

elf eyes lips face






Stern IAG

March 1, 2019

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Price Target: \$9.01 (~20.2% upside)

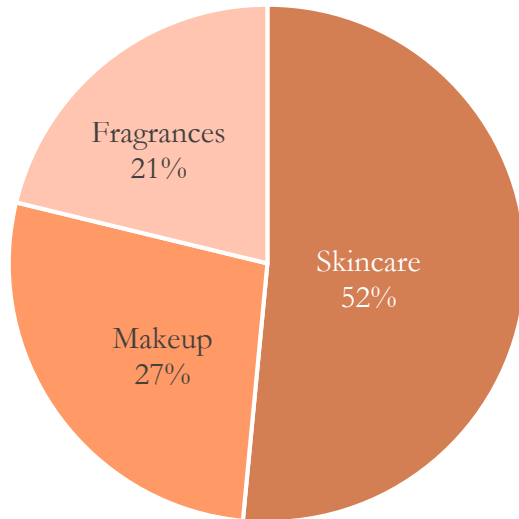
Agenda

-  1 **Industry Overview**
-  2 **Company Overview**
-  3 **Investment Thesis**
-  4 **Catalyst and Risks**
-  5 **Valuation**

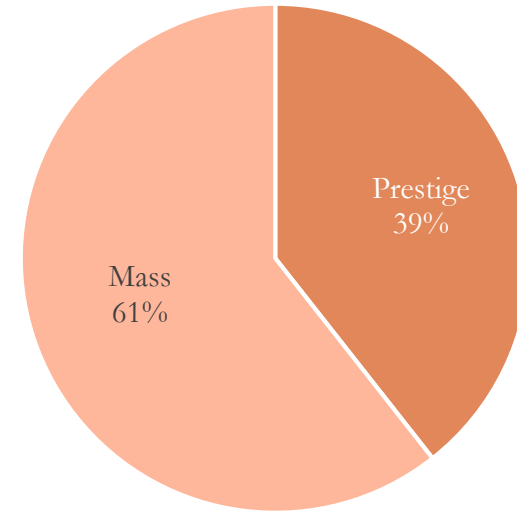
Industry Overview

Global beauty is a multi-faceted, quickly growing industry.

Industry Breakdown



Prestige vs. Mass Makeup



Competitive Landscape

Drivers of Growth:

- Increased importance of makeup
- Resurgence in demand from emerging markets
- Premiumization

Mass Brands:

- L'Oréal
- Coty
- Revlon
- Mary Kay
- Avon

Prestige Brands:

- Estee Lauder
- L'Oréal
- LVMH
- Shiseido
- Chanel

Industry Overview

US Millennials are redefining “self” and makeup

86%

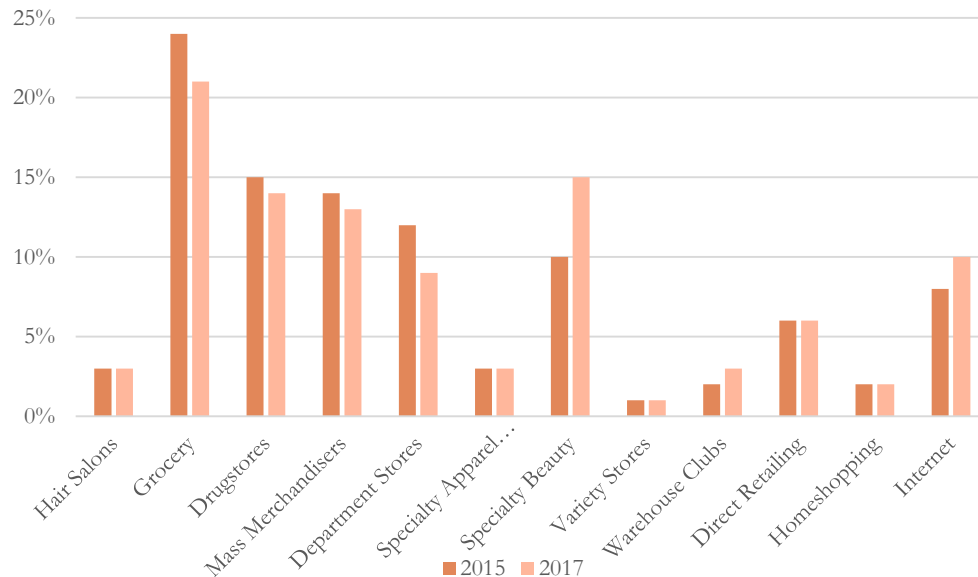
“the biggest change in culture today is freedom to express yourself however you want”

