

Ulta Salon, Cosmetics & Fragrance, Inc.

Form 10-K

April 02, 2014

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

☐ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended February 1, 2014

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 SALON, COSMETICS & FRAGRANCE, INC.

(Exact name of Registrant as specified in its charter)

Delaware

36-3685240

*(State or other jurisdiction of
incorporation or organization)*

(I.R.S. Employer

1000 Remington Blvd., Suite 120

Identification No.)

60440

Bolingbrook, Illinois

(Zip code)

(Address of principal executive offices)

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

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

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Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on August 3, 2013, as reported on the NASDAQ Global Select Market, was approximately \$4,815,407,000. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 5% or more of the registrant's outstanding common stock as of August 3, 2013 have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of March 27, 2014 was 64,295,291 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Information required in response to Part III of Form 10-K (Items 10, 11, 12, 13 and 14) is hereby incorporated by reference to the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held during the current fiscal year. The Proxy Statement will be filed by the registrant with the SEC no later than 120 days after the close of the fiscal year covered by this Form 10-K.

Table of Contents

ULTA SALON, COSMETICS & FRAGRANCE, INC.

TABLE OF CONTENTS

<u>Part I</u>		
Item 1.	<u>Business</u>	3
Item 1A.	<u>Risk Factors</u>	12
Item 1B.	<u>Unresolved Staff Comments</u>	24
Item 2.	<u>Properties</u>	25
Item 3.	<u>Legal Proceedings</u>	26
Item 4.	<u>Mine Safety Disclosures</u>	26
<u>Part II</u>		
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	28
Item 6.	<u>Selected Financial Data</u>	31
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	43
Item 8.	<u>Financial Statements and Supplementary Data</u>	43
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	43
Item 9A.	<u>Controls and Procedures</u>	43
Item 9B.	<u>Other Information</u>	44
<u>Part III</u>		
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	44
Item 11.	<u>Executive Compensation</u>	44
Item 12.	<u>Security Ownership and Certain Beneficial Owners and Management and Related Stockholder Matters</u>	44
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	44
Item 14.	<u>Principal Accountant Fees and Services</u>	45
<u>Part IV</u>		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	46

Table of Contents

FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K 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, or other comparable words. Any forward-looking statements contained in this Form 10-K 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 or expectations contemplated by us will be achieved. Such forward-looking statements are subject to various risks and uncertainties, which include, without limitation: the impact of weakness in the economy; changes in the overall level of consumer spending; changes in the wholesale cost of our products; the possibility that we may be unable to compete effectively in our highly competitive markets; the possibility that our continued opening of new stores could strain our resources and have a material adverse effect on our business and financial performance; the possibility that new store openings and existing locations may be impacted by developer or co-tenant issues; the possibility that the capacity of our distribution and order fulfillment infrastructure may not be adequate to support our recent growth and expected future growth plans; the possibility of material disruptions to our information systems; weather conditions that could negatively impact sales; our ability to attract and retain key executive personnel; our ability to successfully execute and implement our common stock repurchase program; our ability to sustain our growth plans and successfully develop and implement our long-range strategic and financial plan; 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 this Annual Report on Form 10-K for the year ended February 1, 2014. We assume no obligation to update any forward-looking statements as a result of new information, future events or developments. References in the following discussion to we, us, our, the Company, Ulta, Ulta Beauty and similar references mean Ulta Salon, Cosmetics & Fragrance, Inc. and its consolidated subsidiary, Ulta Inc. unless otherwise expressly stated or the context otherwise requires.

Part I

Item 1. Business
Overview

Ulta Beauty (or Ulta, we, the Company) is the largest beauty retailer that provides one-stop shopping for prestige, mass and salon products and salon services in the United States. We focus on providing affordable indulgence to our customers by combining unmatched product breadth, value and convenience with the distinctive environment and experience of a specialty retailer. Key aspects of our business include:

One-Stop Shopping. Our customers can satisfy all of their beauty needs at Ulta. We offer a unique combination of more than 20,000 prestige and mass beauty products organized by category in a bright, open store environment. The beauty products are arranged in self-service displays and full-service boutiques in a way that encourages our customers to enjoy discovering new products and services. We believe we offer the widest selection of categories across prestige and mass cosmetics, fragrance, haircare, skincare, bath and body products and salon styling tools. We also offer a full-service salon and a wide range of salon haircare products in all of our stores.

