

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 001-37873

e.l.f. Beauty, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

46-4464131

*(I.R.S. Employer
Identification No.)*

570 10th Street

Oakland, CA 94607

(Address of principal executive offices, including zip code)

(510) 778-7787

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Trading Symbol(s)

Name of each exchange on which registered

Common Stock, \$0.01 par value

ELF

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of September 30, 2020, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was \$841.2 million.

The number of shares of registrant's common stock outstanding as of May 14, 2021 was 51,649,915 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement relating to the registrant's 2021 annual meeting of stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended March 31, 2021.

e.l.f. Beauty, Inc.
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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("Annual Report") contains forward-looking statements within the meaning of the federal securities laws concerning our business, operations and financial performance and condition, as well as our plans, objectives and expectations for our business operations and financial performance and condition. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "aim," "anticipate," "assume," "believe," "contemplate," "continue," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "predict," "potential," "positioned," "seek," "should," "target," "will," "would" and other similar expressions that are predictions of or indicate future events and future trends, or the negative of these terms or other comparable terminology. These forward-looking statements are based on management's current expectations, estimates, forecasts and projections about our business and the industry in which we operate and management's beliefs and assumptions and are not guarantees of future performance or development and involve known and unknown risks, uncertainties, and other factors that are in some cases beyond our control. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, our actual results and the timing of selected events may differ materially. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part I, Item 1A. "Risk factors" and elsewhere in this Annual Report. Potential investors are urged to consider these factors carefully in evaluating the forward-looking statements. These forward-looking statements speak only as of the date of this Annual Report. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

SUMMARY OF MATERIAL RISKS ASSOCIATED WITH OUR BUSINESS

The principal risks and uncertainties affecting our business include the following:

- The beauty industry is highly competitive, and if we are unable to compete effectively our results will suffer.
 - Our new product introductions may not be as successful as we anticipate.
 - Any damage to our reputation or brands may materially and adversely affect our business, financial condition and results of operations.
 - Our success depends, in part, on the quality, performance and safety of our products.
 - We may not be able to successfully implement our growth strategy.
 - Our growth and profitability are dependent on a number of factors, and our historical growth may not be indicative of our future growth.
 - We may be unable to manage our growth effectively.
 - A disruption in our operations could materially and adversely affect our business.
 - We rely on a number of third-party suppliers, manufacturers, distributors and other vendors.
 - We depend on a limited number of retailers for a large portion of our net sales, and the loss of one or more of these retailers, or business challenges at one or more of these retailers, could adversely affect our results of operations.
 - We have significant operations in China, which exposes us to risks inherent in doing business in that country.
 - If we are unable to protect our intellectual property, the value of our brands and other intangible assets may be diminished.
 - Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and other proprietary rights of third parties.
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The summary risk factors described above should be read together with the text of the full risk factors below in the section entitled “Risk factors” and the other information set forth in this Annual Report, including our consolidated financial statements and the related notes, as well as in other documents that we file with the U.S. Securities and Exchange Commission (the “SEC”). The risks summarized above or described in full below are not the only risks that we face. Additional risks and uncertainties not precisely known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations, and future growth prospects.

PART I

Item 1. Business.

Overview

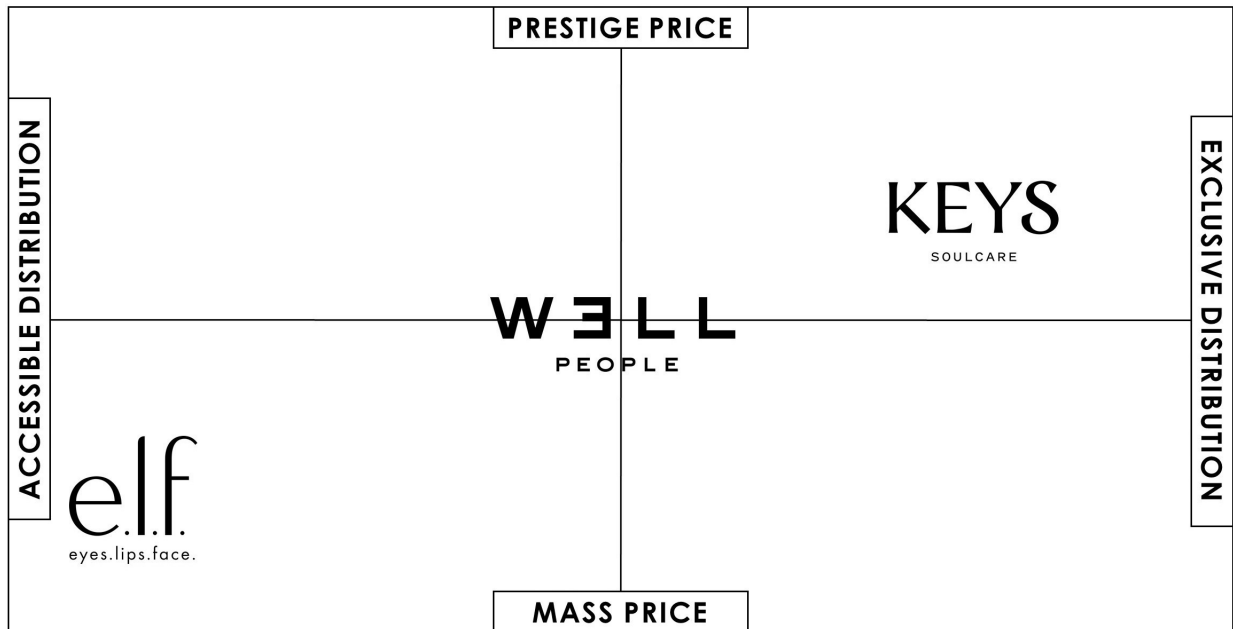
e.l.f. Beauty, Inc. (“e.l.f. Beauty” and together with its subsidiaries, the “Company,” or “we”) is a multi-brand beauty company that offers inclusive, accessible, cruelty-free cosmetics and skin-care products. Our mission is to make the best of beauty accessible to every eye, lip and face.

We believe our ability to deliver 100% cruelty-free, premium-quality products at accessible prices with broad appeal differentiates us in the beauty industry. We believe the combination of our fundamental value equation, digitally-led strategy, as well as our world-class team’s ability to execute with speed has positioned us well to navigate a rapidly changing landscape in beauty.

Our family of brands includes e.l.f. Cosmetics, W3LL PEOPLE and Keys Soulcare. Our brands are available online and across leading beauty, mass-market, and clean-beauty specialty retailers. We have strong relationships with our retail partners such as Walmart, Target, Ulta Beauty and other leading retailers that have enabled us to expand distribution both domestically and internationally.

Our Brands

Each of our brands is positioned to touch diverse consumer cohorts at different price points. All three of our brands have accessible pricing relative to their competitive set and further our mission of making the best of beauty accessible to every eye, lip and face. Below is a chart of our brands and how we view them based on distribution and price point:





e.l.f. Cosmetics makes the best of beauty accessible to every eye, lip and face by offering high-quality, prestige-inspired cosmetics and skincare products at an extraordinary value, all formulated 100% vegan and cruelty-free.



W3LL PEOPLE is a clean beauty pioneer, raising the standard for high-performance, plant-powered, cruelty-free cosmetics since 2008. W3LL PEOPLE's product-line includes 35+ EWG VERIFIED™ products, a leading standard of "clean and healthy" in the beauty space.



Keys Soulcare is a lifestyle beauty brand created with artist, producer, actress, and New York Times best-selling author Alicia Keys. With an inclusive point of view, an authentic voice and a line of skin-loving, dermatologist-developed, cruelty-free offerings, Keys Soulcare aims to bring new meaning to beauty by honoring ritual in our daily life and practicing intention in every action.

100% cruelty-free: We do not conduct or tolerate any tests on animals, nor do we use any ingredients that are tested on animals in any of its products. Each of our brands is certified by People for the Ethical Treatment of Animals (PETA) as "Global Animal Test-Free", a label given to companies and brands who have verified that their own facilities and their suppliers do not conduct, commission, pay for, or allow any tests on animals for their ingredients, formulations, or finished products. e.l.f. Cosmetics is also certified by PETA as "Global Animal Test-Free and Vegan", which recognizes companies and brands that not only ban animal tests but also refuse to use any animal-derived ingredients, such as honey, beeswax, or carmine in its products.

Clean ingredients: Our products are formulated with ingredients that have the health and safety of our consumers in mind. All products are formulated to meet Food and Drug Administration (the "FDA") and European Union Cosmetic Regulation restrictions for over 1,600 ingredients including parabens, phthalates, sulfates, formaldehyde, nonylphenol ethoxylates, triclosan, triclocarban, toluene, coal tar, lead, mercury, acrylamide and hydroquinone as well as other substances. Additionally, W3LL PEOPLE's product-line includes 35+ EWG VERIFIED™ products, a leading standard of "clean and healthy" in the beauty space.

Marketing & Digital

We deploy a consumer-centric marketing model. We build brand equity and drive traffic to our national retailer partners and to our own e-commerce websites and mobile applications primarily through digital and social media, as compared to legacy beauty brands that often seek to engage consumers through traditional media such as magazines, newspapers and television. Total expenses for marketing and digital in the year ended March 31, 2021 were \$49.7 million, approximately 16% of our net sales.

Our consumers have been our best advocates through strong word of mouth. Many of our consumers are active in social media, write reviews of our products online and generate content on Instagram, Facebook, Twitter, TikTok, YouTube and other social media platforms. We had nearly 12 million followers on social media and through our Beauty Squad program as of March 31, 2021.

Innovation

We believe innovation is key to our success and that we are a leader in the industry in speed and first to mass product introductions. We have built an innovation capability that can progress a new, high-quality product from concept to online launch in as few as 13 weeks and 20 weeks on average. We leverage multiple sources of inspiration to develop our new product ideas, including global trend assessments, supplier and industry research, strategic customer input and consumer feedback and insights.

Our innovation strategy is underpinned by four key pillars:

- *Holy Grails.* “Holy grails” are beauty products that deliver premium quality at unbelievable prices with broad appeal. As consumers are increasingly savvy and knowledgeable about trends in the prestige market, they look for ways to get the best of beauty at an accessible price. Examples of our “holy grails” include the e.l.f. Cosmetics Poreless Putty Primer at \$9 versus a comparable prestige primer at \$52, the e.l.f. Cosmetics 16HR Camo Concealer at \$6 versus a comparable prestige concealer at \$27, and the W3LL PEOPLE Expressionist Pro Mascara at \$19 versus a comparable clean prestige mascara at \$28.
- *Core Improvement.* We consistently evaluate our core offerings to develop new products or improve quality based on category trends, consumer feedback, and other market intelligence. We launch trend-inspired, core expansion products that augment our assortment and deliver extraordinary value across price points. We also evaluate quality improvement opportunities with our product assortment, such as reformulating existing products with cleaner ingredients.
- *Adjacencies.* We believe that we can reapply our model to launch products into adjacent product categories outside of color cosmetics. For example, Keys Soulcare’s initial product collection introduced in early calendar year 2021 included nine dermatologist-developed clean offerings in the skin care category.
- *Collaborations & Collections.* We utilize collaborations and collections to build brand awareness and showcase our brands’ abilities to connect with, surprise and delight consumers while creating buzz-generating moments. For example, in the year ended March 31, 2021, e.l.f. Cosmetics launched a collaboration with Chipotle on a limited edition makeup collection. We also utilize exclusive collections with our national retailers, such as e.l.f. Cosmetics’ Mint Melt collection which was available exclusively at Walmart in the United States, at Superdrug in the United Kingdom, and at DM stores in Germany.

Markets and Competition

The color cosmetics category primarily consists of face makeup, eye makeup, lip products, nail products and cosmetics sets/kits, along with beauty tools and accessories such as brushes and applicators. The skin care category primarily consists of facial skin care and eye skin care products. Color cosmetics and skin care products are broadly sold through food, drug and mass channels, as well as through department stores and direct and specialty channels.

The color cosmetics and skin care categories are relatively concentrated, with a significant portion of retail sales in the United States generated by brands owned by a few large multinational companies, such as L’Oreal, Estee Lauder, Coty, Revlon, Shiseido, Johnson & Johnson, and Procter & Gamble. These large multinational companies typically own multiple brands. In addition to the traditional brands against which we compete, small independent companies continue to enter the market with new brands and customized product offerings.

Distribution

We employ an omni-channel distribution strategy and sell our products online through our own direct e-commerce channels, and with national retailers in the United States, as well as internationally. Our main channels of distribution are described below.

- *National retailers.* We sell our products in the United States primarily in the mass, drug store, food and specialty retail channels.
- *e-commerce.* Our e-commerce platforms are an important component of our engagement and innovation model. Our roots as an e-commerce company and our digital engagement model drive conversion on our e-commerce websites and our mobile applications, where we sell our full product offerings.
- *International.* Our products are also sold in a number of international markets, including Canada, the United Kingdom, Germany, Italy and China.

Customers

Along with our direct e-commerce channels, we have strong relationships with our retail partners such as Walmart, Target, Ulta Beauty and other leading retailers that have enabled us to expand distribution both domestically and internationally.

Walmart and Target accounted for 26% and 22%, respectively, of our net sales in the year ended March 31, 2021. No other individual customer accounted for 10% or more of our net sales in the year ended March 31, 2021. We expect that Walmart and Target and a small number of other customers will, in the aggregate, continue to account for a large portion of our net sales in the future.

As is customary in the industry, none of our customers is under an obligation to continue purchasing products from us in the future.

For more information regarding customer concentration, see Part II, Item 7 “Management’s discussion and analysis of financial condition and results of operations” of this report under the heading “Overview.”

Supply Chain

We have developed a scalable, asset-light supply chain centered on speed to market and high-quality at low cost. Substantially all of our products are sourced and manufactured in China through close collaboration with a network of third-party manufacturers. We have ample manufacturing capacity as well as redundant capabilities in the event that one or more suppliers cannot meet our needs. Our broad supply base gives us the ability to fulfill our product requirements and remain cost competitive.

We work closely with our suppliers on new product innovation and quality. Our China-based sourcing, quality and innovation teams work with their U.S.-based counterparts to deliver ongoing product quality, innovation and cost savings. We are not overly dependent on any single raw material. The raw materials used in our products are broadly available and have regular quality testing for ingredient integrity.

We operate two main distribution centers: one in Ontario, California, which mainly serves our national retail customers, and one in Columbus, Ohio, which mainly services our e-commerce consumers. We have invested capital in picking, packaging, scanning, and conveying technology to more fully automate our processes. Our Ontario and Columbus distribution centers are both operated by a leading third-party logistics provider. For our international operations, we utilize third-party logistics providers in Canada and the United Kingdom to distribute to certain international customers and distributors.

Human Capital Management

We are led by our purpose—we stand with every eye, lip, face and paw—and our employees are at the core of our business strategy. As of March 31, 2021, we had 267 full-time employees (191 in the United States, United Kingdom and Canada, and 76 in China) and 21 part-time employees and interns.

Culture and Commitments

By standing with every eye, lip, face and paw, we are committed to creating a culture internally—and in the world around us—where all individuals are encouraged to express their truest selves, are empowered to succeed, and where we strive to do the right thing for people, the planet and our furry friends. We are committed to:

- *Encourage Self Expression.* We celebrate diversity and make the best of beauty accessible.
- *Empower Others.* We provide equal opportunities for growth and success.
- *Embody Our Ethics.* We strive to do the right thing for all people, the planet and our furry friends.

In the year ended March 31, 2021, as a response to the COVID-19 pandemic, we also implemented a range of initiatives to support the safety and well-being of our employees and community.

Encourage Self Expression: Promoting a Culture of Diversity, Equity, and Inclusion

We are committed to diversity, equity and inclusion. Our mission is to make the best of beauty accessible to every eye, lip and face and we believe it is important that our team reflects the diverse consumers we serve. Our commitment to diversity, equity and inclusion starts at the top with a highly skilled and diverse board of directors. We promote diversity, equity and inclusion at all levels of our workforce, and our senior leadership team takes full ownership of and responsibility for our diversity, equity and inclusion initiatives and programs.

We are proud of our workforce demographics and are committed to ensuring that appropriate levels of diversity – including but not limited to gender, race, sexual orientation, national origin, ability, and age – are represented across our entire team.

The following table provides certain statistics of our team as of March 31, 2021:

| | Board of Directors ⁽¹⁾ | Senior Leadership ⁽²⁾ | All Employees ⁽³⁾ |
|---------------------------|-----------------------------------|----------------------------------|------------------------------|
| Female | 56% | 43% | 77% |
| Black or African American | 22% | 14% | 8% |
| Hispanic or LatinX | —% | —% | 14% |
| Asian | 11% | 29% | 15% |
| Native American | —% | —% | 1% |
| Two or More Races | —% | —% | 5% |
| White | 67% | 57% | 58% |

⁽¹⁾ Excludes Sabrina Simmons, who notified us on March 26, 2021 of her decision to resign from the board of directors and all committees thereof, effective May 31, 2021.

⁽²⁾ Senior Leadership includes our Executive Officers and the Vice President, General Manager of our China operations.

⁽³⁾ Includes our employees in the United States, United Kingdom and Canada, where over 70% of our workforce is located.

We believe that to drive change there must be continuous education, learning and sharing. We require all employees to participate in unconscious bias training, so that we might learn how to recognize potential bias in our thoughts and actions. We host open forums with our senior leadership to share and encourage uncomfortable conversations. Additionally, we regularly host education events for our employees to lean into cultural moments, such as Black History Month; International Women’s Month; Asian American and Pacific Islander (AAPI) Heritage Month; Lesbian, Gay, Bisexual, Transgender and Queer (LGBTQ) Pride Month; and LatinX Heritage Month.

Empower Others: Supporting the Full Potential of Our Employees

Our talented employees are at the core of our business strategy. We place a high priority on attracting, recruiting, developing and retaining diverse global talent. Our benefits and programs are designed to support the total well-being and promote the full potential of our employees.

With regards to compensation, we take a “one-team” approach. Every employee receives a base salary, is bonus eligible under the same bonus target tied to our financial performance, and receives an equity award. We believe this approach – which applies across all employee levels and geographies – is unique in the beauty industry and contributes to our success in hiring and retaining top talent and driving business results.

In the United States, where over 70% of our workforce is located, the benefits for our full-time employees include, among other things:

- Financial benefits, including competitive compensation as well as retirement savings plans and commuter benefits;
- Healthcare benefits including flexible spending accounts, disability and life insurance;
- Family support and flexibility benefits including up to 20 weeks of parental leave for the birth or adoption of a child as well as the placement of a foster child, as well as fertility and adoption support;

- Wellness and time off programs including an employee assistance program, access to wellness coaches and paid time off;
- Community impact programs including volunteer time off and donation matching programs;
- Education and career development programs including high performance teamwork coaching, as well as ongoing learning and training opportunities; and
- Other benefits, such as “Pawternity Leave” for the adoption of a shelter animal.

Outside of the United States, we provide similarly competitive benefit packages to those of our United States employees but tailored to market-specific practices.

Embody Our Ethics: Doing the Right Thing for All People, the Planet and Our Furry Friends

All People

We proudly support human rights and individual expression and freedom. As such, we ensure our employees have their rights respected, regardless of age, gender, ethnicity, religion, abilities or sexual orientation. We also expect our suppliers and partners to observe these principles when providing products and services to us.

The Planet

We are committed to minimizing our environmental impact while providing our consumers with premium-quality beauty products. In the year ended March 31, 2021, we celebrated a significant milestone on our sustainability journey – eliminating an estimated 650,000 pounds of packaging waste since the inception of "Project Unicorn". Project Unicorn was designed to elevate e.l.f. Cosmetics’ product assortment, presentation, and navigation on-shelf, and resulted in a significant streamlining in our packaging footprint. The elimination of packaging waste was achieved by removing secondary cartons, vacuum formed trays and paper insert cards, slimming down secondary packaging, and designing a patented approach to display product on shelf.

Our Furry Friends

We are proud to be a 100% cruelty-free company. We do not conduct or tolerate any tests on animals, nor do we use any ingredients that are tested on animals in any of our products. Each of our brands is certified by People for the Ethical Treatment of Animals (PETA) as “Global Animal Test-Free”, a label given to companies and brands who have verified that their own facilities and their suppliers do not conduct, commission, pay for, or allow any tests on animals for their ingredients, formulations, or finished products.

Our COVID-19 Response

Throughout the COVID-19 pandemic, our first priority has been the safety and well-being of our employees and community. In response to COVID-19, we sent safety kits with gloves, hand sanitizers, and disinfectant wipes to all of our employees, and included a free hand sanitizer with consumer orders placed online at elfcosmetics.com. We also gave each employee an addition of \$1,000 to their regular paychecks to help defray some of the costs of supplies and delivery services, child and family care needs. Additionally, we donated \$25,000 to local community food bank organizations to help feed those in need.

Seasonality

Our results of operations are subject to seasonal fluctuations, with net sales in the third and fourth fiscal quarters typically being higher than in the first and second fiscal quarters. The higher net sales in our third and fourth fiscal quarters are largely attributable to the increased levels of purchasing by retailers for the holiday season and customer shelf reset activity, respectively. Lower holiday purchases or shifts in customer shelf reset activity could have a disproportionate effect on our results of operations for the entire fiscal year. To support anticipated higher sales during the third and fourth fiscal quarters, we make investments in working capital to ensure inventory levels can support demand. Fluctuations throughout the year are also driven by the timing of product restocking or rearrangement by our major retail customers as well as expansion into new retail customers. Because a limited number of our retail customers account for a large percentage

of our net sales, a change in the order pattern of one or more of our large retail customers could cause a significant fluctuation of our quarterly results or impact our liquidity.

Trademarks and Other Intellectual Property

We believe that our intellectual property has substantial value and has contributed significantly to the success of our business. Our primary trademarks include “e.l.f.,” “e.l.f. eyes lips face,” “W3LL PEOPLE,” and “Keys Soulcare” all of which are registered or have registrations pending in the United States with the U.S. Patent and Trademark Office for our goods and services of primary interest. These trademarks are also registered or have registrations pending in many other countries or registries. We also have other trademark registrations and pending applications for product names and tag lines. Our trademarks are valuable assets that reinforce the distinctiveness of our brands and our consumers’ favorable perception of our products. In addition to trademark protection, we own U.S. Design Patents covering packaging, make-up tools and brush handle shapes and we own numerous domain names, including the domains of our e-commerce websites. We also rely on and use reasonable business activities to protect unpatented proprietary expertise and product formulations, continuing innovation and other know-how to develop and maintain our competitive position.

Government Regulation

We and our products are subject to various federal, state and international laws and regulations, including regulation in the United States by the FDA, the Consumer Product Safety Commission (the “CPSC”), the Federal Trade Commission (the “FTC”), and regulations outside of the United States by Health Canada and the European Commission, among others. These laws and regulations principally relate to the ingredients, proper labeling, advertising, packaging, marketing, manufacture, safety, shipment and disposal of our products. Further, as the vast majority of our products are imported from overseas manufacturers, we are subject to Customs Border Patrol clearance regulations prior to goods being released into the United States market.

We are also subject to a number of federal, state and international laws and regulations that affect companies conducting business on the Internet, including regulations related to consumer protection, the promotion and sale of merchandise, privacy, use and protection of consumer and employee personal information and data (including the collection of data from minors), behavioral tracking, and advertising and marketing activities (including sweepstakes, contests and giveaways).

Additional laws in all of these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we operate and may significantly increase our compliance costs. For information regarding the risks related to the laws and regulations to which we are subject, see Part I, Item 1A “Risk factors”.

Expenditures for Environmental Compliance

We are subject to numerous foreign, federal, provincial, state, municipal and local environmental, health and safety laws and regulations relating to, among other matters, safe working conditions, product stewardship and environmental protection, including those relating to emissions to the air, discharges to land and surface waters, generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, and the registration and evaluation of chemicals. We maintain policies and procedures to monitor and control environmental, health and safety risks, and to monitor compliance with applicable environmental, health and safety requirements. Compliance with such laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon our capital expenditures, earnings or competitive position.

Segments

We operate our business as a single operating and reportable segment. For more information regarding segment reporting, see Note 2 Summary of significant accounting policies to our consolidated financial statements in Part IV, Item 15 “Exhibits, financial statement schedules” under the heading “Segment reporting.”

Geographic Information

For information regarding the geographic source of our net sales and the location of our long-lived assets, see Note 2 Summary of significant accounting policies to our consolidated financial statements in Part IV, Item 15 “Exhibits, financial statement schedules” under the heading “Segment reporting.” For information regarding the risks related to our non-U.S. operations, see Part I, Item 1A “Risk factors.”

Corporate Information

e.l.f. Beauty was formed as a Delaware corporation on December 20, 2013 under the name J.A. Cosmetics Holdings, Inc. and we changed our name to e.l.f. Beauty, Inc. in April 2016. We completed the initial public offering of our common stock in September 2016. Our common stock is currently listed on the New York Stock Exchange (“NYSE”) under the symbol “ELF.” Effective after December 2018, we changed our fiscal year-end from December 31st to March 31st. Our principal executive offices are located at 570 10th Street, Oakland, California 94607. Our telephone number is (510) 778-7787 and our investor relations website can be found at www.elfbeauty.com. e.l.f. Beauty operates through its principal subsidiaries, e.l.f. Cosmetics, Inc., which conducts business under the name “e.l.f. Cosmetics” or “e.l.f.”, “Keys Soulcare” and W3LL People, Inc., which conducts business under the name “W3LL PEOPLE”.

Available Information

We make available on or through our website certain reports and amendments to those reports that we file with, or furnish to, the SEC in accordance with the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These include our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make this information available on or through our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report or any other filings we make with the SEC.

Item 1A. Risk factors.

Certain risks may have a material and/or adverse effect on our business, financial condition and results of operations. These risks include those described below and may include additional risks and uncertainties not presently known to us or that we currently deem immaterial. These risks should be read in conjunction with the other information in this Annual Report, including our consolidated financial statements and related notes thereto and Part II, Item 7 “Management’s discussion and analysis of financial condition and results of operations”.

Risks factors related to the beauty industry

The beauty industry is highly competitive, and if we are unable to compete effectively our results will suffer.

We face vigorous competition from companies throughout the world, including large multinational consumer products companies that have many beauty brands under ownership and independent beauty brands, including those that may target the latest trends or specific distribution channels. Competition in the beauty industry is based on the introduction of new products, pricing of products, quality of products and packaging, brand awareness, perceived value and quality, innovation, in-store presence and visibility, promotional activities, advertising, editorials, e-commerce and mobile-commerce initiatives and other activities. We must compete with a high volume of new product introductions and existing products by diverse companies across several different distribution channels.

Many multinational consumer companies have greater financial, technical or marketing resources, longer operating histories, greater brand recognition or larger customer bases than we do and may be able to respond more effectively to changing business and economic conditions than we can. Many of these competitors’ products are sold in a wider selection or greater number of retail stores and possess a larger presence in these stores, typically having significantly more inline shelf space than we do. Given the finite space allocated to beauty products by retail stores, our ability to grow the number of retail stores in which our products are sold and expand our space allocation once in these retail stores may require the removal or reduction of the shelf space of these competitors. We may be unsuccessful in our growth strategy in the event retailers do not reallocate shelf space from our competitors to us. Increasing shelf space allocated to our products may be especially challenging in instances when a retailer has its own brand. In addition, our competitors may attempt to gain market share by offering products at prices at or below the prices at which our products are typically offered, including through the use of large percentage discounts and “buy one and get one free” offers. Competitive pricing may require us to reduce our prices, which would decrease our profitability or result in lost sales. Our competitors, many of whom have greater resources than we do, may be better able to withstand these price reductions and lost sales.

It is difficult for us to predict the timing and scale of our competitors’ activities in these areas or whether new competitors will emerge in the beauty industry. In recent years, numerous online, “indie” and influencer-backed beauty companies have emerged and garnered significant followings. In addition, further technological breakthroughs, including new and enhanced technologies which increase competition in the online retail market, new product offerings by competitors and

the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy.

Our ability to compete also depends on the continued strength of our brand and products, the success of our marketing, innovation and execution strategies, the continued diversity of our product offerings, the successful management of new product introductions and innovations, strong operational execution, including in order fulfillment, and our success in entering new markets and expanding our business in existing geographies. If we are unable to continue to compete effectively, it could have a material adverse effect on our business, financial condition and results of operations.

Our new product introductions may not be as successful as we anticipate.

The beauty industry is driven in part by fashion and beauty trends, which may shift quickly. Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to changes in consumer preferences for beauty products, consumer attitudes toward our industry and brands and where and how consumers shop for those products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, maintain a favorable mix of products and develop our approach as to how and where we market and sell our products.

We have an established process for the development, evaluation and validation of our new product concepts. Nonetheless, each new product launch involves risks, as well as the possibility of unexpected consequences. For example, the acceptance of new product launches and sales to our retail customers may not be as high as we anticipate, due to lack of acceptance of the products themselves or their price, or limited effectiveness of our marketing strategies. In addition, our ability to launch new products may be limited by delays or difficulties affecting the ability of our suppliers or manufacturers to timely manufacture, distribute and ship new products or displays for new products. Sales of new products may be affected by inventory management by our retail customers, and we may experience product shortages or limitations in retail display space by our retail customers. We may also experience a decrease in sales of certain existing products as a result of newly-launched products, the impact of which could be exacerbated by shelf space limitations or any shelf space loss. Any of these occurrences could delay or impede our ability to achieve our sales objectives, which could have a material adverse effect on our business, financial condition and results of operations.

As part of our ongoing business strategy, we expect we will need to continue to introduce new products in the color cosmetics and skin care categories, while also expanding our product launches into adjacent categories in which we may have little to no operating experience. The success of product launches in adjacent product categories could be hampered by our relative inexperience operating in such categories, the strength of our competitors or any of the other risks referred to above. Furthermore, any expansion into new product categories may prove to be an operational and financial constraint which inhibits our ability to successfully accomplish such expansion. Our inability to introduce successful products in our traditional categories or in adjacent categories could limit our future growth and have a material adverse effect on our business, financial condition and results of operations.

Any damage to our reputation or brands may materially and adversely affect our business, financial condition and results of operations.

We believe that developing and maintaining our brands is critical and that our financial success is directly dependent on consumer perception of our brands. Furthermore, the importance of brand recognition may become even greater as competitors offer more products similar to ours.

We have relatively low brand awareness among consumers when compared to other beauty brands and maintaining and enhancing the recognition and reputation of our brands is critical to our business and future growth. Many factors, some of which are beyond our control, are important to maintaining our reputation and brands. These factors include our ability to comply with ethical, social, product, labor and environmental standards. Any actual or perceived failure in compliance with such standards could damage our reputation and brands.

The growth of our brands depends largely on our ability to provide a high-quality consumer experience, which in turn depends on our ability to bring innovative products to the market at competitive prices that respond to consumer demands and preferences. Additional factors affecting our consumer experience include our ability to provide appealing store sets in retail stores, the maintenance and stocking of those sets by our retail customers, the overall shopping experience provided by our retail customers, a reliable and user-friendly website interface and mobile applications for our consumers to browse and purchase products on our e-commerce websites and mobile applications. If we are unable to preserve our

reputation, enhance our brand recognition or increase positive awareness of our products and in-store and Internet platforms, it may be difficult for us to maintain and grow our consumer base, and our business, financial condition and results of operations may be materially and adversely affected.

The success of our brands may also suffer if our marketing plans or product initiatives do not have the desired impact on our brands' image or our ability to attract consumers. Further, our brand value could diminish significantly due to a number of factors, including consumer perception that we have acted in an irresponsible manner, adverse publicity about our products, our failure to maintain the quality of our products, product contamination, the failure of our products to deliver consistently positive consumer experiences, or the products becoming unavailable to consumers.

Our success depends, in part, on the quality, performance and safety of our products.

Any loss of confidence on the part of consumers in the ingredients used in our products, whether related to product contamination or product safety or quality failures, actual or perceived, or inclusion of prohibited ingredients, could tarnish the image of our brands and could cause consumers to choose other products. Allegations of contamination or other adverse effects on product safety or suitability for use by a particular consumer, even if untrue, may require us to expend significant time and resources responding to such allegations and could, from time to time, result in a recall of a product from any or all of the markets in which the affected product was distributed. Any such issues or recalls could negatively affect our profitability and brands image.

If our products are found to be, or perceived to be, defective or unsafe, or if they otherwise fail to meet our consumers' expectations, our relationships with consumers could suffer, the appeal of our brands could be diminished, we may need to recall some of our products and/or become subject to regulatory action, and we could lose sales or market share or become subject to boycotts or liability claims. In addition, safety or other defects in our competitors' products could reduce consumer demand for our own products if consumers view them to be similar. Any of these outcomes could result in a material adverse effect on our business, financial condition and results of operations.

Risks factors related to our growth and profitability

We may not be able to successfully implement our growth strategy.

Our future growth, profitability and cash flows depend upon our ability to successfully implement our business strategy, which, in turn, is dependent upon a number of key initiatives, including our ability to:

- drive demand in our brands;
- invest in digital capabilities;
- improve productivity in our national retailers;
- focus on innovation by providing prestige quality products at an extraordinary value;
- implement the necessary cost savings to help fund our marketing and digital investments; and
- pursue strategic extensions that can leverage our strengths and bring new capabilities.

There can be no assurance that we can successfully achieve any or all of the above initiatives in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term cost increases with net sales materializing on a longer-term horizon and therefore may be dilutive to our earnings. We cannot provide any assurance that we will realize, in full or in part, the anticipated benefits we expect our strategy will achieve. The failure to realize those benefits could have a material adverse effect on our business, financial condition and results of operations.

Our growth and profitability are dependent on a number of factors, and our historical growth may not be indicative of our future growth.

Our historical growth should not be considered as indicative of our future performance. We may not be successful in executing our growth strategy, and even if we achieve our strategic plan, we may not be able to sustain profitability. In future periods, our revenue could decline, or grow more slowly than we expect. We also may incur significant

losses in the future for a number of reasons, including the following risks and the other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors:

- we may lose one or more significant retail customers, or sales of our products through these retail customers may decrease;
- the ability of our third-party suppliers and manufacturers to produce our products and of our distributors to distribute our products could be disrupted;
- because substantially all of our products are sourced and manufactured in China, our operations are susceptible to risks inherent in doing business there;
- our products may be the subject of regulatory actions, including but not limited to actions by the FDA, the FTC and the CPSC in the United States;
- we may be unable to introduce new products that appeal to consumers or otherwise successfully compete with our competitors in the beauty industry;
- we may be unsuccessful in enhancing the recognition and reputation of our brands, and our brands may be damaged as a result of, among other reasons, our failure, or alleged failure, to comply with applicable ethical, social, product, labor or environmental standards;
- we may experience service interruptions, data corruption, cyber-based attacks or network security breaches which result in the disruption of our operating systems or the loss of confidential information of our consumers;
- we may be unable to retain key members of our senior management team or attract and retain other qualified personnel; and
- we may be affected by any adverse economic conditions in the United States or internationally.

We may be unable to grow our business effectively or efficiently, which would harm our business, financial condition and results of operations.

Growing our business will place a strain on our management team, financial and information systems, supply chain and distribution capacity and other resources. To manage growth effectively, we must continue to enhance our operational, financial and management systems, including our warehouse management and inventory control; maintain and improve our internal controls and disclosure controls and procedures; maintain and improve our information technology systems and procedures; and expand, train and manage our employee base.

