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12 UNITED STATES DISTRICT COURT  
13 NORTHERN DISTRICT OF CALIFORNIA  
14 OAKLAND DIVISION  
15

16  
17  
18 BOSTON RETIREMENT SYSTEM, Individually  
and On Behalf of All Others Similarly Situated,

19 Plaintiff,

20 v.

21 E.L.F. BEAUTY, INC., TARANG P. AMIN, and  
22 MANDY J. FIELDS,

23 Defendants.

Case No.

CLASS ACTION

COMPLAINT FOR VIOLATIONS OF  
THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL



1 Defendants continued to tout ELF’s “strong consumer demand,” while assuring investors that the  
2 Company had “really great visibility to our business.”

3 5. This complaint alleges that, during the Class Period, Defendants misled investors by:  
4 (1) failing to disclose that declining consumer demand trends were negatively impacting the  
5 Company’s business; (2) falsely attributing the increase in ELF’s inventory value to accounting  
6 adjustments arising from changes in shipping logistics and planned efforts to support “strong  
7 consumer demand”; (3) reporting inflated ELF’s revenues and profits; (4) providing false assurances  
8 about the adequacy of ELF’s inventory controls; and (5) as a result of the foregoing, making public  
9 statements about the Company’s business, operations, and prospects that were materially false and  
10 misleading.

11 6. On August 9, 2024, investors began to learn the truth about the slowing consumer  
12 demand for ELF products when the Company released its fiscal Q1 2024<sup>1</sup> results and provided its  
13 outlook for fiscal Q2 2024. Specifically, ELF issued meaningfully weaker-than-anticipated guidance  
14 for fiscal Q2 2024 and acknowledged downward pressure on its adjusted EBITDA guidance,  
15 approximately \$30 million lower than expected by analysts, signaling a sequential slowdown in  
16 growth. On this news, ELF’s stock price fell \$27.12 per share, or 14.4 percent, to close at \$160.83  
17 per share on August 9, 2024.

18 7. Then, on November 20, 2024, Muddy Waters Research published a report accusing  
19 ELF of revenue fraud and raising concerns about the Company’s inventory management practices  
20 (the “Muddy Waters Report”). Specifically, the Muddy Waters Report alleged that ELF overstated  
21 its revenue by \$135 million to \$190 million during the Class Period. The Muddy Waters Report  
22 further accused ELF of concealing declining customer demand from investors by falsely attributing  
23 the rising value of its inventory to a supposed change in its practice of taking ownership of inventory  
24 upon arrival at distribution centers in the United States instead of in China when the products ship.  
25 Following publication of the Muddy Waters Report, ELF’s stock price fell \$2.71 per share, or 2.2  
26 percent, to close at \$119.00 per share on November 20, 2024.

27  
28 <sup>1</sup> ELF’s fiscal year ends on March 31<sup>st</sup> and its fiscal Q1 2024 ran from April 1, 2023 to June 30, 2023.

1 8. Finally, on February 6, 2025, ELF released its fiscal Q3 2024 results and reduced its  
2 financial outlook for the first time since the onset of the COVID-19 pandemic. Specifically, ELF  
3 lowered its revenue and adjusted EBITDA guidance for fiscal 2025. Management explained that  
4 these downward revisions reflected lower demand trends, challenging category conditions, and  
5 slower-than-expected new product performance. On this news, ELF's stock price fell \$17.36 per  
6 share, or 19.6 percent, to close at \$71.13 per share on February 7, 2025.

7 9. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in  
8 the market value of the Company's securities, Plaintiff and Class members have suffered significant  
9 losses and damages.

10 **JURISDICTION, VENUE, AND DIVISIONAL ASSIGNMENT**

11 10. The claims asserted herein arise under and pursuant to Sections 10(b) and 20(a) of the  
12 Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)), and Rule 10b-5 promulgated thereunder by the SEC  
13 (17 C.F.R. § 240.10b-5).

14 11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.  
15 § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

16 12. Venue is proper in this District pursuant to 28 U.S.C. §1391(b) and Section 27 of the  
17 Exchange Act (15 U.S.C. § 78aa) as the alleged misstatements and the subsequent damages took place  
18 in this judicial district and ELF is headquartered in this Judicial District. The intra-district assignment  
19 to the Oakland division of the Court is proper under Local Rule 3-2(d), because a substantial number  
20 of the events or omissions giving rise to the claims arose in Alameda County, where Defendants  
21 conduct business.

22 13. In connection with the acts, conduct and other wrongs alleged in this complaint,  
23 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,  
24 including but not limited to, the United States mails, interstate telephone communications and the  
25 facilities of the national securities exchange.

1 **PARTIES**

2 14. Plaintiff, as set forth in the accompanying Certification, which is incorporated by  
3 reference herein, purchased ELF securities during the Class Period and was damaged as the result of  
4 Defendants' wrongdoing alleged in this complaint.

5 15. Defendant ELF is a Delaware corporation with principal executive offices located at  
6 570 10th Street, Oakland, California 94607. The Company's common stock trades in an efficient  
7 market on the New York Stock Exchange ("NYSE") under the ticker symbol "ELF."

