



# INNOVATION FUELS GROWTH



2023 ANNUAL REPORT



SALLY BEAUTY HOLDINGS, INC.



# DEAR FELLOW SHAREHOLDERS

In fiscal 2023, I am pleased to report that we delivered strong operating and financial performance, achieving top- and bottom-line results in line with our expectations while advancing our strategic priorities throughout the year. We successfully engaged our Sally DIY customers and Beauty Systems Group stylists through new concepts and services, product innovation and distinctive omnichannel experiences. I am proud of our teams for their hard work and commitment to serving our customers against the backdrop of a challenging macro environment.

## Fiscal Year 2023 Highlights

For fiscal 2023, our consolidated net sales were \$3.7 billion, including a comparable sales increase of 1.4%. Global e-commerce sales increased to \$348 million and represented 9% of total net sales. Additionally, we maintained healthy gross margins above 50%, and delivered operating earnings of \$325 million and diluted net earnings per share of \$1.69. This performance enabled us to generate strong cash flow from operations of \$249 million.

At the beginning of fiscal 2023, we outlined a set of new strategic initiatives designed to advance our vision for the future and position us to achieve our long-term growth targets of low- to mid-single-digit top line growth and low double-digit operating margins. Our three core initiatives include Enhancing our Customer Centricity, Growing our High Margin Own Brands and Amplifying Innovation, and Increasing the Efficiency of our Operations. Our teams delivered strong execution over the past year and I am pleased to share several highlights:

- We introduced new value-added services and concepts, including Studio by Sally, Cosmo Prof Direct and most recently, Happy Beauty Co., which represents an exciting growth opportunity beyond our core.
- We delivered a robust pipeline of product innovation in both Beauty Systems Group and Sally, and we increased our own brand penetration at Sally to 34% of sales in fiscal 2023.
- We completed a broad-based store optimization program, which enabled us to increase the productivity and profitability of our fleet, while delivering an engaging omnichannel experience to our customers.
- We captured \$50 million of savings from our broad-based store optimization program and exercised prudent cost control across the organization.
- And lastly, we strengthened our balance sheet in fiscal 2023 with the refinancing of our term loan, as well as reducing our ABL balance to zero at year-end.

## Looking Ahead to Fiscal Year 2024

In fiscal 2024, as we continue to leverage our position as the leader in professional hair color and care for both the DIY enthusiast and professional stylist, we will remain laser focused on our new strategic initiatives to engage and delight our customers. Additionally, we will continue the advancement of our sustainability and diversity, inclusion and belonging commitments.

Our first initiative is Enhancing Our Customer Centricity. At Sally, we expect to continue the expansion plans for our Studio by Sally concept, with our long-term plans to potentially scale to over 100 locations. Additionally, our Licensed Colorist on Demand initiative is enabling us to provide a higher level of touch and service to our customers and we plan to further enhance the educational opportunities through our digital platform. Our newest growth vehicle is Happy Beauty Co., where we are focused on the learnings from our recent pilot stores for this value concept that we believe has the potential to be a significant top line driver with the opportunity for 500 to 1,000 locations across the U.S. over time. On the Beauty Systems Group side, we are building customer centricity through our Cosmo Prof Direct initiative as we continue to educate our stylist customers on how to utilize this platform and equip them with new marketing tools to help them drive more profitable businesses.

Our second initiative is Growing Our High Margin Owned Brands at Sally Beauty and Amplifying Innovation. We delivered great innovation to both our DIY customers and the stylist community in fiscal 2023 and have a robust pipeline for 2024. At Sally, we will be driving growth in national brands through innovation in color, care and textured hair as well as launching new products on the proprietary side in some of our well-known brands, including bondbar and ion. At Beauty Systems Group, we will be expanding our distribution of key brands and focusing on conscious beauty and textured hair.

Our third initiative, Increasing the Efficiency of Operations and Optimizing our Capabilities, is underpinned by our “fuel for growth” mandate to rethink the way we work, generate cost savings and modernize key parts of our business. We have identified approximately \$20 million of cost savings that are expected to benefit gross margin and SG&A in fiscal 2024, with more to come in fiscal 2025.

In summary, I am confident that our ability to leverage the Company’s solid infrastructure and capabilities, while expanding upon our strategic initiatives, will set us up to deliver improved top line growth and profitability and create meaningful shareholder value over time.

