UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended October 28, 2023

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____________ to _____________

Commission File Number: 001-33764

ULTA BEAUTY, INC.
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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

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

The number of shares of the registrant's common stock, par value $0.01 per share, outstanding as of November 27, 2023 was 48,561,517 shares.

ULTA BEAUTY, INC.
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Part I - Financial Information

Item 1. Financial Statements

Ulta Beauty, Inc.
Consolidated Balance Sheets

(In thousands, except per share data)	October 28, 2023	January 28, 2023	October 29, 2022
Assets	(Unaudited)		(Unaudited)
Current assets:			
Cash and cash equivalents	$ 121,811	$ 737,877	$ 250,628
Receivables, net	202,868	199,422	200,304
Merchandise inventories, net	2,321,306	1,603,451	2,114,669
Prepaid expenses and other current assets	117,282	130,246	137,642
Prepaid income taxes	28,773	38,308	42,572
Total current assets	2,792,040	2,709,304	2,745,815
Property and equipment, net	1,117,874	1,009,273	967,039
Operating lease assets	1,578,316	1,561,263	1,556,940
Goodwill	10,870	10,870	10,870
Other intangible assets, net	591	1,312	844
Deferred compensation plan assets	38,371	35,382	31,529
Other long-term assets	56,946	43,007	18,512
Total assets	$ 5,595,008	$ 5,370,411	$ 5,331,549
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	$ 597,373	$ 559,527	$ 647,117
Accrued liabilities	405,443	444,278	462,773
Deferred revenue	350,937	394,677	312,132
Current operating lease liabilities	287,786	283,293	275,749
Short-term debt	195,400	—	—
Total current liabilities	1,836,939	1,681,775	1,697,771
Non-current operating lease liabilities	1,616,747	1,619,883	1,621,252
Deferred income taxes	56,874	55,346	38,627
Other long-term liabilities	55,906	53,596	51,644
Total liabilities	3,566,466	3,410,600	3,409,294
Commitments and contingencies (Note 6)			
Stockholders' equity:			
Common stock, $0.01 par value, 400,000 shares authorized; 49,458, 51,120, and 51,785 shares issued; 48,659, 50,364, and 51,029 shares outstanding; at October 28, 2023 (unaudited), January 28, 2023, and October 29, 2022 (unaudited), respectively	495	511	517
Treasury stock-common, at cost	(82,798)	(60,470)	(60,218)
Additional paid-in capital	1,058,969	1,023,997	998,816
Retained earnings	1,051,876	995,773	983,140
Total stockholders' equity	2,028,542	1,959,811	1,922,255
Total liabilities and stockholders' equity	$ 5,595,008	$ 5,370,411	$ 5,331,549

See accompanying notes to consolidated financial statements.

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

(In thousands, except per share data)	13 Weeks Ended October 28, 2023	13 Weeks Ended October 29, 2022	39 Weeks Ended October 28, 2023	39 Weeks Ended October 29, 2022
Net sales	$ 2,488,933	$ 2,338,793	$ 7,653,005	$ 6,981,807
Cost of sales	1,496,866	1,375,976	4,612,469	4,149,800
Gross profit	992,067	962,817	3,040,536	2,832,007
Selling, general and administrative expenses	661,380	597,164	1,874,201	1,632,593
Pre-opening expenses	3,460	3,797	5,396	8,422
Operating income	327,227	361,856	1,160,939	1,190,992
Interest income, net	(2,497)	(849)	(14,294)	(556)
Income before income taxes	329,724	362,705	1,175,233	1,191,548
Income tax expense	80,241	88,120	278,597	289,891
Net income	$ 249,483	$ 274,585	$ 896,636	$ 901,657
Net income per common share:				
Basic	$ 5.09	$ 5.37	$ 18.08	$ 17.45
Diluted	$ 5.07	$ 5.34	$ 17.99	$ 17.35
Weighted average common shares outstanding:				
Basic	49,007	51,131	49,592	51,663
Diluted	49,226	51,418	49,846	51,962

See accompanying notes to consolidated financial statements.