We may not be able to effectively manage this expansion in any one or more of these areas, and any failure to do so could significantly harm our business, financial condition and results of operations. Growing our business may make it difficult for us to adequately predict the expenditures we will need to make in the future. If we do not make the necessary overhead expenditures to accommodate our future growth, we may not be successful in executing our growth strategy, and our results of operations would suffer.

Acquisitions or investments could disrupt our business and harm our financial condition.

We frequently review acquisition and strategic investment opportunities that would expand our current product offerings, our distribution channels, increase the size and geographic scope of our operations or otherwise offer growth and operating efficiency opportunities. There can be no assurance that we will be able to identify suitable candidates or consummate these transactions on favorable terms. The process of integrating an acquired business, product or technology can create unforeseen operating difficulties, expenditures and other challenges such as:

- potentially increased regulatory and compliance requirements;
- implementation or remediation of controls, procedures and policies at the acquired business;

- diversion of management time and focus from operation of our then-existing business to acquisition integration challenges;
- coordination of product, sales, marketing and program and systems management functions;
- transition of the users and customers of the acquired business, product, or technology onto our system;
- retention of employees from the acquired business;
- integration of employees from the acquired business into our organization;
- integration of the acquired business' accounting, information management, human resources and other administrative systems and operations into our systems and operations;
- liability for activities of the acquired business, product or technology prior to the acquisition, including violations of law, commercial disputes and tax and other known and unknown liabilities; and
- litigation or other claims in connection with the acquired business, product or technology, including claims brought by terminated employees, customers, former stockholders or other third parties.

If we are unable to address these difficulties and challenges or other problems encountered in connection with any acquisition or investment, we might not realize the anticipated benefits of that acquisition or investment, and we might incur unanticipated liabilities or otherwise suffer harm to our business generally.

To the extent that we pay the consideration for any acquisitions or investments in cash, it would reduce the amount of cash available to us for other purposes. Acquisitions or investments could also result in dilutive issuances of our equity securities or the incurrence of debt, contingent liabilities, amortization expenses, increased interest expenses or impairment charges against goodwill on our consolidated balance sheet, any of which could have a material adverse effect on our business, financial condition and results of operations.

Risk factors related to our business operations

A disruption in our operations could materially and adversely affect our business.

As a company engaged in distribution on a global scale, our operations, including those of our third-party manufacturers, suppliers, brokers and delivery service providers, are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions or delays in shipments, disruptions in information systems, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, pandemics (such as the coronavirus pandemic), border disputes, acts of terrorism and other external factors over which we and our third-party manufacturers, suppliers, brokers and delivery service providers have no control. The loss of, or damage to, the manufacturing facilities or distribution centers of our third-party manufacturers, suppliers, brokers and delivery service providers could materially and adversely affect our business, financial condition and results of operations.

We depend heavily on ocean container delivery to receive shipments of our products from our third-party manufacturers located in China and contracted third-party delivery service providers to deliver our products to our distribution facilities and logistics providers, and from there to our retail customers. Further, we rely on postal and parcel carriers for the delivery of products sold directly to consumers through our e-commerce websites and mobile applications. Interruptions to or failures in these delivery services could prevent the timely or successful delivery of our products. These interruptions or failures may be due to unforeseen events that are beyond our control or the control of our third-party delivery service providers, such as port congestion, container shortages, inclement weather, natural disasters, labor unrest or other transportation disruptions. If our products are not delivered on time or are delivered in a damaged state, retail customers and consumers may refuse to accept our products and have less confidence in our services. In addition, a current vessel and container shortage globally could delay future inventory receipts and, in turn, could delay deliveries to our retailer customers and availability of products in our direct-to-consumer e-commerce channel. Such potential delays and shipping disruptions could negatively impact our results of operations through higher inventory costs and reduced sales. Furthermore, the delivery personnel of contracted third-party delivery service providers act on our behalf and interact with our consumers personally. Any failure to provide high-quality delivery services to our consumers may negatively affect the shopping experience of our consumers, damage our reputation and cause us to lose consumers.

Our ability to meet the needs of our consumers and retail customers depends on the proper operation of our distribution facilities, where most of our inventory that is not in transit is housed. Although we currently insure our inventory, our insurance coverage may not be sufficient to cover the full extent of any loss or damage to our inventory or distribution facilities, and any loss, damage or disruption of the facilities, or loss or damage of the inventory stored there, could materially and adversely affect our business, financial condition and results of operations.

Our success depends, in part, on our retention of key members of our senior management team and ability to attract and retain qualified personnel.

Our success depends, in part, on our ability to retain our key employees, including our executive officers, senior management team and operations, finance, sales and marketing personnel. We are a small company that relies on a few key employees, any one of whom would be difficult to replace, and because we are a small company, we believe that the loss of key employees may be more disruptive to us than it would be to a larger company. Our success also depends, in part, on our continuing ability to identify, hire, train and retain other highly qualified personnel. In addition, we may be unable to effectively plan for the succession of senior management, including our Chief Executive Officer. The loss of key personnel or the failure to attract and retain qualified personnel may have a material adverse effect on our business, financial condition and results of operations.

We rely on a number of third-party suppliers, manufacturers, distributors and other vendors, and they may not continue to produce products or provide services that are consistent with our standards or applicable regulatory requirements, which could harm our brands, cause consumer dissatisfaction, and require us to find alternative suppliers of our products or services.

We use multiple third-party suppliers and manufacturers, primarily based in China to source and manufacture substantially all of our products. We engage our third-party suppliers and manufacturers on a purchase order basis and are not party to long-term contracts with any of them. The ability of these third parties to supply and manufacture our products may be affected by competing orders placed by other persons and the demands of those persons. Further, we are subject to risks associated with disruptions or delays in shipments whether due to port congestion, container shortages, labor disputes, product regulations and/or inspections or other factors, natural disasters or health pandemics, or other transportation disruptions. If we experience significant increases in demand or need to replace a significant number of existing suppliers or manufacturers, there can be no assurance that additional supply and manufacturing capacity will be available when required on terms that are acceptable to us, or at all, or that any supplier or manufacturer will allocate sufficient capacity to us in order to meet our requirements.

In addition, quality control problems, such as the use of ingredients and delivery of products that do not meet our quality control standards and specifications or comply with applicable laws or regulations, could harm our business. These quality control problems could result in regulatory action, such as restrictions on importation, products of inferior quality or product stock outages or shortages, harming our sales and creating inventory write-downs for unusable products.

We have also outsourced significant portions of our distribution process, as well as certain technology-related functions, to third-party service providers. Specifically, we rely on third-party distributors to sell our products in a number of foreign countries, our warehouses and distribution facilities are managed and staffed by third-party service providers, we are dependent on a single third-party vendor for credit card processing and we utilize a third-party hosting and networking provider to host our e-commerce websites and mobile applications. The failure of one or more of these entities to provide the expected services on a timely basis, or at all, or at the prices we expect, or the costs and disruption incurred in changing these outsourced functions to being performed under our management and direct control or that of a third-party, may have a material adverse effect on our business, financial condition and results of operations. We are not party to long-term contracts with some of our distributors, and upon expiration of these existing agreements, we may not be able to renegotiate the terms on a commercially reasonable basis, or at all.

Further, our third-party manufacturers, suppliers and distributors may:

- have economic or business interests or goals that are inconsistent with ours;
- take actions contrary to our instructions, requests, policies or objectives;

- be unable or unwilling to fulfill their obligations under relevant purchase orders, including obligations to meet our production deadlines, quality standards, pricing guidelines and product specifications, or to comply with applicable regulations, including those regarding the safety and quality of products and ingredients and good manufacturing practices;
- have financial difficulties;
- encounter raw material or labor shortages;
- encounter increases in raw material or labor costs which may affect our procurement costs;
- disclose our confidential information or intellectual property to competitors or third parties;
- engage in activities or employ practices that may harm our reputation; and
- work with, be acquired by, or come under control of, our competitors.

The occurrence of any of these events, alone or together, could have a material adverse effect on our business, financial condition and results of operations. In addition, such problems may require us to find new third-party suppliers, manufacturers or distributors, and there can be no assurance that we would be successful in finding third-party suppliers, manufacturers or distributors meeting our standards of innovation and quality.

The management and oversight of the engagement and activities of our third-party suppliers, manufacturers and distributors requires substantial time, effort and expense of our employees, and we may be unable to successfully manage and oversee the activities of our third-party manufacturers, suppliers and distributors. If we experience any supply chain disruptions caused by our manufacturing process or by our inability to locate suitable third-party manufacturers or suppliers, or if our manufacturers or raw material suppliers experience problems with product quality or disruptions or delays in the manufacturing process or delivery of the finished products or the raw materials or components used to make such products, our business, financial condition and results of operations could be materially and adversely affected.

If we fail to manage our inventory effectively, our results of operations, financial condition and liquidity may be materially and adversely affected.

Our business requires us to manage a large volume of inventory effectively. We depend on our forecasts of demand for, and popularity of, various products to make purchase decisions and to manage our inventory of stock-keeping units. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. Demand may be affected by seasonality, new product launches, rapid changes in product cycles and pricing, product defects, promotions, changes in consumer spending patterns, changes in consumer tastes with respect to our products and other factors, and our consumers may not purchase products in the quantities that we expect. It may be difficult to accurately forecast demand and determine appropriate levels of product or components. We generally do not have the right to return unsold products to our suppliers. If we fail to manage our inventory effectively or negotiate favorable credit terms with third-party suppliers, we may be subject to a heightened risk of inventory obsolescence, a decline in inventory values, and significant inventory write-downs or write-offs. In addition, if we are required to lower sale prices in order to reduce inventory level or to pay higher prices to our suppliers, our profit margins might be negatively affected. Any of the above may materially and adversely affect our business, financial condition and results of operations. See also “—Our quarterly results of operations fluctuate due to seasonality, order patterns from key retail customers and other factors, and we may not have sufficient liquidity to meet our seasonal working capital requirements.”

The outbreak of COVID-19 global pandemic and related government, private sector and individual consumer responsive actions have adversely affected, and will continue adversely affect, our business, financial condition and results of operations.

The outbreak of COVID-19 has been declared a pandemic by the World Health Organization and continues to impact to the United States and other countries. Related government and private sector responsive actions, as well as changes in consumer shopping behaviors, have adversely affected, and will continue to adversely affect our business, financial condition and results of operations.

In response to the spread of COVID-19, international, federal, state and local governments have taken actions to, and recommended precautions to, mitigate the spread of COVID-19, including warning against congregating in heavily populated areas, such as malls, shopping centers, and other retailers and putting in place shelter-in-place regulations. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the United States and global economy and our consumers' shopping habits. Decreased activity at our retailers could result in a decrease in sales of our products, which in turn could adversely affect our business, financial condition and results of operations.

While our suppliers and distribution centers currently remain open, there is risk that any of these facilities (i) may become less productive or encounter disruptions due to employees at the facilities becoming infected with COVID-19 and/or (ii) are no longer allowed to operate based on directives from public health officials or government authorities.

As a result of the COVID-19 pandemic, almost all of our personnel are working remotely, and it is possible that this could have a negative impact on the execution of our business plans and operations. If a natural disaster, power outage, connectivity issue, or other event occurs that impacts our employees' ability to work remotely, it may be difficult or, in certain cases, impossible, for us to continue our business for a substantial period of time. The increase in remote working may also result in consumer privacy, IT security and fraud concerns as well as increase our exposure to potential wage and hour issues.

The uncertainty around the duration of business disruptions and the extent of the spread of COVID-19 in the United States and to other areas of the world will likely continue to adversely impact the national or global economy and negatively impact consumer spending and shopping behaviors. Any of these outcomes could have an adverse impact on our business, financial condition and results of operations.

The extent to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19 and the actions taken to contain it or treat its impact, including vaccination effectiveness and rates.

Risk factors related to our financial condition

Our substantial indebtedness may have a material adverse effect on our business, financial condition and results of operations.

As of March 31, 2021, we had a total of \$126.8 million of indebtedness, consisting of amounts outstanding under our credit facilities and capital lease obligations, and a total availability of \$49.8 million under our Revolving Credit Facility (as defined in Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" under the heading "Description of indebtedness"). Our indebtedness could have significant consequences, including:

- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of funding growth, working capital, capital expenditures, investments or other cash requirements;
- reducing our flexibility to adjust to changing business conditions or obtain additional financing;
- exposing us to the risk of increased interest rates as our borrowings are at variable rates;
- making it more difficult for us to make payments on our indebtedness;
- subjecting us to restrictive covenants that may limit our flexibility in operating our business, including our ability to take certain actions with respect to indebtedness, liens, sales of assets, consolidations and mergers, affiliate transactions, dividends and other distributions and changes of control;
- subjecting us to maintenance covenants which require us to maintain specific financial ratios; and
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements and general corporate or other purposes.

If our cash from operations is not sufficient to meet our current or future operating needs, expenditures and debt service obligations, our business, financial condition and results of operations may be materially and adversely affected.

We may require additional cash resources due to changed business conditions or other future developments, including any marketing initiatives, investments or acquisitions we may decide to pursue. To the extent we are unable to generate sufficient cash flow, we may be forced to cancel, reduce or delay these activities. Alternatively, if our sources of funding are insufficient to satisfy our cash requirements, we may seek to obtain an additional credit facility or sell equity or debt securities. The sale of equity securities would result in dilution of our existing stockholders. The incurrence of additional indebtedness would result in increased debt service obligations and operating and financing covenants that could restrict our operations.

Our ability to generate cash to meet our operating needs, expenditures and debt service obligations will depend on our future performance and financial condition, which will be affected by financial, business, economic, legislative, regulatory and other factors, including potential changes in costs, pricing, the success of product innovation and marketing, competitive pressure and consumer preferences. If our cash flows and capital resources are insufficient to fund our debt service obligations and other cash needs, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. Our credit facilities may restrict our ability to take these actions, and we may not be able to affect any such alternative measures on commercially reasonable terms, or at all. If we cannot make scheduled payments on our debt, the lenders under the Amended Credit Agreement (as defined in Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" under the heading "Description of indebtedness") can terminate their commitments to loan money under the Amended Revolving Credit Facility, and our lenders under the Amended Credit Agreement can declare all outstanding principal and interest to be due and payable and foreclose against the assets securing their borrowings, and we could be forced into bankruptcy or liquidation.

Furthermore, it is uncertain whether financing will be available in amounts or on terms acceptable to us, if at all, which could materially and adversely affect our business, financial condition and results of operations.

Changes in tax law, in our tax rates or in exposure to additional income tax liabilities or assessments could materially and adversely affect our business, financial condition and results of operations.

Changes in law and policy relating to taxes, including changes in administrative interpretations and legal precedence, could materially and adversely affect our business, financial condition and results of operations. For example, President Biden has proposed various changes to existing U.S. tax laws, including increasing the corporate income tax rate, increasing the income tax rate on certain earnings of foreign subsidiaries, imposing a minimum tax on book income of certain corporations, imposing an "offshoring tax penalty" and granting incentives for certain qualified activities performed in the United States.

In addition, as we continue to expand our business internationally, the application and implementation of existing, new or future international laws, including those proposed by the Organization for Economic Cooperation and Development intended to modernize international taxation rules, as well as indirect taxes (such as a Value Added Tax), could materially and adversely affect our business, financial condition and results of operations.

Fluctuations in currency exchange rates may negatively affect our financial condition and results of operations.

Exchange rate fluctuations may affect the costs that we incur in our operations. The main currencies to which we are exposed are the Chinese Renminbi ("RMB"), the British pound and the Canadian dollar. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from foreign operations reported in our consolidated financial statements, and an appreciation of these currencies will result in a corresponding increase in such amounts. The cost of certain items, such as raw materials, manufacturing, employee salaries and transportation and freight, required by our operations may be affected by changes in the value of the relevant currencies. To the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively affect our business. There can be no assurance that foreign currency fluctuations will not have a material adverse effect on our business, financial condition and results of operations.

Risk factors related to our retail customers, consumers and the seasonality of our business

We depend on a limited number of retailers for a large portion of our net sales, and the loss of one or more of these retailers, or business challenges at one or more of these retailers, could adversely affect our results of operations.

A limited number of our retail customers account for a large percentage of our net sales. We expect a small number of retailers will, in the aggregate, continue to account for the majority of our net sales for foreseeable future periods. Any changes in the policies or our ability to meet the demands of our retail customers relating to service levels, inventory de-stocking, pricing and promotional strategies or limitations on access to display space could have a material adverse effect on our business, financial condition and results of operations.

As is typical in our industry, our business with retailers is based primarily upon discrete sales orders, and we do not have contracts requiring retailers to make firm purchases from us. Accordingly, retailers could reduce their purchasing levels or cease buying products from us at any time and for any reason. If we lose a significant retail customer or if sales of our products to a significant retailer materially decrease, it could have a material adverse effect on our business, financial condition and results of operations.

Because a high percentage of our sales are made through our retail customers, our results are subject to risks relating to the general business performance of our key retail customers. Factors that adversely affect our retail customers' businesses may also have a material adverse effect on our business, financial condition and results of operations. These factors may include:

- any reduction in consumer traffic and demand at our retail customers as a result of economic downturns, pandemics or other health crises, changes in consumer preferences or reputational damage as a result of, among other developments, data privacy breaches, regulatory investigations or employee misconduct;
- any credit risks associated with the financial condition of our retail customers;
- the effect of consolidation or weakness in the retail industry or at certain retail customers, including store closures and the resulting uncertainty; and
- inventory reduction initiatives and other factors affecting retail customer buying patterns, including any reduction in retail space committed to beauty products and retailer practices used to control inventory shrinkage.

Our quarterly results of operations fluctuate due to seasonality, order patterns from key retail customers and other factors, and we may not have sufficient liquidity to meet our seasonal working capital requirements.

Our results of operations are subject to seasonal fluctuations, with net sales in the third and fourth fiscal quarters typically being higher than in the first and second fiscal quarters. The higher net sales in our third and fourth fiscal quarters are largely attributable to the increased levels of purchasing by retailers for the holiday season and customer shelf reset activity, respectively. Adverse events that occur during either the third or fourth fiscal quarter could have a disproportionate effect on our results of operations for the entire fiscal year. To support anticipated higher sales during the third and fourth fiscal quarters, we make investments in working capital to ensure inventory levels can support demand. Fluctuations throughout the year are also driven by the timing of product restocking or rearrangement by our major customers as well as our expansion into new customers. Because a limited number of our retail customers account for a large percentage of our net sales, a change in the order pattern of one or more of our large retail customers could cause a significant fluctuation of our quarterly results or reduce our liquidity.

Furthermore, product orders from our large retail customers may vary over time due to changes in their inventory or out-of-stock policies. If we were to experience a significant shortfall in sales or profitability, we may not have sufficient liquidity to fund our business. As a result of quarterly fluctuations caused by these and other factors, comparisons of our operating results across different fiscal quarters may not be accurate indicators of our future performance. Any quarterly fluctuations that we report in the future may differ from the expectations of market analysts and investors, which could cause the price of our common stock to fluctuate significantly.

Risk factors related to information technology and cybersecurity

We are increasingly dependent on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We rely on information technology networks and systems to market and sell our products, to process electronic and financial information, to manage a variety of business processes and activities and to comply with regulatory, legal and tax requirements. We are increasingly dependent on a variety of information systems to effectively process retail customer orders and fulfill consumer orders from our e-commerce business. We depend on our information technology infrastructure for digital marketing activities and for electronic communications among our personnel, retail customers, consumers, manufacturers and suppliers around the world. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. Any material disruption of our systems, or the systems of our third-party service providers, could disrupt our ability to track, record and analyze the products that we sell and could negatively impact our operations, shipment of goods, ability to process financial information and transactions and our ability to receive and process retail customer and e-commerce orders or engage in normal business activities. If our information technology systems suffer damage, disruption or shutdown, we may incur substantial cost in repairing or replacing these systems, and if we do not effectively resolve the issues in a timely manner, our business, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results.

Our e-commerce operations are important to our business. Our e-commerce websites and mobile applications serve as an effective extension of our marketing strategies by introducing potential new consumers to our brand, product offerings and enhanced content. Due to the importance of our e-commerce operations, we are vulnerable to website downtime and other technical failures. Our failure to successfully respond to these risks in a timely manner could reduce e-commerce sales and damage our brands' reputation.

We must successfully maintain and upgrade our information technology systems, and our failure to do so could have a material adverse effect on our business, financial condition and results of operations.

We have identified the need to significantly expand and improve our information technology systems and personnel to support historical and expected future growth. As such, we are in process of implementing, and will continue to invest in and implement, significant modifications and upgrades to our information technology systems and procedures, including replacing legacy systems with successor systems, making changes to legacy systems or acquiring new systems with new functionality, hiring employees with information technology expertise and building new policies, procedures, training programs and monitoring tools. These types of activities subject us to inherent costs and risks associated with replacing and changing these systems, including impairment of our ability to leverage our e-commerce channels, fulfill customer orders, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, acquisition and retention of sufficiently skilled personnel to implement and operate the new systems, demands on management time and other risks and costs of delays or difficulties in transitioning to or integrating new systems into our current systems. These implementations, modifications and upgrades may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. In addition, difficulties with implementing new technology systems, delays in our timeline for planned improvements, significant system failures, or our inability to successfully modify our information systems to respond to changes in our business needs may cause disruptions in our business operations and have a material adverse effect on our business, financial condition and results of operations.

If we fail to adopt new technologies or adapt our e-commerce websites and systems to changing consumer requirements or emerging industry standards, our business may be materially and adversely affected.

To remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our information technology, including our e-commerce websites and mobile applications. Our competitors are continually innovating and introducing new products to increase their consumer base and enhance user experience. As a result, in order to attract and retain consumers and compete against our competitors, we must continue to invest resources to enhance our information technology and improve our existing products and services for our consumers. The Internet and the online retail industry are characterized by rapid technological evolution, changes in consumer requirements and preferences, frequent introductions of new products and services embodying new technologies and the emergence of new industry standards and practices, any of which could render our existing technologies and systems obsolete. Our success will depend, in part, on our ability to identify, develop, acquire or license leading technologies useful in our business, and respond to technological advances and emerging industry standards and practices in a cost-effective and timely way. The development of our e-commerce websites, mobile applications and other proprietary technology entails significant technical and business risks. There can be no assurance that we will be able to properly implement or use new technologies effectively or adapt our e-commerce websites, mobile applications and systems to meet consumer requirements or emerging industry standards. If we are unable to adapt in a cost-effective and timely manner in response to changing market conditions or consumer requirements, whether for technical, legal, financial or other reasons, our business, financial condition and results of operations may be materially and adversely affected.

Failure to protect sensitive information of our consumers and information technology systems against security breaches could damage our reputation and brand and substantially harm our business, financial condition and results of operations.

We collect, maintain, transmit and store data about our consumers, suppliers and others, including personal data, financial information, including consumer payment information, as well as other confidential and proprietary information important to our business. We also employ third-party service providers that collect, store, process and transmit personal data, and confidential, proprietary and financial information on our behalf.

We have in place technical and organizational measures to maintain the security and safety of critical proprietary, personal, employee, customer and financial data which we continue to maintain and upgrade to industry standards. However, advances in technology, the pernicious ingenuity of criminals, new exposures via cryptography, acts or omissions by our employees, contractors or service providers or other events or developments could result in a compromise or breach in the security of confidential or personal data. We and our service providers may not be able to prevent third parties, including criminals, competitors or others, from breaking into or altering our systems, disrupting business operations or communications infrastructure through denial-of-service attacks, attempting to gain access to our systems, information or monetary funds through phishing or social engineering campaigns, installing viruses or malicious software on our e-commerce websites or mobile applications or devices used by our employees or contractors, or carrying out other activity intended to disrupt our systems or gain access to confidential or sensitive information in our or our service providers' systems. We are not aware of any breach or compromise of the personal data of consumers, but we have been subject to attacks (e.g. phishing, denial of service, etc.) in the past and cannot guarantee that our security measures will be sufficient to prevent a material breach or compromise in the future.

Furthermore, such third parties may engage in various other illegal activities using such information, including credit card fraud or identity theft, which may cause additional harm to us, our consumers and our brands. We also may be vulnerable to error or malfeasance by our own employees or other insiders. Third parties may attempt to fraudulently induce our or our service providers' employees to misdirect funds or to disclose information in order to gain access to personal data we maintain about our consumers or website users. In addition, we have limited control or influence over the security policies or measures adopted by third-party providers of online payment services through which some of our consumers may elect to make payment for purchases at our e-commerce websites and mobile applications. Contracted third-party delivery service providers may also violate their confidentiality or data processing obligations and disclose or use information about our consumers inadvertently or illegally.

If a material security breach were to occur, our reputation and brands could be damaged, and we could be required to expend significant capital and other resources to alleviate problems caused by such breaches including exposure of litigation or regulatory action and a risk of loss and possible liability. Actual or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. In addition, any party who is able to illicitly obtain a subscriber's password could access

the subscriber's financial, transaction or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, may violate applicable privacy, data security, financial, cyber and other laws and cause significant legal and financial exposure, adverse publicity, and a loss of confidence in our security measures, all of which could have a material adverse effect on our business, financial condition and results of operations. We may be subject to post-breach review of the adequacy of our privacy and security controls by regulators and other third parties, which could result in post-breach regulatory investigation, fines and consumer litigation as well as regulatory oversight, at significant expense and risking reputational harm.

Furthermore, we are subject to diverse laws and regulations in the United States, the European Union, and other international jurisdictions that require notification to affected individuals in the event of a breach involving personal information. These required notifications can be time-consuming and costly. Furthermore, failure to comply with these laws and regulations could subject us to regulatory scrutiny and additional liability. Although we maintain relevant insurance, we cannot be certain that our insurance coverage will be adequate for all breach related liabilities, that insurance will continue to be available to us on economically reasonable terms, or at all, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our reputation, business, financial condition and results of operations. We may need to devote significant resources to protect against security breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

Payment methods used on our e-commerce websites subject us to third-party payment processing-related risks.

We accept payments from our consumers using a variety of methods, including online payments with credit cards and debit cards issued by major banks, payments made with gift cards processed by third-party providers and payment through third-party online payment platforms such as PayPal, Afterpay and Apple Pay. We also rely on third parties to provide payment processing services. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower our profit margins. We may also be subject to fraud and other illegal activities in connection with the various payment methods we offer, including online payment options and gift cards. Transactions on our e-commerce websites and mobile applications are card-not-present transactions, so they present a greater risk of fraud. Criminals are using increasingly sophisticated methods to engage in illegal activities such as unauthorized use of credit or debit cards and bank account information. Requirements relating to consumer authentication and fraud detection with respect to online sales are complex. We may ultimately be held liable for the unauthorized use of a cardholder's card number in an illegal activity and be required by card issuers to pay charge-back fees. Charge-backs result not only in our loss of fees earned with respect to the payment, but also leave us liable for the underlying money transfer amount. If our charge-back rate becomes excessive, card associations also may require us to pay fines or refuse to process our transactions. In addition, we may be subject to additional fraud risk if third-party service providers or our employees fraudulently use consumer information for their own gain or facilitate the fraudulent use of such information. Overall, we may have little recourse if we process a criminally fraudulent transaction.

We are subject to payment card association operating rules, certification requirements and various rules, regulations and requirements governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. As our business changes, we may also be subject to different rules under existing standards, which may require new assessments that involve costs above what we currently pay for compliance. If we fail to comply with the rules or requirements of any provider of a payment method we accept, or if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, among other things, we may be subject to fines and higher transaction fees and lose our ability to accept credit and debit card payments from our consumers, process electronic funds transfers or facilitate other types of online payments, and our reputation and our business, financial condition and results of operations could be materially and adversely affected.

Risk factors related to conducting business internationally

We have significant operations in China, which exposes us to risks inherent in doing business in that country.

We currently source and manufacture a substantial number of our products from third-party suppliers and manufacturers in China. As of March 31, 2021, we had a team of 76 employees in China to manage our supply chain. With the rapid development of the Chinese economy, the cost of labor has increased and may continue to increase in the future. Our results of operations will be materially and adversely affected if our labor costs, or the labor costs of our suppliers and manufacturers, increase significantly. In addition, we and our manufacturers and suppliers may not be able to find a sufficient

number of qualified workers due to the intensely competitive and fluid market for skilled labor in China. Furthermore, pursuant to Chinese labor laws, employers in China are subject to various requirements when signing labor contracts, paying remuneration, determining the term of employees' probation and unilaterally terminating labor contracts. These labor laws and related regulations impose liabilities on employers and may significantly increase the costs of workforce reductions. If we decide to change or reduce our workforce, these labor laws could limit or restrict our ability to make such changes in a timely, favorable and effective manner. Any of these events may materially and adversely affect our business, financial condition and results of operations.

Operating in China exposes us to political, legal and economic risks. In particular, the political, legal and economic climate in China, both nationally and regionally, is fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in the United States and Chinese laws and regulations such as those related to, among other things, taxation, import and export tariffs, environmental regulations, land use rights, intellectual property, currency controls, network security, employee benefits, hygiene supervision and other matters. In addition, we may not obtain or retain the requisite legal permits to continue to operate in China, and costs or operational limitations may be imposed in connection with obtaining and complying with such permits. In addition, Chinese trade regulations are in a state of flux, and we may become subject to other forms of taxation, tariffs and duties in China. Furthermore, the third parties we rely on in China may disclose our confidential information or intellectual property to competitors or third parties, which could result in the illegal distribution and sale of counterfeit versions of our products. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

Adverse economic conditions in the United States, Europe or China or any of the other countries in which we may conduct business could negatively affect our business, financial condition and results of operations.

Consumer spending on beauty products is influenced by general economic conditions and the availability of discretionary income. Adverse economic conditions in the United States, Europe, China or any of the other countries in which we do significant business, or periods of inflation or high energy prices may contribute to higher unemployment levels, decreased consumer spending, reduced credit availability and declining consumer confidence and demand, each of which poses a risk to our business. A decrease in consumer spending or in retailer and consumer confidence and demand for our products could have a significant negative impact on our net sales and profitability, including our operating margins and return on invested capital. These economic conditions could cause some of our retail customers or suppliers to experience cash flow or credit problems and impair their financial condition, which could disrupt our business and adversely affect product orders, payment patterns and default rates and increase our bad debt expense.

We are subject to international business uncertainties.

We sell our products to customers located outside the United States. In addition, substantially all of our third-party suppliers and manufacturers are located in China and certain other foreign countries. We intend to continue to sell to customers outside the United States and maintain our relationships in China and other foreign countries where we have suppliers and manufacturers. Further, we may establish additional relationships in other countries to grow our operations. The substantial up-front investment required, the lack of consumer awareness of our products in jurisdictions outside of the United States, differences in consumer preferences and trends between the United States and other jurisdictions, the risk of inadequate intellectual property protections and differences in packaging, labeling and related laws, rules and regulations are all substantial matters that need to be evaluated prior to doing business in new territories. We cannot be assured that our international efforts will be successful. International sales and increased international operations may be subject to risks such as:

- difficulties in staffing and managing foreign operations;
- burdens of complying with a wide variety of laws and regulations, including more stringent regulations relating to data privacy and security, particularly in the United Kingdom and the European Union;
- adverse tax effects and foreign exchange controls making it difficult to repatriate earnings and cash;
- political and economic instability;
- terrorist activities and natural disasters;
- trade restrictions;

- disruptions or delays in shipments whether due to port congestion, container shortages, labor disputes, product regulations and/or inspections or other factors, natural disasters or health pandemics, or other transportation disruptions;
- differing employment practices and laws and labor disruptions;
- the imposition of government controls;
- an inability to use or to obtain adequate intellectual property protection for our key brands and products;
- tariffs and customs duties and the classifications of our goods by applicable governmental bodies;
- a legal system subject to undue influence or corruption;
- a business culture in which illegal sales practices may be prevalent;
- logistics and sourcing; and
- military conflicts.

The occurrence of any of these risks could negatively affect our international business and consequently our overall business, financial condition and results of operations.

Risk factors related to evolving laws and regulations and compliance with laws and regulations

New laws, regulations, enforcement trends or changes in existing regulations governing the introduction, marketing and sale of our products to consumers could harm our business.

There has been an increase in regulatory activity and activism in the United States and abroad, and the regulatory landscape is becoming more complex with increasingly strict requirements. If this trend continues, we may find it necessary to alter some of the ways we have traditionally manufactured and marketed our products in order to stay in compliance with a changing regulatory landscape, and this could add to the costs of our operations and have an adverse impact on our business. To the extent federal, state, local or foreign regulatory changes regarding consumer protection, or the ingredients, claims or safety of our products occur in the future, they could require us to reformulate or discontinue certain of our products, revise the product packaging or labeling, or adjust operations and systems, any of which could result in, among other things, increased costs, delays in product launches, product returns or recalls and lower net sales, and therefore could have a material adverse effect on our business, financial condition and results of operations. Noncompliance with applicable regulations could result in enforcement action by the FDA or other regulatory authorities within or outside the United States, including but not limited to product seizures, injunctions, product recalls and criminal or civil monetary penalties, all of which could have a material adverse effect on our business, financial condition and results of operations.

In the United States, the FDA does not currently require pre-market approval for products intended to be sold as cosmetics. However, the FDA may in the future require pre-market approval, clearance or registration/notification of cosmetic products, establishments or manufacturing facilities. Moreover, such products could also be regulated as both drugs and cosmetics simultaneously, as the categories are not mutually exclusive. The statutory and regulatory requirements applicable to drugs are extensive and require significant resources and time to ensure compliance. For example, if any of our products intended to be sold as cosmetics were to be regulated as drugs, we might be required to conduct, among other things, clinical trials to demonstrate the safety and efficacy of these products. We may not have sufficient resources to conduct any required clinical trials or to ensure compliance with the manufacturing requirements applicable to drugs. If the FDA determines that any of our products intended to be sold as cosmetics should be classified and regulated as drug products and we are unable to comply with applicable drug requirements, we may be unable to continue to market those products. Any inquiry into the regulatory status of our cosmetics and any related interruption in the marketing and sale of these products could damage our reputation and image in the marketplace.

In recent years, the FDA has issued warning letters to several cosmetic companies alleging improper claims regarding their cosmetic products. If the FDA determines that we have disseminated inappropriate drug claims for our products intended to be sold as cosmetics, we could receive a warning or untitled letter, be required to modify our product

claims or take other actions to satisfy the FDA. In addition, plaintiffs' lawyers have filed class action lawsuits against cosmetic companies after receipt of these types of FDA warning letters. There can be no assurance that we will not be subject to state and federal government actions or class action lawsuits, which could harm our business, financial condition and results of operations.

Additional state and federal requirements may be imposed on consumer products as well as cosmetics, cosmetic ingredients, or the labeling and packaging of products intended for use as cosmetics. For example, several lawmakers are currently focused on giving the FDA additional authority to regulate cosmetics and their ingredients. This increased authority could require the FDA to impose increased testing and manufacturing requirements on cosmetic manufacturers or cosmetics or their ingredients before they may be marketed. We are unable to ascertain what, if any, impact any increased statutory or regulatory requirements may have on our business.

We sell a number of products as over-the-counter ("OTC") drug products, which are subject to the FDA OTC drug regulatory requirements because they are intended to be used as sunscreen or to treat acne. The FDA regulates the formulation, manufacturing, packaging and labeling of OTC drug products. Our sunscreen and acne drug products are regulated pursuant to FDA OTC drug monographs that specify acceptable active drug ingredients and acceptable product claims that are generally recognized as safe and effective for particular uses. If any of these products that are marketed as OTC drugs are not in compliance with the applicable FDA monograph, we may be required to reformulate the product, stop making claims relating to such product or stop selling the product until we are able to obtain costly and time-consuming FDA approvals. We are also required to submit adverse event reports to the FDA for our OTC drug products, and failure to comply with this requirement may subject us to FDA regulatory action.

