Global Research

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U.S. Beauty Retail

UBS Evidence Lab inside: What's Happening in Beauty Retail, 2Q'19

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Who's positioned to gain from Barneys' bankruptcy?

The challenges at Barneys serve as another reminder of how retailers like ULTA are gaining share at the expense of others. Approximately 18% of Barneys stores have an Ulta location within 5 mins, while 68% have one within a 10 min drive. Further, the biggest opportunity may be for retailers to start carrying brands previously exclusively supplied at Barneys. For the full Barneys chain, 64% have a Sephora in a 5 min drive. In addition, 41% have a Nordstrom and 32% have a Macy's in a 5 min drive.

Weak sales trends persisted at JC Penney, which likely aided others

JCP reported a -9% comp in 2Q'19 (-6% in go-forward categories). Of the JCP stores with a Sephora, 59% have an Ulta within a 5 min drive & 78% have one within a 10 min drive. This is up 100 bps from 1Q'19. Thus, ULTA is probably taking share. Also, 45% have a Macy's within a 5 min drive. Only 20% have a Sephora company owned store within a 5 min drive, suggesting it's probably not recapturing much lost sales.

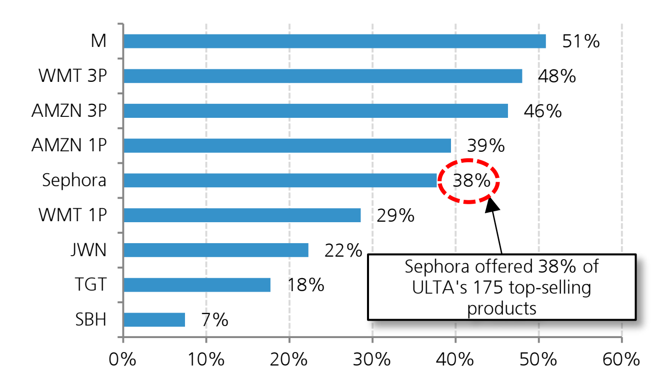
Our pricing survey found the specialty beauty pricing environment stable

We reviewed prices for 275 top ULTA products (as of July 25) & other retailers. The key conclusion was beauty pricing remains rational in the specialty channel. On exact SKU matches with ULTA, Sephora's prices were 0.1% more expensive (consistent with Apr), JWN was -0.1% cheaper (in-line in Apr), & Macy's was 6.5% more expensive (-0.2% cheaper in Apr). We think the competitive environment has been subdued in the specialty beauty and department store channel as pricing was stable with prior periods.

Many of ULTA's top products & new items are not available elsewhere

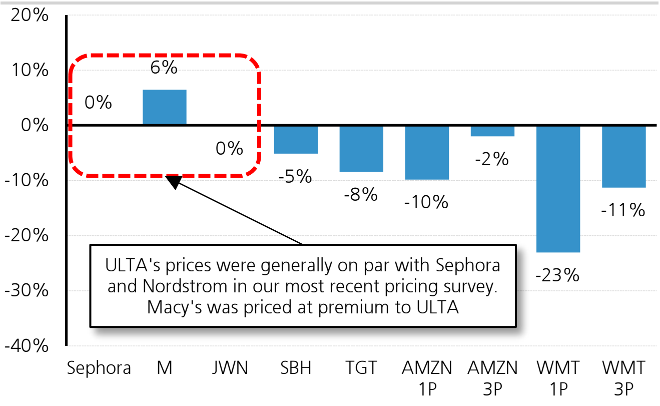
For 175 top-selling goods at ULTA, only 51% were available at M (49% in Apr), 38% at Sephora (45% in Apr), & 22% at JWN (35% in Apr). This suggests the products driving Ulta's sales are frequently not available elsewhere in the specialty beauty channel. In mass, 39% were sold at AMZN 1P (42% in Apr), 29% at WMT 1P (29% in Apr), & 18% at TGT (15% in Apr). This highlights that many of Ulta's products are exclusive to the specialty beauty channel. Together, we think these factors insulate ULTA from competition, which should support its same store sales growth.

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

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Takeaway #1 – Who overlaps with JC Penney / Sephora stores?

- JC Penney continues to struggle in a changing retail environment. It expects a comp decline of 7%-8% in 2019. As such we leveraged UBS Evidence Lab data to identify those with elevated level of store overlap with Sephora stores within a store at JC Penney locations.
- 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	87%	93%	95%	98%
Lancome SWAS	85%	90%	94%	98%
CVS	80%	97%	97%	98%
Bare Escentuals SWAS	70%	79%	83%	91%
Urban Decay Cosmetics SWAS	69%	74%	78%	85%
Sally Beauty Supply	66%	96%	99%	100%
Target	64%	89%	93%	95%
Walgreens	61%	94%	98%	98%
Ulta Beauty	59%	78%	88%	94%
MAC Cosmetics SWAS	50%	54%	63%	77%
Macy's	45%	49%	56%	69%
Kohl's	43%	72%	87%	94%
Aveda SWAS	39%	70%	82%	92%
Merle Norman Cosmetics	23%	41%	54%	77%
Sephora	21%	28%	36%	59%
Kiehls SWAS	20%	25%	35%	60%
Kerastase SWAS	13%	32%	43%	66%
LUSH	11%	15%	21%	45%
Bare Escentuals	11%	13%	19%	38%
Aveda	8%	11%	19%	40%
MAC Cosmetics	7%	10%	15%	39%
The Body Shop	7%	9%	14%	31%
LOCCITANE SWAS	7%	9%	14%	35%
Nordstrom	6%	9%	14%	33%
LOCCITANE	6%	9%	16%	40%
Armstrong McCall	5%	15%	18%	19%
Perfumania	5%	7%	12%	29%
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%	13%
Urban Decay Cosmetics	1%	1%	1%	3%
Saks Fifth Avenue	1%	2%	3%	13%
Bluemercury	1%	4%	9%	28%
Barneys New York	0%	1%	1%	6%
Bergdorf Goodman	0%	0%	0%	0%

UBS Source: UBS Evidence Lab

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Takeaway #2 – Who overlaps with Barneys New York stores?

- 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

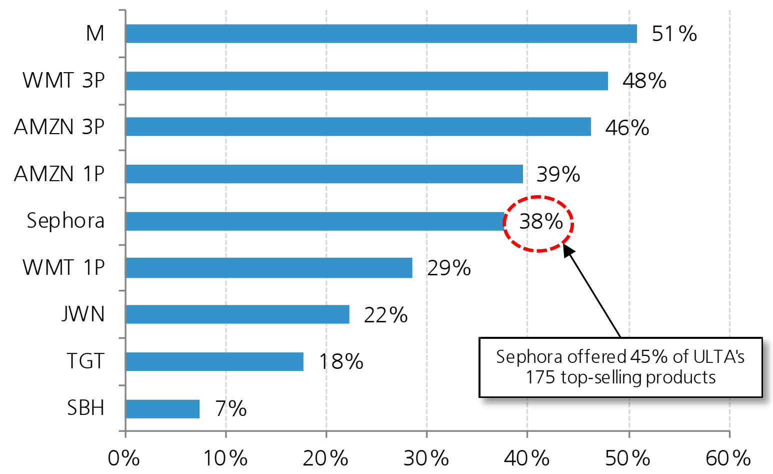
Nodstrom	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Bare Escentuals SWAS	73%	82%	95%	100%
LOCCITANE	73%	77%	82%	95%
CVS	68%	95%	95%	100%
Lancome SWAS	68%	77%	91%	100%
Aveda SWAS	68%	77%	86%	95%
Sephora	64%	64%	77%	95%
Kiehls SWAS	59%	59%	73%	86%
MAC Cosmetics SWAS	55%	68%	82%	95%
Kerastase SWAS	55%	64%	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%

UBS Source: UBS Evidence Lab

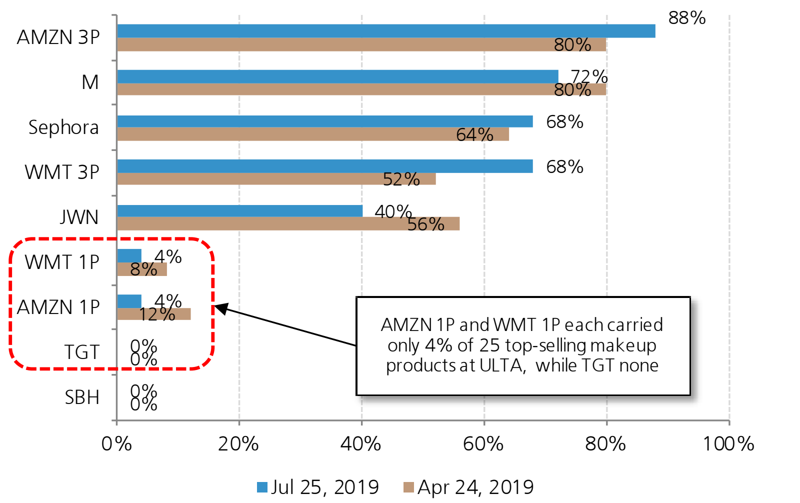
Takeaway #3 – Product overlap with ULTA is manageable

- In the August 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 well insulated from competition.
  - For example, only 51% were available at Macy's, 38% were available at Sephora, and 22% were available at Nordstrom.
  - Similarly, only 39% were available at Amazon 1P, 29% were available at Walmart 1P, and 18% were available at Target.
- Similarly, ULTA is well positioned in its key category, makeup (cosmetics represented 51% of its total sales in FY'18). Also, its top 25 makeup SKUs overlap with other retailers has come down since our last survey.
  - 72% were available at Macy's (vs. 80% in Apr 2019), 68% at Sephora (vs. 64% in Apr 2019), while 40% at JWN (vs. 56% in Apr 2019).
  - Availability through the mass channel continues to be limited limited. Only 4% were available at AMZN 1P and WMT 1P each, while none at TGT.

ULTA 175 Top-Selling Products Available at Other Beauty Retailers



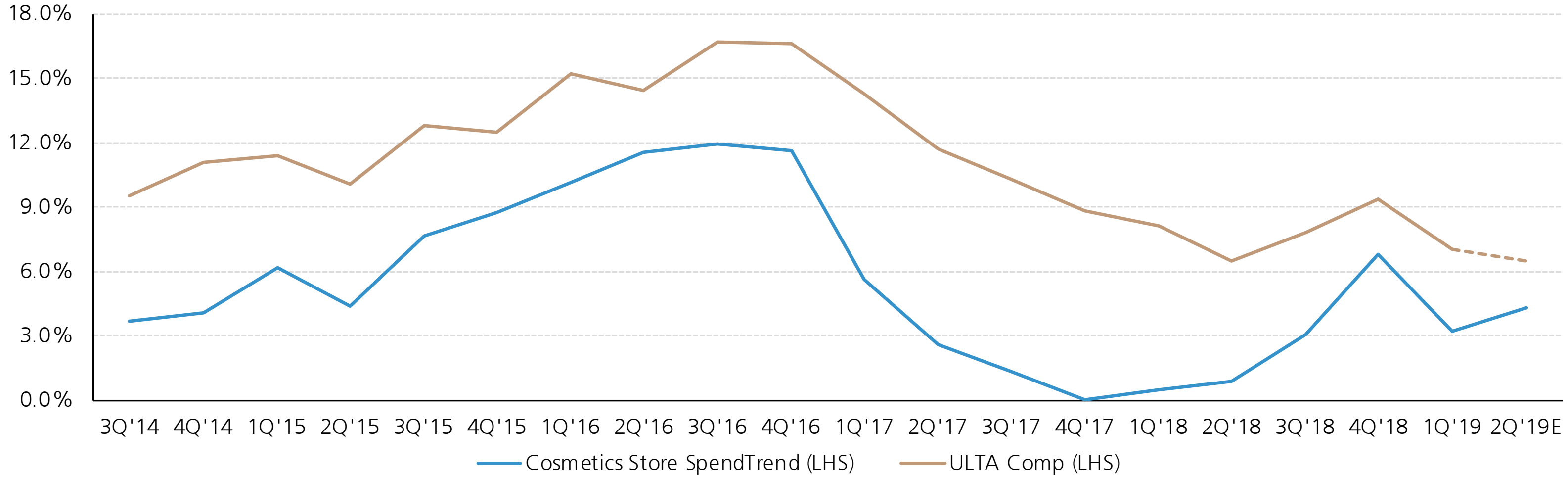
ULTA 25 Top-Selling Makeup Products Available at Other Beauty Retailers



Takeaway #4 – Cosmetics store sales accelerated in 2Q'19

- Specifically, SpendTrend dollar volume growth at cosmetics stores increased 4.3% year-over-year during ULTA's 2Q'19, an improvement from 3.2% in 1Q'19.
- Also, the data indicates the category started strong with a 5.3% increase in May and 4.9% growth in June. But, trends slowed a little in July to a 2.8% increase.
- There has been an 85% correlation between ULTA's quarterly same store sales and dollar volume growth change in cosmetics since 2Q'14.

