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Global Research

2 December 2019

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U.S. Beauty Retail

UBS Evidence Lab inside: What's Happening in Beauty Retail, 3Q'19

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Are more of ULTA's top-selling makeup items available at other retailers?

Product overlap between ULTA and other retailers remained relatively consistent in 3Q. For 175 top-selling SKUs at ULTA, 45% were available at M (51% in July), 39% at Sephora (38% in July), & 30% at JWN (22% in Apr). In mass, 37% were sold at AMZN 1P (39% in July), 25% at WMT 1P (29% in July), & 13% at TGT (18% in July). That said, Sephora carried 72% of ULTA's top 25 best-selling makeup products in Oct, up from 68% in July (63% avg the last 10 surveys). Given cosmetics is ULTA's largest product category (50% of sales), a differentiated assortment is key to its success.

ULTA has been adding fewer items to its website in recent months

Over the past 6 months, 61%-66% of ULTA's online assortment was on its website in the year ago period (vs. 51-54% in the prior 12 months). We believe this declining product newness reflects fewer beauty introductions. This is consistent with EL's comment that the number of new makeup launches declined -20% in the last year. Increased innovation & newness could reinvigorate beauty demand, in our view

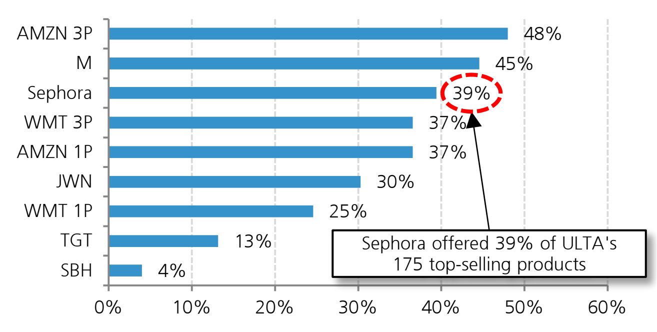
ULTA's store overlap with Sephora and cannibalization has been steady

We think this indicates that the industry sales deceleration is a function of other factors and not the result of increased B&M store overlap. According to UBS Evidence Lab data, in 3Q'19, 28% of ULTA stores compete with a Sephora in a 10 min drive time. This is the same as in 1Q'13. Since 3Q'14, 45%-48% of ULTA stores have overlapped with Sephora stores in JC Penney locations in a 10 min drive. On cannibalization, only 14% ULTA stores overlap with another one at a 10 min drive time. At a 15 minute drive time, 46% overlap with another ULTA store. This is up from 28% in 3Q'12.

What is happening in the pricing environment?

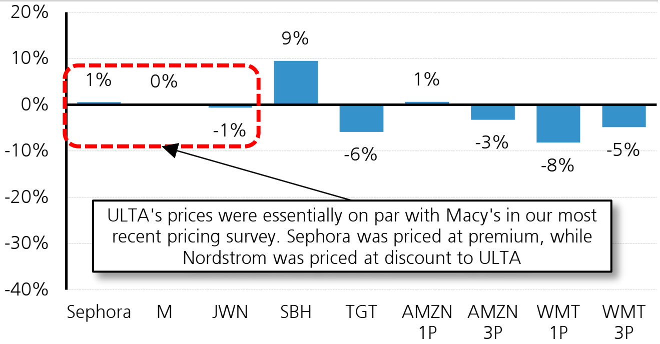
We reviewed prices for 275 top ULTA products & other retailers (as of Oct 17). On exact SKU matches with ULTA, Sephora's prices were 0.5% more expensive (0.1% in July), Macy's was 0.2% more expensive (6.5% in July), & JWN was -0.7% cheaper (-0.1% in July). According to UBS Evidence Lab, pricing on ULTA LFL items was down -0.3% YoY in 3Q'19 vs. -0.4% avg the prior 7 quarters. While base pricing remains relatively consistent, ULTA has historically used loyalty program promotions to drive sales. The degree that it relied on this lever will likely determine the trajectory of its GM.

Figure 1: ULTA top products available at other retailers



Source: UBS

Figure 2: ULTA prices relative to others on LFL items



Source: UBS

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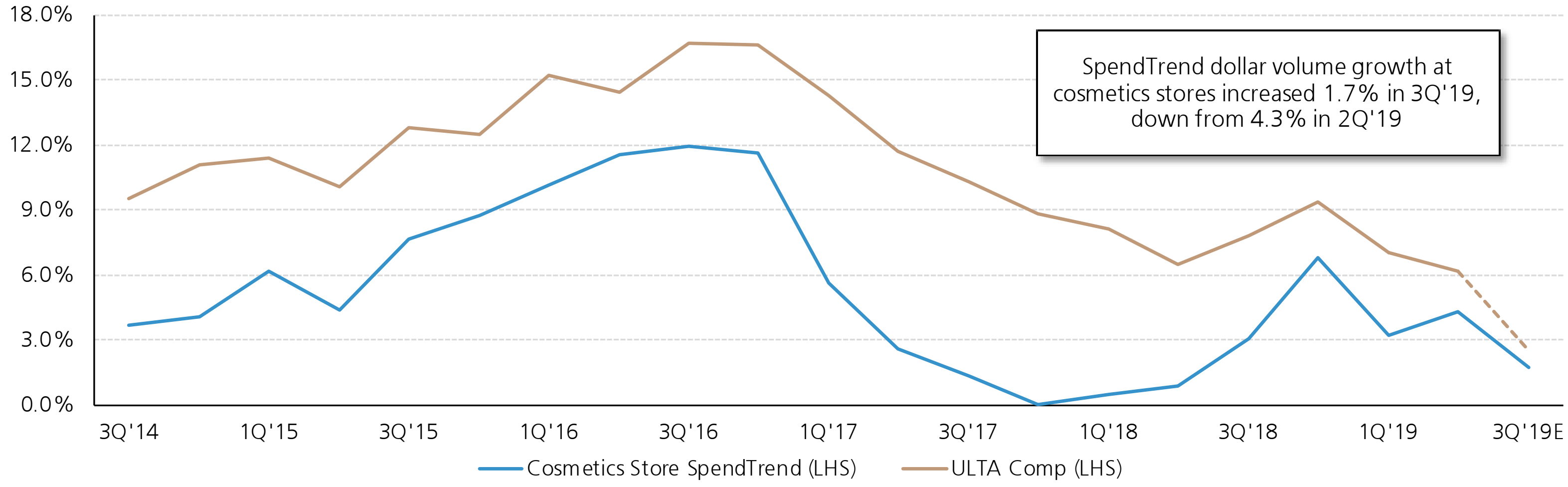
Section 1

Key Takeaways

Takeaway #1 – Cosmetics store sales decelerated in 3Q'19

- SpendTrend dollar volume growth at cosmetics stores increased 1.7% year-over-year during ULTA's 3Q'19. This represents a slowdown from the 4.3% growth in 2Q'19. The data indicates the category started the quarter slow with just a 0.3% increase in August. But, trends picked up a bit with a 2.9% increase in September and a 2.2% increase in October.
- There has been an 82% correlation between ULTA's quarterly same store sales and dollar volume growth change in cosmetics since 2Q'14.
- Throughout this report, we examine competition in US beauty retail from several angles to determine the sources of this pressure and how competition is trending.

Dollar Volume Growth Cosmetic Stores vs. ULTA Quarterly Comp, 3Q'14-3Q'19E

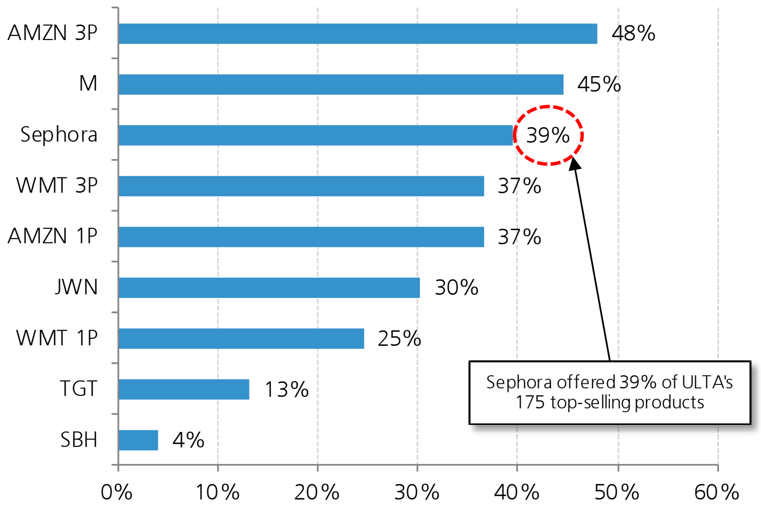


Source: Bloomberg, Company reports, UBS Estimates

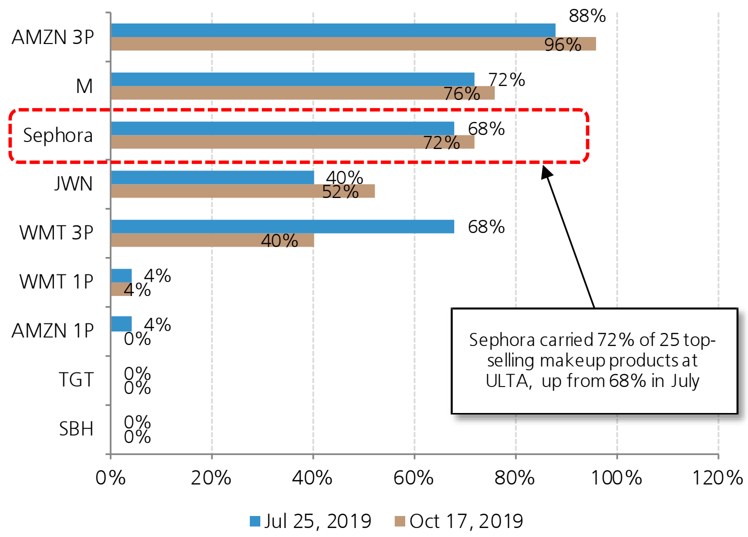
Takeaway #2 – Overall product overlap with ULTA is stable

- In the October 2019 edition of our pricing survey of 175 top-selling products at ULTA, many items driving ULTA's sales weren't available at other retailers. This highlights that ULTA is generally insulated from competition.
  - For example, only 45% were available at Macy's, 39% were available at Sephora, and 30% were available at Nordstrom.
  - Similarly, only 37% were available at Amazon 1P, 25% were available at Walmart 1P, and 13% were available at Target.
- ULTA is well positioned in its key category, makeup (cosmetics represented 51% of its total sales in FY'18). Though, its top 25 makeup SKUs overlap with other retailers has increased since our last survey.
  - 76% were available at Macy's (vs. 72% in July 2019), 72% at Sephora (vs. 68% in July 2019), while 52% at JWN (vs. 40% in July 2019).
  - Availability through the mass channel continues to be limited limited. Only 4% were available at WMT 1P each, while none were available at AMZN 1P and TGT.

ULTA 175 Top-Selling Products Available at Other Beauty Retailers



ULTA 25 Top-Selling Makeup Products Available at Other Beauty Retailers

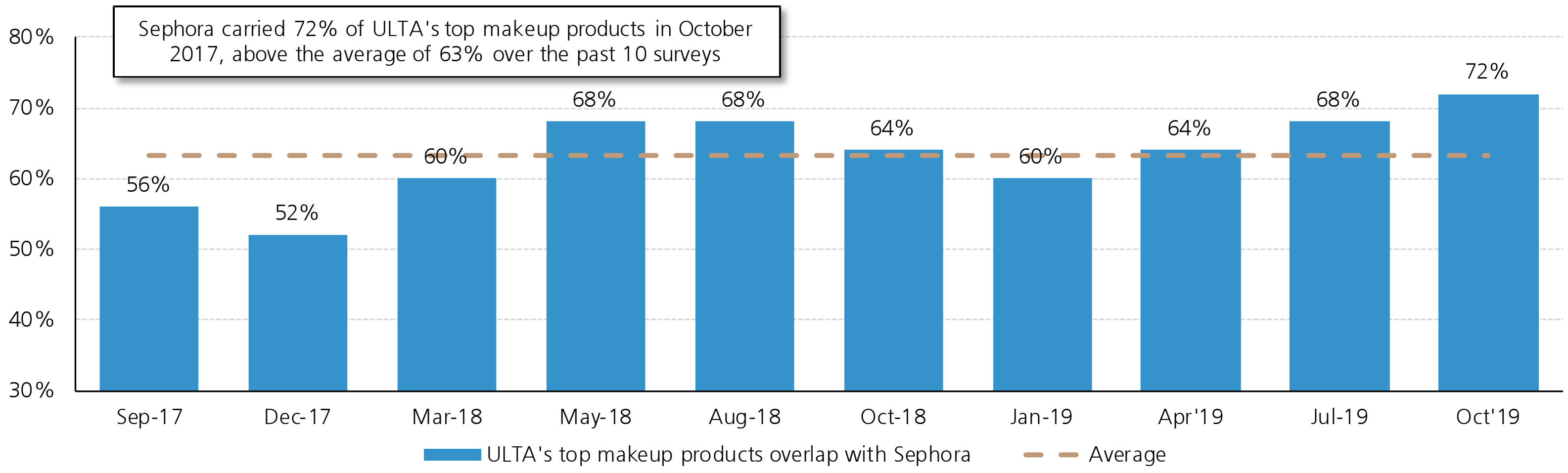


Source: UBS

Takeaway #3 – Sephora is carrying more of ULTA's top-selling makeup

- Sephora offered 72% of ULTA's top 25 selling makeup products in October 2019. This is up from 68% in April 2019 and 56% in September 2017. Further, this is above the 63% average over the past 10 surveys.
- While this was a slight step-up from the 68% overlap last quarter, we think this is a topic that merits attention.
- Should other retailers increasingly carry ULTA's top-selling products, it would mean that ULTA's assortment could be less differentiated.
- On Estee Lauder's 1Q'20 earnings call, the company noted that the number of new product launches in makeup declined -20% in the last year. We think lower levels of product introduction could mean less differentiation across the retailers.

ULTA's top 25 makeup products overlap with Sephora



Source: UBS

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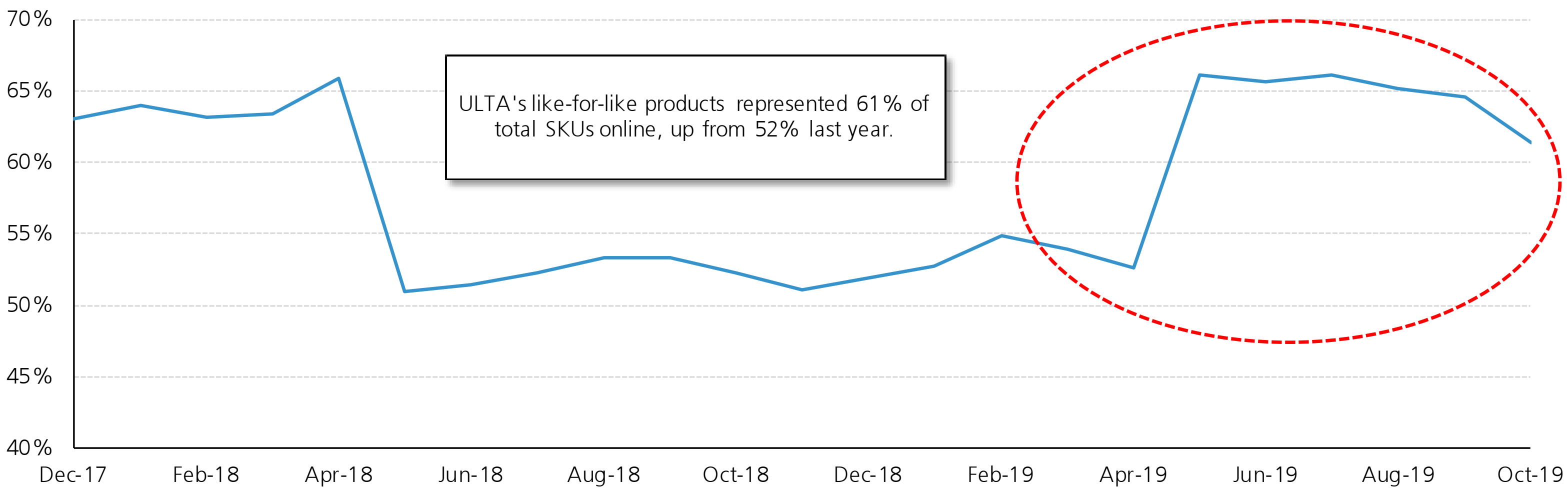
Takeaway #4 – ULTA has been adding fewer new products

- According to UBS Evidence Lab data, in recent months ULTA has been introducing fewer new items to its assortment than last year.
- Specifically, 61% and 66% of ULTA's online assortment over the past six months was on its website in the year-ago period. In the prior twelve months, 51%-54% of its online assortment was on its website in the year-ago period.
- We think this reflects less newness on ULTA's website as a result of fewer beauty product introductions.
- On ULTA's 2Q'19 earnings call, the company emphasized that newness and innovation have been a primary growth driver over the past several years and that this has slowed recently. On Estee Lauder's 1Q'20 earnings call, the company noted that the number of new product launches in makeup declined -20% in the last year.