We also sell a number of consumer products, which are subject to regulation by the CPSC in the United States under the provisions of the Consumer Product Safety Act, as amended by the Consumer Product Safety Improvement Act of 2008. These statutes and the related regulations ban from the market consumer products that fail to comply with applicable product safety laws, regulations and standards. The CPSC has the authority to require the recall, repair, replacement or refund of any such banned products or products that otherwise create a substantial risk of injury and may seek penalties for regulatory noncompliance under certain circumstances. The CPSC also requires manufacturers of consumer products to report certain types of information to the CPSC regarding products that fail to comply with applicable regulations. Certain state laws also address the safety of consumer products, and mandate reporting requirements, and noncompliance may result in penalties or other regulatory action.

Our products are also subject to state laws and regulations, such as the California Safe Drinking Water and Toxic Enforcement Act, also known as "Prop 65," and failure to comply with such laws may also result in lawsuits and regulatory enforcement that could have a material adverse effect on our business, financial condition and results of operations.

Our facilities and those of our third-party manufacturers are subject to regulation under the Federal Food, Drug and Cosmetic Act (the "FDCA") and FDA implementing regulations.

Our facilities and those of our third-party manufacturers are subject to regulation under the FDCA and FDA implementing regulations. The FDA may inspect all of our facilities and those of our third-party manufacturers periodically to determine if we and our third-party manufacturers are complying with provisions of the FDCA and FDA regulations. In addition, third-party manufacturer's facilities for manufacturing OTC drug products must comply with the FDA's current drug good manufacturing practices ("GMP") requirements that require us and our manufacturers to maintain, among other things, good manufacturing processes, including stringent vendor qualifications, ingredient identification, manufacturing controls and record keeping.

Our operations could be harmed if regulatory authorities make determinations that we, or our vendors, are not in compliance with these regulations. If the FDA finds a violation of GMPs, it may enjoin our manufacturer's operations, seize product, restrict importation of goods, and impose administrative, civil or criminal penalties. If we or our third-party manufacturers fail to comply with applicable regulatory requirements, we could be required to take costly corrective actions, including suspending manufacturing operations, changing product formulations, suspending sales, or initiating product recalls. In addition, compliance with these regulations has increased and may further increase the cost of manufacturing certain of our products as we work with our vendors to ensure they are qualified and in compliance. Any of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

Government regulations and private party actions relating to the marketing and advertising of our products and services may restrict, inhibit or delay our ability to sell our products and harm our business, financial condition and results of operations.

Government authorities regulate advertising and product claims regarding the performance and benefits of our products. These regulatory authorities typically require a reasonable basis to support any marketing claims. What constitutes a reasonable basis for substantiation can vary widely from market to market, and there is no assurance that the efforts that we undertake to support our claims will be deemed adequate for any particular product or claim. A significant area of risk for such activities relates to improper or unsubstantiated claims about our products and their use or safety. If we are unable to show adequate substantiation for our product claims, or our promotional materials make claims that exceed the scope of allowed claims for the classification of the specific product, whether cosmetics, OTC drug products or other consumer products that we offer, the FDA, the FTC or other regulatory authorities could take enforcement action or impose penalties, such as monetary consumer redress, requiring us to revise our marketing materials, amend our claims or stop selling certain products, all of which could harm our business, financial condition and results of operations. Any regulatory action or penalty could lead to private party actions, or private parties could seek to challenge our claims even in the absence of formal regulatory actions which could harm our business, financial condition and results of operations.

Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding privacy and data protection. Many of these laws and regulations are subject to change and uncertain interpretation, and could result in claims, changes to our business practices, monetary penalties, increased costs of operations or otherwise harm our business, financial condition and results of operations.

We are subject to a variety of laws and regulations in the United States and abroad regarding privacy and data protection, some of which can be enforced by private parties or government entities and some of which provide for significant penalties for non-compliance. Such laws and regulations restrict how personal information is collected, processed, stored, used and disclosed, as well as set standards for its security, implement notice requirements regarding privacy practices, and provide individuals with certain rights regarding the use, disclosure, and sale of their protected personal information. For example, the UK General Data Protection Regulation (the "UK GDPR") and the European Union's General Data Protection Regulation (the "GDPR") each allows for a private right of action, imposes stringent data protection requirements on companies that offer goods or services to, or monitor the behavior of, individuals in the United Kingdom or the European Economic Area (the "EEA"), as applicable. The UK GDPR and the GDPR establishes a robust framework of data subjects' rights and imposes onerous accountability obligations on companies, with penalties for noncompliance of up to the greater of 17.5 million British pounds or 20 million euros, respectively, or 4% of annual global revenue.

Furthermore, the California Consumer Privacy Act (the "CCPA") requires new disclosures to California consumers, imposes new rules for collecting or using information about minors, affords California consumers new abilities to opt out of certain disclosures of personal information and also establishes significant penalties for noncompliance. Additionally, in November 2020, California voters passed the California Privacy Rights Act (the "CPRA"). The CPRA, which is expected to take effect on January 1, 2023, significantly expands the CCPA, including by introducing additional obligations such as data minimization and storage limitations, granting additional rights to consumers such as correction of personal information and additional opt-out rights, and creates a new entity, the California Privacy Protection Agency, to implement and enforce the law. The effects of the CPRA are potentially significant and may require us to modify our data collection or processing practices and policies and to incur substantial costs and expenses in an effort to comply, and increase our potential exposure to regulatory enforcement and/or litigation.

We are also subject to European Union and United Kingdom rules with respect to cross-border transfers of personal data out of the EEA and the United Kingdom. Recent legal developments in Europe have created complexity and uncertainty regarding transfers of personal data. As supervisory authorities issue further guidance on personal data export mechanisms, including circumstances where the standard contractual clauses cannot be used, and/or start taking enforcement action, we could suffer additional costs, complaints and/or regulatory investigations or fines, and/or if we are otherwise unable to transfer personal data between and among countries and regions in which we operate, it could affect the manner in which we operate our business and could harm our business, financial condition and results of operations.

In addition, the United Kingdom's withdrawal from the European Union means that the United Kingdom will become a "third country" for the purposes of data transfers from the EEA to the United Kingdom following the expiration of the six-month personal data transfer grace period (due to end on July 1, 2021), unless a relevant adequacy decision is adopted in favor of the United Kingdom (which would allow data transfers without additional measures). These changes may require us to find alternative solutions for the compliant transfer of personal data into the United Kingdom from the EEA.

Data privacy continues to remain a matter of interest to lawmakers and regulators. A number of proposals are pending before federal, state and foreign legislative and regulatory bodies and additional laws and regulations have been passed but are not yet effective, all of which could significantly affect our business. Some U.S. states have enacted or are considering enacting stricter data privacy laws, some modeled on the GDPR, some modeled on the CCPA, and others potentially imposing completely distinct requirements. For example, on March 2, 2021, Virginia enacted the Virginia Consumer Data Protection Act (“CDPA”), a comprehensive privacy statute that shares similarities with the CCPA, CPRA, and legislation proposed in other states. Additionally, the United States is considering comprehensive federal privacy legislation, such as the Consumer Online Privacy Rights Act, which would significantly expand elements of the data protection rights and obligations existing within the GDPR and the CCPA to all U.S. consumers.

In addition, the European Union's institutions are debating the ePrivacy Regulation, which would repeal and replace the current ePrivacy Directive that regulates electronic marketing and use of cookies and tracking technologies. While the text of the ePrivacy Regulation is still under development, a recent European court decision and regulators’ recent guidance are driving increased attention to cookies, web beacons and similar technology. These decisions and guidance, as well as the implementation of the ePrivacy Regulation, could affect our ability to use our consumer’s data for personalized advertising, and alter our ability to place advertisements across social media and the web. Furthermore, the current European Union member states’ and the United Kingdom's local guidance has significantly increased the risk of penalties for breach of the GDPR, the UK GDPR, and law implementing the ePrivacy Directive. If regulators start to enforce the strict approach outlined in recent guidance, this could lead to substantial costs, require significant systems changes, broader restrictions on the way we market our products on a global basis and increase our risk of regulatory oversight our ability to reach our consumers, and our capability to provide our consumers with personalized services and experiences.

Several countries in Europe have also recently issued guidance on the use of cookies and similar tracking technologies which require an additional layer of consent from, and disclosure to, website users for third party advertising, social media advertising and analytics. Regulation of cookies and similar technologies may lead to broader restrictions on our marketing and personalization activities and may negatively impact our efforts to understand users’ Internet usage, online shopping and other relevant online behaviors, as well as the effectiveness of our marketing and our business generally. Such regulations, including uncertainties about how well the advertising technology ecosystem can adapt to legal changes around the use of tracking technologies, may have a negative effect on businesses, including ours, that collect and use online usage information for consumer acquisition and marketing. The decline of cookies or other online tracking technologies as a means to identify and target potential purchasers, may increase the cost of operating our business and lead to a decline in revenues. In addition, legal uncertainties about the legality of cookies and other tracking technologies may increase regulatory scrutiny and increase potential civil liability under data protection or consumer protection laws.

Compliance with existing, not yet effective, and proposed privacy and data protection laws and regulations can be costly and can delay or impede our ability to market and sell our products, impede our ability to conduct business through websites and mobile applications we and our partners may operate, require us to modify or amend our information practices and policies, change and limit the way we use consumer information in operating our business, cause us to have difficulty maintaining a single operating model, result in negative publicity, increase our operating costs, require significant management time and attention, or subject us to inquiries or investigations, claims or other remedies, including significant fines and penalties, or demands that we modify or cease existing business practices. In addition, if our privacy or data security measures fail to comply with applicable current or future laws and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines or other liabilities, as well as negative publicity and a potential loss of business. We may also face civil claims including representative actions and other class action type litigation (where individuals have suffered harm), potentially amounting to significant compensation or damages liabilities, as well as associated costs, and diversion of internal resources. Any of the foregoing could have a material adverse effect on our business, financial condition and results of operations.

Failure to comply with the U.S. Foreign Corrupt Practices Act, other applicable anti-corruption and anti-bribery laws, and applicable trade control laws could subject us to penalties and other adverse consequences.

We currently source and manufacture a substantial number of our products from third-party suppliers and manufacturers located outside of the United States, and we have an office in China from which we manage our international supply chain. We sell our products in several countries outside of the United States, including through distributors. Our operations are subject to the U.S. Foreign Corrupt Practices Act (the “FCPA”), as well as the anti-corruption and anti-bribery laws in the countries where we do business. The FCPA prohibits covered parties from offering, promising, authorizing or giving anything of value, directly or indirectly, to a “foreign government official” with the intent of improperly influencing the

official's act or decision, inducing the official to act or refrain from acting in violation of lawful duty, or obtaining or retaining an improper business advantage. The FCPA also requires publicly traded companies to maintain records that accurately and fairly represent their transactions, and to have an adequate system of internal accounting controls. In addition, other applicable anti-corruption laws prohibit bribery of domestic government officials, and some laws that may apply to our operations prohibit commercial bribery, including giving or receiving improper payments to or from non-government parties, as well as so-called "facilitation" payments. In addition, we are subject to United States and other applicable trade control regulations that restrict with whom we may transact business, including the trade sanctions enforced by the U.S. Treasury, Office of Foreign Assets Control (OFAC).

While we have implemented policies, internal controls and other measures reasonably designed to promote compliance with applicable anti-corruption and anti-bribery laws and regulations, and certain safeguards designed to ensure compliance with U.S. trade control laws, our employees or agents may engage in improper conduct for which we might be held responsible. Any violations of these anti-corruption or trade controls laws, or even allegations of such violations, can lead to an investigation and/or enforcement action, which could disrupt our operations, involve significant management distraction, and lead to significant costs and expenses, including legal fees. If we, or our employees or agents acting on our behalf, are found to have engaged in practices that violate these laws and regulations, we could suffer severe fines and penalties, profit disgorgement, injunctions on future conduct, securities litigation, bans on transacting government business, delisting from securities exchanges and other consequences that may have a material adverse effect on our business, financial condition and results of operations. In addition, our brands and reputation, our sales activities or our stock price could be adversely affected if we become the subject of any negative publicity related to actual or potential violations of anti-corruption, anti-bribery or trade control laws and regulations.

Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business, financial condition and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet, e-commerce or mobile commerce. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection, social media marketing, third-party cookies, web beacons and similar technology for online behavioral advertising and gift cards. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and consumer privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the Internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business and decrease the use of our sites by consumers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. In addition, it is possible that governments of one or more countries may seek to censor content available on our sites or may even attempt to completely block access to our sites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our consumer base may be adversely affected, and we may not be able to maintain or grow our net sales and expand our business as anticipated.

Risk factors related to legal and regulatory proceedings

We are involved, and may become involved in the future, in disputes and other legal or regulatory proceedings that, if adversely decided or settled, could materially and adversely affect our business, financial condition and results of operations.

We are, and may in the future become, party to litigation, regulatory proceedings or other disputes. In general, claims made by or against us in disputes and other legal or regulatory proceedings can be expensive and time consuming to bring or defend against, requiring us to expend significant resources and divert the efforts and attention of our management and other personnel from our business operations. These potential claims include, but are not limited to, personal injury claims, class action lawsuits, intellectual property claims, employment litigation and regulatory investigations and causes of

action relating to the advertising and promotional claims about our products. Any adverse determination against us in these proceedings, or even the allegations contained in the claims, regardless of whether they are ultimately found to be without merit, may also result in settlements, injunctions or damages that could have a material adverse effect on our business, financial condition and results of operations.

We may be required to recall products and may face product liability claims, either of which could result in unexpected costs and damage our reputation.

We sell products for human use. Our products intended for use as cosmetics or skin care are not generally subject to pre-market approval or registration processes, so we cannot rely upon a government safety panel to qualify or approve our products for use. A product may be safe for the general population when used as directed but could cause an adverse reaction for a person who has a health condition or allergies, or who is taking a prescription medication. While we include what we believe are adequate instructions and warnings and we have historically had low numbers of reported adverse reactions, previously unknown adverse reactions could occur. If we discover that any of our products are causing adverse reactions, we could suffer adverse publicity or regulatory/government sanctions.

Potential product liability risks may arise from the testing, manufacture and sale of our products, including that the products fail to meet quality or manufacturing specifications, contain contaminants, include inadequate instructions as to their proper use, include inadequate warnings concerning side effects and interactions with other substances or for persons with health conditions or allergies, or cause adverse reactions or side effects. Product liability claims could increase our costs, and adversely affect our business, financial condition and results of operations. As we continue to offer an increasing number of new products, our product liability risk may increase. It may be necessary for us to recall products that do not meet approved specifications or because of the side effects resulting from the use of our products, which would result in adverse publicity, potentially significant costs in connection with the recall and could have a material adverse effect on our business, financial condition and results of operations.

In addition, plaintiffs in the past have received substantial damage awards from other cosmetic and drug companies based upon claims for injuries allegedly caused by the use of their products. Although we currently maintain general liability insurance, any claims brought against us may exceed our existing or future insurance policy coverage or limits. Any judgment against us that is in excess of our policy coverage or limits would have to be paid from our cash reserves, which would reduce our capital resources. In addition, we may be required to pay higher premiums and accept higher deductibles in order to secure adequate insurance coverage in the future. Further, we may not have sufficient capital resources to pay a judgment, in which case our creditors could levy against our assets. Any product liability claim or series of claims brought against us could harm our business significantly, particularly if a claim were to result in adverse publicity or damage awards outside or in excess of our insurance policy limits.

Risk factors related to intellectual property

If we are unable to protect our intellectual property, the value of our brands and other intangible assets may be diminished, and our business may be adversely affected.

We rely on trademark, copyright, trade secret, patent and other laws protecting proprietary rights, nondisclosure and confidentiality agreements and other practices, to protect our brands and proprietary information, technologies and processes. Our primary trademarks include “e.l.f.,” “e.l.f. eyes lips face,” “W3LL PEOPLE,” and “Keys Soulcare” all of which are registered or have registrations pending in the United States and in many other countries or registries. Our trademarks are valuable assets that support our brands and consumers’ perception of our products. Although we have existing and pending trademark registrations for our brands in the United States and in many of the foreign countries in which we operate, we may not be successful in asserting trademark or trade name protection in all jurisdictions. We also have not applied for trademark protection in all relevant foreign jurisdictions and cannot assure you that our pending trademark applications will be approved. Third parties may also attempt to register our trademarks abroad in jurisdictions where we have not yet applied for trademark protection, oppose our trademark applications domestically or abroad, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products in some parts of the world, which could result in the loss of brand recognition and could require us to devote resources to advertising and marketing new brands.

We have limited patent protection, which limits our ability to protect our products from competition. We primarily rely on know-how to protect our products. It is possible that others will independently develop the same or similar know-how, which may allow them to sell products similar to ours. If others obtain access to our know-how, our confidentiality agreements may not effectively prevent disclosure of our proprietary information, technologies and processes and may not

provide an adequate remedy in the event of unauthorized use of such information, which could harm our competitive position.

The efforts we have taken to protect our proprietary rights may not be sufficient or effective. In addition, effective trademark, copyright, patent and trade secret protection may be unavailable or limited for certain of our intellectual property in some foreign countries. Other parties may infringe our intellectual property rights and may dilute our brands in the marketplace. We may need to engage in litigation or other activities to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others. Any such activities could require us to expend significant resources and divert the efforts and attention of our management and other personnel from our business operations. If we fail to protect our intellectual property or other proprietary rights, our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and other proprietary rights of third parties.

Our commercial success depends in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights, trade secrets and other proprietary rights of others. We cannot be certain that the conduct of our business does not and will not infringe, misappropriate or otherwise violate such rights. From time to time we receive allegations of trademark or patent infringement and third parties have filed claims against us with allegations of intellectual property infringement. In addition, third parties may involve us in intellectual property disputes as part of a business model or strategy to gain competitive advantage.

To the extent we gain greater visibility and market exposure as a public company or otherwise, we may also face a greater risk of being the subject of such claims and litigation. For these and other reasons, third parties may allege that our products or activities infringe, misappropriate, dilute or otherwise violate their trademark, patent, copyright or other proprietary rights. Defending against allegations and litigation could be expensive, occupy significant amounts of time, divert management's attention from other business concerns and have an adverse impact on our ability to bring products to market. In addition, if we are found to infringe, misappropriate, dilute or otherwise violate third-party trademark, patent, copyright or other proprietary rights, our ability to use brands to the fullest extent we plan may be limited, we may need to obtain a license, which may not be available on commercially reasonable terms, or at all, or we may need to redesign or rebrand our marketing strategies or products, which may not be possible.

We may also be required to pay substantial damages or be subject to an order prohibiting us and our retail customers from importing or selling certain products or engaging in certain activities. Our inability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and proprietary rights of others could have a material adverse effect on our business, financial condition and results of operations.

Our agreement with Alicia Keys for our Keys Soulcare brand may be terminated if specified conditions are not met.

We have an agreement with Alicia Keys regarding our Keys Soulcare brand, which, among other things, includes a license for her likeness and imposes various obligations on us. If we breach our obligations, our rights under the agreement could be terminated by Alicia Keys and we could, among other things, have to pay damages, lose our ability to associate the Keys Soulcare brand with her, lose our ability to sell products branded as Keys Soulcare, lose any upfront investments made in connection with the Keys Soulcare brand, and sustain reputational damage. Each of these risks could have an adverse effect on our business, results of operations and financial condition.

Risk factors related to marketing activities

Use of social media may materially and adversely affect our reputation or subject us to fines or other penalties.

We rely to a large extent on our online presence to reach consumers, and we offer consumers the opportunity to rate and comment on our products on our e-commerce websites and mobile applications. Negative commentary or false statements regarding us or our products may be posted on our e-commerce websites, mobile applications, or social media platforms and may be adverse to our reputation or business. Our target consumers often value readily available information and often act on such information without further investigation and without regard to its accuracy. The harm may be immediate without affording us an opportunity for redress or correction. In addition, we may face claims relating to information that is published or made available through the interactive features of our e-commerce websites and mobile applications. For example, we may receive third-party complaints that the comments or other content posted by users on our

platforms infringe third-party intellectual property rights or otherwise infringe the legal rights of others. While the Communications Decency Act (CDA) and Digital Millennium Copyright Act (DMCA) generally protect online service providers from claims of copyright infringement or other legal liability for the self-directed activities of its users, if it were determined that we did not meet the relevant safe harbor requirements under either law, we could be exposed to claims related to advertising practices, defamation, intellectual property rights, rights of publicity and privacy, and personal injury torts. We could incur significant costs investigating and defending such claims and, if we are found liable, significant damages. If any of these events occur, our business, financial condition and results of operations could be materially and adversely affected.

We also use third-party social media platforms as marketing tools. For example, we maintain Snapchat, Facebook, TikTok, Twitter, Pinterest, Instagram and YouTube accounts. As e-commerce and social media platforms continue to rapidly evolve, we must continue to maintain a presence on these platforms and establish presences on new or emerging popular social media platforms. If we are unable to cost-effectively use social media platforms as marketing tools, our ability to acquire new consumers and our financial condition may suffer. Furthermore, as laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could subject us to regulatory investigations, class action lawsuits, liability, fines or other penalties and have a material adverse effect on our business, financial condition and result of operations.

In addition, an increase in the use of social media for product promotion and marketing may cause an increase in the burden on us to monitor compliance of such materials and increase the risk that such materials could contain problematic product or marketing claims in violation of applicable regulations.

Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or an inability to timely deliver such communications could materially adversely affect our net revenue and business.

Our business is highly dependent upon email and other messaging services for promoting our brands, products and e-commerce platforms. We provide emails and “push” communications to inform consumers of new products, shipping specials and other promotions. We believe these messages are an important part of our consumer experience. If we are unable to successfully deliver emails or other messages to our subscribers, or if subscribers decline to open or read our messages, our business, financial condition and results of operations may be materially adversely affected. Changes in how web and mail services block, organize and prioritize email may reduce the number of subscribers who receive or open our emails. For example, Google’s Gmail service has a feature that organizes incoming emails into categories (for example, primary, social and promotions). Such categorization or similar inbox organizational features may result in our emails being delivered in a less prominent location in a subscriber’s inbox or viewed as “spam” by our subscribers and may reduce the likelihood of that subscriber reading our emails. Actions by third parties to block, impose restrictions on or charge for the delivery of emails or other messages could also adversely impact our business. From time to time, Internet service providers or other third parties may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to consumers.

Changes in the laws or regulations that limit our ability to send such communications or impose additional requirements upon us in connection with sending such communications would also materially adversely impact our business. For example, electronic marketing and privacy requirements in the European Union and the United Kingdom are highly restrictive and differ greatly from those in the United States. which could cause fewer of individuals in the European Union or the United Kingdom to subscribe to our marketing messages and drive up our costs and risk of regulatory oversight and fines if we are found to be non-compliant.

Our use of email and other messaging services to send communications to consumers may also result in legal claims against us, which may cause us increased expenses, and if successful might result in fines and orders with costly reporting and compliance obligations or might limit or prohibit our ability to send emails or other messages. We also rely on social networking messaging services to send communications and to encourage consumers to send communications. Changes to the terms of these social networking services to limit promotional communications, any restrictions that would limit our ability or our consumers’ ability to send communications through their services, disruptions or downtime experienced by these social networking services or decline in the use of or engagement with social networking services by consumers could materially and adversely affect our business, financial condition and results of operations.

Risk factors relating to our stockholders and ownership of our common stock

Our business could be negatively impacted by corporate citizenship and sustainability matters.

There is an increased focus from certain investors, customers, consumers, employees, and other stakeholders concerning corporate citizenship and sustainability matters. From time to time, we may announce certain initiatives, including goals, regarding our focus areas, which include environmental matters, packaging, responsible sourcing and social investments. We could fail, or be perceived to fail, in our achievement of such initiatives or goals, or we could fail in accurately reporting our progress on such initiatives and goals. In addition, we could be criticized for the scope of such initiatives or goals or perceived as not acting responsibly in connection with these matters. Any such matters, or related corporate citizenship and sustainability matters, could have a material adverse effect on our business, financial condition and results of operations.

Actions of activist stockholders could be costly and time-consuming, divert management's attention and resources, and have an adverse effect on our business.

While we value open dialogue and input from our stockholders, activist stockholders could take actions that could be costly and time-consuming to us, disrupt our operations, and divert the attention of our board of directors, management, and employees, such as public proposals and requests for potential nominations of candidates for election to our board of directors, requests to pursue a strategic combination or other transaction, or other special requests. As a result, we have retained, and may in the future retain additional services of various professionals to advise us in these matters, including legal, financial and communications advisers, the costs of which may negatively impact our future financial results. In addition, perceived uncertainties as to our future direction, strategy, or leadership created as a consequence of activist stockholder initiatives may result in the loss of potential business opportunities, harm our ability to attract new or retain existing investors, customers, directors, employees or other partners, and cause our stock price to experience periods of volatility or stagnation.

Because we have no current plans to pay cash dividends on our common stock, stockholders may not receive any return on investment unless they sell our common stock for a price greater than that which they paid for it.

We have no current plans to pay cash dividends on our common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, including restrictions under the Amended Credit Agreement and other indebtedness we may incur, and such other factors as our board of directors may deem relevant.

Stockholders may be diluted by the future issuance of additional common stock in connection with our incentive plans, acquisitions or otherwise.

We had approximately 198.4 million shares of common stock authorized but unissued and 51,649,915 shares of common stock outstanding as of May 14, 2021. Our amended and restated certificate of incorporation authorizes us to issue these shares of common stock and stock options exercisable for common stock (and other equity awards) for the consideration and on the terms and conditions established by our board of directors in its sole discretion, whether in connection with acquisitions or otherwise. Any common stock that we issue, including under our existing equity incentive plans or any additional equity incentive plans that we may adopt in the future, would dilute the percentage ownership held by existing investors.

Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that stockholders might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. Among other things:

- although we do not have a stockholder rights plan, these provisions allow us to authorize the issuance of undesignated preferred stock in connection with a stockholder rights plan or otherwise, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super

voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;

- these provisions provide for a classified board of directors with staggered three-year terms;
- these provisions require advance notice for nominations of directors by stockholders and for stockholders to include matters to be considered at our annual meetings;
- these provisions prohibit stockholder action by written consent;
- these provisions provide for the removal of directors only for cause and only upon affirmative vote of holders of at least 75% of the shares of common stock entitled to vote generally in the election of directors; and
- these provisions require the amendment of certain provisions only by the affirmative vote of at least 75% of the shares of common stock entitled to vote generally in the election of directors.

Further, as a Delaware corporation, we are also subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for other stockholders to elect directors of their choosing and to cause us to take other corporate actions they may desire.

We are no longer an emerging growth company and the reduced compliance requirements applicable to emerging growth companies no longer apply to us.

We no longer qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") and as such we no longer are entitled to rely on exemptions from certain compliance requirements that are applicable to companies that are emerging growth companies. As a result, we are now required to:

- engage an independent registered public accounting firm to report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act");
- submit certain executive compensation matters to stockholder advisory votes, such as "say-on-pay," "say-on-frequency" and "say-on-golden parachutes;" and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer's compensation to median employee compensation.

We are no longer able to continue to take advantage of cost savings associated with the JOBS Act. Furthermore, if the additional requirements applicable to non-emerging growth companies divert the attention of our management and personnel from other business concerns, they could have a material adverse effect on our business, financial condition and results of operations. The increased costs will decrease our net income or increase our net loss and may require us to reduce costs in other areas of our business. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. Furthermore, if we are unable to satisfy our obligations as a non-emerging growth company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

Our board of directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.

Our amended and restated certificate of incorporation authorizes our board of directors, without the approval of our stockholders, to issue up to 30 million shares of our preferred stock, subject to limitations prescribed by applicable law, rules and regulations and the provisions of our amended and restated certificate of incorporation, as shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The powers, preferences and rights of these additional series of preferred stock may be senior to or on parity with our common stock, which may reduce its value.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation and amended and restated bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. This provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find this provision in our amended and restated certificate of incorporation and amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

General risk factors

The United Kingdom's withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

On December 31, 2020, the United Kingdom formally withdrew from the European Union and on January 1, 2021, the United Kingdom left the EU Single Market and Customs Union.

We are now subject to the UK GDPR, which, together with the amended UK Data Protection Act 2018, retains the GDPR in United Kingdom law, including mirroring the fines for non-compliance in the GDPR (e.g., fines up to the greater of 17.5 million British pounds or 4% of annual global revenue). Thus, if a regulatory issue arises in both the European Union and the United Kingdom (e.g., a breach that affected both residents of the EEA and the United Kingdom), then the Company could be subject to receiving fines for any material non-compliance from both the European Union and the United Kingdom.

The United Kingdom has ratified a trade and cooperation agreement governing its future relationship with the European Union. The agreement addresses trade, economic arrangements, law enforcement, judicial cooperation and a governance framework including procedures for dispute resolution, among other things. Because the agreement merely sets forth a framework in many respects and will require complex additional bilateral negotiations between the United Kingdom and the European Union as both parties continue to work on the rules for implementation, significant political and economic uncertainty remains about how the precise terms of the relationship between the parties will differ from the terms before withdrawal.

The withdrawal of the United Kingdom from the European Union and developments related to such withdrawal, or the perception that any related developments could occur, have had and may continue to have a material adverse effect on global economic conditions and financial markets, and may significantly reduce global market liquidity, restrict the ability of key market participants to operate in certain financial markets, affect trade between the United Kingdom and the European Union, or restrict our access to capital. For example, potential new restricted economic terms or additional bureaucratic requirements in free trade between the United Kingdom and the European Union, such as new customs or regulatory checks, including rules of origin and stringent local content requirements, could negatively impact fulfillment times, increase our costs, result in a decrease in sales, or cause us to lose customers in the European Union and the United Kingdom. Any of these factors could materially and adversely affect our business, financial condition and results of operations.

Volatility in the financial markets could have a material adverse effect on our business.

While we currently generate cash flows from our ongoing operations and have had access to credit markets through our various financing activities, credit markets may experience significant disruptions. Deterioration in global financial markets could make future financing difficult or more expensive. If any financial institution party to our credit facilities or other financing arrangements were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity, which could have a material adverse effect on our business, financial condition and results of operations.

An active trading market for our common stock may not be sustained, and the market price of shares of our common stock may be volatile, which could cause the value of your investment to decline.

Although our common stock is listed on the NYSE, there can be no assurances that an active trading market for our common stock will be sustained. In the absence of an active trading market for our common stock, stockholders may not be able to sell their common stock at the time or price they would like to sell.

Even if an active trading market is sustained, the market price of our common stock may be highly volatile and could be subject to wide fluctuations. Securities markets often experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our common stock in spite of our operating performance. In addition, our results of operations could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly results of operations, additions or departures of key management personnel, changes in consumer preferences or beauty trends, announcements of new products or significant price reductions by our competitors, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments, adverse publicity about our industry, the level of success of releases of new products and the number of stores we open, close or convert in any period, and in response the market price of shares of our common stock could decrease significantly.

In addition, in May 2019, we announced that our board of directors authorized a share repurchase program allowing us to repurchase up to \$25 million of our outstanding shares of common stock ("Share Repurchase Program"). Purchases under the Share Repurchase Program may be made from time to time in the open market, in privately negotiated transactions or otherwise. The timing and amount of any repurchases pursuant to the Share Repurchase Program will be determined based on market conditions, share price and other factors. The Share Repurchase Program may be suspended or discontinued at any time and there is no guarantee that any shares will be purchased under the Share Repurchase Program.

In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Future sales, or the perception of future sales, by us or our stockholders in the public market could cause the market price for our common stock to decline.

The sale of substantial amounts of shares of our common stock in the public market, or the perception that such sales could occur could harm the prevailing market price of shares of our common stock. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

The holders of up to 4,531,672 shares of our common stock, or approximately 9% of our outstanding common stock based on shares outstanding as of May 14, 2021, are entitled to rights with respect to registration of such shares under the Securities Act pursuant to a registration rights agreement. In addition, certain family trusts of our Chairman and Chief Executive Officer, Tarang Amin, have the right, subject to certain conditions, to require us to file registration statements covering its or their shares.

In addition, all the shares of common stock subject to stock options and restricted stock units and shares of restricted stock awards outstanding and reserved under our 2014 Equity Incentive Plan, our 2016 Equity Incentive Award Plan and our 2016 Employee Stock Purchase Plan have been registered on Form S-8 under the Securities Act and such shares, once the underlying equity award vests, will be eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates. We intend to file one or more registration statements on Form S-8 to cover additional shares of our common stock or securities convertible into or exchangeable for shares of our common stock pursuant to automatic increases in the number of shares reserved under our 2016 Equity Incentive Award Plan and our 2016 Employee Stock Purchase Plan. Accordingly, shares registered under these registration statements on Form S-8 will be available for sale in the open market.

As restrictions on resale end, the market price of shares of our common stock could drop significantly if the holders of these restricted shares sell them or are perceived by the market as intending to sell them. These factors could also make it more difficult for us to raise additional funds through future offerings of shares of our common stock or other securities.

If securities analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

Item 1B. Unresolved staff comments.

None.

Item 2. Properties.

Our principal executive offices are located in Oakland, California. We also occupy offices, manufacturing facilities, distribution centers and retail store in the United States and abroad, as indicated below.

| Location/Facility | Leased/Owned | Use |
|------------------------------|--------------|------------------------------|
| Oakland, California | Leased | Corporate headquarters |
| New York, New York | Leased | Corporate offices |
| Los Angeles, California | Leased | Corporate offices |
| Fairfield, New Jersey | Leased | Corporate offices |
| Shanghai, China | Leased | Corporate offices |
| Ontario, California | Leased | Distribution |
| Rancho Cucamonga, California | Leased | Manufacturing ⁽¹⁾ |
| Austin, Texas | Leased | Retail |

⁽¹⁾ The Company closed its manufacturing plant during the fourth quarter of the year ended March 31, 2021. See Note 15 Restructuring and other related costs to consolidated financial statements in Part IV, Item 15 “Exhibits, financial statement schedules” under the heading “2021 Restructuring Plan.”

We also use a distribution center located in Columbus, Ohio that is operated by a third-party.

Our properties total an aggregate of approximately 46,468 square feet of commercial space, approximately 25,350 square feet for manufacturing and approximately 257,515 square feet of commercial space for our distribution center.

All of our properties are leased. The leases expire at various times through 2030, subject to renewal options. We consider our properties to be generally in good condition and believe that our existing facilities are adequate to support our existing operations.

Item 3. Legal proceedings.

We are from time to time subject to, and are presently involved in, litigation and other proceedings. We believe that there are no pending lawsuits or claims that, individually or in the aggregate, may have a material adverse effect on our business, financial condition or results of operations.

Item 4. Mine safety disclosures.

None.

PART II

Item 5. Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities.

Market information for common stock.

Our common stock began trading on the NYSE under the symbol "ELF" on September 22, 2016. Prior to that date, there was no public trading market for our common stock. On May 14, 2021, the closing price for our common stock as reported by the NYSE was \$28.86.

Holders of record

As of May 14, 2021, the approximate number of common stockholders of record was 17. This number does not include beneficial owners whose shares are held by nominees in street name.

Dividends

There were no dividends declared or paid during the year ended March 31, 2021. Since our initial public offering on September 21, 2016, we have never declared or paid cash dividends on our capital stock. We intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business and we do not anticipate paying any cash dividends in the foreseeable future. In addition, the Amended Credit Agreement limits our ability to pay dividends to our stockholders.