I would like to thank all of our associates across our store networks, field operations, distribution centers, and support centers around the globe for their passion, dedication and hard work. Thank you for everything you do each day to make us better and for serving our customers.

We appreciate your ongoing support.

Best Regards,



**Denise Paulonis**  
President and Chief Executive Officer

**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: SEPTEMBER 30, 2023**

**-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 No. 1-33145

**SALLY BEAUTY HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
3001 Colorado Boulevard  
Denton, Texas  
(Address of principal executive offices)

36-2257936  
(I.R.S. Employer  
Identification No.)

76210  
(Zip Code)

(940) 898-7500

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.01 per share	SBH	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 Section 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

Accelerated filer

Non-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.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of registrant's common stock held by non-affiliates of the registrant, based upon the closing price of a share of the registrant's common stock on March 31, 2023, was approximately \$1,670,896,000. At November 10, 2023, there were 106,284,089 shares of the registrant's common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement relating to the registrant's 2023 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.



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In this Annual Report, references to “the Company,” “Sally Beauty,” “SBH,” “our company,” “we,” “our,” “ours” and “us” refer to Sally Beauty Holdings, Inc. and its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

### **CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS**

Statements in this Annual Report on Form 10-K and in the documents incorporated by reference herein which are not purely historical facts or which depend upon future events may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “will,” “would,” “might,” “anticipates” or similar expressions may also identify such forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements as such statements speak only as of the date they were made and involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth in our description of risk factors in Item 1A to this Annual Report on Form 10-K, which should be read in conjunction with the forward-looking statements in this report. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

The events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. As a result, our actual results may differ materially from the results contemplated by these forward-looking statements.

## PART I

### **ITEM 1. BUSINESS**

#### **Our Company**

Sally Beauty Holdings is a leading international specialty retailer and distributor of professional beauty supplies. As experts in hair color and care, we aim to empower our customers to express themselves through their hair and beyond. We operate two business segments that offer beauty products in key categories, including hair care, hair color, styling tools and nails.

**Sally Beauty Supply (“SBS”)** – An omni-channel retailer that offers professional-quality beauty supplies at attractive prices and provides education to retail consumers and salon professionals throughout North America, South America and Europe. SBS operates primarily through retail stores (generally operating under the Sally Beauty banner) and digital platforms, including our [www.sallybeauty.com](http://www.sallybeauty.com) website and a mobile commerce-based app.

**Beauty Systems Group (“BSG”)** – A leading full-service omni-channel distributor that offers professional beauty supplies exclusively to salons and salon professionals throughout the U.S. and Canada. These salon professionals primarily rely on just-in-time inventory due to capital constraints and limited warehouse and shelf space. BSG operates through company-operated stores (generally operating under the Cosmo Prof banner), franchised stores, distributor sales consultants (“DSCs”) and digital platforms, including our [www.cosmoprofbeauty.com](http://www.cosmoprofbeauty.com) website, a mobile commerce-based app and chain portals.

The breadth, depth and professional quality of our hair color and care assortment provides us with a differentiated core business in an industry which is otherwise fragmented. Due to our long history, brand heritage, product and process-specific knowledge and training of associates, we provide unmatched hair color and care expertise to consumers. We also have strong positioning with suppliers given our focus and economies of scale of purchasing. By operating in a variety of channels, we are able to reach broad, diversified geographies and customer segments using a variety of product assortments and tactics.

#### **Operating and Growth Strategy**

Our operating and growth strategy is guided by our vision to own professional hair color and care for both the do-it-yourself (“DIY”) enthusiast and professional stylist. SBS’s differentiation is to offer a vast array of hair color and care solutions for in-home use, and this is supported by the content and education we provide our customers. While at BSG, we are the largest North American distributor of professional hair color and care, offering stylists and salons the most extensive portfolio of third-party brands in the market.

We remain focused on driving top line growth and profitability by executing on our strategic initiatives:

##### *Customer Centricity*

Our DIY customers and professional stylists value the services, education and innovation we provide. We continue to build customer centricity through our value-added services and concepts, including Studio by Sally, Cosmo Prof Direct, Licensed Colorist on Demand (“LCOD”), Happy Beauty Co. and Walmart.com digital marketplace. As we gain insights and customer feedback from these concepts, we believe there are opportunities for us to expand on these concepts further and to provide growth beyond our core.

