ULTA BEAUTY, INC.

FORM 10-Q

(Quarterly Report)

Filed 08/24/23 for the Period Ending 07/29/23

Address	1000 REMINGTON BLVD, BOLINGBROOK, IL, 60440
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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 July 29, 2023

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)

Delaware (State or other jurisdiction of incorporation or organization)	**38-4022268** (I.R.S. Employer Identification No.)
1000 Remington Blvd., Suite 120 **Bolingbrook, Illinois** (Address of principal executive offices)	**60440** (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	ULTA	The NASDAQ Global Select Market

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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 21, 2023 was 49,228,649 shares.

ULTA BEAUTY, INC.
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Part I - Financial Information

Item 1. Financial Statements

Ulta Beauty, Inc.
Consolidated Balance Sheets

(In thousands, except per share data)	July 29, 2023	January 28, 2023	July 30, 2022
Assets	(Unaudited)		(Unaudited)
Current assets:			
Cash and cash equivalents	$ 388,627	$ 737,877	$ 434,226
Receivables, net	174,444	199,422	180,514
Merchandise inventories, net	1,815,539	1,603,451	1,666,130
Prepaid expenses and other current assets	110,524	130,246	123,014
Prepaid income taxes	30,114	38,308	39,029
Total current assets	2,519,248	2,709,304	2,442,913
Property and equipment, net	1,073,144	1,009,273	912,017
Operating lease assets	1,549,146	1,561,263	1,509,246
Goodwill	10,870	10,870	10,870
Other intangible assets, net	718	1,312	1,075
Deferred compensation plan assets	40,087	35,382	33,393
Other long-term assets	55,547	43,007	36,480
Total assets	$ 5,248,760	$5,370,411	$ 4,945,994
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 521,315	$ 559,527	$ 586,851
Accrued liabilities	328,247	444,278	323,939
Deferred revenue	354,253	394,677	316,571
Current operating lease liabilities	287,359	283,293	274,693
Total current liabilities	1,491,174	1,681,775	1,502,054
Non-current operating lease liabilities	1,593,040	1,619,883	1,582,003
Deferred income taxes	56,012	55,346	40,029
Other long-term liabilities	56,657	53,596	52,840
Total liabilities	3,196,883	3,410,600	3,176,926
Commitments and contingencies (Note 6)			
Stockholders' equity:			
Common stock, $0.01 par value, 400,000 shares authorized; 50,139, 51,120, and 52,087 shares issued; 49,341, 50,364, and 51,332 shares outstanding; at July 29, 2023 (unaudited), January 28, 2023, and July 30, 2022 (unaudited), respectively	501	511	521
Treasury stock-common, at cost	(82,229)	(60,470)	(59,803)
Additional paid-in capital	1,049,679	1,023,997	982,339
Retained earnings	1,083,926	995,773	846,011
Total stockholders' equity	2,051,877	1,959,811	1,769,068
Total liabilities and stockholders' equity	$ 5,248,760	$5,370,411	$ 4,945,994

See accompanying notes to consolidated financial statements.

Ulta Beauty, Inc.
Consolidated Statements of Income
(Unaudited)

(In thousands, except per share data)	13 Weeks Ended July 29, 2023	13 Weeks Ended July 30, 2022	26 Weeks Ended July 29, 2023	26 Weeks Ended July 30, 2022
Net sales	$2,529,809	$2,297,113	$5,164,072	$4,643,014
Cost of sales	1,536,197	1,368,949	3,115,603	2,773,824
Gross profit	993,612	928,164	2,048,469	1,869,190
Selling, general and administrative expenses	600,692	534,459	1,212,821	1,035,429
Pre-opening expenses	1,278	2,277	1,936	4,625
Operating income	391,642	391,428	833,712	829,136
Interest (income) expense, net	(4,449)	(108)	(11,797)	293
Income before income taxes	396,091	391,536	845,509	828,843
Income tax expense	95,989	95,859	198,356	201,771
Net income	$ 300,102	$ 295,677	$ 647,153	$ 627,072
Net income per common share:				
Basic	$ 6.05	$ 5.73	$ 12.97	$ 12.08
Diluted	$ 6.02	$ 5.70	$ 12.90	$ 12.00
Weighted average common shares outstanding:				
Basic	49,617	51,607	49,885	51,928
Diluted	49,849	51,900	50,157	52,237

See accompanying notes to consolidated financial statements.

Ulta Beauty, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	**26 Weeks Ended July 29, 2023**	**26 Weeks Ended July 30, 2022**
Operating activities		
Net income	$ 647,153	$ 627,072
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	119,862	123,721
Non-cash lease expense	152,867	146,251
Deferred income taxes	666	336
Stock-based compensation expense	21,539	22,875
Loss on disposal of property and equipment	3,878	2,277
Change in operating assets and liabilities:		
Receivables	24,978	53,168
Merchandise inventories	(212,088)	(166,912)
Prepaid expenses and other current assets	19,722	(12,200)
Income taxes	8,194	(45,906)
Accounts payable	(38,752)	40,051
Accrued liabilities	(102,763)	(49,364)
Deferred revenue	(40,424)	(37,008)
Operating lease liabilities	(163,527)	(163,302)
Other assets and liabilities	(12,497)	(392)
Net cash provided by operating activities	428,808	540,667
Investing activities		
Capital expenditures	(204,748)	(120,500)
Other investments	(1,687)	(1,249)
Net cash used in investing activities	(206,435)	(121,749)
Financing activities		
Repurchase of common shares	(559,011)	(434,448)
Stock options exercised	9,147	24,521
Purchase of treasury shares	(21,759)	(6,325)
Net cash used in financing activities	(571,623)	(416,252)
Net (decrease) increase in cash and cash equivalents	(349,250)	2,666
Cash and cash equivalents at beginning of period	737,877	431,560
Cash and cash equivalents at end of period	$ 388,627	$ 434,226
Supplemental information		
Income taxes paid, net of refunds	$ 189,166	$ 246,641
Non-cash capital expenditures	51,860	42,451

See accompanying notes to consolidated financial statements.