ULTA's like-for-like products as a percentage of total SKUs



Source: UBS Evidence Lab

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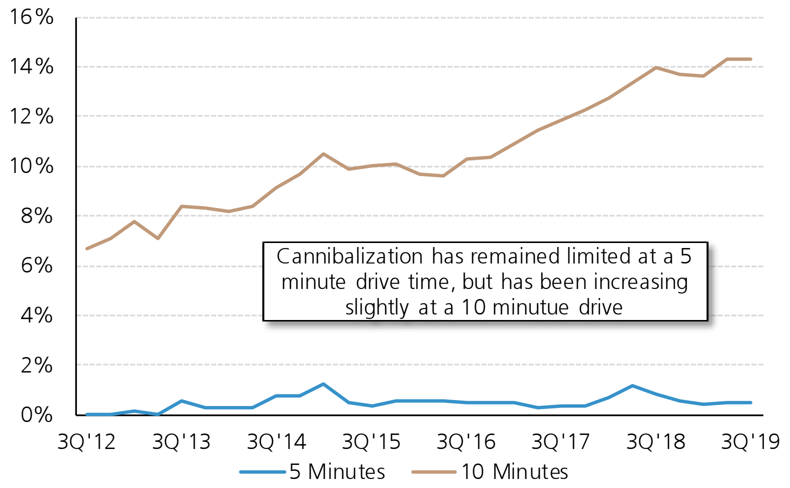
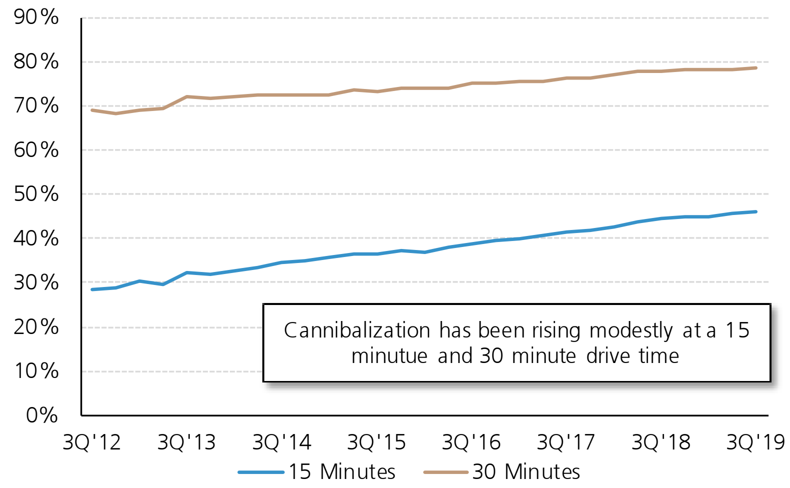
Takeaway #5 – ULTA's cannibalization has been stable

- Stable store overlap suggests that ULTA's cannibalization hasn't materially picked up.
  - Less than 1% of ULTA's stores overlap with another ULTA store in a 5 minute drive time. This has been consistent over time. More than 14% of ULTA's stores compete with another ULTA store in a 10 minute drive time. While cannibalization at this drive time remains limited, it has gradually increased from 7% in 3Q'12.
  - At a 15 minute drive time, 46% of ULTA's stores overlap with another ULTA store. This compares to 28% in 3Q'12. 78% of ULTA's stores overlap with another ULTA store in a 30 minute drive time, up from 69% in 3Q'12.
- During the same time frame, ULTA's store count has increased from nearly 500 to over 1,200. This highlights that ULTA can grow its footprint without excessively cannibalizing its existing locations.
- At its 2018 Analyst Day, ULTA noted that store cannibalization has held steady at 130 bps for many years. This data suggests there hasn't been a material change to this figure.

ULTA cannibalization at a 5 & 10 min drive time



ULTA cannibalization at a 15 & 30 min drive time



Source: UBS Evidence Lab

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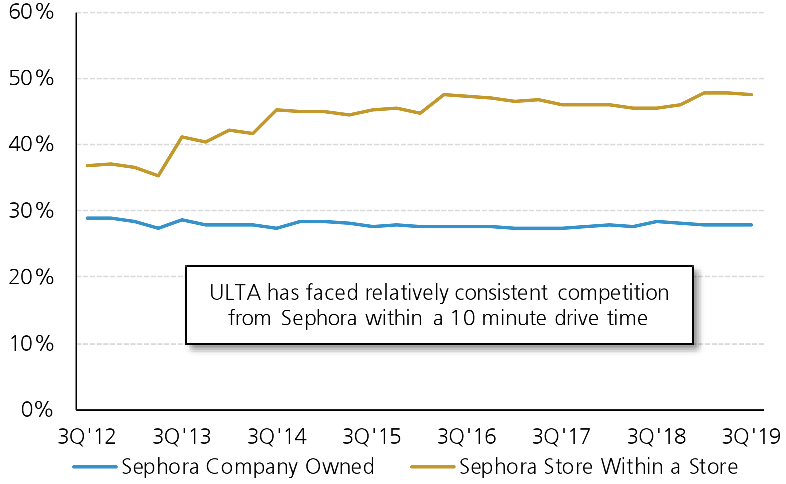
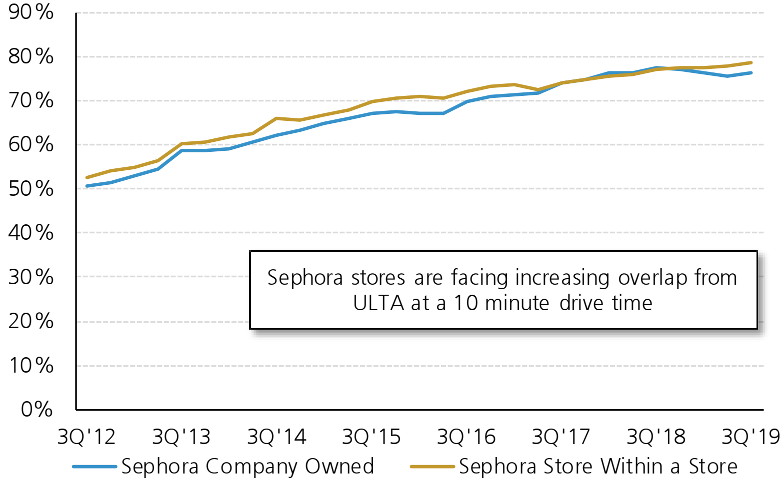
Takeaway #6 – ULTA's overlap with Sephora has been steady

- ULTA stores face modest competition from Sephora and this has been relatively stable over time. This suggests this factor isn't weighing on ULTA's top-line growth.
- At a 10 minute drive, 28% of ULTA stores compete with a Sephora. In 1Q'13, 28% of ULTA stores competed with a Sephora store. At the same time, 47% of ULTA stores compete with a Sephora Store Within a Store. This compares to 36% in 1Q'13. Though, the degree of competitive incidence has been stable more recently (ULTA's overlap with Sephora Stores Within a Store has trended between 45% and 48% since 3Q'14).
- Sephora stores have seen increasing levels of competition from ULTA. At a 10 minute drive time, 76% of Sephora stores face competition from ULTA. This is up from 53% in 1Q'13. Similarly, 79% of Sephora Store Within a Stores face competition from ULTA. This is up from 55% in 1Q'13.

ULTA's stores face modest overlap with Sephora



Sephora stores face elevated overlap with ULTA



Source: UBS Evidence Lab

Section 2

Monitoring the Pricing Environment – UBS Evidence Lab Pricing Intelligence

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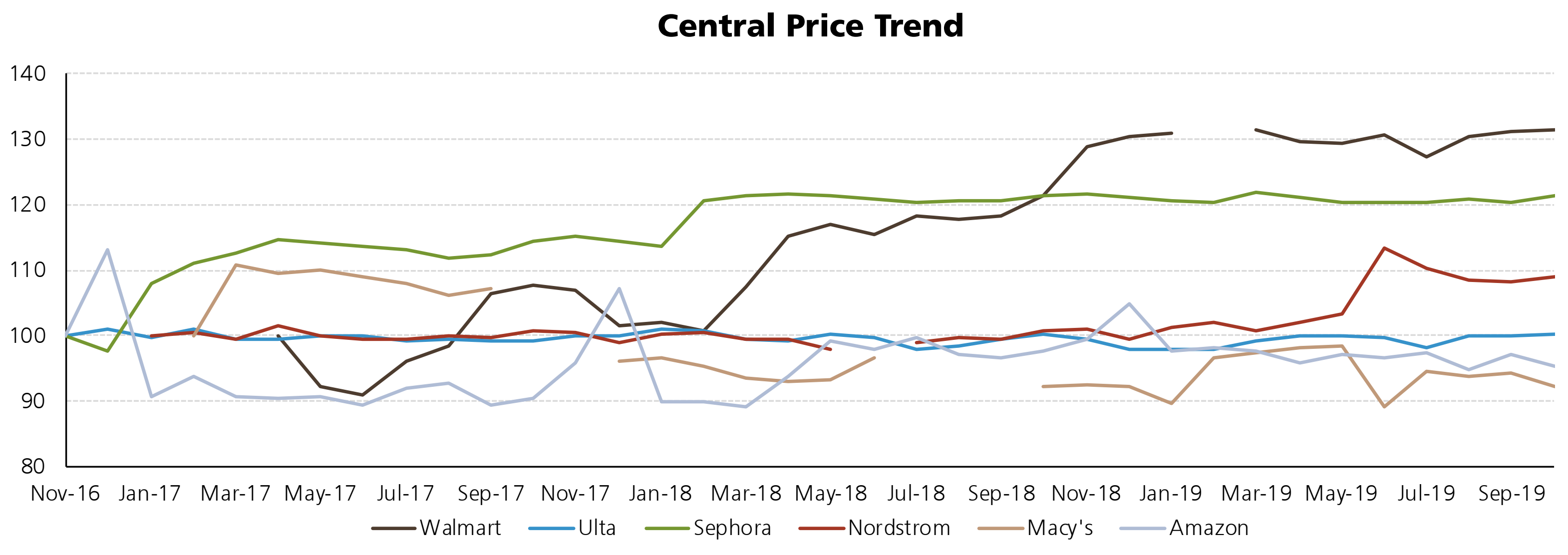
ULTA's overall prices have been fairly stable over time

- Using UBS Evidence Lab data, we analyzed how aggregate prices on all products have changed over time across different retailers.
- Notably, ULTA has kept its overall prices generally steady over time. Specifically, prices of ULTA's assortment (including both like-for-like and new items) have fluctuated between -2% to +1% since November 2016.
- It's important to note that this reflects all available SKUs on its website and not just like-for-like products. As such, our work assesses the full selection of products at each retailer.



Source: UBS Evidence Lab

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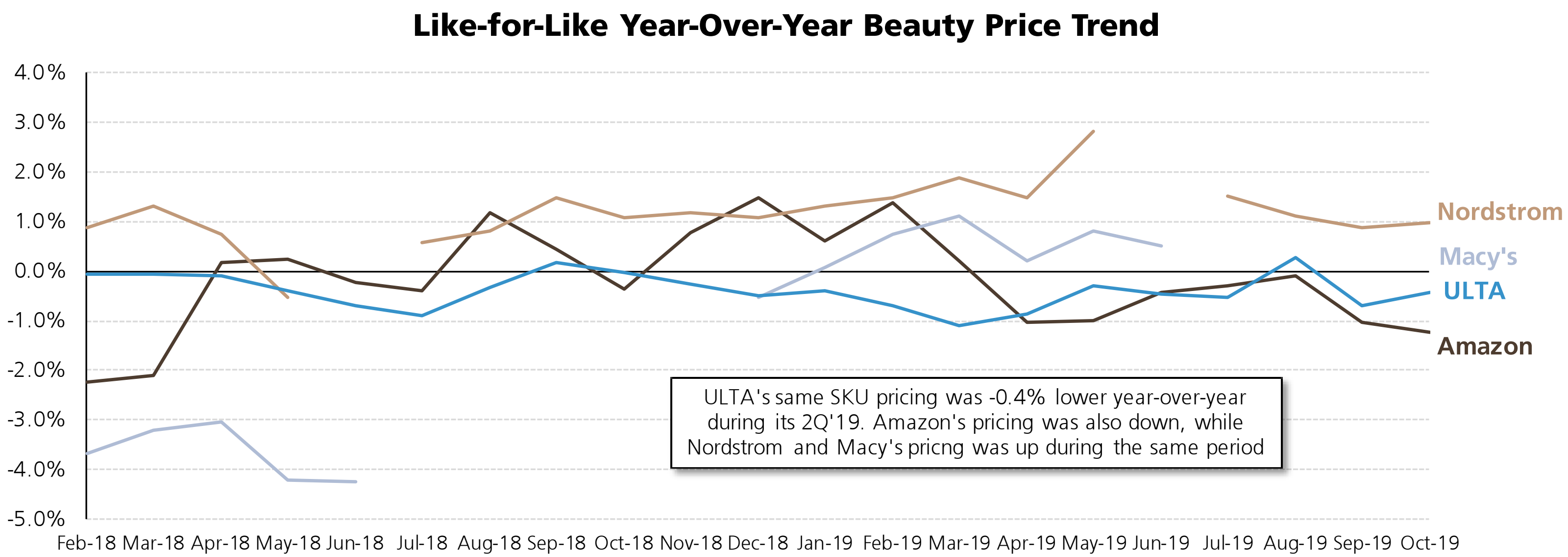
ULTA's like-for-like SKU pricing was lower than last year

- UBS Evidence Lab price intelligence harvested beauty product offerings from nearly 30 retailer websites across 7 countries since October 2015. The database now totals over 33 million records. One use for the database is to determine trends in year-over-year pricing.
- During the months of ULTA's 3Q'19, its pricing on like-for-like products was -0.3% lower year-over-year. In particular, its pricing was up 0.3% in August, down -0.7% in September, and down -0.4% in October.
- For comparison, like-for-like beauty pricing during the same period was up 1.0% at Nordstrom and down -0.8% at Amazon.



Source: UBS Evidence Lab

Section 3

Monitoring the Pricing Environment – Beauty Retail Pricing & Availability

What is the product overlap with ULTA?

- In order to asses product overlap between ULTA and other beauty retailers, we reviewed the top 25 best-selling products on ULTA's website across 7 categories as well as 100 new arrivals as of October 17, 2019. We compared this list of 275 products to the websites of other retailers for availability and pricing.
  - ULTA's overlap with Walmart 1P and Amazon 1P in the Makeup category remains limited. Walmart 1P offered only one makeup product (4%), while Amazon 1P didn't carry any makeup item from ULTA's top 25 in the category.
  - Similarly, Walmart 1P and Amazon 1P have little overlap with ULTA's New Arrivals category. Specifically, Walmart 1P carried only 2, while Amazon 1P carried only 7 out of 100 ULTA's New Arrivals.
  - At the same time, Sephora has limited overlap with ULTA in the Nails and New Arrivals categories. Specifically, none of ULTA's top 25 products in the Nails category was available at Sephora, while it offered only 3 of ULTA's 100 newest items.

