

WESTPEAK RESEARCH ASSOCIATION

e.l.f. Beauty (NYSE: ELF)

Consumer Discretionary - Cosmetics

Is This Elf Going North or South?

February 14, 2021

e.l.f. Beauty, Inc ('e.l.f.' or 'the Company') is an American cosmetics brand. The Company manufactures and sells cosmetics and skincare through its brand websites and retail partners. Its products are mainly manufactured in China in collaboration with third-party manufacturers.

Thesis

With the promising acquisition of W3LL People, KEYS Soulcare, and further margin expansion, we believe the market has correctly priced e.l.f. Beauty's growth potential. Despite a shrink in cosmetics demand during the pandemic, e.l.f. posted positive growth each quarter this year. Its recent company revamp and inventive marketing techniques will allow it to continue to meet investor expectations moving forward.

Drivers

The cosmetics industry is set to recover from the COVID-19 pandemic in the coming years. This in combination with a trend towards e-commerce, an increase in reach to Gen Z, and the Company's acquisition of W3LL Beauty and creation of KEYS Soulcare drive e.l.f. Beauty's valuation. The Company is positioned well to take advantage of the improving industry environment. We expect further growth in e.l.f. Beauty's international segment and a decrease in COGS for the Company moving forward.

Valuation

Given the current share price of \$23.64, we believe that e.l.f. Beauty is correctly valued by the market. Using a combination of discounted cash flow analysis and comparable analysis we determine the target share price to be \$21.25. We initiate a **HOLD** rating on e.l.f. Beauty Inc.

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Equity Research Canada/US

Price Target USD\$ 21.25

Rating Hold

Share Price (Feb. 12 Close) CAD\$ 23.64

Total Return -10.1%

Key Statistics

52 Week H/L \$25.19/\$8.13

Market Capitalization \$1.2B

Average Daily Trading Volume 826K

Net Debt \$94.2M

Enterprise Value \$1,331.5M

Net Debt/EBITDA 2.0x

Diluted Shares Outstanding \$52M

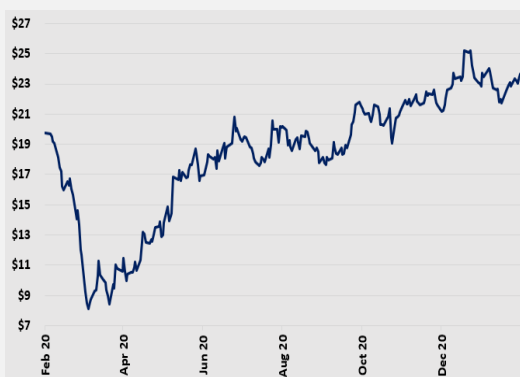
Free Float 88%

Dividend Yield 0%

WestPeak's Forecast

| | <u>2020A</u> | <u>2021E</u> | <u>2022E</u> |
|-------------------|--------------|--------------|--------------|
| Revenue | \$283M | \$309M | \$332M |
| EBITDA | \$47M | \$43M | \$44M |
| Net Income | \$18M | \$11M | \$20M |
| EPS | \$0.35 | \$0.22 | \$0.39 |
| P/E | 67.2x | 108.8x | 60.8x |
| EV/EBITDA | 28.4x | 30.7x | 30.5x |

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

e.l.f. Beauty, Inc is an American cosmetics brand. The Company manufactures and sells cosmetics and skincare through its brand websites and retail partners that include Walmart, Target, Shoppers Drug Mart, and Ulta Beauty. Their products are sold in the USA and other international markets such as the United Kingdom, Canada, Mexico, China, Germany, and Australia. e.l.f. products are mainly manufactured in China in collaboration with third-party manufacturers.

Segments

e.l.f. Beauty, Inc has three principal subsidiaries: e.l.f. Cosmetics, Inc., W3LL People, Inc., and Keys Soulcare Inc.

e.l.f. Cosmetics

e.l.f Cosmetics sells high-quality cosmetics and skincare products that are 100% vegan and cruelty-free. The average unit retail price of their products is under \$5. This brand targets Gen-Z and cost-conscious consumers who want to test out new products and trends at low prices.



W3LL People

W3LL People offers clean beauty products that are plant-based with no fillers, propylene glycol, petrochemicals, or petroleum by-products, and includes forty EWG VERIFIED™ products that contain no chemicals found on EWG’s chemicals of concern list. The brand focuses on facial products and sells them at a higher price point of between \$15-\$30. This brand targets health-focused people who desire plant-powered beauty products with middle to high income.

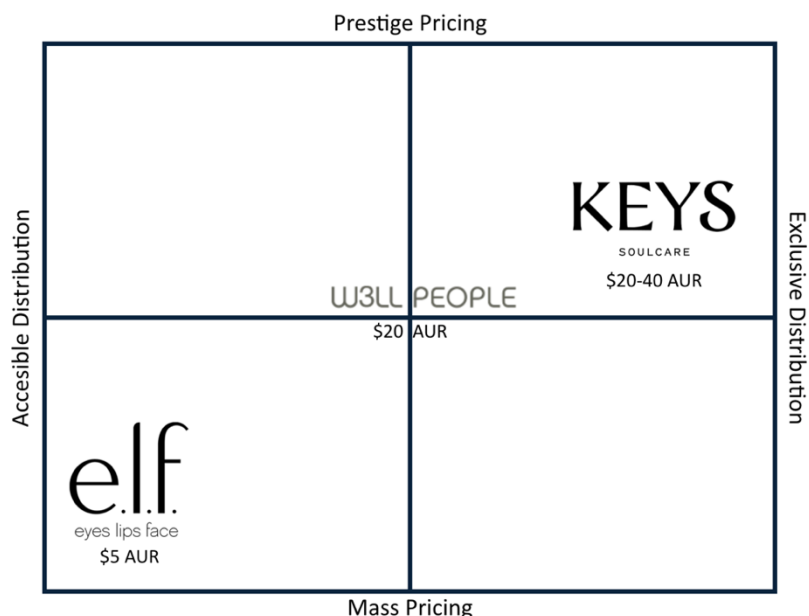


KEYS Soulcare

KEYS Soulcare offers clean, cruelty-free beauty products and is backed by Alicia Keys, an American singer-songwriter. The brand offers a holistic approach to self-care with its platform providing stories, tips, inspiration as well as products to “become more ourselves”. The Company is launching a holiday product preview in December 2020 and will follow with a full collection launch in January 2021. This brand targets Alicia Keys fans and consumers interested in holistic healing and dermatologist-developed products. KEYS Soulcare sells its products at a higher price point of between \$20-\$40.



e.l.f. Beauty Subsidiaries



Source: e.l.f. Investor Presentation

Industry Analysis

e.l.f. Beauty operates within the Cosmetics industry. The U.S. accounts for approximately 90% of e.l.f.’s revenue with the rest being earned internationally.