Ulta Beauty, Inc.
Consolidated Statements of Stockholders' Equity
(Unaudited)

(In thousands)	Common Stock Issued Shares	Common Stock Amount	Treasury - Common Stock Treasury Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance – January 28, 2023	51,120	$ 511	(756)	$ (60,470)	$1,023,997	$ 995,773	$ 1,959,811
Net income	—	—	—	—	—	347,051	347,051
Stock-based compensation	—	—	—	—	9,721	—	9,721
Stock options exercised and other awards	150	1	—	—	8,926	—	8,927
Purchase of treasury shares	—	—	(41)	(21,659)	—	—	(21,659)
Repurchase of common shares, including excise tax	(541)	(5)	—	—	(2,266)	(283,512)	(285,783)
Balance – April 29, 2023	50,729	$ 507	(797)	$ (82,129)	$1,040,378	$1,059,312	$ 2,018,068
Net income	—	—	—	—	—	300,102	300,102
Stock-based compensation	—	—	—	—	11,818	—	11,818
Stock options exercised and other awards	4	—	—	—	220	—	220
Purchase of treasury shares	—	—	(1)	(100)	—	—	(100)
Repurchase of common shares, including excise tax	(594)	(6)	—	—	(2,737)	(275,488)	(278,231)
Balance – July 29, 2023	50,139	$ 501	(798)	$ (82,229)	$1,049,679	$1,083,926	$ 2,051,877

See accompanying notes to consolidated financial statements.

Ulta Beauty, Inc.
Consolidated Statements of Stockholders' Equity
(Unaudited)

(In thousands)	Common Stock Issued Shares	Common Stock Amount	Treasury - Common Stock Treasury Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance – January 29, 2022	53,049	$ 530	(738)	$ (53,478)	$ 934,945	$ 653,376	$ 1,535,373
Net income	—	—	—	—	—	331,395	331,395
Stock-based compensation	—	—	—	—	10,356	—	10,356
Stock options exercised and other awards	73	1	—	—	6,501	—	6,502
Purchase of treasury shares	—	—	(14)	(5,172)	—	—	(5,172)
Repurchase of common shares	(332)	(3)	—	—	—	(132,831)	(132,834)
Balance – April 30, 2022	52,790	$ 528	(752)	$ (58,650)	$ 951,802	$ 851,940	$ 1,745,620
Net income	—	—	—	—	—	295,677	295,677
Stock-based compensation	—	—	—	—	12,519	—	12,519
Stock options exercised and other awards	95	1	—	—	18,018	—	18,019
Purchase of treasury shares	—	—	(3)	(1,153)	—	—	(1,153)
Repurchase of common shares	(798)	(8)	—	—	—	(301,606)	(301,614)
Balance – July 30, 2022	52,087	$ 521	(755)	$ (59,803)	$ 982,339	$ 846,011	$ 1,769,068

See accompanying notes to consolidated financial statements.

Ulta Beauty, Inc.
Notes to Consolidated Financial Statements
(In thousands, except per share and store count data) (Unaudited)

1. Business and basis of presentation

Ulta Beauty, Inc. was founded in 1990 to operate specialty retail stores selling cosmetics, fragrance, haircare and skincare products, and related accessories and services. Nearly every store features a full-service salon. 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.

As of July 29, 2023, the Company operated 1,362 stores across 50 states, as shown in the table below.

Location	Number of stores	Location	Number of stores
Alabama	24	Montana	6
Alaska	3	Nebraska	5
Arizona	34	Nevada	16
Arkansas	11	New Hampshire	8
California	168	New Jersey	44
Colorado	27	New Mexico	7
Connecticut	19	New York	55
Delaware	4	North Carolina	43
Florida	93	North Dakota	4
Georgia	43	Ohio	46
Hawaii	4	Oklahoma	22
Idaho	9	Oregon	18
Illinois	55	Pennsylvania	45
Indiana	26	Rhode Island	4
Iowa	11	South Carolina	24
Kansas	13	South Dakota	3
Kentucky	15	Tennessee	30
Louisiana	18	Texas	127
Maine	3	Utah	15
Maryland	28	Vermont	1
Massachusetts	25	Virginia	33
Michigan	49	Washington	37
Minnesota	19	West Virginia	7
Mississippi	12	Wisconsin	20
Missouri	25	Wyoming	4
		Total	**1,362**

The accompanying unaudited consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and the U.S. Securities and Exchange Commission’s Article 10, Regulation S-X. These financial statements were prepared on a consolidated basis to include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts, transactions, and unrealized profit were eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to fairly state the financial position and results of operations and cash flows for the interim periods presented.

The Company’s business is subject to seasonal fluctuation, with significant portions of net sales and net income being realized during the fourth quarter of the fiscal year due to the holiday selling season. The results for the 13 and 26 weeks ended July 29, 2023 are not necessarily indicative of the results to be expected for the fiscal year ending February 3, 2024, or for any other future interim period or for any future year.

These unaudited interim consolidated financial statements and the related notes should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended January 28, 2023. All amounts are stated in thousands, with the exception of per share amounts and number of stores.

2. Summary of significant accounting policies

Information regarding significant accounting policies is contained in Note 2, “Summary of significant accounting policies,” to the consolidated financial statements in the Annual Report on Form 10-K for the year ended January 28, 2023. Presented below and in the following notes is supplemental information that should be read in conjunction with “Notes to Consolidated Financial Statements” in the Annual Report.

Fiscal quarter

The Company’s quarterly periods are the 13 weeks ending on the Saturday closest to April 30, July 31, October 31, and January 31. The second quarter in fiscal 2023 and 2022 ended on July 29, 2023 and July 30, 2022, respectively.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the accounting period. Actual results could differ from those estimates. The Company considers its accounting policies relating to inventory valuations, vendor allowances, impairment of long-lived tangible and right-of-use assets, loyalty program and income taxes to be the most significant accounting policies that involve management estimates and judgments. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

3. Revenue

Net sales include retail stores and e-commerce merchandise sales as well as salon services and other revenue. Other revenue includes the private label and co-branded credit card programs, royalties derived from the partnership with Target Corporation, and deferred revenue related to the loyalty program and gift card breakage.

Disaggregated revenue

The following table sets forth the approximate percentage of net sales by primary category:

	13 Weeks Ended		26 Weeks Ended	
(Percentage of net sales)	**July 29, 2023**	**July 30, 2022**	**July 29, 2023**	**July 30, 2022**
Cosmetics	40%	42%	42%	43%
Haircare products and styling tools	21%	22%	19%	21%
Skincare	20%	17%	20%	17%
Fragrance and bath	12%	12%	12%	12%
Services	4%	4%	4%	4%
Accessories and other	3%	3%	3%	3%
	100%	100%	100%	100%

Deferred revenue

Deferred revenue primarily represents contract liabilities for the obligation to transfer additional goods or services to a guest for which the Company has received consideration, such as unredeemed Ultamate Rewards loyalty points and unredeemed Ulta Beauty gift cards. In addition, breakage on gift cards is recognized proportionately as redemption occurs.