81%

“beauty isn’t just about products, it’s about cultural expression”

Niche and indie brands have benefited from the structural shift to specialty and online

eCommerce and specialty stores allow new brands to engage with customers and scale up in an **asset-light fashion**



badgalriri • Following

badgalriri The new generation of beauty. @fentybeauty

Load more comments

hmvagabunda NOOOOOOOOSSA

iamrobertadt Top

iamrobertadt Beauty

rihannariqueen 😍😍😍😍😍

insomiaa93 Always Amazing 🤩

zibu_m 🍷💕😍😍😍

iamalikaj 😍😍😍

zeynepcansuakyl Ya sen insan misin nande_gqirana Nantsi enye iCreation @lana_sobayeni

cha_neil You did good girl @badgalriri you are literally revolutionary 🙌

siwakat Cute

2,759,298 likes

16 HOURS AGO



kyliecosmetics • Follow

kyliecosmetics @kyliejenner wearing the #kyliejordyn eyeshadow palette and Partner in Crime gloss 😍 the new high gloss is going to be your new favorite!! ❤️

Load more comments

marina_auson What lip liner are u wearing w this :)

gcann333 That green in the inner corner is so pretty @squishycat310

bago_life i looooooooooooooooooooooooooooooooooooove that coat

lyssajohnson @offjesskan

eskerlyntoledo20 🍷

rblalack @_leeishla do you know the name of it? Or has it not dropped yet?

gaybrille_ Lips are very kissable

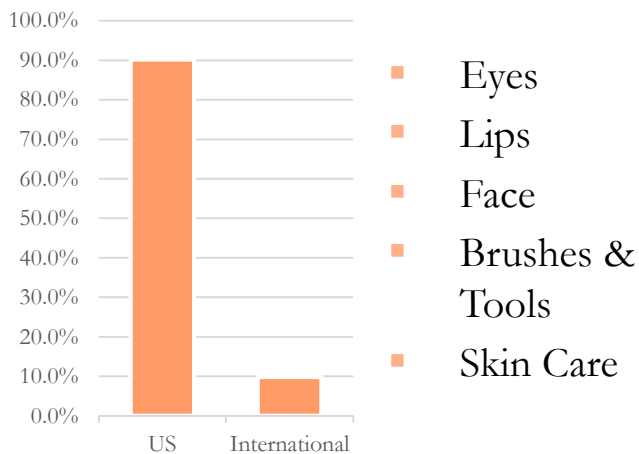
232,494 likes

6 DAYS AGO

Company Overview

e.l.f. Beauty, Inc. is an international beauty company based in the United States. Driven by their mission to make luxurious beauty accessible for all, e.l.f. offers high-quality, prestige-inspired beauty products at extraordinary value. Their price points encourage trial and experimentation, while their commitment to quality and a differentiated consumer engagement model engenders loyalty among a passionate and vocal group of consumers.