8 16. Defendant Tarang P. Amin ("Amin") has served as ELF's Chief Executive Officer at  
9 all relevant times.

10 17. Defendant Mandy J. Fields ("Fields") has served as ELF's Chief Financial Officer at  
11 all relevant times.

12 18. Defendants Amin and Fields are collectively referred to herein as the "Individual  
13 Defendants."

14 19. The Individual Defendants possessed the power and authority to control the contents  
15 of ELF's SEC filings, press releases, and other market communications. The Individual Defendants  
16 were provided with copies of ELF's SEC filings and press releases alleged herein to be misleading  
17 prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or  
18 to cause them to be corrected. Because of their positions within ELF, and their access to material  
19 information available to them but not to the public, the Individual Defendants knew that the adverse  
20 facts specified herein had not been disclosed to and were being concealed from the public, and that  
21 the positive representations being made were then materially false and misleading. The Individual  
22 Defendants are liable for the false statements and omissions pleaded herein.

23 20. The Company and the Individual Defendants are sometimes collectively, in whole or  
24 in part, referred to herein as the "Defendants."

25 **SUBSTANTIVE ALLEGATIONS**

26 **Background**

27 21. ELF, short for EyesLipsFace, was founded in 2004 as a provider of inexpensive, high-  
28 quality cosmetics. ELF has retail presence in 15 countries, with about 80 percent of its revenue

1 generated from sales to U.S. purchasers. Roughly 80 percent of ELF’s products are manufactured in  
2 China through a “close collaboration with a network of third-party manufacturers.”

3 22. ELF brands, including e.l.f. Cosmetics, e.l.f. SKIN, Naturium, Well People, and Keys  
4 Soulcare, are sold online on a direct-to-consumer basis as well as through beauty, mass-market, and  
5 specialty retailers. These retail partners including Target, Walmart, and Ulta Beauty, accounted for  
6 roughly 75 percent of ELF’s revenue throughout the Class Period.

7 23. Effective inventory management controls are crucial for the financial performance of  
8 retail companies like ELF. Because ELF’s financial health depends on sufficient levels of product  
9 inventory to effectively meet customer demand, ELF’s investors rely on the Company’s ability to  
10 maintain adequate inventory levels without stalling production or sales. During the Class Period,  
11 ELF stated that “we feel quite comfortable with the inventory that we have on hand.” At the same  
12 time, the Company assured investors that “We have rigorous inventory control procedures, including  
13 regular physical and cycle counts across our global distribution network.”

14 **A. Materially False and Misleading Statements Issued During the Class Period**

15 24. The Class Period begins on May 25, 2023, the day after ELF issued a press release  
16 announcing its financial results for the fourth quarter and fiscal year ended March 31, 2023 (the “Q4  
17 2023 Press Release”). In the Q4 2023 Press Release, ELF stated that “Net sales increased 78% to  
18 \$187.4 million, primarily driven by strength across our retailer and e-commerce channels.”  
19 Defendant Amin was further quoted in the Q4 2023 Press Release as stating: “We grew net sales by  
20 78% in Q4, marking our seventeenth consecutive quarter of net sales growth.”

21 25. During the corresponding earnings call held that same day, Defendant Fields touted  
22 ELF’s strong demand trends:

23 First and foremost, we plan to continue to invest in our people and  
24 infrastructure to fuel our growth. As [Defendant Amin] discussed, this  
25 year we plan to invest behind our ERP transition to SAP, working capital to  
26 support *the strong demand we continue to see*, and increasing our  
27 distribution capacity.

26 26. On May 25, 2023, ELF filed a quarterly report on Form 10-K with the SEC, reporting  
27 the Company’s financial and operating results for the fourth quarter and fiscal year ended March 31,  
28

1 2023 (the “2023 10-K”). The 2023 10-K made the following statement about the effectiveness of  
2 ELF’s internal control over financial reporting:

3 Under the supervision and with the participation of our Chief Executive  
4 Officer and Chief Financial Officer, our management conducted an  
5 evaluation of the effectiveness of our internal control over financial reporting  
6 based upon the framework in “Internal Control - Integrated Framework  
7 (2013)” issued by the Committee of Sponsoring Organizations of the  
8 Treadway Commission. Based on that evaluation, **management concluded  
9 that our internal control over financial reporting was effective as of March  
10 31, 2023.**

11 27. Appended as an exhibit to the 2023 10-K were signed certifications pursuant to the  
12 Sarbanes-Oxley Act of 2002 (“SOX”), wherein the Individual Defendants certified that they had  
13 reviewed the Form 10-K, that “the financial statements, and other financial information included in  
14 this report, fairly present in all material respects the financial condition, results of operations and cash  
15 flows of the registrant as of, and for, the periods presented in this report,” and that they had  
16 “[d]esigned such internal control over financial reporting, or caused such internal control over  
17 financial reporting to be designed under our supervision, to provide reasonable assurance regarding  
18 the reliability of financial reporting and the preparation of financial statements for external purposes  
19 in accordance with generally accepted accounting principles.”