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

(In thousands)	39 Weeks Ended October 28, 2023	39 Weeks Ended October 29, 2022
Operating activities		
Net income	$ 896,636	$ 901,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	181,273	182,182
Non-cash lease expense	232,772	222,548
Deferred income taxes	1,528	(1,066)
Stock-based compensation expense	33,477	32,554
Loss on disposal of property and equipment	6,310	3,892
Change in operating assets and liabilities:		
Receivables	(3,446)	33,378
Merchandise inventories	(717,855)	(615,451)
Prepaid expenses and other current assets	12,964	(26,828)
Income taxes	9,535	(49,446)
Accounts payable	41,817	94,214
Accrued liabilities	(34,955)	64,164
Deferred revenue	(43,740)	(41,447)
Operating lease liabilities	(248,469)	(246,988)
Other assets and liabilities	(9,836)	20,063
Net cash provided by operating activities	358,011	573,426
Investing activities		
Capital expenditures	(311,030)	(203,961)
Other investments	(4,870)	(3,068)
Net cash used in investing activities	(315,900)	(207,029)
Financing activities		
Borrowings from credit facility	195,400	—
Repurchase of common shares	(840,551)	(571,908)
Stock options exercised	9,302	31,319
Purchase of treasury shares	(22,328)	(6,740)
Net cash used in financing activities	(658,177)	(547,329)
Net decrease in cash and cash equivalents	(616,066)	(180,932)
Cash and cash equivalents at beginning of period	737,877	431,560
Cash and cash equivalents at end of period	$ 121,811	$ 250,628
Supplemental information		
Income taxes paid, net of refunds	$ 266,802	$ 339,290
Non-cash capital expenditures	53,936	33,982

See accompanying notes to consolidated financial statements.

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

(In thousands)	Common Stock Issued Shares	Common Stock Amount	Treasury - Common Stock Treasury Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance – January 28, 2023	51,120	$ 511	(756)	$ (60,470)	$ 1,023,997	$ 995,773	$ 1,959,811
Net income	—	—	—	—	—	347,051	347,051
Stock-based compensation	—	—	—	—	9,721	—	9,721
Stock options exercised and other awards	150	1	—	—	8,926	—	8,927
Purchase of treasury shares	—	—	(41)	(21,659)	—	—	(21,659)
Repurchase of common shares, including excise tax	(541)	(5)	—	—	(2,266)	(283,512)	(285,783)
Balance – April 29, 2023	50,729	$ 507	(797)	$ (82,129)	$ 1,040,378	$ 1,059,312	$ 2,018,068
Net income	—	—	—	—	—	300,102	300,102
Stock-based compensation	—	—	—	—	11,818	—	11,818
Stock options exercised and other awards	4	—	—	—	220	—	220
Purchase of treasury shares	—	—	(1)	(100)	—	—	(100)
Repurchase of common shares, including excise tax	(594)	(6)	—	—	(2,737)	(275,488)	(278,231)
Balance – July 29, 2023	50,139	$ 501	(798)	$ (82,229)	$ 1,049,679	$ 1,083,926	$ 2,051,877
Net income	—	—	—	—	—	249,483	249,483
Stock-based compensation	—	—	—	—	11,938	—	11,938
Stock options exercised and other awards	5	1	—	—	154	—	155
Purchase of treasury shares	—	—	(1)	(569)	—	—	(569)
Repurchase of common shares, including excise tax	(686)	(7)	—	—	(2,802)	(281,533)	(284,342)
Balance – October 28, 2023	49,458	$ 495	(799)	$ (82,798)	$ 1,058,969	$ 1,051,876	$ 2,028,542

See accompanying notes to consolidated financial statements.

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

(In thousands)	Common Stock Issued Shares	Common Stock Amount	Treasury - Common Stock Treasury Shares	Treasury - Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance – January 29, 2022	53,049	$ 530	(738)	$ (53,478)	$ 934,945	$ 653,376	$ 1,535,373
Net income	—	—	—	—	—	331,395	331,395
Stock-based compensation	—	—	—	—	10,356	—	10,356
Stock options exercised and other awards	73	1	—	—	6,501	—	6,502
Purchase of treasury shares	—	—	(14)	(5,172)	—	—	(5,172)
Repurchase of common shares	(332)	(3)	—	—	—	(132,831)	(132,834)
Balance – April 30, 2022	52,790	$ 528	(752)	$ (58,650)	$ 951,802	$ 851,940	$ 1,745,620
Net income	—	—	—	—	—	295,677	295,677
Stock-based compensation	—	—	—	—	12,519	—	12,519
Stock options exercised and other awards	95	1	—	—	18,018	—	18,019
Purchase of treasury shares	—	—	(3)	(1,153)	—	—	(1,153)
Repurchase of common shares	(798)	(8)	—	—	—	(301,606)	(301,614)
Balance – July 30, 2022	52,087	$ 521	(755)	$ (59,803)	$ 982,339	$ 846,011	$ 1,769,068
Net income	—	—	—	—	—	274,585	274,585
Stock-based compensation	—	—	—	—	9,679	—	9,679
Stock options exercised and other awards	38	—	—	—	6,798	—	6,798
Purchase of treasury shares	—	—	(1)	(415)	—	—	(415)
Repurchase of common shares	(340)	(4)	—	—	—	(137,456)	(137,460)
Balance – October 29, 2022	51,785	$ 517	(756)	$ (60,218)	$ 998,816	$ 983,140	$ 1,922,255

See accompanying notes to consolidated financial statements.

