

Ulta Beauty, Inc.
Form 10-Q
August 30, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10 Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended August 4, 2018

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 001 33764

ULTA BEAUTY, INC.

(Exact name of Registrant as specified in its charter)

incorporation or organization) Identification No.)

Delaware 38 4022268

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.)
1000 Remington Blvd., Suite 120 60440

Bolingbrook, Illinois (Zip code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (630) 410 4800

Edgar Filing: Ulta Beauty, Inc. - Form 10-Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

incorporation or organization)

Identification No.)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant’s common stock, par value \$0.01 per share, outstanding as of August 28, 2018 was 59,770,399 shares.

Table of Contents

ULTA BEAUTY, INC.

TABLE OF CONTENTS

Part I - Financial
Information

Item 1. Financial
Statements

Consolidated
Balance Sheets 3

Consolidated
Statements of Income 4

Consolidated
Statements of Cash
Flows 5

Consolidated
Statement of
Stockholders' Equity 6

Notes to
Consolidated Financial
Statements 7

Item 2. Management's
Discussion and
Analysis of Financial
Condition and Results
of Operations 15

Item 3. Quantitative
and Qualitative
Disclosures about
Market Risk 24

Item 4. Controls and
Procedures 24

Part II - Other
Information 24

Item 1. Legal
Proceedings 24

Item 1A. Risk Factors 24

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
<u>Item 3. Defaults Upon Senior Securities</u>	25
<u>Item 4. Mine Safety Disclosures</u>	25
<u>Item 5. Other Information</u>	25
<u>Item 6. Exhibits</u>	25
<u>SIGNATURES</u>	27

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

Ulta Beauty, Inc.

Consolidated Balance Sheets

(In thousands, except per share data)	August 4, 2018 (Unaudited)	February 3, 2018	July 29, 2017 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 237,107	\$ 277,445	\$ 92,860
Short-term investments	149,000	120,000	180,000
Receivables, net	103,666	99,719	67,593
Merchandise inventories, net	1,219,685	1,096,424	1,144,702
Prepaid expenses and other current assets	103,618	98,666	98,215
Prepaid income taxes	17,082	1,489	9,124
Total current assets	1,830,158	1,693,743	1,592,494
Property and equipment, net	1,212,978	1,189,453	1,095,135
Deferred compensation plan assets	19,585	16,827	14,588
Other long-term assets	10,628	8,664	—
Total assets	\$ 3,073,349	\$ 2,908,687	\$ 2,702,217
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 409,849	\$ 325,758	\$ 313,483
Accrued liabilities	348,906	302,307	256,794
Accrued income taxes	—	14,101	—
Total current liabilities	758,755	642,166	570,277
Deferred rent	422,455	407,916	387,670
Deferred income taxes	49,700	59,403	85,181
Other long-term liabilities	29,961	24,985	23,739
Total liabilities	1,260,871	1,134,470	1,066,867
Commitments and contingencies (Note 4)			
Stockholders' equity:			
Common stock, \$0.01 par value, 400,000 shares authorized; 60,518, 61,441, and 62,263 shares issued; 59,872, 60,822, and 61,645 shares outstanding; at August 4, 2018 (unaudited), February 3, 2018, and July 29, 2017 (unaudited), respectively	605	614	623
Treasury stock-common, at cost	(24,413)	(18,767)	(18,551)
Additional paid-in capital	720,535	698,917	683,156
Retained earnings	1,115,751	1,093,453	970,122
Total stockholders' equity	1,812,478	1,774,217	1,635,350

Edgar Filing: Ulta Beauty, Inc. - Form 10-Q

Total liabilities and stockholders' equity	\$ 3,073,349	\$ 2,908,687	\$ 2,702,217
--	--------------	--------------	--------------

See accompanying notes to consolidated financial statements.

3

Table of Contents

Ulta Beauty, Inc.

Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)	13 Weeks Ended		26 Weeks Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Net sales	\$ 1,488,221	\$ 1,289,854	\$ 3,031,888	\$ 2,604,733
Cost of sales	952,760	820,528	1,935,714	1,659,399
Gross profit	535,461	469,326	1,096,174	945,334
Selling, general and administrative expenses	337,142	283,427	682,766	566,872
Pre-opening expenses	4,504	6,099	9,751	10,257
Operating income	193,815	179,800	403,657	368,205
Interest income, net	(1,143)	(555)	(2,468)	(893)
Income before income taxes	194,958	180,355	406,125	369,098
Income tax expense	46,635	66,162	93,406	126,682
Net income	\$ 148,323	\$ 114,193	\$ 312,719	\$ 242,416
Net income per common share:				
Basic	\$ 2.47	\$ 1.84	\$ 5.18	\$ 3.91
Diluted	\$ 2.46	\$ 1.83	\$ 5.16	\$ 3.88
Weighted average common shares outstanding:				
Basic	60,070	61,935	60,340	62,018
Diluted	60,375	62,379	60,630	62,483

See accompanying notes to consolidated financial statements.