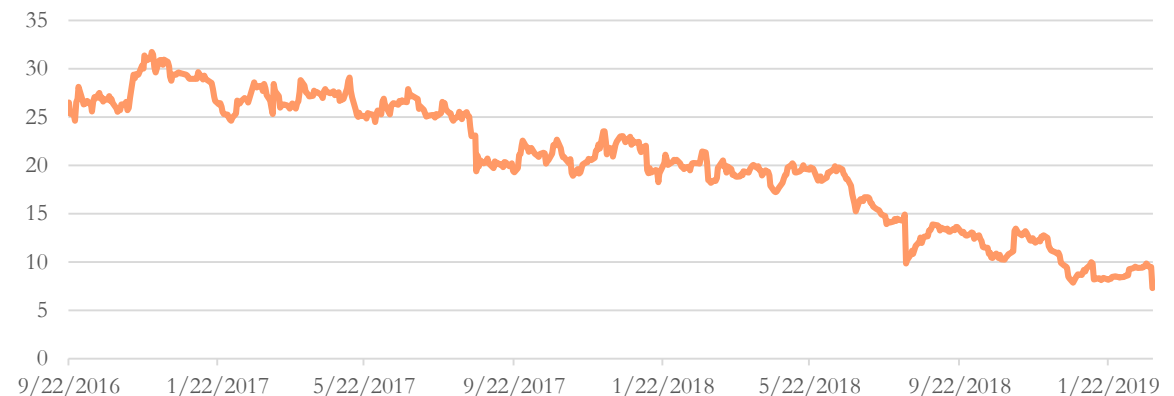
Sales by Segment



Financial Summary

Income Statement					
	2014	2015	2016	2017	2018
Total Revenue	144.9	191.4	229.6	269.9	267.4
Cost Of Goods Sold	78.7	91.1	97.3	105.2	104.7
D&A	8.00	10.40	13.10	14.50	17.90
Gross Profit	58.2	89.9	119.2	150.2	144.8
Selling General & Admin Exp.	56.3	74.8	109.2	131.4	135.2
EBIT	1.9	15.1	10.0	18.8	9.6
EBITDA	17.9	35.9	36.2	47.8	45.40

Stock Performance



First-to-mass

Core Expansion

Adjacencies

Management



Tarang P. Amin
CEO

Served as CEO since 2015. Has over 25 years of consumer product experience, serving as president at Schiff Nutrition from 2011-2013, and vice president at the Clorox Company. Received his BA and MBA from Duke



John P. Bailey
CFO

Served as CFO since 2015. Several years of experience in consumer product finance. Previously, from 2010-2015, lead the consumer sector for TPG Growth LLC. Prior to that was involved with North Castle, a consumer PE firm.



Gayitri Budhraja
Vice President, Brand

Served at Vice President of Brand since July 2018. and served as Vice President of Sales for e.l.f. since 2016. Responsible for significantly expanding the brand's footprint. Lead e.l.f.'s retail partnerships with Walmart and Target

Opportunity

“Beauty is a momentum business, and ELF has lost it.”
– Wells Fargo Securities

Investment Thesis

1 Refocusing on core competency

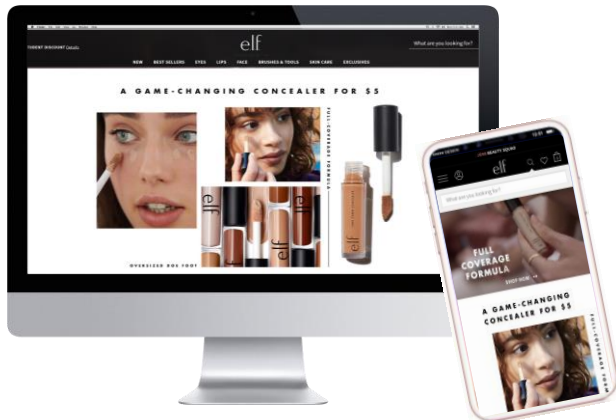
2 Rethinking multi-channel retail

3 Activist involvement

1. Refocusing on Core Competency

Digital Marketing

- e.l.f. was the one of the first makeup companies to start off as an ecommerce company, and they saw tremendous growth because of it
- More entrants into digital makeup space
- e.l.f. is refocusing and partnering with key influencers



Between Mass and Prestige

- There are shifting customer preferences as a result of specialty stores
- Consumers will buy a variety of brands from prestige to mass
- e.l.f. is well positioned
- e.l.f. is publicly thought of as a quality, low-cost alternative to higher end makeup products



Supply Chain Efficiency

- e.l.f. is focused on maximizing the efficiency of their supply chain
- Asset-light supply chain
 - Use 3rd party manufacturing
 - Can produce small quantities of product in as short as 13 weeks from concept
- Zara is a case study to understand this model



1. Refocusing on Core Competency

ZARA as a Case Study



Just in Time Production

- ZARA's success relies on making sure its factories reserve 85% for in-season adjustments
- Store communication allows real-time demand data on products
- Complex demand forecasting is instantly sent to ZARA designers

Lean Inventory Management

- In all supply chains, lean inventories are the key to efficient production
- Inventory optimization models are used to help estimate the minimum quantity to go to stores
- The batches shipped are small delivered twice a week to limit unsold items

