



NYSE: ELF

Consumer Staples Industry

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**Recommendation:**

**HOLD**

**As of April 12, 2024**

**Current Price: \$167.22**

**Target Price: \$190-\$194**

**52 week High: \$221.83**

**52 week Low: \$83.80**

**Beta Value: 1.60**

**Company Overview**

e.l.f. Beauty is a multinational company that offers inclusive, accessible, clean, and cruelty-free cosmetics and skincare products. The company focuses on making high quality trend-focused beauty products that range from \$2-\$20. e.l.f. Beauty was founded in 2004 in Oakland, California.

**Investment Thesis**

We recommend a **HOLD** rating for e.l.f. Beauty with a target price of \$190-\$194 and a projected upside of 14%-16%. e.l.f Beauty has built themselves into a strong, leading player in the cosmetic and personal care industry of the consumer staples industry.

Drivers of Investment Thesis

- **Innovative Marketing Strategy:** A large reason why e.l.f. Beauty has been able to see this high level of growth in a short period is due to changing their marketing strategy to entice an entirely new audience and consistently innovate new products.
- **Recent Restructuring of the Company:** In 2018 and 2019, instead of focusing on growing sales, e.l.f. worked on restructuring their company to propel themselves in the future. A smart decision that we are now seeing the results of.

Risks To Investment Thesis

- **One Product Segment:** e.l.f. Beauty only offers cosmetic products to generate revenue. Missing out on the opportunity to diversify their company has the potential of missing out on more revenue.
- **Low Growth Industry:** The consumer staples industry typically sees low, stable growth rates. e.l.f Beauty has been exceeding predictions with monumental growth rates. As this is not typical for the industry, it is difficult to determine whether it will remain.

**Financial Snapshot**

Valuation Models

DCF/EP: \$191.93

DDM: N/A

Relative Valuation: N/A

Stock Performance Highlights

Current Price: \$167.22

52-Week Range: \$83.80-\$221.83

Market Cap: \$9.02 billion

Financial Metrics

2023 Revenue: \$578.8 million

2024E Revenue: \$810.4 million

2023 EPS: \$1.17

2024E EPS: \$0.71

Financial Ratios

2023 ROE: 117.77%

2023 ROA: 10.33%

**12 Month Returns**



## Economic Analysis

### Level of Employment

The level of employment is a key determinant of how strongly or weakly the economy is performing. As of April 2024, the current U.S. unemployment rate is at 3.80% which is 0.40% higher than it was at this time last year. See the chart below for how the unemployment rate has fluctuated over the past two years.



Source: Fred [6]

The level of unemployment plays a large factor in consumer spending, as more people are employed and making an income, the more people are likely to spend. Though the consumer staples industry is not too dependent on this idea, it does play a factor in the cosmetic sector e.i.f. Beauty resides in. We expect the U.S. unemployment rate to slightly increase to 4.0%-4.25% throughout the year. If there is a mild increase in the unemployment rate, e.i.f. Beauty could expect to see a slight decrease in sales, as the company is relatively inexpensive for the products they sell.

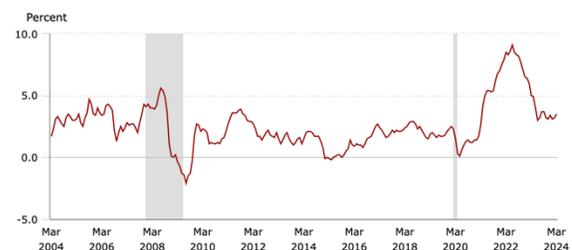
### Consumer Confidence Index

The Consumer Confidence Index (CCI) provides a measure of consumers' confidence in the future economic situation. If consumers believe that the economy is more likely to have a positive outlook, they will buy more goods. The opposite will occur if consumers believe that the market

could turn towards negative trends. As of March 2024, the CCI was 104.7 which is lower than our 2024 estimate, as we believe that the CCI will rise slightly to the 110-115 range throughout the coming months. With the consumer confidence index increasing to this range, we can expect to see a slight increase in sales within the consumer staples industry till it reaches a steady rate when this CCI range is met [7].

### Inflation

The rate of inflation, or the consumer price index (CPI) is a large driver of the prices that companies charge. As inflation increases, so will prices, which will cause the amount of consumer spending to go down. Inflation is currently sitting at 3.48%, which is a slight increase from last month, but a 0.5% decrease from this time last year. This is a higher rate than the long-term average which is visualized in the graph below which shows the inflation rate over the past 20 years. Due to this, there is a slight decline in consumer purchasing power. This will not have a huge impact on the consumer staples industry, but there is still a slight chance for a decrease, especially in the cosmetic and personal care products sector [12].



Source: U.S. Bureau of Labor Statistics [14]

### Interest Rates

The federal funds rate, set by the Federal Reserve, is the interest rate at which banks lend reserves to other banks overnight. As of April 2024, the federal funds reserve has maintained an interest rate of 5.25%-5.50%. This is higher than the long-term average of 4.60%. This makes

it more expensive for companies to borrow debt and makes repaying existing debt more difficult. High-interest rates also mean that consumers are less likely to spend overall, effectively hurting industries that rely on consumer spending [5]. Below is a chart that shows the historical federal funds' reserve rates from after the 2008-2009 recession to the present day.

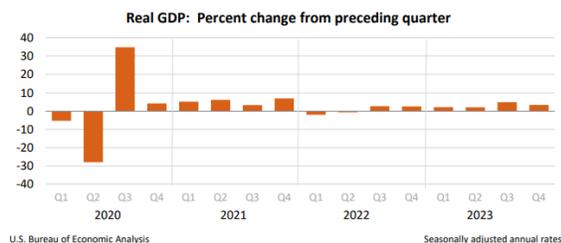


Source: Federal Reserve Economic Data [5]

Based on the last Federal Reserve meeting and current economic conditions, we expect 2-3 rate cuts to occur in the later part of 2024 with the earliest being in June 2024. We predict interest rates to be within the range of 4.25%-4.50% heading into 2025. With a decrease in this interest rate, we expect e.l.f. Beauty to increase profitability as the cost of borrowing debt will be lowered.

## Real GDP

Real GDP is an inflation-adjusted measure of the total value of all goods and services produced within a country. This metric indicates the overall health and growth trajectory of the US economy. It is also an important tool for noting what the purchasing power of a consumer in that country is. Below is a chart showing how real GDP has changed each quarter since 2020.



U.S. Bureau of Economic Analysis Seasonally adjusted annual rates

Source: U.S. Bureau of Economic Analysis [2]

Real GDP is currently at \$27.96 trillion in the United States. We expect real GDP to increase by 2.25%-2.5% throughout 2024 due to the positive, current economic outlook. We expect to see slight increases in GDP growth each quarter till the end of 2025. With this, we can expect to see steady growth within the consumer staples industry [13].

## Industry Analysis

### Industry Description

e.l.f. Beauty operates in the cosmetics and personal care industry. There is a wide range of products that make up this industry such as skincare, make-up, deodorant, toiletries, haircare, and oral care products. Competitors either have a wide variety of products to offer in this industry or specialize in one product. This industry is full of many competitors with a highly assorted range of market values.

### Industry Trends

#### Sustainability:

With the increasing attention on climate change and the need to increase sustainable practices in every aspect, sustainability has become an important factor for many consumers to research and consider before purchasing new products. Consumers want to see these large corporations show their eagerness to move towards being an eco-friendly company; shoppers use their money accordingly. Buyers want to see products that are cruelty-free or vegan, packaging that can be easily recycled, and ethical production practices that limit carbon emissions as much as possible [9]. e.l.f. has stated that sustainability practices in their company are their top priority. The company demonstrates this with recyclable packaging and product containers, producing

cruelty-free items, and adhering to criteria to greatly reduce their carbon footprint. These reasons set them apart from most makeup companies, which we believe will allow them to continue in their successful growth.

#### Transparency:

Transparency comes in a few different forms for consumers looking at what they are buying and from what type of company. Over the last few years, sales have risen for products that are specific in their claims of what ingredients are in their products, as well as where those ingredients are coming from. Transparency in how and who is making these products has been increasingly important to consumers. With the increasing awareness of how many products are made under unethical work and working conditions, consumers have been turning their heels on companies that treat their employees in these negative ways [11]. e.l.f. Beauty has the first Fair Trade Certified factory of every makeup company. This seal shows consumers that e.l.f. upholds itself to promote sustainable practices and safe working conditions for all employees.