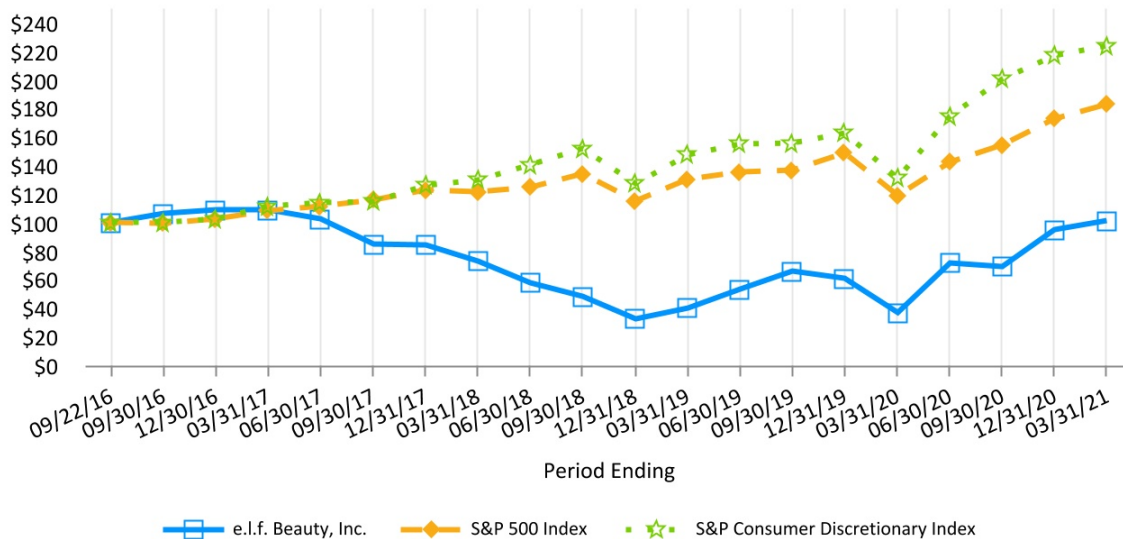
Any future determination related to dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

Stock performance graph

The following performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or the Exchange Act, each as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing, or otherwise subject to the liabilities under the Securities Act of 1933 or Exchange Act, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph compares the total cumulative stockholder return on our common stock with the S&P 500 Stock Index and the S&P Consumer Discretionary Index for the period covering September 22, 2016, the first day of trading on the NYSE for our common stock, through March 31, 2021. The graph assumes an investment of \$100 made at the closing of trading on September 22, 2016 in (i) our common stock, (ii) the stocks comprising the S&P 500 Index and (iii) the stocks comprising the S&P 500 Consumer Discretionary Index. All values assume reinvestment of the full amount of all dividends. The performance shown on the graph below is not intended to forecast or be indicative of possible future performance of our common stock.

Total Cumulative Stockholder Return



| \$100 investment in stock or index | 9/22/16 | 9/30/16 | 12/31/16 | 3/31/17 | 6/30/17 | 9/30/17 | 12/31/17 | 3/31/18 | 6/30/18 | 9/30/18 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| e.l.f. Beauty, Inc. (ELF) | \$ 100.00 | \$ 106.11 | \$ 109.21 | \$ 108.68 | \$ 102.68 | \$ 85.09 | \$ 84.19 | \$ 73.09 | \$ 57.51 | \$ 48.04 |
| S&P 500 Index (GSPC) | \$ 100.00 | \$ 99.59 | \$ 102.83 | \$ 108.52 | \$ 111.31 | \$ 115.72 | \$ 122.80 | \$ 121.30 | \$ 124.86 | \$ 133.84 |
| S&P 500 Consumer Discretionary Index (S5COND) | \$ 100.00 | \$ 100.23 | \$ 102.54 | \$ 111.21 | \$ 113.82 | \$ 114.78 | \$ 126.10 | \$ 130.01 | \$ 140.63 | \$ 152.13 |

| \$100 investment in stock or index | 12/31/18 | 3/31/19 | 6/30/19 | 9/30/19 | 12/31/19 | 3/31/20 | 6/30/20 | 9/30/20 | 12/31/20 | 3/31/21 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| e.l.f. Beauty, Inc. (ELF) | \$ 32.68 | \$ 40.00 | \$ 53.21 | \$ 66.08 | \$ 60.87 | \$ 37.13 | \$ 71.96 | \$ 69.32 | \$ 95.06 | \$ 101.25 |
| S&P 500 Index (GSPC) | \$ 115.14 | \$ 130.19 | \$ 135.12 | \$ 136.72 | \$ 148.39 | \$ 118.71 | \$ 142.40 | \$ 154.47 | \$ 172.52 | \$ 182.48 |
| S&P 500 Consumer Discretionary Index (S5COND) | \$ 127.15 | \$ 147.15 | \$ 154.92 | \$ 155.71 | \$ 162.68 | \$ 131.30 | \$ 174.43 | \$ 200.71 | \$ 216.85 | \$ 223.59 |

Recent sales of unregistered securities

None

Purchases of equity securities by the issuer and affiliated purchasers

In May 2019, we announced that our board of directors authorized the Share Repurchase Program, which authorizes us to repurchase up to \$25 million of our outstanding shares of common stock. The Share Repurchase Plan remains in effect through the earlier of (i) the date that \$25 million of our outstanding common stock has been purchased under the Share Repurchase Plan or (ii) the date that our board of directors cancels the Share Repurchase Plan.

We did not repurchase any shares during the three months ended March 31, 2021, including pursuant to the Share Repurchase Program. A total of \$17.1 million remains available for purchase under the Share Repurchase Program as of March 31, 2021.

Item 6. Selected financial data.

The following table presents our selected consolidated financial data for the periods and as of the dates indicated. The following financial information should be read in conjunction with Part II, Item 7 “Management’s discussion and analysis of financial condition and results of operations” and our audited consolidated financial statements and the related notes thereto included elsewhere in this Annual Report.

| (dollars in thousands, except share and per share amounts) | Year ended March 31, | | Three months ended March 31, 2019 (transition period) | Year ended December 31, | | |
|--|----------------------|------------|---|-------------------------|------------|------------|
| | 2021 | 2020 | | 2018 | 2017 | 2016 |
| Statement of operations data: | | | | | | |
| Net sales | \$ 318,110 | \$ 282,851 | \$ 66,141 | \$ 267,435 | \$ 269,888 | \$ 229,567 |
| Gross profit | 206,198 | 181,123 | 40,491 | 162,741 | 164,725 | 132,235 |
| Operating income (loss) | 9,400 | 29,950 | (19,009) | 26,162 | 33,279 | 23,079 |
| Other (expense) income, net | (1,620) | 426 | (315) | (390) | (2,035) | 3,016 |
| Interest expense, net | (4,090) | (6,307) | (1,849) | (7,816) | (8,775) | (16,283) |
| Income (loss) before provision for income taxes | 3,690 | 24,069 | (21,173) | 17,956 | 22,469 | 9,812 |
| Income tax benefit (provision) | 2,542 | (6,185) | 3,259 | (2,431) | 11,006 | (4,499) |
| Net income (loss) | \$ 6,232 | \$ 17,884 | \$ (17,914) | \$ 15,525 | \$ 33,475 | \$ 5,313 |
| Net income (loss) per share - basic | \$ 0.13 | \$ 0.37 | \$ (0.37) | \$ 0.33 | \$ 0.74 | \$ (39.47) |
| Net income (loss) per share - diluted | \$ 0.12 | \$ 0.35 | \$ (0.37) | \$ 0.32 | \$ 0.68 | \$ (39.47) |
| Other data: | | | | | | |
| Depreciation and amortization | \$ 21,078 | \$ 20,222 | \$ 10,520 | \$ 17,861 | \$ 14,521 | \$ 13,152 |
| Capital expenditures | 6,474 | 9,422 | 3,762 | 8,872 | 7,544 | 9,223 |

| (dollars in thousands) | March 31, 2021 | March 31, 2020 | March 31, 2019 | December 31, 2018 | December 31, 2017 | December 31, 2016 |
|---|----------------|----------------|----------------|-------------------|-------------------|-------------------|
| Balance sheet data: | | | | | | |
| Cash and cash equivalents | \$ 57,768 | \$ 46,167 | \$ 53,874 | \$ 51,205 | \$ 10,059 | \$ 15,295 |
| Net working capital ⁽¹⁾ | 39,045 | 35,070 | 38,265 | 47,523 | 62,224 | 29,339 |
| Property and equipment, net | 13,770 | 17,171 | 16,006 | 21,804 | 18,037 | 17,151 |
| Total assets | 487,393 | 453,104 | 431,688 | 435,856 | 417,244 | 414,729 |
| Finance leases | 2,200 | 3,012 | 3,783 | 3,982 | 2,374 | 2,766 |
| Debt, including current maturities ⁽²⁾ | 124,336 | 135,644 | 144,501 | 146,402 | 153,974 | 162,061 |
| Total liabilities | 217,747 | 210,933 | 216,473 | 206,525 | 223,381 | 273,867 |
| Total stockholders' equity | \$ 269,646 | \$ 242,171 | \$ 215,215 | \$ 229,331 | \$ 193,863 | \$ 140,862 |

⁽¹⁾ Net working capital is defined as current assets, excluding cash and cash equivalents, minus current liabilities.

⁽²⁾ Total bank debt, including current maturities, is net of \$0.3 million, \$0.2 million, \$0.3 million, \$0.3 million, \$0.4 million and \$0.6 million of debt issuance costs as of March 31, 2021, March 31, 2020, March 31, 2019, December 31, 2018, December 31, 2017 and December 31, 2016, respectively.

Item 7. Management’s discussion and analysis of financial condition and results of operations.

You should read the following discussion and analysis of our financial condition and results of operations together with “Selected financial data” and our consolidated financial statements and related notes thereto included elsewhere in this Annual Report.

Overview and Business Trends

The Company is a multi-brand beauty company that offers inclusive, accessible, cruelty-free cosmetics and skin-care products. Our mission is to make the best of beauty accessible to every eye, lip and face.

We believe our ability to deliver 100% cruelty-free, premium-quality products at accessible prices with broad appeal differentiates us in the beauty industry. We believe the combination of our fundamental value equation, digitally-led strategy, as well as our world-class team’s ability to execute with speed, has positioned us well to navigate a rapidly changing landscape in beauty.

Our family of brands includes e.l.f. Cosmetics, W3LL PEOPLE and Keys Soulcare. Our brands are available online and across leading beauty, mass-market, and clean-beauty specialty retailers. We have strong relationships with our retail partners such as Walmart, Target, Ulta Beauty and other leading retailers that have enabled us to expand distribution both domestically and internationally.

For additional information regarding our business, see Part I, Item 1, “Business.”

COVID-19 Pandemic

The color cosmetics and skin care categories and our business were impacted in the year ended March 31, 2021 by the COVID-19 pandemic. There could be continued impact on these categories and our business results until consumers return to normal shopping patterns. In addition, a current vessel and container shortage globally could delay future inventory receipts and, in turn, could delay deliveries to our retailers and availability of products in our direct-to-consumer e-commerce channel or could increase our shipping costs. Such potential delays and shipping disruptions could negatively impact our results of operations through higher inventory costs and reduced sales. Throughout the COVID-19 pandemic we have focused on the following areas to address the impact on our business: i) supporting the health and safety of our employees and community; ii) minimizing disruption to the supply chain; and iii) keeping adequate levels of liquidity and flexibility within the our credit facilities.

Tariffs

Tariffs have impacted the majority of products that we import from China. Despite the signing of a Phase One trade agreement between the United States and China, the majority of our products remain impacted by increased tariffs. To mitigate the financial impact of these tariffs on our results of operations, we selectively increased prices on certain of our products in July 2019. We also implemented various other tariff mitigation initiatives including, but not limited to, negotiating lower prices with our suppliers in China and exploring potential new suppliers outside of China. In addition, favorable movements in foreign exchange rates and shifting product mix toward margin accretive innovation helped to partially offset to the impact of the tariffs on our gross margin.

Components of our results of operations and trends affecting our business

Net sales

We develop, market and sell beauty products under the e.l.f. Cosmetics, W3LL PEOPLE and Keys Soulcare brands. Our net sales are derived from sales of these beauty products, net of provisions for sales discounts and allowances, product returns, markdowns and price adjustments.

Year over year changes in net sales is driven by a number of factors, including color cosmetics and skin care category performance, levels of consumer spending, and our ability to drive awareness of and demand for our products. Within our existing retailer accounts, we are able to drive growth by expanding space and door penetration and increasing sales per linear foot, supported by our continued innovation, including our ability to introduce new first-to-mass products in both existing and adjacent categories. While we have distribution with a number of key retail accounts, we expect to continue

to grow through improved sales per linear foot in our existing space, expanded space allocation with our current retail accounts, as well as adding new retail customers.

Our business faces challenges and uncertainties, including our ability to introduce new products that will appeal to a broad consumer base, our ability to service demand, the ability of our major retail customers to drive traffic and keep products in stock, our ability to continue to grow our customer base and competitive threats from other beauty companies.

Our largest two customers accounted for 26% and 22%, respectively, of our net sales in the year ended March 31, 2021. No other individual customer accounted for 10% or more of our net sales in the year ended March 31, 2021. National and international retailers comprised 86% of our net sales in the year ended March 31, 2021. The remaining 14% came from our direct-to-consumer e-commerce channels.

The primary market for our products is the United States, which accounted for 89% of our net sales in the year ended March 31, 2021. The remaining 11% was attributable to international markets, primarily Canada and the United Kingdom.

Gross profit

Gross profit is our net sales less cost of sales. Cost of sales includes the aggregate costs to procure our products, including the amounts invoiced by our third-party contract manufacturers for finished goods as well as costs related to transportation to our distribution center, customs and duties. Cost of sales also includes the effect of changes in the balance of reserves for excess and obsolete inventory. Gross margin measures our gross profit as a percentage of net sales.

We have an extensive network of third-party manufacturers (primarily in China) from whom we purchase substantially all of our finished goods. We have worked to evolve our supply chain to increase capacity and technical capabilities while maintaining or reducing overall costs as a percentage of sales.

Historically, we have improved our gross margin largely through changes in our product mix, pricing, purchasing efficiencies and cost reductions in our supply chain, and expect to continue leveraging our innovation and sourcing capabilities in future periods. Other drivers of changes in gross margin include fluctuations in exchange rates, changes in customer mix, and changes in the balance of reserves for excess and obsolete inventory, among other things, which may offset the benefit of changes in product mix, pricing, purchasing efficiencies and cost reductions.

Selling, general and administrative

Our selling, general and administrative (“SG&A”) expenses primarily consist of personnel-related expenses, including salaries, bonuses, fringe benefits and stock-based compensation, marketing and digital expenses, warehousing and distribution costs, costs related to merchandising, depreciation of property and equipment, amortization of retail product displays and amortization of intangible assets. See “Critical Accounting Policies and Estimates-Stock-based Compensation” below for more detail regarding stock-based compensation.

Interest expense, net

Interest expense primarily consists of cash interest and fees on our outstanding indebtedness. See “Financial condition, liquidity and capital resources” below and a description of our indebtedness in Note 10 to the Notes to consolidated financial statements in Part IV, Item 15 “Exhibits, financial statement schedules”.

Other income (expense), net

Our purchases are largely in Chinese Renminbi (RMB), and, as such, we are exposed to periodic fluctuations in that currency. Other income (expense), net is primarily related to foreign exchange rate movements.

Income tax (provision) benefit

The provision for income taxes represents federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local income taxes and certain permanent tax adjustments. Our effective tax rate will change from quarter to quarter based on recurring and nonrecurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax audit settlements, the interaction of various tax strategies and the impact of permanent tax adjustments, such as those related to stock based compensation.

On March 27, 2020, the CARES Act was signed into law making several changes to the Internal Revenue Code. The changes include, but are not limited to, increasing the limitation on the amount of deductible interest expense, allowing companies to carryback certain net operating losses and increasing the amount of net operating loss carryforwards that corporations can use to offset taxable income. The tax law changes in the CARES Act did not have a material impact on our income tax provision.

Net income (loss)

Our net income (loss) for future periods will be affected by the various factors described above.

Results of operations

The following table sets forth our consolidated statements of operations data in dollars and as a percentage of net sales for the periods presented. Results for the twelve months ended March 31, 2019 were derived from our quarterly consolidated statements of operations as previously reported.

| | Year ended March 31, | | Twelve months ended March | Year ended December 31, |
|---|----------------------|------------|---------------------------|-------------------------|
| | 2021 | 2020 | 31, 2019 | 2018 |
| Net sales | \$ 318,110 | \$ 282,851 | \$ 267,656 | \$ 267,435 |
| Cost of sales | 111,912 | 101,728 | 104,632 | 104,694 |
| Gross profit | 206,198 | 181,123 | 163,024 | 162,741 |
| Selling, general, and administrative expenses | 194,157 | 157,155 | 137,669 | 136,579 |
| Restructuring expense (income) | 2,641 | (5,982) | 22,176 | — |
| Operating income | 9,400 | 29,950 | 3,179 | 26,162 |
| Other (expense) income, net | (1,620) | 426 | 183 | (390) |
| Interest expense, net | (4,090) | (6,307) | (7,702) | (7,816) |
| Income (loss) before provision for income taxes | 3,690 | 24,069 | (4,340) | 17,956 |
| Income tax benefit (provision) | 2,542 | (6,185) | 1,261 | (2,431) |
| Net income (loss) | \$ 6,232 | \$ 17,884 | \$ (3,079) | \$ 15,525 |
| Comprehensive income (loss) | \$ 6,232 | \$ 17,884 | \$ (3,079) | \$ 15,525 |

| (percentage of net sales) | Year ended March 31, | | Twelve months ended March | Year ended December 31, |
|---|----------------------|-------|---------------------------|-------------------------|
| | 2021 | 2020 | 31, 2019 | 2018 |
| Net sales | 100 % | 100 % | 100 % | 100 % |
| Cost of sales | 35 % | 36 % | 39 % | 39 % |
| Gross profit | 65 % | 64 % | 61 % | 61 % |
| Selling, general, and administrative expenses | 61 % | 56 % | 51 % | 51 % |
| Restructuring expense (income) | 1 % | (2)% | 8 % | — % |
| Operating income | 3 % | 11 % | 1 % | 10 % |
| Other (expense) income, net | (1)% | — % | — % | — % |
| Interest expense, net | (1)% | (2)% | (3)% | (3)% |
| Income (loss) before provision for income taxes | 1 % | 9 % | (2)% | 7 % |
| Income tax benefit (provision) | 1 % | (2)% | — % | (1)% |
| Net income (loss) | 2 % | 6 % | (1)% | 6 % |
| Comprehensive income (loss) | 2 % | 6 % | (1)% | 6 % |

Comparison of the year ended March 31, 2021 to the year ended March 31, 2020

Net sales

Net sales increased \$35.3 million, or 12%, to \$318.1 million in the year ended March 31, 2021, from \$282.9 million in the year ended March 31, 2020. The increase was driven by strength in e-commerce, international, and our

national retailers. Net sales increased \$18.1 million, or 7% in our retailer channels and \$17.0 million, or 64% in our e-commerce channels.

Gross profit

Gross profit increased \$25.1 million, or 14%, to \$206.2 million in the year ended March 31, 2021, compared to \$181.1 million in the year ended March 31, 2020. Increased volume accounted for approximately \$22.6 million of the increase in gross profit, with the remaining \$2.5 million driven by an increase in gross margin rate. The increase in gross margin rate was driven by benefits from margin accretive innovation, cost savings, a mix shift to elfcosmetics.com, and price increases partially offset by certain costs related to retailer activity and space expansion, an increase in inventory adjustments, and the impact of tariffs on goods imported from China in the year ended March 31, 2021. The net of these drivers resulted in an 80 basis point increase in gross margin, which increased from 64% in the year ended March 31, 2020 to 65% in the year ended March 31, 2021.

Selling, general and administrative expenses

SG&A expenses were \$194.2 million in the year ended March 31, 2021, an increase of \$37.0 million, or 24%, from \$157.2 million in the year ended March 31, 2020. SG&A expenses as a percentage of net sales increased to 61% for the year ended March 31, 2021 from 56% in the year ended March 31, 2020. The increase was primarily related to marketing and digital, including costs related to advertising, digital, and organizational costs related to building out our marketing, digital and innovation capabilities of \$22.0 million. Additionally, we experienced increased operational costs mainly driven by the increase in e-commerce sales of \$6.9 million.

Restructuring expense (income)

Restructuring expenses were \$2.6 million in the year ended March 31, 2021, consisting of charges related to the closure of our manufacturing facility in California. See Note 15 Restructuring and other related costs to consolidated financial statements in Part IV, Item 15 "Exhibits, financial statement schedules" for further details.

Restructuring income in the year ended March 31, 2020 related to the exit of our stand-alone e.l.f. retail stores business in February 2019 and included a \$7.7 million gain related to operating leases that were settled for less than their aggregate lease liabilities.

We settled all outstanding lease liabilities related to our e.l.f. retail store closures as of March 31, 2020 and we do not expect to incur additional material costs associated with our e.l.f. retail store closures.

Other income (expense), net

Other income (expense), net was \$1.6 million of expense in the year ended March 31, 2021, as compared to \$0.4 million of income in the year ended March 31, 2020. The change was primarily related to foreign exchange rate movements.

Interest expense, net

Interest expense decreased \$2.2 million, or 35%, to \$4.1 million in the year ended March 31, 2021, as compared to \$6.3 million in the year ended March 31, 2020. This decrease was due to a reduction in our long-term debt as well as a decline in interest rates.

Income tax benefit (provision)

The provision for income taxes decreased from an expense of \$6.2 million, or an effective tax rate of 26%, for the year ended March 31, 2020, to a benefit of \$2.5 million, or an effective tax rate of (69)%, for the year ended March 31, 2021. The change in the provision for income taxes was primarily driven by a decrease in income before taxes of \$20.4 million and an increase in one-time tax benefits of \$3.7 million, primarily related to stock-based compensation.

Comparison of the year ended March 31, 2020 to twelve months ended March 31, 2019

Net sales

Net sales increased \$15.2 million, or 6%, to \$282.9 million in the year ended March 31, 2020, from \$267.7 million in the twelve months ended March 31, 2019. The increase was primarily driven by increased productivity across our retail and

e-commerce channels. The increased productivity in our retail channel was largely seen through improved sales growth within Nielsen-tracked channel customers, and via e-commerce through sales growth on elfcosmetics.com. Net sales increased \$25.9 million, or 11%, and \$1.4 million, or 7% in our retail and e-commerce channels, respectively. These increases were partially offset by the closing of all 22 e.l.f. retail stores in February 2019, which generated net sales of approximately \$12.1 million during the twelve months ended March 31, 2019.

Gross profit

Gross profit increased \$18.1 million, or 11%, to \$181.1 million in the year ended March 31, 2020, compared to \$163.0 million in the twelve months ended March 31, 2019. Increased volume accounted for approximately \$9.3 million of the increase in gross profit, with the remaining \$8.8 million driven by an increase in gross margin rate. The increase in gross margin rate was driven by a combination of margin accretive innovation, cost savings, price increases, favorable movements in foreign exchange rates and an increase in inventory adjustments in the twelve months ended March 31, 2019. These factors were partially offset by higher sales adjustments and the impact of tariffs on goods imported from China. These drivers resulted in a 300 basis point increase in gross margin, which increased from 61% in the twelve months ended March 31, 2019 to 64% in the year ended March 31, 2020.

Selling, general and administrative expenses

SG&A expenses were \$157.2 million in the year ended March 31, 2020, an increase of \$19.5 million, or 14%, from \$137.7 million in the twelve months ended March 31, 2019. SG&A expenses as a percentage of net sales increased to 56% for the year ended March 31, 2020 from 51% in the twelve months ended March 31, 2019. The increase was primarily due to investments in marketing and digital expenses of \$17.0 million. Increased bonus expense, investment in merchandising programs, and increased depreciation expenses driven by customer fixture programs added an additional \$8.1 million of expense. These increases were partially offset by the closure of e.l.f. retail stores, which totaled \$5.8 million for the twelve months ended March 31, 2019.

Restructuring income

Activities related to the exit of our stand-alone e.l.f. retail stores business in February 2019 generated income of \$6.0 million for the year ended March 31, 2020 and included a \$7.7 million gain related to operating leases that were settled for less than their aggregate lease liabilities. The remainder of restructuring expense consisted of \$1.8 million in other costs, which were primarily legal fees related to these extinguishments.

Other income (expense), net

Other income (expense), net was \$0.4 million in the year ended March 31, 2020, an increase of \$0.2 million versus the twelve months ended March 31, 2019. The change was primarily related to foreign exchange rate movements.

Interest expense, net

Interest expense decreased \$1.4 million, or 18%, to \$6.3 million in the year ended March 31, 2020, as compared to \$7.7 million in the twelve months ended March 31, 2019. This decrease was primarily due to an increase in interest income generated on our cash and cash equivalents, in addition to a reduction in our long-term debt.

Income tax benefit (provision)

The provision for income taxes increased from a benefit of \$1.3 million, or an effective tax rate of 29%, for the twelve months ended March 31, 2019 to expense of \$6.2 million, or an effective tax rate of 26%, for the year ended March 31, 2020. The change in the provision for income taxes was primarily driven by an increase in income before taxes of \$28.4 million and a decrease in one-time tax benefits of \$1.0 million, primarily related to the Company's provision-to-return adjustment for the period ending December 31, 2017, which was recorded during fiscal 2019.

Comparison of the year ended March 31, 2020 to the year ended December 31, 2018

A comparison of the year ended March 31, 2020 to the year ended December 31, 2018 may be found in Part II, Item 7, of the Company's Annual Report on Form [10-K](#) for the year ended March 31, 2020, as amended.

Financial condition, liquidity and capital resources

Overview

As of March 31, 2021, we held \$57.8 million of cash and cash equivalents. In addition, as of March 31, 2021, we had borrowing capacity of \$49.8 million under the Prior Revolving Credit Facility (as defined under the heading "Description of indebtedness").

Our primary cash needs are for capital expenditures, retail product displays and working capital. Capital expenditures typically vary depending on strategic initiatives selected for the fiscal year, including investments in infrastructure, digital capabilities, and expansion within or to additional retailer store locations. We expect to fund ongoing capital expenditures from existing cash on hand, cash generated from operations and, if necessary, draws on the Amended Revolving Credit Facility (as defined below in Part II, Item 7 "Management's discussion and analysis of financial condition and results of operations" under the heading "Description of indebtedness").

Our primary working capital requirements are for product and product-related costs, payroll, rent, distribution costs and advertising and marketing. Fluctuations in working capital are primarily driven by the timing of when a retailer rearranges or restocks its products, expansion of space within our existing retailer base and the general seasonality of our business. As of March 31, 2021, we had working capital, excluding cash, of \$39.0 million, compared to \$35.1 million as of March 31, 2020. Working capital, excluding cash and debt, was \$55.3 million and \$47.6 million as of March 31, 2021 and March 31, 2020, respectively.

We believe that our operating cash flow, cash on hand and available financing under the Amended Revolving Credit Facility will be adequate to meet our planned operating, investing and financing needs for the next twelve months. If necessary, we can borrow funds under the Amended Revolving Credit Facility to finance our liquidity requirements, subject to customary borrowing conditions. To the extent additional funds are necessary to meet our long-term liquidity needs as we continue to execute our business strategy, we anticipate that they will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds; however, such financing may not be available on favorable terms, or at all. Our ability to meet our operating, investing and financing needs depends to a significant extent on our future financial performance, which will be subject in part to general economic, competitive, financial, regulatory and other factors that are beyond our control, including those described elsewhere in Part II, Item 1A "Risk factors". In addition to these general economic and industry factors, the principal factors in determining whether our cash flows will be sufficient to meet our liquidity requirements will be our ability to provide innovative products to our consumers and manage production and our supply chain.

Cash flows

| (in thousands) | Year ended March 31, | | Three months ended March | Year ended |
|----------------------------------|----------------------|------------|------------------------------------|----------------------|
| | 2021 | 2020 | 31, (transition period) 2019 | December 31, 2018 |
| Net cash provided by (used in): | | | | |
| Operating activities | \$ 29,475 | \$ 44,313 | \$ 8,216 | \$ 55,582 |
| Investing activities | (6,474) | (35,345) | (3,400) | (8,872) |
| Financing activities | (11,400) | (16,675) | (2,147) | (5,564) |
| Net increase (decrease) in cash: | \$ 11,601 | \$ (7,707) | \$ 2,669 | \$ 41,146 |

Cash provided by operating activities

For the year ended March 31, 2021, net cash provided by operating activities was \$29.5 million. This included net income, before deducting depreciation, amortization and other non-cash items, of \$46.4 million and an increase in net working capital of \$16.9 million. The increase in net working capital was driven by a \$10.5 million increase in accounts receivable, a \$10.9 million increase in inventory and a \$9.7 million increase in prepaid and other assets, partially offset by a \$17.5 million increase of accounts payable and accrued expenses.

For the year ended March 31, 2020, net cash provided by operating activities was \$44.3 million. This included net income, before deducting depreciation, amortization and other non-cash items, of \$54.3 million and an increase in net working capital of \$10.0 million. The increase in net working capital was driven by an \$11.5 million decrease in other liabilities

primarily related to termination payments on store leases, partially offset by the timing of cash payments related to accounts payable and accrued expenses.

For the three months ended March 31, 2019, net cash provided by operating activities was \$8.2 million. This included a net loss, before adding depreciation, amortization and other non-cash items of \$12.5 million and increases in net working capital of \$4.3 million. The increase in net working capital was driven by a \$3.3 million decrease in other liabilities, primarily related to store closures, partially offset by a \$4.2 million decrease in accounts receivable.

Cash used in investing activities

For the year ended March 31, 2021, net cash used in investing activities was \$6.5 million, which was primarily driven by capital expenditures related to new customer fixture programs.

For the year ended March 31, 2020, net cash used in investing activities was \$35.3 million. This includes \$25.9 million paid for the acquisition of W3LL People, Inc. and capital expenditures of \$9.4 million.

For the three months ended March 31, 2019, net cash used in investing activities was \$3.4 million, which was primarily driven by capital expenditures related to new customer fixture programs.

Cash used in financing activities

For the year ended March 31, 2021, net cash used in financing activities was \$11.4 million, driven by \$11.8 million in mandatory principal payments under the Prior Term Loan Facility (as defined under the heading "Description of indebtedness"). This was partially offset by \$1.5 million of proceeds from the exercise of options to purchase common stock.

For the year ended March 31, 2020, net cash used in financing activities was \$16.7 million, driven by \$9.5 million in mandatory principal payments under the Prior Term Loan Facility and repurchase of common stock of \$7.9 million. This was partially offset by \$1.5 million of proceeds from the exercise of options to purchase common stock.

For the three months ended March 31, 2019, net cash used in financing activities was \$2.1 million and was primarily related to mandatory principal payments under the Prior Term Loan Facility.

Description of indebtedness

Prior credit agreement

On December 23, 2016, we entered into a five-year, \$200.0 million Senior Secured Credit Agreement (as amended, the "Prior Credit Agreement") with a syndicate consisting of several large financial institutions. The Prior Credit Agreement was first amended on August 25, 2017, increasing the aggregate commitments to \$215.0 million. The Prior Credit Agreement, as amended, consists of a \$50.0 million revolving line of credit (the "Prior Revolving Credit Facility") and a \$165.0 million term loan (the "Prior Term Loan Facility"). The Prior Credit Agreement was amended again on December 7, 2018 to reflect the change in our fiscal year-end from December 31 to March 31. The Prior Credit Agreement was further amended on April 8, 2020 to (i) increase the maximum permitted total net leverage ratio for the fiscal quarters ending June 30, 2020, September 30, 2020, December 31, 2020, March 31, 2021 and June 30, 2021, (ii) reduce the minimum fixed charge coverage ratio for the fiscal quarters ending December 31, 2020 and March 31, 2021, (iii) add additional interest rates to correspond to the increased maximum permitted total net leverage ratios, (iv) increase the amount of cash netted in the calculation of the consolidated total net leverage ratio, and (v) amend the language around the level of add backs to the adjusted consolidated EBITDA definition. We amended and restated the Prior Credit Agreement in April 2021 as described under the heading "Amended credit agreement" below.

All amounts under the Prior Revolving Credit Facility were available for draw until the maturity date on August 25, 2022. The Prior Revolving Credit Facility was collateralized by substantially all of our assets and required payment of an unused fee ranging from 0.35% to 0.25% (based on our consolidated total net leverage ratio (as defined in the Prior Credit Agreement)) times the average daily amount of unutilized commitments under the Prior Revolving Credit Facility. The Prior Revolving Credit Facility also provided for sub-facilities in the form of a \$7.0 million letter of credit and a \$5.0 million swing line loan; however, all amounts under the Prior Revolving Credit Facility could exceed \$50.0 million. The unused balance of the Prior Revolving Credit Facility as of March 31, 2021 was \$49.8 million.

The Prior Term Loan Facility maturity date was August 25, 2022 and was collateralized by substantially all of our assets. Amortization installment payments on the Prior Term Loan Facility were required to be made in quarterly installments of (i) \$2,062,500 for fiscal quarters ended September 30, 2017 through June 30, 2019, (ii) \$2,475,000 for fiscal quarters ended September 30, 2019 through June 30, 2020, (iii) \$3,093,750 for fiscal quarters ending September 30, 2020 through June 30, 2021 and (iv) \$4,125,000 for fiscal quarters ending September 30, 2021 through June 30, 2022. The remaining Prior Term Loan Facility balance was due upon the maturity date. The Prior Term Loan Facility could be prepaid at any time without penalty and was subject to mandatory prepayments when there was (i) excess cash flow, which is defined as EBITDA less certain customary deductions, (ii) non-ordinary course asset dispositions that result in net proceeds in excess of \$2.5 million during a year, unless reinvested within twelve months or (iii) issuance of additional debt.

Both the Prior Revolving Credit Facility and the Prior Term Loan Facility bore interest, at our option, at either a rate per annum equal to (i) an adjusted LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for the applicable interest period (subject to a minimum floor of 0%) plus an applicable margin ranging from 1.50% to 3.25% based on our consolidated total net leverage ratio or (ii) a floating base rate plus an applicable margin ranging from 0.50% to 2.25% based on our consolidated total net leverage ratio. The interest rate as of March 31, 2021 for the Prior Term Loan Facility was approximately 2.0%.

The Prior Credit Agreement contained a number of covenants that, among other things, restricted our ability to (subject to certain exceptions) pay dividends and distributions or repurchase our capital stock, incur additional indebtedness, create liens on assets, engage in mergers or consolidations and sell or otherwise dispose of assets. The Prior Credit Agreement also included reporting, financial and maintenance covenants that require us to, among other things, comply with certain consolidated total net leverage ratios and consolidated fixed charge coverage ratios. As of March 31, 2021 and March 31, 2020, we were in compliance with all financial covenants under the Prior Credit Agreement.

Amended credit agreement

On April 30, 2021, we amended and restated the Prior Credit Agreement (the “Amended Credit Agreement”), amended and restated the Prior Term Loan Facility and the Prior Revolving Credit Facility, and refinanced all loans under the Prior Credit Agreement.

The Amended Credit Agreement has a five year term and consists of (i) a \$100 million revolving credit facility (the “Amended Revolving Credit Facility”) and (ii) a \$100 million term loan facility (the “Amended Term Loan Facility”).