Cosmetics Industry Overview

The Cosmetics Industry manufactures personal care products which mainly include perfumes, hair care, makeup, personal hygiene, and skincare products. Most large players in this industry are multinational organizations. Companies including L’Oréal, Unilever, Proctor & Gamble, and Estée Lauder make up 81.7% of worldwide beauty revenue. The global cosmetics market has been growing steadily at 2.2% CAGR (2015-2020). With rising middle- and upper-class incomes and increased cosmetics consumption by seniors, this growth is expected to increase to 6.4% CAGR (2020-2025).

| Cosmetics Industry | USA | Global |
|-------------------------------------|----------------|---------------|
| Industry Size | 38.8 B | 358 B |
| Average Industry Growth (5Y) | -5.4% annually | 2.2% annually |
| Number of Businesses | 3,592 | 572,725 |

Source: IBIS World

Market Drivers

Currently, the main drivers of the global cosmetics market are growth in e-commerce, the skincare category, natural cosmetics, and the Asian market.

Online cosmetics sales grew by 27% in 2019. The share of e-commerce within the beauty market stood at 16.5%. As people continue to switch to online purchasing methods, this share is set to increase to 23.3% by 2025.

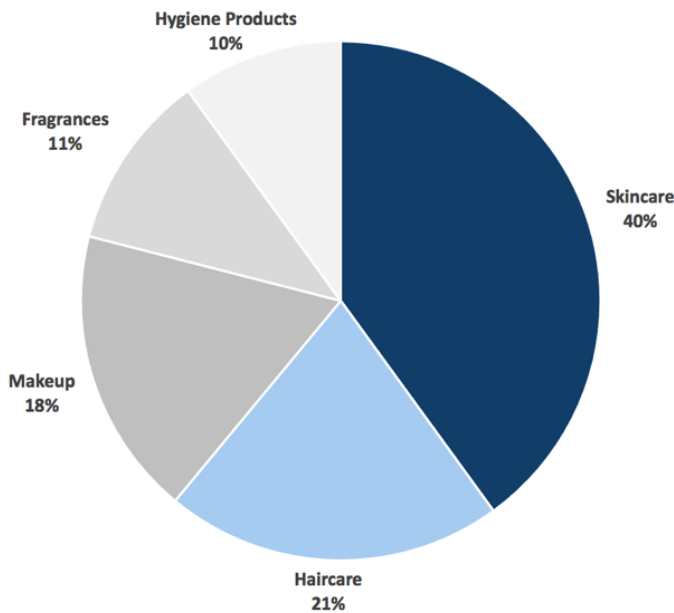
Share of E-commerce as a % of Total Cosmetics Sales



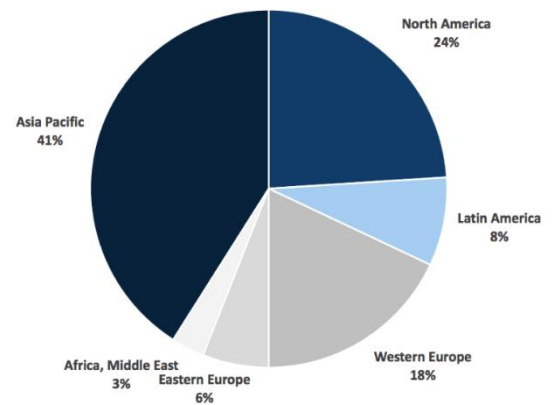
Source: EDGE by Ascential

Furthermore, skincare accounts for more than 40% of the cosmetics market and close to 60% of market growth. It continues to dominate the cosmetics sector with major players concentrating in this category. The Asia Pacific market is also expected to continue to be the largest segment of the cosmetics market, with North America trailing in second.

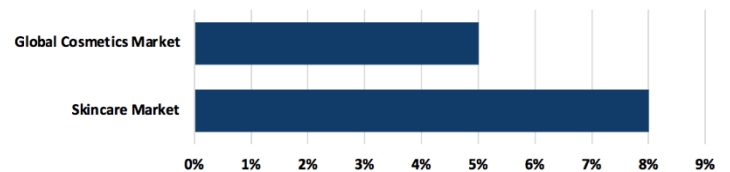
Breakdown of Cosmetics Market by Product Type



Breakdown of Cosmetics Market by Geographic Region



Growth of Skincare Market Compared to Global Cosmetics Market (2019)



Source: l’Oreal 2019 Annual Report

The main trend driving consumer demand is natural, organic, and clean cosmetics. The market value of clean cosmetics is expected to double from \$34.5 B in 2018 to \$54.5 B by 2027.

Clean Cosmetics Market Value



Source: Statista

Company Strategy

Move to Multi-Brand House

e.l.f. Cosmetics began as a single brand company. The Company has begun expanding its brand by incorporating two new subsidiaries (W3LL People and KEYS SoulCare). W3LL People was acquired by e.l.f. Beauty in February 2020. KEYS SoulCare was created by e.l.f. Beauty and launched in 2021. This expansion into a multi-brand company is part of e.l.f.'s strategy to better target key segments and capture a larger share of the colour cosmetics market while remaining true to the companies core value proposition of providing cruelty-free premium cosmetics that appeal universally. These new brands capitalize on the growing trends towards natural, organic, and clean cosmetics that the cosmetics market is experiencing and are available through e.l.f.'s current retail partners such as Ulta. This expansion has allowed the Company to revamp its brand following low revenue growth metrics in 2018 (-0.9% from 2017) and early 2019 (0-2% growth in the first two quarters).

Doubling Down on Digital

e.l.f. Beauty has doubled down on its digital marketing campaigns. They capitalized quickly on the growing interest in TikTok to create the "Eyes.Lips.Face." hashtag challenge that became the most viral campaign in TikTok U.S. history with 6 billion views. This marketing campaign has also allowed e.l.f. to increase their ranking from 4th favourite to 2nd favourite cosmetics brand among the Gen-Z segment (aged 16-24). The brand also saw a 21% increase in new users to their website and a 10% boost in brand awareness because of the campaign which helped drive sales for the company. The use of TikTok and other social media platforms has allowed for products to organically go viral and increase product sales. e.l.f.'s company strategy has shifted with greater emphasis on its online platforms as retail stores experienced decreased traffic during the pandemic. e.l.f. experienced 60% growth in new consumers shopping at elfcosmetics.com during the pandemic. This emphasis on online revenue streams is expected to stay as e.l.f.'s digital channels expand to account for 13% of its business in Q3-2020 up from 7% last year and e-commerce continues to be a popular purchasing channel for consumers.



Source: e.l.f. Investor Presentation

Innovation

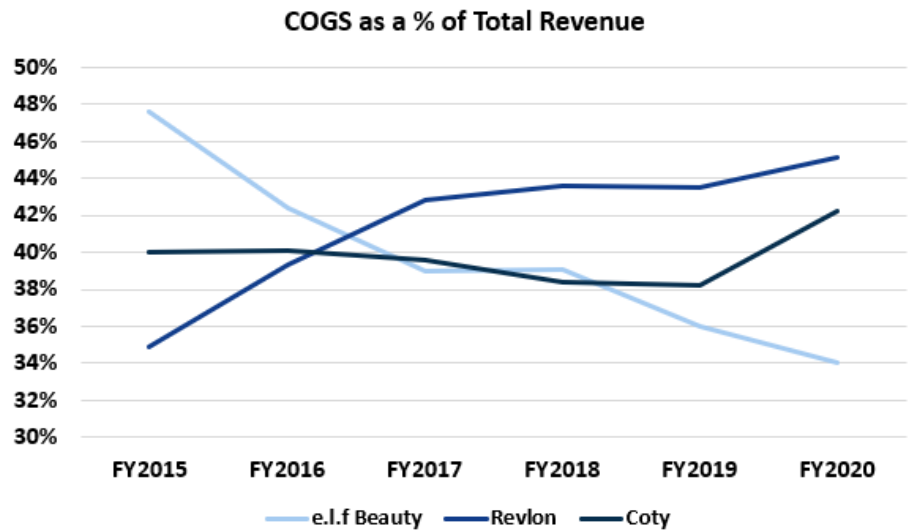
e.l.f.'s brand strategy involves releasing many products each year and responding to trends. The Company's supply chain allows it to innovate and respond to changing customer needs quickly. Consumer focus shifted more