#### Enticing Advertisements:

With the rapid growth of technology and social media, how a company advertises its products to consumers has been a leading force in the number of sales that companies are gaining. By capturing a strong audience through displaying your brand in an array of interesting and inclusive advertisements, competitors have been able to swing groups of buyers to different sellers. Social media has been a leading force in this trend through paid advertisements and sponsorships. This has been a critical move in the large success that e.l.f. Beauty has received. e.l.f. shifting their marketing to almost exclusively social media platforms as a means to switch their marketing strategy towards targeting Gen-Z was a strong, successful move [10].

## Peer Comparisons

Some of the main competitors in the cosmetic and personal care items industry are e.l.f. Beauty (ELF), Proctor & Gamble (PG), Estee Lauder Companies Inc. Class A (EL), Colgate-Palmolive Company (CL), and Kimberly-Clark Corporation (KMB). Each of these players has a strong stock performance but differs in the products that they produce. Below is a graph of their varying market capitalizations.



Source: FactSet [4]

## Porter's Five Forces

### Competitive Rivalry – High

There is a very high level of competition in this industry, as there are so many prominent companies with a wide range of products. Though Proctor & Gamble is a strong force in this industry, many other companies are continuing to fight for their buyers amongst other companies. As e.l.f. Beauty uses lower prices to entice their buyers, other competitors rely on consumer loyalty and brand recognition to win over their sales.

### Threat of New Entrants – High

The threat of new entrants is a high force in the cosmetic and personal care products industry. Products in this industry are easily replicated, which is why brand loyalty is such a driving force. e.l.f. Beauty can prevail in this market as it makes

products like other high-end makeup companies but sells them at a much more affordable price.

### Buyer Power – Moderate

Buyers have some influence on where and what they are purchasing in this industry. Because there are so many similar products available customers have a large assortment to choose from. Therefore, there is some influence on how much companies will sell their products for and how much they will produce. There is a moderate size of product differentiation in this industry, but nothing drastic to influence buyer power on a large scale.

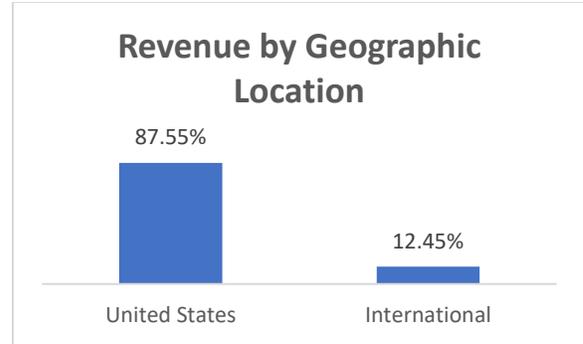
### Threat of Substitute Products – High

With an immense number of choices when it comes to makeup products, it is very easy for buyers to change who they purchase from. Finding a competitive advantage and an edge to make your company stand out is a crucial component of being a successful company in this industry. e.l.f. Beauty is a company that makes affordable substitutes for high-end products, which is the important edge that they have utilized in being a successful company.

## Company Analysis

### **Revenue Analysis**

e.l.f. Beauty does not recognize multiple product segments, as they focus solely on makeup products. Below is a graph of e.l.f. Beauty's 2023 revenue by geographic location.



Source: FactSet [4]

### **United States**

The large majority of e.l.f. Beauty's revenue stream comes from sales in the United States. After company restructuring in 2018 and 2019, their revenue streams have been consistently growing at large measures, with almost a 46% growth in 2023. This consistent growth after reshaping the company shows how it was successfully able to propel itself after matching the current trends to its company. We believe that this number will slowly start to decrease for e.l.f. to reach their steady-state growth rate.

### **International**

Only a small amount of e.l.f. Beauty's sales come from outside of the United States. Though it only makes up a small amount, it has also been continuously growing since its restructuring in 2018 and 2019. In 2023, international net sales grew 119% in Q3. The UK and Canada have established themselves as leaders in e.l.f. Beauty's international sales, as they are now the number six and number four largest cosmetic brand in those countries respectively. e.l.f. Beauty's growing online presence is the leading factor in this success [1]. With their growing social media advertisement presence, we believe that we will start to see a larger growth in international revenues.

## SWOT

### **Strengths**

e.l.f. Beauty's biggest strength is their ability to provide a wide range of beauty products that cater to various consumer preferences all at an affordable price. e.l.f. offers products at a lower price point compared to many competitors, making them the choice for budget-conscious consumers. Products offered by e.l.f. fall within the range of \$2-\$20 with an average price point of just over \$5. This pricing is significantly lower than the average of industry competitors at \$9. e.l.f. also prides itself on creating products that are high quality, innovative, and cruelty-free. Due to these strengths, e.l.f. has become the favorite beauty brand for teens and young adults, lending themselves to more success in the future.

### **Weaknesses**

One of the biggest weaknesses for e.l.f. is the lack of their international presence. Although this is something they are working on expanding, currently they do not hold a large market share internationally. In 2023, international sales made up 12% of e.l.f. Beauty's total revenue. As for their competitors, Coty did 64.2% of sales internationally and Estée Lauder had 71.6% of their sales occur internationally [4]. Most of these international sales for competitors are from Asia and Europe, while e.l.f. only has a presence in the U.S. and a small presence in Europe. This is something that e.l.f. has recognized and is dedicated to expanding in the future. We believe that this could turn into a growth barrier if they do not expand soon.

### **Opportunities**

As e.l.f. is an innovative brand with a strong online presence as well as a young target market, they could benefit from doing more collaborations and partnership deals with celebrities or influencers. Brand partnerships have become very popular as a marketing tool to reach users on social media. When influencers or celebrities promote e.l.f. products and share their positive experiences with their followers, it can influence their audience's purchasing behaviors, leading to increased brand awareness, sales, and brand loyalty. This also generates excitement around new e.l.f. products.

### **Threats**

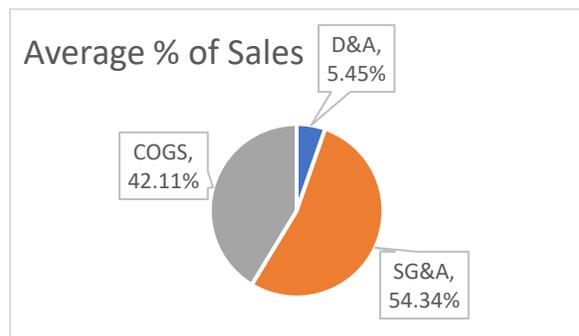
An important threat that e.l.f. faces for the future is their intense competition within the industry. The beauty industry is highly competitive with many established brands both in the U.S. According to e.l.f. Beauty's earnings presentation they are 1 of 800 cosmetic brands competing in the space [8]. Competitors may offer similar products or differentiate themselves through marketing or brand image. This competition poses a threat to e.l.f. Beauty's future growth and profitability if they are unable to differentiate themselves and establish a strong market share.

Another threat to the profitability and growth of e.l.f. is the threat of economic downturns. Recessions lead to decreased demand for cosmetics and skincare products. This could pose a threat to sales, particularly if consumers prioritize essential purchases over discretionary items, such as cosmetics.

## Expense Analysis

### **Expense Analysis**

The most notable expenses seen in e.l.f. Beauty’s financial makeup includes Cost of Sales (COGS), Depreciation and Amortization (D&A), and Selling, General & Administration Expenses (SG&A). Below is a chart representation of the average percentage of sales spent using historical data from 2014-2023.



Source: FactSet [4]

### Cost of Sales

e.l.f. has continuously increased the amount of money it spends on the goods it sells; however, since 2017, the amount it spends as a portion of net sales has been decreasing. They have found a way to manage their spending on sales; however, it still takes up 35% to 40% of what they are spending. Continuing to decrease this as a percentage of net sales will allow e.l.f. to strengthen their margins and better propel themselves into the future market. Since e.l.f. Beauty is a Fair-Trade Certified factory, it is understandable that they will have high production costs and a high cost of goods.

### Depreciation and Amortization

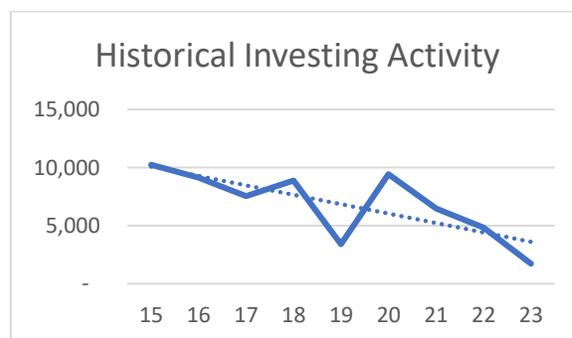
e.l.f. categorizes depreciation and amortization as selling, general, and administrative expenses. This expense historically has accounted for an average of 5.45% of overall sales. We expect D&A expenses to stay relatively stable throughout our projection.