##### *Owned Brands and Innovation*

We believe our focus on growing our owned brands at SBS and innovating will help us attract new customers and keep long-term relationships with existing customers. During the fiscal year, we expanded our owned brand portfolio with the launch of bondbar and brought to market many innovative products from new and key vendors.

At BSG, we launched brands like Amika, Wella's Ultimate Repair and Danger Jones, and expanded our distribution with Color Wow. Additionally, at the end of the fiscal year, we expanded our distribution rights and significantly strengthened BSG's position in a strategically important market with the asset acquisition of Goldwell of New York. Going into next fiscal year, we are focused on expanding on our owned brand offerings to drive higher sales penetration, increasing our BSG distribution footprint through expanding high-profile brands, and bringing to market innovation across our key categories of hair care and hair color.

#### *Efficiency and Optimization*

During the fiscal year, we were able to substantially complete our distribution center consolidation and store optimization plan (the "Plan"), resulting in strong sales recapture rates and cost savings. We also set in motion our Fuel for Growth ("FFG") initiative. FFG is a mandate to rethink the way we work, generating cost savings and modernizing key parts of our business. For example, our transition to pooled distribution and ongoing changes to our store shipping frequency has lowered our transportation costs. We believe these efficiency and optimization initiatives will help us offset inflationary pressures and continued growth investments in the upcoming fiscal year.

We believe focusing in these areas will position our company for future growth, further enhance our ability to meet our customers where they are, and attract new customers.

#### **Store Design and Locations**

##### *Sally Beauty Supply*

SBS has retail stores in the U.S. (including Puerto Rico), Canada, Mexico, the United Kingdom, Ireland, Belgium, France, Germany, the Netherlands, Spain and Chile. Stores are designed to highlight our extensive product offerings and differentiated position in hair color, hair care, styling tools and nails. We apply strong category management processes, including store specific planograms, to maintain consistent merchandise presentation across our store base. In the U.S. and Canada, our average store offers an average of 7,000 beauty products and is approximately 1,650 square feet in size. Stores are typically located in strip shopping centers, which are occupied by other high traffic retailers such as grocery stores, mass merchants and home improvement centers. Store formats, including average size and product selection, vary by marketplace to meet the needs of the customer.

We calibrate store renewals, remodels and expansions between new and existing geographies. In existing marketplaces, we add stores to provide additional coverage and strategically close or relocate underperforming stores as necessary. In new marketplaces, SBS selects geographic areas and store sites on the basis of demographic information, the quality and nature of neighboring tenants, store visibility and location accessibility. SBS generally seeks to expand in geographically contiguous areas to leverage its expertise.

During the fiscal year, we began testing two new store concepts, Happy Beauty Co. and Studio by Sally.

Happy Beauty Co. is a unique new retail store concept that brings to market an engaging beauty experience with thousands of quality products priced under \$10 in an accessible, fun and expressive environment. Stores feature both third-party brands and our owned brands encompassing four key categories: cosmetics & facial care, bath & body, nails and hair. The initial pilot stores were opened in the Dallas/Ft. Worth, Texas and Phoenix, Arizona markets. If our pilot stores are successful, we believe there is an opportunity for 500-1,000 locations across the U.S.

Studio by Sally is a new pilot store concept that adds an in-person educational salon experience where licensed stylists will train and educate customers, empowering them to personally achieve their desired results. As of September 30, 2023, we have six Studio by Sally pilot stores opened in various markets and have been



encouraged with the results. Looking to fiscal year 2024, we anticipate converting up to 30 additional stores. Longer term, we anticipate a mix of conversions and relocations, and we believe there is an opportunity to scale to over 100 Studio by Sally locations throughout the U.S. in the coming years.

SBS's store count for the last three fiscal years is summarized in the following table:

	Fiscal Year		
	2023	2022	2021
Beginning store count . . . . .	3,439	3,549	3,653
Opened <sup>(1)</sup> . . . . .	54	47	71
Closed <sup>(2)</sup> . . . . .	(345)	(155)	(168)
Franchises closed . . . . .	—	(2)	(7)
Ending store count . . . . .	<u>3,148</u>	<u>3,439</u>	<u>3,549</u>

- (1) Includes ten pilot stores for Happy Beauty Company opened in fiscal year 2023.  
(2) In fiscal years 2023 and 2022, we closed 294 stores and 36 stores, respectively, in connection with our Distribution Center Consolidation and Store Optimization Plan (“the Plan”).