Our Value Proposition. We believe our focus on delivering a compelling value proposition to our customers across all of our product categories drives customer loyalty. We offer frequent promotions and coupons, in store events, gift-with-purchase offers, a comprehensive customer loyalty program and targeted promotions through our Customer Relationship Management platform (CRM).

An Off-Mall Location. Our stores are predominantly located in convenient, high-traffic locations such as power centers. Our typical store is approximately 10,000 square feet, including approximately 950 square feet dedicated to our full-service salon. Our store design, fixtures and open layout provide the flexibility to respond to consumer trends and changes in our merchandising strategy.

Table of Contents

We were founded as a Delaware corporation 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 combining one-stop shopping, a compelling value proposition, convenient locations and a welcoming shopping environment.

The following description of our business should be read in conjunction with the information contained in our Management’s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 and the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K.

Our competitive strengths

We believe the following competitive strengths differentiate us and are critical to our success:

Differentiated merchandising strategy with broad appeal. We believe our broad selection of merchandise across categories, price points and brands offers a unique shopping experience for our customers. While the products we sell can be found in department stores, specialty stores, salons, drug stores and mass merchandisers, we offer all of these products in one retail format so that our customers can find everything they need in one shopping trip. We offer more than 500 brands, such as Bare Minerals and Urban Decay prestige cosmetics, Nyx and Maybelline mass cosmetics, Coty and Estée Lauder fragrances, Redken and Matrix haircare, as well as Dermalogica and Philosophy skincare and Clarisonic and Ultra Chi personal care appliances. We also offer private label Ulta products in key categories such as cosmetics, skincare and bath. Because we offer a broad array of products in prestige, mass and salon, we appeal to a wide range of customers including women of all ages, demographics, and lifestyles.

Our unique customer experience. We combine unmatched product breadth, value and convenience with the distinctive environment and experience of a specialty retailer. Our well-trained, non-commissioned beauty advisors provide unbiased and customized advice tailored to our customers’ needs. Our customer service strategy, convenient locations and attractive store design combine to create a unique shopping experience.

Loyal and active customer base. Approximately thirteen million Ulta customers are members of our loyalty program. We use this valuable proprietary database to drive traffic, better understand our customers’ purchasing patterns and support new store site selection. We regularly employ a broad range of media, including digital, catalogs and newspaper inserts and targeted promotions driven by our CRM platform, to drive traffic to our stores and website.

Strong vendor relationships across product categories. We have strong, active relationships with over 300 vendors, including Bare Minerals, Coty, Estée Lauder, L’Oréal and Procter & Gamble. We believe the scope of these relationships, which span the three beauty categories of prestige, mass and salon and which have taken years to develop, creates a significant impediment for other retailers to replicate our model. We work closely with our vendors to market both new and existing brands in a collaborative manner.

Experienced management team. We have an experienced senior management team that brings a creative merchandising approach and a disciplined operating philosophy to our business. We continue to expand the depth of our management team at all levels and in all functional areas to support our growth.

Five point growth strategy

We intend to expand our presence as a leading retailer of beauty products and salon services by pursuing the following growth strategies:

Growing stores to approximately 1,200 locations. We believe that over the long-term, we have the potential to grow our store base to approximately 1,200 Ulta stores in the United States. Our internal real estate model takes into account a number of variables, including demographic and sociographic data as well as population density relative to maximum drive times, economic and competitive factors. We plan to continue opening stores both in markets in which we currently operate and new markets.

Table of Contents

We opened 127 new stores during fiscal 2013, representing a 22% increase in square footage growth and a 25% increase in the number of new stores opened compared to 102 new stores in fiscal 2012. We also remodeled 7 stores and relocated 4 stores in fiscal 2013. Our fiscal 2013 new store program was comprised of approximately 70% new stores opened in existing shopping centers and 30% in new shopping centers. In fiscal 2013 approximately one third of new stores were in new markets and two thirds were filling in existing markets.

	Fiscal Year				
	2009	2010	2011	2012	2013
Total stores beginning of period	311	346	389	449	550
Stores opened	37	47	61	102	127
Stores closed	(2)	(4)	(1)	(1)	(2)
Total stores end of period	346	389	449	550	675
Stores remodeled	6	13	17	21	7
Total square footage	3,613,840	4,094,808	4,747,148	5,847,393	7,158,286
Average square footage per store	10,445	10,526	10,573	10,632	10,605

Expanding our offering by adding new products, brands and services. Our strategy is to continue to expand our portfolio of products, brands and services both by capitalizing on the success of our existing vendor relationships and by identifying and developing new vendor relationships. Over the last several years we have added new products from existing vendors across product categories. We have also added a number of new brands in recent years, most notably in our prestige category which is currently the beauty industry's highest growth category. Fiscal 2013 brand additions included IT Cosmetics, Lipstick Queen, Mally, Meaningful Beauty and Perricone. We continue to roll out Clinique and Lancôme boutiques, ending the year with 100 stores with Clinique boutiques and 105 stores with Lancôme boutiques. We also offer haircare services in our full service salons as well as skin and brow services in most of our stores. We plan to establish Ulta as a leading salon authority by providing high quality and consistent services from our licensed stylists and by expanding our portfolio of services.