### SG&A expenses

Selling, general, and administrative expenses take up the largest portion of e.l.f. Beauty’s expenses as a proportion of their net sales. It has averaged 54% of net sales from 2014 to 2023. Moving into the future, we expect to continue to see an increase in this area at the same rate. If e.l.f. can minimize this expense, their margins would improve.

### Capital Expenditures

e.l.f. does not directly disclose the amount spent on capital expenditures (Capex) within its financial statements. They do include that most of the cash used in investing activities is driven by capital expenditures related to new customer programs. e.l.f. continues to use capital expenditures to grow their business and invest in the future success of the brand. Below is a chart showing the historical amounts spent on investing activities for e.l.f.



Source: FactSet [4]

Investing activity has decreased in the past three years, which is reflected in our lower projections for the future. e.l.f. Beauty keeps its capital expenditures low to have cash on hand in case a strategic acquisition opportunity arises.

### Cost of Debt

To calculate the cost of debt for e.l.f., we used the pre-tax cost of debt of 4.50% and multiplied it by one minus the marginal tax rate of 14% to calculate an after-tax cost of debt of 3.87%.

## Cost of Equity

To calculate the cost of equity for e.l.f., we used the formula for the Capital Asset Pricing Model (CAPM). We first used an assumption of a risk-free rate of 4.36%, which is where the 10-year US Treasury bond currently sits. We then used e.l.f. Beauty's raw beta of 1.60, which is an average of its monthly beta over the last five years. Lastly, we used an equity risk premium of 5.64% which is based on an average 10% S&P500 market return. These inputs allowed us to calculate the cost of equity as 13.38%.

## WACC

After calculating the cost of equity and the cost of debt for e.l.f. we were able to determine the market weights of both debt and equity to estimate the WACC. To calculate the market value of equity we took the total shares outstanding and multiplied that value by the current stock price as of April 12, 2024. To calculate the market value of debt, we summed all short-term debt, the current portion of long-term debt, long-term debt obligations, and the PV of operating leases. With both market values, we were able to find the correct weights and estimate the WACC for e.l.f. to be 11.67%. e.l.f. does not hold any preferred stock, so that was not a necessary factor in calculating the estimated WACC.

## Capital Structure

Throughout our calculations for e.l.f. Beauty's WACC, we were able to get a deeper look into what the capital structure of the company looks like. We calculated that the firm has a market value of equity of \$8.99 billion and a market value of total debt of \$1.97 billion. This means that the total market value of the firm is \$10.96 billion. This indicates that about 82% of e.l.f. is financed by equity and the other 18% is financed through debt holdings. e.l.f. Beauty has a current market cap of \$9.02 billion. The company's fully

diluted equity capitalization is sitting at around 54 million shares. The last component of their capital structure that we believe is important is the enterprise value which we calculated as \$9.8 billion.

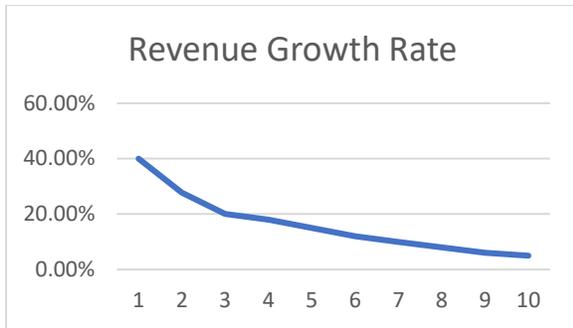
## Valuation Analysis

### Valuation Approach

To value e.l.f. Beauty, we analyzed past, present, and projected data, looking into various financial metrics and company trends. To evaluate e.l.f. we looked at their performance from FY 2014 to FY 2023. We projected e.l.f. Beauty's financial statements until 2033, which are based on growth assumptions. Through historical data and future projections, we were able to build a Discounted Cash Flow Analysis (DCF), Economic Profit Analysis (EP), Dividend Discount Model (DDM), and Relative Valuation model. Based on comparable companies available and the lack of dividends paid out, we determined that the DCF and EP models were the more accurate for determining an implied stock price.

### Revenue Decomposition

e.l.f. Beauty is a rapidly growing company in a widely varying industry, with a 47.61% growth in 2023. Since it resides in the consumer staples industry, we can predict that it will continue to grow strongly until it reduces to a steady state growth rate. Below is a chart that demonstrates where we see e.l.f. Beauty's revenue growth rates heading over the next ten years.



Source: FactSet [4]

## Valuation Models

### DCF:

Our DCF analysis provided one of the most accurate representations among the many different valuation methods that we utilized in calculating e.l.f. Beauty’s implied share price at **\$191.93**. Within our assumptions, we took realistic revenue growth, trends in operations, and overall economic outlook into consideration. The first thing we did was calculate the intrinsic value of the free cash flow from 2024-2033. Then in 2033, we calculated the continuing value (CV). To do so we made assumptions regarding the CV growth of NOPLAT, CV ROIC, and the WACC. We used a continuing value growth rate of NOPLAT of 2.5%. We then estimated the CV ROIC to be 24.83% based on taking the 2033 NOPLAT and dividing that by the 2033 beginning invested capital to get a CV ROIC. The last number that was used in computing the continuing value of 2033 was the WACC which we estimated to be 11.67%. Once we had calculated the continuing value, we were able to begin discounting the values by the WACC to calculate the present value. We discounted the projected free cash flow values for 2014-2033 by the WACC at 11.67% and then discounted the continuing value also by the WACC at 11.67%. By adding those discounted values together, we calculated the value of operating assets. From there we made adjustments that included non-operating items such as long-term debt & finance lease

obligations, investments, long-term operating lease obligations, and cash & cash equivalents. After making those adjustments we calculated the equity value. The last step was to divide the total value of equity by the number of shares outstanding to get an intrinsic value of **\$191.93**.

### E/P Model:

Our Economic Profit (EP) model also provided an accurate representation of e.l.f. Beauty’s implied share price of **\$191.93**. To calculate this intrinsic value, we discounted the economic profit of each year. We calculated economic profit by taking the beginning invested capital and multiplying that number by the change of ROIC and the WACC. The continuing value calculation included the continuing economic profit, CV growth of NOPLAT, CV of ROIC, and WACC. We then discounted the economic profit and the continuing value using the WACC and summed the two values together. We then added last year’s invested capital and adjusted for non-operating items like investments and cash. This resulted in a total equity value of \$913 million. From there we were able to calculate the implied price using the total shares outstanding and WACC values. The intrinsic share price of the EP model is **\$191.93**, which is the same as the DCF model.

### DDM Model:

Implied Relative Value from DDM: \$10.17

Currently, e.l.f. Beauty does not pay a dividend. Throughout their time as a public company, they have only paid a dividend once in 2016 of \$1.61. Since they do not pay a dividend or plan on doing so in the future, we did not determine the dividend discount model to be an appropriate forecast for our valuation.

### Relative Valuation

Implied Relative Value from DDM: \$25.63-\$29.80

e.l.f. Beauty uses an extremely creative business model that no other company employs. Therefore, it was hard for us to determine companies that were a good comparison to e.l.f. Beauty's stock. The closest companies were The Estee Lauder Companies Inc (EL) and Shiseido (SSDOY). When using a larger list of comparable companies, we are unable to determine a valuation based on price-to-earnings ratios. The comparable companies have an average P/E of 36.0 in 2024 and 26.7 in 2025, while e.l.f has a P/E of 234.9 in 2024 and 149.8 in 2025. This is a difference of 6.5x and 5.6x; therefore, we are unable to determine an accurate valuation from this approach.

## Sensitivity Analysis

### Sensitivity Analysis

We created 6 sensitivity tables to determine how much of an impact certain factors have on our predicted stock price. It also allowed us to get a more accurate determinant of our predicted stock price. The tables below are color-coded to get a better visual understanding of what our data means. The values in green show the more attractive price ranges, while the ones in red are considered unattractive.

#### Marginal Tax Rate and Pre-Tax Cost of Debt:

The first factors we looked at were the marginal tax rate and the pre-tax cost of debt to see how they impacted the stock price. We knew that these factors would affect the WACC, so we wanted to see how the change in WACC would affect our stock price. As the marginal tax rate and the pre-tax cost of debt increased, the price of the stock decreased. Below is a closer look at this sensitivity table. The price variance for this table is \$165.67-\$223.48.