All amounts under the Amended Revolving Credit Facility are available for draw until the maturity date on April 30, 2026. The Amended Revolving Credit Facility is collateralized by substantially all of our assets and requires payment of an unused fee ranging from 0.10% to 0.30% (based on our consolidated total net leverage ratio (as defined in the Amended Credit Agreement)) times the average daily amount of unutilized commitments under the Amended Revolving Credit Facility. The Amended Revolving Credit Facility also provides for sub-facilities in the form of a \$7 million letter of credit and a \$5 million swing line loan; however, all amounts under the Amended Revolving Credit Facility cannot exceed \$100 million. The unused balance of the Amended Revolving Credit Facility as of May 14, 2021 was \$73.3 million.

Both the Amended Revolving Credit Facility and the Amended Term Loan Facility bear interest, at borrowers’ option, at either (i) a rate per annum equal to an adjusted LIBOR rate determined by reference to the cost of funds for the U.S. dollar deposits for the applicable interest period (subject to a minimum floor of 0%) plus an applicable margin ranging from 1.25% to 2.125% based on our consolidated total net leverage ratio or (ii) a floating base rate plus an applicable margin ranging from 0.25% to 1.125% based on our consolidated total net leverage ratio.

The Amended Credit Agreement contains a number of covenants that, among other things, restrict our ability to (subject to certain exceptions) pay dividends and distributions or repurchase our capital stock, incur additional indebtedness, create liens on assets, engage in mergers or consolidations and sell or otherwise dispose of assets. The Amended Credit Agreement also includes reporting, financial and maintenance covenants that require us to, among other things, comply with certain consolidated total net leverage ratios and consolidated fixed charge coverage ratios.

Contractual obligations and commitments

The following table summarizes our contractual obligations as of March 31, 2021 (in thousands):

| | Payments Due by Period | | | | |
|--|------------------------|------------------|------------|-----------|-------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Bank debt ⁽¹⁾ | \$ 125,194 | \$ 15,469 | \$ 109,725 | \$ — | \$ — |
| Interest on bank debt ⁽²⁾ | 3,234 | 2,372 | 862 | — | — |
| Operating lease obligations | 26,335 | 4,823 | 9,741 | 7,166 | 4,605 |
| Finance lease obligations ⁽³⁾ | 2,350 | 907 | 1,443 | — | — |
| Total contractual obligations ⁽⁴⁾ | \$ 157,113 | \$ 23,571 | \$ 121,771 | \$ 7,166 | \$ 4,605 |

- (1) Long-term debt payments include scheduled principal payments only.
- (2) Assumes an annual interest rate of 2.0% on the Prior Term Loan Facility over the term of the loan.
- (3) Includes a \$0.3 million residual value guarantee.
- (4) We have excluded our liability for uncertain tax positions from the table above because we are unable to make a reasonably reliable estimate of the timing of payments.

Off-balance sheet arrangements

We are not party to any off-balance sheet arrangements.

Critical accounting policies and estimates

Our consolidated financial statements included elsewhere in this Annual Report have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. While our significant accounting policies are more fully described in the Note 2 to consolidated financial statements in Part IV, Item 15 "Exhibits, financial statement schedules", we believe that the following accounting policies and estimates are critical to our business operations and understanding of our financial results.

Revenue recognition

We recognize revenue when control of promised goods or services is transferred to a customer in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. Control of the substantial majority of the products that we sell will be transferred at a point in time. Factors that determine the specific point in time a customer obtains control and a performance obligation is satisfied are when we have a present right to payment for the goods, whether the customer has physical possession and title to the goods, and whether significant risks and rewards of ownership have transferred. Delivery is typically considered to have occurred at the time the title and risk of loss passes to the customer.

In the normal course of business, we offer various incentives to customers such as sales discounts, markdown support and other incentives and allowances, which give rise to variable consideration. The amount of variable consideration is estimated at the time of sale based on either the expected value method or the most likely amount, depending on the nature of the variability. We regularly review and revise, when deemed necessary, our estimates of variable consideration based on both customer-specific expectations as well as historical rates of realization. A provision for unclaimed customer incentives and allowances is included on the consolidated balance sheet, net against accounts receivable.

Business Combinations

We allocate the purchase price of a business acquisition to the assets acquired and liabilities assumed based upon their estimated fair values at the business combination date. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires us to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Unanticipated

events or circumstances may occur that could affect the accuracy of our fair value estimates, and under different assumptions, the resulting valuations could be materially different, which could impact the operating results we report.

Impairment of long-lived assets, including goodwill and intangible assets

We assess potential impairments to our long-lived assets, which include property and equipment, retail product displays, and amortizable intangible assets, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of an asset is measured by a comparison of the carrying amount of an asset group to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairment charges recorded on long-lived assets during the years ended March 31, 2021 or March 31, 2020.

We evaluate our indefinite-lived intangible asset to determine whether current events and circumstances continue to support an indefinite useful life. In addition, our indefinite-lived intangible asset is tested for impairment annually. The indefinite-lived intangible asset impairment test consists of a comparison of the fair value of each asset with its carrying value, with any excess of carrying value over fair value being recognized as an impairment loss. We are also permitted to make a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset's fair value is less than its carrying value prior to applying the quantitative assessment. If based on our qualitative assessment it is more likely than not that the carrying value of the asset is less than its fair value, then a quantitative assessment may be required.

The goodwill impairment test consists of a comparison of each reporting unit's fair value to its carrying value. The fair value of a reporting unit is an estimate of the amount for which the unit as a whole could be sold in a current transaction between willing parties. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We are also permitted to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying value prior to applying the quantitative assessment. If based on our qualitative assessment it is more likely than not that the carrying value of the reporting unit is less than its fair value, then a quantitative assessment may be required. We have identified a single reporting unit for purposes of impairment testing.

We have selected October 1 as the date on which to perform our annual impairment tests. We also test for impairment whenever events or circumstances indicate that the fair value of goodwill or indefinite-lived intangible assets has been impaired. No impairment of goodwill or our indefinite-lived intangible asset was recorded during the years ended March 31, 2021 or March 31, 2020.

Stock-based compensation

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized on a straight-line basis over the requisite service period for all awards that vest. We estimate the fair value of employee stock-based payment awards subject to only a service condition on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock. We estimate the fair value of employee stock-based payment awards subject to market conditions on the date of grant using a Monte Carlo simulation model.

We recognize compensation expense for awards with only a service condition on a straight-line basis over the requisite service period, which is generally the award's vesting period. Compensation expense for employee stock-based awards whose vesting is subject to the fulfillment of both a market condition and the occurrence of a performance condition is recognized on a graded-vesting basis at the time the achievement of the performance condition becomes probable. We account for forfeitures as they occur.

The expected stock price volatility for common stock was estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies in our industry which are of similar size, complexity and stage of development. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury implied yield at the date of grant. The weighted-average expected term is determined with reference to historical exercise and post-vesting cancellation experience and the vesting period and contractual term of the awards.

We have no current plans to pay a regular dividend.

New accounting pronouncements

See Note 2 Summary of significant accounting policies to the Notes to consolidated financial statements in Part IV, Item 15, "Exhibits, Financial Statement Schedules" for information regarding new accounting pronouncements.

We comply with any new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies.

Item 7A. Quantitative and qualitative disclosures about market risk.

We are exposed to certain market risks arising from transactions in the normal course of our business. Such risk is principally associated with interest rates and foreign exchange.

Interest rate risk

We had cash, cash equivalents of \$57.8 million and \$46.2 million as of March 31, 2021 and March 31, 2020, respectively. Our cash and cash equivalents consist of cash and money market funds, which are highly liquid and, as such, are not sensitive to interest rate risk.

We are exposed to changes in interest rates because the indebtedness incurred under the Amended Credit Agreement is variable rate debt. Interest rate changes generally do not affect the market value of our Senior Secured Credit Facility; however, they do affect the amount of our interest payments and, therefore, our future earnings and cash flows. As of March 31, 2021, we had variable rate debt of \$124.6 million under the Prior Credit Agreement. A hypothetical 1% increase or decrease of interest rates would result in a decrease or increase, respectively, in interest expense on an annualized basis of approximately \$1.2 million as of March 31, 2021.

Foreign exchange risk

We are exposed to foreign exchange risk as we have contracts with suppliers in China for future purchases of inventories denominated in Chinese Renminbi (RMB). We do not have an active hedging program, and all of our legacy exchange rate forward contracts matured in 2016. We neither used these foreign currency forward contracts for trading purposes nor did we follow hedge accounting, and therefore the periodic impact of these legacy hedging activities was calculated on a mark-to-market basis. Accordingly, the foreign currency forward contracts were carried at their fair value either as an asset or liability on the consolidated balance sheet with changes in fair value being recorded in other income (expense), net in our consolidated statements of operations.

Foreign currency transaction exposure from a 10% movement of currency exchange rates would have a material impact on our reported cost of sales and net income. Based on a hypothetical 10% adverse movement in RMB as compared to the US dollar, our cost of sales and net income would be adversely affected by approximately \$12.1 million for the year ended March 31, 2021.

Item 8. Financial statements and supplementary data.

The following consolidated financial statements are incorporated by reference herein:

e.l.f. Beauty, Inc. and subsidiaries**Index to consolidated financial statements**

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Item 9. Changes in and disagreements with accountants on accounting and financial disclosure.

None.

Item 9A. Controls and procedures.***Evaluation of Disclosure Controls and Procedures***

As of March 31, 2021, our management conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the officers who certify our financial reports and to the members of the Company's senior management and board of directors as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in "Internal Control - Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of March 31, 2021.

Deloitte & Touche LLP, an independent registered public accounting firm, was retained to audit our Consolidated Financial Statements and the effectiveness of our internal control over financial reporting. They have issued an attestation report on our internal control over financial reporting as of March 31, 2021, which is included herein.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting that occurred during the quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing

the impact of the COVID-19 pandemic on our internal controls to minimize the impact on their design and operating effectiveness.

Section 302 and 906 Certification

The required certification of our Chief Executive Officer and Chief Financial Officer under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are included as exhibits to this Annual Report (See Exhibits 31 and 32 under Part IV, Item 15 "Exhibits, Financial Statement Schedules").

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of e.l.f. Beauty, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of e.l.f. Beauty, Inc. and subsidiaries (the “Company”) as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2021, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended March 31, 2021, of the Company and our report dated May 27, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
May 27, 2021

Item 9B. Other information.

None.

PART III

Item 10. Directors, executive officers and corporate governance.

The information required by this Part III, Item 10 is incorporated by reference to the sections entitled “Our Board of Directors”, “Our Executive Officers”, “Delinquent Section 16(a) Reports”, and “Corporate Governance Materials Available on our Website” (or similar titles) that will be contained in our Definitive Proxy Statement relating to our 2021 annual meeting of stockholders (our “Proxy Statement”). Our Proxy Statement will be filed with the SEC within 120 days of March 31, 2021.

Item 11. Executive compensation.

The information required by this Part III, Item 11 is incorporated by reference to the sections entitled “Our Board of Directors” and “Executive Compensation” (or similar titles) that will be contained in the Proxy Statement.

Item 12. Security ownership of certain beneficial owners and management and related stockholder matters.

The information required by this Part III, Item 12 is incorporated by reference to the sections entitled “Equity Compensation Plan Information” and “Beneficial Ownership of Common Stock” (or similar titles) that will be contained in the Proxy Statement.

Item 13. Certain relationships and related transactions, and director independence.

The information required by this Part III, Item 13 is incorporated by reference to the sections entitled “Certain Relationships and Related Party Transactions” and “Director Independence” (or similar titles) that will be contained in the Proxy Statement.

Item 14. Principal accounting fees and services.

The information required by this Part III, Item 14 is incorporated by reference to the section entitled “Audit Matters” (or a similar title) that will be contained in the Proxy Statement.

PART IV

Item 15. Exhibits, financial statement schedules.

(a) The following documents are filed as part of this Annual Report:

1. Consolidated financial statements:

Reference is made to the Index to Consolidated Financial Statements on page 63 hereof, which is incorporated by reference herein.

2. Financial statement schedules:

All schedules are omitted because the required information is either not present, not present in material amounts or presented within our consolidated financial statements and notes thereto beginning on page 63 hereof and are incorporated herein by reference.

3. Exhibits

| Exhibit Number | Exhibit Description | Provided Herewith | Form | Incorporated by Reference | | |
|----------------|--|----------------------|-------|---------------------------|-------------|-------------|
| | | | | Exhibit Number | File Number | Filing Date |
| 3.1 | Amended and Restated Certificate of Incorporation of e.l.f. Beauty, Inc. | | 8-K | 3.1 | 001-37873 | 9/27/2016 |
| 3.2 | Amended and Restated Bylaws of e.l.f. Beauty, Inc. | | 8-K | 3.2 | 001-37873 | 9/27/2016 |
| 4.1 | Reference is made to Exhibits 3.1 and 3.2. | | | | | |
| 4.2 | Registration Rights Agreement, dated January 31, 2014, by and among e.l.f. Beauty, Inc. and certain stockholders party thereto. | | S-1 | 4.2 | 333-213333 | 8/26/2016 |
| 4.3 | Form of Common Stock Certificate. | | S-1/A | 4.4 | 333-213333 | 9/12/2016 |
| 4.4 | Description of Capital Stock | X | | | | |
| 10.1 (a) | Standard Multi-Tenant Office Lease, dated as of March 31, 2014, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.). | | S-1 | 10.1 | 333-213333 | 8/26/2016 |
| 10.1 (b) | Addendum to Standard Multi-Tenant Office Lease, dated as of March 31, 2014, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.). | | S-1 | 10.2 | 333-213333 | 8/26/2016 |
| 10.1 (c) | Standard Multi-Tenant Office Lease, dated as of October 5, 2015, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.). | | S-1 | 10.3 | 333-213333 | 8/26/2016 |
| 10.1 (d) | Addendum to Standard Multi-Tenant Office Lease, dated as of October 22, 2015, by and between 1007 Clay Street Properties LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.). | | S-1 | 10.4 | 333-213333 | 8/26/2016 |
| 10.1 (e) | Amended and Restated Lease Agreement, dated June 19, 2019, by and between e.l.f. Cosmetics, Inc. and Redwood Property Investors III, LLC (as successor to 1007 Clay Street Properties) | | 10-Q | 10.1 | 001-37873 | 8/8/2019 |
| 10.2(a) | Standard Industrial/Commercial Multi-Tenant Lease, dated as of December 9, 2015, by and between Jurupa Gateway LLC and e.l.f. Cosmetics, Inc. (formerly known as J.A. Cosmetics US, Inc.). | | S-1 | 10.5 | 333-213333 | 8/26/2016 |
| 10.2(b) | First Amendment to Lease, dated August 24, 2020, by and between Jurupa Gateway LLC and e.l.f. Cosmetics, Inc. | | 10-Q | 10.1 | 001-37873 | 2/4/2021 |

| <u>Exhibit Number</u> | <u>Exhibit Description</u> | <u>Provided Herewith</u> | <u>Incorporated by Reference</u> | | | |
|-----------------------|--|--------------------------|----------------------------------|-----------------------|--------------------|--------------------|
| | | | <u>Form</u> | <u>Exhibit Number</u> | <u>File Number</u> | <u>Filing Date</u> |
| 10.3 (a) | Senior Secured Credit Agreement, dated as of December 23, 2016, by and among e.l.f. Beauty, Inc., as parent guarantor, e.l.f. Cosmetics, Inc., J.A. 139 Fulton Street Corp., J.A. 741 Retail Corp., J.A. Cosmetics Retail, Inc., J.A. RF, LLC and J.A. Cherry Hill, LLC, each as a borrower, and Bank of Montreal, as the administrative agent, swingline lender and l/c issuer. | | 8-K | 10.1 | 001-37873 | 12/28/2016 |
| 10.3 (b) | First Amendment to Credit Agreement, dated as of August 25, 2017, by and among e.l.f. Beauty, Inc., as parent guarantor, e.l.f. Cosmetics, Inc., J.A. 139 Fulton Street Corp., J.A. 741 Retail Corp., J.A. Cosmetics Retail, Inc., J.A. RF, LLC and J.A. Cherry Hill, LLC, each as a borrower, Bank of Montreal, as the administrative agent, swingline lender and l/c issuer, and the lenders from time to time party thereto. | | 8-K | 10.1 | 001-37873 | 8/28/2017 |
| 10.3 (c) | Second Amendment to Credit Agreement, dated as of December 7, 2018, by and among e.l.f. Beauty, Inc., as parent guarantor, e.l.f. Cosmetics, Inc., J.A. 139 Fulton Street Corp., J.A. 741 Retail Corp., J.A. Cosmetics Retail, Inc., J.A. RF, LLC and J.A. Cherry Hill, LLC, each as a borrower, Bank of Montreal, as the administrative agent, swingline lender and l/c issuer, and the lenders from time to time party thereto | | 10-K | 10.8(b) | 001-37873 | 5/28/2020 |
| 10.3(d) | Third Amendment to Credit Agreement, dated as of April 8, 2020, by and among e.l.f. Beauty, Inc., as parent guarantor, e.l.f. Cosmetics, Inc., W3ll People, Inc., J.A. RF, LLC, each as a borrower, Bank of Montreal, as the administrative agent, swingline lender and l/c issuer, and the lenders from time to time party thereto. | | 8-K | 10.1 | 001-37873 | 4/9/2020 |
| 10.4 | Amended and Restated Credit Agreement, dated April 30, 2021, by and among the Company as parent guarantor, e.l.f. Cosmetics, Inc., W3ll People, Inc. and J.A. RF, LLC, each as a borrower, Bank of Montreal, as the administrative agent, swingline lender and l/c issuer, U.S. Bank, as syndication agent and a joint lead arranger, BMO Capital Markets Corp., as a joint lead arranger and bookrunner, and the lenders from time to time party thereto. | | 8-K | 10.1 | 001-37873 | 5/4/2020 |
| 10.5 (a)# | 2014 Equity Incentive Plan of e.l.f. Beauty, Inc. | | S-1 | 10.12 | 333-213333 | 8/26/2016 |
| 10.5 (b)# | Amendment to 2014 Equity Incentive Plan of e.l.f. Beauty, Inc., dated as of March 15, 2017. | | 10-K | 10.7(b) | 001-37873 | 3/15/2017 |
| 10.5 (c)# | Forms of stock option award agreements used under the 2014 Equity Incentive Plan of e.l.f. Beauty, Inc. | | S-1 | 10.13 | 333-213333 | 8/26/2016 |
| 10.6 (a)# | 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. | | S-1/A | 10.16 | 333-213333 | 9/12/2016 |
| 10.6 (b)# | Amendment to the e.l.f. Beauty, Inc. 2016 Equity Incentive Award Plan | | 8-K | 10.2 | 001-37873 | 7/2/2020 |
| 10.6 (c)# | Form of Stock Option Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. | | S-1/A | 10.17 | 333-213333 | 9/12/2016 |
| 10.6 (d)# | Form of Restricted Stock Unit Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. | | S-1/A | 10.27 | 333-213333 | 9/12/2016 |

| <u>Exhibit Number</u> | <u>Exhibit Description</u> | <u>Provided Herewith</u> | <u>Incorporated by Reference</u> | | | |
|-----------------------|--|------------------------------|----------------------------------|---------------------------|--------------------|--------------------|
| | | | <u>Form</u> | <u>Exhibit Number</u> | <u>File Number</u> | <u>Filing Date</u> |
| 10.6 (e)# | Form of Restricted Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Executives). | | 10-K | 10.12(d) | 001-37873 | 3/15/2017 |
| 10.6 (f)# | Form of Restricted Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Chief Executive Officer). | | 10-K | 10.12(e) | 001-37873 | 3/15/2017 |
| 10.6 (g)# | Form of Performance Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Executives). | X | | | | |
| 10.6 (h)# | Form of Performance Stock Award Grant Notice under the 2016 Equity Incentive Award Plan of e.l.f. Beauty, Inc. (Chief Executive Officer). | X | | | | |
| 10.7# | 2016 Employee Stock Purchase Plan of e.l.f. Beauty, Inc. | | S-1/A | 10.18 | 333-213333 | 9/12/2016 |
| 10.8# | Amended and Restated Employment Agreement, dated as of February 26, 2019, between Tarang Amin, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc. | | 10-K | 10.16 | 001-37873 | 2/28/2019 |
| 10.9# | Amended and Restated Employment Agreement, dated as of February 26, 2019, between Scott Milsten, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc. | | 10-K | 10.17 | 001-37873 | 2/28/2019 |
| 10.10# | Amended and Restated Employment Agreement, dated as of February 26, 2019, between Richard Baruch, Jr., e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc. | | 10-K | 10.18 | 001-37873 | 2/28/2019 |
| 10.11# | Employment Agreement, dated as of February 1, 2019, between Kory Marchisotto, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc. | | 10-Q | 10.1 | 001-37873 | 5/9/2019 |
| 10.12# | Employment Agreement, dated as of March 15, 2019, between Mandy Fields, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc. | | 8-K | 10.1 | 001-37873 | 3/21/2019 |
| 10.13# | Employment Agreement, dated as of November 25, 2019, between Josh Franks, e.l.f. Cosmetics, Inc. and e.l.f. Beauty, Inc. | | 10-Q | 10.1 | 001-37873 | 2/6/2020 |
| 10.14# | Form of Indemnification Agreement for directors and officers of e.l.f. Beauty, Inc. | | S-1 | 10.25 | 333-213333 | 8/26/2016 |
| 10.15# | Amended and Restated Non-Employee Director Compensation Program of e.l.f. Beauty, Inc. | | 10-Q | 10.1 | 001-37873 | 11/7/2019 |
| 10.16# | Cooperation Agreement, dated as of July 1, 2020, by and between e.l.f. Beauty, Inc., Marathon Partners Equity Management, LLC, Marathon Partners L.P., Marathon Focus Fund L.P., Marathon Partners LUX Fund, L.P., Cibelli Research & Management, LLC and Mario Cibelli. | | 8-K | 10.1 | 001-37873 | 7/2/2020 |
| 21.1 | List of Significant Subsidiaries of e.l.f. Beauty, Inc. | X | | | | |

| <u>Exhibit Number</u> | <u>Exhibit Description</u> | <u>Provided Herewith</u> | <u>Form</u> | <u>Incorporated by Reference</u> | | |
|-----------------------|---|------------------------------|-------------|----------------------------------|--------------------|--------------------|
| | | | | <u>Exhibit Number</u> | <u>File Number</u> | <u>Filing Date</u> |
| 23.1 | Consent of Independent Registered Public Accounting Firm. | X | | | | |
| 24.1 | Power of Attorney. Reference is made to the signature page to this Annual Report on Form 10-K. | X | | | | |
| 31.1 | Certification of the Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act. | X | | | | |
| 31.2 | Certification of the Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act. | X | | | | |
| 32.1* | Certification of the Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act. | X | | | | |
| 101.INS | XBRL Instance Document - Instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | X | | | | |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. | X | | | | |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. | X | | | | |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. | X | | | | |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. | X | | | | |
| 101.LAB | Inline XBRL Taxonomy Extension Presentation Linkbase Document. | X | | | | |
| 101.LAB | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). | X | | | | |
| 101.PRE | | X | | | | |
| 104 | | X | | | | |

Indicates management contract or compensatory plan

* This certification is deemed furnished, and not filed, with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of e.l.f. Beauty, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

e.l.f. Beauty, Inc.

May 27, 2021

Date

By: /s/ Tarang P. Amin

Tarang P. Amin
Chief Executive Officer
(Principal Executive Officer)

May 27, 2021

Date

By: /s/ Mandy Fields

Mandy Fields
Chief Financial Officer
(Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Tarang P. Amin, Mandy Fields and Scott K. Milsten, and each of them acting individually, as his or her true and lawful attorneys-in-fact and agents, each with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, with full power of each to act alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated opposite his or her name.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|--------------|
| <u>/s/ Tarang P. Amin</u> Tarang P. Amin | Chairman, Chief Executive Officer and Director (Principal Executive Officer) | May 27, 2021 |
| <u>/s/ Mandy Fields</u> Mandy Fields | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | May 27, 2021 |
| <u>/s/ Lori A. Keith</u> Lori A. Keith | Director | May 27, 2021 |
| <u>/s/ Lauren Cooks Levitan</u> Lauren Cooks Levitan | Director | May 27, 2021 |
| <u>/s/ Kenny Mitchell</u> Kenny Mitchell | Director | May 27, 2021 |
| <u>/s/ Richelle P. Parham</u> Richelle P. Parham | Director | May 27, 2021 |
| <u>/s/ Kirk L. Perry</u> Kirk L. Perry | Director | May 27, 2021 |
| <u>/s/ Beth M. Pritchard</u> Beth M. Pritchard | Director | May 27, 2021 |
| <u>/s/ Sabrina L. Simmons</u> Sabrina L. Simmons | Director | May 27, 2021 |
| <u>/s/ Maureen C. Watson</u> Maureen C. Watson | Director | May 27, 2021 |
| <u>/s/ Richard G. Wolford</u> Richard G. Wolford | Director | May 27, 2021 |

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

| | |
|--|---------------------------|
| <u>Report of independent registered public accounting firm</u> | <u>59</u> |
| <u>Consolidated balance sheets as of March 31, 2021 and March 31, 2020</u> | <u>61</u> |
| <u>Consolidated statements of operations and comprehensive income for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019</u> | <u>62</u> |
| <u>Consolidated statements of stockholders' equity for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019</u> | <u>63</u> |
| <u>Consolidated statements of cash flows for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019</u> | <u>64</u> |
| <u>Notes to consolidated financial statements</u> | <u>66</u> |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of e.l.f. Beauty, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of e.l.f. Beauty, Inc. and subsidiaries (the “Company”) as of March 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income (loss), stockholders’ equity, and cash flows, for the years ended March 31, 2021 and 2020, for the three months ended March 31, 2019, and for the year ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2021 and 2020, and the results of its operations and its cash flows for the years ended March 31, 2021 and 2020, for the three months ended March 31, 2019, and for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of March 31, 2021, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 27, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition—Provision for Unclaimed Customer Incentives and Allowances—Refer to Note 2 to the financial statements

Critical Audit Matter Description

The Company offers various incentives to customers such as sales discounts, markdown support, and other incentives and allowances, which give rise to variable consideration. The amount of variable consideration is estimated at the time of sale based on either the expected value method or the most likely amount, depending on the nature of the variability. The Company regularly reviews and revises, when deemed necessary, their estimates of variable consideration based on both customer-specific expectations, as well as historical rates of realization. A provision for unclaimed customer incentives and allowances is included on the consolidated balance sheet, net against accounts receivable. The provision for unclaimed

customer incentives and allowances was \$11.9 million and \$7.6 million as of March 31, 2021 and March 31, 2020, respectively.

Auditing the Company's provision of unclaimed customer incentives and allowances was complex and judgmental as the provision for unclaimed customer incentives and allowances is determined based on significant management estimates. Changes in these estimates can have a material impact on revenue recognized. Additionally, given the subjectivity of estimating the provision for unclaimed customer incentives and allowances, performing audit procedures to evaluate whether the provision for unclaimed customer incentives and allowances is appropriately recorded required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's provision of unclaimed customer incentives and allowances included the following, among others:

- We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's provision of unclaimed customer incentives and allowances, including controls over management's review of the significant assumptions, such as the historical rate of customer deductions and management's review of the completeness and accuracy of the data used.
- We tested customer deduction data underlying the estimate to validate the nature, timing, and amount of deductions taken.
- We evaluated the Company's historical ability to accurately estimate its provision by performing a retrospective analysis on the prior period reserve, based on current-period deductions.
- We evaluated period-over-period comparisons of the Company's provision for unclaimed customer incentives and allowances and deductions claimed by customers by allowance type to identify unusual trends.
- We evaluated management's methodologies and tested the significant assumptions used by the Company to calculate the provision for unclaimed customer incentives and allowances and verified they were in agreement with the terms of underlying customer contracts.

/s/ DELOITTE & TOUCHE LLP

San Francisco, California
May 27, 2021

We have served as the Company's auditor since 2014.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated balance sheets
(in thousands, except share and per share data)

| | March 31, 2021 | March 31, 2020 |
|---|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 57,768 | \$ 46,167 |
| Accounts receivable, net | 40,185 | 29,721 |
| Inventory, net | 56,810 | 46,209 |
| Prepaid expenses and other current assets | 15,381 | 10,263 |
| Total current assets | 170,144 | 132,360 |
| Property and equipment, net | 13,770 | 17,171 |
| Intangible assets, net | 94,286 | 102,410 |
| Goodwill | 171,620 | 171,321 |
| Investments | 2,875 | 2,875 |
| Other assets | 34,698 | 26,967 |
| Total assets | \$ 487,393 | \$ 453,104 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Current portion of long-term debt and finance lease obligations | \$ 16,281 | \$ 12,568 |
| Accounts payable | 15,699 | 12,390 |
| Accrued expenses and other current liabilities | 41,351 | 26,165 |
| Total current liabilities | 73,331 | 51,123 |
| Long-term debt and finance lease obligations | 110,255 | 126,088 |
| Deferred tax liabilities | 13,479 | 21,892 |
| Long-term operating lease obligations | 20,084 | 11,239 |
| Other long-term liabilities | 598 | 591 |
| Total liabilities | 217,747 | 210,933 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity: | | |
| Common stock, par value of \$0.01 per share; 250,000,000 shares authorized as of March 31, 2021 and March 31, 2020; 51,590,830 and 50,003,531 shares issued and outstanding as of March 31, 2021 and March 31, 2020, respectively | 504 | 489 |
| Additional paid-in capital | 774,441 | 753,213 |
| Accumulated deficit | (505,299) | (511,531) |
| Total stockholders' equity | 269,646 | 242,171 |
| Total liabilities and stockholders' equity | \$ 487,393 | \$ 453,104 |

The accompanying notes are an integral part of these consolidated financial statements.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated statements of operations and comprehensive income (loss)
(in thousands, except share and per share data)

| | Year ended March 31, | | Three months ended March | Year ended |
|---|----------------------|------------|----------------------------|--------------|
| | 2021 | 2020 | 31, (transition period) | December 31, |
| | | | 2019 | 2018 |
| Net sales | \$ 318,110 | \$ 282,851 | \$ 66,141 | \$ 267,435 |
| Cost of sales | 111,912 | 101,728 | 25,650 | 104,694 |
| Gross profit | 206,198 | 181,123 | 40,491 | 162,741 |
| Selling, general, and administrative expenses | 194,157 | 157,155 | 37,324 | 136,579 |
| Restructuring expense (income) | 2,641 | (5,982) | 22,176 | — |
| Operating income (loss) | 9,400 | 29,950 | (19,009) | 26,162 |
| Other (expense) income, net | (1,620) | 426 | (315) | (390) |
| Interest expense, net | (4,090) | (6,307) | (1,849) | (7,816) |
| Income (loss) before provision for income taxes | 3,690 | 24,069 | (21,173) | 17,956 |
| Income tax benefit (provision) | 2,542 | (6,185) | 3,259 | (2,431) |
| Net income (loss) | \$ 6,232 | \$ 17,884 | \$ (17,914) | \$ 15,525 |
| Comprehensive income (loss) | \$ 6,232 | \$ 17,884 | \$ (17,914) | \$ 15,525 |
| Net income (loss) per share: | | | | |
| Basic | \$ 0.13 | \$ 0.37 | \$ (0.37) | \$ 0.33 |
| Diluted | \$ 0.12 | \$ 0.35 | \$ (0.37) | \$ 0.32 |
| Weighted average shares outstanding: | | | | |
| Basic | 49,377,410 | 48,498,813 | 48,022,926 | 46,828,798 |
| Diluted | 51,994,145 | 50,817,143 | 48,022,926 | 49,268,616 |

The accompanying notes are an integral part of these consolidated financial statements.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated statements of stockholders' equity
(in thousands, except share data)

| | Common stock | | Additional paid-in capital | Accumulated deficit | Total stockholders' equity |
|---|--------------|--------|----------------------------|---------------------|----------------------------|
| | Shares | Amount | | | |
| Balance as of December 31, 2017 | 46,315,630 | \$ 463 | \$ 720,372 | \$ (526,972) | \$ 193,863 |
| Net income | — | — | — | 15,525 | 15,525 |
| Stock-based compensation | — | — | 16,821 | — | 16,821 |
| Exercise of stock options and vesting of restricted stock | 1,514,126 | 15 | 3,161 | — | 3,176 |
| Adoption of new accounting standard | — | — | — | (54) | (54) |
| Balance as of December 31, 2018 | 47,829,756 | 478 | 740,354 | (511,501) | 229,331 |
| Net loss | — | — | — | (17,914) | (17,914) |
| Stock-based compensation | — | — | 3,683 | — | 3,683 |
| Exercise of stock options and vesting of restricted stock | 458,964 | 5 | 110 | — | 115 |
| Balance as of March 31, 2019 | 48,288,720 | 483 | 744,147 | (529,415) | 215,215 |
| Net income | — | — | — | 17,884 | 17,884 |
| Stock-based compensation | — | — | 15,488 | — | 15,488 |
| Exercise of stock options and vesting of restricted stock | 1,150,490 | 12 | 1,476 | — | 1,488 |
| Repurchase of common stock | (564,468) | (6) | (7,898) | — | (7,904) |
| Balance as of March 31, 2020 | 48,874,742 | 489 | 753,213 | (511,531) | 242,171 |
| Net income | — | — | — | 6,232 | 6,232 |
| Stock-based compensation | — | — | 19,493 | — | 19,493 |
| Exercise of stock options and vesting of restricted stock | 1,525,768 | 15 | 1,735 | — | 1,750 |
| Balance as of March 31, 2021 | 50,400,510 | \$ 504 | \$ 774,441 | \$ (505,299) | \$ 269,646 |

The accompanying notes are an integral part of these consolidated financial statements.

e.l.f. Beauty, Inc. and subsidiaries
Consolidated statements of cash flows
(in thousands)

| | Year ended March 31, | | Three months ended March | Year ended |
|---|----------------------|-----------|----------------------------|--------------|
| | 2021 | 2020 | 31, (transition period) | December 31, |
| | | | 2019 | 2018 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ 6,232 | \$ 17,884 | \$ (17,914) | \$ 15,525 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 25,179 | 22,843 | 7,544 | 17,861 |
| Restructuring expense (income) | 2,641 | (5,982) | 22,176 | — |
| Stock-based compensation expense | 19,682 | 15,488 | 3,683 | 16,821 |
| Amortization of debt issuance costs and discount on debt | 847 | 747 | 190 | 792 |
| Deferred income taxes | (8,584) | 2,443 | (3,433) | (939) |
| Other, net | 383 | 873 | 242 | 476 |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (10,529) | 2,504 | 4,215 | 7,649 |
| Inventories | (10,937) | (435) | 2,561 | 16,338 |
| Prepaid expenses and other assets | (9,659) | (6,500) | (1,732) | (8,484) |
| Accounts payable and accrued expenses | 17,472 | 5,962 | (6,021) | (10,251) |
| Other liabilities | (3,252) | (11,514) | (3,295) | (206) |
| Net cash provided by operating activities | 29,475 | 44,313 | 8,216 | 55,582 |
| Cash flows from investing activities: | | | | |
| Acquisition, net of cash acquired | — | (25,923) | — | — |
| Purchase of property and equipment | (6,474) | (9,422) | (3,400) | (8,872) |
| Net cash used in investing activities | (6,474) | (35,345) | (3,400) | (8,872) |
| Cash flows from financing activities: | | | | |
| Proceeds from revolving line of credit | 20,000 | — | — | 2,000 |
| Repayment of revolving line of credit | (20,000) | — | — | (2,000) |
| Repayment of long-term debt | (11,756) | (9,488) | (2,063) | (8,250) |
| Debt issuance costs paid | (334) | — | — | — |
| Repurchase of common stock | — | (7,904) | — | — |
| Cash received from issuance of common stock | 1,503 | 1,488 | 115 | 3,176 |
| Other, net | (813) | (771) | (199) | (490) |
| Net cash used in financing activities | (11,400) | (16,675) | (2,147) | (5,564) |
| Net increase (decrease) in cash and cash equivalents | 11,601 | (7,707) | 2,669 | 41,146 |
| Cash and cash equivalents - beginning of period | 46,167 | 53,874 | 51,205 | 10,059 |
| Cash and cash equivalents - end of period | \$ 57,768 | \$ 46,167 | \$ 53,874 | \$ 51,205 |

| | Year ended March 31, | | Three months ended March 31, | Year ended |
|--|----------------------|----------|------------------------------|--------------|
| | 2021 | 2020 | (transition period) | December 31, |
| | | | 2019 | 2018 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for interest | \$ 3,018 | \$ 6,302 | \$ 1,783 | \$ 7,124 |
| Cash paid for income taxes, net of refunds | 2,301 | 5,604 | 6 | 4,085 |
| Cash paid for interest on finance leases | 137 | 179 | 50 | — |
| Supplemental disclosure of noncash investing and financing activities: | | | | |
| Property and equipment acquired under finance leases | — | — | — | 2,098 |
| Property and equipment purchases included in accounts payable and accrued expenses | \$ 359 | \$ 1,132 | \$ 3,080 | \$ 1,838 |

The accompanying notes are an integral part of these consolidated financial statements.