### *Beauty Systems Group*

BSG stores, including franchise-based Armstrong McCall stores, are designed to highlight our extensive product offerings to salons and salon professionals. Our stores, on average, offer approximately 8,000 professional beauty products tailored to the territory and are segmented into distinctive areas arranged by product type, with certain areas dedicated to leading third-party brands. Our company-operated stores average approximately 2,700 square feet and are located primarily in secondary strip shopping centers, being a destination exclusively for licensed cosmetologists.

BSG's store count for the last three fiscal years is summarized in the following table:

	Fiscal Year		
	2023	2022	2021
Beginning store count . . . . .	1,355	1,362	1,385
Opened . . . . .	38	54	59
Closed <sup>(1)</sup> . . . . .	(55)	(61)	(80)
Franchises opened . . . . .	—	2	1
Franchises closed . . . . .	—	(2)	(3)
Ending store count . . . . .	<u>1,338</u>	<u>1,355</u>	<u>1,362</u>

- (1) In fiscal years 2023 and 2022, we closed 26 stores and 7 stores, respectively, in connection with the Plan.

### **Merchandise**

We believe our product offerings, led by our hair color and care categories, provide us a competitive advantage. During the last three fiscal years, our hair color and care products made up approximately 70% of our total consolidated sales. Key products included within our sales categories are as follows:

- **Hair Color** – Developer/lightener, semi-permanent/demi-permanent/permanent hair color, toner
- **Hair Care** – Shampoo and conditioner, hair gels and creams, hair spray
- **Styling Tools** – Hair dryers, irons, curling rods/rollers/pins, brushes/combs, clippers/trimmers/accessories, shears, razors, salon accessories

- **Nails** – Polish, gel, acrylics, dips, nail accessories & supplies
- **Skin and Cosmetics** – Cosmetics, cosmetic accessories, hair removal, skincare, jewelry
- **Other Beauty Products** – Salon chairs, dryers, basics

Additionally, as a top destination to shop for professional color and care, our goal is to be in-stock in these core categories at every opportunity.

#### *Sally Beauty Supply*

SBS carries an extensive selection of leading third-party, owned and exclusive-labeled brand professional beauty supplies across a variety of product categories. As leaders in the beauty industry, we believe we are uniquely positioned to adapt and innovate within our brands, partnerships and product offerings to provide the looks customers want. We believe this focus helps us attract new customers and keep long-term relationships with existing customers. During the fiscal year, we have invested more into marketing of our owned brands and launched our new owned branded vegan product line – bondbar – that’s SLS/SLES-free, paraben-free, phthalate-free and cruelty-free. Continuing the success of bondbar’s initial launch of hair repair products, we expanded the brand’s product line to include a full shade range of permanent hair color with built-in bonding technology during the fiscal year and will be expanding our assortment for color and care lines in fiscal year 2024. These initiatives have helped deliver an increase in our owned brands sales penetration, resulting in higher SBS profit margins.

We believe that our owned and exclusive-labeled brands, available only at SBS, offer equal or better quality than leading third-party brands. During the last three fiscal years, our SBS U.S. and Canada-owned and exclusive-labeled brand sales accounted for approximately 48%, 45%, and 45%, respectively.

#### *Beauty Systems Group*

BSG carries an extensive selection of leading, third-party branded products, many of which are under exclusive distributions rights, at competitive prices across a variety of product categories. We have exclusive and non-exclusive distribution rights with several key vendors for well-known brands in certain geographies and continue to pursue the acquisition of additional distribution rights. As the largest North American distributor of professional hair color and care, carrying an extensive selection of branded merchandise is critical to maintaining relationships with our professional customers.

### **Marketing and Advertising**

#### *Sally Beauty Supply*

We target existing and potential customers through an integrated marketing approach designed to reach the customer through a variety of media channels, including digital advertising, e-mail, social media, text messaging, mobile app push notifications, direct mail, radio and experiential advertising.

SBS’s marketing initiatives are designed to drive customer traffic through added education, content and community building. We leverage a combination of internal and external influencers/content experts to educate and make customers feel confident about DIY hair color, hair care, nails and other beauty trends. Our external influencers consist of content creators and/or professional stylists who are DIY experts in their areas of focus and aim to inspire, educate and empower beauty enthusiasts. Additionally, our internal Sally Beauty Associate Affiliate Program encourages our associates to share their unique expertise with customers on social media to curate a community of inspiring, diverse creators who are using SBS merchandise for their DIY beauty, nails, hair and self-expression.

