

**Mary Dillon:** I think if you kind of fall into a trap of thinking only through the lens of men, women, age, race, whatever in consumer insights, that's just way too simplistic.

[INTRO MUSIC]

**David Solomon:** Hello everyone. And welcome to Talks at GS. I'm excited to be joined today by Mary Dillon, the CEO of Ulta Beauty. Mary, thank you so much for joining us today.

**Mary Dillon:** Thrilled to be here. Thank you so much for having me.

**David Solomon:** Absolutely. Well, let's get right at it. I want to start with your path to Ulta Beauty. You've worked across a number of industries throughout your career: from food to telecom before taking on the helm of Ulta Beauty. What do you think has been a key driver of your trajectory throughout your career?

**Mary Dillon:** Yes, well, I have covered the gamut, haven't I? I mean, from food and beverage and restaurants, as well as telecom and beauty. And it's been really fun. It's actually very interesting to see some of the trends kind of circling back now that I saw early in food. We can come back to that.

But what I would say is that the common thread has really been, you know, sort of a focus on consumer insights and differentiating through the lens of best understanding and best meeting the needs of the customers. Which, you know, sounds kind of obvious. But I think one of the things that you learn really well in the consumer packaged goods world is how to do that really well.

**David Solomon:** You talk about, appropriately, you know, meeting the needs of customers as being a common thread. When you think about across the career, how have those needs changed over the course of your career? And how has it been different in different industries? Or is it really common?

**Mary Dillon:** You know, I guess what I would say is that how things change, it's really about to me always thinking through the lens of old psychographics and demographics. I know that sounds kind of, maybe, basic. But I think if you kind of fall into a trap of thinking only through the lens of men, women, age, race, whatever in consumer insights, that's just way too simplistic.

So, I'd say, how have things changed? I'd say, you know, a couple things. One is the demographics of our country though. You have to understand psychographics. You have to understand who you're talking to and how to find them. Our country is diverse and getting more diverse every day. And I honestly think sometimes we still don't understand and grasp that enough, as much as we need to. And when I started Ulta Beauty eight years ago now, that wasn't that long ago, I realized that we as a company, and the industry of beauty, was really kind of still in the old model of kind of a white Caucasian woman. And frankly, that's not our country anymore. And so, understanding that the fastest growing segments of the population are multiethnic, multi racial, Latinx, right, fastest growing segment, you need to understand kind of who you're talking to, as well as what their needs are. So, the demographics, I'd say, are changing. How people define themselves, even gender identity is really changing. In our business that's a really important thing to understand.

And I would say also the role of culture and technology. So, trends and things happen much more quickly now. You know, in an instant on Twitter or TikTok, you know, something becomes a hit. And that's cool. You need to understand that. I think that you also need to understand that, for us, focusing on, I always say, talk to people under 20 forever. You've got to keep yourself really understanding where that next cohort is going in terms of how they're thinking and what they're thinking about.

**David Solomon:** You took the helm of Ulta Beauty in 2013. And you've driven significant growth across the business. You've tripled the market cap to more than \$18 billion. You've doubled the number of stores. You've doubled your loyalty members. You've transformed the e-commerce business. What has been the key to the growth? Obviously, tapping into a much broader demographic, I know, has got to be part of the story as you hinted at.

**Mary Dillon:** Right.

**David Solomon:** But what have you learned since you took the job now that you've done it for eight years? And what do you wish you knew back in 2013 when you started on this journey with Ulta?

**Mary Dillon:** I mean, you know, I really did have a lot to learn about the business. And I got to sit around, you know,

immediately with all the investors in all these meetings getting peppered and hammered from the first quarter, you know, "Where are you taking this thing?" And I'm like, "Hold up, people. Let me learn about this first." I resisted the temptation to go in with a magic wand and say, "Ta-da." I literally focused on just a few things: strategy, team, execution, and culture. You know what I mean?

So, really, I realized at the very beginning that I needed to get people to work around me that could bring this business to life. You know what I mean? I didn't go in there saying I have to just throw out the team and start again. But I knew that I functioned best with a group of people working for me that have functional expertise, certainly. You know, I'm an expert on certain things, but not everything. And I'm humble enough to say that. Who also can be enterprise thinkers. You know? Not just do what's write for supply chain or the stores but think through the whole enterprise lens. And that could collaborate with each other.

And I spent a little bit of time building a team like that. And we dove into the strategies and really just tried to envision how big could this be and what would it take to get there.

