

Ulta Salon, Cosmetics & Fragrance, Inc.

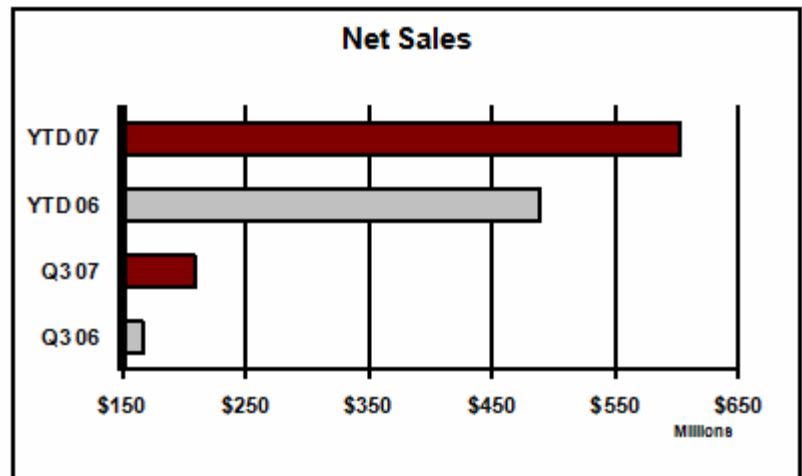
1135 Arbor Drive
Romeoville, IL 60446

RECOMMENDED GUIDELINE:	\$1,000,000
PAYMENT QUALITY INDEX:	77%
REPORT DATE:	12/11/2007
SHORT-TERM RISK:	Low
LONG-TERM RISK:	Moderate

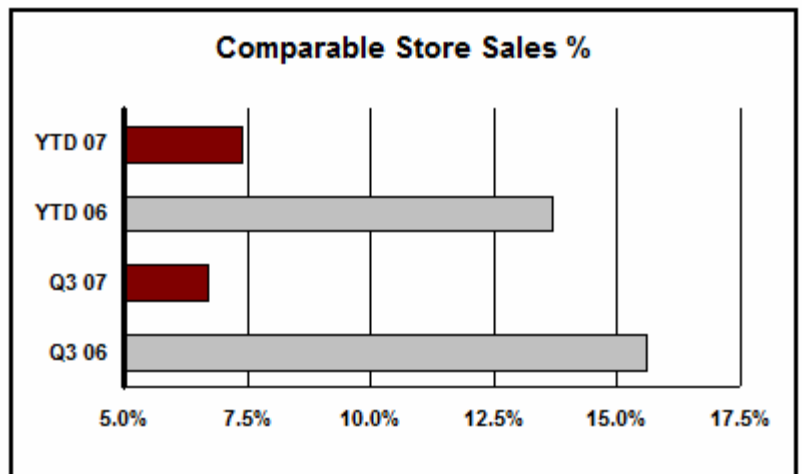
Based on Preliminary Results Released 12/11/07

GROWTH & MARGIN ANALYSIS:

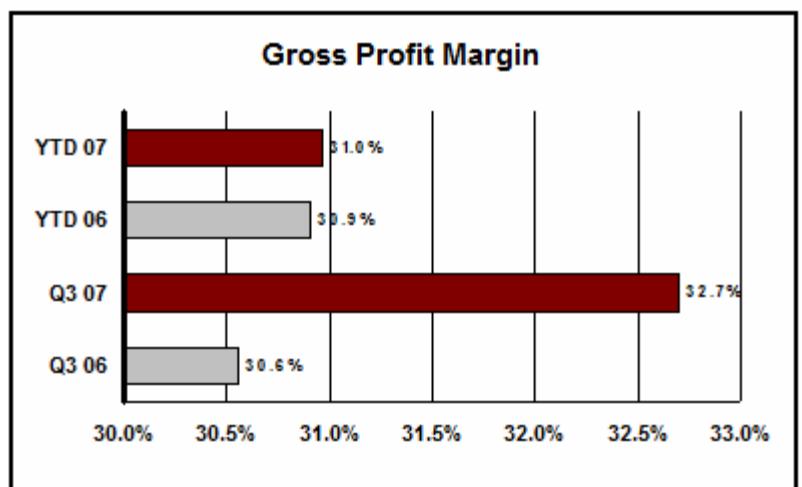
Ulta is experiencing substantial growth in Net Sales boosted by new store openings and strong comparable store sales. As of the end of Q3 07, Ulta operated 237 locations as well as its internet site ulta.com. The third quarter represented the company's strongest growth in store count to date, with 26 new stores opened and seven remodeled. Ulta has opened 49 new locations since the third quarter of the prior year, and anticipates by year end store count will reach 249. **In Q3 07, sales increased 25.4% to \$208.2 million, and YTD net sales improved 23.5% to \$602.8 million.**



Comparable Store Sales are defined by Ulta as those stores in operation for at least 14 months. In the current period, comparable store sales improved 6.7% and 7.4% on a quarterly and year-to-date basis, respectively. In the prior period, Ulta reported comparable store sales of 15.6% and 13.7% on a quarterly and year-to-date basis, respectively. **While the current year period results were considerably less favorable than the prior year, the company continues to enjoy considerable sales growth in its existing locations.** Management projects full year comparable store sales to improve in the range of 6.2% to 6.9%.



