

Initiated 2026-09-25 · Price \$100.57 (as of 2026-09-24, stockanalysis.com) · Mkt cap \$5.93bn · Consumer staples / cosmetics & personal care · Model: verified

Rating: Sell — Conviction: Low

e.l.f. is a genuine growth franchise. It just raised FY2027 guidance to +18–20% after 36% growth in Q1, and rhode is outperforming its earnout. But stock-based compensation runs at 5% of sales, and on the model's after-SBC basis the stock trades at ~21x this year's guided EBITDA. At that price even the bull case offers only mid-teens upside, while the bear case more than halves the value. The call is Sell on valuation, not on the business. Conviction is Low because momentum is strong, and because a beta of 1.6 makes the discount rate, which drives much of the gap, unusually uncertain.

MODEL VALUE RANGE VS PRICE



Business overview

e.l.f. sells value-priced cosmetics and skincare: e.l.f. Cosmetics, e.l.f. SKINCARE, Naturium, and rhode, Hailey Bieber's skincare brand acquired in August 2025 and part-funded by a new term loan. FY2026 (year to March 2026) net sales were \$1,636.5mm, +25%. Q1 FY2027 was \$479.4mm, +36%, with rhode contributing ~\$160mm. Distribution runs mainly through US mass retailers and e-commerce, plus rhode's own site. The company does not disclose brand-level revenue consistently. Manufacturing is outsourced to Asia. Three variables drive earnings: whether e.l.f. keeps taking share in US mass cosmetics, whether rhode keeps compounding, and gross margin. Tariffs set gross margin more than anything else: it was 71% in FY2026, and 83% in Q1 FY2027 only because of a one-time IEEPA refund worth ~1,050bp.

Competition

e.l.f.'s growth has come from taking share from the mass incumbents: L'Oréal's Maybelline and NYX, and Coty's CoverGirl. As of August 2025 it had gained share for 26 straight quarters, including +210bp in the quarter to June 2025. That datapoint is now more than a year old. In the two most recent releases retrieved (Q4 FY2026 and Q1 FY2027), the streak is described as consecutive quarters of *net sales* growth, not share gains. That may only be wording, but it is the first thing to check. The market is healthy: US mass beauty rose 7% to \$18.1bn in Q1 2026 (Circana). Meanwhile L'Oréal says it is gaining share in North America (+7.6% like-for-like). Pressure would show up first in share and promotion, because the value-dupe model is easy for a scale incumbent to copy. L'Oréal trades at 20.1x EV/EBITDA and 27.0x forward earnings, Estée Lauder at 16.4x and 28.7x, and Coty at 6.9x and 8.0x.

Bull case

1. **Share gains resume their pace in a growing market.** Mass beauty grew 7% in Q1 2026, and a brand at e.l.f.'s price point wins trade-down in any consumer slowdown. Plays out if Circana/Nielsen share gains are reported again. *Model: rev_growth*
2. **rhode is a second engine.** ~\$160mm of Q1 sales, a \$27mm single-day launch on its own site, and an earnout liability rising because revenue beat its thresholds. Plays out if rhode's retail rollout extends internationally. *Model: rev_growth*
3. **Margin recovers as tariffs ease.** Excluding the refund, Q1 gross margin still rose ~350bp on pricing and lower tariff rates. EBITDA margin after SBC was 19.0% in FY2024 against 15.2% in FY2026. Plays out if tariff rates on Asian-sourced goods stay at or below current levels. *Model: ebitda_margin*