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

1. Business and basis of presentation

Ulta Beauty, Inc. was founded in 1990 to operate specialty retail stores selling cosmetics, fragrance, haircare and skincare products, and related accessories and services. Nearly every store features a full-service salon. As used in these notes and throughout this Quarterly Report on Form 10-Q, all references to “we,” “us,” “our,” “Ulta Beauty,” or the “Company” refer to Ulta Beauty, Inc. and its consolidated subsidiaries.

As of October 28, 2023, the Company operated 1,374 stores across 50 states, as shown in the table below.

Location	Number of stores	Location	Number of stores
Alabama	25	Montana	6
Alaska	3	Nebraska	5
Arizona	35	Nevada	16
Arkansas	11	New Hampshire	8
California	169	New Jersey	44
Colorado	27	New Mexico	7
Connecticut	19	New York	55
Delaware	4	North Carolina	44
Florida	94	North Dakota	4
Georgia	43	Ohio	46
Hawaii	4	Oklahoma	22
Idaho	9	Oregon	18
Illinois	55	Pennsylvania	45
Indiana	26	Rhode Island	4
Iowa	11	South Carolina	24
Kansas	13	South Dakota	3
Kentucky	16	Tennessee	31
Louisiana	18	Texas	129
Maine	3	Utah	15
Maryland	28	Vermont	1
Massachusetts	26	Virginia	33
Michigan	49	Washington	37
Minnesota	20	West Virginia	7
Mississippi	12	Wisconsin	21
Missouri	25	Wyoming	4
		Total	**1,374**

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

The Company's business is subject to seasonal fluctuation, with significant portions of net sales and net income being realized during the fourth quarter of the fiscal year due to the holiday selling season. The results for the 13 and 39 weeks ended October 28, 2023 are not necessarily indicative of the results to be expected for the fiscal year ending February 3, 2024, or for any other future interim period or for any future year.

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

2. Summary of significant accounting policies

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

Fiscal quarter

The Company's quarterly periods are the 13 weeks ending on the Saturday closest to April 30, July 31, October 31, and January 31. The third quarter in fiscal 2023 and 2022 ended on October 28, 2023 and October 29, 2022, respectively.

Use of estimates

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

3. Revenue

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

Disaggregated revenue

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

	13 Weeks Ended		39 Weeks Ended	
(Percentage of net sales)	**October 28, 2023**	**October 29, 2022**	**October 28, 2023**	**October 29, 2022**
Cosmetics	42%	44%	42%	43%
Haircare products and styling tools	19%	21%	20%	21%
Skincare	19%	16%	19%	17%
Fragrance and bath	13%	12%	12%	12%
Services	4%	4%	4%	4%
Accessories and other	3%	3%	3%	3%
	100%	100%	100%	100%

Deferred revenue

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

The following table provides a summary of the changes included in deferred revenue during the 13 and 39 weeks ended October 28, 2023 and October 29, 2022:

	13 Weeks Ended		39 Weeks Ended	
(In thousands)	**October 28, 2023**	**October 29, 2022**	**October 28, 2023**	**October 29, 2022**
Beginning balance	$ 346,067	$ 305,913	$ 388,583	$ 345,206
Additions to contract liabilities (1)	107,628	97,521	250,121	224,938
Deductions to contract liabilities (2)	(109,304)	(99,443)	(294,313)	(266,153)
Ending balance	$ 344,391	$ 303,991	$ 344,391	$ 303,991

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

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

Other amounts included in deferred revenue were $6,546 and $8,141 at October 28, 2023 and October 29, 2022, respectively.

4. Goodwill and other intangible assets

Goodwill, which represents the excess of cost over the fair value of net assets acquired, was $10,870 at October 28, 2023, January 28, 2023, and October 29, 2022. No additional goodwill was recognized during the 13 and 39 weeks ended October 28, 2023. The recoverability of goodwill is reviewed annually during the fourth quarter or more frequently if an event occurs or circumstances change that would indicate that impairment may exist.