towards the skincare category of cosmetics this year with retail sales increasing 20% YoY while other categories such as makeup reported negative YoY changes. As seen by consistent earnings growth in the past several quarters, e.l.f. was able to capitalize on this shift in customer needs with the launch of new skincare products including a CBD infused skincare line. In a given year, the Company releases over 100 new products at low unit costs. In times where trends rapidly change and consumers expect increased responsiveness of companies, the ability to create new products rapidly allows e.l.f. to remain ahead of other competitors.

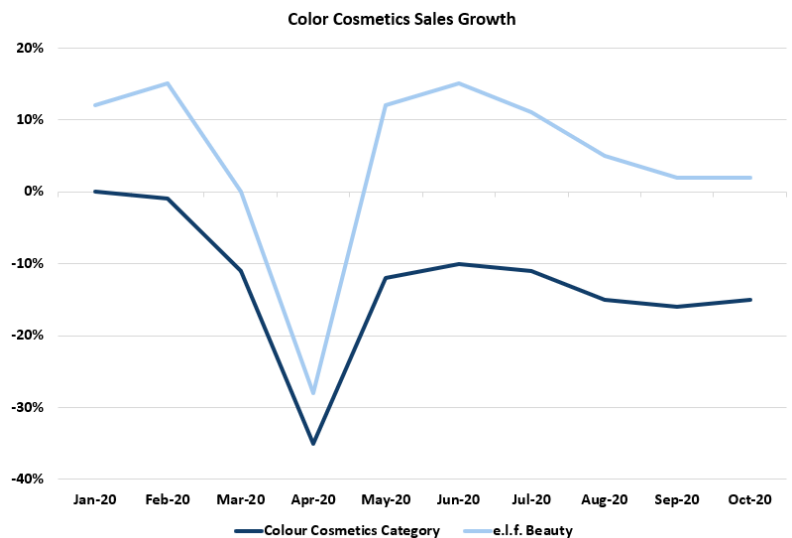
Cost Savings

The Company continues to cut costs to create a strong gross margin. With competitor COGS margins continuing to increase, cost savings play a key role in e.l.f. Beauty’s company strategy. With low unit costs, cost savings lead to higher profitability. The Company continues to utilize lean manufacturing and has recently hired Joshua Franks as the new SVP of Operations at the beginning of 2020 to cut costs and improve efficiency. Joshua has had experience in his previous role as VP of Operations at Raybern Quality Foods where he led the initiative to create 5% annual COGS savings for the Company. He is expected to implement policies at e.l.f. that will also allow e.l.f. to decrease their COGS even further. Continued cost savings allow the Company to continue to increase its gross margin while keeping prices low for consumers.

This overall company strategy has allowed e.l.f. to curb some of the effects that COVID-19 has had on the cosmetics industry. e.l.f. experienced fewer negative effects on its sales during the pandemic when compared to major players within the industry.



Source: Company Financial Statements



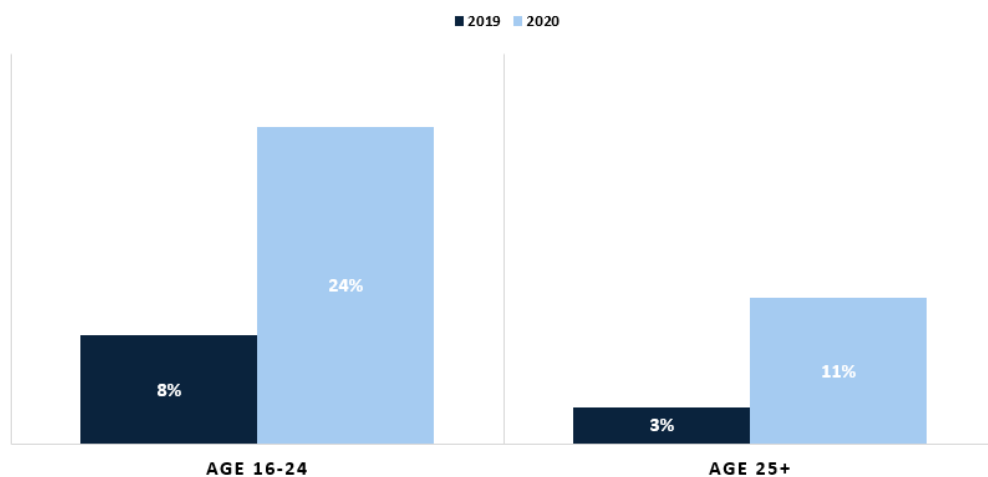
Source: e.l.f. Investor Presentation

Catalysts

Increased Gen Z Cosmetics Spending

During the pandemic, Gen Z was hit hardest in terms of job loss in contrast to older generations. Gen Z was found to be the most likely to be unemployed or underemployed because of the pandemic. This generation also has a higher probability of working in industries that were hit the hardest and in jobs that weren't transferable to an online setting. These factors diminished Gen Z disposable income in 2020. However, as the COVID-19 vaccine begins distribution and economies are set to recover from the pandemic, Gen Z employment rates and disposable income could increase substantially. e.l.f. Beauty is well-positioned to take advantage of Gen Z's higher purchasing power with their exposure to this segment through TikTok and their accessible price points from the e.l.f. Cosmetics subsidiary. This will allow e.l.f. Beauty to grow its revenue with an increase in Gen Z demand.

Unemployment Rate for Spring 2019 and 2020 by Age Group



Source: Economic Policy Institute Current Population Survey Extracts

KEYS Soulcare Launch

e.l.f. Beauty launched KEYS Soulcare in December 2020. This subsidiary focuses on holistic health and comes at a higher price point to consumers. With industry trends towards clean and holistic cosmetics expected to continue, we are confident that KEYS Soulcare will experience high growth in demand over the next few years. Management has already proven their ability to market effectively with their successful campaigns during the pandemic and we believe equal success will be had with the marketing of the KEYS Soulcare brand. In addition, the association of the KEYS Soulcare with Alicia Keys, a famous American singer, will increase brand awareness within the US where Alicia Keys already has an established following and platform. Overall, we expect this subsidiary to drive growth for e.l.f. Beauty while also increasing its gross margin with its higher sales price points.

W3LL People Acquisition

e.l.f. Beauty acquired W3LL People in February 2020. This subsidiary also capitalizes on market trends towards clean beauty. Since its acquisition, the brand has contributed to higher revenue growth for e.l.f. Beauty with revenue growth increasing from 1-5% a quarter to approximately 8% per quarter post-acquisition. This trend is expected to continue in the future as the economy recovers from the pandemic and consumers gain more disposable income. The success of W3LL Beauty could potentially increase revenue further than predicted if consumer demand for clean beauty continues and brand awareness increases.