Note 1—Nature of operations

e.l.f. Beauty, Inc., a Delaware corporation, (“e.l.f. Beauty” and together with its subsidiaries, the “Company,” or “we”) is a multi-brand beauty company that offers inclusive, accessible, cruelty-free cosmetics and skin-care products. Our mission is to make the best of beauty accessible to every eye, lip and face.

We believe our ability to deliver 100% cruelty-free, premium-quality products at accessible prices with broad appeal differentiates us in the beauty industry. We believe the combination of our fundamental value equation, digitally-led strategy, as well as our world-class team’s ability to execute with speed has positioned us well to navigate a rapidly changing landscape in beauty.

Our family of brands includes e.l.f. Cosmetics, W3LL PEOPLE and Keys Soulcare. Our brands are available online and across leading beauty, mass-market, and clean-beauty specialty retailers. We have strong relationships with our retail partners such as Walmart, Target, Ulta Beauty and other leading retailers that have enabled us to expand distribution both domestically and internationally.

Note 2—Summary of significant accounting policies

Basis of presentation and fiscal year end change

During December 2018, the board of directors approved a change in fiscal year end from December 31st to March 31st. Accordingly, this document reflects the Company’s fiscal year ended March 31, 2021, covering the period April 1, 2020 through March 31, 2021.

All references to the periods ended March 31, 2021, March 31, 2020 and December 31, 2018 relate to the years ended March 31, 2021, March 31, 2020 and December 31, 2018, respectively. All references to the period ended March 2019 relate to the three-month transition period ended March 31, 2019.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and all intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include all cash balances and highly liquid investments purchased with maturities of three months or less.

Accounts receivable

Trade receivables consist of uncollateralized, non-interest bearing customer obligations from transactions with retail customers, reduced by an allowance for doubtful accounts for estimated losses resulting from the inability of customers to make payments. The allowance is based on the evaluation and aging of past due balances, specific exposures, historical trends and economic conditions.

The Company maintains allowances for doubtful accounts for uncollectible accounts receivable. Management estimates anticipated losses from doubtful accounts based on days past due, collection history and the financial health of customers. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible. Recoveries of receivables previously written off are recorded when received. The Company recorded an allowance for doubtful accounts of \$0.2 million and \$1.0 million as of March 31, 2021 and March 31, 2020, respectively. The Company recorded a reserve for sales adjustments of \$11.9 million and \$7.6 million as of March 31, 2021 and March 31, 2020, respectively, which is also presented as a reduction to accounts receivable. The Company grants credit terms in the normal course of business to its customers. Trade credit is extended based upon an evaluation of each customer’s ability to perform its payment obligations.

Concentrations of credit risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents including money market funds. Although the Company deposits its cash with creditworthy financial institutions, its deposits, at times, may exceed federally insured limits. To date, the Company has not experienced any losses on its cash deposits. The Company performs credit evaluations of its customers, and the risk with respect to trade receivables is further mitigated by the short duration of customer payment terms and the pedigree of the customer base.

During the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, two customers individually accounted for greater than 10% of the Company's net sales as disclosed below:

| | Year ended March 31, | | Three months ended March 31, | Year ended |
|---------|----------------------|------|------------------------------|--------------|
| | 2021 | 2020 | (transition period) | December 31, |
| | | | 2019 | 2018 |
| Walmart | 26 % | 31 % | 36 % | 30 % |
| Target | 22 % | 22 % | 17 % | 21 % |

Customers that individually accounted for greater than 10% of the Company's accounts receivable at the end of the periods as of March 31, 2021 and March 31, 2020, respectively, are as presented:

| | March 31, 2021 | March 31, 2020 |
|-------------|----------------|----------------|
| Walmart | 33 % | 20 % |
| Target | 17 % | 22 % |
| Ulta Beauty | 11 % | * |

* Customer comprised less than 10% accounts receivable in the periods.

Inventory

Inventory, consisting principally of finished goods, is stated at the lower of cost or market. Cost is principally determined by the first-in, first-out method. The Company also records a reserve for excess and obsolete inventory, which represents the excess of the cost of the inventory over its estimated market value. This reserve is based upon an assessment of historical trends, current market conditions and forecasted product demand. The Company recorded an adjustment for excess and obsolete inventory, which is presented as a reduction to inventory of \$3.6 million and \$1.4 million as of March 31, 2021 and March 31, 2020, respectively.

Property and equipment and other assets

Property and equipment is stated at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the useful lives of the assets. Repairs and maintenance expenditures are expensed as incurred.

Useful lives by major asset class are as follows:

| | Estimated useful lives |
|-----------------------------------|------------------------|
| Machinery, equipment and software | 3 - 5 years |
| Leasehold improvements | 5 years |
| Furniture and fixtures | 2 - 5 years |
| Store fixtures | 1 - 3 years |

As of March 31, 2021 and March 31, 2020, included in other assets are retail product displays, net, of \$9.7 million and \$10.1 million, respectively, that are generally amortized over a period of three years. Amortization expense for retail product displays was \$5.2 million, \$6.0 million, \$3.1 million and \$1.5 million for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively.

The Company evaluates events and changes in circumstances that could indicate carrying amounts of long-lived assets, including property and equipment, may not be recoverable. When such events or changes in circumstances occur, the Company assesses the recoverability of long-lived assets by determining whether or not the carrying value of such assets will be recovered through undiscounted future cash flows derived from their use and eventual disposition. For purposes of this assessment, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The Company's long-lived assets are grouped on an entity-wide basis. This is due, in part, to the integrated nature of the Company's various distribution channels and the extent of shared costs across those channels. If the sum of the undiscounted future cash flows is less than the carrying amount of an asset, the Company records an impairment loss for the amount by which the carrying amount of the assets exceeds its fair value. There were no impairment charges recorded on long-lived assets during the years ended March 31, 2021, March 31, 2020, December 31, 2018 or the three-month transition period ended March 31, 2019, respectively.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price for an acquisition over the fair value of the net assets acquired. In addition, the Company has acquired finite-lived intangible assets and an indefinite-lived intangible asset.

Goodwill is not amortized but rather is reviewed annually for impairment, at the reporting unit level, or when there is evidence that events or changes in circumstances indicate that the Company's carrying amount may not be recovered. When testing goodwill for impairment, the Company first performs an assessment of qualitative factors. If qualitative factors indicate that it is more likely than not that the fair value of the relevant reporting unit is less than its carrying amount, the Company tests goodwill for impairment at the reporting unit level using a two-step approach. In step one, the Company determines if the fair value of the reporting unit exceeds the unit's carrying value. If step one indicates that the fair value of the reporting unit is less than its carrying value, the Company performs step two, determining the fair value of goodwill and, if the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded. The Company has identified a single reporting unit for purposes of impairment testing due, in part, to the integrated nature of the Company's various distribution channels and the extent of shared costs across those channels.

Indefinite-lived intangible assets are not amortized but rather are tested for impairment annually, and impairment is recognized if the carrying amount exceeds the fair value of the intangible asset. The Company evaluates its indefinite-lived intangible asset to determine whether current events and circumstances continue to support an indefinite useful life. Amortization of intangible assets with finite useful lives is computed on a straight-line basis over periods of 3 years to 10 years. The determination of the estimated period of benefit is dependent upon the use and underlying characteristics of the intangible asset. The Company evaluates the recoverability of its intangible assets subject to amortization when facts and circumstances indicate that the carrying value of the asset may not be recoverable. If the carrying value of an intangible asset is not recoverable, impairment loss is measured as the amount by which the carrying value exceeds its estimated fair value.

Business combinations

The purchase price of a business acquisition is allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the business combination date. The excess of purchase price over the fair value of assets acquired and liabilities assumed is recorded as goodwill. Determining fair value of identifiable assets, particularly intangibles, and liabilities acquired also requires the Company to make estimates, which are based on all available information and in some cases assumptions with respect to the timing and amount of future revenues and expenses associated with an asset. Unanticipated events or circumstances may occur that could affect the accuracy of our fair value estimates, and under different assumptions, the resulting valuations could be materially different.

Costs that are incurred to complete the business combination such as legal and other professional fees are not considered as a part of consideration transferred, and are charged to selling, general and administrative expense as they are incurred.

Debt issuance costs

Debt issuance costs and lender fees were incurred for arranging the credit facilities from various financial institutions. For credit facilities consisting of both term and revolving debt, such costs are allocated to each sub-facility based upon the total borrowing capacity. For term debt, issuance costs are presented within the related long-term debt liability on the consolidated balance sheet and lender fees are presented as a direct deduction from the carrying amount. Both debt issuance costs and lender fees are amortized over the term of the related debt using the effective interest rate method. For revolving debt, issuance costs and lender fees are presented as a noncurrent asset and amortized over the term of the related debt on a straight-line basis.

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate their fair values due to the short-term nature of these items. The carrying amounts of bank debt approximate their fair values as the stated interest rates approximate market rates currently available to the Company for loans with similar terms. See Note 9 Fair value of financial instruments to consolidated financial statements in Part IV, Item 15 "Exhibits, financial statement schedules".

Segment reporting

Operating segments are components of an enterprise for which separate financial information is available that is evaluated by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Utilizing these criteria, the Company manages its business on the basis of one operating segment and one reportable segment. It is impracticable for the Company to provide revenue by product line.

During the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, net sales in the United States and outside of the United States were as follows (in thousands):

| | Year ended March 31, | | Three months ended March 31, (transition period) | Year ended December 31, |
|-----------------|----------------------|------------|--|----------------------------|
| | 2021 | 2020 | 2019 | 2018 |
| United States | \$ 284,203 | \$ 255,284 | \$ 59,797 | \$ 241,159 |
| International | 33,907 | 27,567 | 6,344 | 26,276 |
| Total net sales | \$ 318,110 | \$ 282,851 | \$ 66,141 | \$ 267,435 |

As of March 31, 2021 and March 31, 2020, the Company had property and equipment in the United States and outside of the United States as follows (in thousands):

| | March 31, 2021 | March 31, 2020 |
|-----------------------------------|----------------|----------------|
| United States | \$ 13,524 | \$ 16,845 |
| International | 246 | 326 |
| Total property and equipment, net | \$ 13,770 | \$ 17,171 |

Revenue recognition

Revenue is recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

For the Company's retail customer transactions, a contract exists when a written purchase order is received, and control transfers at the time of shipment or the time of delivery, depending upon the specific terms of the customer arrangement. For the Company's direct-to-consumer transactions, a contract exists when an order is placed online, and control transfers at the time of delivery of merchandise to the customer. Nearly all of the Company's transactions with its customers include a single performance obligation delivered at a point in time.

The transaction price can include both fixed and variable consideration. In most cases, it is entirely comprised of variable consideration with the variability driven by expected sales discounts, markdown support, and other incentives and allowances offered to customers. These incentives may be explicit or implied by the Company's historical business practices.

Generally, these commitments represent cash consideration paid to a customer and do not constitute a promised good or service.

The amount of variable consideration is estimated at the time of sale based on either the expected amount or the most likely amount, depending on the nature of the variability. The Company regularly reviews and revises, when deemed necessary, its estimates of variable consideration, based on both customer-specific expectations as well as historical rates of realization. A provision for customer incentives and allowances is included on the consolidated balance sheet, net against accounts receivable.

Disaggregated revenue

The Company distributes product both through national and international retailers as well as direct-to-consumers through its e-commerce and e.l.f. stores channels (prior to February 2019). The marketing and consumer engagement benefits that the direct channels provide are integral to the Company's brand and product development strategy and drive sales across channels. As such, the Company views its two primary distribution channels as components of one integrated business, as opposed to discrete revenue streams.

The Company sells a variety of beauty products but does not consider them to be meaningfully different revenue streams given similarities in the nature of the products, the target consumer, and the innovation and distribution processes. See *Segment Reporting* section above for the table providing disaggregated revenue from contracts with customers by geographical market, as the nature, amount, timing and uncertainty of revenue and cash flows can differ between domestic and international customers.

Contract assets and liabilities

The Company extends credit to retail customers based upon an evaluation of their credit quality. The majority of retail customers obtain payment terms between 30-60 days, and a contract asset is recognized for the related accounts receivable. Additionally, shipping terms can vary, giving rise to contract liabilities for contracts where payment has been received in advance of delivery. The contract liability balance can vary significantly depending on the timing of when an order is placed and when shipment or delivery occurs.

As of March 31, 2021, other than accounts receivable, the Company had no material contract assets, contract liabilities or deferred contract costs recorded on its consolidated balance sheet.

Practical expedients

The Company elected to record revenue net of taxes collected from customers and exclude the amounts from the transaction price. The Company includes in revenue any taxes assessed on the Company's total gross receipts for which it has the primary responsibility to pay the tax.

The Company elected not to disclose revenues related to remaining performance obligations for partially completed or unfulfilled contracts that are expected to be fulfilled within one year as such amounts were insignificant.

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A reconciliation of the beginning and ending amounts of the reserve for sales adjustments for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019 is as follows (in thousands):

| | | |
|---------------------------------|----|-----------------|
| Balance as of December 31, 2017 | \$ | 8,458 |
| Charges | | 26,971 |
| Deductions | | <u>(27,655)</u> |
| Balance as of December 31, 2018 | | 7,774 |
| Charges | | 6,787 |
| Deductions | | <u>(8,016)</u> |
| Balance as of March 31, 2019 | | 6,545 |
| Charges | | 29,576 |
| Deductions | | <u>(28,508)</u> |
| Balance as of March 31, 2020 | | 7,613 |
| Charges | | 41,027 |
| Deductions | | <u>(36,727)</u> |
| Balance as of March 31, 2021 | \$ | <u>11,913</u> |

In the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, the Company recorded \$0.8 million, \$0.7 million, \$0.5 million and \$0.2 million, respectively, of reimbursed shipping expenses from customers within revenues. The shipping and handling costs associated with product distribution were \$26.4 million, \$19.8 million, \$20.9 million and \$4.9 million, in the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively, and are included in selling, general and administrative expenses in the consolidated statements of operations.

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Future income tax benefits are recognized to the extent that realization of such benefits is more likely than not. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in its income tax provision.

Leases

The Company has entered into operating lease agreements for office space, warehouse and a retail store location, equipment and software. Lease assets and liabilities are recognized at the present value of the minimum rental payments (excluding executory costs) and expected payment under any residual value guarantee at the lease commencement date. The Company uses its incremental borrowing rate to determine the present value of lease payments.

Non-lease components primarily include payments for maintenance and utilities. The Company accounts for the non-lease components in a contract (e.g., common area maintenance) as part of the lease component by electing practical expedient for all leases of commercial office and warehouse space, as the non-lease components are not a significant portion of the total consideration in those agreements. The Company's lease terms include periods under options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Operating lease assets and liabilities are included on the Company's consolidated balance sheet beginning January 1, 2019. The current portion of the Company's operating lease liabilities is included in accrued expenses and other current liabilities, and the long-term portion is included in long-term operating lease liabilities. Finance lease assets are included in other assets. Finance lease liabilities are included in long-term debt and finance lease obligations. Operating lease expense is recognized on a straight-line basis over the lease term.

Foreign currency

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Transactions denominated in currencies other than the functional currency are recorded at exchange rates in effect on the date of the transaction. At the end of each reporting period, monetary assets and liabilities are remeasured to the functional currency using exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical exchange rates. Transaction gains or losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in other income (expense), net in the consolidated statements of operations.

Stock-based compensation

Stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized on a straight-line basis over the requisite service period, which is generally the award's vesting period. The Company estimates the fair value of employee stock-based payment awards subject to only a service condition on the date of grant using the Black-Scholes valuation model. The Black-Scholes model requires the use of highly subjective and complex assumptions, including the option's expected term and the price volatility of the underlying stock.

The Company estimates the fair value of employee stock-based payment awards subject to market conditions using a Monte Carlo simulation model. Compensation expense for employee stock-based awards whose vesting is subject to the fulfillment of both a market condition and the occurrence of a performance condition is recognized on a graded-vesting basis at the time the achievement of the performance condition becomes probable.

Forfeitures are recognized and accounted for as they occur.

Advertising costs

Advertising costs, including promotions and print, are expensed as incurred or distributed. Advertising costs are included in selling, general, and administrative expenses in the accompanying consolidated statements of operations and amounted to approximately \$30.3 million, \$26.0 million, \$10.2 million and \$2.6 million in the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively.

Net income (loss) per share

Basic net income (loss) per share is computed using net income (loss) available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share reflects the dilutive effects of stock options and restricted stock outstanding during the period, to the extent such securities would not be anti-dilutive and is determined using the treasury stock method.

Recent accounting pronouncements

The following table provides a brief description of recent accounting pronouncements that could have a material effect on the Company's financial statements:

| <i>Recently adopted accounting standards</i> | | | |
|---|---|------------------------------------|--|
| Standard | Description | Date of expected adoption/adoption | Effect on the financial statements or other significant matters |
| ASU 2018-15, Intangibles-Goodwill and Other- Internal-Use Software (<i>Subtopic 350-40</i>) | The standard will require customers in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. Certain implementation costs incurred during the application development stage would be deferred and capitalized (e.g., costs of integration with on-premises software, coding, configuration, customization). Other costs incurred during the preliminary project and post-implementation stages would be expensed (e.g., planning the project, training, maintenance after implementation, data conversion). The amendments in the ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. | April 1, 2020 | The Company adopted ASU 2018-15 prospectively, and the adoption of the standard did not have a material impact on the Company's consolidated financial statements. |
| ASU 2019-12—Income Taxes (TOPIC 740): Simplifying the Accounting for Income Taxes | The guidance eliminates certain exceptions related to intraperiod tax allocations, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences related to changes in ownership of equity method investments and foreign subsidiaries. The guidance also simplifies aspects of accounting for franchise taxes and enacted changes in tax laws, and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The new standard is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. | January 1, 2021 | The adoption of the standard had no impact on the Company's consolidated financial statements. |

Note 3—Transition period

The Company is presenting its consolidated financial statements for the three-month transition period ended March 31, 2019. The following tables provide certain unaudited comparative financial information for the same period of the prior year.

Consolidated Statements of Income
(in thousands, except share and per share data)

| | Three months ended March 31, | |
|---|------------------------------|------------|
| | (unaudited) | |
| | 2019 | 2018 |
| Net sales | \$ 66,141 | \$ 65,920 |
| Cost of sales | 25,650 | 25,712 |
| Gross profit | 40,491 | 40,208 |
| Selling, general and administrative expenses | 37,324 | 36,234 |
| Restructuring expenses | 22,176 | — |
| Operating income (loss) | (19,009) | 3,974 |
| Other expense, net | (315) | (888) |
| Interest expense, net | (1,849) | (1,963) |
| Income (loss) before provision for income taxes | (21,173) | 1,123 |
| Income tax benefit (provision) | 3,259 | (433) |
| Net income (loss) | \$ (17,914) | \$ 690 |
| Comprehensive income (loss) | \$ (17,914) | \$ 690 |
| Net income (loss) per share: | | |
| Basic | \$ (0.37) | \$ 0.01 |
| Diluted | \$ (0.37) | \$ 0.01 |
| Weighted average shares outstanding: | | |
| Basic | 48,022,926 | 46,435,560 |
| Diluted | 48,022,926 | 49,302,771 |

Consolidated Statements of Cash Flows
(in thousands)

| | Three months ended March 31, | |
|--|------------------------------|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | (unaudited) |
| Net income (loss) | \$ (17,914) | \$ 690 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 7,544 | 4,288 |
| Restructuring loss | 22,176 | — |
| Stock-based compensation expense | 3,683 | 3,640 |
| Amortization of debt issuance costs and discount on debt | 190 | 199 |
| Deferred income taxes | (3,433) | 735 |
| Other, net | 242 | 142 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,215 | 12,771 |
| Inventories | 2,561 | 951 |
| Prepaid expenses and other assets | (1,732) | (1,498) |
| Accounts payable and accrued expenses | (6,021) | (16,891) |
| Other liabilities | (3,295) | 3 |
| Net cash provided by operating activities | 8,216 | 5,030 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3,400) | (2,667) |
| Net cash used in investing activities | (3,400) | (2,667) |
| Cash flows from financing activities: | | |
| Proceeds from revolving line of credit | — | 2,000 |
| Repayment of revolving line of credit | — | (2,000) |
| Repayment of long-term debt | (2,063) | (2,063) |
| Cash received from issuance of common stock | 115 | 212 |
| Other, net | (199) | (97) |
| Net cash used in financing activities | (2,147) | (1,948) |
| Net increase in cash and cash equivalents | 2,669 | 415 |
| Cash and cash equivalents - beginning of period | 51,205 | 10,059 |
| Cash and cash equivalents - end of period | \$ 53,874 | \$ 10,474 |

Note 4 — Acquisitions

On February 24, 2020, the Company, through its wholly owned subsidiary, e.l.f. Cosmetics, Inc., completed its acquisition of W3LL People, Inc., a Santa Fe, New Mexico-based privately held, clean-beauty company with a mission to create premium quality clean products that help people be well, look well and do well. The purchase price of \$25.9 million was in all cash and the total consideration in connection with the acquisition is subject to adjustment based on (i) purchase price adjustment provisions and (ii) indemnification obligations of W3LL People, Inc.'s stockholders after the closing of the acquisition.

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The acquisition has been accounted for as a business combination under the acquisition method and, accordingly, the total purchase price is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition date. The purchase price allocation and calculation of residual goodwill was finalized during the quarter ended September 30, 2020. W3LL People, Inc.'s results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

The following table presents the purchase price allocation recorded in the Company's consolidated balance sheet on acquisition date and upon finalization during the quarter ended September 30, 2020. A \$0.3 million adjustment was recorded in the quarter ended September 30, 2020 and included in the table below (in thousands):

| | | |
|------------------------------------|----|---------------|
| Net tangible assets | \$ | 1,978 |
| Goodwill ⁽¹⁾ | | 14,357 |
| Intangible assets | | 12,340 |
| Net deferred tax liability | | (2,752) |
| Total purchase price consideration | \$ | <u>25,923</u> |

⁽¹⁾ The goodwill represents the excess value over both tangible and intangible assets acquired and liabilities assumed. The goodwill recognized in this transaction is primarily attributable to expected operational synergies. None of the goodwill is expected to be deductible for tax purposes.

Intangible Assets

| | Fair Value (in thousands) | Estimated Useful Life (in years) |
|-------------------------------------|------------------------------|-------------------------------------|
| Customer relationships — retailers | \$ 8,800 | 10 |
| Customer relationships — e-commerce | 40 | 3 |
| Trademarks | 3,500 | 10 |
| Total identified intangible assets | <u>\$ 12,340</u> | |

Note 5—Investment in equity securities

On April 14, 2017, the Company invested \$2.9 million in a social media analytics company, which is included in investments on its consolidated balance sheets. The Company has elected the measurement alternative for equity investments that do not have readily determinable fair values. The Company did not record an impairment charge on its investment during the years ended March 31, 2021, March 31, 2020, December 31, 2018 or the three-month transition period ended March 31, 2019, respectively, as any identified events or changes in circumstances did not result in an indicator for impairment. Further, there were no observable price changes in orderly transactions for the identical or a similar investment of the same issuer during the years ended March 31, 2021, March 31, 2020, December 31, 2018 or the three-month transition period ended March 31, 2019, respectively.

Note 6—Goodwill and other intangible assets

Information regarding the Company's goodwill and intangible assets as of March 31, 2021 is as follows (in thousands):

| | Estimated useful life | Gross carrying amount | Accumulated amortization | Net carrying amount |
|--------------------------------------|-----------------------|-----------------------|--------------------------|---------------------|
| Customer relationships – retailers | 10 years | \$ 77,600 | \$ (50,260) | \$ 27,340 |
| Customer relationships – e-commerce | 3 years | 3,940 | (3,915) | 25 |
| Trademarks | 10 years | 3,500 | (379) | 3,121 |
| Total finite-lived intangibles | | 85,040 | (54,554) | 30,486 |
| Trademarks | Indefinite | 63,800 | — | 63,800 |
| Goodwill | | 171,620 | — | 171,620 |
| Total goodwill and other intangibles | | \$ 320,460 | \$ (54,554) | \$ 265,906 |

Information regarding the Company's goodwill and intangible assets as of March 31, 2020 is as follows (in thousands):

| | Estimated useful life | Gross carrying amount | Accumulated amortization | Net carrying amount |
|--------------------------------------|-----------------------|-----------------------|--------------------------|---------------------|
| Customer relationships – retailers | 10 years | \$ 77,600 | \$ (42,500) | \$ 35,100 |
| Customer relationships – e-commerce | 3 years | 3,940 | (3,901) | 39 |
| Trademarks | 10 years | 3,500 | (29) | 3,471 |
| Total finite-lived intangibles | | 85,040 | (46,430) | 38,610 |
| Trademarks | Indefinite | 63,800 | — | 63,800 |
| Goodwill | | 171,321 | — | 171,321 |
| Total goodwill and other intangibles | | \$ 320,161 | \$ (46,430) | \$ 273,731 |

The Company has not recognized any impairment charges on its goodwill or intangible assets, as the anticipated future cash flows generated by each of these assets remain substantially in excess of their carrying values. Amortization expense on the finite-lived intangible assets was \$8.1 million, \$7.0 million, \$7.1 million and \$1.7 million for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively.

The estimated future amortization expense related to the finite-lived intangible assets, assuming no impairment as of March 31, 2021, is as follows (in thousands):

| The year ended March 31, 2021 | |
|-------------------------------|-----------|
| 2022 | \$ 8,123 |
| 2023 | 8,122 |
| 2024 | 6,963 |
| 2025 | 1,230 |
| 2026 | 1,230 |
| Thereafter | 4,818 |
| Total | \$ 30,486 |

Note 7—Property and equipment

Property and equipment as of March 31, 2021 and March 31, 2020 consists of the following (in thousands):

| | March 31, 2021 | March 31, 2020 |
|---|------------------|------------------|
| Machinery, equipment and software | \$ 14,899 | \$ 15,327 |
| Leasehold improvements | 4,436 | 3,459 |
| Furniture and fixtures | 1,104 | 708 |
| Store fixtures | 10,785 | 10,302 |
| Property and equipment, gross | 31,224 | 29,796 |
| Less: Accumulated depreciation and amortization | (17,454) | (12,625) |
| Property and equipment, net | <u>\$ 13,770</u> | <u>\$ 17,171</u> |

Depreciation and amortization expense on property and equipment was \$6.7 million, \$6.3 million, \$7.6 million and \$1.7 million during the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively.

Note 8—Accrued expenses and other current liabilities

Accrued expenses and other current liabilities as of March 31, 2021 and March 31, 2020 consists of the following (in thousands):

| | March 31, 2021 | March 31, 2020 |
|--|------------------|------------------|
| Accrued expenses | \$ 21,300 | \$ 12,518 |
| Current portion of operating lease liabilities | 4,292 | 3,083 |
| Accrued compensation | 10,805 | 9,542 |
| Other current liabilities | 4,954 | 1,022 |
| Accrued expenses and other current liabilities | <u>\$ 41,351</u> | <u>\$ 26,165</u> |

Note 9—Fair value of financial instruments

The fair value of financial instruments are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is measured using inputs from the three levels of the fair value hierarchy, which are described as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities

Level 2—Quoted prices for similar assets and liabilities in active markets or inputs that are observable

Level 3—Inputs that are unobservable (for example, cash flow modeling inputs based on management’s assumptions)

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The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following table sets forth the fair value of the Company's financial liabilities by level within the fair value hierarchy as of March 31, 2021 (in thousands):

| | Fair value | Fair value measurements using | | |
|--|-------------------|-------------------------------|-------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Financial liabilities: | | | | |
| Long-term debt, including current portion ⁽¹⁾ | \$ 126,789 | \$ — | \$ 126,789 | \$ — |
| Total financial liabilities | \$ 126,789 | \$ — | \$ 126,789 | \$ — |

⁽¹⁾ Of this amount, \$16,281 is classified as current. The gross carrying amounts of the Company's bank debt, before reduction of the debt issuance costs, approximate their fair values as the stated rates approximate market rates for loans with similar terms.

The following table sets forth the fair value of the Company's financial liabilities by level within the fair value hierarchy as of March 31, 2020 (in thousands):

| | Fair value | Fair value measurements using | | |
|--|-------------------|-------------------------------|-------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Financial liabilities: | | | | |
| Long-term debt, including current portion ⁽¹⁾ | \$ 138,865 | \$ — | \$ 138,865 | \$ — |
| Total financial liabilities | \$ 138,865 | \$ — | \$ 138,865 | \$ — |

⁽¹⁾ Of this amount, \$12,568 is classified as current. The gross carrying amounts of the Company's bank debt, before reduction of the debt issuance costs, approximate their fair values as the stated rates approximate market rates for loans with similar terms.

The Company did not transfer any assets measured at fair value on a recurring basis to or from Level 1 or Level 2 for any of the periods presented.

Note 10—Debt

The following summarizes the recent significant transactions impacting the Company's indebtedness:

- On January 31, 2014, the Company entered into a senior secured credit facility (the "2014 Senior Secured Credit Facility"), which consisted of a \$20.0 million revolving line of credit and a \$105.0 million term loan. Also, on January 31, 2014, the Company entered into a \$40.0 million second lien term loan (the "Second Lien Term Loan").
- On June 7, 2016, the Company incurred an incremental \$64.0 million in term loan borrowings under the 2014 Senior Secured Credit Facility to fund, in part, a \$72.0 million special dividend to stockholders, and increased the total availability under the revolving credit facility to \$25.0 million.
- On September 27, 2016, the Company used a portion of the proceeds from the initial public offering to repay the entire outstanding balance of \$40.0 million from the Second Lien Term Loan.
- On December 23, 2016, the Company refinanced its outstanding obligations under the 2014 Senior Secured Credit Facility, entering into a new 5-year, \$200.0 million senior secured credit agreement (the "2016 Senior Secured Credit Facility"), as further described below.
- On August 25, 2017, the Company amended the 2016 Senior Secured Credit Facility to increase the total availability under the revolving line of credit to \$50.0 million and to lower the interest rates and extend the maturity date to August 25, 2022.

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- On April 8, 2020, the Company amended the 2016 Senior Secured Credit Facility to modify the Company's quarterly maintenance covenants, and to add interest rates with respect to borrowings associated with the added increased maximum permitted total net leverage ratios.
- On April 30, 2021, the Company refinanced its outstanding obligations under the 2016 Senior Secured Credit Facility and entered into a new 5-year \$200.0 million senior secured credit agreement. See Note 21 Subsequent Events to consolidated financial statements in Part IV, Item 15 "Exhibits, financial statement schedules".

The Company's outstanding debt as of March 31, 2021 and March 31, 2020 consists of the following (in thousands):

| | March 31, 2021 | March 31, 2020 |
|--|-------------------|-------------------|
| Debt: | | |
| Term loan | \$ 124,589 | \$ 135,853 |
| Finance lease obligations | 2,200 | 3,012 |
| Total debt | 126,789 | 138,865 |
| Less: debt issuance costs | (253) | (209) |
| Total debt, net of issuance costs | 126,536 | 138,656 |
| Less: current portion | (16,281) | (12,568) |
| Long-term portion of debt | \$ 110,255 | \$ 126,088 |

Senior secured credit agreement, as amended

On December 23, 2016, the Company entered into the Senior Secured Credit Agreement (as amended, the "2016 Credit Agreement") with a syndicate consisting of several large financial institutions with respect to the 2016 Senior Secured Credit Facility. The Credit Agreement was first amended on August 25, 2017, increasing the aggregate commitments to \$215.0 million. The 2016 Credit Agreement, as amended, consisted of a \$50.0 million revolving line of credit and a \$165.0 million term loan. The 2016 Credit Agreement was amended again on December 7, 2018 to reflect the change in the Company's fiscal year-end from December 31 to March 31, and amended again on April 8, 2020 to (i) increase the maximum permitted total net leverage ratio for certain fiscal quarters, (ii) reduce the minimum fixed charge coverage ratio for certain fiscal quarters, (iii) add additional interest rates to correspond to the increased maximum permitted total net leverage ratios, (iv) increase the amount of cash netted in the calculation of the consolidated total net leverage ratio, and (v) amend the language around the level of add backs to the adjusted consolidated EBITDA definition.

The 2016 Credit Agreement contained a number of covenants that, among other things, restricted our ability to (subject to certain exceptions) pay dividends and distributions or repurchase our capital stock, incur additional indebtedness, create liens on assets, engage in mergers or consolidations and sell or otherwise dispose of assets. The 2016 Credit Agreement also included reporting, financial and maintenance covenants that require us to, among other things, comply with certain consolidated total net leverage ratios and consolidated fixed charge coverage ratios. As of March 31, 2021 and March 31, 2020, the Company was in compliance with all financial covenants under the 2016 Credit Agreement.