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

5. Leases

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

Lease cost

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

The following table presents a summary of operating lease costs:

(In thousands)	13 Weeks Ended October 28, 2023	13 Weeks Ended October 29, 2022	39 Weeks Ended October 28, 2023	39 Weeks Ended October 29, 2022
Operating lease cost	$ 84,074	$ 80,371	$ 252,323	$ 240,366

Other information

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

(In thousands)	39 Weeks Ended October 28, 2023	39 Weeks Ended October 29, 2022
Cash paid for operating lease liabilities (1)	$ 296,115	$ 286,016
Operating lease assets obtained in exchange for operating lease liabilities (non-cash)	249,826	297,232

(1) Excludes $27,682 and $21,347 related to cash received for tenant incentives for the 39 weeks ended October 28, 2023 and October 29, 2022, respectively.

6. Commitments and contingencies

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

7. Debt

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

As of October 28, 2023, the Company had $195,400 outstanding under the credit facility, and the weighted average interest rate was 8.21% for the 39 weeks ended October 28, 2023. As of January 28, 2023 and October 29, 2022, there were no borrowings outstanding under the credit facility.

As of October 28, 2023, the Company was in compliance with all terms and covenants of the Loan Agreement.

8. Fair value measurements

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

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

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

As of October 28, 2023, January 28, 2023, and October 29, 2022, there were liabilities related to the non-qualified deferred compensation plan included in other long-term liabilities on the consolidated balance sheets of $41,633, $37,501, and $34,839, respectively. The liabilities are categorized as Level 2 as they are based on third-party reported values, which are based primarily on quoted market prices of underlying assets of the funds within the plan.

9. Stock-based compensation

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

	39 Weeks Ended	
	October 28, 2023	**October 29, 2022**
Volatility rate	45.0%	49.0%
Average risk-free interest rate	3.8%	2.4%
Average expected life (in years)	3.4	3.4
Dividend yield	—	—

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

The Company granted 42 and 48 stock options during the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. Stock-based compensation expense for stock options was $1,742 and $1,646 for the 13 weeks ended October 28, 2023 and October 29, 2022, respectively. Stock-based compensation expense for stock options was $4,961 and $6,152 for the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. The weighted-average grant date fair value of these stock options was $199.15 and $149.14 for the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. At October 28, 2023, there was approximately $13,028 of unrecognized stock-based compensation expense related to unvested stock options.

There were 48 and 58 restricted stock units issued during the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. Stock-based compensation expense for restricted stock units was $4,959 and $4,544 for the 13 weeks ended October 28, 2023 and October 29, 2022, respectively. Stock-based compensation expense for restricted stock units was $14,252 and $13,983 for the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. At October 28, 2023, there was approximately $32,630 of unrecognized stock-based compensation expense related to restricted stock units.

There were 33 and 37 performance-based restricted stock units issued during the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. Stock-based compensation expense for performance-based restricted stock units was $5,237 and $3,489 for the 13 weeks ended October 28, 2023 and October 29, 2022, respectively. Stock-based compensation expense for performance-based restricted stock units was $14,264 and $12,419 for the 39 weeks ended October 28, 2023 and October 29, 2022, respectively. At October 28, 2023, there was approximately $28,755 of unrecognized stock-based compensation expense related to performance-based restricted stock units.

10. Income taxes

Income tax expense reflects the federal statutory tax rate and the weighted average state statutory tax rate for the states in which the Company operates stores. Income tax expense of $80,241 for the 13 weeks ended October 28, 2023 represents an effective tax rate of 24.3%, compared to $88,120 of tax expense representing an effective tax rate of 24.3% for the 13 weeks ended October 29, 2022.

Income tax expense of $278,597 for the 39 weeks ended October 28, 2023 represents an effective tax rate of 23.7%, compared to $289,891 of tax expense representing an effective tax rate of 24.3% for the 39 weeks ended October 29, 2022. The lower effective tax rate is primarily due to benefits from income tax accounting for stock-based compensation.