Better than Expected Pandemic Recovery

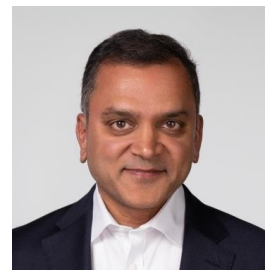
With the pandemic recovery, an economic recovery is expected for the cosmetics industry. Current estimates assume a growth rate of 6.4% annually (CAGR 2020-2025) in the cosmetics category. However, there is a lot of volatility and uncertainty associated with the economic recovery and this recovery could end up being better or occurring faster than expected due to increased disposable income, more concentration on personal appearance as public gatherings resume, and other factors. A faster recovery in the category could positively impact e.l.f. Beauty's share price moving forward.

Management Team

e.l.f. Beauty has recently undergone changes in its executive team with the hiring of both Mandy Fields as SVP and CFO and Joshua Franks as SVP, Operations. The management team is compensated with a fixed base salary and awards through cash incentives that are tied to company profitability and equity.

Tarang P. Amin (Chairman, CEO)

Tarang has been the CEO of e.l.f. Beauty since 2014. He took e.l.f. public in 2016 and leads with the motto "One team, one dream" which focuses on creating a positive company culture. Before his role at e.l.f., Tarang was President, CEO, and Director of Schiff Nutrition and helped grow its enterprise value from \$190 million to \$1.5 billion. His other experiences include being GM of the Litter, Food, and Charcoal division at The Clorox Company and working as a brand manager at Proctor & Gamble. Mr. Amin Graduated from Duke University with a B.A. in International Policy. Tarang currently owns 8.39% of e.l.f. Beauty's shares outstanding. For FY 2020 Tarang received \$1,562,123 in compensation. His salary comprised \$475,000 (30.4%) in base salary, \$1,067,123 (68.3%) in non-equity-based incentive plan compensation and \$20,000 (1.3%) in other compensation.



Mandy Fields (Senior VP, CFO)

Mandy joined e.l.f. Beauty in 2019. Previously she was the CFO of BevMo!, a specialty beverage retailer on the West Coast. Before this, she was also VP of Finance & Analytics for

Albertsons Companies, a large food and drug retailer in the US where she drove loyalty for the brand through the Own Brands portfolio. Mandy has also worked in Finance leadership roles at Gap Inc. and began her career in Investment Banking at JPMorgan. She graduated from Indiana University with a BSc specializing in Finance. For FY2020 Mandy received a salary of \$2,681,608. Her salary comprised of \$323,077 (12%) in base salary, \$1,599,965 (59.7%) in stock awards, \$402,643 (15%) in option awards, \$350,000 (13.1%) in non-equity-based incentive plan compensation and \$5,923 (0.2%) in other compensation.



Richard F. Baruch Jr. (Senior VP, CCO)

Richard joined e.l.f. in 2014. He previously worked as the Senior VP and CCO at Schiff Nutrition before it was acquired by Reckitt-Benckiser. Prior, he also worked as the VP, Category Advisory Services at Coca-Cola, and has held many diverse roles in the 10 years he worked at The Clorox Company. He graduated with a BA in English from the University of Pennsylvania in 1990 and also attended Harvard Business School for the Management Development Program in 2003. Richard currently owns 1.1% of company shares outstanding. For FY 2020 Richard received \$622,655 in compensation. His salary comprised of \$325,000 (52.2%) in base salary, \$295,055 (47.4%) in non-equity-based incentive plan compensation and \$5,600 (0.8%) in other compensation.



Joshua Franks (Senior VP, Operations)

Joshua joined e.l.f. at the beginning of 2020. He has 20 years of prior Supply Chain experience. Previously he was the SVP of Operations and Supply Chain at Kite Hill where he increased capacity by 2-3x in all facilities. He has also been the VP of Operations & Supply Chain at Raybern Quality Foods where he led in creating 5% annual COGS savings for the company. Joshua graduated from North Carolina State University with a BSc in Business Administration, Operations Management, and Supply Chain Management. For FY 2020 Joshua received \$1,486,595 in compensation. His salary comprised of \$71,250 (4.8%) in base salary, \$1,000,090 (67.3%) in stock awards, \$349,895 (23.5%) in option awards, \$64,110 (4.3%) in non-equity-based incentive plan compensation and \$1,250 (0.1%) in other compensation.



Scott K. Milsten (Senior VP, General Counsel, and CPO)

Scott joined e.l.f. in 2014 and became CPO in 2016. He led the deal team during the Company's IPO. He has previously worked as an SVP, General Counsel & Corporate Secretary at Schiff Nutrition International and Celera Corporation. Before, he served as Senior VP, General Counsel, and Corporate Secretary at Schiff Nutrition. He led IPO deal teams for both of these companies as well. He graduated from Duke University with a BA in English and then also went on to complete a Law degree at the University of Pennsylvania. Scott currently owns 1.3% of shares outstanding in the firm. For FY 2020



Scott received \$618,805 in compensation. His salary comprised of \$325,000 (52%) in base salary, \$295,055 (47.7%) in non-equity-based incentive plan compensation and \$1,750 (0.3%) in other compensation.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

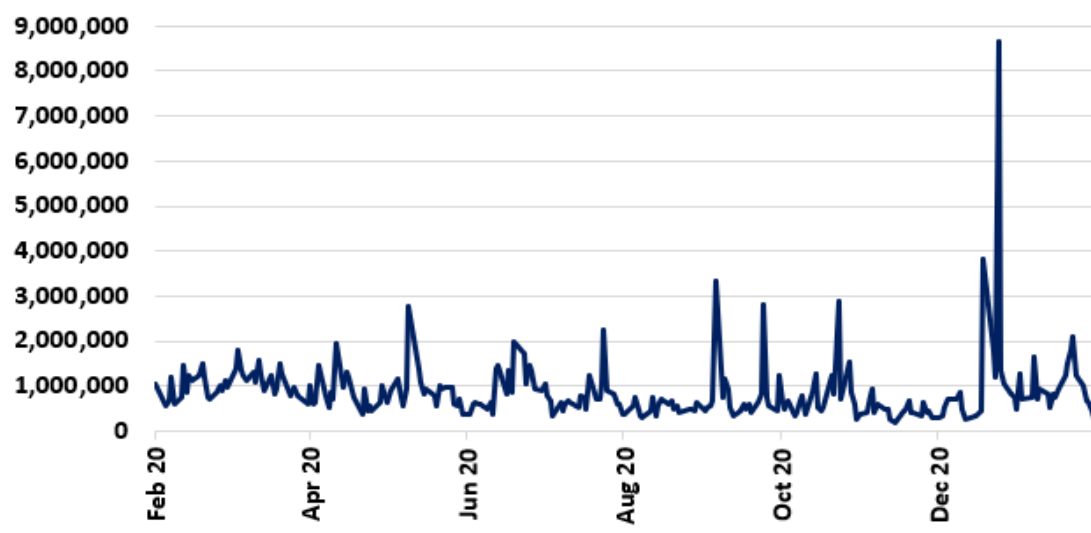
e.l.f. Beauty currently has 51.7M shares outstanding, with free float accounting for 88.23%. Insiders own 10.22% of shares outstanding. A list of the top ten investors is listed below.