Aggregate future minimum principal payments are as follows (in thousands):

| The year ended March 31, 2021 | Term Loan |
|-------------------------------|-------------------|
| 2022 | \$ 15,469 |
| 2023 | 109,725 |
| Total | <u>\$ 125,194</u> |

Interest expense

The components of interest expense, net are as follows (in thousands):

| | Year ended March 31, | | Three months ended March 31, (transition period) | Year ended December 31, |
|--------------------------------------|-------------------------|-----------------|--|----------------------------|
| | 2021 | 2020 | 2019 | 2018 |
| Interest on term loan debt | \$ 2,912 | \$ 6,096 | \$ 1,774 | \$ 6,774 |
| Amortization of debt issuance costs | 847 | 747 | 190 | 792 |
| Interest on revolving line of credit | 199 | 149 | 40 | 132 |
| Interest on finance leases | 137 | 179 | 50 | 155 |
| Interest income | (5) | (863) | (205) | (37) |
| Interest expense, net | <u>\$ 4,090</u> | <u>\$ 6,308</u> | <u>\$ 1,849</u> | <u>\$ 7,816</u> |

Note 11—Contingencies

Legal Contingencies

From time to time, the Company is involved in legal proceedings, claims, and litigation arising in the ordinary course of business. The Company is not currently a party to any matters that management expects will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Note 12—Income taxes

The components of income (loss) before provision for income taxes are as follows (in thousands):

| | Year ended March 31, | | Three months ended March 31, (transition period) | Year ended December 31, |
|----------|-------------------------|------------------|--|----------------------------|
| | 2021 | 2020 | 2019 | 2018 |
| Domestic | \$ 3,715 | \$ 24,479 | \$ (21,673) | \$ 17,405 |
| Foreign | (25) | (410) | 500 | 551 |
| Total | <u>\$ 3,690</u> | <u>\$ 24,069</u> | <u>\$ (21,173)</u> | <u>\$ 17,956</u> |

The components of the benefit (provision) for income taxes are as follows (in thousands):

| | Year ended March 31, | | Three months ended March 31, (transition period) | Year ended December 31, |
|--|-------------------------|------------|--|----------------------------|
| | 2021 | 2020 | 2019 | 2018 |
| Current: | | | | |
| U.S. federal | \$ (4,772) | \$ (2,681) | \$ (13) | \$ (2,414) |
| State | (1,186) | (1,066) | (139) | (948) |
| Foreign | (84) | 5 | (22) | (8) |
| Total current | (6,042) | (3,742) | (174) | (3,370) |
| Deferred: | | | | |
| U.S. federal | 7,159 | (2,532) | 3,096 | 1,005 |
| State | 1,293 | 99 | 368 | 101 |
| Foreign | 132 | (10) | (31) | (167) |
| Total deferred | 8,584 | (2,443) | 3,433 | 939 |
| Total (provision) benefit for income taxes | \$ 2,542 | \$ (6,185) | \$ 3,259 | \$ (2,431) |

The following table presents a reconciliation of the federal statutory rate to the Company's effective tax rate:

| | Year ended March 31, | | Three months ended March 31, (transition period) | Year ended December 31, |
|--|-------------------------|--------|---|----------------------------|
| | 2021 | 2020 | 2019 | 2018 |
| Federal statutory rate | 21.0 % | 21.0 % | 21.0 % | 21.0 % |
| State tax, net of federal benefit | (10.6)% | 3.7 % | 1.2 % | 2.6 % |
| State tax deferred rate change, net of federal benefit | (1.6)% | 0.1 % | — % | 0.9 % |
| Nondeductible business expenses | 2.1 % | 0.8 % | (0.1)% | 1.4 % |
| Nondeductible employee compensation | 9.1 % | 0.4 % | — % | — % |
| Provision-to-return adjustment | 1.5 % | — % | — % | (3.9)% |
| Uncertain tax positions | 1.0 % | (0.2)% | (0.1)% | (1.3)% |
| Stock based compensation | (90.7)% | (0.8)% | (6.1)% | (8.6)% |
| Others | (0.7)% | 0.7 % | (0.5)% | 1.4 % |
| Effective tax rate | (68.9)% | 25.7 % | 15.4 % | 13.5 % |

The components of net deferred taxes arising from temporary differences are as follows (in thousands):

| | March 31, 2021 | March 31, 2020 |
|------------------------------|------------------|------------------|
| Deferred tax assets: | | |
| Compensation | \$ 624 | \$ 760 |
| Inventories and receivables | 5,710 | 3,472 |
| Accrued expenses | 2,067 | 1,996 |
| Stock compensation | 7,247 | 3,706 |
| Net operating losses | 272 | 92 |
| Right of use liability | 5,731 | 3,443 |
| Other | 560 | 558 |
| Deferred tax assets | <u>22,211</u> | <u>14,027</u> |
| Deferred tax liabilities: | | |
| Goodwill | 4,090 | 3,468 |
| Fixed assets | 2,506 | 3,294 |
| Intangible assets | 23,162 | 25,287 |
| Right of use asset | 5,294 | 3,292 |
| Other | 463 | 563 |
| Deferred tax liabilities | <u>35,515</u> | <u>35,904</u> |
| Net deferred tax liabilities | <u>\$ 13,304</u> | <u>\$ 21,877</u> |

The deferred tax assets and liabilities are reported in the accompanying balance sheets as follows (in thousands):

| | March 31, 2021 | March 31, 2020 |
|------------------------------|------------------|------------------|
| Deferred tax assets | \$ 175 | \$ 15 |
| Deferred tax liabilities | 13,479 | 21,892 |
| Net deferred tax liabilities | <u>\$ 13,304</u> | <u>\$ 21,877</u> |

As of March 31, 2021, the Company had gross federal, state and foreign net operating loss carryforwards of \$0.5 million, \$0.1 million and \$0.6 million, respectively. The federal and state net operating loss carryforwards can either be carried forward 20 years or indefinitely. The federal and state net operating loss carryforwards will begin to expire in 2038. The foreign net operating loss carryforwards have a carryforward period of 5 years and will begin to expire in 2026.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

| | Year ended March 31, | | Three months ended March 31, (transition period) | | Year ended December 31, | |
|--|-------------------------|---------------|--|---------------|----------------------------|--|
| | 2021 | 2020 | 2019 | 2018 | | |
| Balance at beginning of year | \$ 477 | \$ 581 | \$ 571 | \$ 764 | | |
| Increases for prior year tax positions | 6 | 32 | — | — | | |
| Increases for current year tax positions | 65 | 90 | 10 | 173 | | |
| Decreases for prior year tax positions | — | — | — | (8) | | |
| Decreases due to settlements | (27) | (29) | — | — | | |
| Decreases due to statutes lapsing | (63) | (197) | — | (358) | | |
| Balance at end of year | <u>\$ 458</u> | <u>\$ 477</u> | <u>\$ 581</u> | <u>\$ 571</u> | | |

If all of the Company's unrecognized tax benefits as of March 31, 2021, March 31, 2020 and December 31, 2018, and the three-month transition period ended March 31, 2019 were recognized, \$0.5 million, \$0.5 million, \$0.4 million

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and \$0.4 million, respectively, of unrecognized tax benefits, would impact the effective tax rate. The Company believes it is reasonably possible that \$0.1 million of unrecognized tax benefits may reverse in the next twelve months.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes. The Company had \$0.1 million and \$0.1 million of accrued gross interest and penalties as of March 31, 2021 and March 31, 2020, respectively. The Company recognized net interest and penalties expense of \$29 thousand, \$23 thousand, \$(40) thousand and \$3 thousand for the years ended March 31, 2021, March 31, 2020 and December 31, 2018, and the three-month transition period ended March 31, 2019, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of March 31, 2021, with few exceptions, the Company or its subsidiaries are no longer subject to examination prior to tax year ended December 31, 2017.

Note 13—Preferred stock

The Company has authorized 30,000,000 shares of preferred stock for issuance with a par value of \$0.01 per share. There were no shares of preferred stock outstanding as of March 31, 2021 or March 31, 2020.

Note 14—Stock-based compensation

Stock plans

The Company grants stock-based awards under its 2016 Equity Incentive Award Plan (as amended) (the “2016 Plan”), which replaced its 2014 Equity Incentive Plan (the “2014 Plan”) and became effective immediately prior to the effectiveness of the Company’s registration statement on Form S-1 in September 2016. No grants have been made under the 2014 Plan since the Company’s initial public offering and no further awards will be granted thereunder. Any awards outstanding under the 2014 Plan that are forfeited or lapse unexercised will be added to the shares reserved and available for grant under the 2016 Plan. The 2016 Plan permits the grant of incentive stock options, non-statutory stock options, restricted stock and other stock- or cash-based awards to employees, officers, directors, advisors and consultants. The 2016 Plan allows for option grants of the Company’s common stock based on service, performance and market conditions.

As of March 31, 2021, a total of 14,483,591 shares have been authorized for issuance under the 2016 Plan, and 7,667,891 remain available for grant. As of March 31, 2021, there were 1,061,972 options and awards outstanding under the 2014 Plan that, if forfeited, would increase the number of shares authorized for grant under the 2016 Plan.

Service-based vesting stock options

The following table summarizes the activity for options that vest solely based upon the satisfaction of a service condition as follows:

| | Options outstanding | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic values (in thousands) ⁽¹⁾ |
|---------------------------------|---------------------|---------------------------------|--|--|
| Balance as of December 31, 2018 | 2,746,670 | \$ 12.91 | | |
| Granted | 115,100 | 7.95 | | |
| Canceled or forfeited | (286,191) | 16.98 | | |
| Balance as of March 31, 2019 | 2,575,579 | 12.24 | 6.9 | \$ 6,958 |
| Granted | 202,560 | 14.18 | | |
| Exercised | (334,572) | 4.08 | | |
| Canceled or forfeited | (444,014) | 15.07 | | |
| Balance as of March 31, 2020 | 1,999,553 | 13.17 | 6.8 | \$ 3,773 |
| Exercised | (337,376) | 4.36 | | |
| Canceled or forfeited | (21,196) | 23.24 | | |
| Balance as of March 31, 2021 | 1,640,981 | \$ 14.86 | 6.1 | \$ 19,650 |
| Exercisable, March 31, 2021 | 1,312,728 | \$ 14.99 | 5.6 | \$ 15,549 |

- (1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the Company's closing stock price of \$26.83, as reported on the New York Stock Exchange on March 31, 2021.

Additional information relating to service-based options is as follows (in thousands, except per share data):

| | Year ended March 31, | | Three months ended March 31, (transition period) | | Year ended December 31, | |
|---|----------------------|----------|--|----------|-------------------------|----------|
| | 2021 | 2020 | 2019 | 2018 | 2018 | 2018 |
| Stock-based compensation expense | \$ 1,671 | \$ 2,308 | \$ 590 | \$ 3,219 | \$ 3,219 | \$ 3,219 |
| Intrinsic value of options exercised | 5,620 | 3,580 | — | 2,890 | 2,890 | 2,890 |
| Weighted-average grant date fair value of options granted (per share) | \$ — | \$ 5.55 | \$ 3.12 | \$ 6.81 | \$ 6.81 | \$ 6.81 |

As of March 31, 2021, there was \$1.5 million of total unrecognized compensation cost related to service-based stock options, which is expected to be recognized over the remaining weighted-average vesting period of 2.2 years.

The fair value of service-based stock options granted were calculated using the following weighted-average assumptions:

| | Year ended March 31, | Three months ended March 31, (transition period) | Year ended December 31, |
|--------------------------|----------------------|--|-------------------------|
| | 2020 | 2019 | 2018 |
| Expected term (in years) | 6.5 | 6.3 | 6.3 |
| Expected volatility | 35.57 % | 35.13 % | 32.02 % |
| Risk-free interest rate | 2.07 % | 2.55 % | 2.68 % |
| Expected dividend yield | — % | — % | — % |

No service-based stock options were granted during the year ended March 31, 2021.

The determination of the fair value of stock options on the date of grant using a Black-Scholes option-pricing model is affected by the fair value of the underlying common stock, as well as assumptions regarding a number of variables that are complex, subjective and generally require significant judgment. The assumptions used in the Black-Scholes option-pricing model to calculate the fair value of stock options were:

Fair value of common stock

The fair value of shares of common stock underlying stock options is based on the closing stock price as quoted on the New York Stock Exchange on the date of grant.

Expected term

The expected term of the options represents the period of time that the options are expected to be outstanding. Options granted have a maximum contractual life of 10 years. Prior to the initial public offering, the Company estimated the expected term of the option based on the estimated timing of potential liquidity events. For grants upon or after the initial public offering, the Company estimated the expected term based upon the simplified method described in Staff Accounting Bulletin No. 107, as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its equity shares have been publicly traded.

Expected volatility

As the Company does not have sufficient trading history for its common stock, the expected stock price volatility for the common stock was estimated by taking the average historic price volatility for industry peers based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers consist of several public companies within the same industry, which are of similar size, complexity and stage of development. The Company intends to continue to consistently apply this process using the same or similar public companies until a sufficient amount of historical information regarding the volatility of its own share price becomes available, or unless circumstances change such that the identified companies are no longer similar to the Company, in which case, more suitable companies whose share prices are publicly available would be used in the calculation.

Risk-free interest rate

The risk-free interest rate was based on the U.S. Treasury rate, with maturities similar to the expected term of the options.

Expected dividend yield

The Company does not anticipate paying any dividends in the foreseeable future. As such, the Company uses an expected dividend yield of zero.

Performance-based and market-based vesting stock options

The following table summarizes the activity for options that vest based upon the satisfaction of performance or market conditions as follows:

| | Options outstanding | Weighted-average exercise price | Weighted-average remaining contractual life (in years) | Aggregate intrinsic values (in thousands) ⁽¹⁾ |
|---------------------------------|---------------------|---------------------------------|--|--|
| Balance as of December 31, 2018 | 1,482,782 | \$ 8.94 | | |
| Exercised | (62,450) | 1.84 | | |
| Canceled or forfeited | (96,900) | 26.84 | | |
| Balance as of March 31, 2019 | 1,323,432 | 7.96 | 6.0 | \$ 8,646 |
| Exercised | (53,100) | 2.40 | | |
| Canceled or forfeited | (17,400) | 26.84 | | |
| Balance as of March 31, 2020 | 1,252,932 | 7.97 | 5.0 | \$ 7,487 |
| Exercised | (144,340) | 1.89 | | |
| Balance as of March 31, 2021 | 1,108,592 | \$ 8.72 | 4.0 | \$ 20,077 |
| Exercisable, March 31, 2021 | 808,592 | \$ 2.00 | 3.3 | \$ 20,077 |

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the Company's closing stock price of \$26.83, as reported on the New York Stock Exchange on March 31, 2021.

As of March 31, 2021, there was no further unrecognized compensation cost related to performance-based and market-based vesting stock options.

Additional information relating to options that vest based upon the satisfaction of performance or market conditions is as follows (in thousands, except per share data):

| | Year ended March 31, | | Three months ended March 31, (transition period) | | Year ended December 31, | |
|---|----------------------|------|--|------|-------------------------|----------|
| | 2021 | 2020 | 2019 | 2018 | | |
| Stock-based compensation expense | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 1,168 |
| Intrinsic value of options exercised | 3,117 | 609 | 419 | | | 8,669 |
| Weighted-average grant date fair value of options granted (per share) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |

In February 2017, the Company granted options that vest based upon the achievement of specified stock prices. The fair values and derived service periods were determined using a Monte Carlo simulation model. If the awards vest prior to the end of the derived service period, the remaining unamortized compensation cost will be recognized in the period of vesting.

Restricted stock

The following table summarizes the activities for restricted stock awards (“RSAs”) and restricted stock units (“RSUs”) as follows:

| | Shares of restricted stock outstanding | Weighted-average grant date fair value |
|---------------------------------|---|---|
| Balance as of December 31, 2018 | 2,036,124 | \$ 20.01 |
| Granted ⁽¹⁾ | 1,464,710 | 7.64 |
| Vested | (396,514) | 21.79 |
| Canceled or forfeited | (317,922) | 20.06 |
| Balance as of March 31, 2019 | 2,786,398 | 13.26 |
| Granted | 673,461 | 14.26 |
| Vested | (762,818) | 15.97 |
| Canceled or forfeited | (385,273) | 12.66 |
| Balance as of March 31, 2020 | 2,311,768 | 12.86 |
| Granted | 1,206,870 | 17.45 |
| Vested | (1,044,052) | 13.97 |
| Canceled or forfeited | (184,971) | 14.19 |
| Balance as of March 31, 2021 | 2,289,615 | \$ 14.67 |

⁽¹⁾ Includes restricted stock awards granted in the period ending March 31, 2019 that vest based upon the achievement of a specified stock price and satisfaction of a service condition. The fair values and derived service periods were determined using a Monte Carlo simulation model.

As of March 31, 2021, there were 1,190,320 unvested shares subject to RSAs outstanding. Additional information relating to RSAs and RSUs is as follows (in thousands):

| | Year ended March 31, | | Three months ended March 31, (transition period) | | Year ended December 31, |
|--|-------------------------|-----------|--|-----------|----------------------------|
| | 2021 | 2020 | 2019 | 2018 | |
| Stock-based compensation expense | \$ 18,012 | \$ 13,181 | \$ 3,093 | \$ 12,434 | |
| Intrinsic value of restricted stock released | \$ 24,328 | \$ 12,448 | \$ 3,387 | \$ 6,280 | |

As of March 31, 2021, there was \$25.6 million of total unrecognized compensation cost related to unvested RSAs and RSUs, which is expected to be recognized over the remaining weighted-average vesting period of 2.2 years. Stock-based compensation expense related to restricted stock for the year ended March 31, 2021 of \$0.2 million and \$17.8 million was reported in cost of sales and selling, general and administrative expenses in the Company's consolidated statements of comprehensive income, respectively. Stock compensation expense for the years ended March 31, 2020, December 31, 2018, and the transition period ended March 31, 2019 was reported in selling, general and administrative expenses in the Company's consolidated statements of comprehensive income.

Note 15—Restructuring and other related costs

2021 Restructuring Plan

In March 2021, a restructuring plan (the "2021 Restructuring Plan") was approved to close the Company's manufacturing plant in Rancho Cucamonga, California. Activities associated with the 2021 Restructuring Plan included the closure of the facility; the impairment of plant assets, including equipment and leasehold improvements; the disposal of excess inventory on hand at the plant; and the termination of manufacturing plant employees.

The following table presents the restructuring expense incurred during the year ended March 31, 2021 (in thousands) in connection with the 2021 Restructuring Plan:

| | March 31, 2021 |
|---|-----------------|
| Property, plant and equipment impairment | \$ 2,097 |
| Inventory disposal | 343 |
| Employee severance and related expenses | 23 |
| Other costs, including other asset write-offs | 178 |
| Total | \$ 2,641 |

Liabilities related to the 2021 Restructuring Plan were not material as of March 31, 2021.

2019 Restructuring Plan

In February 2019, the Company closed all 22 e.l.f. retail stores and implemented a workforce reduction of employees that operated and managed the e.l.f. retail stores (the "2019 Restructuring Plan").

The following table presents the restructuring (income) expenses incurred for the year ended March 31, 2020 and the three-month transition period ended March 31, 2019, respectively, in connection with the 2019 Restructuring Plan (in thousands):

| | March 31, 2020 | Three months ended March 31, (transition period) |
|---|-------------------|--|
| | 2020 | 2019 |
| Acceleration of rent expense | \$ — | \$ 16,106 |
| Acceleration of depreciation expense | — | 5,377 |
| Gain from extinguishment of lease liabilities | (7,733) | (1,866) |
| Employee severance and related expenses | — | 600 |
| Other costs, including other asset write-offs | 1,751 | 1,959 |
| Total | \$ (5,982) | \$ 22,176 |

The acceleration of rent expense is net of a \$1.9 million gain related to operating lease liabilities that were extinguished as of March 31, 2019. This gain represents the difference between the aggregate operating lease liability established upon adoption of ASC 842 and the aggregate cash charge incurred to extinguish the aggregate liability. The gross accelerated rent expense of \$16.1 million is included in depreciation and amortization in the statement of cash flows in the transition period for the three months ended March 31, 2019. The majority of the other costs incurred during the three-month transition period ended March 31, 2019 and the year ended March 31, 2020 are legal fees related to this extinguishment. As of March 31, 2020, the Company has settled all outstanding lease liabilities related to its e.l.f. retail store closures and does not expect to incur additional costs associated with the 2019 Restructuring Plan.

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Liabilities related to the 2019 Restructuring Plan are reported within accrued expenses and other current liabilities in the accompanying consolidated balance sheets. There were no costs incurred or cash disbursements made during the year ended March 31, 2021. The following table presents a roll-forward of the Company's restructuring liability for the three-month transition period ended March 31, 2019 and the year ended March 31, 2020, respectively (in thousands):

| | Employee severance and related expenses | Other costs | Total |
|--------------------------------------|--|-------------|---------|
| December 31, 2018 | \$ — | \$ — | \$ — |
| Costs incurred | 600 | 1,118 | 1,718 |
| Cash disbursements | (504) | (443) | (947) |
| Other adjustments | — | — | — |
| March 31, 2019 | \$ 96 | \$ 675 | \$ 771 |
| Costs incurred and other adjustments | (22) | 1,634 | 1,612 |
| Cash disbursements | (74) | (2,309) | (2,383) |
| March 31, 2020 | \$ — | \$ — | \$ — |

Outstanding lease liabilities are not included in the table above, as those liabilities were established upon adoption of ASC 842, not in connection with the 2019 Restructuring Plan.

Note 16—Repurchase of common stock

On May 8, 2019, the Company announced that its board of directors authorized a share repurchase program to acquire up to \$25.0 million of the Company's common stock (the "Share Repurchase Program"). Purchases under the Share Repurchase Program may be made from time to time through a variety of methods, which may include open market purchases, privately negotiated transactions, block trades, accelerated share repurchase transactions, or by any combination of such methods. The timing and amount of any repurchases pursuant to the Share Repurchase Program will be determined based on market conditions, share price and other factors. The Share Repurchase Program does not require the Company to repurchase any specific number of shares of its common stock, and may be modified, suspended or terminated at any time without notice. There is no guarantee that any additional shares will be purchased under the Share Repurchase Program and such shares are intended to be retired after purchase.

The Company did not repurchase any shares during the three and twelve months ended March 31, 2021. A total of \$17.1 million remains available for purchase under the Share Repurchase Program as of March 31, 2021.

Note 17—Employee benefit plan

The Company maintains a defined contribution 401(k) profit-sharing plan (the "401(k) Plan") for eligible employees. Participants may make voluntary contributions up to the maximum amount allowable by law. The Company may make contributions to the 401(k) Plan on a discretionary basis which vest to the participants 100%. The Company made matching contributions of \$0.3 million, \$0.3 million, \$0.2 million and \$0.1 million to the 401(k) Plan during the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively.

Note 18—Net income (loss) per share

The following is a reconciliation of the numerator and denominator in the basic and diluted net income (loss) per common share computations (in thousands, except share and per share data):

| | Year ended March 31, | | Three months ended March | Year ended |
|---|----------------------|------------|------------------------------------|----------------------|
| | 2021 | 2020 | 31, (transition period) 2019 | December 31, 2018 |
| Numerator: | | | | |
| Net income (loss) | \$ 6,232 | \$ 17,884 | \$ (17,914) | \$ 15,525 |
| Denominator: | | | | |
| Weighted average common shares outstanding — basic | 49,377,410 | 48,498,813 | 48,022,926 | 46,828,798 |
| Dilutive common equivalent shares from equity awards | 2,616,735 | 2,318,330 | — | 2,439,818 |
| Weighted average common shares outstanding —diluted | 51,994,145 | 50,817,143 | 48,022,926 | 49,268,616 |
| Net income (loss) per share: | | | | |
| Basic | \$ 0.13 | \$ 0.37 | \$ (0.37) | \$ 0.33 |
| Diluted | \$ 0.12 | \$ 0.35 | \$ (0.37) | \$ 0.32 |
| Weighted average anti-dilutive shares from outstanding equity awards excluded from diluted earnings per share | 1,038,810 | 2,143,672 | 6,588,523 | 3,373,529 |

Note 19—Leases

The Company leases warehouses, distribution centers, office space, retail space and equipment. The majority of the Company's leases include one or more options to renew, with renewal terms that can extend the lease term for up to five years. The exercise of lease renewal options is at the Company's sole discretion and such renewal options are included in the lease term if they are reasonably certain to be exercised. Certain leases also include options to purchase the leased asset. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Most of the Company's equipment leases are finance leases of assets used to operate its distribution centers in Ontario, California and Columbus, Ohio.

Significant judgment is required to determine whether commercial contracts contain a lease for purposes of ASC 842. The discount rate used in measuring lease liabilities is generally based on the interest rate on the Company's revolving line of credit, assuming sufficient unused capacity exists at the time the lease liability is measured.

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

A reconciliation of the balance sheet line items that were impacted or created as a result of the Company's adoption of ASC 842 as of March 31, 2021 and March 31, 2020 is as follows (in thousands):

| | Classification | March 31, 2021 | March 31, 2020 |
|---------------------------------------|---|----------------|----------------|
| Assets | | | |
| Operating lease assets ^(a) | Other assets | \$ 22,691 | \$ 13,668 |
| Finance lease assets ^(b) | Other assets | 1,100 | 2,094 |
| Total leased assets | | \$ 23,791 | \$ 15,762 |
| Liabilities | | | |
| Current | | | |
| Operating ^(a) | Accrued expenses and other current liabilities | \$ 4,292 | \$ 3,083 |
| Finance | Current portion of long-term debt and finance lease obligations | 812 | 812 |
| Noncurrent | | | |
| Operating ^(a) | Long-term operating lease obligations | 20,084 | 11,239 |
| Finance | Long-term debt and finance lease obligations | 1,388 | 2,200 |
| Total lease liabilities | | \$ 26,576 | \$ 17,334 |

^(a) In accordance with ASC 842, \$15.7 million of ROU assets related to operating leases were derecognized in the three-month transition period ended March 31, 2019 in connection with the 2019 Restructuring Plan. Pursuant to ASC 842, each related lease liability is derecognized only after the Company is released from that liability. The Company recognized a gain of \$1.9 million in restructuring expenses related to the derecognition of lease liabilities in connection with the 2019 Restructuring Plan in the three-month transition period ended March 31, 2019. See Note 15 Restructuring and other related costs to consolidated financial statements in Part IV, Item 15 "Exhibits, financial statement schedules" under the heading "2019 Restructuring Plan" for the 2019 Restructuring Plan and the gain recorded on lease liabilities derecognized in the year ended March 31, 2020 and the three-month transition period ended March 31, 2019, respectively.

During the year ended March 31, 2021, the Company implemented the 2021 Restructuring Plan to record the charge for impairment of ROA assets related to the manufacturing plant closure in accordance with the equipment lease agreements. The amount was immaterial as of March 31, 2021. See Note 15 Restructuring and other related costs to consolidated financial statements in Part IV, Item 15 "Exhibits, financial statement schedules" under the heading "2021 Restructuring Plan" for further details.

^(b) Finance leases are recorded net of accumulated amortization of \$3.2 million and \$2.9 million as of March 31, 2021 and March 31, 2020, respectively.

e.l.f. Beauty, Inc. and subsidiaries
Notes to consolidated financial statements

For the years ended March 31, 2021, March 31, 2020 and the transition period for the three-month transition period ended March 31, 2019, the components of operating and finance lease costs were as follows (in thousands):

| | Classification | Year ended March 31, | | Three months ended March 31, (transition period) |
|---|---|----------------------|-------------------|---|
| | | 2021 | 2020 | 2019 |
| Operating lease cost | Selling, general and administrative ("SG&A") expenses | \$ 4,756 | \$ 2,950 | \$ 1,195 |
| Gain from extinguishment of lease liabilities | Restructuring income | — | (7,733) | (1,866) |
| Acceleration of rent expense | Restructuring expenses | — | — | 16,106 |
| Finance lease cost | | | | |
| Amortization of leased assets | SG&A expenses | 970 | 996 | 254 |
| Interest on lease liabilities | Interest expense, net | 137 | 179 | 50 |
| Total lease cost (gain) | | \$ 5,863 | \$ (3,608) | \$ 15,739 |

As of March 31, 2021, the aggregate future minimum lease payments under non-cancellable leases presented in accordance with ASC 842 are as follows (in thousands):

| | Operating leases | Finance leases | Total |
|---|------------------|-----------------|---------------|
| 2022 | 4,823 | 907 | 5,730 |
| 2023 | 4,857 | 1,208 | 6,065 |
| 2024 | 4,884 | 235 | 5,119 |
| 2025 | 4,075 | — | 4,075 |
| 2026 | 3,091 | — | 3,091 |
| Thereafter | 4,605 | — | 4,605 |
| Total lease payments | 26,335 | 2,350 | 28,685 |
| Less: Interest | 1,959 | 150 | |
| Present value of lease liabilities | \$ 24,376 | \$ 2,200 | |

As of March 31, 2021 and March 31, 2020, the weighted average remaining lease term (in years) and discount rate were as follows:

| | March 31, 2021 | March 31, 2020 |
|---------------------------------------|----------------|----------------|
| Weighted-average remaining lease term | | |
| Operating leases | 6.0 years | 6.8 years |
| Finance leases | 2.3 years | 3.3 years |
| Weighted-average discount rate | | |
| Operating leases | 2.8 % | 3.7 % |
| Finance leases | 5.2 % | 5.2 % |

Operating cash outflows from operating leases for the years ended March 31, 2021, March 31, 2020 and the three-month transition period ended March 31, 2019 were \$3.8 million, \$10.4 million and \$1.8 million, respectively.

Note 20—Quarterly financial summary

Unaudited quarterly results for the years ended March 31, 2021, March 31, 2020, December 31, 2018 and the three-month transition period ended March 31, 2019, respectively, were as follows (in thousands, except per share data):

| | June 30, 2020 | September 30, 2020 | December 31, 2020 | March 31, 2021 |
|-----------------------|---------------|--------------------|-------------------|----------------|
| | (unaudited) | | | |
| Net sales | 64,527 | 72,350 | 88,562 | 92,671 |
| Gross profit | 43,341 | 47,138 | 57,119 | 58,600 |
| Net income | 1,512 | 447 | 4,297 | (24) |
| Net income per share: | | | | |
| Basic | \$ 0.03 | \$ 0.01 | \$ 0.09 | \$ 0.00 |
| Diluted | \$ 0.03 | \$ 0.01 | \$ 0.08 | \$ 0.00 |

| | March 31, 2018 | June 30, 2018 | September 30, 2018 | December 31, 2018 | March 31, 2019 (transition period) | June 30, 2019 | September 30, 2019 | December 31, 2019 | March 31, 2020 |
|------------------------------|----------------|---------------|--------------------|-------------------|---------------------------------------|---------------|--------------------|-------------------|----------------|
| | (unaudited) | | | | | (unaudited) | | | |
| Net sales | \$ 65,920 | \$ 59,055 | \$ 63,889 | \$ 78,571 | \$ 66,141 | \$ 59,764 | \$ 67,615 | \$ 80,760 | \$ 74,712 |
| Gross profit | \$ 40,208 | \$ 36,645 | \$ 38,969 | \$ 46,919 | \$ 40,491 | \$ 37,191 | \$ 43,348 | \$ 52,520 | \$ 48,064 |
| Net income (loss) | \$ 690 | \$ 1,248 | \$ 3,915 | \$ 9,672 | \$ (17,914) | \$ 3,706 | \$ 6,517 | \$ 8,002 | \$ (341) |
| Net income (loss) per share: | | | | | | | | | |
| Basic | \$ 0.01 | \$ 0.03 | \$ 0.08 | \$ 0.20 | \$ (0.37) | \$ 0.08 | \$ 0.13 | \$ 0.16 | \$ (0.01) |
| Diluted | \$ 0.01 | \$ 0.03 | \$ 0.08 | \$ 0.20 | \$ (0.37) | \$ 0.07 | \$ 0.13 | \$ 0.16 | \$ (0.01) |

Note 21—Subsequent events

On April 30, 2021, the Company amended and restated the 2016 Credit Agreement (the “Amended Credit Agreement”). In addition to amended and restating the 2016 Credit Facility, the Company amended and restated the term loan facility and the revolving credit facility under the 2016 Credit Agreement and refinanced the loans under the 2016 Credit Agreement.

The Amended Credit Agreement has a five year term and consists of (i) a \$100 million revolving credit facility (the “Amended Revolving Credit Facility”) and (ii) a \$100 million term loan facility (the “Amended Revolving Credit Facility”) , which will bear interest, at borrowers’ option, at either (i) a rate per annum equal to an adjusted LIBOR rate determined by reference to the cost of funds for the U.S. dollar deposits for the applicable interest period (subject to a minimum floor of 0%) plus an applicable margin ranging from 1.25% to 2.125% based on the Company’s consolidated total net leverage ratio (as defined in the Amended Credit Agreement) or (ii) a floating base rate plus an applicable margin ranging from 0.25% to 1.125% based on the Company’s consolidated total net leverage ratio. On the closing date of the Amended Credit Agreement, the applicable margin for the Amended Revolving Credit Facility and the Amended Term Loan Facility was 1.375% for the adjusted LIBOR rate and 0.375% for the floating base rate.

In addition, the Amended Revolving Credit Facilities and the Amended Term Loan Facility require payment of an unused fee ranging from 0.10% to 0.30% (based on the Company’s consolidated total net leverage ratio) times the average daily amount of unutilized commitments under the Amended Revolving Credit Facility. On the Closing Date of the Amended Credit Agreement, the unused line fee was 0.15%. The borrowers are also required to pay customary letter of credit fees and an annual administrative agent fee.

Amortization installment payments on the Amended Term Loan Facility are required to be made in quarterly installments of \$1,250,000 from the fiscal quarter ending September 30, 2021 through March 31, 2026. The remaining outstanding amount will be due and payable on April 30, 2026, the maturity date for the Amended Term Loan Facility. Principal amounts outstanding under Amended Revolving Credit Facility will be due and payable in full on April 30, 2026, the maturity date for the Amended Revolving Credit Facility.

The Amended Credit Agreement also contains financial covenants that require the Company to maintain (a) a certain consolidated total net leverage ratio of not more than 3.25 to 1.00 and (b) a consolidated fixed charge coverage ratio (as defined in the Amended Credit Agreement) of not less than 1.15 to 1.00.

DESCRIPTION OF THE REGISTRANT'S SECURITIES**REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

e.l.f. Beauty, Inc. (the "Company" or "we") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, par value of \$0.01 per share (our "common stock"). Our common stock is listed on the New York Stock Exchange under the symbol "ELF."

The following description of our common stock is a summary and does not purport to be complete. It is qualified in its entirety by, and should be read in conjunction with, our amended and restated certificate of incorporation (our "certificate of incorporation"), amended and restated bylaws (our "bylaws") and applicable Delaware law. Our certificate of incorporation and our bylaws are exhibits to the Annual Report on Form 10-K to which this description is an exhibit.

General

Under our certificate of incorporation, the Company is authorized to issue up to 250,000,000 shares of common stock and 30,000,000 shares of preferred stock, par value \$0.01 per share. The shares of our common stock currently outstanding are fully paid and non-assessable. No shares of preferred stock are currently outstanding.

Under our certificate of incorporation, without further stockholder action, our board of directors is authorized, subject to any limitations prescribed by Delaware law, to provide for the issuance of shares of preferred stock in one or more series, to establish from time to time the number of shares to be included in each such series, to set the voting powers of each such series and to fix the designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of each such series.

The rights, powers, preferences and privileges of holders of our common stock will be subject to those of the holders of any shares of our preferred stock we may authorize and issue in the future.

No preemptive, redemption or conversion rights

Our common stock is not redeemable, is not subject to sinking fund provisions, does not have any conversion rights and is not subject to call. Holders of shares of common stock do not have preemptive rights to acquire newly issued shares.

Voting rights

Holders of our common stock are entitled to one vote for each share held of record on all matters on which stockholders are entitled to vote generally, including the election or removal of directors.

Directors elected at a meeting of stockholders are elected by the vote of the majority of the votes cast (as defined in our bylaws). All other matters submitted to a vote of stockholders are decided by the affirmative vote of a majority of the voting power of the shares present in person or represented by proxy and entitled to vote thereon, unless the matter is one upon which a different vote is required by express provision of law, our certificate of incorporation or our bylaws.

Board of Directors

Our board of directors is divided into three classes. The directors in each class serve for a three-year term, one class being elected each year by our stockholders, with staggered three-year terms. Only one class of directors is elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

Our certificate of incorporation provides for the removal of any of our directors only for cause and require a stockholder vote by the holders of at least a 75% of the voting power of the then-outstanding voting stock. Furthermore, any vacancy on our board of directors, however occurring, including a vacancy resulting from an increase in the size of the board, may only be filled by a resolution of the board of directors unless the board of directors determines that such vacancies shall be filled by the stockholders.