Dollar Volume Growth Cosmetic Stores vs. ULTA Quarterly Comp

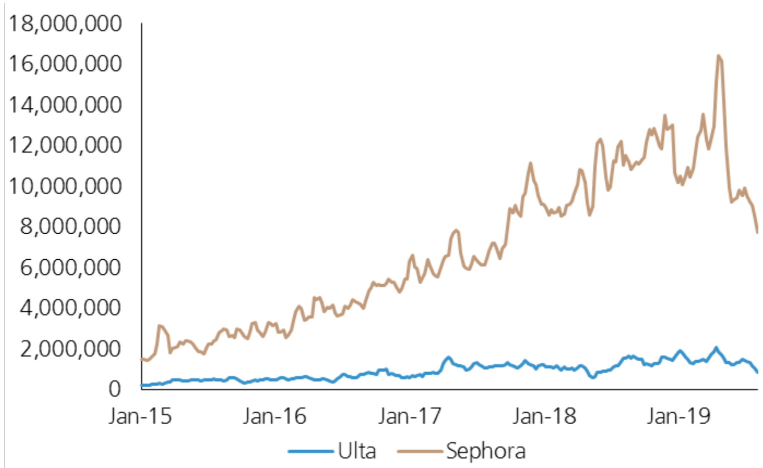


Source: Bloomberg, Company reports, UBS Estimates

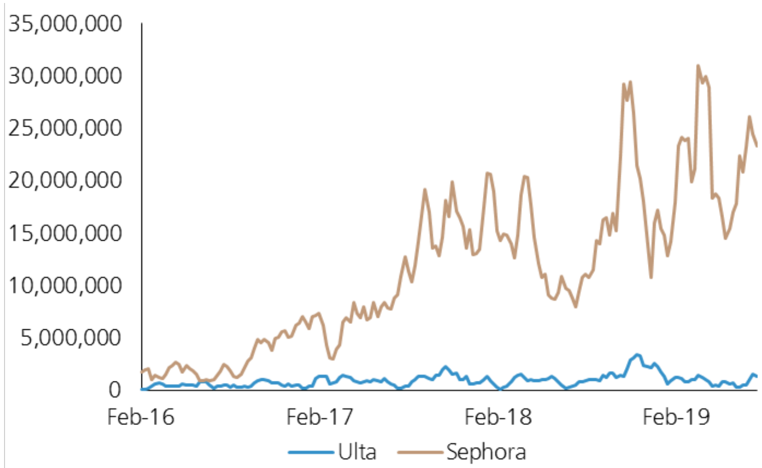
Takeaway #5 – Sephora has a larger social media presence

- UBS Evidence Lab has collected interaction data from 1,000+ brand pages that have 2+ million posts and a combined 30+ billion interactions to understand recent trends in popularity on Instagram.
- Sephora has a larger following on Instagram than Ulta.
- On average, Ulta receives around 1.5 mm likes each week. Sephora gets significantly more likes, including approximately ~8 mm in July. Though, it is worth noting that Sephora has seen a meaningful deceleration in this metric since its peak in April.
- At the same time, Sephora's videos on Instagram are considerably more often watched 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

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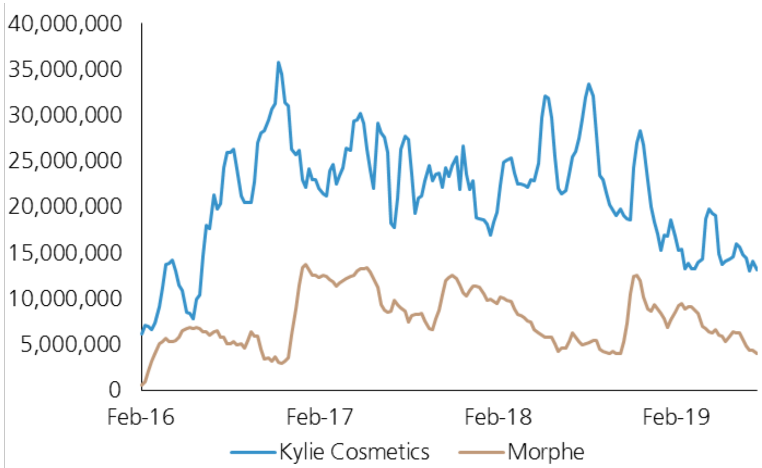
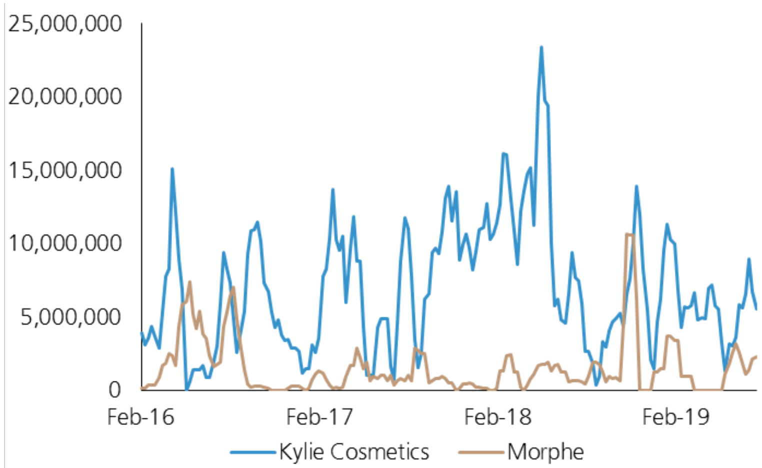
Takeaway #6 - Kylie Cosmetics & Morphe have many followers

- Kylie Cosmetics and Morphe are among more popular and growing brands at Ulta. We leveraged UBS Evidence Lab data to see how these brands have been trending on Instagram.
- Kylie Cosmetics is very popular on Instagram. As of July, Kylie Cosmetics received an average of 14 mm likes weekly.
- Morphe also has a large Instagram following. The brand receives nearly 5 mm on a weekly basis. Interestingly, trends have slowed down recently for both brands.
- Also, Kylie Cosmetics related videos are watched more often than Morphe's.

Weekly number of likes on Instagram



Weekly video views on Instagram



UBS Source: UBS Evidence Lab

Section 2

Monitoring the Pricing Environment – UBS Evidence Lab Pricing Intelligence

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

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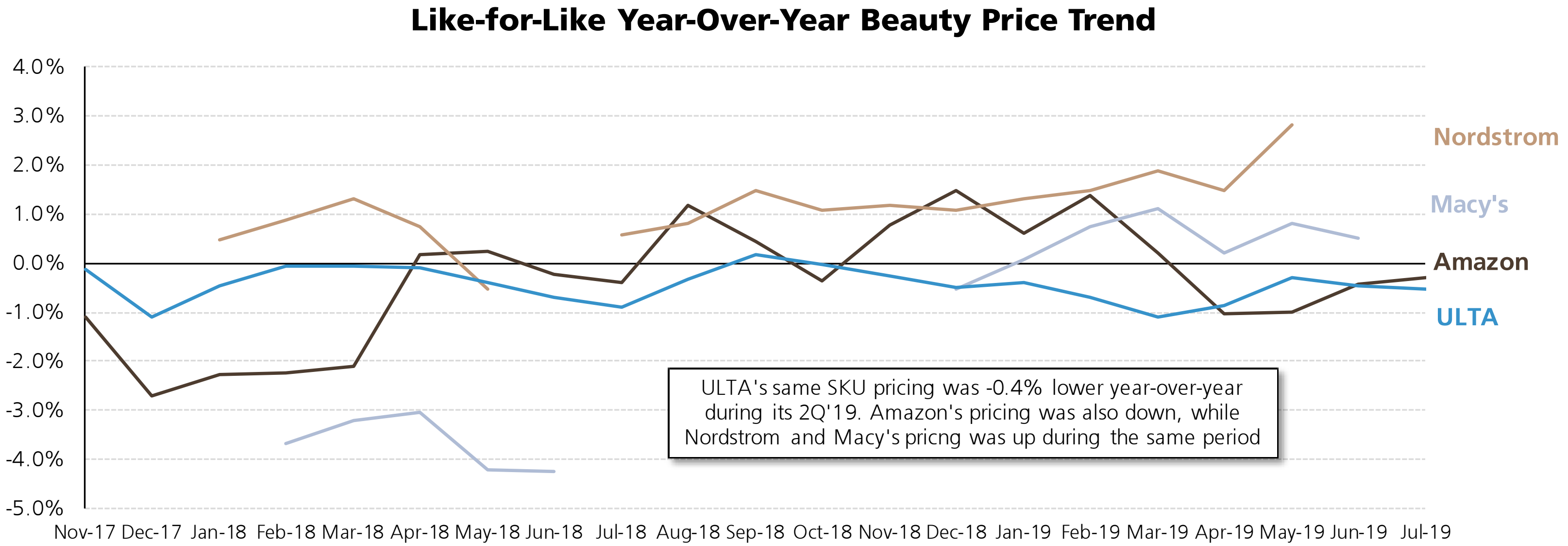
- UBS Evidence Lab price intelligence harvested beauty product offerings from nearly 30 retailer websites across 7 countries since October 2015. The database now totals over 33 million records. One use for the database is to determine trends in year-over-year pricing.
- During the months of ULTA's 2Q'19, its pricing on like-for-like products was -0.4% lower year-over-year. In particular, its pricing was down -0.4% in May and down -0.5% in June and July.
- For comparison, like-for-like beauty pricing during the same period was up 2.2% at Nordstrom, and up 0.7% at Macy's
- For Amazon, pricing on like-for-like SKUs was down -0.7%. Specifically, it was down -1.0% in May, -0.4% in June, and -0.3% in July.



Source: UBS Evidence Lab

Section 3

Monitoring the Pricing Environment – Beauty Retail Pricing & Availability

What is the product overlap with ULTA?

- To assess 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 July 25, 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. Both Walmart 1P and Amazon 1P carried only one makeup item from ULTA's top 25 in the category (4%).
  – Similarly, Walmart 1P and Amazon 1P have little overlap with ULTA's New Arrivals category. Specifically, Walmart 1P carried only 3, while Amazon 1P carried only 9 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 19 of ULTA's 100 newest items.