		Marginal Tax Rate						
		11%	12%	13%	14%	15%	16%	17%
Pre-Tax Cost of Debt	191.93							
	3.75%	202.68	200.28	197.86	195.45	193.02	190.60	188.16
	4.00%	201.41	199.03	196.65	194.26	191.87	189.47	187.07
	4.25%	200.15	197.80	195.45	193.09	190.73	188.36	185.99
	4.50%	198.90	196.58	194.26	191.93	189.60	187.26	184.92
	4.75%	197.66	195.38	193.08	190.79	188.48	186.18	183.86
	5.00%	196.44	194.18	191.92	189.65	187.38	185.10	182.81
	5.25%	195.23	193.00	190.77	188.53	186.28	184.03	181.78

#### Equity Risk Premium and Beta:

Next, we looked at how a change in our equity risk premium and our beta would affect our stock price. The variables are also major components of our WACC, and we knew that they would have a significant impact on our stock price. As you can see in the table below, as both the equity risk premium and beta increase in value, the stock price decreases. This is due to the volatility that both factors have in their relationship to the stock market. The price variance for this table was \$165.67-\$223.48.

		Beta						
		1.45	1.50	1.55	1.60	1.65	1.70	1.75
Equity Risk Premium	5.34%	223.48	216.21	209.34	202.82	196.64	190.77	185.19
	5.44%	219.48	212.30	205.51	199.08	192.98	187.18	181.67
	5.54%	215.60	208.51	201.80	195.45	189.43	183.71	178.27
	5.64%	211.84	204.83	198.21	191.93	185.99	180.34	174.97
	5.74%	208.19	201.26	194.72	188.52	182.65	177.07	171.78
	5.84%	204.64	197.80	191.33	185.21	179.41	173.90	168.67
	5.94%	201.19	194.43	188.04	181.99	176.26	170.83	165.67

#### CV Growth of NOPLAT and WACC:

Then we built a table looking at the continuing value of NOPLAT and the WACC values. The CV of NOPLAT is used in determining the CV in the DCF valuation and the WACC is used to calculate the present value of the free cash flows in the DCF valuation. As the CV growth of NOPLAT increased so did the stock price, whereas when the WACC increased, the stock price decreased. The range for this stock is \$178.66-\$208.79.

		CV Growth of NOPLAT						
		1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
WACC	11.37%	194.25	196.35	198.57	200.91	203.38	206.00	208.79
	11.47%	191.46	193.49	195.62	197.87	200.26	202.78	205.45
	11.57%	188.74	190.69	192.75	194.91	197.21	199.63	202.21
	11.67%	186.07	187.95	189.93	192.02	194.23	196.57	199.04
	11.76%	183.72	185.54	187.46	189.48	191.62	193.87	196.26
	11.86%	181.16	182.92	184.77	186.72	188.77	190.94	193.24
	11.96%	178.66	180.36	182.14	184.02	186.00	188.09	190.30

#### Marginal Tax Rate and Inflation:

We then built a table around inflation rates and marginal tax rates. If inflation increases, so does the amount of taxes that people pay. As both

values increase, the price of the stock drops as there is a decrease in spending in the economy. Inflation is something that consistently fluctuates in the economy, so we wanted to be able to track changes in the stock price. Below is our sensitivity table that demonstrates this idea. The stock price ranges from \$181.78 to \$202.68.

		Marginal Tax Rate						
		11%	12%	13%	14%	15%	16%	17%
Inflation	\$191.93	199.22	196.90	194.58	192.25	189.91	187.58	185.23
	2.00%	199.06	196.74	194.42	192.09	189.76	187.42	185.08
	2.25%	198.90	196.58	194.26	191.93	189.60	187.26	184.92
	2.50%	198.73	196.42	194.10	191.77	189.44	187.11	184.76
	2.75%	198.57	196.25	193.93	191.61	189.28	186.94	184.60
	3.00%	198.40	196.08	193.77	191.44	189.11	186.78	184.44
	3.25%	198.23	195.91	193.60	191.27	188.95	186.61	184.28
	3.50%							

### COGS and SG&A:

We also built a table showing the relationship between COGS and SG&A as these are the two largest expense categories for e.l.f. As SG&A and COGS increase, profitability decreases resulting in a lower valuation. The table below shows this relationship. The stock price ranges from \$156.42-\$227.54 showing the drastic difference in stock price from a relatively small change in expense percentage of sales.

		SG&A (% of Sales)						
		51.34%	52.34%	53.34%	54.34%	55.34%	56.34%	57.34%
COGS (% of Sales)	\$191.93	227.54	227.54	227.54	227.54	227.54	227.54	227.54
	35.68%	215.68	215.68	215.68	215.68	215.68	215.68	215.68
	36.68%	203.83	203.83	203.83	203.83	203.83	203.83	203.83
	37.68%	191.98	191.98	191.98	191.98	191.98	191.98	191.98
	38.68%	180.13	180.13	180.13	180.13	180.13	180.13	180.13
	39.68%	168.27	168.27	168.27	168.27	168.27	168.27	168.27
	40.68%	156.42	156.42	156.42	156.42	156.42	156.42	156.42
	41.68%							

### Cost of Equity and After-Tax Cost of Debt:

Lastly, we computed how the cost of equity, and the after-tax cost of debt affects the stock price. As you can see in the sensitivity table below, as the after-tax cost of debt increases, so does that stock price. However, if the cost of equity increases or decreases, there is no effect on the stock price. This is because the cost of equity exceeds the cost of debt, so a change in the after-tax cost of debt has a larger effect on the stock price than the cost of equity does [3]. The stock price on this sensitivity table varies from \$190.39 to \$193.45.

		After-Tax Cost of Debt						
		3.72%	3.77%	3.82%	3.87%	3.92%	3.97%	4.02%
Cost of Equity	12.50%	190.39	190.39	190.39	190.39	190.39	190.39	190.39
	12.75%	190.83	190.83	190.83	190.83	190.83	190.83	190.83
	13.00%	191.26	191.26	191.26	191.26	191.26	191.26	191.26
	13.38%	191.93	191.93	191.93	191.93	191.93	191.93	191.93
	13.75%	192.57	192.57	192.57	192.57	192.57	192.57	192.57
	14.00%	193.01	193.01	193.01	193.01	193.01	193.01	193.01
	14.25%	193.45	193.45	193.45	193.45	193.45	193.45	193.45
	14.50%							

## Conclusion

### Conclusion

Overall, we suggest a **HOLD** rating for e.l.f. Beauty due to their strong margins and increase in brand recognition. Although the stock currently trades at a 12%-14% premium to our valuation estimate, e.l.f. Beauty still needs to reach its steady, stable growth rate to ensure the longevity of being a successful stock. Due to these reasons, we believe that e.l.f. Beauty's stock price should trade anywhere from \$190-\$194 which is slightly higher than what the current stock price is trading at.

## **Important Disclaimer**

This report was created by students enrolled in the Applied Equity Valuation (FIN:4250) class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge, and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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elf Beauty																					
Revenue Decomposition																					
Fiscal Years Ending March 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Segment Growth Rate																					
United States	\$ 122,317.00	\$ 178,817.00	\$ 210,236.00	\$ 243,299.00	\$ 241,159.00	\$ 59,797.00	\$ 255,284.00	\$ 282,273	\$ 347,484	\$ 506,759											
% Growth YoY		46.19%	17.57%	15.73%	-0.88%	-75.20%	326.92%	10.57%	23.10%	45.84%											
International	\$ 12,817.00	\$ 12,596.00	\$ 19,331.00	\$ 26,589.00	\$ 26,276.00	\$ 6,344.00	\$ 27,567.00	\$ 35,837	\$ 44,671	\$ 72,085											
% Growth YoY		-1.72%	53.47%	37.55%	-1.18%	-75.86%	334.54%	30.00%	24.65%	61.37%											
<b>Total Revenue</b>	<b>\$ -</b>	<b>\$ 135,134</b>	<b>\$ 191,413</b>	<b>\$ 229,567</b>	<b>\$ 269,888</b>	<b>\$ 267,435</b>	<b>\$ 66,141</b>	<b>\$ 282,851</b>	<b>\$ 318,110</b>	<b>\$ 392,155</b>	<b>\$ 578,844</b>	<b>\$ 810,382</b>	<b>\$ 1,035,527</b>	<b>\$ 1,242,633</b>	<b>\$ 1,466,307</b>	<b>\$ 1,686,253</b>	<b>\$ 1,888,603</b>	<b>\$ 2,077,463</b>	<b>\$ 2,243,660</b>	<b>\$ 2,378,280</b>	<b>\$ 2,497,194</b>
% Growth YoY		41.65%	19.93%	17.56%	-0.91%	-75.27%	327.65%	12.47%	23.28%	47.61%	40.00%	27.78%	20.00%	18.00%	15.00%	12.00%	10.00%	8.00%	6.00%	5.00%	