20 28. On August 1, 2023, ELF issued a press release announcing its financial results for the  
21 first quarter of the fiscal year ended June 30, 2023 (the “Q1 2024 Press Release”). In the Q1 2024  
22 Press Release, ELF stated that “Net sales increased 76% to \$216.3 million, primarily driven by  
23 strength in both our retailer and e-commerce channels.” Defendant Amin was further quoted in the  
24 Q1 2024 Press Release as stating: “This marks our 18th consecutive quarter of delivering both net  
25 sales growth and market share gains.”

26 29. During the corresponding earnings call held that same day (the “Q1 2024 Call”),  
27 Defendant Fields made the following characterization about ELF’s inventory levels:

28 ***Our ending inventory balance was \$98 million, in line with our expectations  
and up from \$70 million a year ago. As a reminder, last quarter we spoke  
about plans to build back our inventory levels through fiscal 2024 to support  
the strong consumer demand we’re seeing.***

[...]

1 We expect our cash priorities for the year to remain on investing behind our  
2 growth initiatives and supporting strategic extensions. Some of the  
3 initiatives we're focused on this year include investing in our people and  
4 infrastructure, our ERP transition to SAP, as well as increased working capital  
5 and distribution capacity *to support strong consumer demand*.

6 30. During the question and answer portion of the Q1 2024 Call, Defendant Amin was  
7 asked about the purported increase in demand for ELF's products:

8 **Q:** Hi. Good afternoon. Thanks very much for the question and  
9 congratulations on the results, very impressive. As we think about your shelf  
10 space gains and the increase in demand for your products, do you still feel  
11 comfortable with your current model of third-party manufacturing in  
12 China? This has been very successful in the past, but I'm wondering if you're  
13 looking to diversify the model or working to expand your manufacturing  
14 network. Thanks.

15 **A:** Hi, Anna. We feel great about our supply chain and the advantage we have  
16 as we talked in terms of the best combination of cost, quality and  
17 speed. *And that supply chain has been highly resilient through the  
18 pandemic, coming out of the pandemic, meeting the very strong consumer  
19 demand we have.* But we also have been doing diversification efforts, really  
20 taking that same advantage we have, if like-minded suppliers with a high  
21 degree of control that we have over those suppliers. We started up additional  
22 operations in Thailand. We're looking at other geographies as well.

23 31. On August 2, 2023, ELF filed a quarterly report on Form 10-Q with the SEC, reporting  
24 the Company's financial and operating results for the first quarter ended June 30, 2023 (the "Q1 2024  
25 10-Q"). The Q1 2024 10-Q made the following statement about the effectiveness of ELF's internal  
26 control over financial reporting:

27 As of June 30, 2023, *our management conducted an evaluation, under the  
28 supervision and with the participation of our Chief Executive Officer and  
29 Chief Financial Officer, of the effectiveness of the design and operation of  
30 our disclosure controls and procedures*, as defined in Rules 13a-15(e) and  
31 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act").  
32 Based upon that evaluation, our Chief Executive Officer and Chief Financial  
33 Officer concluded that, as of June 30, 2023, *our disclosure controls and  
34 procedures were effective* to provide reasonable assurance that the  
35 information required to be disclosed by the Company in the reports that it files  
36 or submits under the Exchange Act is recorded, processed, summarized and  
37 reported within the time periods specified in SEC rules and forms and that  
38 such information is accumulated and communicated to the officers who  
39 certify our financial reports and to the members of the Company's senior  
40 management and board of directors as appropriate to allow timely decisions  
41 regarding required disclosure.

1 32. Appended as an exhibit to the Q1 2024 10-Q were signed SOX certifications by the  
2 Individual Defendants, attesting that “[t]he information in the [Q1 2024 10-Q] fairly presents, in all  
3 material respects, the financial condition and results of operations of the Company.”

4 33. On November 1, 2023, ELF issued a press release announcing its financial results for  
5 the second quarter ended September 30, 2023 (the “Q2 2024 Press Release”). In the Q2 2024 Press  
6 Release, ELF stated that “Net sales increased 76% to \$215.5 million, primarily driven by strength in  
7 both retailer and e-commerce channels.” Defendant Amin was further quoted in the Q2 2024 Press  
8 Release as stating: “In Q2, we grew net sales by 76% and category share by 330 basis points, marking  
9 our 19th consecutive quarter of growth in each.”

10 34. That same day, ELF hosted an earnings call to discuss the Company’s fiscal Q2 2024  
11 results (the “Q2 2024 Call”). During the scripted portion of the Q2 2024 Earnings Call, Defendant  
12 Amin stated, in relevant part:

13 We again delivered on this winning formula in Q2 with both strong top line  
14 growth and adjusted EBITDA margin expansion, supported by a combination  
15 of our **strong sales growth**, gross margin expansion and leverage in our non-  
marketing SG&A expenses.

16 As we’ve grown, we continue to make investments in our infrastructure. Our  
17 supply chain offers the best combination of cost, quality and speed in our  
18 industry, and **has been able to keep pace with the strong consumer demand  
19 we’re seeing.**

20 35. Also, during the scripted portion of the Q2 2024 Call, Defendant Fields stated, in  
21 relevant part:

22 Our balance sheet remains strong, and we believe positions us well to execute  
23 our long-term growth plans. **Our ending inventory balance was \$147 million,  
24 in line with our expectations and up from \$81 million a year ago.** The  
25 difference is a combination of two things. As we said last quarter, we plan to  
26 build back our inventory levels through fiscal 2024 **to support the strong  
27 consumer demand we’re seeing.** In addition, approximately \$37 million of  
28 the increase is the result of taking ownership of inventory from China when  
it ships versus when it enters our distribution center here in the U.S.