Bear case

1. **Growth normalises and the share streak ends.** After rhode annualises, organic growth depends on e.l.f. Cosmetics continuing to take share from incumbents that can copy the value-dupe model. Retailer inventory would build first. Plays out if share gains stop being reported. *Model: rev_growth, nwc_pct_rev*
2. **rhode is founder-dependent.** A celebrity-founded brand is a concentration risk on one person's relevance. Plays out if rhode's growth slows sharply once the earnout period ends. *Model: rev_growth*
3. **Tariffs and SBC cap the margin.** FY2027 margin is guided up only because of the refund, which is being reinvested. SBC was \$86.9mm in FY2026 (5.3% of sales), and it is excluded from the company's adjusted EBITDA and EPS. Plays out if tariff tiers rise again. *Model: ebitda_margin*
4. **The multiple assumes the bull case.** ~26.5x FY2026 EBITDA after SBC and ~21x this year's guide, against L'Oréal at ~20x before SBC. *Model: exit_ev_ebitda*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
Forward P/E (consensus adjusted EPS, excludes SBC)	32.9x	n/a (unverified)	L'Oréal 27.0x · Estée Lauder 28.7x · Coty 8.0x	stockanalysis.com, 2026-09-24/25
EV/EBITDA, aggregator (TTM, EBITDA before SBC)	31.1x	n/a (unverified)	L'Oréal 20.1x · Estée Lauder 16.4x · Coty 6.9x	stockanalysis.com, 2026-09-24/25
EV/EBITDA, model basis (EV \$6.57bn incl. earnout / adjusted EBITDA less SBC)	26.5x FY2026 · ~21x FY2027 guide	15.1–19.0% margin FY2023–FY2026	n/a (peers not restated)	model-summary.json ; Q1 FY2027 release
FCF yield (TTM FCF \$280.2mm / market cap)	4.7%	n/a (unverified)	L'Oréal 3.7% · Estée Lauder 3.8% · Coty 15.0%	stockanalysis.com, 2026-09-24/25

Coty's multiples are distressed (a \$2.63 share price with heavy debt), and Estée Lauder's trailing P/E is distorted by depressed earnings. L'Oréal is the cleanest quality comparable.

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$25.34 · Base \$70.21 · Bull \$116.44 per share, i.e. implied returns of –74.8% / –30.2% / +15.8% vs \$100.57. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits about two-thirds of the way from base to bull, so the market is paying for most of the bull case.

Re-rating. The two methods differ by far more than 10%:

- **Exit-multiple method.** Base is \$93.98 (–7%), even after a de-rating from 26.5x FY2026 EBITDA (~21x on the FY2027 guide) to 18x.
- **Gordon method.** Base is \$46.44. At 11.7% WACC and 3.5% terminal growth, it implies ~8.5x Year-5 EBITDA.

The Gordon figure leans heavily on the 1.60 beta, which is the main reason conviction is Low. Cutting base WACC to 10.0% (a scratch run, not committed) lifts the base midpoint only to \$81.83, still below the price.

Tail. e.l.f. Cosmetics is most of the business and the bear case is a plateau, so a share-loss sensitivity was run outside the committed model: revenue +17%, -5%, -5%, 0, +2%; margin 15% falling to 11%; NWC 22%; 10x exit; 12.75% WACC. That gives **\$13.33 (-87%)**.

Balance sheet: net leverage 1.97x FY2026 EBITDA after SBC (gross 3.36x); coverage 5.5x. Debt is \$834.2mm at ~5.4% floating (SOFR + 1.50–2.25%), against \$344.2mm cash and \$243.3mm of undrawn revolver. The Term Facility matures 2030-03-03, which is the nearest material maturity. The rhode earnout liability of \$80.8mm is included as a claim. Ratings: n/a (unverified).

Model note: tier **full**, status **built**, verification **verified** (3,207 formula cells matched in LibreOffice). No unverified inputs and no assumptions without basis. Scenario consistency is **OK** on all 14 rows. EBITDA is company adjusted EBITDA less SBC. The FY2027 SBC of ~\$90mm is an analyst estimate that sits inside the Y1 margin assumption. Base Y1 EPS of \$2.46 sits far below the \$3.50–3.55 adjusted EPS guide. The gap (~\$66mm of net income) is almost exactly after-tax SBC, which the company's adjusted EPS excludes. Track watch items against company definitions, not this line. Revolver maturity is assumed to match the term loan.