ULTA Top-Selling Products Available at Key Beauty Retailers by Category (July 25 survey)

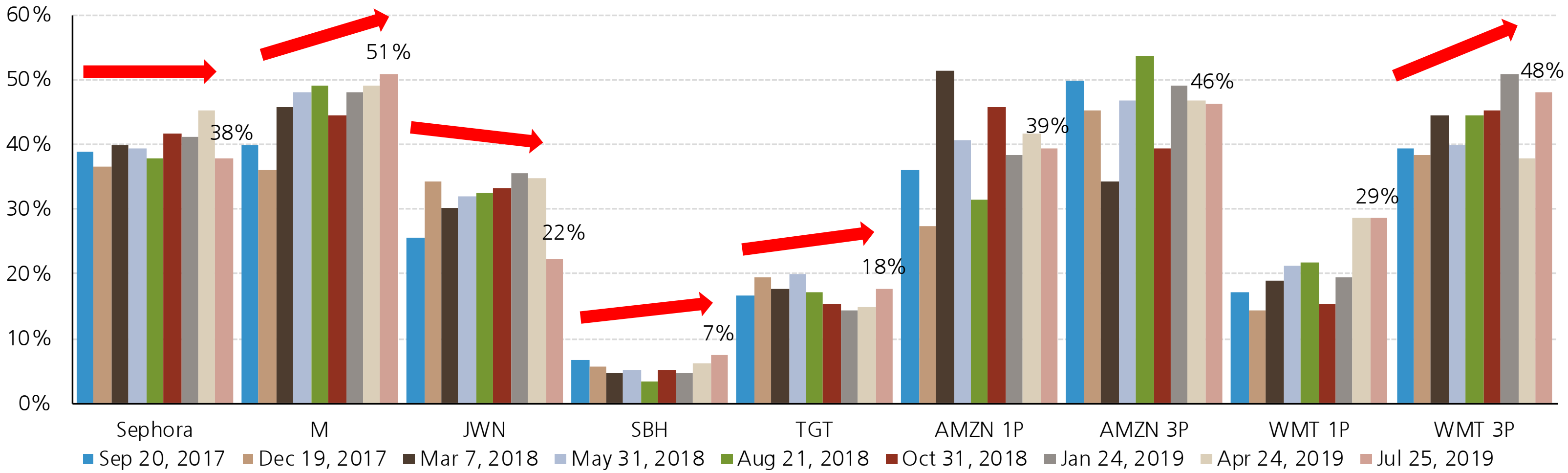
	Sephora	M	JWN	SBH	TGT	AMZN 1P	AMZN 3P	WMT 1P	WMT 3P
Makeup	68%	72%	40%	0%	0%	4%	88%	4%	68%
Nails	0%	8%	0%	44%	28%	52%	16%	20%	56%
Skincare	52%	32%	20%	0%	24%	24%	68%	24%	52%
Haircare	4%	40%	8%	0%	24%	56%	40%	44%	40%
Fragrance	80%	92%	60%	0%	0%	52%	40%	48%	48%
Bath and Body	20%	40%	8%	0%	36%	36%	40%	20%	24%
Men	40%	72%	20%	8%	12%	52%	32%	40%	48%
New Arrivals	19%	12%	20%	0%	3%	9%	27%	3%	19%

UBS Source: Company reports, UBS

What is the historical product overlap with ULTA?

- Over the nine survey iterations, Sephora has consistently carried about 40% of ULTA's top 175 products, including 38% in the latest edition. This may suggest that there's enough room for both retailers to operate, even though both compete in the specialty channel.
- While Macy's has been carrying more of ULTA's top products, Nordstrom's overlap has declined recently. Specifically, Macy's carried 51%, while Nordstrom offered 22% of the best selling items at ULTA in July 25 survey. This compares to 49% and 35%, respectively, last quarter.
- ULTA's top products offering at Amazon 1P has been volatile through the history of our survey. In the latest edition, Amazon carried 39% of ULTA's top 175 products, compared to 42% in April 2019 and 36% in September 2017. Separately, Walmart offered 29% of ULTA's top products, in line with the previous edition and 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?

- Amazon 1P and Walmart 1P offerings of ULTA's top 25 makeup products have been limited throughout the history of our survey. This category represents over 50% of ULTA's annual sales.
  - On average, only 5% have been carried by Amazon 1P and 4% have been offered by Walmart 1P. We think this highlights 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 6% more expensive, while WMT 3P prices were -3% cheaper than ULTA's.
- ULTA's top 25 makeup products overlap with Sephora and Macy's is higher compared to our first survey.
  - In our latest survey, Macy's carried 72% of ULTA's top makeup items (vs. 80% in April 2019), Sephora carried 68% (vs. 64% in April 2019), and Nordstrom carried 40% (vs. 56% in April 2019).
  - Since our last survey, Sephora's product overlap has increased 400 bps, while Nordstrom and Macy's has decreased -1,600 bps and -800 bps, respectively. Interestingly, Nordstrom's overlap is now in line with the initial survey from September 2017. These results may suggest that ULTA's product mix in this category remains its advantage. Though, 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%
Average	**62%**	**61%**	**49%**	**0%**	**1%**	**5%**	**86%**	**4%**	**55%**

UBS 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.
- ULTA's new products availability at other retailers remains limited. This may suggest that ULTA still has a strong position among those looking for new, hot products.
  - For example, Sephora carried only 19 of ULTA's 100 newest products online as of July 25, 2019. This is significantly less than the 38% of ULTA's top 275 products that Sephora carried.
  - Similarly, Macy's offered only 12 and Nordstrom carried only 20 of ULTA's 100 newest arrivals.
- Product availability of ULTA's 100 new arrivals at Target continue to decrease. As of July 25, 2019, Target carried only 3 of ULTA's 100 newest products online. This compares to 7 products in April 24, 2019, and 23 items in January 24, 2019 surveys.

ULTA New Arrivals Products Available at Key Beauty Retailers

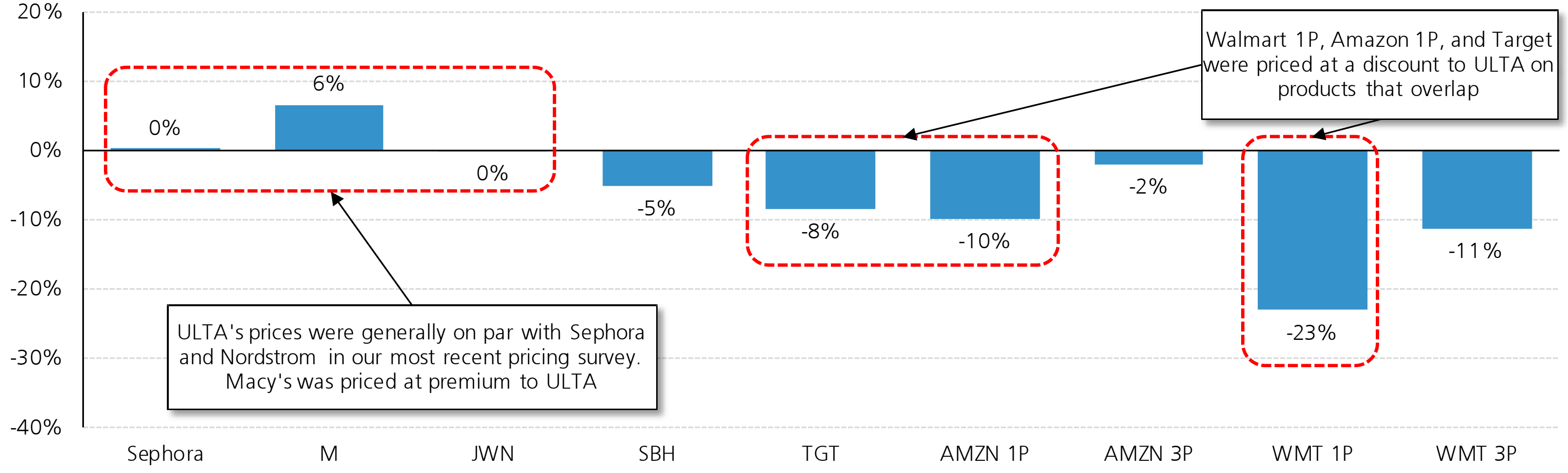
New Arrivals	Sephora	M	JWN	SBH	TGT	AMZN 1P	AMZN 3P	WMT 1P	WMT 3P
Sep 20, 2017	16%	20%	14%	0%	0%	10%	30%	6%	10%
Dec 19, 2017	23%	25%	15%	3%	6%	12%	17%	4%	5%
Mar 7, 2018	19%	7%	13%	1%	2%	4%	21%	2%	10%
May 31, 2018	9%	10%	11%	5%	11%	18%	20%	13%	9%
Aug 21, 2018	28%	5%	8%	0%	15%	13%	32%	5%	10%
Oct 31, 2018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

UBS 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 Sephora and Nordstrom's, while modestly cheaper than Macy's. Specifically, for products that were carried by the other retailers, Macy's prices were 6.5% more expensive than ULTA's, Sephora's prices were 0.1% more expensive than ULTA's, and Nordstrom's prices were -0.1% cheaper than ULTA's.
- At the same time, Amazon 1P, Walmart 1P, and Target's prices were cheaper than ULTA on like-for-like products. It should be noted that these retailers are predominantly carrying mass beauty products.
  - In particular, Walmart 1P's prices were -23% lower than ULTA's, Amazon 1P's prices were -10% lower than ULTA's, and Target's prices were -8% cheaper than ULTA.

ULTA Top-Selling Products Prices Relative to Key Beauty Retailers (July 25 survey)

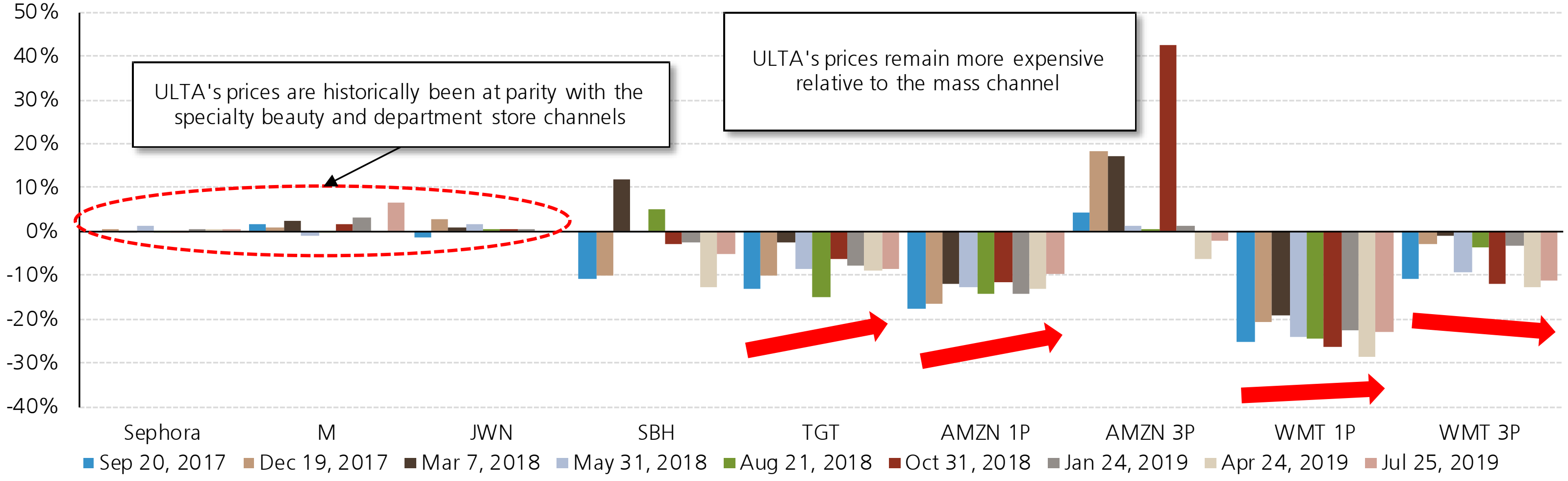


Source: Company reports, UBS

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 primary competitive edge compared to mass merchants.