36. On November 2, 2023, ELF filed its Form 10-Q for the second quarter ended  
September 30, 2023 (“Q2 2024 10-Q”). The Q2 2024 10-Q was signed by Defendants Amin and  
Fields. In the Q2 2024 10-Q, Defendants stated:

1 We have assessed the impact on changes to our internal controls over  
2 financial reporting and conclude that *there have been no changes to our*  
3 *internal control over financial reporting* that occurred during the quarter  
4 ended September 30, 2023 that have materially affected, or are reasonably  
5 likely to materially affect, our internal control over financial reporting.”

6 37. Appended as an exhibit to the Q2 2024 10-Q were signed SOX certifications by the  
7 Individual Defendants, attesting that “[t]he information in the [Q2 2024 10-Q] fairly presents, in all  
8 material respects, the financial condition and results of operations of the Company.”

9 38. On February 6, 2024, ELF issued a press release announcing its financial results for  
10 the third quarter ended December 31, 2023 (the “Q3 2024 Press Release”). In the Q3 2024 Press  
11 Release, ELF stated that “Net sales increased 85% to \$270.9 million, primarily driven by strength in  
12 both retailer and e-commerce channels.” Defendant Amin was further quoted in the Q2 2024 Press  
13 Release as stating: “In Q3, we grew net sales by 85% and market share by 305 basis points, marking  
14 our 20th consecutive quarter of growth in each.”

15 39. That same day, ELF hosted an earnings call with investors and analysts to discuss the  
16 Company’s fiscal Q3 2024 results (the “Q3 2024 Call”). During the scripted portion of the Q3 2024  
17 Earnings Call, Defendant Amin stated, in relevant part:

18 In Q3, we grew net sales by 85%, increased gross margin by nearly 350 basis  
19 points, and delivered \$59 million in adjusted EBITDA, up 61% versus prior  
20 year. Our vision is to create a different kind of beauty company by building  
21 brands that disrupt norms, shape culture, and connect communities through  
22 positivity, inclusivity, and accessibility. *We’ve executed against this vision*  
23 *and delivered exceptional, consistent category leading growth.* Q3 marked  
24 our 20th consecutive quarter of net sales growth, putting e.l.f. Beauty in a  
25 rarefied group of consistent, high growth consumer companies. We’re one of  
26 only five public consumer companies out of 274, that has grown for 20  
27 straight quarters and averaged at least 20% sales growth per quarter.

28 [...]

In summary, as we enter our 20th year as a company, *we continue to deliver*  
*exceptional results.*

39. During the scripted portion of the Q3 2024 Call, Defendant Fields stated, in relevant  
part:

Our balance sheet remains strong and we believe positions us well to execute  
our long-term growth plans. We ended the quarter with approximately \$72  
million in cash on hand compared to a cash balance of \$87 million a year ago.  
*Our ending inventory balance was \$205 million in-line with our expect-*



1 44. That same day, ELF hosted an earnings call with investors and analysts to discuss the  
2 Company's fiscal Q4 2024 results (the "Q4 2024 Call"). During the scripted portion of the Q4 2024  
3 Call, Defendant Fields stated, in relevant part:

4 Our balance sheet remains strong, and we believe positions us well to execute  
5 our long-term growth plans. We ended the quarter with \$108 million in cash  
6 on hand compared to a cash balance of \$121 million a year ago. Our ending  
7 inventory balance was \$191 million, in line with our expectations and up from  
8 \$81 million a year ago. The difference is primarily a combination of three  
9 things. First, as we've said the past few quarters, ***we continue to build back  
10 our inventory levels to support strong consumer demand.***

11 Second, our consolidated results now include Naturium, which added approx-  
12 imately \$26 million of inventory. Lastly, an additional \$8 million of the  
13 increase is the result of taking ownership of inventory from China when it  
14 ships versus when it enters our distribution center here in the US.

15 Our liquidity position remains strong. We ended the quarter with less than 1  
16 times leverage in terms of net debt-to-adjusted EBITDA. We expect our cash  
17 priorities for fiscal 2025 to remain on investing behind our growth initiatives  
18 and supporting strategic extensions. The initiatives we're focused on this year  
19 include continuing to invest in our people and infrastructure, our ERP  
20 transition to SAP, as well as increased distribution capacity ***to support strong  
21 consumer demand.***

22 45. On May 23, 2024, ELF filed an Annual Report on Form 10-K with the SEC, reporting  
23 the Company's financial and operational results for the fiscal quarter and year ended March 31, 2024  
24 (the "2024 10-K"). The 2024 10-K contained a substantively similar statement about the effectiveness  
25 of ELF's internal control over financial reporting as discussed *supra*.