ULTA Top-Selling Products Available at Key Beauty Retailers by Category (October 17 survey)

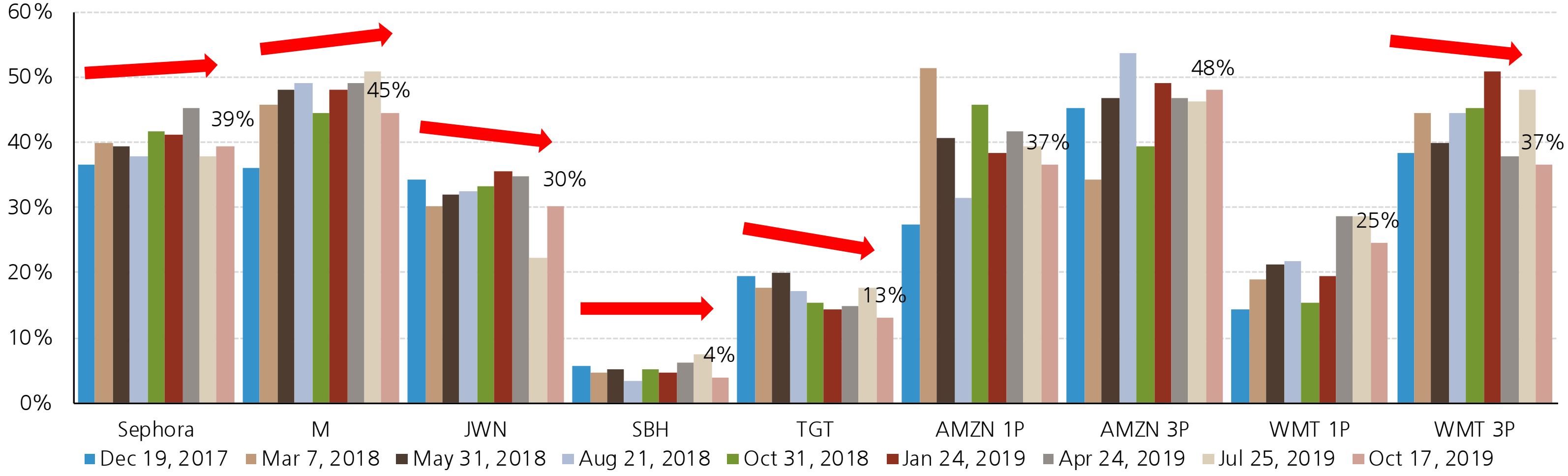
	Sephora	M	JWN	SBH	TGT	AMZN 1P	AMZN 3P	WMT 1P	WMT 3P
Makeup	72%	76%	52%	0%	0%	0%	96%	4%	40%
Nails	0%	12%	0%	24%	32%	28%	40%	32%	28%
Skincare	40%	40%	32%	0%	0%	36%	40%	12%	28%
Haircare	20%	28%	16%	0%	28%	56%	28%	56%	16%
Fragrance	76%	80%	64%	0%	0%	48%	48%	20%	56%
Bath and Body	16%	24%	16%	0%	20%	32%	48%	28%	24%
Men	52%	52%	32%	4%	12%	56%	36%	20%	64%
New Arrivals	3%	18%	2%	0%	11%	7%	8%	2%	3%

Source: Company reports, UBS

What is the historical product overlap with ULTA?

- Over the ten survey iterations, Sephora has consistently carried about 40% of ULTA's top 175 products, including 39% in the latest edition. Although ULTA and Sephora compete in the specialty channel, these results may indicate there's enough space for both retailers.
- Further, Macy's carried 45% and Nordstrom offered 30% of ULTA's best selling items as of October 17, 2019. These are generally in line with retailers' averages over the past ten surveys (46% for Macy's and 31% for Nordstrom).
- ULTA's top products offering at Amazon 1P has been volatile through the history of our survey. In the latest edition, Amazon carried 37% of ULTA's top 175 products, compared to 39% in July 2019 and 36% in September 2017. Separately, Walmart offered 25% of ULTA's top products, down from 29% in July 2019, but up from 17% in our first iteration of the survey.

ULTA Top-Selling Products Available at Other Key Beauty Retailers



Source: Company reports, UBS

What is the historical makeup overlap with ULTA?

- ULTA's top 25 makeup products availability at Amazon 1P and Walmart 1P has been limited throughout the history of our survey. This category represents over 50% of ULTA's annual sales.
  - On average, only 4% have been carried by Walmart 1P and Amazon 1P. We think this underlines ULTA's product mix differentiation from the mass channel which insulates it from competition.
  - Availability through 3P sellers on AMZN & WMT is high, but prices are usually more expensive. That said, in our latest survey, pricing at both AMZN 3P & WMT 3P was more competitive. Specifically, AMZN 3P prices were generally on par with ULTA, while WMT 3P prices were 2% more expensive than ULTA's.
- ULTA's top 25 makeup products overlap with Sephora, Macy's and Nordstrom is higher compared to our first survey and has increased recently.
  - In our latest survey, Macy's carried 76% of ULTA's top makeup items (vs. 72% in July 2019), Sephora carried 72% (vs. 68% in July 2019), and Nordstrom carried 52% (vs. 40% in July 2019).
  - Since our last survey, Sephora and Macy's product overlap has increased 400 bps each, while Nordstrom has increased 1,200 bps. While this may indicate that ULTA's offering in makeup category has become less of an advantage, it is important to note that these numbers tend to fluctuate.

ULTA Top-Selling Makeup Items Available at Key Beauty Retailers

Makeup	Sephora	M	JWN	SBH	TGT	AMZN 1P	AMZN 3P	WMT 1P	WMT 3P
Sep 20, 2017	56%	44%	40%	0%	0%	12%	72%	8%	32%
Dec 19, 2017	52%	48%	44%	0%	0%	0%	88%	0%	48%
Mar 7, 2018	60%	60%	44%	0%	4%	0%	96%	0%	72%
May 31, 2018	68%	68%	56%	0%	0%	8%	84%	0%	68%
Aug 21, 2018	68%	76%	64%	0%	4%	4%	84%	8%	56%
Oct 31, 2018	64%	56%	44%	0%	4%	4%	96%	4%	44%
Jan 24, 2019	60%	48%	52%	0%	0%	0%	84%	4%	52%
Apr 24, 2019	64%	80%	56%	0%	0%	12%	80%	8%	52%
Jul 25, 2019	68%	72%	40%	0%	0%	4%	88%	4%	68%
Oct 17, 2019	72%	76%	52%	0%	0%	0%	96%	4%	40%
Average	**63%**	**63%**	**49%**	**0%**	**1%**	**4%**	**87%**	**4%**	**53%**

Source: Company reports, UBS

What is the historical new products overlap with ULTA?

- We also looked at 100 new products on ULTA's website to see if they were available at other beauty retailers. This serves as an indication of the exclusiveness of the SKUs ULTA is adding to its website.
- There's limited availability of ULTA's new products at other retailers. This demonstrates that ULTA's is well positioned among those looking for new products.
  - For example, Sephora carried only 3 of ULTA's 100 newest products online as of October 17, 2019, while Nordstrom offered only 2 of ULTA's 100 new arrivals. At the same time, Macy's offered 18 of ULTA's 100 newest products.
- ULTA's new products availability at Amazon 3P and Walmart 3P is below historical levels. Specifically, AMZN 3P carried only 8, while WMT 3P offered only 3 of ULTA's 100 new arrivals.
- While product availability of ULTA's 100 new arrivals at Target increased compared to last two surveys, it remains limited. In particular, Target carried 11 of ULTA's 100 new products as of October 17, 2019. This compares to 3 products in July 25, 2019 and 7 items in April 24, 2019.

ULTA New Arrivals Products Available at Key Beauty Retailers

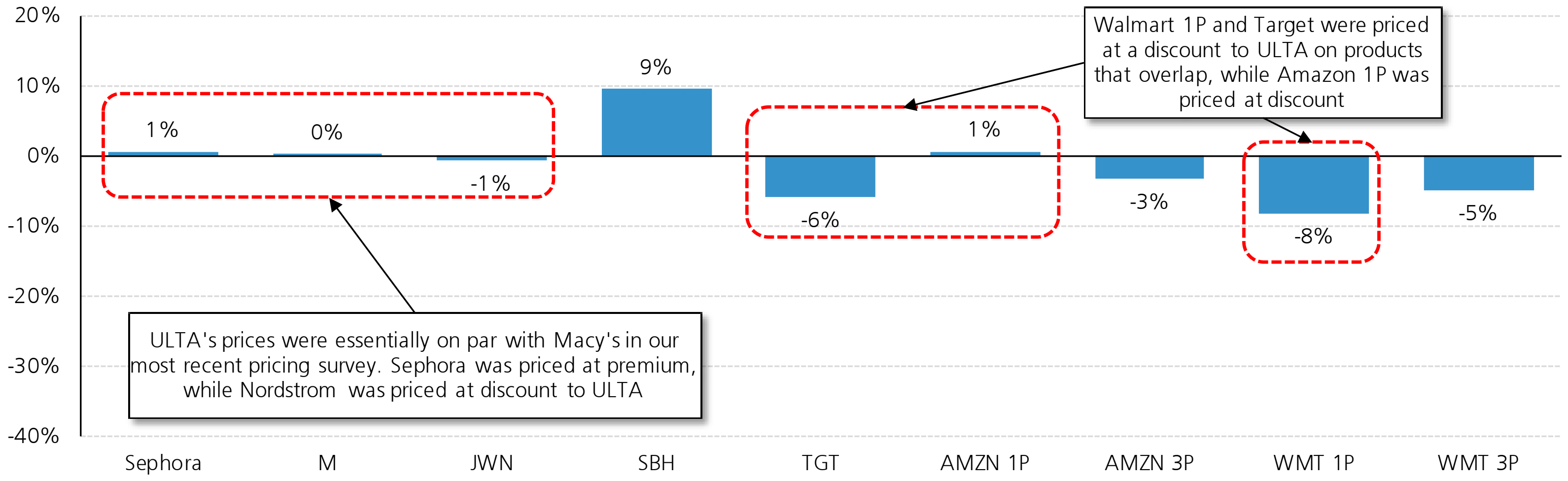
New Arrivals	Sephora	M	JWN	SBH	TGT	AMZN 1P	AMZN 3P	WMT 1P	WMT 3P
Sep 20, 2017	16%	20%	14%	0%	0%	10%	30%	6%	10%
Dec 19, 2017	23%	25%	15%	3%	6%	12%	17%	4%	5%
Mar 7, 2018	19%	7%	13%	1%	2%	4%	21%	2%	10%
May 31, 2018	9%	10%	11%	5%	11%	18%	20%	13%	9%
Aug 21, 2018	28%	5%	8%	0%	15%	13%	32%	5%	10%
Oct 31, 2018	4%	2%	4%	0%	10%	5%	20%	12%	5%
Jan 24, 2019	1%	3%	2%	2%	23%	2%	24%	11%	12%
Apr 24, 2019	13%	9%	6%	2%	7%	8%	19%	4%	9%
Jul 25, 2019	19%	12%	20%	0%	3%	9%	27%	3%	19%
Oct 17, 2019	3%	18%	2%	0%	11%	7%	8%	2%	3%
Average	**14%**	**11%**	**10%**	**1%**	**9%**	**9%**	**22%**	**6%**	**9%**

Source: Company reports, UBS

What is the price difference with ULTA?

- We compared the prices for 175 of ULTA's top products to other retailers.
- The pricing environment within the specialty beauty and department store channel remains rational.
  - Interestingly, ULTA's prices were essentially on par with Macy's, modestly more expensive than Sephora and moderately cheaper than Nordstrom. Specifically, for products that were carried by the other retailers, Macy's prices were 0.2% more expensive than ULTA's, Sephora's prices were 0.5% more expensive than ULTA's, while Nordstrom's prices were -0.7% cheaper than ULTA's.
- At the same time, Walmart 1P and Target's prices were cheaper than ULTA on like-for-like products, while Amazon 1P prices were slightly higher than ULTA's. Though, these retailers offers mainly mass beauty products.
  - Specifically, Walmart 1P's prices were -8% lower than ULTA's, Target's prices were -6% cheaper than ULTA's, while Amazon 1P's prices were 1% more expensive than ULTA's.

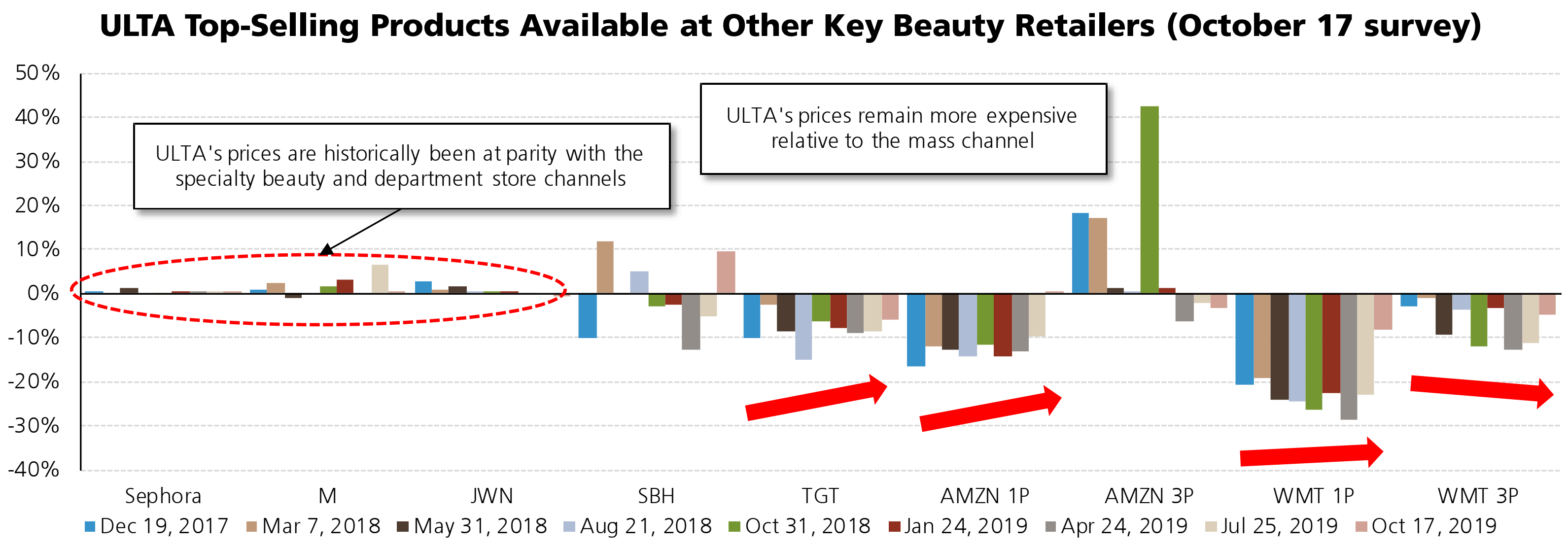
ULTA Top-Selling Products Prices Relative to Key Beauty Retailers (October 17 survey)



Source: Company reports, UBS

What has the price difference been with ULTA over time?

- ULTA's prices have been largely in-line with the specialty beauty channel and the department stores across history of our survey.
- Further, its price differential with the mass channel (TGT and WMT) has been fairly stable over the past couple of surveys.
- Overall, we believe that ULTA's depth of assortment is its key competitive advantage compared to mass merchants and puts it in the superior position in beauty category.



Source: Company reports, UBS

Section 4

Monitoring the Store Landscape – UBS Evidence Lab Store Overlap

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ULTA Store Overlap

- ULTA frequently competes with Sally Beauty. 92% of ULTA's stores compete with a Sally beauty store at a 10 minute drive time. The overlap rises to 98% of when considering a 15 minute drive time.

- ULTA commonly overlaps with both Sephora freestanding and "store-within-a-store" locations. At a 15 minute drive time, 44% of ULTA stores competes with a Sephora store. At the same drive time, 66% of ULTA stores face competition from a Sephora Store Within a Store (in a JC Penney).

- ULTA's most frequent direct competitor at a 5 minute drive is CVS. 85% of ULTA's stores are located in this drive time of a CVS store.

- Relative to the Department Stores, 56% of ULTA stores compete with a Macy's and 21% of ULTA stores compete with a Nordstrom within a 15 minute drive time.