The following table provides a summary of the changes included in deferred revenue during the 13 and 26 weeks ended July 29, 2023 and July 30, 2022:

	13 Weeks Ended		26 Weeks Ended	
(In thousands)	**July 29, 2023**	**July 30, 2022**	**July 29, 2023**	**July 30, 2022**
Beginning balance	$ 350,123	$ 312,359	$ 388,583	$ 345,206
Additions to contract liabilities (1)	114,374	101,904	237,770	213,678
Deductions to contract liabilities (2)	(118,430)	(108,350)	(280,286)	(252,971)
Ending balance	$ 346,067	$ 305,913	$ 346,067	$ 305,913

(1) Loyalty points and gift cards issued in the current period but not redeemed or expired.

(2) Revenue recognized in the current period related to the beginning liability.

Other amounts included in deferred revenue were $8,186 and $10,658 at July 29, 2023 and July 30, 2022, respectively.

4. Goodwill and other intangible assets

Goodwill, which represents the excess of cost over the fair value of net assets acquired, was $10,870 at July 29, 2023, January 28, 2023, and July 30, 2022. No additional goodwill was recognized during the 13 and 26 weeks ended July 29, 2023. The recoverability of goodwill is reviewed annually during the fourth quarter or more frequently if an event occurs or circumstances change that would indicate that impairment may exist.

Other definite-lived intangible assets are amortized over their useful lives. The recoverability of intangible assets is reviewed whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable.

5. Leases

The Company leases retail stores, distribution centers, fast fulfillment centers, market fulfillment centers, corporate offices, and certain equipment under non-cancelable operating leases with various expiration dates through 2036. All leases are classified as operating leases and generally have initial lease terms of 10 years and, when determined applicable, include renewal options under substantially the same terms and conditions as the original leases. Leases do not contain any material residual value guarantees or material restrictive covenants.

Lease cost

The majority of operating lease cost relates to retail stores, distribution centers, fast fulfillment centers, and market fulfillment centers and is classified within cost of sales. Operating lease cost for corporate offices is classified within selling, general and administrative expenses. Operating lease cost from the control date through store opening date is classified within pre-opening expenses.

The following table presents a summary of operating lease costs:

(In thousands)	13 Weeks Ended July 29, 2023	13 Weeks Ended July 30, 2022	26 Weeks Ended July 29, 2023	26 Weeks Ended July 30, 2022
Operating lease cost	$ 83,121	$ 79,094	$ 168,249	$ 159,995

Other information

The following table presents supplemental disclosures of cash flow information related to operating leases:

(In thousands)	26 Weeks Ended July 29, 2023	26 Weeks Ended July 30, 2022
Cash paid for operating lease liabilities (1)	$ 196,638	$ 189,938
Operating lease assets obtained in exchange for operating lease liabilities (non-cash)	140,750	173,241

(1) Excludes $17,450 and $13,363 related to cash received for tenant incentives for the 26 weeks ended July 29, 2023 and July 30, 2022, respectively.

6. Commitments and contingencies

The Company is involved in various legal proceedings that are incidental to the conduct of the business including both class action and single plaintiff litigation. In the opinion of management, the amount of any liability with respect to these proceedings, either individually or in the aggregate, will not have a material adverse effect on the Company’s consolidated financial position, results of operations or cash flows.

7. Debt

On February 27, 2023, the Company entered into Amendment No. 2 to the Second Amended and Restated Loan Agreement (as so amended, the Loan Agreement) with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and a Lender thereunder; Wells Fargo Bank, National Association and JPMorgan Chase Bank, N.A., as Lead Arrangers and Bookrunners; JPMorgan Chase Bank, N.A., as Syndication Agent and a Lender; PNC Bank, National Association, as Documentation Agent and a Lender; and the other lenders party thereto. The Loan Agreement matures on March 11, 2025, provides maximum revolving loans equal to the lesser of $1,000,000 or a percentage of eligible owned inventory and eligible owned receivables (which borrowing base may, at the election of the Company and satisfaction of certain conditions, include a percentage of qualified cash), contains a $50,000 subfacility for letters of credit and allows the Company to increase the revolving facility by an additional $100,000, subject to the consent by each lender and other conditions. The Loan Agreement contains a requirement to maintain a fixed charge coverage ratio of not less than 1.0 to 1.0 during such periods when availability under the Loan Agreement falls below a specified threshold. Substantially all of the Company’s assets are pledged as collateral for outstanding borrowings under the Loan Agreement. Outstanding borrowings bear interest, at the Company’s election, at either a base rate plus a margin of 0% to 0.125% or the Term Secured Overnight Financing Rate plus a margin of 1.125% to 1.250%, and a credit spread adjustment of 0.10%, with such margins based on the Company’s borrowing availability, and the unused line fee is 0.20% per annum.

As of July 29, 2023, January 28, 2023, and July 30, 2022, there were no borrowings outstanding under the credit facility.

As of July 29, 2023, the Company was in compliance with all terms and covenants of the Loan Agreement.

8. Fair value measurements

The carrying value of cash and cash equivalents, accounts receivable, and accounts payable approximates their estimated fair values due to the short maturities of these instruments.

Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described as follows:

- Level 1 – observable inputs such as quoted prices for identical instruments in active markets.
- Level 2 – inputs other than quoted prices in active markets that are observable either directly or indirectly through corroboration with observable market data.
- Level 3 – unobservable inputs in which there is little or no market data, which would require the Company to develop its own assumptions.

As of July 29, 2023, January 28, 2023, and July 30, 2022, there were liabilities related to the non-qualified deferred compensation plan included in other long-term liabilities on the consolidated balance sheets of $42,529, $37,501, and $36,071, respectively. The liabilities are categorized as Level 2 as they are based on third-party reported values, which are based primarily on quoted market prices of underlying assets of the funds within the plan.

9. Stock-based compensation

Stock-based compensation expense is measured on the grant date based on the fair value of the award. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period for awards expected to vest. The estimated grant date fair value of stock options was determined using a Black-Scholes valuation model using the following weighted-average assumptions for the periods indicated:

	26 Weeks Ended	
	July 29, 2023	**July 30, 2022**
Volatility rate	45.0%	49.0%
Average risk-free interest rate	3.8%	2.4%
Average expected life (in years)	3.4	3.4
Dividend yield	—	—

The expected volatility is based on the historical volatility of the Company's common stock. The risk-free interest rate is based on the United States Treasury yield curve in effect on the date of grant for the respective expected life of the option. The expected life represents the time the options granted are expected to be outstanding. The expected life of options granted is derived from historical data on Ulta Beauty stock option exercises. Forfeitures of stock options are estimated at the grant date based on historical rates of stock option activity and reduce the stock-based compensation expense recognized. The Company does not currently pay a regular dividend.

The Company granted 42 and 48 stock options during the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. Stock-based compensation expense for stock options was $1,749 and $2,164 for the 13 weeks ended July 29, 2023 and July 30, 2022, respectively. Stock-based compensation expense for stock options was $3,219 and $4,506 for the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. The weighted-average grant date fair value of these stock options was $199.15 and $149.14 for the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. At July 29, 2023, there was approximately $14,770 of unrecognized stock-based compensation expense related to unvested stock options.