26 46. Appended to the 2024 10-K as an exhibit was a signed certification pursuant to SOX  
27 by the Individual Defendants, attesting that "[t]he information in the [2024 10-K] fairly presents, in  
28 all material respects, the financial condition and results of operations of the Company."

47. The statements referenced in ¶¶ 24-46 were materially false and misleading because  
Defendants: (1) failed to disclose that declining consumer demand trends were negatively impacting  
the Company's business; (2) falsely attributed the increase in ELF's inventory value to accounting  
adjustments arising from changes in shipping logistics and planned efforts to support "strong  
consumer demand"; (3) reported inflated ELF's revenues and profits; and (4) provided false  
assurances about the adequacy of ELF's inventory controls.

1 **B. THE TRUTH BEGINS TO EMERGE**

2 **WHILE ELF CONTINUES TO MISLEAD INVESTORS**

3 48. On August 8, 2024, investors began to learn the truth when the Company released its  
4 fiscal Q1 2025 results and provided its outlook for fiscal Q2 2025. Specifically, ELF issued  
5 meaningfully weaker-than-anticipated guidance for fiscal Q2 2025 and acknowledged downward  
6 pressure on its adjusted EBITDA guidance, approximately \$30 million lower than expected by  
7 analysts, signaling a sequential slowdown in top line growth.

8 49. On this news, ELF's stock price fell \$27.12 per share, or 14.4 percent, to close at  
9 \$160.83 per share on August 9, 2024.

10 50. The market was surprised by this disappointing guidance. For example, analysts at  
11 UBS Research described the guidance as a "meaningful move" implying a more challenged channel  
12 performance and called "the sequential slowdown in top line growth embedded in the outlook  
13 perplexing as many of the key building blocks seem unchanged vs. 1Q."

14 51. Despite these revelations, ELF continued to issue misleading statements regarding the  
15 strength of consumer demand for its products, the cause of the ballooning inventory levels, and the  
16 adequacy of its accounting controls. In connection with the fiscal Q1 2025 results, ELF hosted an  
17 earnings call with investors and analysts to discuss the Company's fiscal Q1 2025 results (the "Q1  
18 2025 Call"). During the scripted portion of the Q1 2025 Call, Defendant Fields stated, in relevant  
19 part:

20 Our balance sheet remains strong and we believe positions us well to execute  
21 our long-term growth plans. We ended the quarter with \$109 million in cash  
22 on hand, compared to a cash balance of \$143 million a year ago. ***Our ending  
23 inventory balance was \$200 million in line with our expectations and up  
24 from \$98 million a year ago.*** The difference is primarily a combination of  
25 three things. First, as we've said in the past few quarters, ***we continue to build  
26 back our inventory levels to support strong consumer demand.*** Second, our  
consolidated results now include Naturium, which added approximately \$26  
million of inventory. Lastly, an additional \$23 million of the increase is the  
result of taking ownership of inventory from China when it ships versus when  
it enters our distribution center here in the US.

27 [...]

1 The specific initiatives we're focused on this year include continuing to invest  
2 in our people and infrastructure, our ERP transition to SAP, as well as  
increased distribution capacity to support *strong consumer demand*.

3 52. On August 9, 2024, ELF filed a Quarterly Report on Form 10-Q with the SEC,  
4 reporting the Company's financial and operational results for the fiscal quarter ended June 30, 2024  
5 (the "Q1 2025 10-Q"). The Q1 2025 10-Q contained a substantively similar statement about the  
6 effectiveness of ELF's internal control over financial reporting as discussed *supra*.

7 53. Appended to the Q1 2025 10-Q as an exhibit was a signed SOX certification by the  
8 Individual Defendants, attesting that "[t]he information in the [Q1 2025 10-Q] fairly presents, in all  
9 material respects, the financial condition and results of operations of the Company."

10 54. On November 6, 2024, ELF issued a press release announcing its financial results for  
11 the three months ended September 30, 2024 (the "Q2 2025 Press Release"). In the Q2 2025 Press  
12 Release, ELF stated that "Net sales increased 40% to \$301.1 million, primarily driven by strength in  
13 both our retailer and e-commerce channels, in the U.S. and internationally." Defendant Amin was  
14 further quoted in the Q2 2025 Press Release as stating: "This was our 23rd consecutive quarter of  
15 both net sales growth and market share gains."

16 55. That same day, ELF hosted an earnings call with investors and analysts to discuss the  
17 Company's fiscal Q2 2025 results (the "Q2 2025 Call"). During the scripted portion of the Q2 2025  
18 Call, Defendant Fields stated, in relevant part:

19 Moving to the balance sheet and cash flow, our balance sheet remains strong  
20 and we believe positions us well to execute our long-term growth plans. We  
21 ended the quarter with \$97 million in cash on hand compared to a cash  
22 balance of \$108 million at the end of fiscal 2024. ***Our ending inventory  
balance was \$239 million in line with our expectations and up from \$147  
million a year ago.*** Consistent with the last few quarters, the increase was  
23 driven by timing of when we take ownership of inventory from China, the  
addition of NATURIUM and ***supporting the demand we're seeing.***

24 Our liquidity position remains strong. We ended the quarter with less than 1  
25 times leverage in terms of net debt to adjusted EBITDA. We expect our cash  
26 priorities for the year to remain on investing behind our growth initiatives and  
27 supporting strategic extensions. The specific growth initiatives we're focused  
on this year include investing in our people and infrastructure, our ERP  
transition to SAP, as well as increased distribution capacity ***to support strong  
global consumer demand.***

28 [...]