Enhancing our successful loyalty program. We have approximately thirteen million active Ulta customers who are enrolled in our loyalty program. Loyalty member transactions represent approximately 80% of our annual total net sales, and the transaction data demonstrates that loyalty members shop with higher frequency and spend more per visit as compared to non-members. In early fiscal 2014, we converted all of our loyalty customers to ULTAmate Rewards, a points-based program. The customer data captured by our loyalty program, together with our CRM platform, also enables customer segmentation and one-on-one marketing communications tailored to our customers' unique beauty needs. We believe our loyalty program combined with our growing CRM capabilities provide significant long-term opportunity for Ulta.

Broadening our marketing reach. We believe our marketing initiatives are a key component of our success, providing an effective means to introduce new products, brands and services to our existing and potential new customers. We have historically utilized primarily direct mail advertising, catalogs and newspaper inserts to communicate with our customers. We plan to continue to leverage our print marketing while expanding our reach into other marketing channels, including digital marketing, social media and e-mail marketing. In addition, we continue to enhance in-store marketing and special events to educate customers and drive traffic. We plan to continue to focus on our in-store marketing and in-store special events as an additional means of educating our customers and increasing the frequency of their visits to our stores. We believe Ulta has a significant opportunity to attract new customers to our stores and website and we expect to increase our marketing efforts to drive greater awareness of our brand.

Expanding our digital business. Our e-commerce platform serves two roles: to generate direct channel sales and profits and to communicate with our customers in an interactive, enjoyable way to reinforce the Ulta brand and drive traffic to our stores and website. We continue to aggressively develop and add new website features and functionality, marketing programs, product assortment, new brands and multi-channel integration points. We intend to establish ourselves as a leading online beauty resource by providing our customers with a rich online

Table of Contents

experience for information on key trends and products, editorial content, expanded assortments, best in class features and functionality and social media content. In 2013 we re-launched ulta.com with enhanced content and capabilities and believe we are well positioned to capitalize on the growth of e-commerce sales of beauty products. We believe our website and retail stores provide our customers with an integrated shopping experience and increased flexibility for their beauty buying needs.

Our market

We operate within the large and growing U.S. beauty products and salon services industry. This market represents approximately \$113 billion in retail sales, according to Euromonitor International and IBIS World Inc. The approximately \$65 billion beauty products industry includes color cosmetics, haircare, fragrance, bath and body, skincare, salon styling tools and other toiletries. Within this market, we compete across all major categories as well as a range of price points by offering prestige, mass and salon products. The approximately \$48 billion salon services industry consists of hair, skin and nail services.

Competition

Our major competitors for prestige and mass products include traditional department stores such as Macy's and Nordstrom, specialty stores such as Sephora and Bath & Body Works, drug stores such as CVS/pharmacy and Walgreens, mass merchandisers such as Target and Wal-Mart and the online businesses of the aforementioned retailers as well as pure play e-commerce business such as Amazon. Our competitive advantages are the quality and assortment of merchandise and services, our value proposition, the quality of our customers' shopping experience and the convenience of our stores and website as one-stop destinations for beauty products.

The market for salon services and products is highly fragmented. Our competitors for salon services and products include Regis, Sally Beauty, JCPenney salons and independent salons.

Stores

Our stores are predominantly located in convenient, high-traffic locations such as power centers. Our typical store is approximately 10,000 square feet, including approximately 950 square feet dedicated to our full-service salon. We opened 127 (125 net of closings) stores in fiscal 2013 and the average investment required to open a new Ulta store is approximately \$1.0 million, which includes capital investments, net of landlord contributions, pre-opening expenses, and initial inventory, net of payables. Our net investment required to open new stores and the net sales generated by new stores may vary depending on a number of factors, including geographic location. We expect the net investment to open a new store in 2014 to increase due to increases in material and labor costs resulting from a stronger commercial and residential building environment compared to the last several years. As of February 1, 2014, we operated 675 stores in 46 states.