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

11. Net income per common share

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

	13 Weeks Ended		39 Weeks Ended	
(In thousands, except per share data)	October 28, 2023	October 29, 2022	October 28, 2023	October 29, 2022
Numerator:				
Net income	$ 249,483	$ 274,585	$ 896,636	$ 901,657
Denominator:				
Weighted-average common shares – Basic	49,007	51,131	49,592	51,663
Dilutive effect of stock options and non-vested stock	219	287	254	299
Weighted-average common shares – Diluted	49,226	51,418	49,846	51,962
Net income per common share:				
Basic	$ 5.09	$ 5.37	$ 18.08	$ 17.45
Diluted	$ 5.07	$ 5.34	$ 17.99	$ 17.35

The denominator for diluted net income per common share for the 13 weeks ended October 28, 2023 and October 29, 2022 excludes 124 and 50 employee stock options and restricted stock units, respectively, due to their anti-dilutive effects. The denominator for diluted net income per common share for the 39 weeks ended October 28, 2023 and October 29, 2022 excludes 144 and 119 employee stock options and restricted stock units, respectively, due to their anti-dilutive effects. Outstanding performance-based restricted stock units are included in the computation of dilutive shares only to the extent that the underlying performance conditions are satisfied prior to the end of the reporting period or would be considered satisfied if the end of the reporting period were the end of the related contingency period and the results would be dilutive under the treasury stock method.

12. Share repurchase program

In March 2022, the Board of Directors authorized a share repurchase program (the 2022 Share Repurchase Program) pursuant to which the Company may repurchase up to $2,000,000 of the Company's common stock. The 2022 Share Repurchase Program revokes the previously authorized but unused amounts from the earlier share repurchase program. The authorized value of shares available to be repurchased under the 2022 Share Repurchase Program excludes excise tax. The 2022 Share Repurchase Program does not have an expiration date and may be suspended or discontinued at any time.

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

	39 Weeks Ended	
(In thousands)	**October 28, 2023**	**October 29, 2022**
Shares repurchased	1,821	1,470
Total cost of shares repurchased, including excise tax	$ 848,356	$ 571,908

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

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

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

- future epidemics, pandemics or natural disasters could negatively impact sales;
- the possibility that new store openings and existing locations may be impacted by developer or co-tenant issues;
- our ability to attract and retain key executive personnel;
- the impact of climate change on our business operations and/or supply chain;
- our ability to successfully execute our common stock repurchase program or implement future common stock repurchase programs;
- a decline in operating results may lead to asset impairment and store closure charges; and
- other risk factors detailed in our public filings with the Securities and Exchange Commission (the SEC), including risk factors contained in Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended January 28, 2023, as such may be amended or supplemented in our subsequently filed Quarterly Reports on Form 10-Q (including this report).

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

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

Overview

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

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

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

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

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

Current Trends

Industry trends

Our research indicates that Ulta Beauty has captured meaningful market share across all categories over the last several years. The overall beauty market expanded in 2022 and into the first 39 weeks of fiscal 2023, supported by healthy consumer engagement with the beauty category. We remain confident that our differentiated and diverse business model, our commitment to strategic investments, and our highly engaged associates will continue to drive market share gains over the long term.

Impact of inflation and other macroeconomic trends

Although we do not believe inflation had a material impact on our sales during the first 39 weeks of fiscal 2023, continued pressure from inflation or other evolving macroeconomic conditions could have an adverse impact on consumer spending and could lead to a recession. Furthermore, inflationary pressures, as well as other macroeconomic trends, could negatively impact our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net sales if the selling prices of our products do not increase with higher costs. In addition, inflation could materially increase the interest rates on any outstanding debt.

Basis of presentation

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

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

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

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

- the general national, regional, and local economic conditions and corresponding impact on customer spending levels;

- the introduction of new products or brands;
- the location of new stores in existing store markets;
- competition;
- our ability to respond on a timely basis to changes in consumer preferences;
- the effectiveness of our various merchandising and marketing activities; and
- the number of new stores opened and the impact on the average age of all of our comparable stores.

Cost of sales includes:

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

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

Selling, general and administrative expenses include:

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

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

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

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

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

Results of operations

Our quarterly periods are the 13 weeks ending on the Saturday closest to April 30, July 31, October 31, and January 31. The Company’s third quarter in fiscal 2023 and 2022 ended on October 28, 2023 and October 29, 2022, respectively.

Our quarterly results of operations have varied in the past and are likely to do so again in the future. As such, we believe that period-to-period comparisons of our results of operations should not be relied upon as an indication of our future performance.