1 Now, let's turn to our raised outlook for fiscal 2025. We are pleased to be in  
2 position to raise our outlook across both the top and bottom line. For the full  
3 year, ***we now expect net sales growth of approximately 28% to 30%***, up from  
4 25% to 27% previously. ***Our raised outlook reflects the outperformance in***  
5 ***Q2 relative to our expectations***, pipeline related to the space gains we talked  
6 about with Target, Dollar General, and Walgreens as well as ongoing  
7 international momentum.

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56. During the Q2 2025 Call, Defendant Fields was asked about the excess inventory:

**Q:** Nice job on the quarter. I guess, maybe I was wondering a little bit more on the innovation front. You talked about maybe having a little bit less this quarter. I guess, what franchises or categories do you think there's opportunities still to roll out new innovation? And then how long does it take, I guess, from incubation to shelf to get product out there? I guess, when should we expect more newness to come out? And then just really quick on the inventory, it looks like it did come down this quarter, so I'm curious if you're done kind of building up that excess inventory that you needed and how we should think about that – the inventory growth as we go forward? Thanks.

**A:** And then, Susan, on your question on inventory, ***we feel great about our inventory position and feel that we have the inventory that we need to continue to support the demand that we're seeing***. In terms of buildup, we haven't given an outlook, but I do feel comfortable saying that as we go into kind of this – third quarter, typically there's a buildup as we're kind of looking at our spring innovation and there's pipeline and things like that that need to go out. And then you should see it come down a bit more as we get into Q4 and exit this year.

57. Defendant Fields was again asked about the excess inventory during the Q2 2025 Call:

**Q:** I wanted to ask about inventories again. I guess it still seems like it's a bit higher than maybe I would have expected, given your expectations for decelerating growth. And I look at it on a year-on-year basis, it was up more sequentially 1Q 2024 to 2Q 2024 and year-on-year then, but the growth was also much greater. So, I guess, trying to figure out, is there something going on? Is it too much inventory? Like, what would be the timing of how long it's potentially good for?

[...]

**A:** Hi, Mark. Yeah. So, let me just maybe take you back a couple quarters on our inventory. So, last year around this time is when we started talking about the change with taking ownership earlier. So, we're taking ownership when products leave China instead of when it arrives here. So, ***that had an impact on inventory. That has been for the last couple quarters that we've been talking about that. So, that's not a new thing or a new addition to our inventory narrative here***. And I want to address your question on obsolescence as well. There is no risk of obsolescence overall for our portfolio, color cosmetics, anything like that. And what you're seeing in the

1 build on inventory, as we've talked about, is really building for that global  
2 footprint.

3 So, we've talked about setting up distribution centers across the world, in  
4 Asia, in Germany, in the UK, here with the second DC here in the US,  
5 additional nodes on our e-commerce. *So, that also leads to higher inventory  
6 levels overall, but allows us to service the demand that we're seeing. So, we  
7 feel quite comfortable with the inventory that we have on hand and believe  
8 that it will be enough to help service that demand that we're seeing.*

9 58. On November 7, 2024, ELF filed a Quarterly Report on Form 10-Q with the SEC,  
10 reporting the Company's financial and operational results for the fiscal quarter ended September 30,  
11 2024 (the "Q2 2025 10-Q"). The Q2 2025 10-Q contained a substantively similar statement about  
12 the effectiveness of ELF's internal control over financial reporting as discussed *supra*.

13 59. Appended to the Q2 2025 10-Q as an exhibit were signed SOX certifications by the  
14 Individual Defendants, attesting that "[t]he information in the [Q2 2025 10-Q] fairly presents, in all  
15 material respects, the financial condition and results of operations of the Company."

16 60. These statements concerning strong global consumer demand, ELF's elevated  
17 inventory levels, and the Company's internal controls were materially false and misleading to  
18 investors for the reasons discussed *supra*.

19 61. Then, on November 20, 2024, Muddy Waters Research published a report accusing  
20 ELF of revenue fraud and raising concerns about the Company's inventory management practices.  
21 Specifically, the Muddy Waters Report alleged that ELF overstated its revenue by \$135 million to  
22 \$190 million during the Class Period. The Muddy Waters Report further accused the Company of  
23 concealing declining customer demand from investors by falsely attributing the rising value of its  
24 inventory to a supposed change in its practice of taking ownership of inventory upon arrival at  
25 distribution centers in the United States instead of in China when the products ship.

26 62. Following publication of the Muddy Waters Report, ELF's stock price fell \$2.71 per  
27 share, or 2.23%, to close at \$119.00 per share on November 20, 2024.