Store remodel program

Our retail store concept, including physical layout, displays, lighting and quality of finishes, has evolved over time to match the rising expectations of our customers and to keep pace with our merchandising and operating strategies. We have a formal store remodel program in place to update our older stores to provide a consistent shopping experience across all of our locations. We remodeled 7 stores in fiscal 2013. Approximately 95% of our store base features our most current store design. The average investment to remodel a store in fiscal 2013 was approximately \$1.2 million. Each remodel takes approximately three months to complete, during which time we generally keep the store open.

Salon

We operate full-service salons in all of our stores. Our current Ulta store format includes an open and modern salon area with approximately eight to ten stations. The entire salon area is approximately 950 square feet with a concierge desk, skin treatment room or dedicated skin treatment area, semi-private shampoo and hair color processing areas. Each salon is a full-service salon offering haircuts, hair coloring and permanent texture, with

Table of Contents

most salons also providing facials and waxing. We continue to expand our service offering, adding services, such as gel manicures, microdermabrasion and hair extensions, to select locations. We employ licensed professional stylists and estheticians who offer highly skilled services as well as an educational experience, including consultations, styling lessons, skincare regimens, and at-home care recommendations.

Ulta.com

Our e-commerce business represented approximately 4% of our total sales and grew 74% in fiscal 2013. Ulta.com supports the key elements of our brand proposition and provides access to more than 18,000 beauty products from hundreds of brands. With the new e-commerce platform launched in 2013, we expect Ulta.com to become an even greater element in our marketing programs and a more important resource for our customers to access product and store information, beauty trends and techniques and buy from a larger assortment of product offerings. We are confident our e-commerce business will continue to deliver rapid growth in the future, but will likely begin to moderate off a larger base. During 2013 we expanded our e-commerce distribution capabilities by adding fulfillment to the Chambersburg, Pennsylvania distribution center.

Merchandising

Strategy

We focus on offering one of the most extensive product and brand selections in our industry, including a broad assortment of branded and private label beauty products in cosmetics, fragrance, haircare, skincare, bath and body products and salon styling tools. A typical Ulta store carries more than 20,000 prestige and mass beauty products. We present these products in an assisted self-service environment using centrally produced planograms (detailed schematics showing product placement in the store) and promotional merchandising planners. Our merchandising team continually monitors current fashion trends, historical sales trends and new product launches to keep Ulta's product assortment fresh and relevant to our customers. We believe our broad selection of merchandise, from moderate-priced brands to higher-end prestige brands, offers a unique shopping experience for our customers. Many of the products we sell can also be found in department stores, specialty stores, salons, mass merchandisers and drug stores, but we offer all of these products so that our customers can find everything they need in one stop. We believe we offer a compelling value proposition to our customers across all of our product categories. We offer frequent promotions and coupons, in store events, gift-with-purchase offers, a comprehensive customer loyalty program and targeted promotions through our CRM platform.

We believe our private label products are a strategically important category for growth and profit contribution. Our objective is to provide quality, trend-right private label products to continue to strengthen our customers' perception of Ulta as a contemporary beauty destination. Ulta manages the full development cycle of these products from concept through production in order to deliver differentiated packaging and formulas to build brand image. Current Ulta cosmetics and bath brands have a strong following and we may expand our private label products into additional categories. Ulta brand products represented approximately 5% of total company sales in fiscal 2013.

Category mix

We offer products in the following categories:

Cosmetics, which includes products for the face, eyes, cheeks, lips and nails;

Haircare, which includes shampoos, conditioners, styling products, and hair accessories;

Salon styling tools, which includes hair dryers, curling irons and flat irons;

Skincare and bath and body, which includes products for the face, hands and body;

Fragrance;

Nail polish and nailcare products;

Men's skincare, haircare and fragrance products;

7

Table of Contents

Private label, consisting of Ulta branded cosmetics, skincare, bath and body products and haircare; and

Other, including candles, home fragrance products and other health and beauty products.

Organization

Our merchandising team consists of a Chief Merchandising Officer overseeing a team of category Vice Presidents and their team of buyers. Our merchandising team works with our centralized merchandise planning and forecasting group to ensure a consistent execution across our store base and e-commerce platform.

Our planogram department assists the merchants and replenishment team to keep new products flowing into stores on a timely basis. All major product categories undergo planogram revisions on a regular basis and adjustments are made to assortment mix and product placement based on current sales trends.