ULTA Store Overlap Matrix

Ulta Beauty	5 Minutes	10 Minutes	15 Minutes	30 Minutes
CVS	85%	96%	97%	98%
Target	68%	87%	91%	95%
Walgreens	67%	95%	98%	99%
Sally Beauty Supply	65%	92%	98%	100%
Bath Body Works	62%	82%	92%	98%
Bare Escentuals SWAS	57%	70%	81%	91%
Lancome SWAS	56%	77%	91%	98%
Urban Decay Cosmetics SWAS	55%	65%	76%	88%
Kohl's	47%	70%	85%	94%
Aveda SWAS	40%	68%	82%	94%
JCPenney	35%	51%	71%	92%
MAC Cosmetics SWAS	35%	48%	64%	81%
Sephora SWAS	33%	47%	66%	89%
Macy's	25%	39%	56%	76%
Kerastase SWAS	19%	40%	54%	74%
Merle Norman Cosmetics	18%	35%	49%	79%
Sephora	16%	28%	44%	69%
Kiehls SWAS	14%	26%	42%	68%
LUSH	8%	15%	29%	56%
Aveda	7%	14%	25%	49%
MAC Cosmetics	6%	13%	24%	48%
LOCCITANE	6%	13%	23%	50%
Bare Escentuals	5%	11%	20%	43%
Nordstrom	5%	11%	21%	44%
LOCCITANE SWAS	5%	11%	23%	46%
Saks Off Fifth	4%	9%	18%	44%
The Body Shop	4%	9%	18%	40%
Armstrong McCall	3%	11%	14%	15%
Bluemercury	3%	8%	16%	38%
Perfumania	3%	7%	13%	35%
Louis Vuitton International	2%	5%	11%	32%
Kiehls	2%	6%	13%	30%
Bloomingdale's	2%	4%	8%	21%
Saks Fifth Avenue	1%	2%	6%	19%
Louis Vuitton International SWAS	1%	3%	6%	18%
Barneys New York	0%	1%	2%	7%
Urban Decay Cosmetics	0%	0%	1%	3%
Bergdorf Goodman	0%	0%	0%	0%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Sephora Store Overlap

- Sephora's stores are located in close proximity to ULTA. At a 10 minute drive time, 76% of Sephora's stores face competition from a ULTA store. This number rises to 93% when considering a 15 min drive time.
- Sephora's exposure to Sally Beauty is elevated. 81% of Sephora's stores compete with Sally Beauty at a 10 minute drive time. The overlap rises to 93% when considering a 15 minute drive time.
- Relative to the Department Stores, 86% of Sephora's stores compete with a Macy's and 47% of Sephora's stores compete with a Nordstrom within a 15 minute drive time.

Sephora Store Overlap Matrix

Sephora	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Bare Escentuals SWAS	88%	94%	98%	100%
Lancome SWAS	86%	94%	98%	100%
CVS	85%	99%	100%	100%
Urban Decay Cosmetics SWAS	79%	90%	95%	100%
Bath Body Works	73%	88%	97%	100%
MAC Cosmetics SWAS	68%	82%	91%	97%
Aveda SWAS	68%	88%	95%	100%
Walgreens	61%	97%	100%	100%
Macy's	61%	77%	86%	95%
Kiehls SWAS	60%	69%	78%	91%
Kerastase SWAS	56%	77%	88%	96%
Target	54%	90%	97%	99%
Ulta Beauty	48%	76%	93%	100%
LUSH	45%	56%	67%	85%
LOCCITANE	40%	49%	58%	79%
Sally Beauty Supply	37%	81%	93%	100%
MAC Cosmetics	37%	45%	55%	77%
JCPenney	35%	51%	66%	94%
Sephora SWAS	35%	51%	65%	93%
Aveda	31%	39%	51%	73%
Nordstrom	30%	38%	47%	72%
LOCCITANE SWAS	29%	39%	51%	75%
The Body Shop	25%	33%	44%	65%
Bare Escentuals	23%	28%	34%	58%
Kiehls	22%	29%	37%	60%
Kohl's	21%	52%	79%	98%
Bluemercury	19%	33%	45%	67%
Louis Vuitton International	18%	25%	35%	62%
Merle Norman Cosmetics	14%	28%	44%	77%
Louis Vuitton International SWAS	11%	16%	22%	42%
Saks Off Fifth	11%	23%	37%	72%
Bloomingdale's	11%	17%	23%	47%
Saks Fifth Avenue	10%	16%	23%	41%
Barneys New York	4%	7%	9%	21%
Perfumania	4%	9%	19%	52%
Armstrong McCall	2%	10%	12%	12%
Bergdorf Goodman	1%	2%	3%	5%
Urban Decay Cosmetics	1%	1%	2%	7%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Sephora Store Within a JC Penney Store Overlap

- JC Penney continues to struggle in a changing retail environment. It reported a -9.3% comp in 3Q'19, with a -6.6% comp excluding the exit of major appliance and in-store furniture categories.

- Sephora stores within a store have an elevated exposure to ULTA. At a 10 minute drive time, 78% of Sephora stores within a store competes with an ULTA store. This number rises to 88% when considering a 15 min drive time.

- Relative to the Department Stores, 56% of Sephora stores within a store compete with a Macy's and 14% of Sephora stores within a store compete with a Nordstrom within a 15 minute drive time.

- Sephora stores face direct competition from Sally Beauty. 96% of Sephora stores within a store compete with Sally Beauty at a 10 minute drive time. The overlap rises to 99% when considering a 15 minute drive time.

Sephora SWAS Store Overlap Matrix

Sephora SWAS	5 Minutes	10 Minutes	15 Minutes	30 Minutes
JCPenney	98%	100%	100%	100%
Bath Body Works	88%	94%	96%	98%
Lancome SWAS	85%	90%	94%	98%
CVS	80%	97%	97%	98%
Bare Escentuals SWAS	71%	79%	84%	91%
Urban Decay Cosmetics SWAS	69%	74%	78%	85%
Sally Beauty Supply	66%	96%	99%	100%
Target	64%	89%	93%	95%
Walgreens	61%	95%	98%	98%
Ulta Beauty	59%	79%	89%	94%
MAC Cosmetics SWAS	50%	55%	64%	77%
Macy's	46%	49%	56%	69%
Kohl's	43%	72%	87%	94%
Aveda SWAS	39%	70%	82%	92%
Merle Norman Cosmetics	23%	41%	53%	77%
Sephora	21%	28%	36%	59%
Kiehls SWAS	21%	26%	36%	60%
Kerastase SWAS	13%	32%	43%	66%
LUSH	12%	15%	22%	45%
Bare Escentuals	10%	12%	17%	35%
Aveda	9%	12%	19%	40%
MAC Cosmetics	8%	11%	16%	40%
The Body Shop	7%	9%	14%	31%
LOCCITANE SWAS	7%	9%	14%	35%
Nordstrom	6%	8%	13%	33%
LOCCITANE	6%	9%	16%	40%
Armstrong McCall	5%	15%	18%	19%
Perfumania	5%	7%	12%	28%
Saks Off Fifth	3%	5%	12%	33%
Kiehls	2%	3%	6%	22%
Bloomingdale's	2%	2%	4%	12%
Louis Vuitton International	1%	2%	5%	23%
Louis Vuitton International SWAS	1%	2%	3%	12%
Saks Fifth Avenue	1%	2%	3%	13%
Bluemercury	1%	4%	9%	29%
Urban Decay Cosmetics	0%	1%	1%	2%
Barneys New York	0%	0%	1%	4%
Bergdorf Goodman	0%	0%	0%	0%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Barneys New York Store Overlap

- The challenges at Barneys serve as another reminder of how retailers like ULTA are gaining share at the expense of others.
- Barneys New York has recently filled for bankruptcy and is expected to close most of its 19 locations. As such we leveraged UBS Evidence Lab data to identify those with elevated level of store overlap.
- Barneys New York stores have an elevated exposure to Sephora. At a 5 minute drive time, 64% of Barneys' stores compete with a Sephora store. This number rises to 77% when considering a 15 min drive time.
- Barneys faces relatively modest levels of competition from ULTA at a 5 minute drive time as only 18% of its stores are close to an ULTA at this drive time. Though, it increases to 68% at a 10 minute drive time, and 86% at a 15 minute drive time.
- Relative to the Department Stores, 41% of Barneys' stores compete with a Macy's and 32% of Barneys' stores compete with a Nordstrom within a 5 minute drive time.

Barneys New York Store Overlap Matrix

Nodstrom	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Bare Escentuals SWAS	73%	82%	95%	100%
LOCCITANE	73%	77%	82%	95%
CVS	68%	95%	95%	100%
Lancome SWAS	68%	77%	91%	100%
Aveda SWAS	68%	77%	86%	95%
Sephora	64%	64%	77%	95%
Kiehls SWAS	59%	59%	73%	86%
MAC Cosmetics SWAS	55%	68%	82%	95%
Kerastase SWAS	55%	64%	77%	95%
MAC Cosmetics	55%	55%	73%	86%
Bath Body Works	50%	82%	95%	100%
Saks Off Fifth	45%	73%	82%	95%
LUSH	45%	50%	59%	86%
Walgreens	41%	86%	95%	100%
Urban Decay Cosmetics SWAS	41%	68%	91%	100%
Kiehls	41%	55%	59%	77%
Bloomingdale's	41%	55%	59%	68%
The Body Shop	41%	45%	59%	77%
Nordstrom	41%	41%	55%	82%
Louis Vuitton International SWAS	36%	41%	45%	59%
Aveda	36%	36%	59%	77%
Target	32%	86%	91%	100%
Macy's	32%	59%	73%	100%
LOCCITANE SWAS	32%	45%	68%	82%
Louis Vuitton International	32%	41%	45%	64%
Perfumania	32%	36%	41%	68%
Bare Escentuals	32%	32%	36%	55%
Saks Fifth Avenue	27%	27%	45%	55%
Bluemercury	23%	45%	55%	82%
Ulta Beauty	18%	68%	86%	100%
Sally Beauty Supply	18%	68%	91%	100%
JCPenney	5%	18%	41%	86%
Sephora SWAS	5%	18%	41%	86%
Kohl's	5%	9%	45%	95%
Bergdorf Goodman	5%	5%	9%	14%
Merle Norman Cosmetics	0%	0%	18%	64%
Armstrong McCall	0%	0%	0%	0%
Urban Decay Cosmetics	0%	0%	0%	0%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Sephora Store Within a Store Overlap

- Sephora stores within a store face direct competition from ULTA. At a 10 minute drive time, 79% of Sephora stores within a store competes with an ULTA store. This number rises to 89% when considering a 15 min drive time.
- Sephora stores within a store frequently overlaps with Sally Beauty. 96% of Sephora stores within a store compete with Sally Beauty at a 10 minute drive time. The overlap rises to 99% when considering a 15 minute drive time.
- Relative to the Department Stores, 56% of Sephora stores within a store compete with a Macy's and 13% of Sephora stores within a store compete with a Nordstrom within a 15 minute drive time.

Sephora SWAS Store Overlap Matrix

Sephora SWAS	5 Minutes	10 Minutes	15 Minutes	30 Minutes
JCPenney	98%	100%	100%	100%
Bath Body Works	88%	94%	96%	98%
Lancome SWAS	85%	90%	94%	98%
CVS	80%	97%	97%	98%
Bare Escentuals SWAS	71%	79%	84%	91%
Urban Decay Cosmetics SWAS	69%	74%	78%	85%
Sally Beauty Supply	66%	96%	99%	100%
Target	64%	89%	93%	95%
Walgreens	61%	95%	98%	98%
Ulta Beauty	59%	79%	89%	94%
MAC Cosmetics SWAS	50%	55%	64%	77%
Macy's	46%	49%	56%	69%
Kohl's	43%	72%	87%	94%
Aveda SWAS	39%	70%	82%	92%
Merle Norman Cosmetics	23%	41%	53%	77%
Sephora	21%	28%	36%	59%
Kiehls SWAS	21%	26%	36%	60%
Kerastase SWAS	13%	32%	43%	66%
LUSH	12%	15%	22%	45%
Bare Escentuals	10%	12%	17%	35%
Aveda	9%	12%	19%	40%
MAC Cosmetics	8%	11%	16%	40%
The Body Shop	7%	9%	14%	31%
LOCCITANE SWAS	7%	9%	14%	35%
Nordstrom	6%	8%	13%	33%
LOCCITANE	6%	9%	16%	40%
Armstrong McCall	5%	15%	18%	19%
Perfumania	5%	7%	12%	28%
Saks Off Fifth	3%	5%	12%	33%
Kiehls	2%	3%	6%	22%
Bloomingdale's	2%	2%	4%	12%
Louis Vuitton International	1%	2%	5%	23%
Louis Vuitton International SWAS	1%	2%	3%	12%
Saks Fifth Avenue	1%	2%	3%	13%
Bluemercury	1%	4%	9%	29%
Urban Decay Cosmetics	0%	1%	1%	2%
Barneys New York	0%	0%	1%	4%
Bergdorf Goodman	0%	0%	0%	0%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Sally Beauty Store Overlap

- Sally Beauty's degree of competitive incidence with Ulta is elevated. At a 10 minute drive time, 55% of Sally Beauty stores face competition from a ULTA store. This number rises to 74% when considering a 15 min drive time.
- Sally Beauty's overlap with Sephora is somewhat limited. 18% of Sally Beauty stores compete with Sephora at a 10 minute drive time. The overlap rises to 35% when considering a 15 minute drive time.
- Relative to the Department Stores, 47% of Sally Beauty stores compete with a Macy's and 14% of Sally Beauty stores compete with a Nordstrom within a 15 minute drive time.

Sally Beauty Store Overlap Matrix

Sally Beauty Supply	5 Minutes	10 Minutes	15 Minutes	30 Minutes
CVS	76%	91%	93%	96%
Walgreens	74%	94%	96%	98%
Target	42%	68%	78%	87%
Lancome SWAS	35%	64%	84%	94%
Bath Body Works	35%	63%	80%	92%
Ulta Beauty	30%	55%	74%	87%
Kohl's	29%	53%	71%	87%
Bare Escentuals SWAS	26%	53%	70%	86%
Aveda SWAS	25%	58%	74%	88%
JCPenney	22%	42%	64%	87%
Urban Decay Cosmetics SWAS	21%	43%	62%	79%
Sephora SWAS	18%	37%	58%	82%
Merle Norman Cosmetics	16%	32%	48%	77%
MAC Cosmetics SWAS	14%	33%	53%	74%
Macy's	11%	29%	47%	68%
Kerastase SWAS	11%	28%	44%	66%
Sephora	6%	18%	35%	61%
Kiehls SWAS	6%	18%	34%	60%
Armstrong McCall	4%	10%	14%	17%
LUSH	3%	10%	21%	48%
Aveda	3%	9%	18%	43%
Bare Escentuals	2%	6%	15%	37%
MAC Cosmetics	2%	8%	18%	42%
LOCCITANE	2%	8%	17%	42%
Perfumania	2%	6%	12%	31%
LOCCITANE SWAS	2%	7%	16%	38%
Nordstrom	1%	6%	14%	37%
The Body Shop	1%	6%	13%	33%
Saks Off Fifth	1%	6%	13%	36%
Bluemercury	1%	5%	11%	32%
Kiehls	1%	3%	8%	25%
Bloomingdale's	1%	2%	5%	16%
Louis Vuitton International	1%	3%	8%	27%
Louis Vuitton International SWAS	0%	2%	5%	15%
Saks Fifth Avenue	0%	2%	5%	17%
Urban Decay Cosmetics	0%	0%	1%	3%
Barneys New York	0%	0%	1%	5%
Bergdorf Goodman	0%	0%	0%	0%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Bath & Body Works Store Overlap

- As a reminder, Bath & Body Works is owned by L Brands.
- Bath & Body Works has relatively limited overlap with some of the single-brand beauty retailers.
  - For example, only 16% of Bath & Body Works stores have a The Body Shop within a 15 minute drive.
- Compared to the multi-brand stores, the overlap with Bath & Body Works is higher.
  - For instance, 69% of Bath & Body Work stores overlap with an ULTA and 27% overlap with a Sephora standalone store within a 10 minute drive time.