28 63. In response to the Muddy Waters Report, ELF issued a statement in response, denying  
the allegation and stating that:

*We have rigorous inventory control procedures*, including regular physical  
and cycle counts across our global distribution network. Similarly, *we have*



1 parties and the Court. Throughout the Class Period, ELF's common stock was actively traded on the  
2 New York Stock Exchange, one of the largest stock exchanges in the world. While the exact number  
3 of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate  
4 discovery, Plaintiff believes that there are thousands of members in the proposed Class. During the  
5 Class Period, there were more than 56 million shares of ELF common stock outstanding, and the  
6 average daily trading volume was over 1.7 million shares. Record owners and other members of the  
7 Class may be identified from records maintained by ELF or its transfer agent(s) and may be notified  
8 of the pendency of this action using the form of notice similar to that customarily used in securities  
9 class actions.

10 70. There is a well-defined community of interest in the questions of law and fact involved  
11 in this case. Questions of law and fact common to the members of the Class, which predominate over  
12 questions which may affect individual Class members, include:

- 13 (a) Whether Defendants violated the Exchange Act;
- 14 (b) Whether Defendants omitted and/or misrepresented material facts;
- 15 (c) Whether Defendants' statements omitted material facts necessary in order to make  
16 the statements made, in light of the circumstances under which they were made,  
17 not misleading;
- 18 (d) Whether Defendants knew or recklessly disregarded that their statements were  
19 false and misleading;
- 20 (e) Whether the price of ELF securities were artificially inflated; and
- 21 (f) The extent of damage sustained by members of the Class and the appropriate  
22 measure of damages.

23 71. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class  
24 sustained damages as a result of Defendants' wrongful conduct.

25 72. Plaintiff will adequately protect the interests of the Class and has retained counsel who  
26 is experienced in securities and class action litigation. Plaintiff has no interests which conflict with  
27 those of the Class.

1 73. A class action is superior to all other available methods for the fair and efficient  
2 adjudication of this controversy. Joinder of all Class members is impracticable.

3 **APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD ON THE MARKET**

4 74. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-  
5 market doctrine in that, among other things:

- 6 (a) Defendants made public misrepresentations or failed to disclose material facts  
7 during the Class Period;
- 8 (b) the omissions and misrepresentations were material;
- 9 (c) the Company's securities traded in an efficient market;
- 10 (d) the misrepresentations alleged would tend to induce a reasonable investor to  
11 misjudge the value of the Company's stock; and
- 12 (e) Plaintiff and other members of the Class purchased ELF securities between the  
13 time Defendants misrepresented or failed to disclose material facts and the time  
14 the true facts were disclosed, without knowledge of the misrepresented or omitted  
15 facts.

16 75. At all relevant times, the market for ELF securities was efficient for the following  
17 reasons, among others:

18 76. As a result of the foregoing, the market for ELF securities promptly digested current  
19 information regarding ELF from all publicly available sources and reflected such information in the  
20 price of ELF securities.

- 21 (a) as a regulated issuer, ELF filed periodic public reports with the SEC;
- 22 (b) ELF regularly communicated with public investors via established market  
23 communication mechanisms, including through regular disseminations of press  
24 releases on the major newswire services and through other wide-ranging public  
25 disclosures, such as communications with the financial press, securities analysts,  
26 and other similar reporting services;
- 27 (c) ELF was followed by numerous securities analysts employed by major brokerage  
28 firms who wrote reports that were distributed to the sales force and certain

1 customers of their respective brokerage firms and that were publicly available and  
2 entered the public marketplace; and

3 (d) ELF securities were actively traded in an efficient market, including its common  
4 stock that was traded on the NYSE, under the ticker symbol “ELF.”

5 **NO SAFE HARBOR**

6 77. The statutory safe harbor provided for forward-looking statements under certain  
7 circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The  
8 statements alleged to be false and misleading herein all relate to then-existing facts and conditions.  
9 In addition, to the extent certain of the statements alleged to be false may be characterized as forward-  
10 looking, they were not identified as “forward-looking statements” when made and there were no  
11 meaningful cautionary statements identifying important factors that could cause actual results to differ  
12 materially from those in the purportedly forward-looking statements. In the alternative, to the extent  
13 that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein,  
14 Defendants are liable for those false forward-looking statements because at the time each of those  
15 forward-looking statements were made, the speaker had actual knowledge that the forward-looking  
16 statement was materially false or misleading, and/or the forward-looking statement was authorized or  
17 approved by an executive officer of ELF who knew that the statement was false when made.

18 **LOSS CAUSATION**

19 78. During the Class Period, as detailed herein, ELF and the Individual Defendants made  
20 materially false and misleading statements and omissions, and engaged in a scheme to deceive the  
21 market. These false and misleading statements and omissions artificially inflated the price of ELF  
22 securities and operated as a fraud or deceit on the Class. Later, when Defendants’ prior  
23 misrepresentations and fraudulent conduct were disclosed to the market, the price of ELF securities  
24 fell significantly. As a result of their purchases of ELF securities during the Class Period, Plaintiff  
25 and the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

**COUNT I**

**For Violations of Section 10(b) of the Exchange Act and Rule 10b-5  
Promulgated Thereunder Against All Defendants**

1  
2  
3  
4 79. Plaintiff repeats and realleges each and every allegation contained above as if fully set  
5 forth herein.