| Shareholder | Position | % of Outstanding | Insider (Y/N) | Country |
|-------------------------------------|-------------------|------------------|---------------|---------------|
| Amin Tarang | 4,280,348 | 8.39 | Y | United States |
| Van Guard Group Inc | 4,007,285 | 7.85 | N | United States |
| Champlain Investment Partners | 3,593,668 | 7.04 | N | United States |
| Victory Capital Management Inc | 3,152,101 | 6.18 | N | United States |
| BlackRock Inc | 3,088,114 | 6.05 | N | United States |
| Marathon Partners Equity Management | 2,300,000 | 4.51 | N | United States |
| Renaissance Technologies | 1,911,900 | 3.75 | N | United States |
| Frank Russell Company | 1,893,034 | 3.71 | N | United States |
| Bayberry Capital Partners LP | 1,698,573 | 3.33 | N | United States |
| Cramer Rosenthal McGlynn | 1,692,677 | 3.32 | N | United States |
| Top 10 Shareholders | 27,617,700 | 54.13 | | |

Source: Bloomberg

Liquidity

One Year Daily Trading Volume (NYSE:ELF)



Source: Yahoo Finance

As of December 29th, 2020, e.l.f. Beauty has an average trading volume of 826,050 shares. E.l.f. Beauty has a free float of 45.66M out of 51.75M shares outstanding. This demonstrates moderately high liquidity of the stock given the current market cap of 1.2B. The top 10 shareholders represent 54.13% of total shares outstanding which could pose some risks for large sell orders.

Valuation

Discounted Cash Flow Assumptions

e.l.f. Beauty Revenue: e.l.f.'s revenue was divided into international and domestic (USA) segments. Based on the Company's resiliency and growth during the COVID-19 pandemic, an increase in online e-commerce purchases, positive news about retail shelf space expansions, and an expected global cosmetics demand recovery from the pandemic, we forecast growth in both of these segments moving forward. We expect domestic revenue to grow with the introduction of the KEYS Soulcare line and increased brand awareness to a peak 10% growth rate for FY2023 and then to decrease to a stable 7% by FY2026. We also forecast that with an increase in the use of e-commerce platforms for cosmetics purchases and e.l.f.'s continued international marketing efforts (ex: Tiktok), international interest in e.l.f. Beauty will increase and peak at a 9% growth rate in FY2024 and stabilize at approximately 5% growth by FY2026.

Capital Expenditures: With the estimated increase in revenues driven by increased demand for Company products and the establishing of KEYS Soulcare, we estimate that Capex as a percent of PP&E will remain elevated at 45% as Capex requirements grow with demand.

Dividend Policy: Historically, e.l.f. Beauty hasn't paid out dividends. We assumed this policy would continue in the future and no dividends would be given out.

COGS: COGS has historically been 40% of e.l.f.'s revenue and has been decreasing to a current 35%. Investor presentations indicate that e.l.f. Beauty is actively attempting to decrease COGS for major product lines. Joshua Franks (SVP, Operations) was hired at the beginning of 2020 to initiate these changes. We believe that this, in combination with the higher price points of W3LL People and KEYS Soulcare will cause COGS to decrease as a percent of revenue in the coming years. We forecast a gradual decrease of COGS to 28% of revenue by FY2025 as KEYS Soulcare and W3LL People continue to increase in demand.

SG&A: The launch of KEYS Soulcare has caused e.l.f Beauty to invest more heavily in marketing. We forecast that this increase in marketing and other associated SG&A expenses will cause SG&A to remain at an elevated 53% of revenue for FY2021. E.l.f. Beauty is actively trying to create organic brand awareness and has seen success doing so on platforms such as TikTok. Given this success and synergies that will likely occur from KEYS Soulcare's success and their acquisition of W3LL Beauty, we forecast that SG&A will decrease gradually beginning in FY2023 and stabilize at 45% of revenue in FY2025.

Working Capital: Based on the addition of two new brands to the e.l.f. Beauty house, we assumed inventory as a % of revenue would increase from ~16% to 23% by FY2023 because of expanded offerings. Accounts receivable, prepaid expenses, accounts payable, and accrued liabilities are all assumed to remain consistent with historical data since they all appear to have been stable in the past.

Tax Rate: e.l.f. Beauty's tax rate is inconsistent. We forecast an approximate 20% tax rate moving forward based on averages from the last two years.

Interest and other Expenses: We assumed that e.l.f. Beauty would have similar interest and other expense commitments moving forward and forecasted a future \$6M in interest and other expenses yearly.

WACC: WACC was calculated to be 12.6%. Using data provided by Bloomberg, the risk-free rate was found to be 1.2%, and the expected market return was 9.7%. e.l.f. Beauty had an estimated Beta of 1.47 and an after-tax cost of debt of 0.9%.

Terminal Multiple: A terminal EV/EBITDA multiple of 23x was selected based on a peer projected average EV/EBITDA multiple of approximately 22x for 2021E and 2022E. We are confident that with e.l.f.'s company strategy it is well-positioned to be in line with competitors on the higher end of the EV/EBITDA multiple metric going forward.

Weighted Price Target: Our implied share price was derived based on a 40% weighting of the DCF perpetuity growth method, 40% weighting of the DCF exit multiple method, a 20% weighting for the comparable EV/EBITDA method. This weighting was derived because we assumed that the DCF analysis was more accurate since finding comparable companies was difficult as firms in this industry differed substantially in size, selling channels, and target markets. P/E comparables were not used due to volatility in comparable company ratios for this metric.

Comparable Company Analysis

Comparable companies were chosen based on similar operations within the cosmetics industry as well as based on e.l.f. Beauty's competitors.

Revlon Inc. (NYSE: REV): Revlon Inc. manufactures and sells beauty and personal care products worldwide. It does so under many brand names including Revlon, Elizabeth Arden, Almay, SinfulColors, and Cutex. Revlon Inc. sells its products through sales representatives and independent distributors.

The Estée Lauder Companies Inc. (NYSE: EL): The Estée Lauder Companies Inc. is a multinational company that manufactures and sells skincare, makeup, fragrance, and hair care products. Its main brand names include Estée Lauder, Aramis, Clinique, Bobbi Brown, BECCA, and MAC. The company sells its products through department stores, retailers, pharmacies, and retailer websites.

Coty Inc. (NYSE: COTY): Coty Inc. manufactures and sells beauty products worldwide. The company manufactures both prestige and mass products. It sells these products under brands including Lacoste, Burberry, Covergirl,

Rimmel, and Sally Hansen. Coty Inc. sells its products through prestige retailers, department stores, drug stores, e-retailers, and direct-to-consumer websites. Coty Inc. is a subsidiary of Cottage Holdco B.V.

Inter Parfums Inc. (NASDAQ: IPAR): Inter Parfums Inc. manufactures and distributes fragrances and fragrance related products. It operates a European and United States segment. It provides its products under brand names including Coach, Jimmy Choo, Hollister, and GUESS. It sells its products through department stores, perfumeries, wholesalers, and distributors.