### Beauty Systems Group

BSG’s marketing programs are designed to promote its extensive selection of brand name products at competitive prices and to educate, motivate and empower existing and potential customers. We work closely with our vendors to provide promotional offers for certain products to target existing and potential customers. We distribute promotional material through multiple channels, including print mail, e-mail, SMS, mobile app push notifications, social media, trade shows, educational events, store personnel and DSCs. As of September 30, 2023, we had a network of 670 DSCs who personally consult, support and sell directly to salons and salon professionals. In addition, we believe that our digital platforms enhance other efforts intended to promote awareness of our products by salons and salon professionals.

### Customer Loyalty

In the U.S. and Canada, our Sally Beauty Rewards Program is designed to earn SBS customer loyalty and was recognized as one of “America’s Best Loyalty Programs” by Newsweek & Statista in 2022 and 2023. The program is free to join, and it provides our loyalty customers the ability to earn points on their SBS purchases, that convert to Sally Beauty Rewards when certain thresholds are attained. Through the program, these customers may also receive exclusive savings and personalized marketing offers.

	Fiscal Year		
	2023	2022	2021
Sally Beauty Reward members .....	15.6 million	16.3 million	15.9 million
% of Sales .....	76.3%	75.7%	72.5%

In the U.S., we also offer our SBS customers the opportunity to apply for the Sally Beauty Rewards Credit Card that provides additional benefits to being a Sally Beauty Rewards member. Additionally, we offer our SBS professional customers and BSG customers the opportunity to apply for the Cosmo Prof Rewards Credit Card, which provides discounts on Cosmo Prof purchases or points through the Sally Beauty Rewards Program on SBS purchases.

Through these programs, we are able to collect valuable point-of-sale customer data as a means of increasing our understanding of customers and enhancing our ability to personalize our marketing. We will continue to monitor and evolve our Sally Beauty Rewards Program in an effort to further enhance the customer experience and promote repeat sales from both retail customers and salon professionals. Outside the U.S. and Canada, our customer loyalty and marketing programs vary by marketplace.

### Digital Strategy

We continue to grow our digital footprint, not only through our marketing and customer relationship efforts, but also through our digital platforms in each segment. We believe we are uniquely positioned to continue expanding our digital sales penetration thanks to our omni-channel business model, which enables us to meet our customers where they are; in store or online, or through a hybrid approach such as our “buy online, pick up in store” (BOPIS) option. Additionally, our digital strategy of enhancing our customer centricity aims to expand our services ecosystem to support professional stylists as well as increase education and expertise to inspire and support all of our customers.

To that end, we are excited to continue our digital expansion through our recent initiatives, such as our stylist platform, Cosmo Prof Direct, powered by Salon HQ and our new Licensed Colorist on Demand (“LCOD”) featured on our website, [www.sallybeauty.com](http://www.sallybeauty.com).

In BSG, Cosmo Prof Direct is a platform that gives our stylists the ability to curate a product selection from thousands of choices and enable clients to purchase directly from their shops without having to hold inventory.

During the fiscal year, the platform has continued to expand, ending the fiscal year with more than 4,300 digital storefronts. We continue to gain traction as stylists gaining a deeper understanding of how they can leverage this resource to profitably grow their business.

In SBS, we recently launched LCOD to provide our customers with a more engaging shopping experience. Our LCOD is a digital-focused initiative where customers can live chat by text, voice or video with a licensed colorist to learn more about our hair color product offerings and how to use our products to achieve their desired results. This online option is available in all 50 states and appears as a chat box when customers are browsing our selection of hair color merchandise. While still in its initial launch phase, we are gaining valuable insights and customer feedback. Furthermore, during the fiscal year, we launched a digital marketplace selling initiative with Walmart.com, and are expanding to other online sites to fuel digital sales growth and attract new customers to our Sally brands.

### **Distribution**

We currently receive our merchandise through several distribution centers in the U.S. and various other countries. Our distribution centers service our stores, orders from our DSCs and ship-to-customer orders through various freight carriers. We procure our owned-branded merchandise through domestic and foreign vendors and work closely with our overseas vendors to fulfill production orders and schedule ocean and freight carriers to deliver to our distribution centers.