6 80. This Count is asserted against Defendants based upon Section 10(b) of the Exchange  
7 Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

8 81. During the Class Period, Defendants, individually and in concert, directly or indirectly,  
9 disseminated or approved the false statements specified above, which they knew or deliberately  
10 disregarded were misleading in that they contained misrepresentations and failed to disclose material  
11 facts necessary in order to make the statements made, in light of the circumstances under which they  
12 were made, not misleading.

13 82. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- 14 (a) employed devices, schemes and artifices to defraud;
- 15 (b) made untrue statements of material facts or omitted to state material facts  
16 necessary in order to make the statements made, in light of the circumstances under  
17 which they were made, not misleading; or
- 18 (c) engaged in acts, practices and a course of business that operated as a fraud or deceit  
19 upon plaintiff and others similarly situated in connection with their purchases of  
20 the Company's securities during the Class Period.

21 83. Defendants acted with scienter in that they knew that the public documents and  
22 statements issued or disseminated in the name of the Company were materially false and misleading;  
23 knew that such statements or documents would be issued or disseminated to the investing public; and  
24 knowingly and substantially participated or acquiesced in the issuance or dissemination of such  
25 statements or documents as primary violations of the securities laws. These defendants, by virtue of  
26 their receipt of information reflecting the true facts of the Company, their control over, and/or receipt  
27 and/or modification of the Company's allegedly materially misleading statements, and/or their  
28

1 associations with the Company which made them privy to confidential proprietary information  
2 concerning the Company, participated in the fraudulent scheme alleged herein.

3 84. Individual Defendants, who are or were senior executives and/or directors of the  
4 Company, had actual knowledge of the material omissions and/or the falsity of the material statements  
5 set forth above, and intended to deceive Plaintiff and the other members of the Class, or, in the  
6 alternative, acted with reckless disregard for the truth when they failed to ascertain and disclose the  
7 true facts in the statements made by them or other ELF personnel to members of the investing public,  
8 including Plaintiff and the Class.

9 85. As a result of the foregoing, the market price of ELF securities was artificially inflated  
10 during the Class Period. In ignorance of the falsity of Defendants' statements, Plaintiff and the other  
11 members of the Class relied on the statements described above and/or the integrity of the market price  
12 of ELF securities during the Class Period in purchasing ELF securities at prices that were artificially  
13 inflated as a result of Defendants' false and misleading statements.

14 86. Had Plaintiff and the other members of the Class been aware that the market price of  
15 ELF securities had been artificially and falsely inflated by Defendants' misleading statements and by  
16 the material adverse information which Defendants did not disclose, they would not have purchased  
17 Company securities at the artificially inflated prices that they did, or at all.

18 87. As a result of the wrongful conduct alleged herein, Plaintiff and other members of the  
19 Class have suffered damages in an amount to be established at trial.

20 88. By reason of the foregoing, Defendants have violated Section 10(b) of the 1934 Act  
21 and Rule 10b-5 promulgated thereunder and are liable to the Plaintiff and the other members of the  
22 Class for substantial damages which they suffered in connection with their purchase of ELF securities  
23 during the Class Period.

24 **COUNT II**

25 **Violations of Section 20(a) of The Exchange Act**  
26 **Against the Individual Defendants**

27 89. Plaintiff repeats, and realleges each and every allegation contained in the foregoing  
28 paragraphs as if fully set forth herein.

1 90. During the Class Period, the Individual Defendants participated in the operation and  
2 management of the Company, and conducted and participated, directly and indirectly, in the conduct  
3 of the Company's business affairs. Because of their senior positions, they knew the adverse non-  
4 public information about the Company's misstatement of revenue and profit and false financial  
5 statements.

6 91. As officers of a public business, the Individual Defendants had a duty to disseminate  
7 accurate and truthful information with respect to the Company's financial condition and results of  
8 operations, and to correct promptly any public statements issued by the Company which had become  
9 materially false or misleading.

10 92. Because of their positions of control and authority as senior executives and/or  
11 directors, the Individual Defendants were able to, and did, control the contents of the various reports,  
12 press releases and public filings which the Company disseminated in the marketplace during the Class  
13 Period concerning the Company's results of operations. Throughout the Class Period, the Individual  
14 Defendants exercised their power and authority to cause the Company to engage in the wrongful acts  
15 complained of herein. The Individual Defendants therefore, were "controlling persons" of the  
16 Company within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated  
17 in the unlawful conduct alleged which artificially inflated the market price of Company securities.

18 93. By reason of the above conduct, the Individual Defendants are liable pursuant to  
19 Section 20(a) of the Exchange Act for the violations committed by the Company.

20 **PRAYER FOR RELIEF**

21 WHEREFORE, Plaintiff, on behalf of itself and the Class, prays for judgment as follows:

- 22 1. Declaring this action to be a proper class action, designating Plaintiff as Lead  
23 plaintiff and certifying Plaintiff as a class representative under Rule 23 of the  
24 Federal Rules of Civil Procedure and designating plaintiff's counsel as Lead  
25 Counsel;
- 26 2. Awarding damages in favor of plaintiff and the other Class members against  
27 all defendants, jointly and severally, together with interest thereon;
- 28

