • 5-yr TSR: 20.1%

Conclusion: Many surveys conclude that women use makeup, skin care products and salon services because they help them feel good about themselves. This helps explain the size of the market and that it is likely to keep growing at a solid pace. Ulta Beauty is a savvy operator in this area with proven ability to attract and maintain customers with plenty of room to continue its high earnings growth. (Jan 2018)

This report is prepared for members of the Conscious Investor Fund. It does not take into account anyone's personal circumstances. Remember, what happened in the past is not always what will happen in the future.

Questions? Contact us:

Conscious Capital Limited AFSL 427 216 Level 7, 53 Walker Street, North Sydney 2060, ph 02 9954 4017.