ZARA

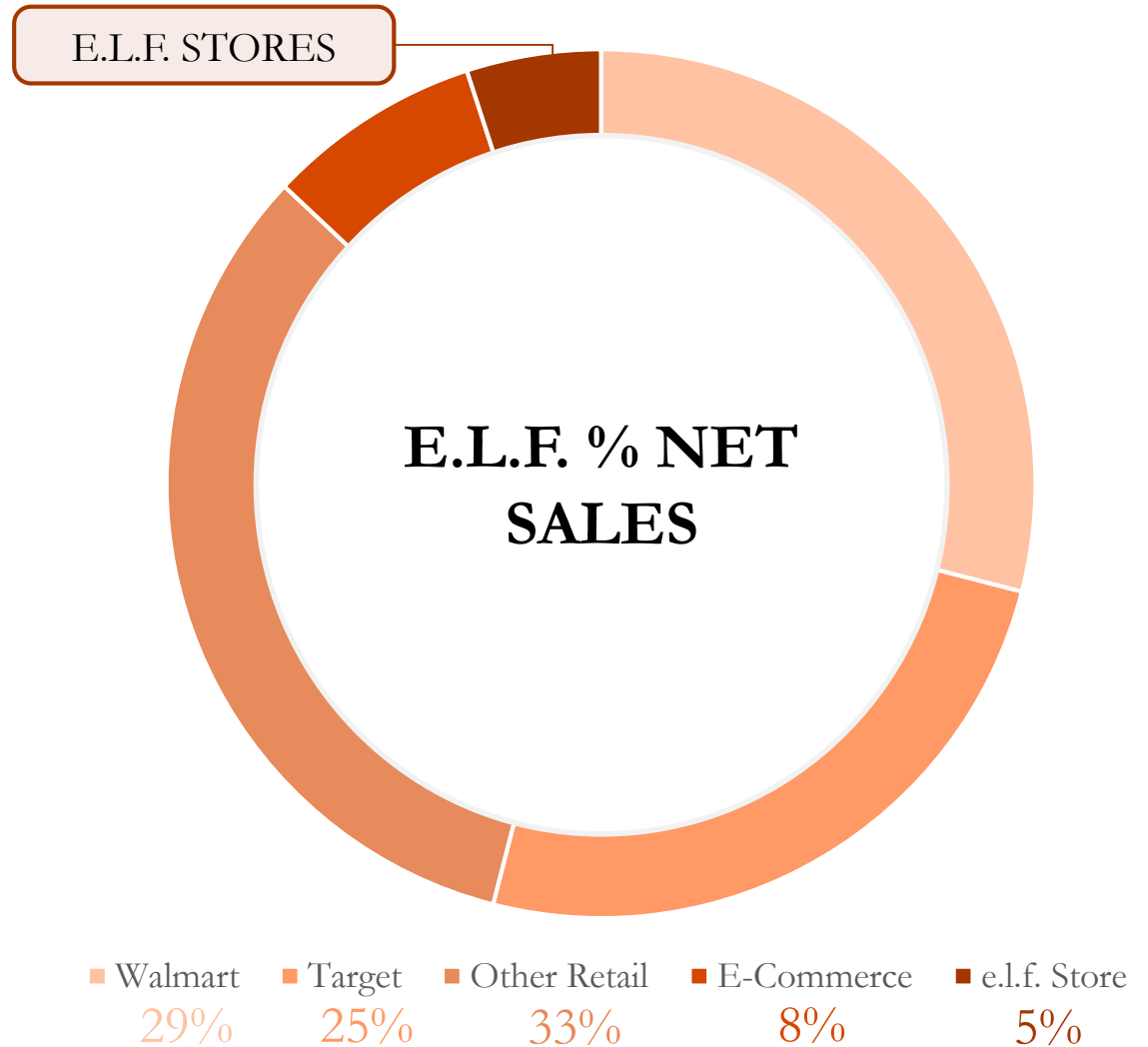
Central Order Fulfillment

- “The secret to Zara's success has been centralized”
- Relies on centralized order fulfillment allows the company to maintain efficient workflows
- Allows the company to deliver goods to its European stores in under 24 hours
- Vertically integrated supply chain

2. Rethinking “Multi-Channel Retail”

e.l.f. Brick and Mortar Stores

- e.l.f. is closing all 22 of its stores
- Company is looking to focus on its national retail and digital distribution channels
 - Walmart represents 29% of Net Sales in 2018
 - Target represents 33% of Net Sales in 2018
- Brick and mortar stores represented only 5% of e.l.f.’s net sales
- Wall Street analysts have commented how the brick and mortar “helped a brand that was already widely available for a consumer with limited brand loyalty”
- The closures will generate \$23 million to help marketing and product development