There were 45 and 56 restricted stock units issued during the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. Stock-based compensation expense for restricted stock units was $4,934 and $4,987 for the 13 weeks ended July 29, 2023 and July 30, 2022, respectively. Stock-based compensation expense for restricted stock units was $9,293 and $9,439 for the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. At July 29, 2023, there was approximately $36,561 of unrecognized stock-based compensation expense related to restricted stock units.

There were 33 and 37 performance-based restricted stock units issued during the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. Stock-based compensation expense for performance-based restricted stock units was $5,135 and $5,368 for the 13 weeks ended July 29, 2023 and July 30, 2022, respectively. Stock-based compensation expense for performance-based restricted stock units was $9,027 and $8,930 for the 26 weeks ended July 29, 2023 and July 30, 2022, respectively. At July 29, 2023, there was approximately $33,091 of unrecognized stock-based compensation expense related to performance-based restricted stock units.

10Income taxes

Income tax expense reflects the federal statutory tax rate and the weighted average state statutory tax rate for the states in which the Company operates stores. Income tax expense of $95,989 for the 13 weeks ended July 29, 2023 represents an effective tax rate of 24.2%, compared to $95,859 of tax expense representing an effective tax rate of 24.5% for the 13 weeks ended July 30, 2022.

Income tax expense of $198,356 for the 26 weeks ended July 29, 2023 represents an effective tax rate of 23.5%, compared to $201,771 of tax expense representing an effective tax rate of 24.3% for the 26 weeks ended July 30, 2022. The lower effective tax rate is primarily due to benefits from income tax accounting for stock-based compensation.

On August 16, 2022, the Inflation Reduction Act of 2022 was enacted into law, which, among other things, introduced a 15% corporate alternative minimum tax on book income of certain large corporations and created a 1% excise tax on net share repurchases. The corporate alternative minimum tax will be effective in fiscal 2024 and is not expected to have a material impact on the consolidated financial statements. The excise tax applies to share repurchases made after December 31, 2022.

11Net income per common share

The following is a reconciliation of net income and the number of shares of common stock used in the computation of net income per basic and diluted common share:

	13 Weeks Ended		26 Weeks Ended	
(In thousands, except per share data)	**July 29, 2023**	**July 30, 2022**	**July 29, 2023**	**July 30, 2022**
Numerator:				
Net income	$300,102	$295,677	$647,153	$627,072
Denominator:				
Weighted-average common shares – Basic	49,617	51,607	49,885	51,928
Dilutive effect of stock options and non-vested stock	232	293	272	309
Weighted-average common shares – Diluted	49,849	51,900	50,157	52,237
Net income per common share:				
Basic	$ 6.05	$ 5.73	$ 12.97	$ 12.08
Diluted	$ 6.02	$ 5.70	$ 12.90	$ 12.00

The denominator for diluted net income per common share for the 13 weeks ended July 29, 2023 and July 30, 2022 excludes 127 and 67 employee stock options and restricted stock units, respectively, due to their anti-dilutive effects. The denominator for diluted net income per common share for the 26 weeks ended July 29, 2023 and July 30, 2022 excludes 133 and 125 employee stock options and restricted stock units, respectively, due to their anti-dilutive effects. Outstanding performance-based restricted stock units are included in the computation of dilutive shares only to the extent that the underlying performance conditions are satisfied prior to the end of the reporting period or would be considered satisfied if the end of the reporting period were the end of the related contingency period and the results would be dilutive under the treasury stock method.

12Share repurchase program

In March 2022, the Board of Directors authorized a share repurchase program (the 2022 Share Repurchase Program) pursuant to which the Company may repurchase up to $2,000,000 of the Company’s common stock. The 2022 Share Repurchase Program revokes the previously authorized but unused amounts from the earlier share repurchase program.

The authorized value of shares available to be repurchased under the 2022 Share Repurchase Program excludes excise tax. The 2022 Share Repurchase Program does not have an expiration date and may be suspended or discontinued at any time.

A summary of common stock repurchase activity is presented in the following table:

	26 Weeks Ended	
(In thousands)	**July 29, 2023**	**July 30, 2022**
Shares repurchased	1,135	1,130
Total cost of shares repurchased, including excise tax	$ 564,014	$ 434,448

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and related notes included elsewhere in this quarterly report. This discussion contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which reflect our current views with respect to, among other things, future events and financial performance. You can identify these forward-looking statements by the use of forward-looking words such as "outlook," "believes," "expects," "plans," "estimates," "targets," "strategies," or other comparable words. Any forward-looking statements contained in this Form 10-Q are based upon our historical performance and on current plans, estimates, and expectations. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates, targets, strategies, or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties, which include, without limitation:

- macroeconomic conditions, including inflation, rising interest rates and recessionary concerns, as well as ongoing labor cost pressures, transportation and shipping cost pressures, and the COVID-19 pandemic, have had, and may continue to have, a negative impact on our business, financial condition, profitability, and cash flows (including future uncertain impacts);
- changes in the overall level of consumer spending and volatility in the economy, including as a result of macroeconomic conditions and geopolitical events;
- our ability to sustain our growth plans and successfully implement our long-range strategic and financial plan;
- the ability to execute our operational excellence priorities, including continuous improvement, Project SOAR (our replacement enterprise resource planning platform), and supply chain optimization;
- our ability to gauge beauty trends and react to changing consumer preferences in a timely manner;
- the possibility that we may be unable to compete effectively in our highly competitive markets;
- the possibility of significant interruptions in the operations of our distribution centers, fast fulfillment centers, and market fulfillment centers;
- the possibility that cybersecurity or information security breaches and other disruptions could compromise our information or result in the unauthorized disclosure of confidential information;
- the possibility of material disruptions to our information systems, including our Ulta.com website and mobile applications;
- the failure to maintain satisfactory compliance with applicable privacy and data protection laws and regulations;
- changes in the good relationships we have with our brand partners and/or our ability to continue to offer permanent or temporary exclusive products of our brand partners;
- changes in the wholesale cost of our products and/or interruptions at our brand partners' or third-party vendors' operations;
- future epidemics, pandemics or natural disasters could negatively impact sales;
- the possibility that new store openings and existing locations may be impacted by developer or co-tenant issues;
- our ability to attract and retain key executive personnel;
- the impact of climate change on our business operations and/or supply chain;

- our ability to successfully execute our common stock repurchase program or implement future common stock repurchase programs;
- a decline in operating results may lead to asset impairment and store closure charges; and
- other risk factors detailed in our public filings with the Securities and Exchange Commission (the SEC), including risk factors contained in Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended January 28, 2023, as such may be amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q (including this report).