Recommendation

Based on our analysis, e.l.f. Beauty appears to be correctly priced in the market. The stock price is justified by the promising acquisition of W3LL Beauty and the expected revenue increase from strategic marketing and the creation of KEYS Soulcare. The market has realized e.l.f.'s ability to diversify its offerings to serve different segments and believes that it will rally with the cosmetics industry's recovery from the COVID-19 pandemic.

Based on the weighted analysis, the determined fair share price for e.l.f. Beauty was \$21.25. The current share price of e.l.f. Beauty is \$23.64 and therefore we recommend a **HOLD** on e.l.f. Beauty as the market appears to be pricing e.l.f. Beauty correctly.

Risks

Retailer Concentration

e.l.f. Beauty's main retail partners are Walmart, Target, Ulta Beauty, and Shoppers Drug Mart. A loss of a retail partner or a decrease in shelf space allotted to e.l.f. Beauty could significantly impact sales for the Company as well as customer exposure to the brand.

Highly Competitive Market

The cosmetics industry is highly competitive and switch-over costs to consumers are low. Negative Company press, supply chain issues, or the inability to meet changing consumer demands could cause e.l.f.'s market share to decrease and be taken by other companies within the industry.

Significant Operations in China

e.l.f. Beauty has significant manufacturing operations based in China. This exposes the Company to potential political, legal, and economic risks associated with operating in China and exporting mainly to the USA. Negative trade relations and tariffs between these two major countries could negatively impact e.l.f. Beauty's bottom line as well as their ability to maintain their current price points.

Significant Indebtedness

As of Q2-2021, e.l.f. has \$118.6M in long term debt obligations. Liabilities are a large part of e.l.f. Beauty's capital structure. On December 23, 2016, they entered into a five-year, \$200.0 million Senior Secured Credit Agreement. The Term Loan Facility maturity date is August 25, 2022 and is collateralized by substantially all of their assets. A lack of liquidity, lower than expected revenue, or poor financial planning could cause the Company to not be able to pay off this debt and become financially distressed.

Legal Disclaimer

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Appendix 1: Model Summary

| Summary Page | | | | | | | | | | | | | | | |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| (Figures in mm USD) | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Mar-25 | Mar-26 |
| | FY2015 | FY2016 | FY2017 | FY2018 | FY2020 | Q1-2021 | Q2-2021 | Q3-2021 | Q4-2021 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | FY2026 |
| Income Statement | | | | | | | | | | | | | | | |
| Revenue | 191.4 | 229.6 | 269.9 | 267.4 | 282.9 | 64.5 | 72.4 | 88.6 | 83.0 | 308.5 | 332.3 | 365.1 | 398.0 | 429.0 | 458.1 |
| EBITDA | 35.9 | 36.2 | 47.8 | 44.0 | 46.8 | 9.4 | 8.1 | 12.5 | 13.3 | 43.4 | 43.7 | 76.7 | 95.5 | 115.8 | 123.7 |
| Net Income | 4.4 | 5.3 | 33.5 | 15.5 | 17.9 | 1.5 | 0.4 | 4.3 | 5.0 | 11.3 | 20.3 | 51.9 | 71.5 | 87.9 | 94.2 |
| Earnings Per Share | \$ 142.74 | \$ 0.42 | \$ 0.68 | \$ 0.32 | \$ 0.35 | \$ 0.03 | \$ 0.01 | \$ 0.08 | \$ 0.10 | \$ 0.22 | \$ 0.39 | \$ 0.99 | \$ 1.37 | \$ 1.68 | \$ 1.80 |
| Cash Flow Statement | | | | | | | | | | | | | | | |
| Capital Expenditures | (10.1) | (9.2) | (7.5) | (8.9) | (9.4) | (1.2) | (1.6) | (1.2) | (1.7) | (5.6) | (3.9) | (1.8) | (0.0) | (0.0) | (0.0) |
| Acquisitions | - | - | - | - | (25.9) | - | - | - | - | - | - | - | - | - | - |
| Divestitures | - | - | (2.9) | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Payment | - | (68.0) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Per Share | \$ - | \$ 5.39 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Dividend Payout to Earnings | - | 1279.9% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Payout to Core FCF | - | 326.5% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Dividend Yield | - | 19.2% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Balance Sheet | | | | | | | | | | | | | | | |
| Current Assets | 70.7 | 124.9 | 123.6 | 141.7 | 132.4 | 145.5 | 151.8 | 160.3 | 167.3 | 167.3 | 203.5 | 258.8 | 334.5 | 425.2 | 523.6 |
| Non-Current Assets | 290.4 | 289.8 | 293.6 | 294.1 | 320.7 | 316.6 | 321.7 | 320.6 | 316.3 | 316.3 | 307.9 | 303.9 | 303.8 | 303.8 | 303.8 |
| Assets | 361.1 | 414.7 | 417.2 | 435.9 | 453.1 | 462.1 | 473.4 | 480.9 | 483.6 | 483.6 | 511.4 | 562.7 | 638.3 | 729.0 | 827.4 |