And that, David, we really kind of had to reinvent a lot. On the one hand, I invented a business model that had some real strengths. And I love to give credit where credit is due. So, the company is over 30 years old. So, I didn't start the company. But three strengths that the founders had insight about: real estate. So, most of our real estate is off mob. You know? It's in, like, strip centers in suburban. So, that was smart. You know, that was cheaper real estate when they started business and easier to access in terms of the way people might want to shop, they thought. The product categories from mass to prestige, and every category of beauty all in one place. We call that "all things beauty." Plus, services. So, those three components still exist. You know? Services helps to explain why you need to go there physically. Right? As well as people love to shop for beauty in person. Our real estate strategy.

So, I built on the strengths. But then we said, okay, we need to figure out how are we going to create a real demand engine. And that involved a loyalty program, which we had to reinvent. Now it's one of the largest. We have over 30 million people in our loyalty program. And they drive over 90 percent of our sales. So, that's a key thing. How do you invest in building and growing and using all the technology that you can to personalize

and make it, really, a demand engine? And then secondly, had to kind of create, like our go-to-market strategies were pretty rudimentary. We were still putting, you know, supplements in the Sunday papers. That kind of stuff. Which, you know, is a pretty dated marketing tactic. So, rebuild the marketing engine. Get very focused on e-commerce. Get very focused on the capacity that we needed, both store growth as well as e-commerce fulfillment growth.

But probably the most important thing is I brought forward all the things I'd learned about culture and leadership in my career. And I'm pretty good at picking up what I think is what's good and leaving behind what I think is bad. And I insisted on having people that worked for me that shared the same values that I had.

**David Solomon:** I want to turn a little bit to the specific strategy that led to the growth of Ulta across your tenure. And so, you know, as you highlight, a lot's changed in the beauty industry. And there's no question a lot's changing in retail in general. The shift to e-commerce, certainly a focus on more sustainable products.

If you start with the balance of in store versus e-commerce, you know, how have you navigated those areas in an industry that, as you described, is so personally based to the customer? You know, based on the products they buy?

**Mary Dillon:** Yeah. Well, and frankly, that was a lot of what I had to help convince our investors about for some number of years, is that, yes, in retail there's certainly a big shift towards, you know, e-commerce. And certainly, that's been accelerated through the pandemic, obviously. But there are segments of retail where the physical experience actually still matters. Right? And so, finding that balance has been important.

And so, like, I as a shopper, might have certain categories that I buy exclusively online. You know? Maybe I buy 50 lb bags of pet food and I just want that dog food. I want that replenished and at my front door. But then there are other categories, like beauty, for the beauty enthusiast, where actually going to the store is not a drag. It's fun. It's like they want to go there and experience that.

So, what we did is just continued to build out our footprint of stores. So, we're a little over 1,200 right now. We're very selective about where we do that and how we do that and the

four-wall profitability. We're very aggressive when we re-up on our rents, we're getting very good deals right now to make sure that we're very competitive. But we're also heavily invested over the years in all things digital and e-commerce. So, you kind of have to do both.

**David Solomon:** When it comes to sustainability, Mary, and infusing that into the business, Ulta has led an initiative called Conscious Beauty. Can you tell us the thinking behind the initiative and how the beauty industry has changed over the years in its approach to sustainable products, sustainable packaging, et cetera?

**Mary Dillon:** So, we launched a platform, as you mentioned, called Conscious Beauty. And it's really a way to help educate and simplify for people how to think this through. Because there's no one size fits all. We have five different pillars that brands can be certified against. So, we have about 250 brands that have met the certification. So, whether it's clean ingredients, cruelty free, vegan, sustainable packaging, and community impact.

And I'll tell you, David, we launched this just fairly recently. And it's doing quite well. I mean, the products that have certified are definitely outperforming products that aren't. You know, I think just like in the food industry as well as in beauty, it took a while to catch up. I think most consumers, you know, would aspire to want things that are healthier and better for the environment. But they have to perform. And they have to also be at the right price, right? And so, now I think there's a whole array of products that we offer that I think are really going to make a difference.

And you know, when we build our stores we really, really try to achieve the most energy efficient kind of levels that we can. But packaging now is an area that we're trying to go after ourselves, as well as the industry. So, you know, we just recently started a pilot with a company called Loop. And it's reusable containers for beauty product toiletries, a small subset that we're going to try with them, where it gets delivered to somebody's home. They use it. And then when they're done, they put it back out. Loop takes it and cleans it, and we recycle and use those packages. So, that's just an early stage.