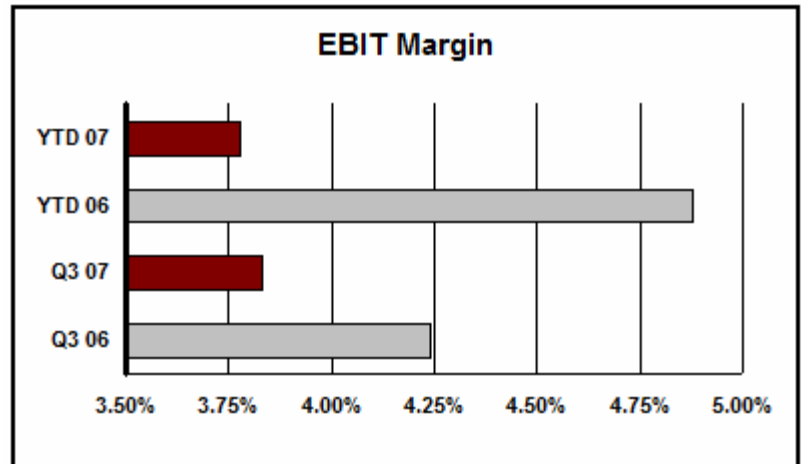
Ulta enjoys a strong **Gross Profit Margin** boosted by salon services and strong performance of Prestige brands offered in its locations. **Gross margin represented 32.7% of sales in Q3 07, a vast improvement over gross margin of 30.6% in Q3 06.** Ulta achieved the improvement largely as a result of its success in leveraging its advertising expenses by passing along costs to vendors. Gross margin also improved slightly during the YTD period. In the current period, gross margin was 31% of sales, an improvement over 30.9% in the comparable period of the prior year.



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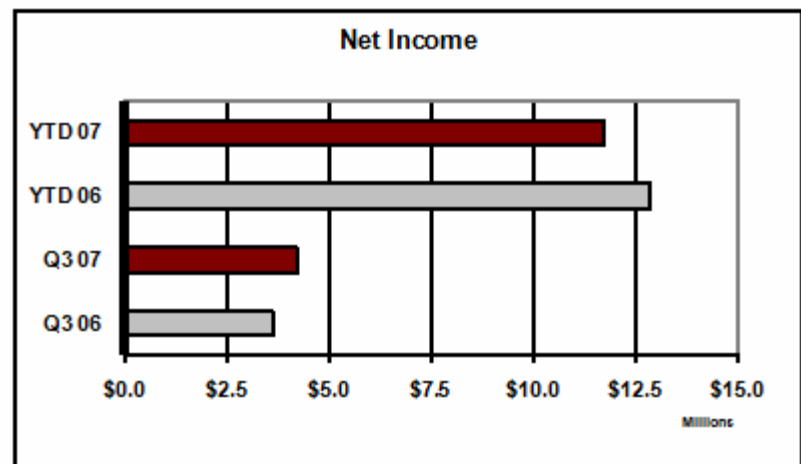
MARGIN ANALYSIS (CONTINUED):

EBIT Margin, or operating income as a percent of sales, has diminished on a quarterly and YTD basis. While gross margin trended positively, operating expenses increased to 26.7% of net sales, up from 24.6% net sales, quarter over quarter. On a YTD basis, operating expenses represented 25.7% of sales, up from 24.9% in the prior year period. Ulta's rapid expansion is also responsible for the decline in EBIT margin in the current year. In Q3 07, Ulta incurred approximately \$4.5 million in pre-opening expenses, versus \$2.9 million in Q3 06. Year-to-date, Ulta expended approximately \$9.1 million in preopening costs, as opposed to \$5.3 million in the comparable period of the prior year. **The deterioration in EBIT margin is a factor of Ulta's rapid expansion and investment in its store base, producing tremendous sales growth at the expense of a negative impact on operating margin in the short-term.** Operating income improved by \$931 thousand in Q3 07, as sales growth outpaced additional expense; however, **operating income declined just over \$1 million YTD.**



PROFITABILITY:

Net Income in Q3 07 totaled \$4.2 million, a 16.3% improvement over net earnings of \$3.6 million in Q3 06. **YTD 07 net income totaled \$11.7 million, representing a 9.8% decline as compared with net earnings of \$12.9 million in the same period of last year.** In Q3 07, increased operating income was partially offset by an additional \$276 thousand in interest expense, and \$66 thousand in additional tax liability. In the year-to-date period, diminished operating income and an additional \$977 thousand in interest expense, was partially offset by a reduction of \$863 thousand in tax liability period over period.



OVERVIEW & OUTLOOK:

Ulta, which completed its initial public offering on October 30, 2007, is expanding at a record pace, opening 26 stores in the third quarter of fiscal 2007. During the quarter, Ulta entered four new markets: Alabama, Tennessee, Ohio and Massachusetts. Growth was spread fairly evenly across market size with 10 stores opened in major metropolitan areas, an additional 10 in mid-size markets, and six locations in smaller markets. All indications are that the rapid expansion will continue with management indicating the goal of growing comparable store sales in the 3-5% range, increasing sales square footage by 20-25%, and growing net income by 20-25% on an annual basis. Further, management indicated its long-range goal of operating 1,000 stores within 10 years. Current trends suggest that in future periods, given continued expansion, operating expenses and expenses related to opening new stores will continue to have some impact on operating margin. The trade off is a growing, yet maturing store base which will add incremental sales to boost operating and net earnings, and which also will provide the company with cash flow to perpetuate growth and provide additional cash flow to support operating needs. Bernard Sands views Ulta as a low credit risk in the short term with long-term prospects less clear. Long-term risk will be highly dependent on the company's management of an aggressive expansion plan.

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