**elf Beauty**

*Historical Cash Flow Statement*

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	3/31/2019	3/31/2020	3/31/2021	3/31/2022	3/31/2023
<b>Fiscal Years Ending March 31</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Cash flows from operating activities:</b>										
Net income (loss)	(9,286)	4,357	5,313	33,475	15,525	(17,914)	17,884	6,232	21,770	61,530
Depreciation & amortization	-	-	-	14,521	17,861	7,544	22,843	25,179	27,083	22,164
Restructuring expense (income)	-	-	-	-	-	22,176	(5,982)	2,641	50	-
Stock-based compensation expense	287	503	7,149	13,474	16,821	3,683	15,488	19,682	19,646	29,117
Amortization of debt issuance costs & discount on debt	-	-	1,281	810	792	190	747	847	394	346
Deferred income taxes	(4,276)	(3,933)	(7,575)	(13,434)	(939)	(3,433)	2,443	(8,584)	(3,701)	(6,401)
Loss (gain) on extinguishment of debt	-	-	2,736	-	-	-	-	-	460	176
Other adjustments, net	-	-	(13)	1,192	476	242	873	383	496	179
Changes in operating assets and liabilities:										
Accounts receivable	(10,980)	4,448	(15,392)	(8,001)	7,649	4,215	2,504	(10,529)	(5,597)	(22,432)
Inventories	(4,752)	(2,147)	(37,994)	6,718	16,338	2,561	(435)	(10,937)	(27,655)	3,174
Prepaid expenses & other assets	(464)	953	(635)	(11,200)	(8,484)	(1,732)	(6,500)	(9,659)	(10,555)	(24,553)
Accounts payable & accrued expenses	1,904	3,532	43,144	(25,483)	(10,251)	(6,021)	5,962	17,472	1,498	42,995
Other liabilities	232	787	1,396	(230)	(206)	(3,295)	(11,514)	(3,252)	(4,376)	(4,412)
Net cash flows from operating activities	(8,415)	24,519	2,120	12,378	55,582	8,216	44,313	29,475	19,513	101,883
<b>Cash flows from investing activities:</b>										
Acquisition, net of cash acquired	(237,891)	-	-	-	-	-	(25,923)	-	-	-
Purchase of property & equipment	(1,597)	(10,142)	(9,223)	(7,544)	(8,872)	(3,400)	(9,422)	(6,474)	(4,818)	(1,723)
Net cash flows from investing activities	(239,488)	(10,242)	(9,139)	(10,419)	(8,872)	(3,400)	(35,345)	(6,474)	(4,818)	(1,723)
<b>Cash flows from financing activities:</b>										
Proceeds from revolving line of credit	15,250	27,150	5,500	25,900	2,000	-	-	20,000	26,480	-
Repayment of revolving line of credit	(5,600)	(29,100)	(13,200)	(25,900)	(2,000)	-	-	(20,000)	(26,480)	-
Proceeds from long-term debt	145,000	-	172,749	-	-	-	-	-	25,581	-
Repayment of long-term debt	(1,969)	(2,625)	(151,540)	(8,250)	(8,250)	(2,063)	(9,488)	(11,756)	(54,525)	(30,000)
Debt issuance costs paid	(5,251)	-	(704)	(519)	-	-	-	(334)	(1,064)	-
Repurchase of common stock	-	-	-	-	-	-	(7,904)	-	-	-
Cash received from issuance of common stock	100	25	64,071	1,978	3,176	115	1,488	1,503	1,677	8,053
Other financing activities, net	-	-	(657)	(404)	(490)	(199)	(771)	(813)	(779)	(788)
Net cash flows from financing activities	252,571	(4,941)	8,310	(7,195)	(5,564)	(2,147)	(16,675)	(11,400)	(29,110)	(22,735)
Net increase (decrease) in cash & cash equivalents	4,668	9,336	1,291	(5,236)	41,146	2,669	(7,707)	11,601	(14,415)	77,425
Cash & cash equivalents - beginning of period	-	4,668	14,004	15,295	10,059	51,205	53,874	46,167	57,768	43,353
Cash & cash equivalents - end of period	4,668	14,004	15,295	10,059	51,205	53,874	46,167	57,768	43,353	120,778

elf Beauty

Forecasted Cash Flow Statement

<b>Fiscal Years Ending March 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
<b>Cash flows from operating activities:</b>										
Net income (loss)	38,435	60,736	77,697	95,195	112,087	119,549	136,607	149,647	159,596	167,748
Change in depreciation & amortization	7,196	5,906	5,927	6,065	6,215	6,371	6,530	6,693	6,861	7,032
Change in deferred income taxes	2515	3630	2761	2849	2750	1215	2777	2123	1620	1327
Other adjustments, net										
Changes in operating assets and liabilities:										
Change in accounts receivable	(82,207)	(41,711)	(38,369)	(41,439)	(40,748)	(37,488)	(34,989)	(30,790)	(24,940)	(22,031)
Change in inventories	(130,065)	(58,729)	(54,024)	(58,345)	(57,373)	(52,783)	(49,264)	(43,353)	(35,116)	(31,019)
Change in prepaid expenses & other current assets	(1,655)	(9,710)	(8,932)	(9,647)	(9,486)	(8,727)	(8,145)	(7,168)	(5,806)	(5,129)
Change in intangible assets	6,963	1,230	1,230	1,230	1,230	2,358	2,358	2,358	2,358	2,358
Change in other assets	(1,364)	(1,422)	(1,483)	(1,547)	(1,613)	(1,682)	(1,754)	(1,829)	(1,907)	(1,989)
Change in Accounts payable & accrued expenses	53,704	23,652	21,757	23,497	23,105	21,257	19,840	17,459	14,142	12,492
Change in accrued expenses	35,996	29,719	27,338	29,525	29,033	26,710	24,930	21,938	17,770	15,697
Change in other liabilities	1,421	539	523	571	546	609	467	427	351	314
Net cash flows from operating activities	<b>(69,060)</b>	<b>13,839</b>	<b>34,425</b>	<b>47,954</b>	<b>65,746</b>	<b>77,388</b>	<b>99,356</b>	<b>117,505</b>	<b>134,928</b>	<b>146,801</b>
<b>Cash flows from investing activities:</b>										
Change in property, plant, & equipment	(5,785)	(5,929)	(6,078)	(6,230)	(6,385)	(6,545)	(6,709)	(6,876)	(7,048)	(7,224)
Change in investments	(123)	(128)	(134)	(140)	(146)	(152)	(158)	(165)	(172)	(179)
Net cash flows from investing activities	(5,908)	(6,058)	(6,211)	(6,369)	(6,531)	(6,697)	(6,867)	(7,041)	(7,220)	(7,404)
<b>Cash flows from financing activities:</b>										
Change in repayment of long-term debt	35,617	9,707	10,678	67,378	(65,589)	(3,035)	(3,088)	(2,204)	(841)	993
Change in cash received from issuance of common stock	7	7	7	3	0	0	0	0	0	0
Net cash flows from financing activities	<b>35,624</b>	<b>9,714</b>	<b>10,685</b>	<b>67,381</b>	<b>(65,589)</b>	<b>(3,035)</b>	<b>(3,088)</b>	<b>(2,204)</b>	<b>(841)</b>	<b>993</b>
Total change in cash & cash equivalents from balance sheet	<b>(39,344)</b>	<b>17,495</b>	<b>38,898</b>	<b>108,966</b>	<b>(6,373)</b>	<b>67,657</b>	<b>89,401</b>	<b>108,260</b>	<b>126,867</b>	<b>140,390</b>
Beginning of year cash from BS	120778	81,434	98,929	137,827	246,793	240,420	308,077	397,478	505,738	632,605
End of year cash from BS	81,434	98,929	137,827	246,793	240,420	308,077	397,478	505,738	632,605	772,994