Bath & Body Works Store Overlap Matrix

Bath Body Works	5 Minutes	10 Minutes	15 Minutes	30 Minutes
CVS	73%	93%	95%	97%
Lancome SWAS	68%	80%	90%	97%
Walgreens	62%	92%	96%	98%
Sally Beauty Supply	57%	88%	95%	98%
Target	53%	80%	85%	91%
Bare Escentuals SWAS	50%	65%	77%	88%
Ulta Beauty	49%	69%	81%	90%
Urban Decay Cosmetics SWAS	46%	57%	69%	81%
JCPenney	44%	55%	70%	89%
Sephora SWAS	38%	49%	64%	83%
Aveda SWAS	37%	66%	80%	91%
MAC Cosmetics SWAS	36%	45%	59%	75%
Kohl's	36%	63%	80%	90%
Macy's	32%	40%	53%	70%
Sephora	20%	27%	40%	63%
Merle Norman Cosmetics	18%	35%	49%	77%
Kerastase SWAS	18%	34%	48%	68%
Kiehls SWAS	18%	26%	38%	62%
LUSH	11%	16%	26%	51%
MAC Cosmetics	9%	13%	21%	44%
Bare Escentuals	8%	12%	19%	41%
Aveda	8%	13%	22%	45%
LOCCITANE	8%	12%	21%	47%
LOCCITANE SWAS	8%	11%	20%	43%
Nordstrom	7%	10%	17%	41%
The Body Shop	6%	9%	16%	37%
Perfumania	6%	9%	14%	33%
Saks Off Fifth	5%	10%	17%	41%
Armstrong McCall	3%	11%	13%	15%
Kiehls	3%	5%	10%	28%
Louis Vuitton International	3%	5%	9%	30%
Bloomingdale's	3%	4%	7%	19%
Bluemercury	2%	7%	14%	35%
Louis Vuitton International SWAS	2%	3%	6%	18%
Saks Fifth Avenue	1%	3%	6%	19%
Barneys New York	0%	1%	1%	6%
Urban Decay Cosmetics	0%	1%	1%	3%
Bergdorf Goodman	0%	0%	0%	1%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

MAC Cosmetics Store Overlap

- As a reminder, MAC Cosmetics is owned by Estee Lauder.
- MAC operates both freestanding stores and "store-within-a-store" locations. This analysis is for its freestanding stores.
- Freestanding MAC stores have an elevated exposure to other beauty retailers. This is likely due to their store footprint that is concentrated in Urban or Mall locations.
- Estee Lauder believes its standalone stores are integral to the omnichannel experience. Further, it's using new store formats to enhance its retail capabilities.

MAC Cosmetics Store Overlap Matrix

MAC Cosmetics	5 Minutes	10 Minutes	15 Minutes	30 Minutes
CVS	79%	96%	99%	100%
Bare Escentuals SWAS	78%	86%	96%	100%
Lancome SWAS	78%	90%	95%	100%
Sephora	73%	82%	88%	97%
Urban Decay Cosmetics SWAS	71%	81%	92%	99%
Bath Body Works	69%	83%	97%	100%
Aveda SWAS	66%	82%	91%	99%
MAC Cosmetics SWAS	66%	79%	90%	99%
Walgreens	60%	93%	99%	100%
Kiehls SWAS	57%	67%	78%	96%
Kerastase SWAS	57%	76%	89%	98%
Macy's	57%	76%	86%	97%
LUSH	55%	60%	69%	92%
LOCCITANE	52%	59%	71%	89%
Target	46%	85%	97%	100%
LOCCITANE SWAS	42%	53%	63%	84%
Nordstrom	40%	45%	53%	81%
Ulta Beauty	40%	68%	89%	100%
Aveda	37%	44%	57%	81%
The Body Shop	34%	43%	55%	79%
Kiehls	33%	41%	47%	71%
JCPenney	27%	44%	65%	97%
Sally Beauty Supply	27%	70%	91%	100%
Sephora SWAS	27%	44%	63%	97%
Louis Vuitton International	25%	31%	44%	72%
Bare Escentuals	20%	23%	28%	53%
Bluemercury	18%	31%	49%	76%
Bloomingdale's	16%	23%	30%	57%
Kohl's	16%	45%	69%	97%
Louis Vuitton International SWAS	15%	20%	29%	51%
Saks Fifth Avenue	13%	18%	28%	48%
Saks Off Fifth	13%	29%	45%	79%
Perfumania	6%	11%	23%	60%
Barneys New York	4%	10%	13%	25%
Merle Norman Cosmetics	4%	15%	35%	72%
Armstrong McCall	3%	8%	13%	14%
Urban Decay Cosmetics	2%	3%	4%	11%
Bergdorf Goodman	2%	3%	4%	8%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

MAC Cosmetics Store Within A Store Overlap

- This analysis is for MAC Cosmetics' "store-within-a-store" locations.
- MAC stores within a store concepts frequently compete with other beauty retailers. This is likely due to its largely urban footprint.
- For instance, MAC stores within a store has 96% store overlap with Sally Beauty, and 96% overlap with ULTA within a 15 minute drive time.

MAC Cosmetics SWAS Store Overlap Matrix

MAC Cosmetics SWAS	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Lancome SWAS	90%	95%	98%	100%
Bath Body Works	85%	93%	98%	100%
CVS	82%	98%	99%	100%
Bare Escentuals SWAS	79%	86%	92%	97%
Urban Decay Cosmetics SWAS	73%	80%	88%	95%
Macy's	70%	76%	81%	88%
Walgreens	64%	97%	99%	100%
Ulta Beauty	63%	85%	95%	99%
Target	59%	91%	96%	98%
Aveda SWAS	55%	77%	88%	96%
JCPenney	54%	62%	78%	95%
Sephora SWAS	52%	61%	76%	94%
Sally Beauty Supply	51%	89%	96%	100%
Sephora	50%	55%	65%	83%
Kiehls SWAS	48%	55%	63%	82%
Kerastase SWAS	36%	58%	72%	87%
LUSH	34%	40%	48%	70%
LOCCITANE	28%	33%	42%	66%
Kohl's	28%	60%	83%	97%
Nordstrom	26%	30%	36%	58%
LOCCITANE SWAS	26%	31%	38%	61%
MAC Cosmetics	25%	30%	37%	63%
Aveda	24%	29%	39%	61%
Bare Escentuals	19%	23%	28%	50%
The Body Shop	19%	22%	29%	54%
Merle Norman Cosmetics	16%	33%	50%	80%
Kiehls	15%	19%	24%	45%
Louis Vuitton International	15%	18%	24%	48%
Bloomingdale's	11%	13%	18%	34%
Saks Off Fifth	10%	16%	28%	58%
Louis Vuitton International SWAS	9%	11%	15%	29%
Saks Fifth Avenue	7%	10%	14%	28%
Perfumania	7%	10%	16%	44%
Bluemercury	6%	18%	30%	54%
Armstrong McCall	4%	14%	16%	18%
Barneys New York	2%	3%	4%	12%
Urban Decay Cosmetics	1%	2%	3%	5%
Bergdorf Goodman	0%	1%	1%	2%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

The Body Shop Store Overlap

- As a reminder, The Body Shop is owned by Natura & Co.
- With respect to single-brand stores, The Body Shop commonly overlaps with Bath & Body Works. 83% of The Body Shop stores face competition from a Bath & Body Works store within a 5 minute drive.
- Also, Sephora's degree of competitive incidence with The Body Shop at a 5 minute drive time is significant. Further, Ulta is a direct competitor at a 15 minute drive time.
- Other key competitors such as Kiehl's have much lower overlap with The Body Shop. 37% of The Body Shop stores face competition from a Kiehl's standalone store at a 10 minute drive time.

The Body Shop Store Overlap Matrix

The Body Shop	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Bare Escentuals SWAS	90%	93%	97%	100%
Lancome SWAS	89%	94%	99%	100%
MAC Cosmetics SWAS	84%	89%	95%	100%
Bath Body Works	83%	92%	99%	100%
Urban Decay Cosmetics SWAS	81%	89%	96%	100%
Macy's	78%	83%	92%	96%
Sephora	78%	83%	88%	96%
CVS	72%	96%	99%	100%
Kiehls SWAS	69%	73%	79%	94%
Aveda SWAS	66%	85%	95%	100%
LUSH	64%	70%	76%	93%
MAC Cosmetics	56%	63%	71%	85%
Kerastase SWAS	54%	71%	89%	96%
LOCCITANE	54%	59%	64%	84%
Walgreens	54%	97%	100%	100%
Target	52%	91%	98%	100%
Nordstrom	52%	55%	61%	82%
LOCCITANE SWAS	50%	60%	67%	83%
Ulta Beauty	50%	76%	90%	100%
JCPenney	44%	53%	76%	98%
Aveda	43%	49%	59%	83%
Sephora SWAS	43%	55%	75%	98%
Bare Escentuals	35%	39%	46%	62%
Sally Beauty Supply	33%	81%	95%	100%
Kiehls	32%	37%	45%	66%
Louis Vuitton International	24%	27%	37%	65%
Kohl's	19%	56%	83%	99%
Saks Off Fifth	16%	25%	40%	72%
Bloomingdale's	15%	17%	25%	46%
Louis Vuitton International SWAS	11%	12%	18%	40%
Perfumania	9%	12%	20%	48%
Merle Norman Cosmetics	8%	17%	33%	68%
Bluemercury	8%	27%	41%	66%
Saks Fifth Avenue	8%	12%	18%	39%
Barneys New York	5%	6%	7%	18%
Urban Decay Cosmetics	2%	2%	2%	8%
Armstrong McCall	1%	7%	8%	8%
Bergdorf Goodman	1%	1%	3%	5%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Lancome Store Within A Store Overlap

- As a reminder, Lancome is owned by L'Oréal.
- Lancome stores within a store commonly compete with Sally Beauty. At a 10 minute drive time, 82% of Lancome stores within a store face competition from a Sally Beauty store. This number rises to 90% when considering a 15 min drive time.
- Its exposure to Ulta is also elevated. 64% of Lancome stores within a store have an Ulta store within a 10 minute drive. This rises to 77% at a 15 minute drive.
- Lancome stores within a store overlap with Sephora is limited. 39% of Lancome stores within a store compete with a Sephora at a 10 minute drive time. The overlap rises to 47% when considering a 15 minute drive time.

Lancome SWAS Store Overlap Matrix

Lancome SWAS	5 Minutes	10 Minutes	15 Minutes	30 Minutes
CVS	72%	91%	93%	95%
Bath Body Works	67%	78%	85%	91%
Walgreens	62%	91%	94%	96%
Bare Escentuals SWAS	55%	67%	74%	84%
Urban Decay Cosmetics SWAS	51%	61%	69%	80%
Sally Beauty Supply	49%	82%	90%	95%
Target	46%	73%	80%	86%
MAC Cosmetics SWAS	46%	53%	62%	74%
Ulta Beauty	42%	64%	77%	86%
Macy's	41%	49%	57%	67%
Aveda SWAS	41%	65%	75%	87%
JCPenney	41%	52%	65%	84%
Sephora SWAS	38%	48%	61%	80%
Sephora	32%	39%	47%	62%
Kiehls SWAS	30%	38%	45%	62%
Kohl's	26%	52%	70%	85%
Kerastase SWAS	25%	41%	52%	67%
LUSH	21%	26%	33%	51%
Merle Norman Cosmetics	20%	36%	49%	77%
LOCCITANE	16%	21%	28%	46%
LOCCITANE SWAS	16%	20%	27%	44%
MAC Cosmetics	16%	21%	27%	45%
Aveda	16%	20%	28%	46%
Nordstrom	15%	19%	25%	41%
Bare Escentuals	11%	14%	19%	36%
The Body Shop	11%	15%	21%	38%
Kiehls	9%	12%	17%	31%
Louis Vuitton International	9%	11%	16%	34%
Bloomingdale's	7%	9%	12%	23%
Louis Vuitton International SWAS	6%	8%	11%	21%
Saks Off Fifth	5%	11%	19%	41%
Saks Fifth Avenue	5%	7%	10%	22%
Armstrong McCall	5%	13%	16%	19%
Bluemercury	4%	13%	21%	38%
Perfumania	4%	6%	11%	33%
Barneys New York	1%	2%	3%	8%
Urban Decay Cosmetics	1%	1%	2%	4%
Bergdorf Goodman	0%	1%	1%	1%

Source: UBS Evidence Lab

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Kiehl's Store Overlap

- As a reminder, Kiehl's is owned by L'Oréal.
- Kiehl's most frequent competitor is Sephora. At a 10 minute drive time, 99% of Kiehl's stores face competition from a Sephora store.
- At a 10 minute drive time, 59% of Kiehl's stores directly compete with a The Body Shop store. This number rises to 70% when considering a 15 min drive time.
- Kiehl's stores are also located in close proximity to Ulta. 63% of Kiehl's stores compete with Ulta at a 10 minute drive time. The overlap rises to 83% when considering a 15 minute drive time.

Kiehl's Store Overlap Matrix

Kiehl's	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Sephora	93%	99%	99%	99%
Bare Escentuals SWAS	91%	96%	98%	99%
Lancome SWAS	90%	95%	96%	99%
CVS	85%	100%	100%	100%
Urban Decay Cosmetics SWAS	82%	93%	94%	99%
LOCCITANE	82%	88%	91%	98%
Kiehls SWAS	82%	88%	90%	98%
MAC Cosmetics SWAS	78%	93%	94%	98%
LUSH	74%	84%	90%	98%
Kerastase SWAS	74%	90%	95%	99%
MAC Cosmetics	74%	82%	90%	98%
Macy's	71%	84%	93%	99%
Aveda SWAS	67%	90%	94%	99%
Nordstrom	65%	72%	79%	94%
Walgreens	62%	99%	99%	99%
Bath Body Works	60%	85%	94%	99%
LOCCITANE SWAS	57%	73%	85%	96%
Aveda	56%	67%	76%	89%
Target	49%	89%	98%	99%
The Body Shop	43%	59%	70%	89%
Louis Vuitton International	40%	52%	65%	82%
Bloomingdale's	35%	45%	52%	71%
Bare Escentuals	29%	30%	38%	60%
Bluemercury	29%	51%	67%	85%
Ulta Beauty	28%	63%	83%	99%
Louis Vuitton International SWAS	27%	34%	44%	62%
Saks Off Fifth	21%	41%	60%	90%
Sephora SWAS	18%	30%	50%	91%
JCPenney	18%	29%	49%	93%
Sally Beauty Supply	16%	67%	89%	99%
Saks Fifth Avenue	15%	23%	37%	56%
Barneys New York	6%	17%	20%	38%
Kohl's	6%	28%	59%	98%
Merle Norman Cosmetics	4%	15%	29%	66%
Perfumania	2%	7%	17%	54%
Urban Decay Cosmetics	2%	5%	7%	15%
Bergdorf Goodman	0%	5%	7%	11%
Armstrong McCall	0%	6%	6%	7%

Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Beauty Retail Cannibalization

- ULTA's store cannibalization is relatively low despite having more than 1,200 stores.
  - Less than 1% of ULTA's stores overlap with another ULTA store in a 5 minute drive time.
  - 14% of ULTA's stores compete with another ULTA store in a 10 minute drive time.
  - 46% of ULTA's stores overlap with another ULTA store in a 15 minute drive time.
  - 78% of ULTA's stores overlap with another ULTA store in a 30 minute drive time.
- For comparison, 28% of Sephora stores and 38% of Sally Beauty stores compete with another store from the same chain at a 10 minute drive time.
- We believe that ULTA has enough room to further expand its square footage without overly cannibalizing its existing locations.

Cannibalization Within Various Drive Times

Cannibalization	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Bergdorf Goodman	100%	100%	100%	100%
Kerastase SWAS	66%	82%	90%	96%
Lancome SWAS	54%	65%	74%	87%
Urban Decay Cosmetics SWAS	50%	65%	78%	91%
Bare Escentuals SWAS	49%	65%	76%	88%
CVS	52%	85%	91%	98%
Walgreens	43%	82%	89%	96%
Kiehls SWAS	40%	56%	72%	86%
MAC Cosmetics SWAS	39%	50%	61%	84%
Louis Vuitton International SWAS	33%	33%	45%	60%
Aveda SWAS	34%	64%	77%	91%
Louis Vuitton International	23%	29%	32%	47%
Bloomingdale's	19%	25%	36%	66%
LOCCITANE SWAS	19%	28%	44%	75%
Bluemercury	17%	34%	50%	80%
MAC Cosmetics	15%	26%	42%	78%
LOCCITANE	8%	22%	37%	73%
Aveda	13%	28%	44%	71%
Sephora	10%	28%	46%	78%
Bath Body Works	9%	31%	55%	79%
Perfumania	8%	13%	20%	49%
Kiehls	7%	21%	30%	67%
Saks Fifth Avenue	5%	5%	5%	26%
Sally Beauty Supply	2%	38%	67%	86%
Target	2%	29%	67%	88%
LUSH	2%	13%	26%	69%
JCPenney	0%	1%	10%	53%
Nordstrom	2%	7%	23%	66%
Macy's	1%	7%	27%	74%
The Body Shop	1%	6%	18%	63%
Merle Norman Cosmetics	1%	6%	17%	57%
Ulta Beauty	0%	14%	46%	78%
Sephora SWAS	0%	1%	14%	61%
Barneys New York	0%	0%	14%	14%
Bare Escentuals	0%	1%	8%	43%
Armstrong McCall	0%	11%	41%	69%
Urban Decay Cosmetics	0%	0%	0%	0%
Saks Off Fifth	0%	0%	6%	40%
Kohl's	0%	6%	38%	77%

Source: UBS Evidence Lab

Section 5

Monitoring the Store Landscape – UBS Evidence Lab Demographics

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Demographics Within a 5 Minute Drive Time

- Within a 5 minute drive time of an ULTA store, there is on average:
  - Median household income of $58.9k
  - Total households of 6.3k
  - Total population of 15.8k
- For comparison, the demographics surrounding a Sephora store are on average:
  - Median household income of $70.3k
  - Total households of 8.4k
  - Total population of 19.7k
- We think this may suggest that ULTA's stores are located in more suburban areas. This gives it room to expand its presence in more urban regions.