Our visual department works with our merchandising team on strategic placement of promotional merchandise, along with functional and educational signage and creative product presentation standards, in all of our stores. All stores receive a centrally produced promotional planner to ensure consistent implementation of our marketing programs.

Planning and allocation

We have developed a disciplined approach to buying and a dynamic inventory planning and allocation process to support our merchandising strategy. We centrally manage product replenishment to our stores through our merchandise planning group. This group serves as a strategic partner to, and provides financial oversight of, the merchandising team. The merchandising team creates a sales forecast by category for the year. Our merchandise planning group creates an open-to-buy plan, approved by senior executives, for each product category. The open-to-buy plan is updated weekly with point-of-sale (POS) data, receipts and inventory levels and is used throughout the year to balance buying opportunities and inventory return on investment. We believe this structure maximizes our buying opportunities while maintaining organizational and financial control. Regularly replenished products are presented consistently in all stores utilizing a merchandising planogram process. POS data is used to calculate sales forecasts and to determine replenishment levels. We determine promotional product replenishment levels using sales histories from similar or comparable events. To ensure our inventory remains productive, our planning and replenishment group, along with senior executives, monitor the levels of clearance and aged inventory in our stores on a weekly basis.

Vendor relationships

We have close relationships with our more than 300 vendors. Our top ten vendors represented approximately 51% of our total annual sales in fiscal 2013. These include vendors across all product categories, such as Bare Minerals, Coty, Estée Lauder, L'Oréal and Procter & Gamble, among others. We believe our vendors view us as a significant distribution channel for growth and brand enhancement.

Marketing and advertising

Marketing strategy

We employ a multi-faceted marketing strategy to increase brand awareness, drive traffic to our stores and website, acquire new customers, improve customer retention and increase frequency of shopping. We communicate with our customers and prospective customers through multiple vehicles. Our primary marketing expenditure is in direct mail catalogs and free-standing newspaper inserts which highlight the breadth of our selection of prestige, mass and salon beauty products, new products and services and special offers. We execute a comprehensive public relations strategy to enhance Ulta's reputation as a beauty destination, increase brand awareness, support our charitable efforts on behalf of The Breast Cancer Research Foundation and drive awareness of new products, in-store events and new store openings.

Our loyalty program is an important tool to increase retention of existing customers and to enhance their loyalty to the Ulta brand. Approximately thirteen million active customers are enrolled in this loyalty program, generating approximately 80% of Ulta's annual total net sales. In early fiscal 2014, we converted all of our

Table of Contents

loyalty customers to ULTAmate Rewards, a points-based program. ULTAmate Rewards enables customers to earn points based on their purchases. Points earned are valid for at least one year and may be redeemed on any product we sell. In late 2012 we implemented the new CRM solution to enable more sophisticated mining of the customer data in our loyalty member database as well as greater personalization of our marketing. Throughout 2013 we built upon our CRM capabilities to deliver targeted marketing campaigns to our loyalty program members.

A growing percentage of our marketing expense was directed at our digital marketing strategy as a highly effective channel to communicate with existing customers and reach customers who are not familiar with Ulta or who have not yet shopped with us. Our online marketing strategy includes search engine optimization, paid search, mobile advertising, affiliate relationships, such as online coupons sites, social media, display advertising, and other digital marketing channels. Ulta's email marketing programs are effective in communicating with online and retail customers and driving sales.

Staffing and operations

Retail

Our current Ulta store format is staffed with a general manager, a salon manager, two associate managers, one part time manager, and approximately twenty full and part-time associates, including approximately six to eight prestige consultants and eight to ten licensed salon professionals. The management team in each store reports to the general manager. The general manager oversees all store activities including salon management, inventory management, merchandising, cash management, scheduling, hiring and guest services. Members of store management receive bonuses depending on their position and based upon various metrics. Each general manager reports to a district manager, who in turn reports to a Regional Vice President of Operations who in turn reports to the Senior Vice President of Operations who in turn reports to our Chief Executive Officer. Each store team receives additional support from time to time from recruiting specialists for the retail and salon operations, regionally based human resource managers, a field loss prevention team, salon technical trainers, management trainers and vendors.

Ulta stores are open seven days a week, eleven hours a day, Monday through Saturday, and seven hours on Sunday. Our stores have extended hours during the holiday season.