ULTA Top-Selling Products Available at Other Key Beauty Retailers (July 25 survey)



Source: Company reports, UBS

Section 4

Monitoring the Store Landscape – UBS Evidence Lab Store Overlap

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ULTA Store Overlap

- ULTA has an elevated exposure to 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 face direct competition from 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, 57% of ULTA stores compete with a Macy's and 22% 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%	97%	97%	98%
Target	68%	88%	91%	95%
Walgreens	66%	95%	98%	99%
Sally Beauty Supply	65%	92%	98%	100%
Bath Body Works	62%	82%	92%	98%
Urban Decay Cosmetics SWAS	57%	66%	76%	88%
Lancome SWAS	56%	78%	91%	98%
Bare Escentuals SWAS	55%	69%	81%	91%
Kohl's	47%	70%	85%	95%
Aveda SWAS	40%	69%	83%	94%
JCPenney	36%	53%	72%	92%
MAC Cosmetics SWAS	34%	48%	63%	80%
Sephora SWAS	33%	48%	66%	89%
Macy's	25%	39%	57%	75%
Kerastase SWAS	19%	40%	54%	74%
Merle Norman Cosmetics	18%	36%	50%	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%	24%	50%
Bare Escentuals	6%	12%	21%	47%
Nordstrom	5%	11%	22%	44%
LOCCITANE SWAS	5%	12%	23%	46%
The Body Shop	4%	10%	19%	41%
Saks Off Fifth	4%	10%	19%	44%
Armstrong McCall	3%	11%	14%	15%
Perfumania	3%	7%	13%	35%
Bluemercury	3%	8%	16%	38%
Kiehls	2%	6%	13%	30%
Louis Vuitton International	2%	5%	11%	32%
Bloomingdale's	2%	4%	8%	20%
Saks Fifth Avenue	1%	2%	6%	19%
Louis Vuitton International SWAS	1%	3%	7%	19%
Barneys New York	0%	1%	3%	10%
Urban Decay Cosmetics	0%	0%	1%	4%
Bergdorf Goodman	0%	0%	0%	0%

UBS Source: UBS Evidence Lab

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Sephora Store Overlap

- Sephora commonly overlaps with ULTA. At a 10 minute drive time, 76% of Sephora's stores face competition from a ULTA store. This number rises to 92% when considering a 15 min 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's degree of competitive incidence with Sally Beauty is significant. 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.

Sephora Store Overlap Matrix

Sephora	5 Minutes	10 Minutes	15 Minutes	30 Minutes
Bare Escentuals SWAS	89%	95%	98%	100%
Lancome SWAS	87%	95%	98%	100%
CVS	84%	99%	100%	100%
Urban Decay Cosmetics SWAS	82%	92%	96%	100%
Bath Body Works	73%	88%	97%	100%
Aveda SWAS	69%	89%	95%	100%
MAC Cosmetics SWAS	69%	82%	91%	97%
Macy's	62%	78%	86%	95%
Walgreens	61%	98%	100%	100%
Kiehls SWAS	60%	70%	78%	91%
Kerastase SWAS	56%	77%	87%	96%
Target	53%	90%	97%	99%
Ulta Beauty	47%	76%	92%	100%
LUSH	46%	57%	67%	85%
LOCCITANE	40%	48%	57%	78%
Sally Beauty Supply	38%	81%	93%	100%
MAC Cosmetics	37%	45%	54%	76%
JCPenney	37%	53%	69%	94%
Sephora SWAS	35%	52%	66%	93%
Aveda	31%	38%	50%	73%
Nordstrom	30%	38%	47%	72%
LOCCITANE SWAS	29%	39%	51%	74%
Bare Escentuals	26%	31%	37%	63%
The Body Shop	25%	34%	45%	66%
Kiehls	23%	30%	37%	60%
Kohl's	21%	53%	79%	98%
Bluemercury	19%	33%	45%	67%
Louis Vuitton International	18%	25%	35%	62%
Merle Norman Cosmetics	15%	29%	45%	78%
Louis Vuitton International SWAS	12%	17%	23%	43%
Saks Off Fifth	11%	22%	37%	72%
Bloomingdale's	11%	17%	24%	47%
Saks Fifth Avenue	10%	16%	23%	41%
Barneys New York	7%	11%	14%	27%
Perfumania	4%	9%	19%	52%
Armstrong McCall	2%	10%	12%	13%
Bergdorf Goodman	1%	2%	3%	6%
Urban Decay Cosmetics	1%	1%	1%	5%

UBS Source: UBS Evidence Lab

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Sephora Store Within a Store Overlap

- 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	87%	93%	95%	98%
Lancome SWAS	85%	90%	94%	98%
CVS	80%	97%	97%	98%
Bare Escentuals SWAS	70%	79%	83%	91%
Urban Decay Cosmetics SWAS	69%	74%	78%	85%
Sally Beauty Supply	66%	96%	99%	100%
Target	64%	89%	93%	95%
Walgreens	61%	94%	98%	98%
Ulta Beauty	59%	78%	88%	94%
MAC Cosmetics SWAS	50%	54%	63%	77%
Macy's	45%	49%	56%	69%
Kohl's	43%	72%	87%	94%
Aveda SWAS	39%	70%	82%	92%
Merle Norman Cosmetics	23%	41%	54%	77%
Sephora	21%	28%	36%	59%
Kiehls SWAS	20%	25%	35%	60%
Kerastase SWAS	13%	32%	43%	66%
LUSH	11%	15%	21%	45%
Bare Escentuals	11%	13%	19%	38%
Aveda	8%	11%	19%	40%
MAC Cosmetics	7%	10%	15%	39%
The Body Shop	7%	9%	14%	31%
LOCCITANE SWAS	7%	9%	14%	35%
Nordstrom	6%	9%	14%	33%
LOCCITANE	6%	9%	16%	40%
Armstrong McCall	5%	15%	18%	19%
Perfumania	5%	7%	12%	29%
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%	13%
Urban Decay Cosmetics	1%	1%	1%	3%
Saks Fifth Avenue	1%	2%	3%	13%
Bluemercury	1%	4%	9%	28%
Barneys New York	0%	1%	1%	6%
Bergdorf Goodman	0%	0%	0%	0%

UBS Source: UBS Evidence Lab

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Sally Beauty Store Overlap

- Sally Beauty stores are frequently located in close proximity to Ulta. At a 10 minute drive time, 54% of Sally Beauty stores face competition from a ULTA store. This number rises to 73% when considering a 15 min drive time.
- Relative to the Department Stores, 47% of Sally Beauty stores compete with a Macy's and 15% of Sally Beauty stores compete with a Nordstrom within a 15 minute 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 34% when considering 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%	93%	95%	98%
Target	42%	67%	78%	87%
Lancome SWAS	35%	64%	84%	94%
Bath Body Works	34%	63%	80%	92%
Ulta Beauty	29%	54%	73%	87%
Kohl's	29%	53%	71%	87%
Aveda SWAS	26%	58%	75%	88%
Bare Escentuals SWAS	25%	52%	69%	86%
JCPenney	22%	43%	65%	87%
Urban Decay Cosmetics SWAS	21%	44%	62%	80%
Sephora SWAS	18%	37%	58%	82%
Merle Norman Cosmetics	16%	32%	48%	78%
MAC Cosmetics SWAS	14%	32%	51%	74%
Macy's	11%	29%	47%	68%
Kerastase SWAS	11%	28%	43%	66%
Sephora	6%	18%	34%	61%
Kiehls SWAS	6%	18%	33%	60%
Armstrong McCall	4%	10%	14%	17%
LUSH	3%	10%	21%	48%
Bare Escentuals	2%	7%	16%	40%
Aveda	2%	9%	18%	43%
MAC Cosmetics	2%	8%	17%	42%
LOCCITANE	2%	7%	17%	42%
Perfumania	2%	6%	12%	31%
LOCCITANE SWAS	2%	7%	16%	38%
Nordstrom	2%	7%	15%	37%
The Body Shop	2%	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%	15%
Louis Vuitton International	1%	3%	7%	27%
Louis Vuitton International SWAS	0%	2%	5%	16%
Saks Fifth Avenue	0%	2%	5%	17%
Barneys New York	0%	1%	2%	8%
Urban Decay Cosmetics	0%	0%	1%	3%
Bergdorf Goodman	0%	0%	0%	0%

UBS Source: UBS Evidence Lab

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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	61%	91%	96%	98%
Sally Beauty Supply	57%	88%	96%	98%
Target	53%	80%	85%	91%
Bare Escentuals SWAS	49%	64%	76%	88%
Ulta Beauty	49%	69%	81%	90%
Urban Decay Cosmetics SWAS	46%	57%	69%	81%
JCPenney	45%	56%	71%	90%
Sephora SWAS	38%	49%	64%	83%
Aveda SWAS	38%	66%	80%	91%
Kohl's	36%	62%	80%	90%
MAC Cosmetics SWAS	35%	45%	58%	74%
Macy's	32%	40%	53%	70%
Sephora	20%	27%	40%	63%
Merle Norman Cosmetics	19%	35%	49%	77%
Kerastase SWAS	18%	34%	49%	68%
Kiehls SWAS	18%	26%	38%	62%
LUSH	11%	16%	26%	51%
Bare Escentuals	9%	13%	20%	44%
MAC Cosmetics	9%	13%	21%	44%
Aveda	8%	13%	22%	45%
LOCCITANE	8%	12%	21%	47%
LOCCITANE SWAS	8%	11%	20%	43%
Nordstrom	7%	10%	18%	41%
The Body Shop	7%	9%	16%	37%
Perfumania	6%	9%	14%	33%
Saks Off Fifth	5%	10%	17%	41%
Armstrong McCall	4%	11%	13%	14%
Kiehls	3%	6%	10%	28%
Louis Vuitton International	3%	5%	9%	30%
Bloomingdale's	3%	4%	7%	18%
Bluemercury	2%	7%	14%	35%
Louis Vuitton International SWAS	2%	3%	6%	19%
Saks Fifth Avenue	1%	3%	6%	19%
Barneys New York	1%	2%	2%	9%
Urban Decay Cosmetics	0%	0%	1%	3%
Bergdorf Goodman	0%	0%	0%	1%

UBS Source: UBS Evidence Lab

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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	80%	96%	99%	100%
Lancome SWAS	78%	90%	96%	100%
Bare Escentuals SWAS	78%	86%	95%	100%
Sephora	72%	82%	87%	97%
Urban Decay Cosmetics SWAS	72%	83%	92%	99%
Bath Body Works	68%	83%	97%	100%
Aveda SWAS	66%	83%	92%	99%
MAC Cosmetics SWAS	63%	77%	89%	98%
Walgreens	58%	93%	99%	100%
Kiehls SWAS	58%	68%	79%	96%
Kerastase SWAS	58%	77%	90%	98%
Macy's	56%	76%	87%	97%
LUSH	54%	59%	69%	92%
LOCCITANE	50%	59%	71%	89%
Target	44%	83%	97%	100%
LOCCITANE SWAS	43%	54%	64%	84%
Nordstrom	39%	45%	54%	82%
Ulta Beauty	38%	69%	89%	100%
Aveda	37%	45%	57%	81%
The Body Shop	34%	42%	55%	79%
Kiehls	32%	40%	47%	70%
JCPenney	28%	44%	65%	97%
Sally Beauty Supply	27%	71%	91%	100%
Sephora SWAS	27%	43%	63%	97%
Louis Vuitton International	26%	33%	45%	71%
Bare Escentuals	22%	25%	31%	58%
Bluemercury	19%	32%	49%	76%
Bloomingdale's	16%	23%	30%	57%
Louis Vuitton International SWAS	16%	20%	29%	52%
Kohl's	16%	45%	68%	97%
Saks Fifth Avenue	14%	19%	29%	49%
Saks Off Fifth	13%	28%	44%	80%
Barneys New York	8%	18%	20%	33%
Perfumania	6%	11%	22%	61%
Merle Norman Cosmetics	5%	16%	34%	74%
Armstrong McCall	3%	7%	11%	13%
Bergdorf Goodman	2%	3%	4%	8%
Urban Decay Cosmetics	1%	1%	2%	9%