Except to the extent required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

References in the following discussion to “we,” “us,” “our,” “Ulta Beauty,” the “Company,” and similar references mean Ulta Beauty, Inc. and its consolidated subsidiaries, unless otherwise expressly stated or the context otherwise requires.

Overview

We were founded in 1990 as a beauty retailer at a time when prestige, mass, and salon products were sold through distinct channels – department stores for prestige products; drug stores and mass merchandisers for mass products; and salons and authorized retail outlets for professional hair care products. We developed a unique specialty retail concept that offers a broad range of brands and price points, select beauty services, and a convenient and welcoming shopping environment. We define our target consumer as a beauty enthusiast, a consumer who is passionate about the beauty category, uses beauty for self-expression, experimentation and self-investment, and has high expectations for the shopping experience. We believe our strategy provides us with the competitive advantages that have contributed to our financial performance.

Today, we are the largest specialty beauty retailer in the United States and the premier beauty destination for cosmetics, fragrance, skin care products, hair care products, and salon services. Key aspects of our business include: a differentiated assortment of more than 25,000 beauty products across a variety of categories and price points as well as a variety of beauty services, including salon services, in more than 1,350 stores predominantly located in convenient, high-traffic locations; engaging digital experiences delivered through our website, Ulta.com, and our mobile applications; our best-in-class loyalty program that enables members to earn points for every dollar spent on products and beauty services and provides us with deep, proprietary customer insights; and our ability to cultivate human connection with warm and welcoming guest experiences across all of our channels.

The continued growth of our business and any future increases in net sales, net income, and cash flows is dependent on our ability to execute our strategic priorities: 1) drive breakthrough and disruptive growth through an expanded definition of All Things Beauty; 2) evolve the omnichannel experience through connected physical and digital ecosystems, All In Your World; 3) expand and deepen our presence across the beauty journey, solidifying Ulta Beauty at the Heart of the Beauty Community; 4) drive operational excellence and optimization; 5) protect and cultivate our world-class culture and talent; and 6) expand our environmental and social impact. We believe the attractive and growing U.S. beauty products and salon services industry, the expanding definition of beauty and the role that omnichannel capabilities play in consumers’ lives, coupled with Ulta Beauty’s competitive strengths, position us to capture additional market share in the industry.

Comparable sales is a key metric that is monitored closely within the retail industry. Our comparable sales have fluctuated in the past, and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable sales, including general U.S. economic conditions, changes in merchandise strategy or mix, and timing and effectiveness of our marketing activities, among others.

Over the long term, our growth strategy is to increase total net sales through growing our comparable sales, expanding omnichannel capabilities, and opening new stores. Long-term operating profit is expected to increase as a result of our efforts to optimize our real estate portfolio, expand merchandise margin, and leverage our fixed store costs with comparable sales increases and operating efficiencies, partially offset by incremental investments in people, guest experiences, systems, and supply chain required to support a 1,500 to 1,700 store chain in the U.S. with successful e-commerce and competitive omnichannel capabilities.

Current Trends

Industry trends

Our research indicates that Ulta Beauty has captured meaningful market share across all categories over the last several years. The overall beauty market expanded in 2022 and into the first half of fiscal 2023, supported by strong consumer engagement with the beauty category. We remain confident that our differentiated and diverse business model, our commitment to strategic investments, and our highly engaged associates will continue to drive market share gains over the long term.

Impact of inflation and other macroeconomic trends

Although we do not believe inflation had a material impact on our sales during the first half of fiscal 2023, continued pressure from inflation or other evolving macroeconomic conditions could have an adverse impact on consumer spending and could lead to a recession. Furthermore, inflationary pressures, as well as other macroeconomic trends, could negatively impact our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net sales if the selling prices of our products do not increase with higher costs. In addition, inflation could materially increase the interest rates on any future debt.

Basis of presentation

The Company has one reportable segment, which includes retail stores, salon services, and e-commerce.

We recognize merchandise revenue at the point of sale in our retail stores. E-commerce sales are recognized upon shipment or guest pickup of the merchandise based on meeting the transfer of control criteria. Retail store and e-commerce sales are recorded net of estimated returns. Shipping and handling are treated as costs to fulfill the contract and not a separate performance obligation. Accordingly, we recognize revenue for our single performance obligation related to online sales at the time control of the merchandise passes to the customer, which is at the time of shipment or guest pickup. We provide refunds for merchandise returns within 60 days from the original purchase date. State sales taxes are presented on a net basis as we consider our self a pass-through conduit for collecting and remitting state sales tax. Salon service revenue is recognized at the time the service is provided to the guest. Gift card sales revenue is deferred until the guest redeems the gift card. Company coupons and other incentives are recorded as a reduction of net sales. Other revenue includes the private label and co-branded credit card programs, royalties derived from the partnership with Target Corporation, and deferred revenue related to the loyalty program and gift card breakage.

Comparable sales reflect sales for stores beginning on the first day of the 14th month of operation. Therefore, a store is included in our comparable store base on the first day of the period after one year of operations plus the initial one-month grand opening period. Non-comparable store sales include sales from new stores that have not yet completed their 13th month of operation and stores that were closed for part or all of the period in either year. Remodeled stores are included in comparable sales unless the store was closed for a portion of the current or prior period. Comparable sales include retail sales, salon services, and e-commerce. In fiscal years with 53 weeks, the 53rd week of comparable sales is included in the calculation. In the year following a 53-week year, the prior year period is shifted by one week to compare similar calendar weeks. There may be variations in the way in which some of our competitors and other retailers calculate comparable or same store sales.

Measuring comparable sales allows us to evaluate the performance of our store base as well as several other aspects of our overall strategy. Several factors could positively or negatively impact our comparable sales results:

- the general national, regional, and local economic conditions and corresponding impact on customer spending levels;
- the introduction of new products or brands;
- the location of new stores in existing store markets;
- competition;
- our ability to respond on a timely basis to changes in consumer preferences;
- the effectiveness of our various merchandising and marketing activities; and

- the number of new stores opened and the impact on the average age of all of our comparable stores.

Cost of sales includes:

- the cost of merchandise sold, offset by vendor income that is not a reimbursement of specific, incremental, and identifiable costs;
- distribution costs including labor and related benefits, freight, rent, depreciation and amortization, real estate taxes, utilities, and insurance;
- shipping and handling costs;
- retail store occupancy costs including rent, depreciation and amortization, real estate taxes, utilities, repairs and maintenance, insurance, and licenses;
- salon services payroll and benefits; and
- shrink and inventory valuation reserves.

Our cost of sales may be negatively impacted as we open new stores. Changes in our merchandise or channel mix may also have an impact on cost of sales. This presentation of items included in cost of sales may not be comparable to the way in which our competitors or other retailers compute their cost of sales.