Salon

A typical salon is staffed with eight to ten licensed salon professionals, including a salon manager, six stylists, and one or two estheticians. Our most productive salons have a guest coordinator and an assistant manager. Our salon technical trainers and vendor education classes create a comprehensive educational program for approximately 5,000 Ulta salon professionals.

Training and development

Our success is dependent in part on our ability to attract, train, retain and motivate qualified associates at all levels of the organization. We have developed a corporate culture that enables individual store managers to make store-level operating decisions and consistently rewards their success. We are committed to continually developing our associates and providing career advancement opportunities. Our associates and management teams are essential to our store expansion strategy. We use a combination of existing managers, promoted associates and outside hires to support our new stores.

All of our associates participate in an interactive new-hire orientation through which each associate becomes acquainted with Ulta's purpose and values. Training for new store managers, prestige consultants and sales associates familiarizes them with our beauty products, opening and closing routines, guest service expectations, our loss prevention policy and procedures, and our culture. We provide continuing education to salon professionals and retail associates throughout their careers at Ulta. Our learning management system allows us to provide ongoing training to all associates to continually enhance their product knowledge, technical skills and guest service expertise. In contrast to the sales teams at traditional department stores, our retail sales teams are

Table of Contents

not commissioned. Our prestige consultants are trained to work across all prestige lines and within our prestige boutiques, where customers can receive makeup demonstrations and skin analysis.

Distribution

We operate three distribution facilities. The first facility, located in Romeoville, Illinois, is approximately 317,000 square feet in size, including an overflow facility. The second distribution facility is in Phoenix, Arizona and is approximately 437,000 square feet in size. The third distribution center, located in Chambersburg, Pennsylvania, opened in April 2012. The Chambersburg warehouse contains approximately 373,000 square feet. We are embarking on a multi-year supply chain project beginning in 2014 which will include adding additional capacity, including a fourth distribution center expected to open in 2015, and system improvements to support expanded omni-channel capabilities.

Inventory is shipped from our suppliers to our distribution facilities. We carry more than 20,000 products and replenish our stores with such products primarily in eases (i.e., less-than-case quantities), which allows us to ship less than an entire case when only one or two of a particular product is required. Our distribution facilities use warehouse management and warehouse control software systems to maintain and support product purchase decisions. Store replenishment order selection is performed using pick-to-light processing technologies. Product is delivered to stores using a broad network of contract and local pool (final mile) carriers. We fulfill e-commerce orders from our Romeoville, Illinois and Chambersburg, Pennsylvania distribution centers.

Information technology

We are committed to using technology to enhance our competitive position. We depend on a variety of information systems and technologies to maintain and improve our competitive position and to manage the operations of our growing store base. We rely on computer systems to provide information for all areas of our business, including supply chain, merchandising, POS, e-commerce, finance, accounting and human resources. Our core business systems consist mostly of purchased software programs that integrate with our internally developed software solutions. Our technology also includes a company-wide network that connects all corporate users, stores, and our distribution infrastructure and provides communications for credit card and daily polling of sales and merchandise movement at the store level. We intend to leverage our technology infrastructure and systems where appropriate to gain operational efficiencies through more effective use of our systems, people and processes. We update the technology supporting our stores, distribution infrastructure and corporate headquarters on a regular basis. We will continue to make investments in our information systems to facilitate our growth and enable us to enhance our competitive position.

Intellectual property

We have registered over 30 trademarks in the United States and other countries. The majority of our trademark registrations contain the ULTA mark, including Ulta Salon Cosmetics Fragrance (and design), Ulta.com, and Ulta Beauty and two related designs. We maintain our marks on a docket system to monitor filing deadlines for renewal and continued validity. All marks that are deemed material to our business have been applied for or registered in the United States and select foreign countries, including Canada.

We believe our trademarks, especially those related to the Ulta brand, have significant value and are important to building brand recognition.

Government regulation

We are affected by extensive U.S. laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States. The cosmetic, dietary supplement, food and over-the-counter (OTC) drug products we sell in our stores, including our Ulta branded products, are subject to regulation by the Food and Drug Administration (FDA), the Federal Trade Commission (FTC) and State Attorneys General (AG) in the United States. Such regulations principally relate to the safety of ingredients, proper labeling, manufacturing, advertising, packaging and distribution of the products.