UBS Source: UBS Evidence Lab

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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 94% 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	92%	95%	98%	100%
Bath Body Works	86%	93%	98%	100%
CVS	82%	98%	99%	99%
Bare Escentuals SWAS	80%	87%	93%	97%
Urban Decay Cosmetics SWAS	76%	83%	89%	96%
Macy's	72%	77%	83%	89%
Walgreens	64%	97%	99%	100%
Ulta Beauty	63%	85%	94%	99%
Target	59%	92%	96%	98%
Aveda SWAS	56%	78%	89%	97%
JCPenney	56%	64%	79%	95%
Sephora SWAS	53%	62%	76%	94%
Sally Beauty Supply	51%	90%	96%	100%
Sephora	51%	56%	65%	83%
Kiehls SWAS	49%	56%	64%	82%
Kerastase SWAS	37%	59%	72%	87%
LUSH	35%	41%	49%	71%
LOCCITANE	28%	33%	43%	67%
Kohl's	28%	60%	83%	97%
Nordstrom	27%	31%	38%	59%
LOCCITANE SWAS	27%	32%	39%	62%
MAC Cosmetics	25%	30%	37%	63%
Aveda	24%	30%	39%	61%
Bare Escentuals	21%	24%	30%	54%
The Body Shop	20%	23%	31%	54%
Merle Norman Cosmetics	17%	33%	50%	82%
Kiehls	16%	19%	24%	45%
Louis Vuitton International	15%	18%	25%	48%
Bloomingdale's	11%	13%	18%	34%
Saks Off Fifth	10%	17%	28%	58%
Louis Vuitton International SWAS	9%	12%	16%	30%
Saks Fifth Avenue	7%	10%	15%	28%
Perfumania	7%	10%	16%	44%
Bluemercury	6%	18%	30%	54%
Armstrong McCall	4%	14%	17%	18%
Barneys New York	3%	5%	6%	16%
Urban Decay Cosmetics	1%	1%	2%	5%
Bergdorf Goodman	0%	0%	1%	1%

UBS Source: 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.
- Other key competitors such as Kiehl's have much lower overlap with The Body Shop. 36% of The Body Shop stores face competition from a Kiehl's standalone store at a 10 minute drive time.
- Though, 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.

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%	88%	94%	98%
Bath Body Works	83%	92%	99%	100%
Urban Decay Cosmetics SWAS	83%	91%	96%	100%
Macy's	79%	84%	92%	96%
Sephora	77%	82%	87%	96%
CVS	73%	96%	99%	100%
Kiehls SWAS	69%	73%	79%	95%
Aveda SWAS	65%	87%	95%	100%
LUSH	63%	69%	75%	93%
MAC Cosmetics	54%	60%	67%	83%
Kerastase SWAS	54%	70%	88%	96%
LOCCITANE	54%	58%	64%	85%
Target	54%	91%	98%	100%
Nordstrom	53%	55%	62%	83%
Walgreens	53%	97%	100%	100%
Ulta Beauty	50%	77%	90%	100%
LOCCITANE SWAS	50%	59%	66%	83%
JCPenney	45%	54%	76%	98%
Aveda	43%	47%	59%	82%
Sephora SWAS	42%	54%	73%	98%
Bare Escentuals	38%	41%	47%	65%
Sally Beauty Supply	34%	80%	96%	100%
Kiehls	31%	36%	45%	66%
Louis Vuitton International	21%	25%	34%	63%
Kohl's	19%	54%	82%	99%
Saks Off Fifth	15%	25%	40%	72%
Bloomingdale's	15%	17%	25%	46%
Louis Vuitton International SWAS	11%	12%	18%	41%
Perfumania	10%	13%	21%	47%
Merle Norman Cosmetics	10%	19%	33%	70%
Bluemercury	9%	27%	42%	67%
Barneys New York	8%	12%	13%	27%
Saks Fifth Avenue	8%	12%	18%	38%
Armstrong McCall	1%	7%	8%	8%
Urban Decay Cosmetics	1%	1%	1%	7%
Bergdorf Goodman	1%	1%	3%	4%

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 are frequently located in close proximity to Sally Beauty. At a 10 minute drive time, 83% 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.
- It has also an elevated exposure to Ulta. Notably, 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 46% when considering a 15 minute drive time.

Lancome SWAS Store Overlap Matrix

Lancome SWAS	5 Minutes	10 Minutes	15 Minutes	30 Minutes
CVS	72%	90%	93%	95%
Bath Body Works	66%	77%	85%	91%
Walgreens	61%	90%	93%	96%
Bare Escentuals SWAS	55%	67%	74%	84%
Urban Decay Cosmetics SWAS	52%	62%	69%	80%
Sally Beauty Supply	49%	83%	90%	95%
Target	45%	73%	80%	86%
MAC Cosmetics SWAS	45%	53%	61%	73%
Ulta Beauty	42%	64%	77%	86%
Aveda SWAS	42%	65%	76%	87%
JCPenney	42%	53%	66%	85%
Macy's	41%	49%	57%	67%
Sephora SWAS	38%	48%	60%	80%
Sephora	32%	39%	46%	62%
Kiehls SWAS	30%	38%	45%	62%
Kohl's	26%	52%	70%	85%
Kerastase SWAS	25%	41%	52%	67%
LUSH	20%	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%	44%
Nordstrom	15%	19%	25%	42%
Aveda	15%	20%	27%	45%
Bare Escentuals	13%	16%	21%	40%
The Body Shop	11%	15%	21%	38%
Kiehls	9%	12%	17%	31%
Louis Vuitton International	8%	11%	16%	34%
Bloomingdale's	6%	8%	12%	23%
Louis Vuitton International SWAS	6%	8%	11%	22%
Saks Off Fifth	5%	11%	19%	41%
Armstrong McCall	5%	13%	16%	19%
Saks Fifth Avenue	5%	7%	10%	22%
Bluemercury	5%	13%	21%	38%
Perfumania	4%	6%	11%	33%
Barneys New York	2%	3%	4%	11%
Urban Decay Cosmetics	0%	1%	1%	3%
Bergdorf Goodman	0%	1%	1%	1%

UBS Source: UBS Evidence Lab

Powered by UBS Evidence Lab

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, 60% 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 also commonly overlap with Ulta. 62% 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	84%	94%	95%	99%
LOCCITANE	82%	88%	91%	98%
Kiehls SWAS	82%	88%	90%	98%
MAC Cosmetics SWAS	77%	90%	93%	98%
LUSH	74%	84%	90%	98%
Kerastase SWAS	74%	90%	95%	99%
MAC Cosmetics	72%	79%	87%	96%
Macy's	71%	84%	93%	99%
Aveda SWAS	70%	91%	94%	99%
Nordstrom	63%	73%	79%	94%
Walgreens	61%	98%	99%	99%
Bath Body Works	60%	85%	94%	99%
LOCCITANE SWAS	57%	73%	85%	96%
Aveda	56%	67%	76%	90%
Target	48%	88%	98%	99%
The Body Shop	43%	60%	70%	89%
Louis Vuitton International	40%	51%	65%	82%
Bloomingdale's	35%	45%	52%	71%
Bare Escentuals	32%	33%	40%	65%
Bluemercury	29%	51%	67%	85%
Ulta Beauty	27%	62%	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%	32%	51%	94%
Sally Beauty Supply	16%	67%	89%	99%
Saks Fifth Avenue	15%	23%	37%	56%
Barneys New York	13%	26%	28%	44%
Kohl's	6%	28%	59%	98%
Merle Norman Cosmetics	4%	15%	27%	67%
Perfumania	2%	7%	17%	54%
Urban Decay Cosmetics	1%	1%	2%	7%
Bergdorf Goodman	0%	5%	7%	11%
Armstrong McCall	0%	6%	6%	7%

UBS Source: UBS Evidence Lab

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Beauty Retail Cannibalization

- ULTA's store cannibalization is relatively low despite having more than 1,100 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, 27% 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%
Bare Escentuals SWAS	52%	68%	77%	88%
CVS	52%	85%	91%	98%
Urban Decay Cosmetics SWAS	52%	66%	79%	91%
Walgreens	43%	83%	89%	96%
Kiehls SWAS	40%	56%	72%	86%
MAC Cosmetics SWAS	38%	49%	61%	84%
Louis Vuitton International SWAS	36%	36%	47%	60%
Aveda SWAS	35%	65%	77%	91%
Louis Vuitton International	25%	33%	34%	49%
Bloomingdale's	21%	26%	36%	66%
LOCCITANE SWAS	19%	27%	44%	75%
Bluemercury	17%	34%	50%	80%
MAC Cosmetics	15%	27%	43%	79%
Bath Body Works	9%	30%	55%	79%
Sephora	9%	27%	44%	77%
Perfumania	8%	12%	19%	48%
LOCCITANE	8%	22%	37%	71%
Aveda	8%	23%	39%	70%
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%	12%	24%	68%
Macy's	1%	8%	30%	74%
The Body Shop	1%	5%	18%	64%
Ulta Beauty	1%	14%	46%	78%
Merle Norman Cosmetics	0%	6%	17%	57%
Sephora SWAS	0%	1%	14%	61%
Barneys New York	0%	0%	18%	36%
Bare Escentuals	0%	3%	9%	43%
Armstrong McCall	0%	11%	41%	69%
Urban Decay Cosmetics	0%	0%	0%	0%
JCPenney	0%	1%	11%	53%
Nordstrom	0%	5%	21%	65%
Saks Off Fifth	0%	0%	6%	40%
Kohl's	0%	6%	38%	77%

UBS 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 19.8k
- 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	56.0	80.7	14.3	32.4
Barneys New York	48.5	73.8	16.1	37.7
Kiehls	48.3	76.5	12.9	28.9
Kerastase SWAS	48.0	76.9	12.1	29.0
Saks Fifth Avenue	46.4	65.5	10.8	25.6
Louis Vuitton International	45.1	71.7	10.8	22.3
Bloomingdale's	44.9	79.3	12.5	33.5
Kiehls SWAS	44.1	71.4	8.6	20.6
LOCCITANE	43.6	72.8	8.3	20.7
LUSH	42.6	74.9	8.6	20.3
Nordstrom	41.9	70.4	8.6	19.7
Sephora	40.4	70.3	8.4	19.8
Aveda	40.3	63.4	7.5	18.2
The Body Shop	39.7	70.6	7.7	17.7
MAC Cosmetics	39.6	65.1	9.6	23.6
LOCCITANE SWAS	38.8	64.6	9.5	23.0
Bare Escentuals	36.4	64.5	5.3	12.3
Saks Off Fifth	34.8	67.1	5.9	15.1
MAC Cosmetics SWAS	33.7	61.1	6.8	17.0
Target	33.5	63.0	5.0	12.6
Urban Decay Cosmetics SWAS	33.4	61.2	6.6	16.3
Kohl's	33.0	63.4	5.6	14.2
Bare Escentuals SWAS	33.0	60.0	6.3	15.5
Aveda SWAS	32.8	57.5	7.5	18.3
Macy's	32.2	59.6	6.2	15.2
Ulta Beauty	31.5	58.9	6.3	15.8
Urban Decay Cosmetics	31.3	73.5	10.4	25.7
CVS	30.2	56.9	9.0	23.1
Perfumania	29.9	55.9	4.2	10.1
Bath Body Works	29.6	54.4	4.9	11.9
Lancome SWAS	28.9	52.2	5.3	12.9
Sephora SWAS	28.6	52.4	5.1	12.2
Walgreens	27.8	52.5	10.5	27.0
Armstrong McCall	27.6	50.1	10.1	25.4
JCPenney	26.8	49.1	4.3	10.5
Sally Beauty Supply	26.7	51.4	6.5	16.4
Merle Norman Cosmetics	24.8	43.9	4.7	11.7