Selling, general and administrative expenses include:

- payroll, bonus, and benefit costs for retail store and corporate employees;
- advertising and marketing costs, offset by vendor income that is a reimbursement of specific, incremental, and identifiable costs;
- occupancy costs related to our corporate office facilities;
- stock-based compensation expense;
- depreciation and amortization for all assets, except those related to our retail stores and distribution operations, which are included in cost of sales; and
- legal, finance, information systems, and other corporate overhead costs.

This presentation of items in selling, general and administrative expenses may not be comparable to the way in which our competitors or other retailers compute their selling, general and administrative expenses.

Pre-opening expenses include non-capital expenditures during the period prior to store opening for new, remodeled, and relocated stores including rent during the construction period for new and relocated stores, store set-up labor, management and employee training, and grand opening advertising.

Interest income represents interest primarily from cash equivalents, which include highly liquid investments such as money market funds and certificates of deposit with an original maturity of three months or less from the date of purchase. Interest expense includes interest costs and facility fees associated with our credit facility, which is structured as an asset-based lending instrument. Our credit facility interest is based on a variable interest rate structure which can result in increased cost in periods of rising interest rates.

Income tax expense reflects the federal statutory tax rate and the weighted average state statutory tax rate for the states in which we operate stores.

Results of operations

Our quarterly periods are the 13 weeks ending on the Saturday closest to April 30, July 31, October 31, and January 31. The Company’s second quarter in fiscal 2023 and 2022 ended on July 29, 2023 and July 30, 2022, respectively. Our quarterly results of operations have varied in the past and are likely to do so again in the future. As such, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of our future performance.

The following tables present the components of our consolidated results of operations for the periods indicated:

(Dollars in thousands)	13 Weeks Ended July 29, 2023	13 Weeks Ended July 30, 2022	26 Weeks Ended July 29, 2023	26 Weeks Ended July 30, 2022
Net sales	$ 2,529,809	$ 2,297,113	$ 5,164,072	$ 4,643,014
Cost of sales	1,536,197	1,368,949	3,115,603	2,773,824
Gross profit	993,612	928,164	2,048,469	1,869,190
Selling, general and administrative expenses	600,692	534,459	1,212,821	1,035,429
Pre-opening expenses	1,278	2,277	1,936	4,625
Operating income	391,642	391,428	833,712	829,136
Interest (income) expense, net	(4,449)	(108)	(11,797)	293
Income before income taxes	396,091	391,536	845,509	828,843
Income tax expense	95,989	95,859	198,356	201,771
Net income	$ 300,102	$ 295,677	$ 647,153	$ 627,072
Other operating data:				
Number of stores end of period	1,362	1,325	1,362	1,325
Comparable sales	8.0%	14.4%	8.7%	16.2%

(Percentage of net sales)	13 Weeks Ended July 29, 2023	13 Weeks Ended July 30, 2022	26 Weeks Ended July 29, 2023	26 Weeks Ended July 30, 2022
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	60.7%	59.6%	60.3%	59.7%
Gross profit	39.3%	40.4%	39.7%	40.3%
Selling, general and administrative expenses	23.7%	23.3%	23.5%	22.3%
Pre-opening expenses	0.1%	0.1%	0.0%	0.1%
Operating income	15.5%	17.0%	16.1%	17.9%
Interest (income) expense, net	(0.2%)	(0.0%)	(0.2%)	0.0%
Income before income taxes	15.7%	17.0%	16.4%	17.9%
Income tax expense	3.8%	4.2%	3.8%	4.3%
Net income	11.9%	12.9%	12.5%	13.5%

Comparison of 13 weeks ended July 29, 2023 to 13 weeks ended July 30, 2022

Net sales

Net sales increased $232.7 million or 10.1%, to $2.5 billion for the 13 weeks ended July 29, 2023, compared to $2.3 billion for the 13 weeks ended July 30, 2022. The net sales increase was primarily due to increased comparable sales, strong new store performance, and an increase in other revenue compared to the 13 weeks ended July 30, 2022. The total comparable sales increase of 8.0% during the 13 weeks ended July 29, 2023 was driven by a 9.0% increase in transactions and a 1.0% decrease in average ticket.

Gross profit

Gross profit increased $65.4 million or 7.1%, to $993.6 million for the 13 weeks ended July 29, 2023, compared to $928.2 million for the 13 weeks ended July 30, 2022. Gross profit as a percentage of net sales decreased to 39.3% for the 13 weeks ended July 29, 2023, compared to 40.4% for the 13 weeks ended July 30, 2022. The decrease in gross profit margin was primarily due to lower merchandise margin, higher inventory shrink, and higher supply chain costs, partially offset by strong growth in other revenue and leverage of store fixed costs.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased $66.2 million or 12.4%, to $600.7 million for the 13 weeks ended July 29, 2023, compared to $534.5 million for the 13 weeks ended July 30, 2022. SG&A expenses as a percentage of net sales increased to 23.7% for the 13 weeks ended July 29, 2023, compared to 23.3% for the 13 weeks ended July 30, 2022, primarily due to higher corporate overhead due to strategic investments, higher store payroll and benefits, and higher store expenses, partially offset by leverage of incentive compensation.

Pre-opening expenses

Pre-opening expenses were $1.3 million for the 13 weeks ended July 29, 2023 compared to $2.3 million for the 13 weeks ended July 30, 2022.

Interest income, net

Net interest income was $4.4 million for the 13 weeks ended July 29, 2023 compared to $0.1 million for the 13 weeks ended July 30, 2022, due to higher average interest rates on cash balances. We did not have any outstanding borrowings on the credit facility as of July 29, 2023, January 28, 2023, and July 30, 2022.

Income tax expense

Income tax expense of $96.0 million for the 13 weeks ended July 29, 2023 represents an effective tax rate of 24.2%, compared to $95.9 million of income tax expense representing an effective tax rate of 24.5% for the 13 weeks ended July 30, 2022.

Net income

Net income was $300.1 million for the 13 weeks ended July 29, 2023, compared to $295.7 million for the 13 weeks ended July 30, 2022. The increase in net income is primarily related to the $65.4 million increase in gross profit and the $4.3 million increase in interest income, partially offset by the $66.2 million increase in SG&A expenses.

Comparison of 26 weeks ended July 29, 2023 to 26 weeks ended July 30, 2022

Net sales

Net sales increased $521.1 million or 11.2%, to $5.2 billion for the 26 weeks ended July 29, 2023, compared to $4.6 billion for the 26 weeks ended July 30, 2022. The net sales increase was primarily due to increased comparable sales, strong new store performance, and an increase in other revenue compared to the 26 weeks ended July 30, 2022. The total comparable sales increase of 8.7% during the 26 weeks ended July 29, 2023 was driven by a 10.1% increase in transactions and a 1.4% decrease in average ticket.