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

(Dollars in thousands)	13 Weeks Ended October 28, 2023	13 Weeks Ended October 29, 2022	39 Weeks Ended October 28, 2023	39 Weeks Ended October 29, 2022
Net sales	$ 2,488,933	$ 2,338,793	$ 7,653,005	$ 6,981,807
Cost of sales	1,496,866	1,375,976	4,612,469	4,149,800
Gross profit	992,067	962,817	3,040,536	2,832,007
Selling, general and administrative expenses	661,380	597,164	1,874,201	1,632,593
Pre-opening expenses	3,460	3,797	5,396	8,422
Operating income	327,227	361,856	1,160,939	1,190,992
Interest income, net	(2,497)	(849)	(14,294)	(556)
Income before income taxes	329,724	362,705	1,175,233	1,191,548
Income tax expense	80,241	88,120	278,597	289,891
Net income	$ 249,483	$ 274,585	$ 896,636	$ 901,657
Other operating data:				
Number of stores end of period	1,374	1,343	1,374	1,343
Comparable sales	4.5%	14.6%	7.3%	15.6%

(Percentage of net sales)	13 Weeks Ended October 28, 2023	13 Weeks Ended October 29, 2022	39 Weeks Ended October 28, 2023	39 Weeks Ended October 29, 2022
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	60.1%	58.8%	60.3%	59.4%
Gross profit	39.9%	41.2%	39.7%	40.6%
Selling, general and administrative expenses	26.6%	25.5%	24.5%	23.4%
Pre-opening expenses	0.1%	0.2%	0.1%	0.1%
Operating income	13.1%	15.5%	15.2%	17.1%
Interest income, net	(0.1%)	0.0%	(0.2%)	0.0%
Income before income taxes	13.2%	15.5%	15.4%	17.1%
Income tax expense	3.2%	3.8%	3.6%	4.2%
Net income	10.0%	11.7%	11.7%	12.9%

Comparison of 13 weeks ended October 28, 2023 to 13 weeks ended October 29, 2022

Net sales

Net sales increased $150.1 million or 6.4%, to $2.5 billion for the 13 weeks ended October 28, 2023, compared to $2.3 billion for the 13 weeks ended October 29, 2022. The net sales increase was primarily due to increased comparable sales, strong new store performance, and an increase in other revenue compared to the 13 weeks ended October 29, 2022. The total comparable sales increase of 4.5% during the 13 weeks ended October 28, 2023 was driven by a 5.9% increase in transactions and a 1.4% decrease in average ticket.

Gross profit

Gross profit increased $29.3 million or 3.0%, to $992.1 million for the 13 weeks ended October 28, 2023, compared to $962.8 million for the 13 weeks ended October 29, 2022. Gross profit as a percentage of net sales decreased to 39.9% for the 13 weeks ended October 28, 2023, compared to 41.2% for the 13 weeks ended October 29, 2022. The decrease in gross profit margin was primarily due to lower merchandise margin, higher inventory shrink, and higher supply chain costs, partially offset by strong growth in other revenue.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses increased $64.2 million or 10.8%, to $661.4 million for the 13 weeks ended October 28, 2023, compared to $597.2 million for the 13 weeks ended October 29, 2022. SG&A expenses as a percentage of net sales increased to 26.6% for the 13 weeks ended October 28, 2023, compared to 25.5% for the 13 weeks ended October 29, 2022, primarily due to higher corporate overhead due to strategic investments, higher store expenses, higher store payroll and benefits, and higher marketing expenses, partially offset by lower incentive compensation.

Pre-opening expenses

Pre-opening expenses were $3.5 million for the 13 weeks ended October 28, 2023 compared to $3.8 million for the 13 weeks ended October 29, 2022.

Interest income, net

Net interest income was $2.5 million for the 13 weeks ended October 28, 2023 compared to $0.8 million for the 13 weeks ended October 29, 2022, due to higher average interest rates on cash balances. As of October 28, 2023, we had $195.4 million outstanding under the credit facility. We did not have any outstanding borrowings on the credit facility as of January 28, 2023 and October 29, 2022.

Income tax expense

Income tax expense of $80.2 million for the 13 weeks ended October 28, 2023 represents an effective tax rate of 24.3%, compared to $88.1 million of income tax expense representing an effective tax rate of 24.3% for the 13 weeks ended October 29, 2022.

Net income

Net income was $249.5 million for the 13 weeks ended October 28, 2023, compared to $274.6 million for the 13 weeks ended October 29, 2022. The decrease in net income is primarily related to the $64.2 million increase in SG&A expenses, partially offset by the $29.3 million increase in gross profit, the $7.9 million decrease in income taxes, and the $1.6 million increase in interest income.