Table of Contents

Products classified as cosmetics (as defined in the Food, Drug and Cosmetic (FDC) Act) are not subject to pre-market approval by the FDA, but the products and the ingredients must generally be safe and must be properly manufactured and labeled. Certain products, such as sunscreens and acne treatments, are classified as OTC drugs, and certain ingestible products, such as vitamins and minerals, are classified as dietary supplements. Both OTC drugs and dietary supplements have specific ingredients, labeling and manufacturing requirements. The labeling of these products is subject to the requirements of the FDC Act and the Fair Packaging and Labeling Act. Further, claims we make in advertising, including claims about the safety or efficacy of products, pricing claims and environmental claims, are subject to regulation by the FTC and State AG's who generally prohibit deceptive practices.

The government regulations that most impact our day-to-day operations are the labor and employment and taxation laws to which most retailers are typically subject. We are also subject to typical zoning and real estate land use restrictions and typical advertising and consumer protection laws (both federal and state). Our salon business is subject to state board regulations and state licensing requirements for our stylists and our salon procedures.

In our store leases, we require our landlords to obtain all necessary zoning approvals and permits for the site to be used as a retail site and we also ask them to obtain any zoning approvals and permits for our specific use (but at times the responsibility for obtaining zoning approvals and permits for our specific use falls to us). We require our landlords to deliver a certificate of occupancy for any work they perform on our buildings or the shopping centers in which our stores are located. We are responsible for delivering a certificate of occupancy for any remodeling or build-outs that we perform and are responsible for complying with all applicable laws in connection with such construction projects or build-outs.

Employees

As of February 1, 2014, we employed approximately 6,900 people on a full-time basis and approximately 12,700 on a part-time basis. We have no collective bargaining agreements. We have not experienced any work stoppages and believe we have good relationships with our employees.

Available Information

Our principal website address is www.ulta.com. We make available at this address under investor relations (at <http://ir.ulta.com>), free of charge, our proxy statement, annual report to shareholders, annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Information available on our website is not incorporated by reference in and is not deemed a part of this Form 10-K. In addition, our filings with the SEC may be accessed through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system at www.sec.gov. You may read and copy any filed document at the SEC's public reference rooms in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. All statements made in any of our securities filings, including all forward-looking statements or information, are made as of the date of the document in which the statement is included, and we do not assume or undertake any obligation to update any of those statements or documents unless we are required to do so by law.

Table of Contents

Item 1A. Risk Factors

Investment in our common stock involves a high degree of risk and uncertainty. You should carefully consider the following risks and all of the other information contained in this Form 10-K before making an investment decision. If any of the following risks occur, our business, financial condition, results of operations or future growth could suffer. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

The health of the economy in the channels we serve may affect consumer purchases of discretionary items such as beauty products and salon services, which could have a material adverse effect on our business, financial condition, profitability and cash flows. In addition, the recent global economic crisis and volatility in global economic conditions and the financial markets may adversely affect our business, financial condition, profitability, and cash flows.

Our results of operations may be materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and internationally. Concerns over inflation, employment, tax laws, energy costs, healthcare costs, geopolitical issues, terrorism, the availability and cost of credit, the mortgage market, sovereign and private banking systems, sovereign deficits and increasing debt burdens and the real estate and other financial markets in the U.S. and Europe have contributed to increased volatility and diminished expectations for the U.S. and certain foreign economies. We appeal to a wide demographic consumer profile and offer an extensive selection of beauty products sold directly to retail consumers and premium salon services. Continued uncertainty in the economy could adversely impact consumer purchases of discretionary items across all of our product categories, including prestige beauty products and premium salon services. Factors that could affect consumers willingness to make such discretionary purchases include: general business conditions, levels of employment, interest rates, tax rates, the availability of consumer credit and consumer confidence in future economic conditions. In the event of a prolonged economic downturn or acute recession, consumer spending habits could be adversely affected and we could experience lower than expected net sales.

In addition, the recent global economic crisis and volatility and disruption to the capital and credit markets have had a significant, adverse impact on global economic conditions, resulting in recessionary pressures and declines in consumer confidence and economic growth. While these declines have moderated, the level of consumer spending is not where it was prior to the global recession, and economic conditions could lead to further declines in consumer spending in the future. Additionally, there can be no assurance that various governmental activities to stabilize the markets and stimulate the economy will restore consumer confidence or change spending habits. Reduced consumer spending could cause changes in customer order patterns and changes in the level of merchandise purchased by our customers, and may signify a reset of consumer spending habits, all of which may adversely affect our business, financial condition, profitability and cash flows.