elf Beauty  
Common Size Balance Sheet

Fiscal Years Ending March 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	
<b>Assets</b>																					
Current assets:																					
Cash & cash equivalents	3.45%	7.32%	0.00%	0.00%	20.52%	91.94%	17.76%	19.72%	11.88%	21.70%	10.05%	9.55%	11.09%	16.83%	14.26%	16.31%	19.13%	22.54%	26.60%	30.95%	
Accounts receivable, net	19.94%	11.74%	16.48%	17.48%	14.71%	55.08%	11.43%	13.72%	12.48%	12.20%	18.53%	18.53%	18.53%	18.53%	18.53%	18.53%	18.53%	18.53%	18.53%	18.53%	
Inventory, net	21.54%	16.33%	30.23%	24.54%	18.57%	74.71%	17.77%	19.39%	23.15%	14.61%	26.09%	26.09%	26.09%	26.09%	26.09%	26.09%	26.09%	26.09%	26.09%	26.09%	
Prepaid expenses & other current assets	2.01%	1.56%	1.04%	2.46%	2.99%	12.53%	3.95%	5.25%	5.37%	5.98%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	
Total current assets	46.95%	36.95%	54.41%	48.42%	56.79%	234.26%	50.91%	58.08%	52.87%	54.49%	58.97%	58.48%	60.02%	65.76%	63.18%	65.24%	68.06%	71.47%	75.52%	79.88%	
Property & equipment, net	1.57%	5.15%	7.47%	7.06%	8.74%	27.32%	6.60%	4.70%	2.90%	1.41%	0.80%	0.63%	0.53%	0.46%	0.41%	0.38%	0.35%	0.33%	0.32%	0.32%	
Intangible assets, net	95.78%	63.36%	49.22%	41.46%	39.58%	165.63%	39.39%	32.19%	23.60%	14.02%	8.77%	6.75%	5.52%	4.60%	3.92%	3.38%	2.96%	2.63%	2.39%	2.18%	
Goodwill	116.38%	82.16%	68.50%	61.58%	63.01%	268.38%	65.89%	58.59%	47.01%	30.83%	86.23%	86.23%	86.23%	86.23%	86.23%	86.23%	86.23%	86.23%	86.23%	86.23%	
Deferred tax assets	0.18%	0.14%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Investments	0.00%	0.00%	0.00%	1.13%	1.15%	4.91%	1.11%	0.98%	0.79%	0.52%	0.37%	0.30%	0.26%	0.23%	0.21%	0.20%	0.19%	0.18%	0.18%	0.18%	
Other assets	1.24%	0.88%	1.05%	3.74%	5.37%	36.22%	10.37%	11.85%	8.32%	5.72%	4.10%	3.35%	2.91%	2.57%	2.33%	2.17%	2.06%	1.99%	1.95%	1.94%	
Total assets	262.09%	188.64%	180.66%	163.39%	174.64%	736.71%	174.27%	166.38%	135.49%	106.99%	228.93%	228.93%	228.93%	228.93%	228.93%	228.93%	228.93%	228.93%	228.93%	228.93%	
<b>Liabilities and stockholders' equity</b>																					
Current liabilities:																					
Current portion of long-term debt & finance lease obligations	0.00%	0.00%	3.77%	3.39%	3.95%	17.51%	4.83%	5.56%	1.58%	1.00%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	5.20%	
Accounts payable	0.00%	0.00%	16.53%	10.49%	8.21%	27.78%	4.77%	5.36%	5.27%	5.65%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	10.51%	
Accrued expenses & other current liabilities	0.00%	0.00%	14.67%	6.24%	5.08%	31.73%	10.06%	14.12%	10.96%	12.75%	13.20%	13.20%	13.20%	13.20%	13.20%	13.20%	13.20%	13.20%	13.20%	13.20%	
Total current liabilities	26.31%	23.96%	34.97%	20.11%	17.24%	77.02%	19.66%	25.03%	17.81%	19.40%	24.32%	24.19%	24.11%	28.91%	24.54%	24.45%	24.38%	24.33%	24.30%	24.27%	
Long-term debt & finance lease obligations	0.00%	0.00%	68.03%	57.84%	56.31%	235.55%	48.49%	37.64%	24.95%	10.94%	67.47%	67.47%	67.47%	67.47%	67.47%	67.47%	67.47%	67.47%	67.47%	67.47%	
Long-term operating lease obligations	0.00%	0.00%	0.00%	0.00%	0.00%	27.13%	4.32%	6.86%	4.31%	2.01%	1.38%	1.08%	0.90%	0.76%	0.66%	0.59%	0.54%	0.50%	0.47%	0.45%	
Other long-term liabilities	0.60%	0.84%	1.40%	1.17%	1.11%	1.14%	0.23%	0.20%	0.21%	0.14%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	
Total liabilities	164.77%	117.12%	119.30%	87.47%	82.75%	369.43%	81.13%	74.33%	49.91%	33.16%	38.73%	36.80%	35.74%	38.73%	33.08%	32.01%	31.26%	30.72%	30.37%	30.16%	
Stockholders' equity:																					
Common Equity (Total Common Stock + APIC)	0.00%	0.00%	305.49%	282.27%	296.84%	1270.76%	289.88%	264.55%	218.03%	149.64%	102.79%	80.44%	67.04%	56.81%	49.40%	44.11%	40.10%	37.13%	35.03%	33.36%	
Retained earnings (accumulated deficit)	-14.48%	-35.10%	-244.13%	-206.36%	-204.95%	-903.48%	-196.74%	-172.50%	-132.45%	-75.81%	-47.33%	-31.18%	-19.73%	-10.23%	-2.24%	4.33%	10.51%	16.40%	22.18%	27.84%	
Total stockholders' equity (deficit)	-10.22%	-31.55%	61.36%	75.92%	91.89%	367.28%	93.14%	92.05%	85.58%	73.83%	55.46%	49.27%	47.31%	46.59%	47.16%	48.43%	50.61%	53.53%	57.21%	61.20%	
Total liabilities and stockholders' equity	154.55%	85.56%	180.66%	163.39%	174.64%	736.71%	174.27%	166.38%	135.49%	106.99%	94.19%	86.07%	83.05%	85.32%	80.24%	80.45%	81.87%	84.25%	87.58%	91.36%	

elf Beauty

Common Size Income Statement

Fiscal Years Ending March 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	54.53%	47.59%	42.40%	41.18%	41.95%	43.77%	39.12%	38.20%	38.46%	33.85%	38.68%	37.67%	37.37%	37.21%	36.96%	37.58%	37.36%	37.29%	37.28%	37.29%
Depreciation and amortization	0.00%	0.00%	0.00%	5.69%	7.16%	12.87%	8.79%	8.60%	7.42%	3.98%	0.89%	0.57%	0.48%	0.41%	0.37%	0.34%	0.31%	0.30%	0.29%	0.28%
Gross profit	45.47%	52.41%	57.60%	64.51%	65.21%	69.10%	69.66%	70.39%	68.95%	70.13%	60.43%	61.76%	62.15%	62.38%	62.67%	62.08%	62.33%	62.41%	62.43%	62.43%
Selling, general & administrative expenses	41.52%	39.06%	47.55%	51.47%	54.72%	63.70%	60.44%	66.28%	60.79%	57.89%	54.34%	54.34%	54.34%	54.34%	54.34%	54.34%	54.34%	54.34%	54.34%	54.34%
Restructuring expense (income)	0.00%	0.00%	0.00%	0.00%	0.00%	37.84%	-2.30%	0.90%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating income	3.96%	13.36%	10.05%	13.03%	10.48%	-32.44%	11.52%	3.21%	8.15%	12.24%	6.09%	7.42%	7.81%	8.04%	8.33%	7.74%	7.99%	8.07%	8.09%	8.08%
Other income (expense), net	-4.91%	-2.18%	1.31%	-0.80%	-0.16%	-0.54%	0.16%	-0.55%	-0.39%	-0.34%	-0.20%	-0.16%	-0.13%	-0.11%	-0.10%	-0.09%	-0.08%	-0.07%	-0.07%	-0.07%
Interest Expense	-8.54%	-6.65%	-7.09%	-3.44%	-3.13%	-3.16%	-2.43%	-1.40%	-0.67%	-0.36%	-0.37%	-0.44%	-0.40%	-0.38%	-0.51%	-0.30%	-0.26%	-0.24%	-0.22%	-0.21%
Loss on extinguishment of debt	0.00%	0.00%	1.19%	0.00%	0.00%	0.00%	0.00%	0.00%	-0.13%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income (loss) before provision for income taxes	-9.50%	4.53%	4.27%	8.80%	7.19%	-36.13%	9.26%	1.26%	6.97%	11.51%	5.51%	6.82%	7.27%	7.55%	7.73%	7.36%	7.65%	7.76%	7.80%	7.81%
Income tax provision (benefit)	-2.62%	2.26%	1.96%	-4.31%	0.97%	-5.56%	2.38%	-0.87%	1.00%	0.46%	0.77%	0.95%	1.02%	1.06%	1.08%	1.03%	1.07%	1.09%	1.09%	1.09%
Net income (loss)	0.00%	2.28%	2.31%	13.11%	6.22%	-30.57%	6.88%	2.13%	5.96%	11.05%	4.74%	5.87%	6.25%	6.49%	6.65%	6.33%	6.58%	6.67%	6.71%	6.72%