| Current Liabilities | 45.9 | 80.3 | 51.4 | 43.0 | 51.1 | 57.2 | 61.0 | 66.7 | 64.4 | 64.4 | 71.8 | 71.2 | 75.3 | 78.1 | 82.4 |
| Non-Current Liabilities | 178.3 | 193.6 | 172.0 | 163.5 | 159.8 | 156.1 | 157.7 | 149.6 | 149.6 | 149.6 | 149.6 | 149.6 | 149.6 | 149.6 | 149.6 |
| Liabilities | 224.2 | 273.9 | 223.4 | 206.5 | 210.9 | 213.4 | 218.8 | 216.3 | 214.0 | 214.0 | 221.5 | 220.8 | 225.0 | 227.8 | 232.0 |
| Shareholders' Equity | 136.9 | 140.9 | 193.9 | 229.3 | 242.2 | 248.7 | 254.7 | 264.6 | 269.6 | 269.6 | 290.0 | 341.9 | 413.4 | 501.2 | 595.4 |
| Cash | 14.0 | 15.3 | 10.1 | 51.2 | 46.2 | 54.2 | 41.0 | 35.4 | 53.7 | 53.7 | 73.7 | 125.6 | 189.6 | 269.7 | 357.6 |
| Debt | 224.2 | 273.9 | 223.4 | 206.5 | 210.9 | 213.4 | 218.8 | 216.3 | 214.0 | 214.0 | 221.5 | 220.8 | 225.0 | 227.8 | 232.0 |
| Net Debt | 210.2 | 258.6 | 213.3 | 155.3 | 164.8 | 159.1 | 177.7 | 180.9 | 160.4 | 160.4 | 147.7 | 95.3 | 35.3 | (41.9) | (125.5) |
| Minority Interests | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt/EBITDA | 5.9 x | 7.1 x | 4.5 x | 3.5 x | 3.5 x | - | - | - | - | 3.7 x | 3.4 x | 1.2 x | 0.4 x | n/a | n/a |
| Operating Metrics | | | | | | | | | | | | | | | |
| Return on Equity (ROE) | 3.2% | 3.8% | 17.3% | 6.8% | 7.4% | - | - | - | - | 4.2% | 7.0% | 15.2% | 17.3% | 17.5% | 15.8% |
| Return on Assets (ROA) | 1.2% | 1.3% | 8.0% | 3.6% | 3.9% | - | - | - | - | 2.3% | 4.0% | 9.2% | 11.2% | 12.1% | 11.4% |
| Return on Invested Capital (ROIC) | 0.1% | 1.2% | 13.0% | 6.7% | 5.7% | - | - | - | - | 4.6% | 6.5% | 14.6% | 19.2% | 22.9% | 24.0% |
| Valuation Metrics | | | | | | | | | | | | | | | |
| Stock Price (High) | rd | \$ 32.54 | \$ 31.10 | \$ 22.42 | \$ 19.84 | \$ 19.07 | \$ 20.81 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 |
| Stock Price (Low) | | \$ 23.73 | \$ 18.52 | \$ 7.85 | \$ 7.30 | \$ 8.13 | \$ 17.58 | \$ 23.64 | \$ 23.64 | \$ 8.13 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 |
| Stock Price (Average) | | \$ 28.14 | \$ 24.81 | \$ 15.14 | \$ 13.57 | \$ 13.60 | \$ 19.20 | \$ 23.64 | \$ 23.64 | \$ 15.89 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 | \$ 23.64 |
| Diluted Shares Outstanding (Average) | 0.0 | 12.6 | 49.4 | 49.3 | 50.8 | 50.9 | 51.7 | 52.3 | 52.3 | 51.8 | 52.3 | 52.3 | 52.3 | 52.3 | 52.3 |
| Market Capitalization (Average) | - | 354.7 | 1,225.0 | 745.7 | 689.6 | 692.8 | 993.3 | 1,237.2 | 1,237.2 | 823.5 | 1,237.2 | 1,237.2 | 1,237.2 | 1,237.2 | 1,237.2 |
| Enterprise Value (Average) | 210.2 | 613.3 | 1,438.3 | 901.0 | 854.4 | 851.9 | 1,171.0 | 1,418.1 | 1,397.6 | 983.8 | 1,384.9 | 1,332.5 | 1,272.5 | 1,195.3 | 1,111.7 |
| P/E | - | 66.8 x | 36.6 x | 48.0 x | 38.6 x | - | - | - | - | 73.1 x | 60.8 x | 23.8 x | 17.3 x | 14.1 x | 13.1 x |
| EV/EBITDA | 5.9 x | 16.9 x | 30.1 x | 20.5 x | 18.3 x | - | - | - | - | 22.7 x | 31.7 x | 17.4 x | 13.3 x | 10.3 x | 9.0 x |
| FCF Yield to Market Capitalization | - | 3.7% | 1.1% | 5.1% | 3.9% | - | - | - | - | 1.2% | 2.0% | 4.6% | 5.6% | 6.9% | 7.5% |
| FCF Yield to Enterprise Value | 13.2% | 2.1% | 0.9% | 4.2% | 3.2% | - | - | - | - | 1.0% | 1.8% | 4.2% | 5.4% | 7.1% | 8.3% |
| Free Cash Flow | | | | | | | | | | | | | | | |
| EBIT | 25.6 | 23.1 | 33.3 | 26.2 | 30.0 | 2.0 | 6.3 | 7.3 | 18.6 | 18.6 | 31.4 | 70.9 | 95.4 | 115.8 | 123.7 |
| Tax Expense | (4.3) | (4.5) | 11.0 | (2.4) | (6.2) | 0.2 | (0.5) | (1.5) | (3.7) | (3.7) | (6.3) | (14.2) | (19.1) | (23.2) | (24.7) |
| D&A | 10.3 | 13.2 | 14.5 | 17.9 | 22.8 | 6.2 | 6.2 | 6.0 | 24.8 | 24.8 | 12.3 | 5.8 | 0.1 | 0.0 | 0.0 |
| Capital Expenditures | (10.1) | (9.2) | (7.5) | (8.9) | (9.4) | (1.6) | (1.2) | (1.7) | (5.6) | (5.6) | (3.9) | (1.8) | (0.0) | (0.0) | (0.0) |
| Changes in NWC | 6.4 | (9.5) | (38.2) | 5.0 | (10.0) | (18.5) | (14.1) | 8.9 | (24.3) | (24.3) | (8.7) | (4.1) | (7.5) | (7.8) | (6.3) |
| Unlevered Free Cash Flow | 27.8 | 13.0 | 13.1 | 37.8 | 27.2 | (11.7) | (3.2) | 19.1 | 9.8 | 9.8 | 24.9 | 56.6 | 68.9 | 84.9 | 92.7 |
| Valuation Summary | | | | | | | | | | | | | | | |
| Current Price | \$ 23.64 | | | | | | | | | | | | | | |
| Target Price | \$ 21.25 | | | | | | | | | | | | | | |
| Total Return | -10.1% | | | | | | | | | | | | | | |
| Recommendation | HOLD | | | | | | | | | | | | | | |
| DCF Valuation | | | | | | | | | | | | | | | |
| Perpetuity Growth Implied Price | \$ 12.91 | | | | | | | | | | | | | | |
| Exit Multiple Implied Price | \$ 31.87 | | | | | | | | | | | | | | |
| Comps Valuation | | | | | | | | | | | | | | | |
| Comps - EV/EBITDA Implied Price | \$ 16.69 | | | | | | | | | | | | | | |
| Comps - P/E Implied Price | \$ 13.49 | | | | | | | | | | | | | | |