Table of Contents

Ulta Beauty, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)	26 Weeks Ended	
	August 4, 2018	July 29, 2017
Operating activities		
Net income	\$ 312,719	\$ 242,416
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	137,815	125,582
Deferred income taxes	612	(1,317)
Non-cash stock compensation charges	13,172	11,649
Loss on disposal of property and equipment	499	2,348
Change in operating assets and liabilities:		
Receivables	(3,947)	21,038
Merchandise inventories	(123,261)	(200,727)
Prepaid expenses and other current assets	(4,952)	(9,594)
Income taxes	(29,694)	(18,095)
Accounts payable	84,091	53,965
Accrued liabilities	(13,149)	(29,557)
Deferred rent	14,539	21,479
Other assets and liabilities	(441)	806
Net cash provided by operating activities	388,003	219,993
Investing activities		
Purchases of short-term investments	(558,163)	(240,000)
Proceeds from short-term investments	529,163	90,000
Purchases of property and equipment	(141,691)	(193,210)
Net cash used in investing activities	(170,691)	(343,210)
Financing activities		
Repurchase of common shares	(260,452)	(178,085)
Stock options exercised	8,448	13,179
Purchase of treasury shares	(5,646)	(4,027)
Net cash used in financing activities	(257,650)	(168,933)
Net decrease in cash and cash equivalents	(40,338)	(292,150)
Cash and cash equivalents at beginning of period	277,445	385,010
Cash and cash equivalents at end of period	\$ 237,107	\$ 92,860
Supplemental cash flow information		
Cash paid for income taxes (net of refunds)	\$ 121,914	\$ 145,494
Non-cash investing activities:		
Change in property and equipment included in accrued liabilities	\$ 19,453	\$ 25,497

See accompanying notes to consolidated financial statements.

5

Table of Contents

Ulta Beauty, Inc.

Consolidated Statement of Stockholders' Equity

(Unaudited)

(In thousands)	Common Stock Issued		Treasury - Common Stock Treasury		Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance – February 3, 2018	61,441	\$ 614	(619)	\$ (18,767)	\$ 698,917	\$ 1,093,453	\$ 1,774,217
Adoption of accounting standards (Note 3)	–	–	–	–	–	(29,980)	(29,980)
Stock options exercised and other awards	208	2	–	–	8,446	–	8,448
Purchase of treasury shares	–	–	(27)	(5,646)	–	–	(5,646)
Net income	–	–	–	–	–	312,719	312,719
Stock compensation charge	–	–	–	–	13,172	–	13,172
Repurchase of common shares	(1,131)	(11)	–	–	–	(260,441)	(260,452)
Balance – August 4, 2018	60,518	\$ 605	(646)	\$ (24,413)	\$ 720,535	\$ 1,115,751	\$ 1,812,478

See accompanying notes to consolidated financial statements.

Table of Contents

Ulta Beauty, Inc.

Notes to Consolidated Financial Statements

(In thousands, except per share and store count data) (Unaudited)

1. Business and basis of presentation

On January 29, 2017, Ulta Salon, Cosmetics & Fragrance, Inc. implemented a holding company reorganization. Pursuant to which Ulta Beauty, Inc., which was incorporated as a Delaware corporation in December 2016, became the successor to Ulta Salon, Cosmetics & Fragrance, Inc., the former publicly-traded company and now a wholly owned subsidiary of Ulta Beauty, Inc. As used in these notes and throughout this Quarterly Report on Form 10 Q, all references to “we,” “us,” “our,” “Ulta Beauty,” or the “Company” refer to Ulta Beauty, Inc. and its consolidated subsidiaries.

The Company was originally founded in 1990 to operate specialty retail stores selling cosmetics, fragrance, haircare and skincare products, and related accessories and services. The stores also feature full-service salons. As of August 4, 2018, the Company operated 1,124 stores in 49 states, as shown in the table below.

Location	Number of stores	Location	Number of stores
Alabama	17	Montana	6
Alaska	3	Nebraska	5
Arizona	25	Nevada	14
Arkansas	9	New Hampshire	7
California	142	New Jersey	33
Colorado	24	New Mexico	6
Connecticut	15	New York	45
Delaware	3	North Carolina	29
Florida	76	North Dakota	3
Georgia	34	Ohio	40
Hawaii	1	Oklahoma	20
Idaho	8	Oregon	14
Illinois	55	Pennsylvania	42
Indiana	22	Rhode Island	3
Iowa	10	South Carolina	18
Kansas	11	South Dakota	2
Kentucky	11	Tennessee	22
Louisiana	17	Texas	103
Maine	3	Utah	14
Maryland	19	Virginia	26
Massachusetts	18	Washington	30
Michigan	46	West Virginia	6
Minnesota	15	Wisconsin	