Dividends

Subject to the preferences applicable to any outstanding shares of preferred stock, the holders of common stock are entitled to receive dividends, if any, as and when declared, from time to time, by our board of directors out of funds legally available therefor.

Liquidation, dissolution or similar rights

Upon our liquidation, dissolution or winding up, and after payment in full of all amounts required to be paid to creditors and to the holders of preferred stock having liquidation preferences, if any, the holders of our common stock will be entitled to receive pro rata our remaining assets available for distribution.

Annual stockholder meetings

Our bylaws provide that annual stockholder meetings are to be held at a date, time and place, if any, as exclusively selected by our board of directors. To the extent permitted under applicable law, we may conduct meetings by remote communications, including by webcast.

Anti-takeover effects of certain provisions of our certificate of incorporation, our bylaws and Delaware law

Certain provisions of Delaware law and our certificate of incorporation and our bylaws contain provisions that could make the following transactions more difficult: acquisition of us by means of a tender offer; acquisition of us by means of a proxy contest or otherwise; or removal of our incumbent officers and directors. It is possible that these provisions could make it more difficult

to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in our best interests, including transactions that might result in a premium over the market price for our shares.

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because negotiation of these proposals could result in an improvement of their terms.

Delaware anti-takeover statute

We are subject to Section 203 of the Delaware General Corporation Law (the “DGCL”), which prohibits persons deemed to be interested stockholders from engaging in a business combination with a publicly-held Delaware corporation for three years following the date these persons become interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. Generally, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation’s voting stock. Generally, a business combination includes a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors, such as discouraging takeover attempts that might result in a premium over the market price of our common stock.

Undesignated preferred stock

The ability to authorize undesignated preferred stock pursuant to our certificate of incorporation makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us. These and other provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of our Company.

Special stockholder meetings

Our certificate of incorporation provides that a special meeting of stockholders may be called at any time by the board of directors. Special meeting of stockholders may not be called by the stockholders or any other person or persons.

Requirements for advance notification of stockholder nominations and proposals

Our bylaws include advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors.

Elimination of stockholder action by written consent

Our certificate of incorporation eliminates the right of stockholders to act by written consent without a meeting.

Classified board; election and removal of directors; filling vacancies

As noted above, our board of directors is divided into three classes, with each class serving for a three-year term and only one class being elected each year by our stockholders. Because our stockholders do not have cumulative voting rights, our stockholders holding a majority of the shares of common stock outstanding are able to elect all of our directors.

Also as noted above, our certificate of incorporation provides for the removal of any of our directors only for cause and requires a stockholder vote by the holders of at least a 75% of the voting power of the then-outstanding voting stock. Additionally any vacancy on our board of directors may only be filled by a resolution of the board of directors unless the board of directors determines that such vacancies shall be filled by the stockholders.

This system of electing and removing directors and filling vacancies may tend to discourage a third-party from making a tender offer or otherwise attempting to obtain control of us, because it generally makes it more difficult for stockholders to replace a majority of the directors.

Choice of forum

Our certificate of incorporation and our bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the DGCL, our certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. Although our certificate of incorporation and our bylaws contain the choice of forum provision described above, it is possible that a court could find that such a provision is inapplicable for a particular claim or action or that such provision is unenforceable.

Amendment of charter provisions

The amendment of any of the above provisions in our certificate of incorporation will require affirmative vote of holders of at least 75% of the voting power of the then-outstanding shares of voting stock.

The provisions of the DGCL, our certificate of incorporation and our bylaws could have the effect of discouraging others from attempting hostile takeovers. As a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of

preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

Limitations on liability and indemnification of officers and directors

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. Our certificate of incorporation includes a provision that, to the fullest extent permitted by the DGCL, eliminates the personal liability of directors to us or our stockholders for monetary damages for any breach of fiduciary duty as a director. The effect of these provisions is to eliminate the rights of us and our stockholders, through stockholders' derivative suits on our behalf, to recover monetary damages from a director for breach of fiduciary duty as a director, including breaches resulting from grossly negligent behavior. However, exculpation will not apply to any director if the director has acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions or derived an improper benefit from his or her actions as a director.

Further, our certificate of incorporation and our bylaws provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the DGCL. We also are expressly authorized to carry directors' and officers' liability insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification and advancement provisions and insurance are useful to attract and retain qualified directors and officers.

The limitation of liability, indemnification and advancement provisions in our certificate of incorporation and our bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Transfer agent and registrar

The transfer agent and registrar for our common stock is Computershare Inc. The transfer agent and registrar's address is 144 Fernwood Avenue, Edison, New Jersey 08837.

Exhibit 10.1

E.L.F. BEAUTY, INC.
2016 EQUITY INCENTIVE AWARD PLAN
PERFORMANCE STOCK UNIT AWARD GRANT NOTICE

e.l.f. Beauty, Inc., a Delaware corporation, (the “Company”), pursuant to its 2016 Equity Incentive Award Plan, as amended from time to time (the “Plan”), hereby grants to the holder listed below (the “Participant”), an award of performance stock units (“Performance Stock Units” or “PSUs”). Each vested Performance Stock Unit represents the right to receive, in accordance with the Performance Stock Unit Award Agreement attached hereto as Exhibit A and the Appendix thereto (the “Appendix” and together, the “Agreement”), a number of shares of Common Stock (each, a “Share”) based on the Company’s achievement of certain performance goals. This award of Performance Stock Units is subject to all of the terms and conditions set forth herein and in the Agreement and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Performance Stock Unit Award Grant Notice (the “Grant Notice”) and the Agreement.

| | |
|-----------------------------------|--|
| Participant: | «Participant» |
| Grant Date: | «Grant_Date» |
| Total Number of PSUs: | «Shares» |
| Vesting Commencement Date: | «VCD» |
| Vesting Schedule: | [To be specified in individual agreements.] |
| Termination: | All PSUs that have not become vested on or prior to the date of the Participant’s Termination of Service (after taking into consideration any vesting that may occur in connection with such Termination of Service) will thereupon be automatically forfeited by the Participant without payment of any consideration therefor. |
| Withholding Tax: | Participant understands that the terms of this award of Performance Stock Units explicitly include the following (a “ <u>Sell to Cover</u> ”): |

Sell to Cover: Upon vesting of the PSUs and release of the resulting Shares, the Company, on the Participant’s behalf, will instruct the Company’s transfer agent (together with any other party the Company determines necessary to execute the Sell to Cover, the “Agent”) to sell that number of Shares determined in accordance with Section 2.6 of the Agreement as may be necessary to satisfy any resulting withholding tax obligations on the Company, and the Agent will remit the cash proceeds of such sale to the Company. The Company shall then make a cash payment equal to the required tax withholding from the cash proceeds of such sale directly to the appropriate taxing authorities.

By his or her signature and the Company’s signature below, the Participant agrees to be bound by the terms and conditions of the Plan, the Agreement and this Grant Notice. The Participant has reviewed the Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Agreement.

E.L.F. BEAUTY, INC.:

PARTICIPANT:

By:
Print Name: Mandy Fields
Title: Chief Financial Officer
Address: 570 10th Street
Oakland, CA 94607

PARTICIPANT:

By:
Print Name: «Participant»
Address: «Address»

EXHIBIT A
TO PERFORMANCE STOCK UNIT AWARD GRANT NOTICE
PERFORMANCE STOCK UNIT AWARD AGREEMENT

Pursuant to the Performance Stock Unit Award Grant Notice (the “Grant Notice”) to which this Performance Stock Unit Award Agreement (this “Agreement”) is attached, e.l.f. Beauty, Inc., a Delaware corporation (the “Company”), has granted to the Participant the number of performance stock units (“Performance Stock Units” or “PSUs”) set forth in the Grant Notice under the Company’s 2016 Equity Incentive Award Plan, as amended from time to time (the “Plan”). Each vested Performance Stock Unit represents the right to receive a number of shares of Common Stock (each, a “Share”) based on the Company’s achievement of certain performance goals. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and Grant Notice.

ARTICLE I.

GENERAL

1.1 Defined Terms. Wherever the following terms are used in this Agreement they shall have the meanings specified below, unless the context clearly indicates otherwise. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and the Grant Notice.

(a) “Cause” shall mean (i) a breach by the Participant of the Participant’s obligations pursuant to his or her employment or other similar agreement (other than as a result of physical or mental incapacity) which constitutes material nonperformance by the Participant of his or her obligations and duties thereunder, which the Participant has failed to remedy after the Board of Directors or delegate thereof has given the Participant written notice of, and at least fifteen (15) days to remedy, such breach, (ii) commission by the Participant of an act of fraud, embezzlement, misappropriation, willful misconduct or breach of fiduciary duty against the Company (other than acts, such as making personal use of Company office supplies, as have only a de minimis effect on the Company), (iii) a material breach by the Participant of any non-solicitation and or non-competition covenants contained in his or her employment or other similar agreement with the Company, (iv) the Participant’s conviction, plea of no contest or nolo contendere, deferred adjudication or unadjudicated probation for any felony or any crime involving moral turpitude, (v) the failure of the Participant to carry out, or comply with, in any material respect, any lawful directive of the Board of Directors or delegate thereof (other than any such failure resulting from the Participant’s physical or mental incapacity) which the Participant has failed to remedy after the Board of Directors or delegate thereof has given the Participant written notice of, and at least fifteen (15) days to remedy, such failure, or (vi) the Participant’s unlawful use (including being under the influence) or possession of illegal drugs. For purposes of the previous sentence, no act or failure to act on the Participant’s part shall be deemed “willful” unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that the Participant’s action or omission was in the best interest of the Company.

(b) “Good Reason” shall mean (i) a material diminution of the Participant’s responsibilities, duties or authority, or the responsibilities, duties or authority of the Participant’s direct supervisor (it being understood that if following a Change in Control Participant ceases to serve as the most senior level [legal/financial/sales/marketing/operations] officer of a public company listed on a national securities exchange in the United States reporting directly to the Chief Executive Officer of such company, then such change shall be deemed a material diminution of Participant’s duties,

responsibilities and authority), (ii) a material diminution of the Participant's base compensation; or (iii) the relocation of the Participant's principal office to a location that is in excess of fifty (50) miles from the Participant's principal office prior to such change (it being understood and agreed that the Participant's reasonable travel for business purposes shall not be considered such a relocation); provided, however, that the Participant's termination will not be for Good Reason unless (x) the Participant has given the Company at least thirty (30) days prior written notice of his or her intent to terminate his or her employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason and be given within ninety (90) days of the initial occurrence thereof, (y) the Company has not remedied such facts and circumstances constituting Good Reason within thirty (30) days following the receipt of such notice, and (z) the Participant terminates employment within six (6) months following the expiration of such thirty (30)-day cure period.

1.2 Incorporation of Terms of Plan. The PSUs are subject to the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.

GRANT OF PERFORMANCE STOCK UNITS

2.1 Grant of PSUs. Pursuant to the Grant Notice and upon the terms and conditions set forth in the Plan and this Agreement, effective as of the Grant Date set forth in the Grant Notice, the Company hereby grants to the Participant an award of PSUs under the Plan in consideration of the Participant's past and/or continued employment with or service to the Company or any Affiliates and for other good and valuable consideration.

2.2 Unsecured Obligation to PSUs. Unless and until the PSUs have vested in the manner set forth in Article 2 hereof, the Participant will have no right to receive Common Stock under any such PSUs. Prior to actual payment of any vested PSUs, such PSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

2.3 Vesting Schedule; Change in Control.

(a) Subject to Section 2.5 hereof, the PSUs shall vest and become nonforfeitable with respect to the applicable portion thereof according to the vesting schedule set forth in the Grant Notice (rounding down to the nearest whole Share).

(b) Notwithstanding Section 2.3(a), in the event of a Change in Control prior to the end of the Performance Period (as defined in the Appendix attached hereto), the number of Shares that shall become issuable in respect of the PSUs shall equal the greater of (i) the Total Number of PSUs set forth in the Grant Notice and (ii) such number of Shares determined based on the Overall Achievement Factor calculated as of a date prior to the Change in Control as determined by the Administrator, and the PSUs shall vest as follows:

(i) If the successor or surviving entity assumes the PSUs, the PSUs shall remain outstanding and eligible to vest on the last day of the Performance Period, subject to the Participant's continued service to the Company or an Affiliate through such date, provided that in the event the Participant experiences a Termination of Service by the Company (or any successor thereof) for other than Cause or by the Participant for Good Reason within the twelve (12) month period commencing

on the consummation of the Change in Control, then one hundred percent (100%) of the PSUs shall vest and become nonforfeitable as of immediately prior to such Termination of Service; and

(ii) If the successor or surviving entity does not assume the PSUs, the PSUs will vest in full upon the Change in Control.

2.4 Consideration to the Company. In consideration of the grant of the award of PSUs pursuant hereto, the Participant agrees to render faithful and efficient services to the Company or any Affiliate.

2.5 Forfeiture, Termination and Cancellation upon Termination of Service. Notwithstanding any contrary provision of this Agreement or the Plan, upon the Participant's Termination of Service for any or no reason, all Performance Stock Units which have not vested prior to or in connection with such Termination of Service (after taking into consideration any accelerated vesting which may occur in connection with such Termination of Service (if any)) shall thereupon automatically be forfeited, terminated and cancelled as of the applicable termination date without payment of any consideration by the Company, and the Participant, or the Participant's beneficiary or personal representative, as the case may be, shall have no further rights hereunder. No portion of the PSUs which has not become vested as of the date on which the Participant incurs a Termination of Service shall thereafter become vested.

2.6 Issuance of Common Stock upon Vesting.

(a) As soon as administratively practicable following the vesting of any Performance Stock Units pursuant to Section 2.3 hereof, but in no event later than March 15 of the calendar year following the vesting date (for the avoidance of doubt, this deadline is intended to comply with the "short term deferral" exemption from Section 409A of the Code), the Company shall deliver to the Participant (or any transferee permitted under Section 3.2 hereof) a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its sole discretion) issuable in respect of the PSUs subject to this Award that vest on the applicable vesting date, unless such PSUs terminate prior to the given vesting date pursuant to Section 2.5 hereof. Notwithstanding the foregoing, in the event Shares cannot be issued pursuant to Section 12.4 of the Plan, the Shares shall be issued pursuant to the preceding sentence as soon as administratively practicable after the Administrator determines that Shares can again be issued in accordance with such Section.

(b) As set forth in Section 12.2 of the Plan, the Company shall have the authority and the right to deduct or withhold, or to require the Participant to remit to the Company, an amount sufficient to satisfy all applicable federal, state, foreign and local taxes required by law to be withheld with respect to any taxable event arising in connection with the Performance Stock Units. Such tax withholding obligations shall be made by using a Sell to Cover pursuant to the Grant Notice. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any new certificate representing Shares to the Participant or the Participant's legal representative or enter such Shares in book entry form unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, foreign and local taxes applicable to the taxable income of the Participant resulting from the grant or vesting of the Performance Stock Units or the issuance of Shares. By accepting this award of PSUs, the Participant has agreed to a Sell to Cover to satisfy any tax withholding obligations and/or social security contributions and the Participant hereby acknowledges and agrees:

(i) The Participant hereby appoints the Agent as the Participant's agent and authorizes the Agent to (1) sell on the open market at the then prevailing market price(s), on the Participant's behalf, as soon as practicable on or after the date the Shares are issued upon vesting of the Performance Stock Units, that number (rounded up to the next whole number) of the Shares so issued necessary to generate proceeds to cover (x) any tax withholding obligations incurred with respect to such vesting or issuance and (y) all applicable fees and commissions due to, or required to be collected by, the Agent with respect thereto and (2) in the Company's discretion, apply any remaining funds to the Participant's federal tax withholding or remit such remaining funds to the Participant.

(ii) The Participant hereby authorizes the Company and the Agent to cooperate and communicate with one another to determine the number of Shares that must be sold pursuant to subsection (i) above.

(iii) The Participant understands that the Agent may effect sales as provided in subsection (i) above in one or more sales and that the average price for executions resulting from bunched orders will be assigned to the Participant's account. In addition, the Participant acknowledges that it may not be possible to sell Shares as provided by in subsection (i) above due to (1) a legal or contractual restriction applicable to the Participant or the Agent, (2) a market disruption or (3) rules governing order execution priority on the national exchange where the Shares may be traded. In the event of the Agent's inability to sell Shares, the Participant will continue to be responsible for the timely payment to the Company and/or its affiliates of all federal, state, foreign and local taxes that are required by applicable laws and regulations to be withheld, including but not limited to those amounts specified in subsection (i) above.

(iv) The Participant acknowledges that regardless of any other term or condition of this Section 2.6(b), the Agent will not be liable to the Participant for (1) special, indirect, punitive, exemplary or consequential damages, or incidental losses or damages of any kind or (2) any failure to perform or for any delay in performance that results from a cause or circumstance that is beyond its reasonable control.

(v) The Participant hereby agrees to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purposes and intent of this Section 2.6(b). The Agent is a third-party beneficiary of this Section 2.6(b).

(vi) This Section 2.6(b) shall terminate not later than the date on which all tax withholding and obligations arising in connection with the vesting and issuance of the PSUs have been satisfied.

2.7 Conditions to Delivery of Shares. The Shares deliverable hereunder may be either previously authorized but unissued Shares, treasury Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificates or make any book entries evidencing Shares deliverable hereunder prior to fulfillment of the conditions set forth in Section 12.4 of the Plan.

2.8 Rights as Stockholder. The holder of the PSUs shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of the PSUs and any Shares underlying the PSUs and deliverable hereunder unless and until such Shares shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of

the Company). No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14.2 of the Plan.

ARTICLE III.

OTHER PROVISIONS

3.1 Administration. The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Administrator or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the PSUs.

3.2 PSUs Not Transferable. The PSUs shall be subject to the restrictions on transferability set forth in Section 12.3 of the Plan; *provided, however*, that this Section 3.2 notwithstanding, with the consent of the Administrator, the PSUs may be transferred to one or more Permitted Transferees, subject to and in accordance with Section 12.3 of the Plan.

3.3 Tax Consultation. The Participant understands that the Participant may suffer adverse tax consequences in connection with the PSUs granted pursuant to this Agreement (and the Shares issuable with respect thereto). The Participant represents that the Participant has consulted with any tax consultants the Participant deems advisable in connection with the PSUs and the issuance of Shares with respect thereto and that the Participant is not relying on the Company for any tax advice.

3.4 Binding Agreement. Subject to the limitation on the transferability of the PSUs contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.5 Adjustments Upon Specified Events. The Administrator may accelerate the vesting of the PSUs in such circumstances as it, in its sole discretion, may determine. The Participant acknowledges that the PSUs are subject to adjustment, modification and termination in certain events as provided in this Agreement and Section 14.2 of the Plan.

3.6 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to the Participant shall be addressed to the Participant at the Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 3.6, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.7 Participant's Representations. If the Shares issuable hereunder have not been registered under the Securities Act or any applicable state laws on an effective registration statement at the time of such issuance, the Participant shall, if required by the Company, concurrently with such issuance, make such written representations as are deemed necessary or appropriate by the Company and/or its counsel.

3.8 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.9 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.10 Conformity to Securities Laws. The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any other Applicable Law. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the PSUs are granted, only in such a manner as to conform to Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such Applicable Law.

3.11 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board; *provided, however*, that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the PSUs in any material way without the prior written consent of the Participant.

3.12 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 3.2 hereof, this Agreement shall be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

3.13 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if the Participant is subject to Section 16 of the Exchange Act, then the Plan, the PSUs and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.14 Not a Contract of Service Relationship. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as an employee or other service provider of the Company or any of its Affiliates or interfere with or restrict in any way with the right of the Company or any of its Affiliates, which rights are hereby expressly reserved, to discharge or to terminate for any reason whatsoever, with or without cause, the services of the Participant's at any time.

3.15 Entire Agreement. The Plan, the Grant Notice and this Agreement (including the Appendix attached hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof.

3.16 Section 409A. This Award is not intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "Section 409A"). However,

notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that this Award (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate for this Award either to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

3.17 Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company and its Affiliates with respect to amounts credited and benefits payable, if any, with respect to the PSUs, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to PSUs, as and when payable hereunder.

**APPENDIX
TO PERFORMANCE STOCK UNIT AWARD AGREEMENT**

PERFORMANCE GOALS

[To be specified in individual agreements.]

Appendix-1

[US-DOCS\124089129.2]

Exhibit 10.2

E.L.F. BEAUTY, INC.
2016 EQUITY INCENTIVE AWARD PLAN
PERFORMANCE STOCK UNIT AWARD GRANT NOTICE

e.l.f. Beauty, Inc., a Delaware corporation, (the “Company”), pursuant to its 2016 Equity Incentive Award Plan, as amended from time to time (the “Plan”), hereby grants to the holder listed below (the “Participant”), an award of performance stock units (“Performance Stock Units” or “PSUs”). Each vested Performance Stock Unit represents the right to receive, in accordance with the Performance Stock Unit Award Agreement attached hereto as Exhibit A and the Appendix thereto (the “Appendix” and together, the “Agreement”), a number of shares of Common Stock (each, a “Share”) based on the Company’s achievement of certain performance goals. This award of Performance Stock Units is subject to all of the terms and conditions set forth herein and in the Agreement and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Performance Stock Unit Award Grant Notice (the “Grant Notice”) and the Agreement.

| | |
|-----------------------------------|--|
| Participant: | «Participant» |
| Grant Date: | «Grant_Date» |
| Total Number of PSUs: | «Shares» |
| Vesting Commencement Date: | «VCD» |
| Vesting Schedule: | [To be specified in individual agreements.] |
| Termination: | All PSUs that have not become vested on or prior to the date of the Participant’s Termination of Service (after taking into consideration any vesting that may occur in connection with such Termination of Service) will thereupon be automatically forfeited by the Participant without payment of any consideration therefor. |
| Withholding Tax: | Participant understands that the terms of this award of Performance Stock Units explicitly include the following (a “ <u>Sell to Cover</u> ”): |

Sell to Cover: Upon vesting of the PSUs and release of the resulting Shares, the Company, on the Participant’s behalf, will instruct the Company’s transfer agent (together with any other party the Company determines necessary to execute the Sell to Cover, the “Agent”) to sell that number of Shares determined in accordance with Section 2.6 of the Agreement as may be necessary to satisfy any resulting withholding tax obligations on the Company, and the Agent will remit the cash proceeds of such sale to the Company. The Company shall then make a cash payment equal to the required tax withholding from the cash proceeds of such sale directly to the appropriate taxing authorities.

By his or her signature and the Company’s signature below, the Participant agrees to be bound by the terms and conditions of the Plan, the Agreement and this Grant Notice. The Participant has reviewed the Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Agreement and the Plan. The Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Agreement.

E.L.F. BEAUTY, INC.:

PARTICIPANT:

By:

Print Name: Mandy Fields
Title: Chief Financial Officer
Address: 570 10th Street
Oakland, CA 94607

PARTICIPANT:

By:

Print Name: «Participant»
Address: «Address»

EXHIBIT A
TO PERFORMANCE STOCK UNIT AWARD GRANT NOTICE
PERFORMANCE STOCK UNIT AWARD AGREEMENT

Pursuant to the Performance Stock Unit Award Grant Notice (the “Grant Notice”) to which this Performance Stock Unit Award Agreement (this “Agreement”) is attached, e.l.f. Beauty, Inc., a Delaware corporation (the “Company”), has granted to the Participant the number of performance stock units (“Performance Stock Units” or “PSUs”) set forth in the Grant Notice under the Company’s 2016 Equity Incentive Award Plan, as amended from time to time (the “Plan”). Each vested Performance Stock Unit represents the right to receive a number of shares of Common Stock (each, a “Share”) based on the Company’s achievement of certain performance goals. Capitalized terms not specifically defined herein shall have the meanings specified in the Plan and Grant Notice.

ARTICLE I.

GENERAL

1.1 Incorporation of Terms of Plan. The PSUs are subject to the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE II.

GRANT OF PERFORMANCE STOCK UNITS

2.1 Grant of PSUs. Pursuant to the Grant Notice and upon the terms and conditions set forth in the Plan and this Agreement, effective as of the Grant Date set forth in the Grant Notice, the Company hereby grants to the Participant an award of PSUs under the Plan in consideration of the Participant’s past and/or continued employment with or service to the Company or any Affiliates and for other good and valuable consideration.

2.2 Unsecured Obligation to PSUs. Unless and until the PSUs have vested in the manner set forth in Article 2 hereof, the Participant will have no right to receive Common Stock under any such PSUs. Prior to actual payment of any vested PSUs, such PSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

2.3 Vesting Schedule; Change in Control.

(a) Subject to Section 2.5 hereof, the PSUs shall vest and become nonforfeitable with respect to the applicable portion thereof according to the vesting schedule set forth in the Grant Notice (rounding down to the nearest whole Share).

(b) Notwithstanding Section 2.3(a), in the event of a Change in Control prior to the end of the Performance Period (as defined in the Appendix attached hereto), the PSUs will vest and become nonforfeitable immediately prior to the consummation of such Change in Control, and the number of Shares issuable in respect of the PSUs shall equal the greater of (i) the Total Number of PSUs set forth in the Grant Notice and (ii) such number of Shares determined based on the Overall Achievement Factor calculated as of a date prior to the Change in Control as determined by the Administrator.

2.4 Consideration to the Company. In consideration of the grant of the award of PSUs pursuant hereto, the Participant agrees to render faithful and efficient services to the Company or any Affiliate.

2.5 Forfeiture, Termination and Cancellation upon Termination of Service. Notwithstanding any contrary provision of this Agreement or the Plan, upon the Participant's Termination of Service for any or no reason, all Performance Stock Units which have not vested prior to or in connection with such Termination of Service (after taking into consideration any accelerated vesting which may occur in connection with such Termination of Service (if any)) shall thereupon automatically be forfeited, terminated and cancelled as of the applicable termination date without payment of any consideration by the Company, and the Participant, or the Participant's beneficiary or personal representative, as the case may be, shall have no further rights hereunder. No portion of the PSUs which has not become vested as of the date on which the Participant incurs a Termination of Service shall thereafter become vested.

2.6 Issuance of Common Stock upon Vesting.

(a) As soon as administratively practicable following the vesting of any Performance Stock Units pursuant to Section 2.3 hereof, but in no event later than March 15 of the calendar year following the vesting date (for the avoidance of doubt, this deadline is intended to comply with the "short term deferral" exemption from Section 409A of the Code), the Company shall deliver to the Participant (or any transferee permitted under Section 3.2 hereof) a number of Shares (either by delivering one or more certificates for such Shares or by entering such Shares in book entry form, as determined by the Company in its sole discretion) issuable in respect of the PSUs subject to this Award that vest on the applicable vesting date, unless such PSUs terminate prior to the given vesting date pursuant to Section 2.5 hereof. Notwithstanding the foregoing, in the event Shares cannot be issued pursuant to Section 12.4 of the Plan, the Shares shall be issued pursuant to the preceding sentence as soon as administratively practicable after the Administrator determines that Shares can again be issued in accordance with such Section.

(b) As set forth in Section 12.2 of the Plan, the Company shall have the authority and the right to deduct or withhold, or to require the Participant to remit to the Company, an amount sufficient to satisfy all applicable federal, state, foreign and local taxes required by law to be withheld with respect to any taxable event arising in connection with the Performance Stock Units. Such tax withholding obligations shall be made by using a Sell to Cover pursuant to the Grant Notice. Notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any new certificate representing Shares to the Participant or the Participant's legal representative or enter such Shares in book entry form unless and until the Participant or the Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, foreign and local taxes applicable to the taxable income of the Participant resulting from the grant or vesting of the Performance Stock Units or the issuance of Shares. By accepting this award of PSUs, the Participant has agreed to a Sell to Cover to satisfy any tax withholding obligations and/or social security contributions and the Participant hereby acknowledges and agrees:

(i) The Participant hereby appoints the Agent as the Participant's agent and authorizes the Agent to (1) sell on the open market at the then prevailing market price(s), on the Participant's behalf, as soon as practicable on or after the date the Shares are issued upon vesting of the Performance Stock Units, that number (rounded up to the next whole number) of the Shares so issued necessary to generate proceeds to cover (x) any tax withholding obligations incurred with respect to such

vesting or issuance and (y) all applicable fees and commissions due to, or required to be collected by, the Agent with respect thereto and (2) in the Company's discretion, apply any remaining funds to the Participant's federal tax withholding or remit such remaining funds to the Participant.

(ii) The Participant hereby authorizes the Company and the Agent to cooperate and communicate with one another to determine the number of Shares that must be sold pursuant to subsection (i) above.

(iii) The Participant understands that the Agent may effect sales as provided in subsection (i) above in one or more sales and that the average price for executions resulting from bunched orders will be assigned to the Participant's account. In addition, the Participant acknowledges that it may not be possible to sell Shares as provided by in subsection (i) above due to (1) a legal or contractual restriction applicable to the Participant or the Agent, (2) a market disruption or (3) rules governing order execution priority on the national exchange where the Shares may be traded. In the event of the Agent's inability to sell Shares, the Participant will continue to be responsible for the timely payment to the Company and/or its affiliates of all federal, state, foreign and local taxes that are required by applicable laws and regulations to be withheld, including but not limited to those amounts specified in subsection (i) above.

(iv) The Participant acknowledges that regardless of any other term or condition of this Section 2.6(b), the Agent will not be liable to the Participant for (1) special, indirect, punitive, exemplary or consequential damages, or incidental losses or damages of any kind or (2) any failure to perform or for any delay in performance that results from a cause or circumstance that is beyond its reasonable control.

(v) The Participant hereby agrees to execute and deliver to the Agent any other agreements or documents as the Agent reasonably deems necessary or appropriate to carry out the purposes and intent of this Section 2.6(b). The Agent is a third-party beneficiary of this Section 2.6(b).

(vi) This Section 2.6(b) shall terminate not later than the date on which all tax withholding and obligations arising in connection with the vesting and issuance of the PSUs have been satisfied.

2.7 Conditions to Delivery of Shares. The Shares deliverable hereunder may be either previously authorized but unissued Shares, treasury Shares or issued Shares which have then been reacquired by the Company. Such Shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificates or make any book entries evidencing Shares deliverable hereunder prior to fulfillment of the conditions set forth in Section 12.4 of the Plan.

2.8 Rights as Stockholder. The holder of the PSUs shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of the PSUs and any Shares underlying the PSUs and deliverable hereunder unless and until such Shares shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 14.2 of the Plan.

ARTICLE III.

OTHER PROVISIONS

3.1 Administration. The Administrator shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator in good faith shall be final and binding upon the Participant, the Company and all other interested persons. No member of the Administrator or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the PSUs.

3.2 PSUs Not Transferable. The PSUs shall be subject to the restrictions on transferability set forth in Section 12.3 of the Plan; *provided, however*, that this Section 3.2 notwithstanding, with the consent of the Administrator, the PSUs may be transferred to one or more Permitted Transferees, subject to and in accordance with Section 12.3 of the Plan.

3.3 Tax Consultation. The Participant understands that the Participant may suffer adverse tax consequences in connection with the PSUs granted pursuant to this Agreement (and the Shares issuable with respect thereto). The Participant represents that the Participant has consulted with any tax consultants the Participant deems advisable in connection with the PSUs and the issuance of Shares with respect thereto and that the Participant is not relying on the Company for any tax advice.

3.4 Binding Agreement. Subject to the limitation on the transferability of the PSUs contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.5 Adjustments Upon Specified Events. The Administrator may accelerate the vesting of the PSUs in such circumstances as it, in its sole discretion, may determine. The Participant acknowledges that the PSUs are subject to adjustment, modification and termination in certain events as provided in this Agreement and Section 14.2 of the Plan.

3.6 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to the Participant shall be addressed to the Participant at the Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 3.6, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

3.7 Participant's Representations. If the Shares issuable hereunder have not been registered under the Securities Act or any applicable state laws on an effective registration statement at the time of such issuance, the Participant shall, if required by the Company, concurrently with such issuance, make such written representations as are deemed necessary or appropriate by the Company and/or its counsel.

3.8 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.9 Governing Law. The laws of the State of Delaware shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.10 Conformity to Securities Laws. The Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any other Applicable Law. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the PSUs are granted, only in such a manner as to conform to Applicable Law. To the extent permitted by Applicable Law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such Applicable Law.

3.11 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator or the Board; *provided, however*, that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the PSUs in any material way without the prior written consent of the Participant.

3.12 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 3.2 hereof, this Agreement shall be binding upon the Participant and his or her heirs, executors, administrators, successors and assigns.

3.13 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if the Participant is subject to Section 16 of the Exchange Act, then the Plan, the PSUs and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.14 Not a Contract of Service Relationship. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as an employee or other service provider of the Company or any of its Affiliates or interfere with or restrict in any way with the right of the Company or any of its Affiliates, which rights are hereby expressly reserved, to discharge or to terminate for any reason whatsoever, with or without cause, the services of the Participant's at any time.

3.15 Entire Agreement. The Plan, the Grant Notice and this Agreement (including the Appendix attached hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof.

3.16 Section 409A. This Award is not intended to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, "Section 409A"). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that this Award (or any portion thereof) may be subject to Section 409A, the

Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate for this Award either to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

3.17 Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Company and its Affiliates with respect to amounts credited and benefits payable, if any, with respect to the PSUs, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to PSUs, as and when payable hereunder.

**APPENDIX
TO PERFORMANCE STOCK UNIT AWARD AGREEMENT**

PERFORMANCE GOALS

[To be specified in individual agreements.]

Appendix-1

[US-DOCS\124095565.2]

**List of Significant Subsidiaries of
e.l.f. Beauty, Inc.**

| Subsidiary | Jurisdiction of Incorporation or Organization |
|---|--|
| e.l.f. Cosmetics, Inc. | Delaware |
| W3LL People, Inc. (a wholly owned subsidiary of e.l.f. Cosmetics, Inc.) | Delaware |
| J.A. China Holdings, LLC (a wholly owned subsidiary of e.l.f. Cosmetics, Inc.) | Delaware |
| e.l.f. (Shanghai) Trading Co., Ltd. (a wholly owned subsidiary of J.A. China Holdings, LLC) | People's Republic of China – Wholly Foreign-Owned Enterprise |

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-238909, 333-230027, 333-223383, 333-216718 and 333-213818 on Form S-8 of our reports dated May 27, 2021, relating to the financial statements of e.l.f. Beauty, Inc. and the effectiveness of e.l.f. Beauty, Inc.'s internal control over financial reporting appearing in this Annual Report on Form 10-K for the fiscal year ended March 31, 2021.

/s/ DELOITTE & TOUCHE LLP

San Francisco, CA

May 27, 2021

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tarang P. Amin, certify that:

1. I have reviewed this Annual Report on Form 10-K of e.l.f. Beauty, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 27, 2021

/s/ Tarang P. Amin

Tarang P. Amin
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mandy Fields, certify that:

1. I have reviewed this Annual Report on Form 10-K of e.l.f. Beauty, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 27, 2021

/s/ Mandy Fields

Mandy Fields

Chief Financial Officer

(Principal Financial Officer and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of e.l.f. Beauty, Inc. (the "Company") on Form 10-K for the fiscal year ended March 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), Tarang P. Amin, Chief Executive Officer of the Company, and Mandy Fields, Chief Financial Officer of the Company, do each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 27, 2021

/s/ Tarang P. Amin

Tarang P. Amin
Chief Executive Officer
(Principal Executive Officer)

/s/ Mandy Fields

Mandy Fields
Chief Financial Officer
(Principal Financial Officer and Accounting Officer)