UBS Source: UBS Evidence Lab

Powered by 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	48.7	77.9	83.6	184.9
Kerastase SWAS	44.0	70.9	59.8	148.3
Kiehls	43.6	72.1	73.4	176.4
Bloomingdale's	43.1	77.3	66.7	165.8
Louis Vuitton International	42.7	64.8	61.9	146.0
LOCCITANE	42.3	69.6	52.7	133.3
Saks Fifth Avenue	41.6	61.8	67.8	153.4
Kiehls SWAS	41.4	66.9	50.8	124.2
Nordstrom	41.3	68.0	56.7	138.7
LUSH	40.6	69.5	54.1	134.5
Barneys New York	40.3	66.2	84.6	208.0
Aveda	39.1	64.6	49.9	123.6
Sephora	38.8	66.5	51.7	130.9
MAC Cosmetics	38.3	64.2	60.0	149.4
The Body Shop	37.8	68.3	56.0	145.4
LOCCITANE SWAS	37.4	65.6	60.5	157.2
Saks Off Fifth	35.8	69.8	44.7	117.6
Bare Escentuals	35.2	64.0	42.1	105.0
Target	33.2	63.0	34.2	90.3
MAC Cosmetics SWAS	32.8	60.4	47.3	122.0
Urban Decay Cosmetics SWAS	32.6	61.5	43.6	112.5
Kohl's	32.2	62.4	31.7	84.6
Bare Escentuals SWAS	32.2	59.8	39.2	101.8
Macy's	31.7	59.3	44.7	116.9
Aveda SWAS	31.5	56.5	33.7	85.4
Urban Decay Cosmetics	31.5	64.6	62.0	176.2
Ulta Beauty	30.7	58.2	36.1	94.0
CVS	30.0	56.6	39.1	103.0
Perfumania	29.5	57.1	37.8	101.7
Bath Body Works	28.9	54.5	31.9	82.7
Lancome SWAS	28.7	53.0	33.6	87.1
Sephora SWAS	28.4	53.8	33.7	88.4
Walgreens	28.1	52.7	41.0	107.3
Armstrong McCall	27.7	50.9	41.6	110.6
Sally Beauty Supply	26.7	51.3	32.6	85.0
JCPenney	26.5	50.1	26.2	66.4
Merle Norman Cosmetics	25.0	45.3	16.4	42.4

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	45.8	72.1	222.4	566.5
Kiehls	40.1	67.4	197.9	492.7
Bloomingdale's	40.0	69.5	180.4	463.3
Kerastase SWAS	39.4	66.2	152.5	385.6
Nordstrom	38.9	67.7	158.0	404.6
Louis Vuitton International	38.7	61.9	159.3	400.5
LOCCITANE	38.5	64.5	145.7	362.8
LUSH	38.3	66.5	146.2	370.4
Barneys New York	37.5	68.1	258.7	582.2
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
The Body Shop	36.5	64.7	158.8	416.7
Aveda	36.4	60.9	133.1	334.0
Saks Off Fifth	36.0	67.2	117.9	321.0
Sephora	35.8	62.7	137.4	355.0
MAC Cosmetics	35.5	61.6	163.0	422.6
Bare Escentuals	34.3	62.5	111.6	285.4
Urban Decay Cosmetics	33.5	61.2	142.7	417.3
Target	32.5	61.6	85.8	232.2
MAC Cosmetics SWAS	31.7	58.0	120.1	316.5
Urban Decay Cosmetics SWAS	31.5	58.7	107.4	282.5
Kohl's	31.4	59.8	73.0	193.5
Bare Escentuals SWAS	31.1	58.1	96.3	257.9
Macy's	31.1	57.9	113.1	296.0
Aveda SWAS	30.6	55.4	76.7	195.2
CVS	29.8	55.8	89.7	236.6
Ulta Beauty	29.8	56.5	84.1	220.6
Perfumania	29.0	57.4	109.2	291.3
Walgreens	28.5	53.0	91.0	238.6
Bath Body Works	28.5	53.5	76.7	199.7
Lancome SWAS	28.4	52.8	79.4	208.1
Sephora SWAS	27.9	53.1	76.7	201.2
Armstrong McCall	27.0	50.1	84.9	237.8
Sally Beauty Supply	27.0	51.4	71.2	188.7
JCPenney	26.6	50.8	57.6	145.6
Merle Norman Cosmetics	25.1	46.3	28.7	72.9

UBS Source: UBS Evidence Lab

Section 6

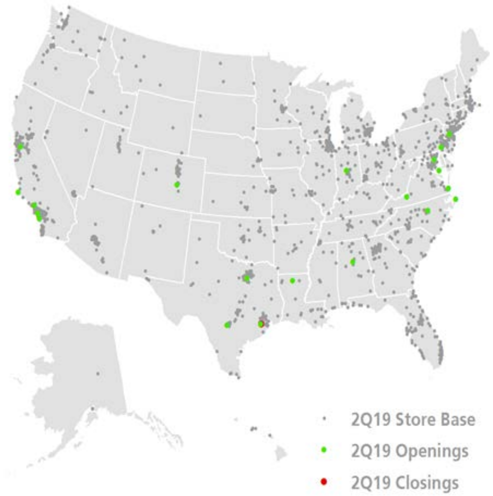
Monitoring the Store Landscape – UBS Evidence Lab Regional Exposure

Powered by UBS Evidence Lab

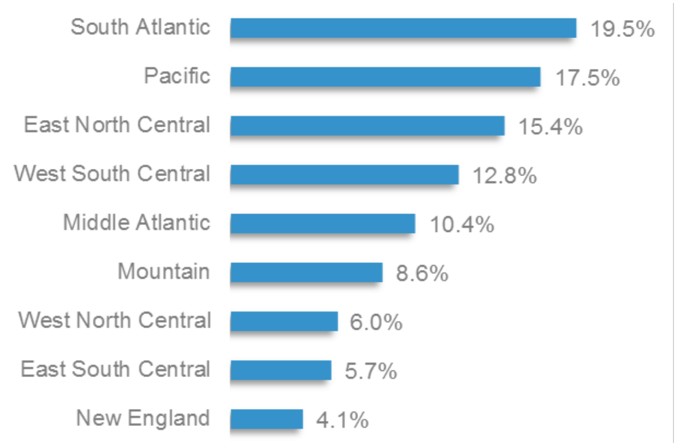
ULTA Geographic Exposure

- According to UBS Evidence Lab, during 2Q'19 ULTA opened stores across the U.S., with most openings in the South & Middle Atlantic and Pacific regions. It closed one store in West South Central region.
- 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.

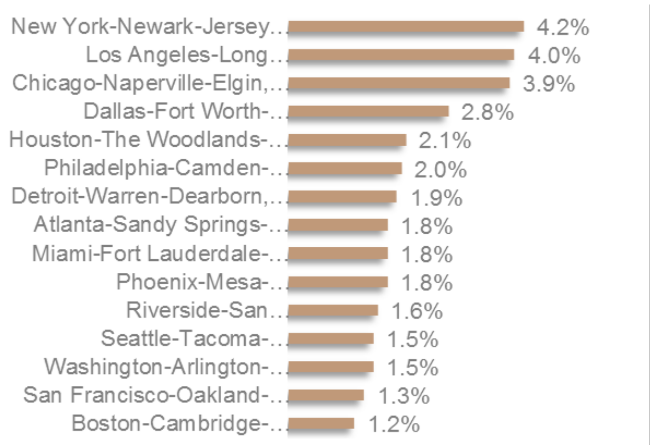
Map of Store Base, Openings, & Closings



Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



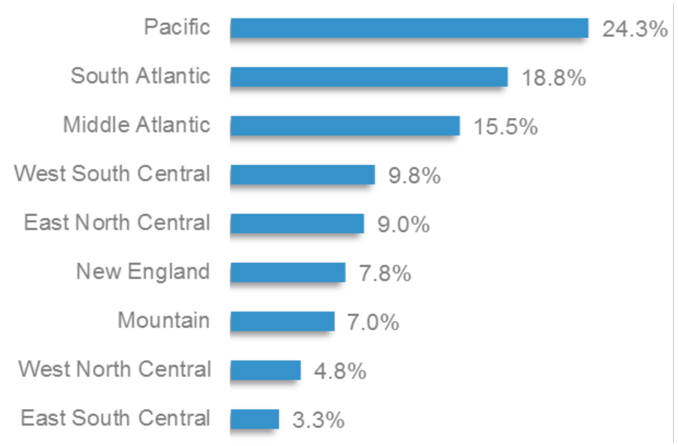
Powered by UBS Evidence Lab

Sephora Geographic Exposure

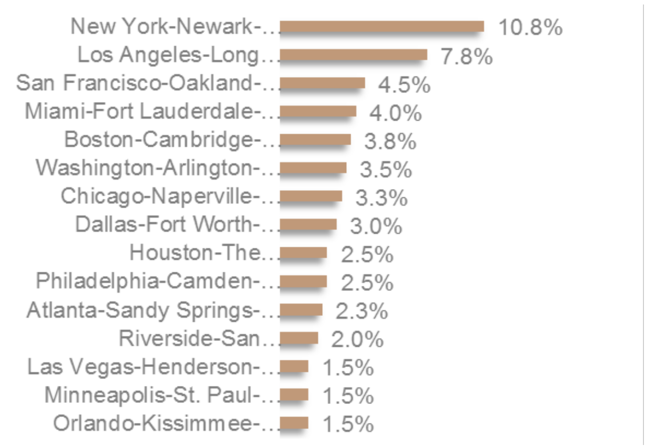
- During 2Q'19, Sephora opened a number of stores, primarily in the Northeast and Pacific regions, while closed some on the East coast.
- From a regional perspective, Sephora has a significant exposure to the Pacific region, with over 24% of its locations in that area.
- Sephora has a large presence in the New York & LA metro areas, with nearly 20% of its stores in those markets.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



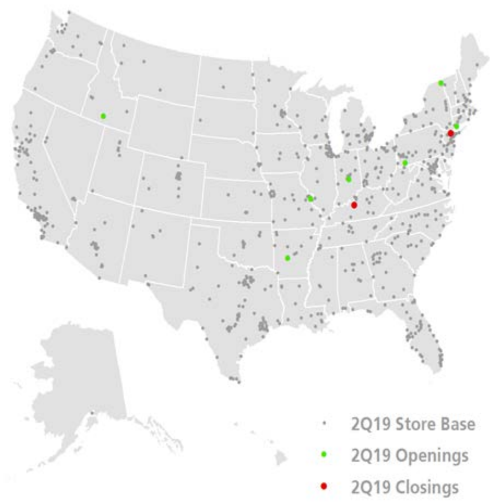
UBS Source: UBS Evidence Lab

Powered by UBS Evidence Lab

Sephora Store Within a Store Geographic Exposure

- During 2Q'19, Sephora Stores Within a Store opened stores across the country, while closed several its locations in the Middle Atlantic and East South Central regions.
- 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.