ell Beauty  
Value Driver Estimation

Fiscal Years Ending March 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>NOPLAT:</b>																				
Operating Revenues	135,134	191,413	229,567	255,367	249,574	58,597	260,008	292,931	365,072	556,680	810,382	1,035,527	1,242,633	1,466,307	1,686,253	1,888,603	2,077,463	2,243,660	2,378,280	2,497,194
Cost of Goods Sold	73,684	91,084	97,332	105,163	104,694	25,650	101,728	111,912	140,423	188,448	313,487	390,041	464,423	545,585	623,185	709,695	776,069	836,766	886,594	931,277
Selling, General, and Administrative Expenses	56,103	74,758	109,156	131,446	136,579	37,224	157,155	194,157	221,912	322,253	446,372	562,719	675,262	796,810	916,331	1,026,291	1,128,920	1,219,234	1,292,388	1,357,007
Depreciation and Amortization	-	-	-	14,521	17,861	7,544	22,843	25,179	27,083	22,164	7,196	5,906	5,927	6,065	6,215	6,371	6,530	6,693	6,861	7,032
<b>EBIT:</b>	5,347	25,571	23,079	33,279	26,162	(19,009)	29,950	9,400	29,770	68,143	49,327	76,861	97,020	117,847	140,521	146,246	165,945	180,968	192,438	201,878
Income Tax Expense (Income)	(3,545)	4,321	4,499	(11,006)	2,431	(3,259)	6,185	(2,542)	3,661	2,544	6,257	9,887	12,648	15,497	18,247	19,462	22,238	24,361	25,981	27,308
Tax shield on interest expense	1,616	1,781	2,280	1,229	1,094	259	883	573	362	283	419	643	704	771	1,196	764	744	730	725	725
Tax shield on restructuring	-	-	-	-	-	-	-	(837)	370	-	-	-	-	-	-	-	-	-	-	-
<b>Less: Adjusted Taxes</b>	<b>(1,929)</b>	<b>6,102</b>	<b>6,779</b>	<b>(9,778)</b>	<b>3,525</b>	<b>105</b>	<b>(8,231)</b>	<b>(1,600)</b>	<b>4,010</b>	<b>2,827</b>	<b>6,676</b>	<b>10,530</b>	<b>13,353</b>	<b>16,268</b>	<b>19,443</b>	<b>20,244</b>	<b>23,002</b>	<b>25,105</b>	<b>26,711</b>	<b>28,033</b>
<b>Change in Deferred Taxes</b>		<b>(3,933)</b>	<b>(7,652)</b>	<b>(12,871)</b>	<b>(1,124)</b>	<b>1,675</b>	<b>(8,413)</b>	<b>-</b>	<b>(3,886)</b>	<b>(5,851)</b>	<b>2,515</b>	<b>3,630</b>	<b>2,761</b>	<b>2,849</b>	<b>2,750</b>	<b>1,215</b>	<b>2,777</b>	<b>2,123</b>	<b>1,620</b>	<b>1,327</b>
<b>NOPLAT</b>	<b>7,276</b>	<b>15,336</b>	<b>8,648</b>	<b>30,186</b>	<b>21,513</b>	<b>(17,439)</b>	<b>15,307</b>	<b>11,000</b>	<b>21,874</b>	<b>59,465</b>	<b>45,166</b>	<b>69,961</b>	<b>86,428</b>	<b>104,427</b>	<b>123,828</b>	<b>127,217</b>	<b>145,719</b>	<b>157,985</b>	<b>167,347</b>	<b>175,172</b>
<b>Invested Capital (IC):</b>																				
<b>Operating Assets</b>																				
Normal Cash	2,703	3,828	4,591	5,107	4,991	1,172	5,200	5,859	7,301	11,134	16,208	20,711	24,853	29,326	33,725	37,772	41,549	44,873	47,566	49,944
Receivables	26,946	22,475	37,825	44,634	36,724	32,275	29,711	40,185	45,567	67,938	150,135	191,846	230,215	271,654	312,402	349,891	384,880	415,670	440,610	462,641
Inventories	29,114	31,261	69,397	62,679	46,341	43,779	46,209	56,810	84,498	81,323	211,388	270,118	324,141	382,487	439,860	492,643	541,907	585,260	620,375	651,394
Prepaid Expenses & Other Current Assets	2,711	2,978	2,387	6,272	7,473	7,340	10,263	15,381	19,611	33,296	34,951	44,662	53,594	63,241	72,727	81,454	89,599	96,767	102,573	107,702
<b>Less Operating Liabilities</b>																				
Accounts Payable	-	-	37,944	26,776	20,483	16,280	12,390	15,699	19,227	31,427	85,131	108,783	130,539	154,037	177,142	198,399	218,239	235,698	249,840	262,332
Other Current Liabilities	-	-	33,676	15,939	12,671	18,590	26,165	41,351	40,004	70,974	106,970	136,690	164,028	193,552	222,585	249,296	274,225	296,163	313,933	329,630
<b>Add Net PP&amp;E</b>	<b>2,125</b>	<b>9,854</b>	<b>17,151</b>	<b>18,037</b>	<b>21,804</b>	<b>16,006</b>	<b>17,171</b>	<b>13,770</b>	<b>10,577</b>	<b>7,874</b>	<b>6,463</b>	<b>6,486</b>	<b>6,636</b>	<b>6,801</b>	<b>7,145</b>	<b>7,324</b>	<b>7,507</b>	<b>7,695</b>	<b>7,887</b>	<b>8,079</b>
<b>Add Other Long-Term Operating Assets</b>																				
Intangible Assets	129,428	121,282	113,003	105,882	98,773	97,053	102,410	94,286	86,163	78,041	71,078	69,848	68,618	67,388	66,158	63,800	61,442	59,084	56,726	54,368
Operating Leases	-	-	-	26,294	26,600	23,305	13,598	22,739	50,949	16,292	784	2,744	3,267	3,838	4,384	4,993	5,459	5,886	6,237	6,551
<b>Less Other Long-Term Operating Liabilities</b>	<b>814</b>	<b>1,601</b>	<b>3,208</b>	<b>2,977</b>	<b>2,770</b>	<b>668</b>	<b>591</b>	<b>598</b>	<b>769</b>	<b>784</b>	<b>2,205</b>	<b>2,744</b>	<b>3,267</b>	<b>3,838</b>	<b>4,384</b>	<b>4,993</b>	<b>5,459</b>	<b>5,886</b>	<b>6,237</b>	<b>6,551</b>
<b>Total Invested Capital</b>	<b>192,213</b>	<b>190,077</b>	<b>169,526</b>	<b>223,213</b>	<b>206,783</b>	<b>185,392</b>	<b>185,426</b>	<b>191,382</b>	<b>244,666</b>	<b>192,702</b>	<b>295,916</b>	<b>355,454</b>	<b>410,223</b>	<b>469,470</b>	<b>527,732</b>	<b>580,018</b>	<b>628,778</b>	<b>671,414</b>	<b>705,535</b>	<b>735,423</b>
<b>Free Cash Flow (FCF):</b>																				
NOPLAT	7,275.70	15,336.06	8,648.38	30,185.50	21,512.76	(17,438.50)	15,306.50	10,999.66	21,874.26	59,465.48	45,166.48	69,961.28	86,428.22	104,427.49	123,827.65	127,217.00	145,719.50	157,985.08	167,346.51	175,172.48
Change in IC	(2,135.42)	(20,550.92)	53,284.56	(16,430.12)	(21,390.61)	34.02	5,955.21	53,284.56	(51,963.66)	103,213.59	59,537.68	54,769.66	59,246.44	58,261.84	52,286.08	48,760.20	42,635.82	34,121.69	29,887.62	29,887.62
<b>FCF</b>	<b>17,671.48</b>	<b>29,199.30</b>	<b>(23,501.22)</b>	<b>37,942.88</b>	<b>3,952.11</b>	<b>15,272.48</b>	<b>5,044.45</b>	<b>(31,410.30)</b>	<b>111,429.14</b>	<b>(58,047.11)</b>	<b>10,423.60</b>	<b>31,658.56</b>	<b>45,181.05</b>	<b>65,565.81</b>	<b>74,930.92</b>	<b>96,959.30</b>	<b>115,349.26</b>	<b>133,224.82</b>	<b>145,284.87</b>	<b>145,284.87</b>
<b>Return on Invested Capital (ROIC):</b>																				
NOPLAT	7,275.70	15,336.06	8,648.38	30,185.50	21,512.76	(17,438.50)	15,306.50	10,999.66	21,874.26	59,465.48	45,166.48	69,961.28	86,428.22	104,427.49	123,827.65	127,217.00	145,719.50	157,985.08	167,346.51	175,172.48
Beginning IC	192,212.68	190,077.26	169,526.34	223,213.06	206,782.94	185,392.33	185,426.36	191,381.57	244,666.13	192,702.47	295,916.06	355,453.74	410,223.40	469,469.84	527,731.68	580,017.76	628,777.96	671,413.78	705,535.47	735,423.00
<b>ROIC</b>	<b>8.08%</b>	<b>4.55%</b>	<b>17.81%</b>	<b>9.64%</b>	<b>-8.43%</b>	<b>8.26%</b>	<b>5.93%</b>	<b>11.43%</b>	<b>24.30%</b>	<b>23.44%</b>	<b>23.64%</b>	<b>24.31%</b>	<b>25.46%</b>	<b>26.38%</b>	<b>24.11%</b>	<b>25.12%</b>	<b>25.13%</b>	<b>24.92%</b>	<b>24.83%</b>	<b>24.83%</b>
<b>Economic Profit (EP):</b>																				
Beginning IC	192,212.68	190,077.26	169,526.34	223,213.06	206,782.94	185,392.33	185,426.36	191,381.57	244,666.13	192,702.47	295,916.06	355,453.74	410,223.40	469,469.84	527,731.68	580,017.76	628,777.96	671,413.78	705,535.47	735,423.00
x (ROIC - WACC)	(0.12)	-3.59%	(0.07)	0.06	(0.20)	(0.03)	(0.06)	(0.00)	0.13	0.12	0.13	0.13	0.14	0.15	0.12	0.13	0.13	0.13	0.13	0.13
<b>EP</b>	<b>(6,901.29)</b>	<b>(13,539.70)</b>	<b>10,396.37</b>	<b>(4,543.33)</b>	<b>(41,576.67)</b>	<b>(6,334.70)</b>	<b>(10,645.51)</b>	<b>(466.08)</b>	<b>30,905.13</b>	<b>22,671.95</b>	<b>35,418.43</b>	<b>44,933.43</b>	<b>56,541.32</b>	<b>69,025.54</b>	<b>84,586.63</b>	<b>98,973.09</b>	<b>115,349.26</b>	<b>133,224.82</b>	<b>152,811.99</b>	<b>175,172.48</b>