On the other hand, we're also, ourselves, committing to the fact that by 2025, 50 percent of the packaging in our stores will be either made from reusable, recyclable materials or recyclable in

and of itself, including our entire private label collection.

**David Solomon:** You know, another partnership that I know that you announced is a partnership with Target to open up 100 shops in shops across the country. And so, talk a little bit about the decision to drive that partnership and how has it changed the Ulta customer base and experience?

**Mary Dillon:** Yeah, well, we're going to launch it in the fall, is when it's going to start. So, we're in process right now. But you know, really, it's about more leadership opportunities across beauty. More share of wallet. More guests. More points of distribution. And you know, I'd say that certainly even before the pandemic, but certainly pandemic, all of us are thinking about, you know, what's changing, what's different, and how can we continue to position ourselves proactively, competitively to continue to win?

You know, Target is an amazing company, as you know. Brian and I have known each other, I used to be on the Target board years ago, we've known each other for some period of time. So, that's certainly helped facilitate the dialogue. But for us, it's really about there's 30 million people coming through Target every week. Many of them have never been in an Ulta Beauty store before. This is going to be 1,000 square foot curated experience that's going to have, you know, brands that are prestige makeup and skincare and fragrance, plus some really highly trained associates that help to teach and train. And our loyalty programs will be connected. So, the tech underpinning of this is quite important so that our loyalty guests can get their points there. They can only redeem them back at a full Ulta Beauty store. And for, you know, Target, it gives them an opportunity to get new guests in, new brands in that they haven't done before. So, I know that we'll execute this, I think, really at a world class level. And I'm very excited about it.

**David Solomon:** Well, I want to turn now to a topic I know is important to both of us: diversity. It's been a major focus of yours throughout your tenure. Ulta Beauty recently announced its MUSE Initiative which aims to amplify Black voices in beauty. What is the thinking behind MUSE and how do you hope it changes both Ulta and the industry as a whole?

**Mary Dillon:** You know, for me the MUSE Initiative is part of a lot of things. But MUSE stands for Magnify, Uplift, Support, and Empower. And that's literally about Black beauty founders really honoring traditions, celebrating the brands. We have many really

amazing Black-owned brands. But I'll tell you, it's been a journey that we've been on for a while. And I would say just, you know, if we can't get it right in the beauty industry and Ulta beauty, if we can't get inclusion and diversity right, like, who can? Because when you think about it, beauty is very physical. I said it, it's emotional, it's digital. But it's about your hair type. It's about your skin color. It's about all the things: about who you are and how you want to self care and how you want to show off. It's about your gender identity. Right?

And when I started running the company in 2013, I mentioned at the beginning, I was a little astounded at, you know, we were about to open up a store in Hyde Park here in Chicago, which is probably a 60 percent plus African American neighborhood. And I went to the store right before we opened it and all the images that we had in the front windows were Caucasian blonde women. With all due respect to Caucasian blonde women. One of my daughters. I'm teasing. But you know, and I realized just looking that it was symbolic. It was kind of a real-- I thought, you know, this is a team of people that is not trying to not get it, but somehow, we are not representing the diversity of our country in a way that, like, we should because our country is diverse. It's multiethnic. It's multiracial.

So, rather than try to look different ways in different places, let's just every image you should see of an Ulta Beauty, whether it's in our stores, in our salons, in our advertising and marketing, should truly represent the country that we're in and where we're going. If that makes sense.

**David Solomon:** That's terrific. So, as you look to the future, you know, as we said in June you're going to step down from your current role. You'll become Executive Chair. And Dave Kimbell, your President, will step into your shoes. What's your advice for Dave?

**Mary Dillon:** He and I have worked together twice before. So, this was a pretty hand picked choice. And continue to lead with authentic and humble leadership. But don't be afraid to, like, you know, make big and bold changes in the future. You know?

He and I have a great, respectful relationship. We've worked together for a long time. But I don't have ego about this. Like, I'm proud about what we've done. I'm excited about next chapters. But we have to stay aggressive because, you know, beauty's a great category. It's growing fast. It's profitable.

But it's competitive. And so, we have to stay really out ahead. And I'm sure he will.

**David Solomon:** Well, Mary, this has been terrific.

**Mary Dillon:** Thank you.

**David Solomon:** Appreciate, appreciate your openness, your energy, your passion. You know, for all that you've done, congratulations, obviously, on a great run. And thank you for spending time with us.

**Mary Dillon:** It was really fun. Thank you. An honor to be asked to do this. So, thank you.

*This transcript should not be copied, distributed, published or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity.*

*This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs is not responsible for any errors in the transcript.*