Demographics, 5 Minute Drive Time

	Per Capita Income (000) (USD)	Median Household Income (000) (USD)	Total Households (000)	Total Population (000)
Bergdorf Goodman	102.9	130.5	42.3	72.4
Bluemercury	59.9	95.3	11.4	26.2
Louis Vuitton International SWAS	54.8	80.2	14.1	31.8
Kiehls	48.3	76.5	12.9	28.9
Kerastase SWAS	48.0	76.9	12.1	29.0
Bloomingdale's	47.5	80.8	13.1	33.7
Saks Fifth Avenue	46.4	65.5	10.8	25.6
Barneys New York	45.3	81.6	5.4	19.9
Louis Vuitton International	45.3	72.1	10.8	21.8
Kiehls SWAS	44.1	71.4	8.6	20.6
LOCCITANE	43.9	72.8	8.3	20.6
LUSH	42.6	75.2	8.7	20.3
Nordstrom	42.1	71.6	8.3	19.4
Sephora	40.5	70.3	8.4	19.7
Aveda	40.4	64.4	7.5	18.2
The Body Shop	39.6	70.4	7.9	18.1
MAC Cosmetics	39.3	64.8	9.7	23.7
LOCCITANE SWAS	38.8	64.6	9.5	23.0
Bare Escentuals	36.5	65.1	5.8	12.6
Saks Off Fifth	35.3	67.9	6.0	15.2
MAC Cosmetics SWAS	33.8	61.2	6.8	16.9
Target	33.6	62.9	5.0	12.6
Urban Decay Cosmetics SWAS	33.4	61.2	6.7	16.4
Kohl's	33.0	63.4	5.6	14.2
Aveda SWAS	32.9	57.5	7.5	18.2
Bare Escentuals SWAS	32.8	59.7	6.3	15.5
Macy's	32.6	60.5	5.7	13.9
Ulta Beauty	31.6	58.9	6.3	15.8
CVS	30.2	56.9	9.0	23.2
Perfumania	29.9	55.4	4.2	10.1
Bath Body Works	29.6	54.4	4.8	11.9
Lancome SWAS	28.8	52.2	5.3	12.9
Sephora SWAS	28.7	52.5	5.1	12.2
Walgreens	27.8	52.5	10.4	26.5
Armstrong McCall	27.7	50.1	10.1	25.7
Urban Decay Cosmetics	27.5	71.0	10.4	25.7
JCPenney	26.9	49.2	4.3	10.5
Sally Beauty Supply	26.7	51.4	6.5	16.4
Merle Norman Cosmetics	24.8	44.1	4.7	11.7

Source: UBS Evidence Lab

Demographics Within a 10 & 15 Minute Drive Time

Demographics, 10 Minute Drive Time

	Per Capita Income (000) (USD)	Median Household Income (000) (USD)	Total Households (000)	Total Population (000)
Bergdorf Goodman	84.8	107.2	288.1	519.2
Bluemercury	52.7	85.0	57.5	142.8
Louis Vuitton International SWAS	48.3	77.2	82.8	179.5
Bloomingdale's	46.6	79.8	71.1	165.0
Kerastase SWAS	44.0	70.9	59.8	148.3
Kiehls	43.6	72.1	73.4	176.4
Louis Vuitton International	43.6	66.1	61.0	143.8
LOCCITANE	42.3	69.6	52.6	133.2
Nordstrom	41.7	68.9	56.7	138.7
Saks Fifth Avenue	41.6	61.8	67.8	153.4
Kiehls SWAS	41.4	66.9	50.8	124.2
LUSH	40.9	70.0	54.2	134.7
Aveda	39.1	64.6	50.0	123.9
Barneys New York	39.0	68.8	42.6	110.5
Sephora	38.8	66.5	51.7	131.0
MAC Cosmetics	38.2	63.8	59.5	148.3
The Body Shop	37.7	68.2	57.2	148.0
LOCCITANE SWAS	37.4	65.6	60.5	157.2
Saks Off Fifth	35.9	69.7	45.2	117.8
Bare Escentuals	35.4	64.5	43.3	107.3
Target	33.2	63.0	34.3	90.4
MAC Cosmetics SWAS	32.8	60.4	47.0	121.3
Urban Decay Cosmetics SWAS	32.6	61.3	43.6	113.2
Kohl's	32.2	62.4	31.7	84.6
Macy's	32.0	59.8	42.6	112.4
Bare Escentuals SWAS	32.0	59.5	38.9	101.1
Aveda SWAS	31.6	56.6	33.4	84.9
Ulta Beauty	30.7	58.3	36.0	93.8
CVS	30.0	56.6	39.1	103.1
Perfumania	29.1	56.9	39.0	104.3
Bath Body Works	29.0	54.6	31.9	82.7
Lancome SWAS	28.6	52.9	33.6	87.0
Sephora SWAS	28.4	53.9	33.7	88.3
Walgreens	28.2	52.8	40.5	105.8
Armstrong McCall	27.9	51.0	42.1	110.6
Sally Beauty Supply	26.7	51.4	32.7	85.5
JCPenney	26.5	50.2	26.3	67.0
Merle Norman Cosmetics	25.1	45.3	16.1	41.7
Urban Decay Cosmetics	22.3	55.0	70.9	201.5

Demographics, 15 Minute Drive Time

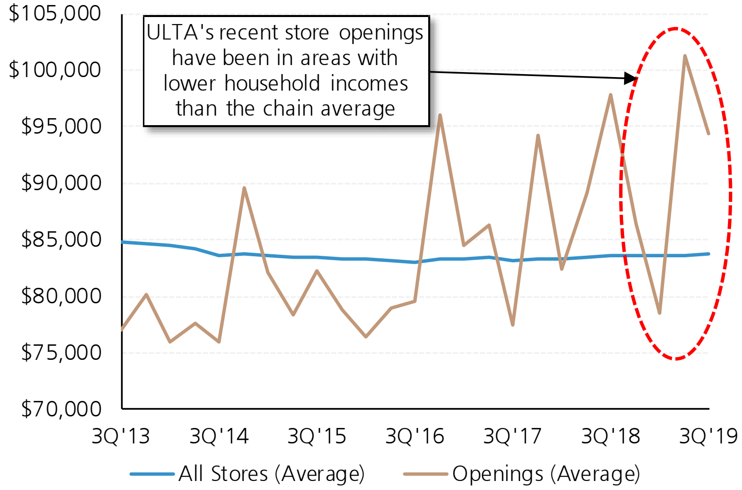
	Per Capita Income (000) (USD)	Median Household Income (000) (USD)	Total Households (000)	Total Population (000)
Bergdorf Goodman	63.4	79.2	614.9	1226.3
Bluemercury	47.6	77.9	149.5	379.0
Louis Vuitton International SWAS	45.1	72.1	219.2	553.2
Bloomingdale's	44.4	71.2	171.2	455.7
Kiehls	40.1	67.4	197.9	492.7
Kerastase SWAS	39.4	66.2	152.4	385.5
Louis Vuitton International	38.9	62.3	157.0	389.1
Nordstrom	38.9	67.8	159.8	408.7
LOCCITANE	38.6	64.6	145.4	362.7
LUSH	38.4	66.6	146.2	370.7
Barneys New York	37.5	75.8	137.1	358.5
Saks Fifth Avenue	37.2	60.0	171.7	407.8
Kiehls SWAS	37.1	62.3	132.0	333.1
LOCCITANE SWAS	36.5	63.3	163.5	432.1
Aveda	36.5	61.1	133.7	336.5
The Body Shop	36.4	64.3	158.6	419.2
Saks Off Fifth	36.1	67.1	119.0	323.9
Sephora	35.8	62.9	137.5	356.2
MAC Cosmetics	34.8	61.8	158.8	417.5
Bare Escentuals	34.6	63.4	112.8	294.7
Target	32.5	61.6	86.1	232.9
MAC Cosmetics SWAS	31.7	58.1	119.0	314.6
Urban Decay Cosmetics SWAS	31.5	58.6	107.3	282.4
Kohl's	31.4	59.8	73.0	193.5
Macy's	31.4	59.1	107.4	287.2
Bare Escentuals SWAS	31.0	58.0	95.0	254.1
Aveda SWAS	30.7	55.5	76.4	193.7
CVS	29.8	55.8	89.7	236.6
Ulta Beauty	29.8	56.5	83.8	218.3
Perfumania	28.8	57.2	110.1	296.5
Bath Body Works	28.5	53.6	76.9	199.9
Walgreens	28.5	53.1	89.4	234.5
Lancome SWAS	28.4	52.8	79.4	208.1
Sephora SWAS	27.9	53.1	76.7	201.1
Armstrong McCall	27.1	50.1	85.1	240.1
Sally Beauty Supply	27.0	51.5	71.6	189.5
JCPenney	26.6	50.8	57.9	145.9
Urban Decay Cosmetics	25.7	56.1	166.7	446.7
Merle Norman Cosmetics	25.1	46.4	28.2	72.0

Source: UBS Evidence Lab

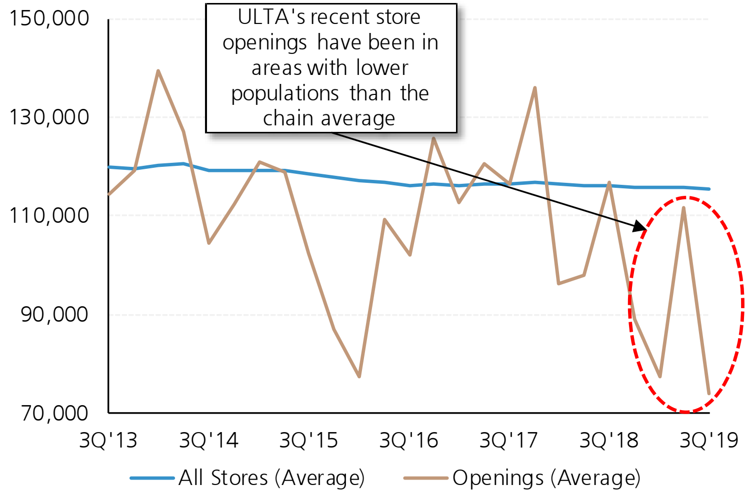
ULTA has been opening stores in wealthier areas

- According to UBS Evidence Lab data, the average household income within a 10 minute drive of ULTA's store base is $83,600 as of 3Q'19. From 1Q'13-3Q'16, ULTA was generally opening stores that were located in less affluent areas than the chain average. Since then, it has increasingly opened new stores in wealthier areas than the chain average.
- At the same time, the average population within a 10 minute drive time of ULTA's store base is 115,500. That said, ULTA has been recently opening stores in less populous areas than the chain average.

Average Household Income Surrounding All ULTA Stores vs. Store Openings (10 min drive)



Average Population Surrounding All ULTA Stores vs. Store Openings (10 min drive)



Source: UBS Evidence Lab

Section 6

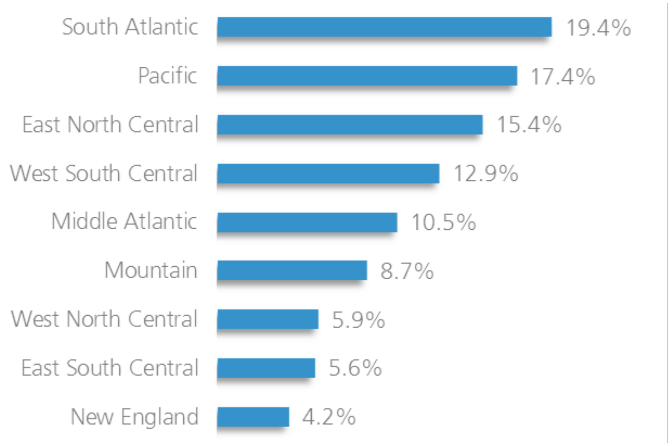
Monitoring the Store Landscape – UBS Evidence Lab Regional Exposure

Powered by UBS Evidence Lab

ULTA Geographic Exposure

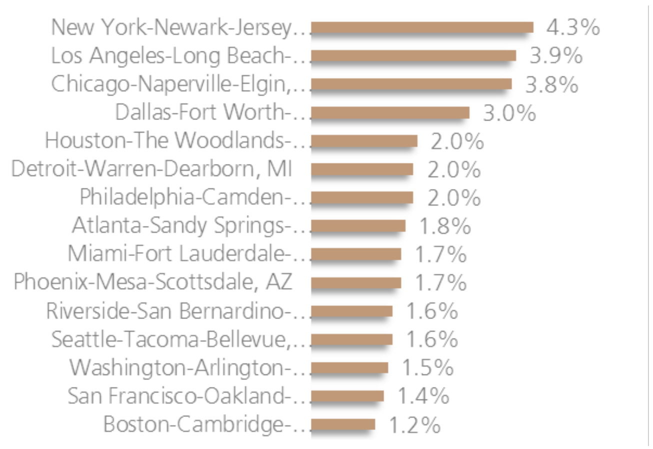
- During 3Q'19 ULTA opened stores across the U.S., with most openings in the Middle Atlantic regions. It also closed several stores across the country.
- From a regional perspective, ULTA's stores are well diversified, with over 19% of its stores in the South Atlantic region.
- From an MSA perspective, ULTA's stores have the most exposure to the New York & LA metro areas.

Regional Exposure



Map of Store Base, Openings, & Closings

Metropolitan Statistical Area (MSA) Exposure



Source: UBS Evidence Lab

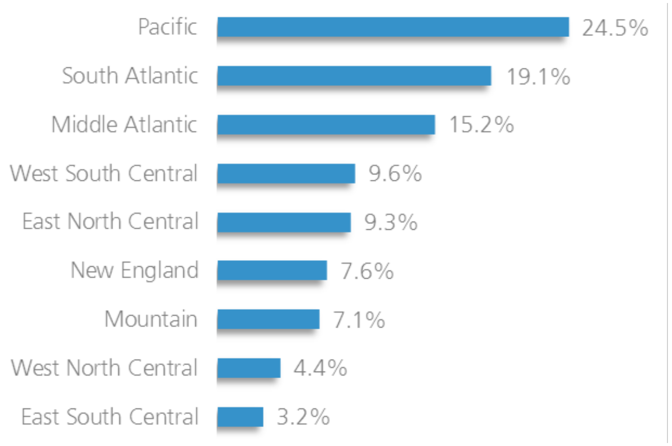
Powered by UBS Evidence Lab

Sephora Geographic Exposure

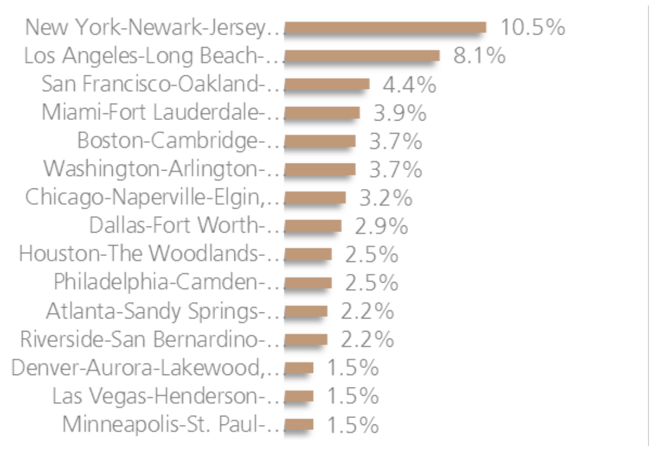
- According to UBS Evidence Lab, Sephora opened a number of stores in 3Q'19, primarily in the Northeast and Pacific regions, while closed one in the West North Central region.
- From a regional perspective, Sephora has a significant exposure to the Pacific region, with over 24% of its locations in that area.
- Sephora has a large presence in the New York & LA metro areas, with nearly 20% of its base there.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



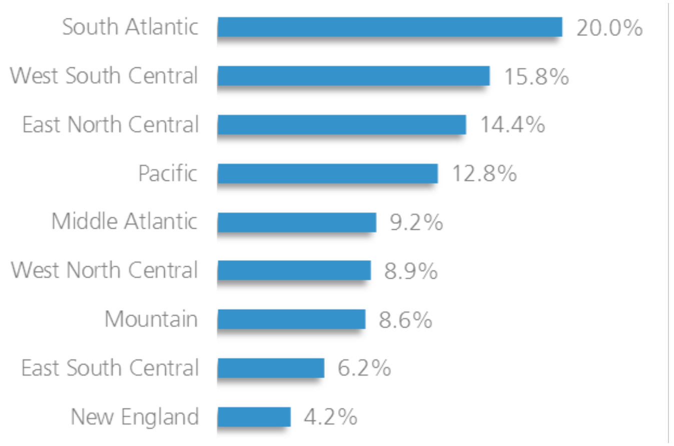
Source: UBS Evidence Lab

Powered by UBS Evidence Lab

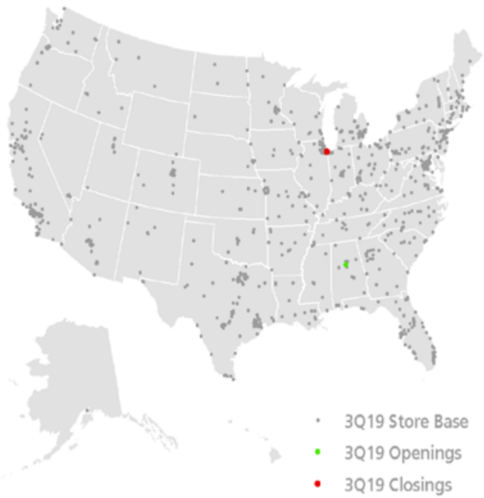
Sephora Store Within a Store Geographic Exposure

- During 3Q'19, Sephora Stores Within a Store opened a store in the East South Central region, while closed one in the Easy North Central region.
- From a regional perspective, Sephora Stores Within a Store are primarily located in the South Atlantic region, with 20% of its stores there.
- From an MSA perspective, Sephora Stores Within a Store are well diversified across markets, with the largest exposure to Chicago & New York MSAs.