Map of Store Base, Openings, & Closings



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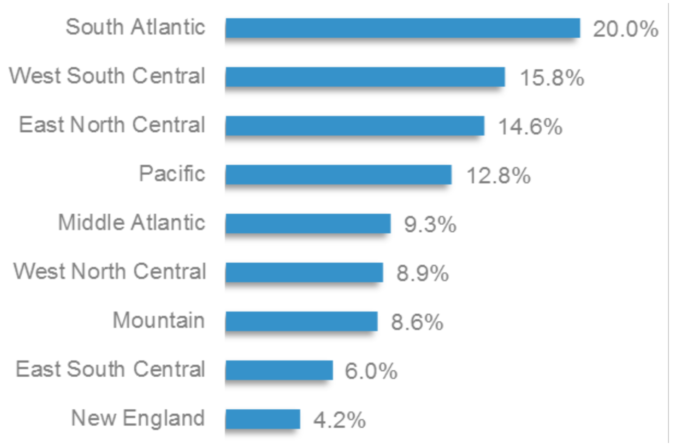
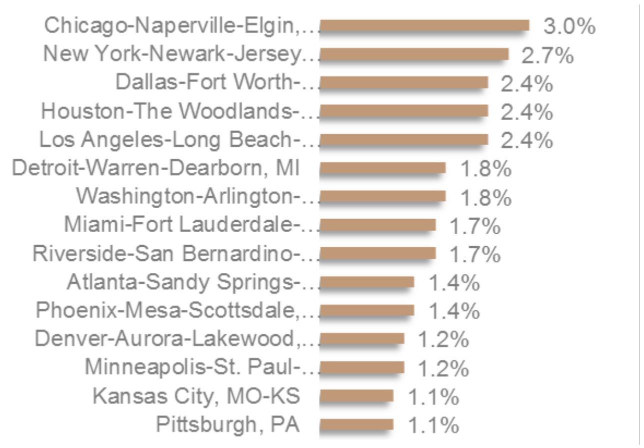


Metropolitan Statistical Area (MSA) Exposure



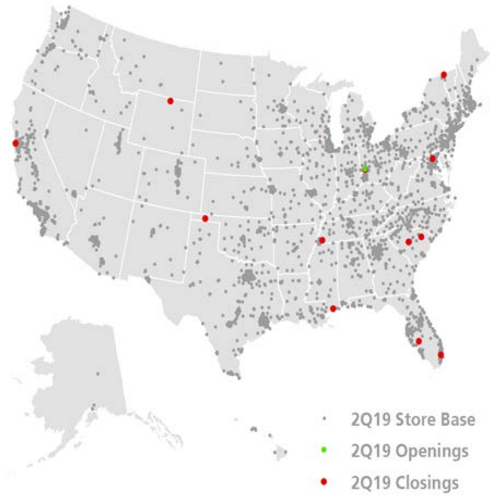
UBS Source: UBS Evidence Lab

Powered by UBS Evidence Lab

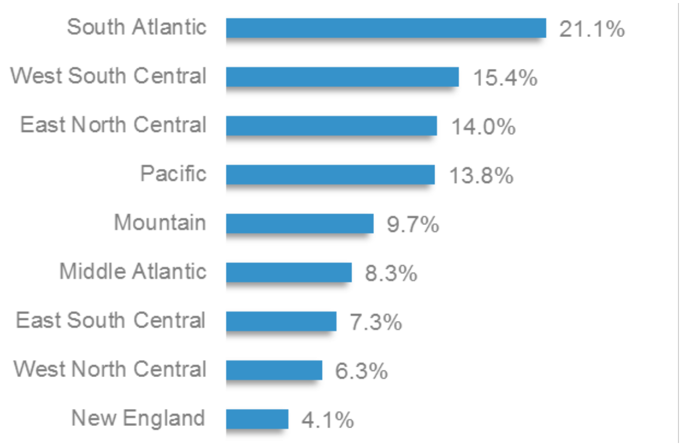
Sally Beauty Geographic Exposure

- During 2Q'19, Sally Beauty closed a number of its stores across the country, while opened one new location in the East North Central region.
- 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.

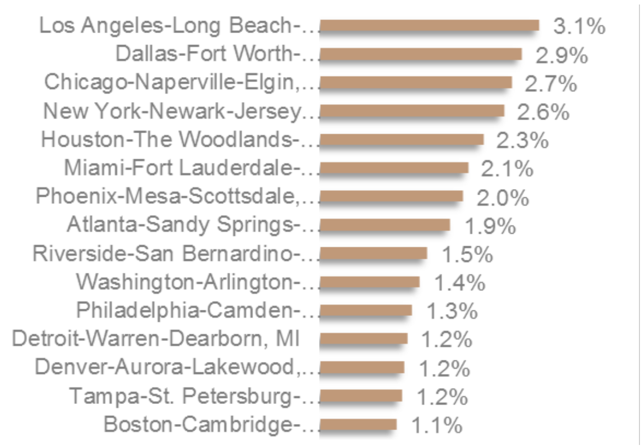
Map of Store Base, Openings, & Closings



Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



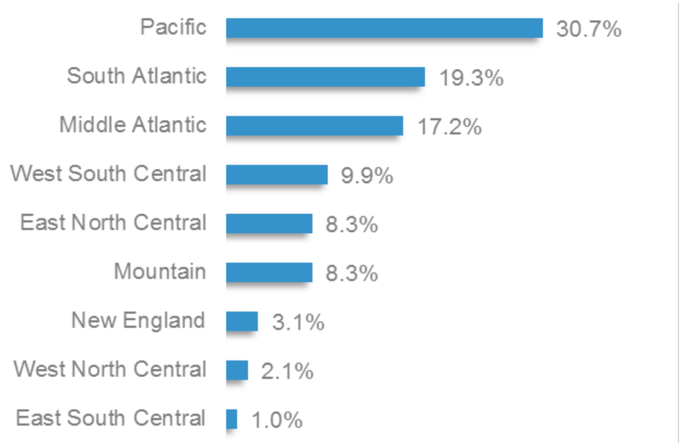
UBS Source: UBS Evidence Lab

MAC Cosmetics Geographic Exposure

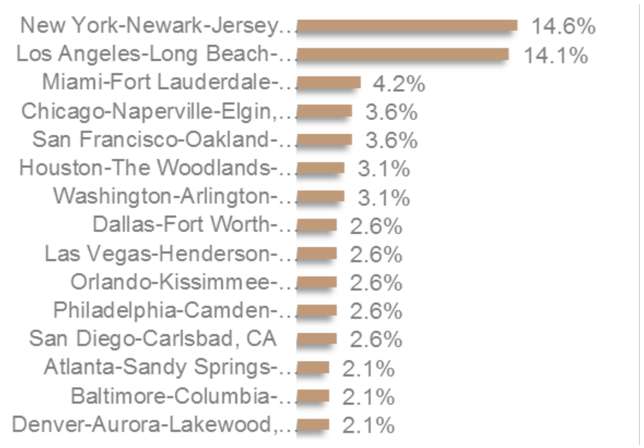
- According to UBS Evidence Lab data, MAC Cosmetics did not close or open new locations during 2Q'19.
- From a regional perspective, MAC Cosmetics stores are primarily in the Pacific region where nearly 31% of its stores are located.
- From an MSA perspective, MAC Cosmetics stores are primarily in the New York & Los Angeles metro markets, with nearly 30% of its stores.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure

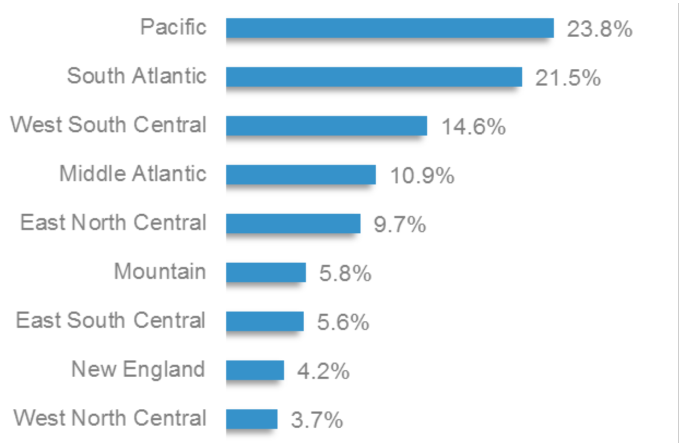


MAC Cosmetics Store Within a Store Geographic Exposure

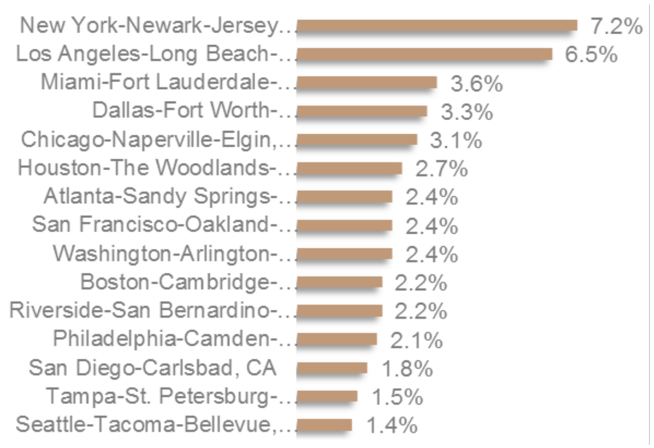
- MAC Cosmetics Stores Within a Store also did not change its store count during 2Q'19, according to UBS Evidence Lab data.
- From a regional perspective, over 45% of MAC Cosmetics Stores Within a Store are in the Pacific and South Atlantic region.
- From an MSA perspective, MAC Cosmetics Stores Within a Store are somewhat concentrated in the New York & Los Angeles markets.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure

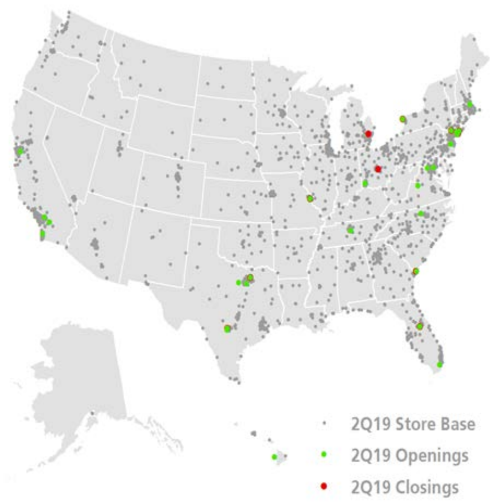


UBS Source: UBS Evidence Lab

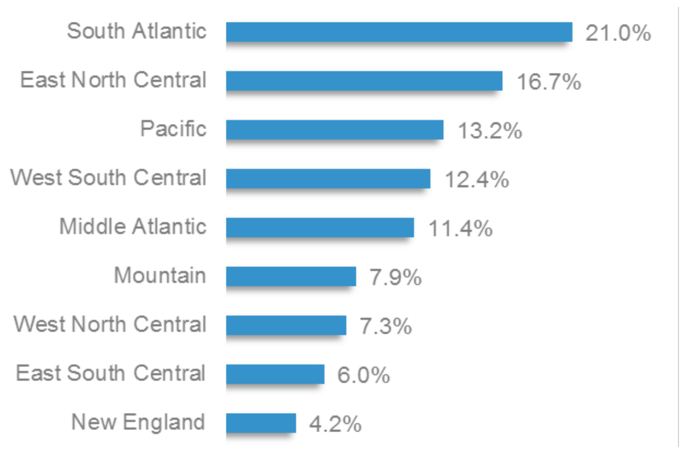
Bath and Body Works Geographic Exposure

- UBS Evidence Lab identified Bath & Body Works closed and opened some of its locations in 2Q'19, primarily in the eastern part of the country.
- 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.