Gross profit

Gross profit increased $179.3 million or 9.6%, to $2.0 billion for the 26 weeks ended July 29, 2023, compared to $1.9 billion for the 26 weeks ended July 30, 2022. Gross profit as a percentage of net sales decreased to 39.7% for the 26 weeks ended July 29, 2023, compared to 40.3% for the 26 weeks ended July 30, 2022. The decrease in gross profit margin was primarily due to higher inventory shrink, lower merchandise margin, and higher supply chain costs, partially offset by strong growth in other revenue and leverage of store fixed costs.

Selling, general and administrative expenses

SG&A expenses increased $177.4 million or 17.1%, to $1.2 billion for the 26 weeks ended July 29, 2023, compared to $1.0 billion for the 26 weeks ended July 30, 2022. SG&A expenses as a percentage of net sales increased to 23.5% for the 26 weeks ended July 29, 2023, compared to 22.3% for the 26 weeks ended July 30, 2022, primarily due to higher corporate overhead due to strategic investments, higher store payroll and benefits, and higher marketing expenses, partially offset by leverage of incentive compensation.

Pre-opening expenses

Pre-opening expenses was $1.9 million for the 26 weeks ended July 29, 2023 compared to $4.6 million for the 26 weeks ended July 30, 2022.

Interest (income) expense, net

Net interest income was $11.8 million for the 26 weeks ended July 29, 2023 compared to net interest expense of $0.3 million for the 26 weeks ended July 30, 2022 due to higher average interest rates on cash balances. We did not have any outstanding borrowings on the credit facility as of July 29, 2023, January 28, 2023, and July 30, 2022.

Income tax expense

Income tax expense of $198.4 million for the 26 weeks ended July 29, 2023 represents an effective tax rate of 23.5%, compared to $201.8 million of income tax expense representing an effective tax rate of 24.3% for the 26 weeks ended July 30, 2022. The lower effective tax rate is primarily due to benefits from income tax accounting for stock-based compensation.

Net income

Net income was $647.2 million for the 26 weeks ended July 29, 2023 compared to $627.1 million for the 26 weeks ended July 30, 2022. The increase in net income is primarily related to the $179.3 million increase in gross profit, the $12.1 million increase in interest income, and the $3.4 million decrease in income taxes, partially offset by the $177.4 million increase in SG&A expenses.

Liquidity and capital resources

Our primary sources of liquidity are cash and cash equivalents, cash flows from operations, and borrowings under our credit facility. The most significant components of our working capital are merchandise inventories and cash and cash equivalents reduced by accounts payable, accrued liabilities and deferred revenue. As of July 29, 2023, January 28, 2023, and July 30, 2022, we had cash and cash equivalents of $388.6 million, $737.9 million, and $434.2 million, respectively.

Our primary cash needs are for rent, capital expenditures for new, remodeled, and relocated stores, increased merchandise inventories related to store expansion and new brand additions, supply chain improvements, share repurchases, and continued investment in our information technology systems.

Our most significant ongoing short-term cash requirements relate primarily to funding operations (including expenditures for lease expenses, inventory, labor, distribution, advertising and marketing, and tax liabilities) as well as periodic spend for capital expenditures, investments, and share repurchases. Our working capital needs are greatest from August through November each year as a result of our inventory build-up during this period for the approaching holiday season.

Long-term cash requirements primarily relate to funding lease expenses and other purchase commitments.

We generally fund short-term and long-term cash requirements with cash from operating activities. We believe our primary sources of liquidity will satisfy our cash requirements over both the short-term (the next twelve months) and long-term.

Cash flows

We believe our ability to generate substantial cash from operating activities and readily secure financing at competitive rates are key strengths that give us significant flexibility to meet our short and long-term financial commitments.

The following table presents a summary of our cash flows for the 26 weeks ended July 29, 2023 and July 30, 2022:

	26 Weeks Ended	
(In thousands)	**July 29, 2023**	**July 30, 2022**
Net cash provided by operating activities	$ 428,808	$ 540,667
Net cash used in investing activities	(206,435)	(121,749)
Net cash used in financing activities	(571,623)	(416,252)

Operating activities

Operating activities consist of net income adjusted for certain non-cash items, including depreciation and amortization, non-cash lease expense, deferred income taxes, stock-based compensation expense, realized gains or losses on disposal of property and equipment, and the effect of working capital changes.

The decrease in net cash provided by operating activities in the first 26 weeks of fiscal 2023 compared to the first 26 weeks of fiscal 2022 was mainly due to the timing of accounts payable and accrued liabilities, a larger increase in merchandise inventories in the first 26 weeks of fiscal 2023, and the timing of receivable collections, partially offset by a decrease in prepaid expenses and increase in net income.

The increase in net income was primarily due to an increase in gross profit resulting from higher sales, an increase in interest income, and a decrease in income taxes, partially offset by an increase in SG&A expenses.

Merchandise inventories, net were $1.82 billion at July 29, 2023, compared to $1.67 billion at July 30, 2022, representing an increase of $149.4 million or 9.0%. The increase in total inventory is primarily due to the following:

- $75 million increase to support increased demand and product cost increases;
- $47 million increase due to the addition of 37 net new stores opened since July 30, 2022; and
- $28 million increase due to new brand launches.

Investing activities

We have historically used cash primarily for new, remodeled, relocated, and refreshed stores, supply chain investments, short-term investments, and investments in information technology systems. Investing activities for capital expenditures were $204.7 million during the 26 weeks ended July 29, 2023, compared to $120.5 million during the 26 weeks ended July 30, 2022.

During the 26 weeks ended July 29, 2023, we opened eight new stores, relocated three stores, and remodeled five stores, compared to the 26 weeks ended July 30, 2022, when we opened 17 new stores and relocated 10 stores.

The increase in net cash used in investing activities in the first 26 weeks of fiscal 2023 compared to the first 26 weeks of fiscal 2022 was primarily due to higher capital expenditures.

Our future investments will depend primarily on the number of new, remodeled, and relocated stores, information technology systems, and supply chain investments we undertake and the timing of these expenditures. Based on past performance and current expectations, we believe our sources of liquidity will be sufficient to fund future capital expenditures.

Financing activities

Financing activities include share repurchases, borrowing and repayment of our revolving credit facility, and capital stock transactions. Purchases of treasury shares represent the fair value of common shares repurchased from plan participants in connection with shares withheld to satisfy minimum statutory tax obligations upon the vesting of restricted stock.

The increase in net cash used in financing activities in the first 26 weeks of fiscal 2023 compared to the first 26 weeks of fiscal 2022 was primarily due to an increase in share repurchases.