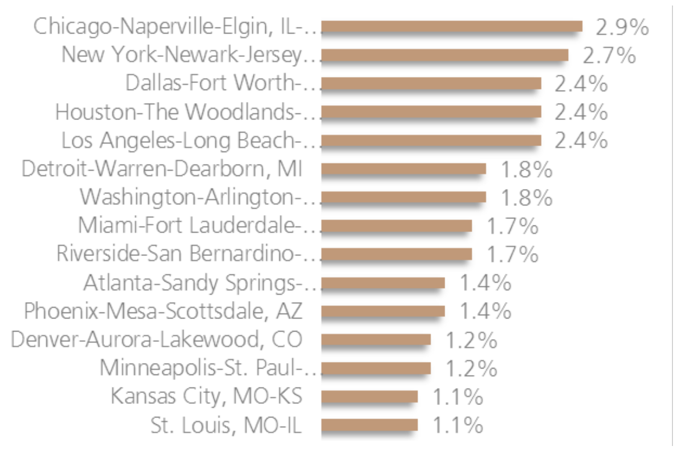
Regional Exposure



Map of Store Base, Openings, & Closings



Metropolitan Statistical Area (MSA) Exposure



Source: UBS Evidence Lab

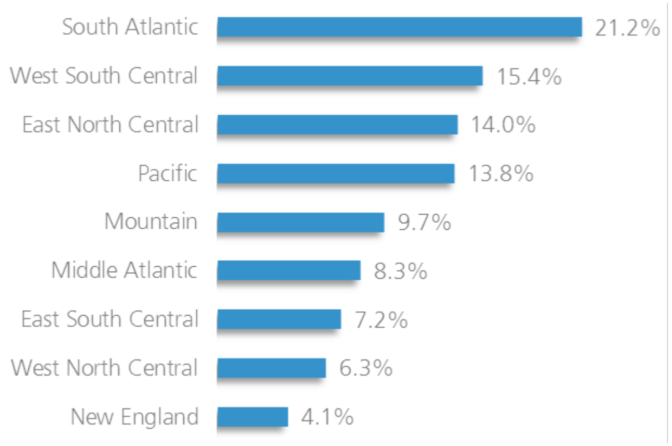
Sally Beauty Geographic Exposure

- According to UBS Evidence Lab data, Sally Beauty closed a number of its stores across the country in 3Q'19, while opened two new locations.
- From a regional perspective, Sally Beauty stores are primarily located in the South Atlantic region, with over 21% of its locations there.
- From an MSA perspective, Sally Beauty stores are well diversified across a number of markets, with the largest exposure to LA metro area.

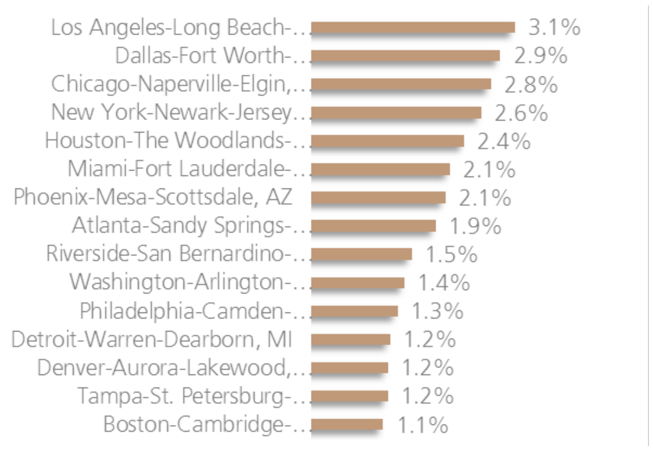
Map of Store Base, Openings, & Closings

Source: UBS Evidence Lab

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



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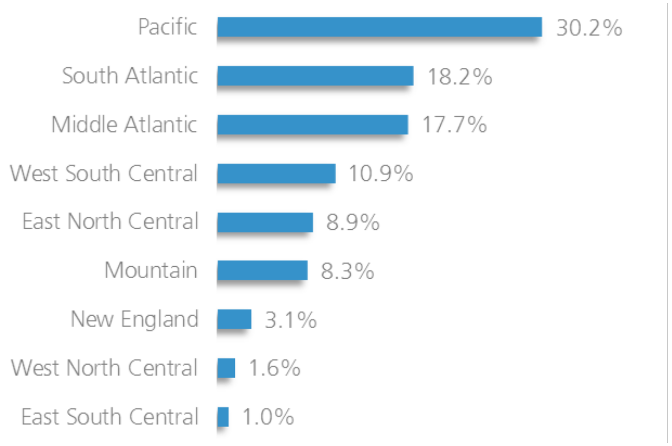
MAC Cosmetics Geographic Exposure

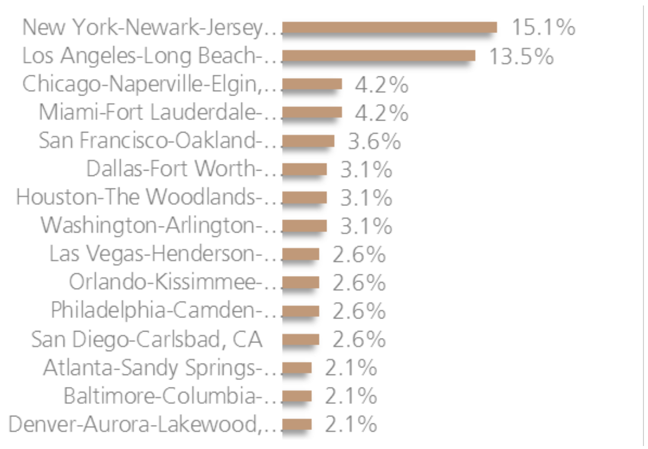
- During 3Q'19, MAC Cosmetics both closed and opened several locations across the country.
- From a regional perspective, MAC Cosmetics stores are primarily in the Pacific region where more than 31% of its stores are located.
- From an MSA perspective, MAC Cosmetics stores are primarily in the New York & Los Angeles metro markets, with nearly 30% of its stores there.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



Source: UBS Evidence Lab

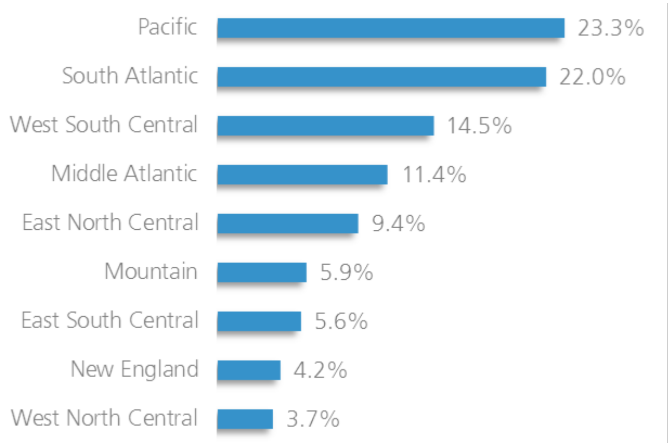
MAC Cosmetics Store Within a Store Geographic Exposure

- MAC Cosmetics SWAS opened a number of stores in 3Q'19, primarily in the Atlantic and Pacific regions, while closed several locations.
- From a regional perspective, over 45% of MAC Cosmetics Stores Within a Store are in the Pacific and South Atlantic region.
- From an MSA perspective, MAC Cosmetics Stores Within a Store are somewhat concentrated in the New York & Los Angeles markets.

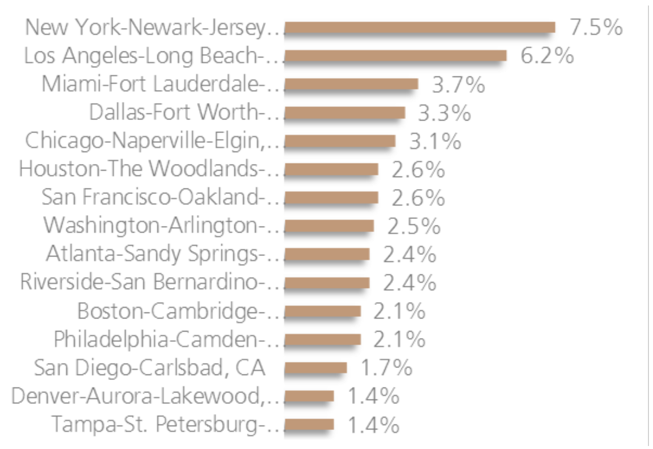
Map of Store Base, Openings, & Closings

Source: UBS Evidence Lab

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



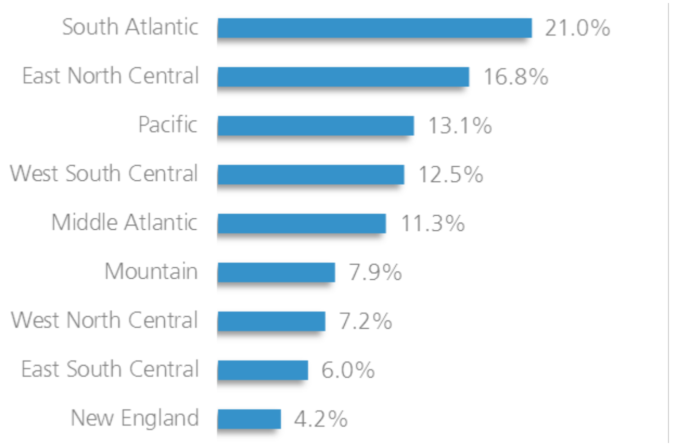
Powered by UBS Evidence Lab

Bath and Body Works Geographic Exposure

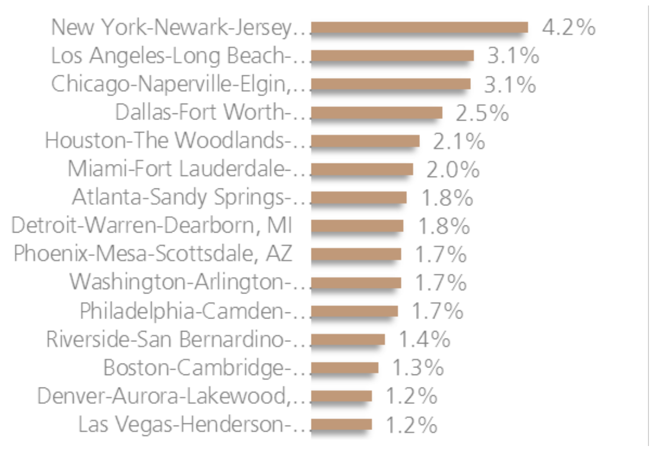
- During 3Q'19, Bath & Body Works opened several new stores across the country, while closed on location in the East South Central region.
- From a regional perspective, Bath & Body Works has a physical presence spread across the country, with the largest exposure to the South-Atlantic region at 21% of its store base.
- From an MSA perspective, Bath & Body Works stores are well diversified across markets.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



Source: UBS Evidence Lab

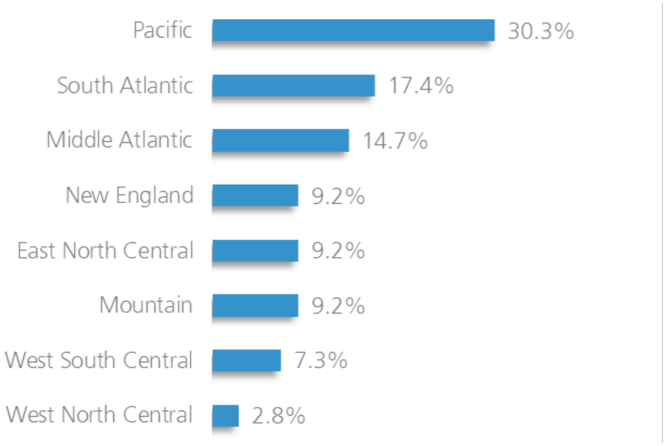
The Body Shop Geographic Exposure

- According to UBS Evidence Lab data, Body Shop closed some of its locations in 3Q'19, while did not open any new stores during the period.
- From a regional perspective, The Body Shop is highly concentrated in the Pacific region, where over 30% of its stores are located.
- From an MSA perspective, The Body Shop stores are primarily in the Los Angeles & New York metro areas.