Recent economic conditions have also resulted in a tightening of the credit markets, including lending by financial institutions, which is a source of capital for our borrowing and liquidity. This tightening of the credit markets has increased the cost of capital and reduced the availability of credit. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. While global credit and financial markets appear to be recovering from extreme disruptions experienced over the past few years, uncertainty about continuing economic stability remains. It is difficult to predict how long the current economic and capital and credit market conditions will continue, the extent to which they will continue to recover, if at all, and which aspects of our products or business may be adversely affected. Current market and credit conditions could continue to make it more difficult for developers and landlords to obtain the necessary credit to build new retail centers. A significant decrease in new retail center development could limit our future growth opportunities as long as the aforementioned conditions exist.

Additionally, the general deterioration in economic conditions could adversely affect our commercial partners including our product vendors as well as the real estate developers and landlords who we rely on to construct and operate centers in which our stores are located. A bankruptcy or financial failure of a significant vendor or a

Table of Contents

number of significant real estate developers or shopping center landlords could have a material adverse effect on our business, financial condition, profitability, and cash flows.

We may be unable to compete effectively in our highly competitive markets.

The markets for beauty products and salon services are highly competitive with few barriers to entry even when economic conditions are favorable. We compete against a diverse group of retailers, both small and large, including regional and national department stores, specialty retailers, drug stores, mass merchandisers, high-end and discount salon chains, locally owned beauty retailers and salons, Internet businesses, catalog retailers and direct response television, including television home shopping retailers and infomercials. We believe the principal bases upon which we compete are the breadth of merchandise, our value proposition, the quality of our customers' shopping experience and the convenience of our stores as one-stop destinations for beauty products and salon services. Many of our competitors are, and many of our potential competitors may be, larger and have greater financial, marketing and other resources and therefore may be able to adapt to changes in customer requirements more quickly, devote greater resources to the marketing and sale of their products, generate greater national brand recognition or adopt more aggressive pricing policies than we can. As a result, we may lose market share, which could have a material adverse effect on our business, financial condition, profitability and cash flows.

If we are unable to gauge beauty trends and react to changing consumer preferences in a timely manner, our sales will decrease.

We believe our success depends in substantial part on our ability to:

recognize and define product and beauty trends;

anticipate, gauge and react to changing consumer demands in a timely manner;

translate market trends into appropriate, saleable product and service offerings in our stores and salons in advance of our competitors;

develop and maintain vendor relationships that provide us access to the newest merchandise on reasonable terms; and

distribute merchandise to our stores in an efficient and effective manner and maintain appropriate in-stock levels.

If we are unable to anticipate and fulfill the merchandise needs of the regions in which we operate, our net sales may decrease and we may be forced to increase markdowns of slow-moving merchandise, either of which could have a material adverse effect on our business, financial condition, profitability and cash flows.

If we fail to retain our existing senior management team or attract qualified new personnel, such failure could have a material adverse effect on our business, financial condition, profitability and cash flows.

Our business requires disciplined execution at all levels of our organization. This execution requires an experienced and talented management team. Mary Dillon was appointed Chief Executive Officer and a member of the Board of Directors effective July 1, 2013 and Scott Settersten was appointed Chief Financial Officer and Assistant Secretary effective March 12, 2013. If we were to lose the benefit of the experience, efforts and abilities of key executive personnel, it could have a material adverse effect on our business, financial condition, profitability and cash flows. Furthermore, our ability to manage our retail expansion will require us to continue to train, motivate and manage our associates. We will need to attract, motivate and retain additional qualified executive, managerial and merchandising personnel and store associates. Competition for this type of personnel is intense, and we may not be successful in attracting, assimilating and retaining the personnel required to grow and operate our business profitably.

Table of Contents

Our comparable store sales and quarterly financial performance may fluctuate for a variety of reasons, which could result in a decline in the price of our common stock.

Our comparable store sales and quarterly results of operations have fluctuated in the past, and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable store sales and quarterly financial performance, including:

general U.S. economic conditions and, in particular, the retail sales environment;

changes in our merchandising strategy or mix;

performance of our new and remodeled stores;

the effectiveness of our inventory management;

timing and concentration of new store openings, including additional human resource requirements and related pre-opening and other start-up costs;

cannibalization of existing store sales by new store openings;

levels of pre-opening expenses associated with new stores;

timing and effectiveness of our marketing activities, such as catalogs and newspaper inserts;

seasonal fluctuations due to weather conditions; and

actions by our existing or new competitors.

Accordingly, our results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, and comparable store sales for any particular future period may decrease. In that event, the price of our common stock would likely decline. For more information on our quarterly results of operations, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

We may not be able to sustain our growth plans and