Comparison of 39 weeks ended October 28, 2023 to 39 weeks ended October 29, 2022

Net sales

Net sales increased $671.2 million or 9.6%, to $7.7 billion for the 39 weeks ended October 28, 2023, compared to $7.0 billion for the 39 weeks ended October 29, 2022. The net sales increase was primarily due to increased comparable sales, strong new store performance, and an increase in other revenue compared to the 39 weeks ended October 29, 2022. The total comparable sales increase of 7.3% during the 39 weeks ended October 28, 2023 was driven by an 8.7% increase in transactions and a 1.4% decrease in average ticket.

Gross profit

Gross profit increased $208.5 million or 7.4%, to $3.0 billion for the 39 weeks ended October 28, 2023, compared to $2.8 billion for the 39 weeks ended October 29, 2022. Gross profit as a percentage of net sales decreased to 39.7% for the 39 weeks ended October 28, 2023, compared to 40.6% for the 39 weeks ended October 29, 2022. The decrease in gross profit margin was primarily due to lower merchandise margin, higher inventory shrink, higher supply chain costs, and deleverage of salon expenses, partially offset by strong growth in other revenue and leverage of store fixed costs.

Selling, general and administrative expenses

SG&A expenses increased $241.6 million or 14.8%, to $1.9 billion for the 39 weeks ended October 28, 2023, compared to $1.6 billion for the 39 weeks ended October 29, 2022. SG&A expenses as a percentage of net sales increased to 24.5% for the 39 weeks ended October 28, 2023, compared to 23.4% for the 39 weeks ended October 29, 2022, primarily due to higher corporate overhead due to strategic investments, higher store payroll and benefits, higher marketing expenses, and higher store expenses, partially offset by lower incentive compensation.

Pre-opening expenses

Pre-opening expenses were $5.4 million for the 39 weeks ended October 28, 2023 compared to $8.4 million for the 39 weeks ended October 29, 2022.

Interest income, net

Net interest income was $14.3 million for the 39 weeks ended October 28, 2023 compared to $0.6 million for the 39 weeks ended October 29, 2022 due to higher average interest rates on cash balances. As of October 28, 2023, we had $195.4 million outstanding under the credit facility. We did not have any outstanding borrowings on the credit facility as of January 28, 2023 and October 29, 2022.

Income tax expense

Income tax expense of $278.6 million for the 39 weeks ended October 28, 2023 represents an effective tax rate of 23.7%, compared to $289.9 million of income tax expense representing an effective tax rate of 24.3% for the 39 weeks ended October 29, 2022. The lower effective tax rate is primarily due to benefits from income tax accounting for stock-based compensation.

Net income

Net income was $896.6 million for the 39 weeks ended October 28, 2023 compared to $901.7 million for the 39 weeks ended October 29, 2022. The decrease in net income is primarily related to the $241.6 million increase in SG&A expenses, partially offset by the $208.5 million increase in gross profit, the $13.7 million increase in interest income, and the $11.3 million decrease in income taxes.

Liquidity and capital resources

Our primary sources of liquidity are cash and cash equivalents, cash flows from operations, and borrowings under our credit facility. The most significant components of our working capital are merchandise inventories, receivables, and cash and cash equivalents reduced by accounts payable, accrued liabilities, and deferred revenue. As of October 28, 2023, January 28, 2023, and October 29, 2022, we had cash and cash equivalents of $121.8 million, $737.9 million, and $250.6 million, respectively.

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

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

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

We generally fund short-term and long-term cash requirements with cash from operating activities and supplement with borrowings under our credit facility, as necessary. We believe our primary sources of liquidity will satisfy our cash requirements over both the short-term (the next twelve months) and long-term.

Cash flows

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

The following table presents a summary of our cash flows for the 39 weeks ended October 28, 2023 and October 29, 2022:

	39 Weeks Ended	
(In thousands)	**October 28, 2023**	**October 29, 2022**
Net cash provided by operating activities	$ 358,011	$ 573,426
Net cash used in investing activities	(315,900)	(207,029)
Net cash used in financing activities	(658,177)	(547,329)

Operating activities

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

The decrease in net cash provided by operating activities in the first 39 weeks of fiscal 2023 compared to the first 39 weeks of fiscal 2022 was mainly due to a larger increase in merchandise inventories in the first 39 weeks of fiscal 2023, the timing of accrued liabilities and accounts payable, and the timing of receivable collections, partially offset by a decrease in prepaid income taxes and prepaid expenses.