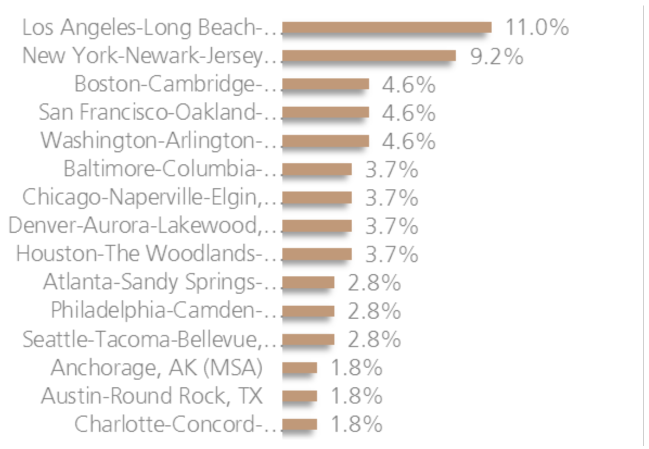
Map of Store Base, Openings, & Closings

Source: UBS Evidence Lab

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



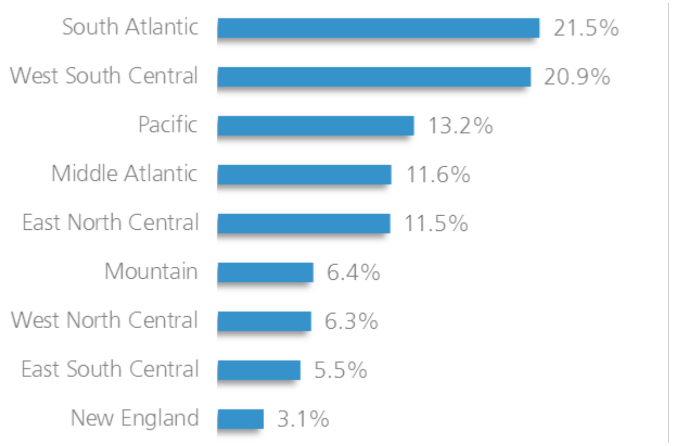
Powered by UBS Evidence Lab

Lancome Store Within a Store Geographic Exposure

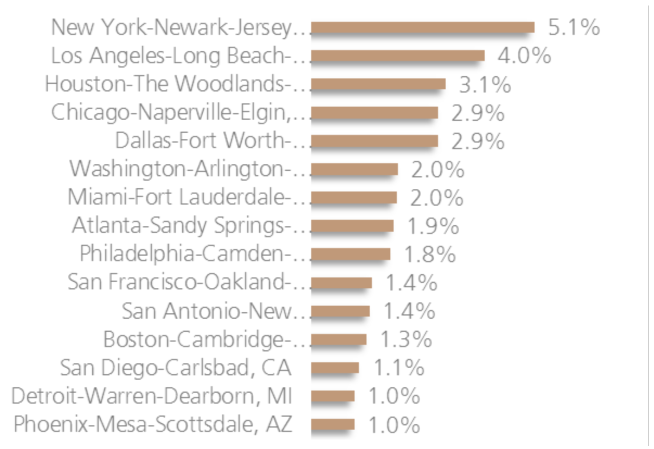
- During 3Q'19, Lancome Store Within a Store both opened and closed some of its locations, according to UBS Evidence Lab.
- From a regional perspective, Lancome Store Within a Store is highly concentrated in South Atlantic and West South Central Regions, with nearly 43% of its stores there.
- From an MSA perspective, Lancome Store Within a Store are well diversified across markets, with the largest exposure to the New York metro area.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure

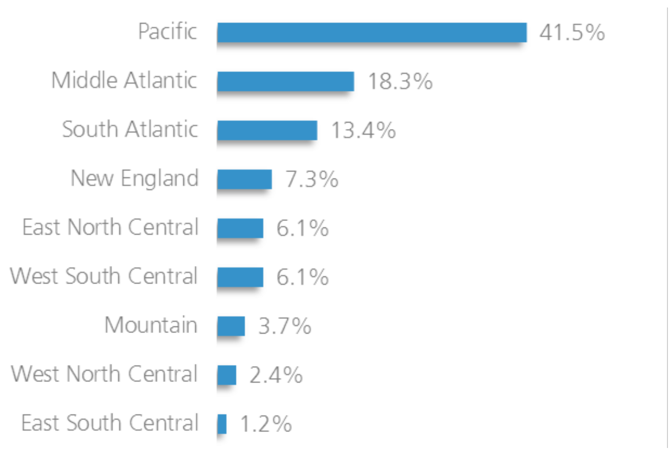


Source: UBS Evidence Lab

Kiehl's Geographic Exposure

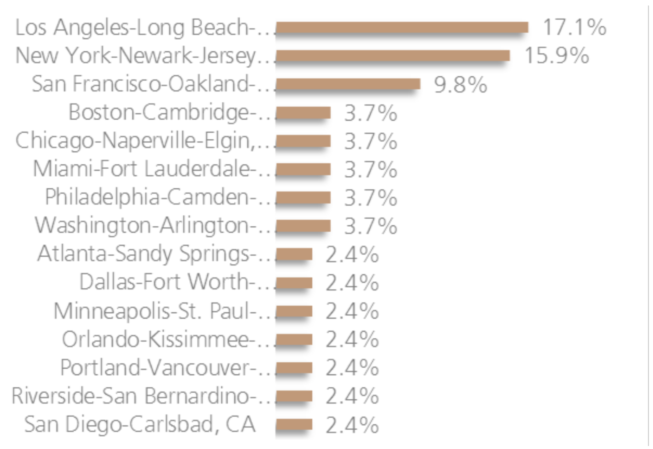
- UBS Evidence Lab did not identify any Kiehl's stores opening or closing during 3Q'19.
- From a regional perspective, Kiehl's is highly concentrated in the Pacific region, with over 41% of its stores in that area.
- From an MSA perspective, Kiehl's stores are primarily in the Los Angeles & New York metro areas.

Regional Exposure



Map of Store Base, Openings, & Closings

Metropolitan Statistical Area (MSA) Exposure



Source: UBS Evidence Lab

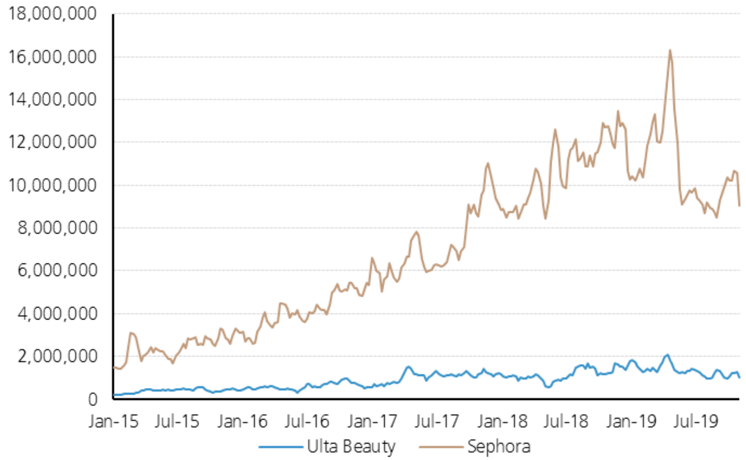
Section 7

Monitoring the Digital Landscape – Social Media Analysis

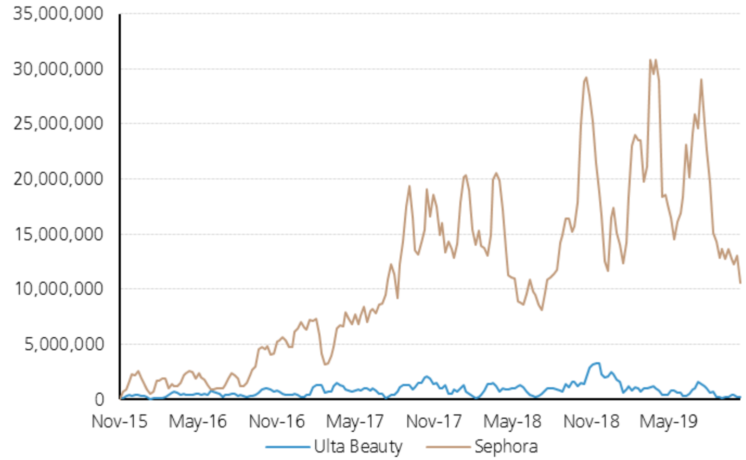
Sephora has a larger social media presence

- Sephora has significantly larger number of interactions with its followers than Ulta.
- On average, Ulta receives around 1.5 mm likes each week. Sephora gets significantly more likes, including approximately ~9 mm in October. Though, it is worth noting that Sephora has seen a meaningful deceleration in this metric since its peak in April.
- Also, Sephora's videos on Instagram are watched considerably more often than Ulta's. That said, this metric has been volatile.
- Given Ulta's larger store footprint, we think this highlights an opportunity for Ulta to improve its engagement through this channel.

Weekly number of likes on Instagram



Weekly video views on Instagram



Source: UBS Evidence Lab

Appendix 1: Methodology

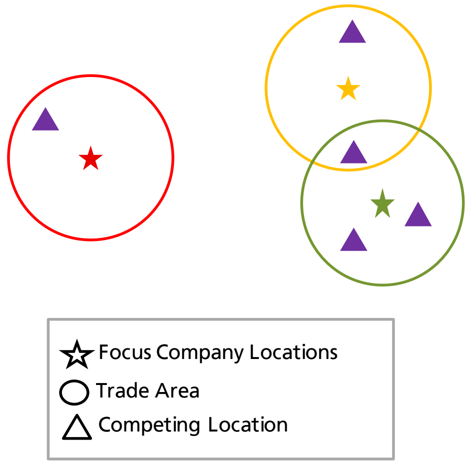
Methodology Overview

The UBS Evidence Lab Market Quality Analysis Lab is a suite of analysis techniques to measure important environmental factors facing a business including competition, cannibalization, and addressable market quality. The UBS Evidence Lab leverages a global database of 70+ million business rooftops that is thoroughly cleansed for localization accuracy, ownership, industry, birth and death dates and other key features for each rooftop. The UBS Evidence Lab using advanced geospatial analyses enhances these rooftops with proprietary metrics that explain the quality of a company's physical footprint. Data are gathered from thousands of individual sources including web mining, FOIA requests, business listing databases, in person collection, and other syndicated sources. All the business rooftop and demographic data is loaded into a global data warehouse. Before processing the analytics, several data quality routines and processes are run to validate and enhance the raw data set. Any property that fails a validation check is flagged or cleansed (i.e. filtered from the data set being analyzed) until quality standards are met.

UBS Evidence Lab Competition Model: these data and analysis include various proprietary measures of competitive intensity providing a framework to answer questions around which competitors are more or less exposed to competitive pressures; Metrics include overlap score, competitive incidence and cannibalization among others.

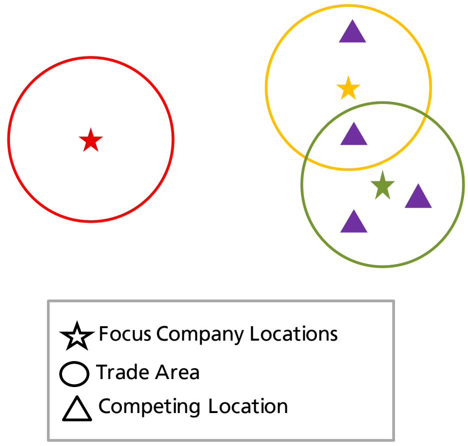
UBS Evidence Lab Overlap Score

	Number of Competitors
Location 1	1
Location 2	2
Location 3	3
Total Competive Instances	**6**
Divide: Number of Locations	3
Overlap Score (Competitive Intensity)	**2**
Competing Locations (distinct locations)	5



UBS Evidence Lab Competitive Incidence

	Number of Competitors
Location 1	0
Location 2	2
Location 3	3
Total Locations With Compeition	**2**
Divide: Number of Locations	3
Competitive Incidence	**67%**



UBS Evidence Lab Demographic Model: these data provide a series of addressable demographic market statistics to help provide a framework to which companies enjoy the best or worst surrounding addressable market. For example, this analysis can provide information on the relative density of core consumers of a location within a reasonable trade area definition (ex. 5 minute walk time, 30 minute drive time, etc.).

UBS Evidence Lab Regional Exposure Model: this model shows a target company's regional distribution or exposure to defined regions and this model shows a measure called capacity share which can be thought of a proxy measure of local market share.

Distribution Math: Capacity Share & Regional Distribution

Region A	Locations	**Region B**	Locations
Dealer 1	2	Dealer 1	5
Dealer 2	4	Dealer 2	7
Region C	Locations	**Region D**	Locations
Dealer 1	15	Dealer 1	5
Dealer 2	34	Dealer 2	8

	Region A	Region B	Region C	Region D	**Total Dealers (B)**
Dealer 1	2	5	15	5	27
Dealer 2	4	7	34	8	53
Total Dealer per Region (A)	6	12	49	13	80
Capacity Share: Share of Total Location in a Region (A)					
Dealer 1	33%	42%	31%	38%	
Dealer 2	67%	58%	69%	62%	
Regional Distribution: Share of Total Dealer Locations (B)					
Dealer 1	7%	19%	56%	19%	
Dealer 2	8%	13%	64%	15%	

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UBS Evidence Lab Regional Exposure Model: The competition monitor is a specialized product in Market Quality analysis that provide a temporal frameworks to assess changes (growth, acceleration, deceleration) in key forces facing a location set including competition, cannibalization, demographics, weather, traffic and local market economics. Importantly, the competition monitor attempts to provide proxy measure that are comparable or organic in nature removing outsized deviations in trend due to openings, closings or mergers.

Cannibalization Share	The number of cannibalized locations as a percentage of the total location base
Cannibalized Locations	The unique number of locations that compete with another location of the same banner; for example the unique number of Best Buys that compete with another Best Buy in the same trade area.
Comparable Overlaps (CSO) Score	The UBS Evidence Lab **Comparable Overlap Score (CSO)** is a measure of competitive intensity around comparable locations of the subject banner. Own location competition (i.e. cannibalization) is excluded from this measure. The **CSO** is represented in the report as a y/y growth rate of the underlying metric.
Comparable Locations	Locations that have been open for more than four quarters
Competition Weights	UBS Evidence Lab **Competition Weights** are coefficients to adjust location for differing factors of competition like product mix, demographic focus (gender, income, race, etc.), end-market (B2B vs B2C), location format, etc. For example, for a Walmart Supercenter that generate an average of ~$150M in sales, a Dollar Store that only generate an average of ~$1.5M in sales might be adjusted by a factor of 1% based on size alone (1.5/150 = 1%).
Competitive Incidence	Measures the percentage of locations that have at least one competitor within the stated trade area
Demographic Market Quality (DMQ)	***Demographic Market Quality (DMQ)*** measures the density of the addressable consuming unit within a designated Trade Area. ***DMQ*** is presented in several ways including the quality measure for Comparable Locations or the relative market quality of location openings versus Comparable Locations. Intrinsically, markets with differences in addressable consumer densities tend to drive differences in unit productivity (sales per location). We would expect retailers that move into less favorable markets to have difficulty in driving similar levels of unit productivity, all else being equal.
Overlap Score or Competitive Intensity	The UBS Evidence Lab **Overlap (OS) score** is a measure of competitive intensity around locations of the subject banner. The **OS** excludes own-location or cannibalistic competitive locations. The **OS** when adjusted for competition weights, measures the average number of *equivalent* competitors within a sensitized trade area; equivalent competition is based one to one competition weights derived for each competitor combination based on the strength of the competition.
Formations	**Formations** measure the year-over-year growth of net location growth.
Trade Area	A **Trade Area** or **Catchment Area** is a designated geography around a location/business where economic activity is conducted. The **Trade Area** can be expressed as a distance (mile radii), drive time, standard geography (MSA, county, etc.), or the spatial extremes based on the location of the consuming units of the subject business (households, consumers, small businesses, etc.).

**UBS Evidence Lab* *is a sell-side team of experts, independent of UBS Research, that work across 12 practice areas and 45 specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research Analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of over 6,000 differentiated UBS Research reports. UBS Evidence Lab does not provide research, investment recommendations, or advice, but provides insight-ready datasets for further analysis by UBS Research and by clients.*

Geospatial

The UBS Evidence Lab Market Quality Analysis Lab is a suite of analysis techniques to measure important environmental factors facing a business including competition, cannibalization, and addressable market quality. The UBS Evidence Lab leverages a global database of 70+ million business rooftops that is thoroughly cleansed for localization accuracy, ownership, industry, birth and death dates and other key features for each rooftop. The UBS Evidence Lab using advanced geospatial analyses enhances these rooftops with proprietary metrics that explain the quality of a company's physical footprint. Data are gathered from thousands of individual sources including web mining, FOIA requests, business listing databases, in person collection, and other syndicated sources. All the business rooftop and demographic data is loaded into a global data warehouse. Before processing the analytics, several data quality routines and processes are run to validate and enhance the raw data set. Any property that fails a validation check is flagged or cleansed (i.e. filtered from the data set being analyzed) until quality standards are met.

Valuation Method and Risk Statement

Investing in retail stocks entails certain risks, including but not limited to changes in consumer spending and its components, retail industry competition and general market risk.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	45%	29%
Neutral	FSR is between -6% and 6% of the MRA.	40%	29%
Sell	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 September 2019.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS:Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Estée Lauder Companies[13, 16]	EL.N	Neutral	N/A	US$195.47	29 Nov 2019
L Brands Inc[13, 16]	LB.N	Neutral	N/A	US$19.14	29 Nov 2019
L'Oréal[18]	OREP.PA	Buy	N/A	€258.70	29 Nov 2019
LVMH Moet Hennessy Louis Vuitton SA[7, 18]	LVMH.PA	Buy	N/A	€407.30	29 Nov 2019
Macy's Inc[7, 16]	M.N	Neutral	N/A	US$15.32	29 Nov 2019
Natura &Co[3]	NATU3.SA	Sell	N/A	R$33.12	29 Nov 2019
Nordstrom Inc[16]	JWN.N	Sell	N/A	US$38.17	29 Nov 2019
Ulta Beauty, Inc.[16]	ULTA.O	Buy	N/A	US$233.86	29 Nov 2019

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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