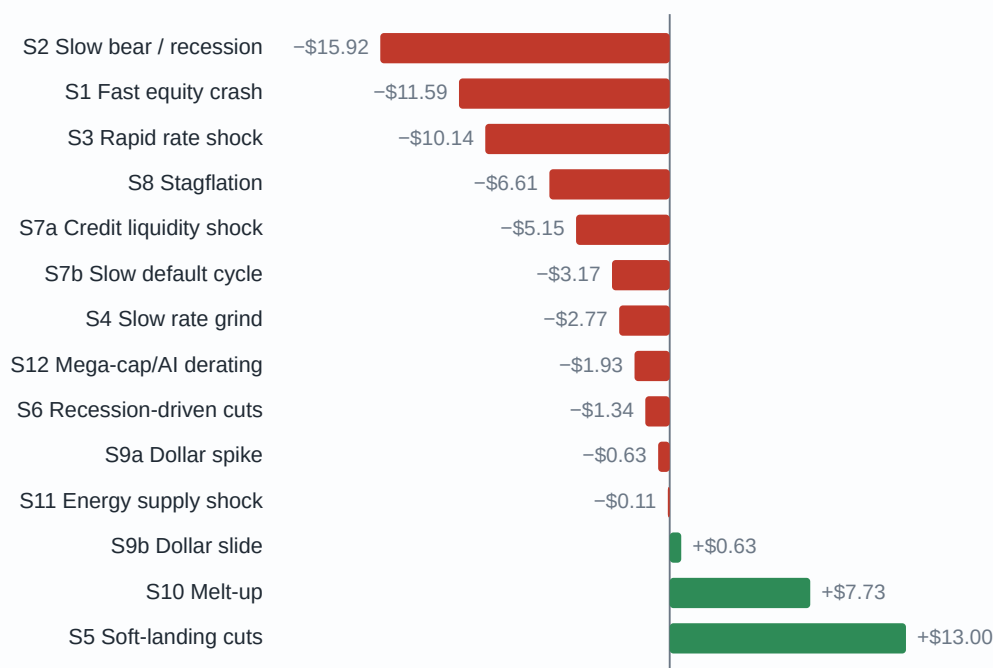
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	A high-beta (1.60) growth multiple de-rates hardest in a liquidity sell-off	High	–\$11.59
S2 Slow bear / recession	–	Value cosmetics win trade-down, but retailers destock and the multiple compresses. Milder than Base – Bear on purpose: a recession is transitory, while the bear case is a permanent end to share gains	High	–\$15.92
S3 Rapid rate shock	–	Long-duration growth equity plus a floating-rate term loan	High	–\$10.14
S4 Slow rate grind	–	Same channel, grinding	Low	–\$2.77
S5 Soft-landing cuts	+	Growth multiple re-rates with lower rates and an intact consumer	High	+\$13.00
S6 Recession-driven cuts	–	Retail destocking outweighs the lower discount rate	Low	–\$1.34
S7a Credit liquidity shock	–	\$834mm of floating-rate debt with revolver headroom; mainly risk premium	Med	–\$5.15
S7b Slow default cycle	–	Drugstore closures cost doors; mass-merchant concentration limits it	Low	–\$3.17
S8 Stagflation	–	Freight and input inflation against a value price point	Med	–\$6.61
S9a Dollar spike	–	International sales translate lower; USD-priced sourcing partially offsets	Low	–\$0.63
S9b Dollar slide	+	Mirror of S9a	Low	+\$0.63
S10 Melt-up	+	A retail-favoured, high-beta growth name gains most from risk appetite	Med	+\$7.73
S11 Energy supply shock	–	Ocean freight and packaging; small	Low	–\$0.11
S12 Mega-cap/AI derating	±	No operating linkage, but a growth-factor unwind can drag high-multiple consumer names; sign uncertain	Low	–\$1.93

The biggest macro sensitivities are the multiple rows (S1, S3, S5), because this is a high-beta equity. None approaches the business-specific bear case. **Currently active/on watch per the playbook:** S3 partially active (price leg met, pace legs short); S8, S10 and S11 on watch, S11 escalated after the 2026-09-19/20 Saudi/Houthi events. S3 is the live one for this name.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: the price falls toward the base range while guidance holds; or third-party share data again shows e.l.f. Cosmetics gaining share; or margin after SBC returns to $\geq 18\%$ without refund help. **Downgrades to higher conviction if:** FY2027 guidance is cut; or share losses are disclosed; or tariff tiers on Asian cosmetics imports rise again.

Watch items

- **W1:** Q2 FY2027 net sales growth against the +18–20% full-year guide, and whether the release again cites market-share gains. Source: Q2 FY2027 release (early November 2026). *Model: rev_growth*
- **W2:** Gross margin excluding tariff refunds, against Q1's ~72.5% (83% less ~1,050bp of refund). Source: Q2 FY2027 release. *Model: ebitda_margin*
- **W3:** rhode growth and the earnout liability (\$80.8mm at June 2026): a further rise means rhode is still beating its thresholds. Source: Q2 FY2027 10-Q. *Model: rev_growth*
- **W4:** Inventory against sales growth, and receivables + inventory – payables against 18.2% of sales. Source: Q2 FY2027 10-Q. *Model: nwc_pct_rev*

Sources

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