2. Rethinking “Multi-Channel Retail”

Project Unicorn

“Project Unicorn is aimed at elevating the brand presentation and improving the consumer's ability to navigate our sets. Project Unicorn really impacts all of our retail customers in one way or the other, so pretty much 100% of our distribution.” – Q4 Management

Phase 1

Walmart 

ULTA[®]
B E A U T Y


TARGET

- New product packaging
- Better placement in much more efficient sets
- To be implemented by the end of March 2019

Phase 2

- Make all brushes in the Unicorn design with sleeker packaging
- Allows e.l.f. to fit more brushes and more kits onto shelves
- Start drawing other customers in a more efficient design
- To be implemented in Fall 2019



3. Activist Involvement

Corporate Governance: TPG



John P. Bailey
President and CFO
Partner with TPG



William E McGlashan Jr.
Board of Directors
Founding and Managing
Partner of TPG Growth



TPG
 Acquires
 60% stake

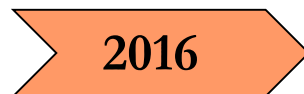
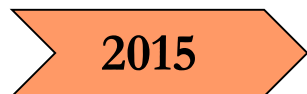
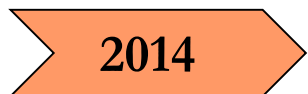
Share price: N/A

e.l.f IPOs
 September
 22, 2016

Share price: \$25

TPG owns
 approximately
 30% stake

Share price: \$9.85



3. Activist Involvement

Activist Story: Marathon Capital Partners

Refocus on Core Competencies

- 1 Cease evaluation of acquisition targets
- 2 Reduce and optimize high-cost structure, focusing on executive compensation

“We believe the brand, the platform, and the team at e.l.f. are unique, valuable, and underappreciated by the investing marketplace. However, even with our admiration, we are certain that sticking to the status quo will do more harm than good, and that significant change at e.l.f. is required immediately”