Merchandise inventories, net were $2.3 billion at October 28, 2023, compared to $2.1 billion at October 29, 2022, representing an increase of $206.6 million or 9.8%. The increase in total inventory is primarily due to the following:

- $76 million increase to support increased demand and product cost increases;
- $49 million increase due to the addition of 31 net new stores opened since October 28, 2022;
- $43 million increase due to our new market fulfillment center in Greer, South Carolina; and
- $40 million increase due to new brand launches.

Investing activities

We have historically used cash primarily for new, remodeled, relocated, and refreshed stores, supply chain investments, short-term investments, and investments in information technology systems. Investing activities for capital expenditures were $311.0 million during the 39 weeks ended October 28, 2023, compared to $204.0 million during the 39 weeks ended October 29, 2022.

During the 39 weeks ended October 28, 2023, we opened 20 new stores, relocated five stores, and remodeled 16 stores, compared to the 39 weeks ended October 29, 2022, when we opened 35 new stores, relocated 11 stores, and remodeled eight stores.

The increase in net cash used in investing activities in the first 39 weeks of fiscal 2023 compared to the first 39 weeks of fiscal 2022 was primarily due to higher capital expenditures.

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

Financing activities

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

The increase in net cash used in financing activities in the first 39 weeks of fiscal 2023 compared to the first 39 weeks of fiscal 2022 was primarily due to an increase in share repurchases, partially offset by borrowings on our revolving credit facility.

As of October 28, 2023, we had $195.4 million outstanding under the credit facility, and we had no borrowings outstanding under the credit facility as of January 28, 2023 and October 29, 2022.

Share repurchase program

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

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

	39 Weeks Ended	
(Dollars in millions)	October 28, 2023	October 29, 2022
Shares repurchased	1,821,426	1,470,099
Total cost of shares repurchased, including excise tax	$ 848.4	$ 571.9

Credit facility

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

As of October 28, 2023, we had $195.4 million outstanding under the credit facility and the weighted average interest rate was 8.21%. As of January 28, 2023 and October 29, 2022, we had no borrowings outstanding under the credit facility.

As of October 28, 2023, we were in compliance with all terms and covenants of the Loan Agreement.

Seasonality

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

Critical accounting policies and estimates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest rate risk

We are exposed to interest rate risks primarily through borrowings under our credit facility. Interest on our borrowings is based upon variable rates. We had $195.4 million outstanding on the credit facility as of October 28, 2023. We did not have any outstanding borrowings on the credit facility as of January 28, 2023 and October 29, 2022.

A hypothetical 1% increase in interest rates on variable rate debt would have increased interest expense for the 39 weeks ended October 28, 2023 by approximately $0.04 million.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures over financial reporting

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

Based on management's evaluation as of October 28, 2023, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), are effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no changes to our internal controls over financial reporting during the 13 weeks ended October 28, 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under plans or programs (in thousands)
July 30, 2023 to August 26, 2023	157,996	$ 445.62	157,960	$ 471,262
August 27, 2023 to September 23, 2023	294,931	416.89	294,489	349,768
September 24, 2023 to October 28, 2023	235,191	389.25	234,240	259,417
13 weeks ended October 28, 2023	688,118	414.04	686,689	259,417

(1) There were 686,689 shares repurchased as part of our publicly announced share repurchase program during the 13 weeks ended October 28, 2023 and there were 1,429 shares transferred from employees in satisfaction of minimum statutory tax withholding obligations upon the vesting of restricted stock during the period.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

During the 13 weeks ended October 28, 2023, no director or Section 16 officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

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

EXHIBIT INDEX

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

Exhibit Number	Description of document	Filed Herewith	Incorporated by Reference			
			Form	Exhibit Number	File Number	Filing Date
101.DEF	Inline XBRL Taxonomy Extension Definition	X				
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101).					

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on November 30, 2023 on its behalf by the undersigned, thereunto duly authorized.

ULTA BEAUTY, INC.

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

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

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David C. Kimbell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ulta Beauty, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 30, 2023	By: /s/ David C. Kimbell David C. Kimbell Chief Executive Officer and Director

Exhibit 31.2

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES
EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Scott M. Settersten, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ulta Beauty, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 30, 2023

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

Exhibit 32

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the Chief Executive Officer and Director of Ulta Beauty, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 28, 2023 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 30, 2023	By:	/s/ David C. Kimbell
		David C. Kimbell
		Chief Executive Officer and Director

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350 (adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Financial Officer, Treasurer and Assistant Secretary of Ulta Beauty, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended October 28, 2023 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 30, 2023	By:	/s/ Scott M. Settersten
		Scott M. Settersten
		Chief Financial Officer, Treasurer and Assistant Secretary