Appendix 2: Discounted Cash Flow Analysis

| Discounted Cash Flow Analysis | | | | | | | | | | | | | | | | | | | | | |
|--|-----------------|-------------|-------------|-------------|------------------------------------|-----------------|------------|-------------|--------------|-------------|------------|---------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
| | Dec-15 | Dec-16 | Dec-17 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Mar-20 | Mar-20 | Jun-20 | Sep-20 | Dec-20 | Mar-21 | Mar-21 | Mar-22 | Mar-23 | Mar-24 | Mar-25 | Mar-26 | |
| (Figures in mm USD) | FY2015 | FY2016 | FY2017 | FY2018 | Q1-2020 | Q2-2020 | Q3-2020 | Q4-2020 | Transition | FY2020 | Q1-2021 | Q2-2021 | Q3-2021 | Q4-2021 | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 | FY2026 | |
| WACC Calculations | | | | | | | | | | | | | | | | | | | | | |
| Cost of Equity | | | | | | | | | | | | | | | | | | | | | |
| Risk-free rate | 1.2% | | | | | | | | | | | | | | | | | | | | |
| Expected market return | 9.7% | | | | | | | | | | | | | | | | | | | | |
| Market Risk Premium | 8.5% | | | | | | | | | | | | | | | | | | | | |
| Beta | 1.47 | | | | | | | | | | | | | | | | | | | | |
| Cost of Equity | 13.8% | | | | | | | | | | | | | | | | | | | | |
| Cost of Debt | | | | | | | | | | | | | | | | | | | | | |
| Pre-tax cost of debt | 1.1% | | | | | | | | | | | | | | | | | | | | |
| Effective tax rate | 20.0% | | | | | | | | | | | | | | | | | | | | |
| Cost of Debt | 0.9% | | | | | | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | | | | | | |
| Market value of equity | 1,237.2 | | | | | | | | | | | | | | | | | | | | |
| Market value of debt | 129.7 | | | | | | | | | | | | | | | | | | | | |
| Total Capitalization | 1,366.9 | | | | | | | | | | | | | | | | | | | | |
| Cost of equity | 13.8% | | | | | | | | | | | | | | | | | | | | |
| Cost of debt | 0.9% | | | | | | | | | | | | | | | | | | | | |
| WACC | 12.6% | | | | | | | | | | | | | | | | | | | | |
| Free Cash Flow | | | | | | | | | | | | | | | | | | | | | |
| EBIT | 25.6 | 23.1 | 33.3 | 26.2 | (19.0) | 6.9 | 9.1 | 12.9 | 1.0 | 30.0 | 3.0 | 2.0 | 6.3 | 7.3 | 18.6 | 31.4 | 70.9 | 95.4 | 115.8 | 123.7 | |
| Less: Tax expense | (4.3) | (4.5) | 11.0 | (2.4) | 3.3 | (1.9) | (1.5) | (3.0) | 0.2 | (6.2) | 0.0 | 0.2 | (0.5) | (1.5) | (3.7) | (6.3) | (14.2) | (19.1) | (23.2) | (24.7) | |
| Add: Depreciation and amortization | 10.3 | 13.2 | 14.5 | 17.9 | 7.5 | 5.2 | 6.0 | 5.7 | 6.0 | 22.8 | 6.4 | 6.2 | 6.2 | 6.0 | 24.8 | 12.3 | 5.8 | 0.1 | 0.0 | 0.0 | |
| Less: Capital expenditures | (10.1) | (9.2) | (7.5) | (8.9) | (3.4) | (2.9) | (2.6) | (1.5) | (2.3) | (9.4) | (1.2) | (1.6) | (1.2) | (1.7) | (5.6) | (3.9) | (1.8) | (0.0) | (0.0) | (0.0) | |
| Less: Change in net working capital | 6.4 | (9.5) | (38.2) | 5.0 | (4.3) | (1.3) | (9.2) | 6.0 | (5.5) | (10.0) | (0.6) | (18.5) | (14.1) | 8.9 | (24.3) | (8.7) | (4.1) | (7.5) | (7.8) | (6.3) | |
| Unlevered Free Cash Flow | 27.8 | 13.0 | 13.1 | 37.8 | (15.9) | 6.1 | 1.8 | 20.0 | (0.7) | 27.2 | 7.7 | (11.7) | (3.2) | 19.1 | 9.8 | 24.9 | 56.6 | 68.9 | 84.9 | 92.7 | |
| Discount factor | | | | | | | | | | | | | | 0.25 | 0.25 | 1.25 | 2.25 | 3.25 | 4.25 | 5.25 | |
| Present Value of Unlevered Free Cash Flow | | | | | | | | | | | | | | 18.5 | 18.5 | 22.7 | 43.4 | 46.9 | 51.3 | 49.8 | |
| Discounted Cash Flow Valuations | | | | | | | | | | | | | | | | | | | | | |
| Perpetuity Growth Method | | | | | Exit Multiple Method | | | | | WACC | | | | | | | | | | | |
| Perpetuity Growth Rate | 3.0% | | | | Terminal EV/EBITDA Multiple | 23.0x | | | | | | | | | | | | | | | |
| PV sum of unlevered FCF | 232.7 | | | | PV sum of unlevered FCF | 232.7 | | | | | | | | | | | | | | | |
| Terminal value | 537.2 | | | | Terminal value | 1,529.24 | | | | | | | | | | | | | | | |
| Enterprise Value | 769.9 | | | | Enterprise Value | 1,761.9 | | | | | | | | | | | | | | | |
| Add: Cash | 35.4 | | | | Add: Cash | 35.4 | | | | | | | | | | | | | | | |
| Less: Debt | 129.7 | | | | Less: Debt | 129.7 | | | | | | | | | | | | | | | |
| Less: Other EV adjustments | - | | | | Less: Other EV adjustments | - | | | | | | | | | | | | | | | |
| Equity Value | 675.6 | | | | Equity Value | 1,667.7 | | | | | | | | | | | | | | | |
| Shares outstanding | 52.3 | | | | Shares outstanding | 52.3 | | | | | | | | | | | | | | | |
| Implied Share Price | \$ 12.91 | | | | Implied Share Price | \$ 31.87 | | | | | | | | | | | | | | | |
| Current Price | \$ 23.64 | | | | Current Price | \$ 23.64 | | | | | | | | | | | | | | | |
| Implied Price | \$ 12.91 | | | | Implied Price | \$ 31.87 | | | | | | | | | | | | | | | |
| Total Return | -45.4% | | | | Total Return | 34.8% | | | | | | | | | | | | | | | |

Appendix 3: Company Comparable Analysis

| Comparable Company Analysis | | | | | | | | | | | |
|---------------------------------|--------------------|-----------------|----------------------------|----------------|------------------|-------------------------|-----------------|-------------------|-----------------|-----------------|----------------|
| (Figures in mm USD) | | | | | | EV/EBITDA Multiple | | | P/E Multiple | | |
| Company | Ticker | Share Price | Diluted Shares Outstanding | Equity Value | Enterprise Value | 2020A EV/EBITDA | 2021E EV/EBITDA | 2022E EV/EBITDA | 2020A P/E | 2021E P/E | 2022E P/E |
| Revlon Inc. | (NYSE: REV) | \$ 11.07 | 55.9 | 618.9 | 3,980.6 | 14.9 x | 15.1 x | 14.2 x | (2.9 x) | (3.4 x) | (4.0 x) |
| The Estée Lauder Companies Inc. | (NYSE: EL) | \$ 290.25 | 362.6 | 105,254.2 | 110,363.2 | 31.0 x | 31.1 x | 26.4 x | 45.9 x | 49.4 x | 42.2 x |
| Coty Inc. | (NYSE: COTY) | \$ 6.78 | 764.6 | 5,184.0 | 16,827.9 | 42.1 x | 22.3 x | 19.1 x | (9.8 x) | 52.2 x | 27.1 x |
| Inter Parfums Inc. | (NASDAQ: IPAR) | \$ 67.22 | 31.6 | 2,125.5 | 2,048.7 | 16.9 x | 27.4 x | 22.2 x | 35.4 x | 60.6 x | 48.4 x |
| e.l.f. Beauty Inc. | (NYSE: ELF) | \$ 23.64 | 52.3 | 1,237.2 | 1,331.5 | 28.4 x | 30.7 x | 30.5 x | 67.2 x | 108.8 x | 60.8 x |
| Median | | | | | | 24.9 x | 20.7 x | | 50.8 x | | 34.7 x |
| Mean | | | | | | 24.0 x | 20.5 x | | 54.1 x | | 39.2 x |
| High | | | | | | 31.1 x | 26.4 x | | 60.6 x | | 48.4 x |
| Low | | | | | | 15.1 x | 14.2 x | | (3.4 x) | | (4.0 x) |
| | | | | | | EV/EBITDA Implied Price | | P/E Implied Price | | | |
| Median | | | | | | \$ 18.80 | \$ 15.46 | | \$ 11.04 | \$ 13.47 | |
| Mean | | | | | | \$ 18.09 | \$ 15.30 | | \$ 11.74 | \$ 15.25 | |
| High | | | | | | \$ 24.00 | \$ 20.27 | | \$ 13.16 | \$ 18.80 | |
| Low | | | | | | \$ 10.74 | \$ 10.03 | | -\$ 0.75 | -\$ 1.56 | |