MARATHON PARTNERS

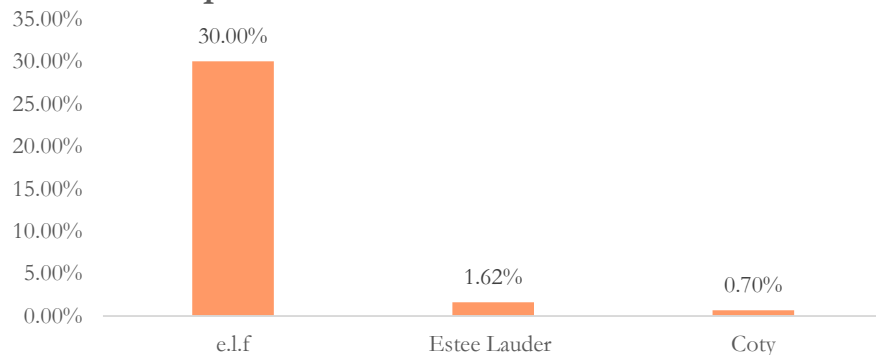
EQUITY MANAGEMENT, LLC



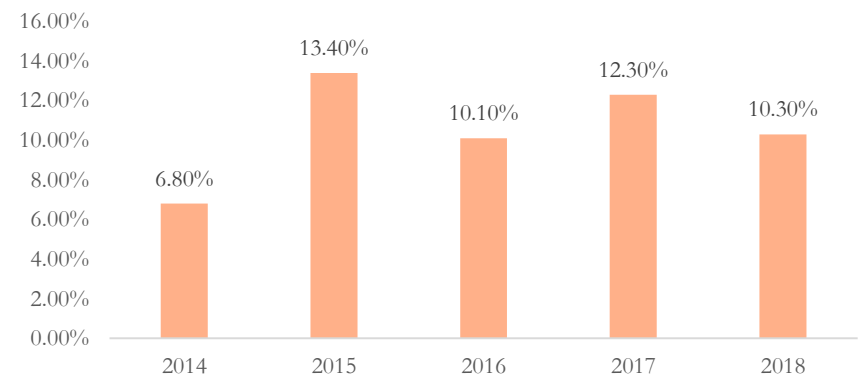
Mario Cibelli

Managing Director at Marathon Partners

Compensation as a % of EBITDA in 2017



Operating Margin



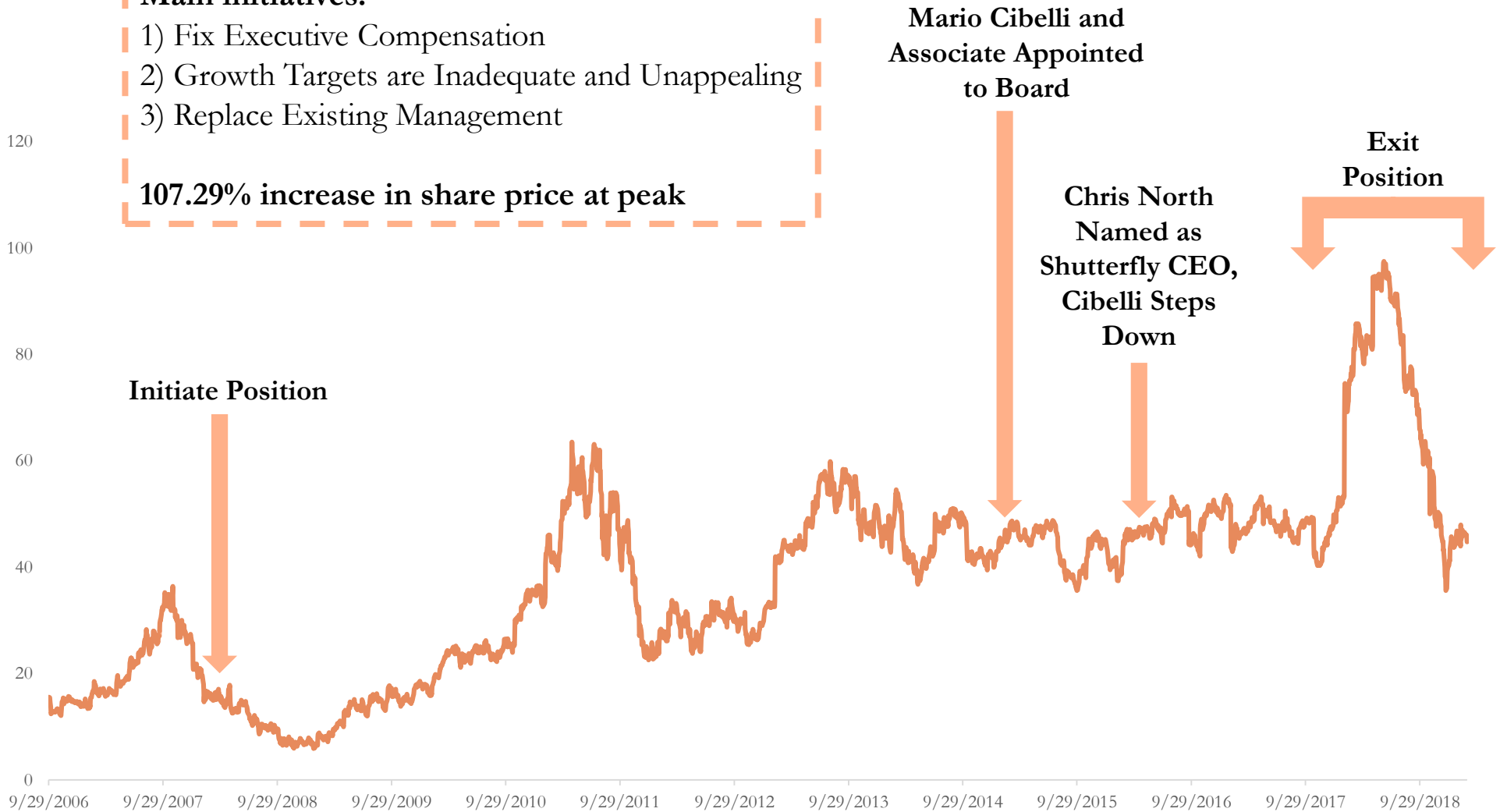
3. Activist Involvement

Marathon Partners Track Record: Shutterfly

Main initiatives:

- 1) Fix Executive Compensation
- 2) Growth Targets are Inadequate and Unappealing
- 3) Replace Existing Management

107.29% increase in share price at peak



3. Activist Involvement

Marathon Partners Track Record: OnDeck & J. Alexander's

The logo for OnDeck, featuring the word "ondeck" in a bold, lowercase, blue sans-serif font.The logo for J. Alexander's, featuring the text "J. ALEXANDER'S" in a bold, uppercase, black sans-serif font, with a red vertical bar to the left of the "J".

