

We invest in winners. This means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Ulta Beauty, Inc.

Strong brands create customer loyalty, trendy brands come and go. This correlation is to Ulta Beauty's advantage. After all, with a market share of around 10%, the largest US retailer of beauty products is constantly adapting its 25,000 items from 600 different brands according to the preferences of its mainly female customers. The company's 1,400 stores sell products for every budget, from affordable items to prestige cosmetics by Chanel and Dior. Hairdressing and beauty services round off the range of fragrances, skin and hair care products. The breadth and depth of variety on offer is a competitive advantage and increases the time customers spend in the store. In addition, the integration of the online channel and a membership programme, which already has 43 million members, ensure customer loyalty. The company, which was founded in 1990, has gained new customers primarily through the 500 shop-in-shop concepts that have been created in collaboration with retail giant Target since 2021. Ulta Beauty has annual sales of \$11 billion and a high Return on Investment of 35%. Of the operating cash flow of \$1.5 billion, around \$0.5 billion is invested in the business model and \$1.0 billion is distributed through share buybacks. It was precisely this aspect that sparked our interest. At the current attractive price level, the annual repurchase volume corresponds to 5% of the outstanding shares. It should significantly boost

future earnings per share and thus create room for share price increases in the medium term (table, share price: \$375).

| Fiscal year end of Jan. | 2024 | 2025e | 2026e | 2027e | 2028e |
|-------------------------|-------|-------|-------|-------|-------|
| Δ Shares YoY | -4.1% | -5.7% | -6.3% | -7.0% | -7.8% |
| FCF yield | 6.6% | 6.9% | 7.6% | 8.5% | 9.5% |
| PE ratio | 14 | 13 | 12 | 11 | 9 |

Since the beginning of the year, the share price has fallen by 30%. Growth is slowing. After increasing sales by 50% since 2019 (pre-Covid), the task at hand is to consolidate the growth achieved. In addition, consumer sentiment in the US is cautious and new competitors such as Tiktok, Sephora and Amazon are shaping the competitive landscape. Accordingly, we expect more modest growth in the coming years. The company's plan for the US envisages 1,500-1,700 of its own stores and 800 Target stores. International expansion could spark positive momentum, which will start next year with the company's entry into the Mexican market. The share price has been trending positively again for several weeks. On August 14, 2024, Berkshire Hathaway announced its entry at an average share price of \$386. We view Ulta Beauty stock as a largely debt-free equity bond with growing coupons and lasting monetary value protection. The return on investment is as high as 7%, with a high expected annual growth rate depending on the share price and buyback volume.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky

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