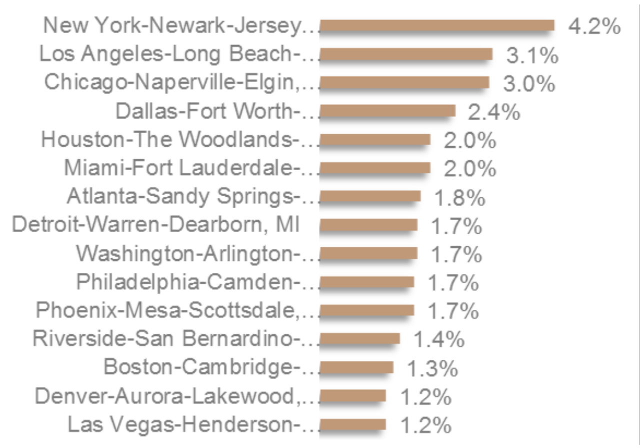
Map of Store Base, Openings, & Closings



Regional Exposure



Metropolitan Statistical Area (MSA) Exposure



UBS Source: UBS Evidence Lab

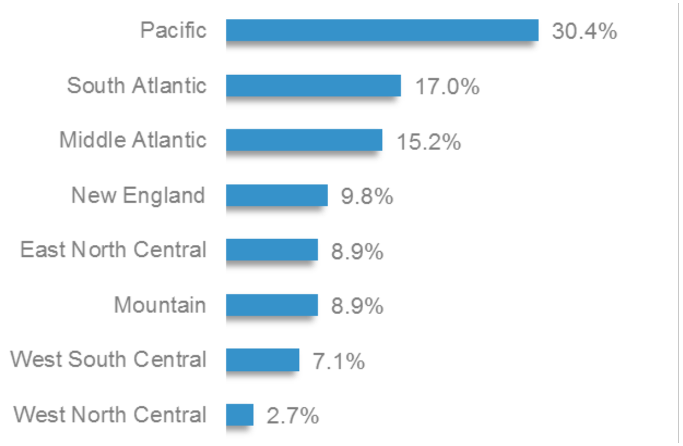
Powered by UBS Evidence Lab

The Body Shop Geographic Exposure

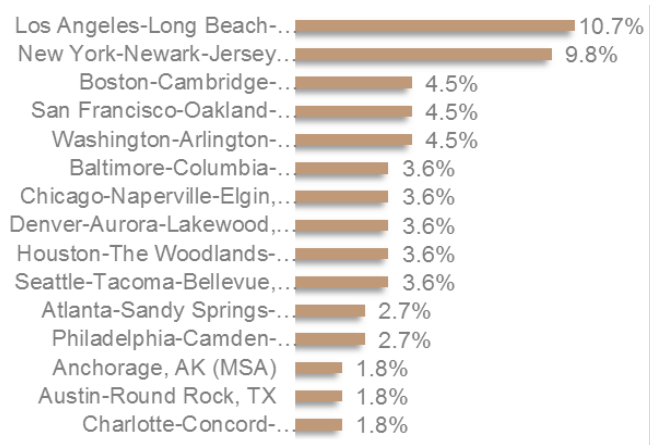
- UBS Evidence Lab did not identify any Body Shop stores opening or closings during 2Q'19.
- From a regional perspective, The Body Shop is highly concentrated in the Pacific region, where over 30% of its stores are located.
- From an MSA perspective, The Body Shop stores are primarily in the Los Angeles & New York metro areas.

Map of Store Base, Openings, & Closings

Regional Exposure



Metropolitan Statistical Area (MSA) Exposure

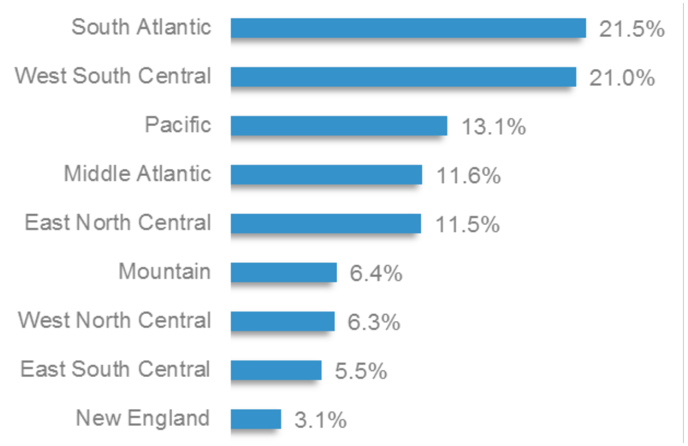


UBS Source: UBS Evidence Lab

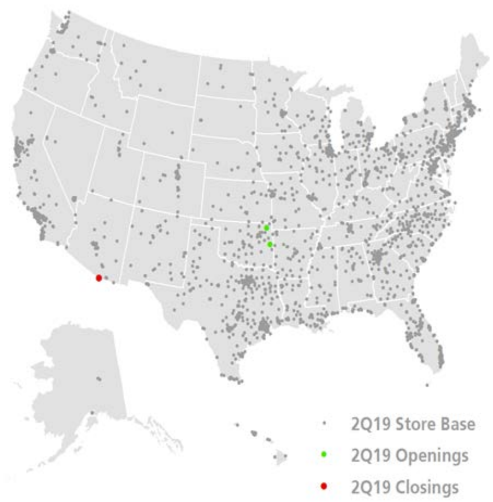
Lancome Store Within a Store Geographic Exposure

- According to UBS Evidence Lab, Lancome Store Within a Store opened several new locations in the West South Central regions, while closed one store in the Mountain region.
- 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 .

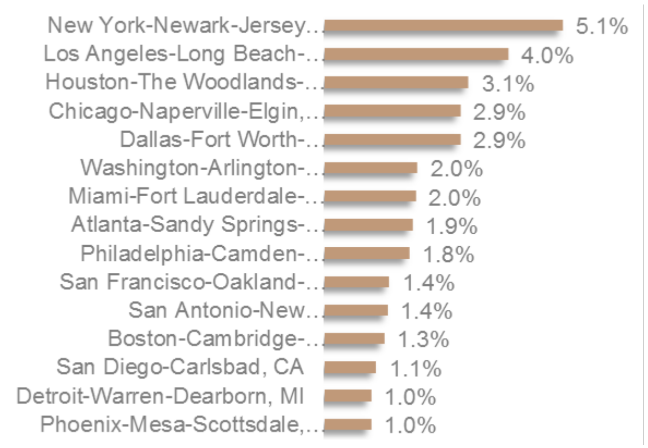
Regional Exposure



Map of Store Base, Openings, & Closings



Metropolitan Statistical Area (MSA) Exposure



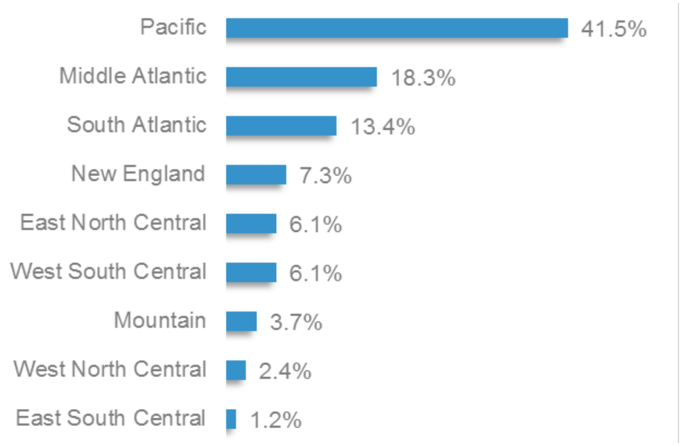
Source: UBS Evidence Lab

Powered by UBS Evidence Lab

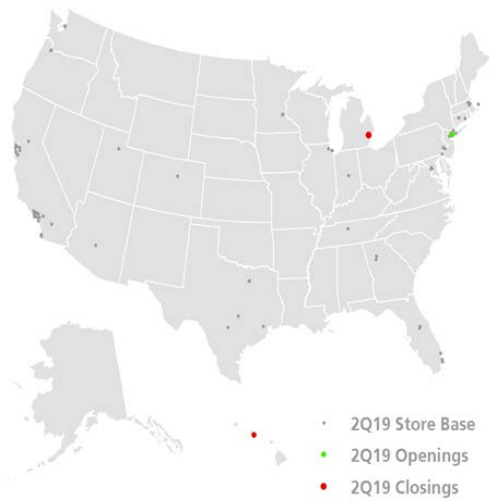
Kiehl's Geographic Exposure

- During 2Q'19, Kiehl's closed one of its locations in the East North Central region, while opened a new store in Middle Atlantic region.
- From a regional perspective, Kiehl's is highly concentrated in the Pacific region, with over 40% of its stores in that area.
- From an MSA perspective, Kiehl's stores are primarily in the LA & New York metro areas.

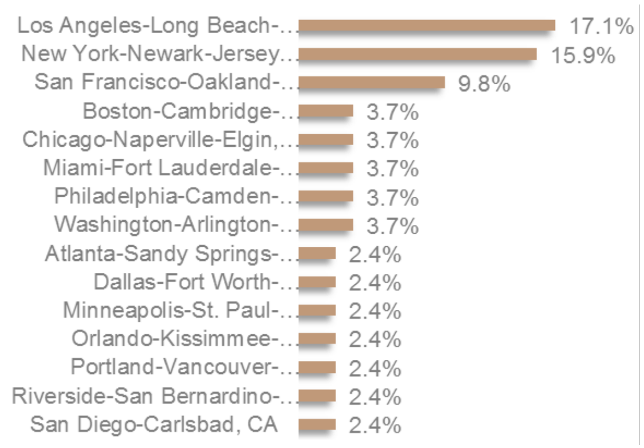
Regional Exposure



Map of Store Base, Openings, & Closings



Metropolitan Statistical Area (MSA) Exposure



UBS Source: UBS Evidence Lab

Appendix 1: Methodology

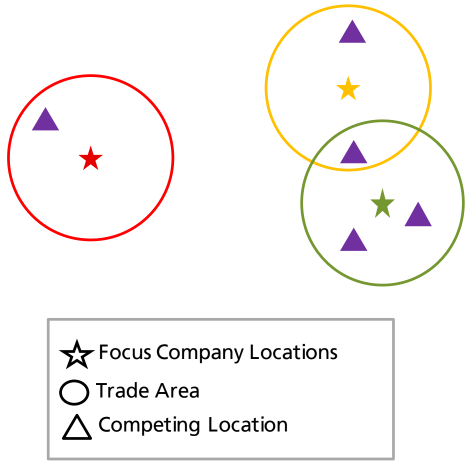
Methodology Overview

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.

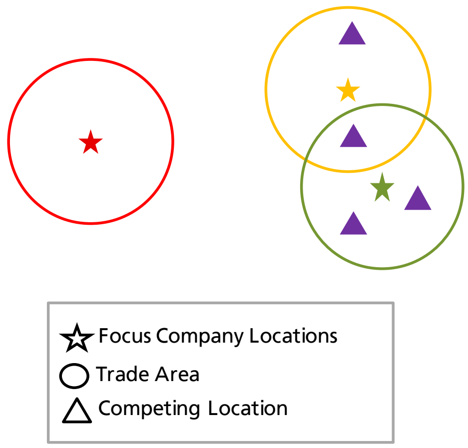
UBS Evidence Lab Overlap Score

	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%	

powered by UBS Evidence Lab

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.).

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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.

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12-Month Rating	**Definition**	**Coverage**[1]	**IB Services**[2]
Buy	FSR is > 6% above the MRA.	45%	30%
Neutral	FSR is between -6% and 6% of the MRA.	40%	28%
Sell	FSR is > 6% below the MRA.	15%	20%
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 June 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.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Estée Lauder Companies[13, 16]	EL.N	Neutral	N/A	US$197.15	23 Aug 2019
L Brands Inc[16]	LB.N	Neutral	N/A	US$17.53	23 Aug 2019
L'Oréal[18]	OREP.PA	Buy	N/A	€236.10	23 Aug 2019
LVMH Moet Hennessy Louis Vuitton SA[7, 18]	LVMH.PA	Buy	N/A	€355.50	23 Aug 2019
Macy's Inc[7, 16]	M.N	Neutral	N/A	US$14.94	23 Aug 2019
Natura &Co[3]	NATU3.SA	Sell	N/A	R$61.11	23 Aug 2019
Nordstrom Inc[16]	JWN.N	Neutral	N/A	US$28.57	23 Aug 2019
Ulta Beauty, Inc.[16]	ULTA.O	Buy	N/A	US$322.10	23 Aug 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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