Key Points

- 1 Fully rationalize costs and improve margins
- 2 “Disappointed” with corporate governance and executive compensation
- 3 Seek the sale of OnDeck to a stable partner
- 4 Block the acquisition of 99 Restaurant

Marathon Partners Appalled by J. Alexander's Adjournment of Special Meeting to Delay the Failed Shareholder Vote on the Proposed Acquisition of 99 Restaurants

Marathon Condemns the Desperate Eleventh-Hour Manipulation as a Continued Attempt by Conflicted Parties to Complete a Highly Dilutive and Destructive Transaction at All Costs

Marathon Calls On J. Alexander's to Immediately Release the Preliminary Voting Results from Yesterday's Adjourned Special Meeting

Marathon Remains Skeptical That a Majority of Shareholders Voted to Approve the Merger Since J. Alexander's Needs More Time "To Solicit More Votes From Shareholders"

J. Alexander's ends Ninety Nine bid

Shareholders reject proposed acquisition

Ron Ruggless | Feb 01, 2018

6% owner tells chairman 'it is time for you to step up'

AUTHORS [Geert De Lombaerde](#)

Recent Developments: Q4 Earnings



Kory Marchisotto
Chief Marketing Officer

New Chief Marketing Officer

- More than 20 years of beauty experience
- Previously served as Senior Vice President of Shiseido U.S.A.'s bareMinerals division, and led digital transformation
- Also held marketing and sales roles at LVMH

Other Notable Developments

- Hired new Head of Integrated Marketing from Too Faced
- Announced the closing of 22 e.l.f. stores
- Executives will receive \$0 bonus for 2018
- CFO/President John P. Bailey (TPG) will leave the company



Catalysts and Risks

Catalysts

Further involvement by Marathon Partners

Appointment of new CFO

Appointment of new board members

Risks

Ties to China

Failure of Marathon Partners to execute their strategy

Decreased relevance of e.l.f.'s brand

Valuation

Income Statement										
	2014	2015	2016	2017	2018	2019	Projected		2022	2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Revenue	144.9	191.4	229.6	269.9	267.4	280.77	303.23	333.55	383.59	460.31
Cost Of Goods Sold	78.7	91.1	97.3	105.2	104.7	124.90	127.36	133.42	149.60	179.52
D&A	8.00	10.40	13.10	14.50	17.90	14.04	12.13	13.34	15.34	18.41
Gross Profit	58.2	89.9	119.2	150.2	144.8	141.8	163.7	186.8	218.6	262.4
Selling General & Admin Exp.	56.3	74.8	109.2	131.4	135.2	154.42	109.16	113.41	122.75	138.09
EBIT	1.9	15.1	10.0	18.8	9.6	(12.6)	54.6	73.4	95.9	124.3
EBITDA	17.9	35.9	36.2	47.8	45.40	36.50	39.42	43.36	53.70	64.44

I/S Drivers										
	2014	2015	2016	2017	2018	2019	Projected		2022	2023
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue Growth	N/A	32.1%	20.0%	17.6%	-0.9%	5.0%	8.0%	10.0%	15.0%	20%
Gross Margin	40.2%	47.0%	51.9%	55.7%	54.2%	50.5%	54.0%	56.0%	57.0%	57.0%
EBIT Margin	1.3%	7.9%	4.4%	7.0%	3.6%	-4.5%	18.0%	22.0%	25.0%	27.0%
EBITDA Margin	12.4%	9.4%	15.6%	13.4%	17.9%	13.0%	13.0%	13.0%	14.0%	14.0%
Expense as a % of Revenue										
COGS	54.3%	47.6%	42.4%	39.0%	39.2%	44.5%	42.0%	40.0%	39.0%	39.0%
D&A	5.5%	5.4%	5.7%	5.4%	6.7%	5%	4%	4%	4%	4.0%
SG&A	38.9%	39.1%	47.6%	48.7%	50.6%	55%	36.0%	34.0%	32.0%	30.0%

Valuation

Fair Value Calculations	
PV of Terminal Value	317.60
Enterprise Value	585.17
Net Debt	146.00
Fair Value	439.17

WACC Assumptions		
WACC		6.35%
	Amount	Weight
Equity	193.9	0.554
Debt	156.3	0.446
Beta		0.5
Rm-Rf		5%
Cost of Equity		6.35%
Cost of Debt		4.99%
Tax Rate		14%
After Tax Cost of Debt		4.29%
Shares Outstanding		48.7
Price per Share		9.01
Current Share Price		7.50
Implied Upside		20.20%

19