**elf Beauty***Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity:**

Risk-Free Rate	4.36%
Beta	1.60
Equity Risk Premium	5.64%
<b>Cost of Equity</b>	<b>13.38%</b>

**ASSUMPTIONS:**

*10-year Treasury bond*  
*Average of 5Y Monthly Beta*  
*Assuming 10% S&P500 market return*

**Cost of Debt:**

Risk-Free Rate	4.36%
Implied Default Premium	0.14%
Pre-Tax Cost of Debt	4.50%
Marginal Tax Rate	14%
<b>After-Tax Cost of Debt</b>	<b>3.87%</b>

*10-year Treasury bond**ELF cost of debt***Market Value of Common Equity:**

Total Shares Outstanding	5,377.05
Current Stock Price	\$167.22
<b>MV of Equity</b>	<b>899,150.00</b>

**MV Weights**

82.02%

**Market Value of Debt:**

Short-Term Debt	102,401.00
Current Portion of LTD	5,575.00
Long-Term Debt	72,866.00
PV of Operating Leases	16,291.87
<b>MV of Total Debt</b>	<b>197,133.87</b>

17.98%

**Market Value of the Firm****1,096,283.87**

100.00%

**Estimated WACC****11.67%**

**elf Beauty**

*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

CV Growth of NOPLAT	2.50%
CV Year ROIC	24.83%
WACC	11.67%
Cost of Equity	13.38%

<b>Fiscal Years Ending March 31</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
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**DCF Model:**

Free Cash Flow (FCF)	-58047.1	10423.6	31658.6	45181.0	65565.8	74930.9	96959.3	115349.3	133224.8	145284.9
Continuing Value (CV)										1717331.4
PV of FCF	-51979.5	8358.3	22732.4	29051.0	37751.4	38633.8	44765.9	47689.6	49322.5	635790.1

Value of Operating Assets:	862,115.37
Non-Operating Adjustments	
Long-term debt & finance lease obligation	(60,881.00)
Investments	2,875.00
Long-term operating lease obligations	(11,201.00)
Cash & cash equivalents	120778

Value of Equity	913686.4
Shares Outstanding	5,419.84
Intrinsic Value of Last FYE	\$ 168.58
<b>Implied Price as of Today</b>	<b>\$ 191.93</b>

**EP Model:**

Economic Profit (EP)	22671.9	35418.4	44935.4	56541.3	69025.5	65613.9	78012.9	84586.6	88971.1	92814.0
Continuing Value (CV)	250094.3	389960.5	491859.1	613548.1	744494.3	719460.4	848566.6	920054.0	969194.4	1011795.9
PV of EP	20302.0	28400.9	32265.8	36355.5	39743.4	33830.0	36018.4	34971.2	32938.9	374586.9

Total PV of EP	669,412.90
Invested Capital (last FYE)	192,702.47
Value of Operating Assets:	862,115.37
Non-Operating Adjustments	
Long-term debt & finance lease obligation	(60,881.00)
Investments	2,875.00
Long-term operating lease obligations	(11,201.00)
Cash & cash equivalents	120,778.00

Value of Equity	913,686.37
Shares Outstanding	5,419.84
Intrinsic Value of Last FYE	\$ 168.58
<b>Implied Price as of Today</b>	<b>\$ 191.93</b>

## elf Beauty

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

<b>Fiscal Years Ending</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>	<b>2029E</b>	<b>2030E</b>	<b>2031E</b>	<b>2032E</b>	<b>2033E</b>
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EPS	\$ 0.07	\$ 1.12	\$ 1.42	\$ 1.73	\$ 2.03	\$ 2.16	\$ 2.47	\$ 2.71	\$ 2.89	\$ 3.04
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### Key Assumptions

CV growth of EPS	2.50%
CV Year ROE	304%
Cost of Equity	13.38%

### Future Cash Flows

P/E Multiple (CV Year)										9.112
EPS (CV Year)										\$ 3.04
Future Stock Price										\$ 27.67
Dividends Per Share	-	-	-	-	-	-	-	-	-	
Discounted Cash Flows	-	-	-	-	-	-	-	-	-	8.93

Intrinsic Value as of Last FYE \$ 8.93

Implied Price as of Today \$ 10.17

## elf Beauty

### Relative Valuation Models

Ticker	Company	Price	EPS 2024E	EPS 2025E	P/E 24	P/E 25
LRLCY	L'Oreal SA	\$475.02	\$14.06	\$15.31	33.79	31.03
EL	The Estee Lauder Comp	\$145.04	\$2.24	\$4.24	64.75	34.21
COTY	Coty Inc.	\$10.51	\$0.45	\$0.56	23.36	18.77
IPAR	Inter Parfums	\$139.22	\$5.16	\$5.77	27.00	24.13
SSDOY	Shiseido	\$26.17	\$0.42	\$0.97	62.31	26.98
PG	Proctor & Gamble	\$162.61	\$6.72	\$7.24	24.20	22.50
ULTA	Ulta Beauty	\$442.32	\$26.68	\$15.10	16.58	29.29
Average					<b>36.00</b>	<b>26.70</b>

ELF	elf Beauty	\$167.22	0.71	\$1.12	234.9	149.8
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#### Implied Relative Value:

P/E (EPS24)	\$ 25.63	6.52
P/E (EPS25)	\$ 29.80	5.61



**elf Beauty***Valuation of Options Granted under ESOP*

Current Stock Price	\$167.22
Risk Free Rate	4.36%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	40.00%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Service-based vesting	953	16.30	4.00	\$ 153.54	\$ 146,298
Performance-based and Market-based vesting	518	14.46	2.40	\$ 154.20	\$ 79,834
Total	1,471	\$ 15.65	3.44	\$ 153.75	<b>\$ 226.13</b>