We had no borrowings outstanding under the credit facility as of July 29, 2023, January 28, 2023, and July 30, 2022. The zero outstanding borrowings position is due to a combination of factors including sales demand, overall performance of management initiatives including expense control, and inventory and other working capital reductions. We may require borrowings under the facility from time to time in future periods for unexpected business disruptions, to support our new store program, seasonal inventory needs, or share repurchases.

Share repurchase program

In March 2022, the Board of Directors authorized a share repurchase program (the 2022 Share Repurchase Program) pursuant to which the Company may repurchase up to $2.0 billion of the Company’s common stock. The 2022 Share Repurchase Program revokes the previously authorized but unused amounts from the earlier share repurchase program. The authorized value of shares available to be repurchased under the 2022 Share Repurchase Program excludes excise tax. The 2022 Share Repurchase Program does not have an expiration date and may be suspended or discontinued at any time.

A summary of common stock repurchase activity is presented in the following table:

	26 Weeks Ended	
(Dollars in millions)	**July 29, 2023**	**July 30, 2022**
Shares repurchased	1,134,737	1,129,828
Total cost of shares repurchased, including excise tax	$ 564.0	$ 434.4

Credit facility

On February 27, 2023, we entered into Amendment No. 2 to the Second Amended and Restated Loan Agreement (as so amended, the Loan Agreement) with Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent and a Lender thereunder; Wells Fargo Bank, National Association and JPMorgan Chase Bank, N.A., as Lead Arrangers and Bookrunners; JPMorgan Chase Bank, N.A., as Syndication Agent and a Lender; PNC Bank, National Association, as Documentation Agent and a Lender; and the other lenders party thereto. The Loan Agreement matures on March 11, 2025, provides maximum revolving loans equal to the lesser of $1.0 billion or a percentage of eligible owned inventory and eligible owned receivables (which borrowing base may, at the election of the Company and satisfaction of certain conditions, include a percentage of qualified cash), contains a $50.0 million subfacility for letters of credit and allows the Company to increase the revolving facility by an additional $100.0 million, subject to the consent by each lender and other conditions. The Loan Agreement contains a requirement to maintain a fixed charge coverage ratio of not less than 1.0 to 1.0 during such periods when availability under the Loan Agreement falls below a specified threshold. Substantially all of the Company’s assets are pledged as collateral for outstanding borrowings under the Loan Agreement. Outstanding borrowings bear interest, at the Company’s election, at either a base rate plus a margin of 0% to 0.125% or the Term Secured Overnight Financing Rate plus a margin of 1.125% to 1.250%, and a credit spread adjustment of 0.10%, with such margins based on the Company’s borrowing availability, and the unused line fee is 0.20% per annum.

As of July 29, 2023, January 28, 2023, and July 30, 2022, we had no borrowings outstanding under the credit facility.

As of July 29, 2023, we were in compliance with all terms and covenants of the Loan Agreement.

Seasonality

Our business is subject to seasonal fluctuation. Significant portions of our net sales and profits are realized during the fourth quarter of the fiscal year due to the holiday selling season. To a lesser extent, our business is also affected by Mother’s Day and Valentine’s Day. Any decrease in sales during these higher sales volume periods could have an adverse effect on our business, financial condition, or operating results for the entire fiscal year. Our quarterly results of operations have varied in the past and are likely to do so again in the future. As such, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of our future performance.

Critical accounting policies and estimates

Management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements required the use of estimates and judgments that affect the reported amounts of our assets, liabilities, revenues, and expenses. Management bases estimates on historical experience and other assumptions it believes to be reasonable under the circumstances and evaluates these estimates on an on-going basis. Actual results may differ from these estimates. There have been no significant changes to the critical accounting policies and estimates included in our Annual Report on Form 10-K for the fiscal year ended January 28, 2023.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates. We do not hold or issue financial instruments for trading purposes.

Interest rate risk

We are exposed to interest rate risks primarily through borrowings under our credit facility. Interest on our borrowings is based upon variable rates. We did not have any outstanding borrowings on the credit facility as of July 29, 2023, January 28, 2023, and July 30, 2022.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures over financial reporting

We have established disclosure controls and procedures to ensure that material information relating to the Company is made known to the officers who certify our financial reports and to the members of our senior management and Board of Directors.

Based on management’s evaluation as of July 29, 2023, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), are effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no changes to our internal controls over financial reporting during the 13 weeks ended July 29, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

See Note 6 to our consolidated financial statements, "Commitments and contingencies," for information on legal proceedings.

Item 1ARisk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended January 28, 2023, which could materially affect our business, financial condition, financial results, or future performance. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended January 28, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth repurchases of our common stock during the second quarter of fiscal 2023:

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under plans or programs (in thousands)
April 30, 2023 to May 27, 2023	222,525	$ 499.23	222,513	$ 706,465
May 28, 2023 to June 24, 2023	173,757	428.01	173,757	632,816
June 25, 2023 to July 29, 2023	197,489	470.09	197,359	540,956
13 weeks ended July 29, 2023	593,771	468.70	593,629	540,956

(1) There were 593,629 shares repurchased as part of our publicly announced share repurchase program during the 13 weeks ended July 29, 2023 and there were 142 shares transferred from employees in satisfaction of minimum statutory tax withholding obligations upon the vesting of restricted stock during the period.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

During the 13 weeks ended July 29, 2023, no director or Section 16 officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

The exhibits listed in the Exhibit Index below are filed as part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

			Incorporated by Reference			
Exhibit Number	**Description of document**	**Filed Herewith**	**Form**	**Exhibit Number**	**File Number**	**Filing Date**
3.1	Certificate of Incorporation of Ulta Beauty, Inc., as amended through June 1, 2023		8-K	3.1	001-33764	6/07/2023
3.2	Bylaws of Ulta Beauty, Inc., as amended through June 1, 2023		8-K	3.3	001-33764	6/07/2023
31.1	Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002	X				
31.2	Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002	X				
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X				
101.INS	Inline XBRL Instance	X				
101.SCH	Inline XBRL Taxonomy Extension Schema	X				
101.CAL	Inline XBRL Taxonomy Extension Calculation	X				
101.LAB	Inline XBRL Taxonomy Extension Labels	X				
101.PRE	Inline XBRL Taxonomy Extension Presentation	X				
101.DEF	Inline XBRL Taxonomy Extension Definition	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).					

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on August 24, 2023 on its behalf by the undersigned, thereunto duly authorized.

ULTA BEAUTY, INC.

By: /s/ David C. Kimbell
David C. Kimbell
Chief Executive Officer and Director

By: /s/ Scott M. Settersten
Scott M. Settersten
Chief Financial Officer, Treasurer and Assistant Secretary