Over the past several years, we have made significant investments in our end-to-end supply chain systems and processes to build a best-in-class merchandising and supply chain platform for the future. As a result, earlier this fiscal year, we started testing a new shipping frequency from our distribution centers to a limited population of SBS and BSG stores by leveraging investments within our supply chain systems. This change has resulted in improved labor productivity, reduced freight costs and has lowered our carbon emissions, while allowing us to maintain healthy in-stock levels. Based on the positive results from the test, we are expanding this program to the majority of our remaining SBS and BSG store fleet throughout the U.S. and Canada.

Additionally, customers are looking for more convenient options for receiving merchandise, which is helping drive their purchasing decisions. As such, we have made significant investments to “meet them where they are.” When ordering through our digital platforms, our customers can select different fulfillment options, including: BOPIS; deliver by common carrier (from store or distribution centers); and 2-hour delivery. Introduced in fiscal year 2021, our BOPIS and 2-hour delivery methods have continued to see increased traction. For the fiscal years 2023, 2022 and 2021, BOPIS and 2-hour delivery has made up approximately 42%, 33%, and 19%, respectively, of our SBS U.S and Canada sales through our digital platforms.

### **Seasonality**

Our business is generally not seasonal, but typically has higher sales in our first quarter related to the holiday sales period.

### **Our Competition**

The primary competitive factors in our industry are: the price of branded and owned-brand products; exclusive distribution contracts; the quality, perceived value, brand name recognition, packaging and variety of the products sold; customer service; efficiency of distribution networks; and the availability of desirable store locations.

SBS competes primarily with beauty product wholesale and retail outlets, including local and regional open-line beauty supply stores, professional-only beauty supply stores, mass merchandisers, online retailers, drug stores, department stores and supermarkets as well as salons that sell hair care products. BSG competes primarily with beauty product wholesale suppliers, including online retailers and manufacturers selling their products directly to salons and salon professionals.



We face competition from certain manufacturers that use their own sales forces to distribute their professional beauty products directly or that align themselves with our competitors. Some of these manufacturers are vertically integrated through the acquisition of distributors and stores. We also face competition from authorized and unauthorized retailers as well as internet sites offering professional salon-only products.

### **Our Suppliers**

We purchase our merchandise directly from manufacturers through supply contracts and purchase orders. For fiscal year 2023, our five largest suppliers – Henkel AG & Co. KGaA; Wella Company; the Professional Products Division of L’Oreal USA S/D, Inc., or L’Oreal; John Paul Mitchell Systems; and Kao Corporation – accounted for approximately 43% of our consolidated merchandise purchases. We have developed long-standing, relationships, some of which are exclusive, with these suppliers and many others, which we believe is core to our competitive advantage. We purchase products from these and many other manufacturers on an at-will basis or under contracts which can generally be terminated without cause upon 90 days or less notice or expire without express rights of renewal.

### **Intellectual Property**

In the U.S. and in other countries where we operate, we have registered or legally protected trademarks, copyrights, internet domain names, service marks and trade names that are used to promote and market our business, stores, digital platforms and products. We believe many of these are well recognized and have significant value, including but not limited to: *Sally*<sup>®</sup>, *Sally Beauty*<sup>®</sup>, *Cosmo Prof*<sup>®</sup>, *Armstrong McCall*<sup>®</sup>, *ION*<sup>®</sup> and *Beyond the Zone*<sup>®</sup>.

### **Our Company Purpose & Values**

Our Company Purpose & Values are intended to establish our rallying cry and focus our teams on the impact we intend to have in the world.

Our Purpose: TO INSPIRE A MORE COLORFUL, CONFIDENT AND WELCOMING WORLD

Our Values:

- BE YOURSELF. Come as you are—everyone is welcome here.
- BE AN INSPIRATION. Share your passion and knowledge with your team, your customers, the world.
- BE BOLD. Dive in. Move fast. Say yes.
- BE AN OWNER. Drive growth. Create your future.
- BE PART OF SOMETHING BIGGER. Take care of each other, our community and our planet.

More information on our Purpose & Values can be found at: [www.sallybeautyholdings.com/our-company/purpose-and-values](http://www.sallybeautyholdings.com/our-company/purpose-and-values).

### **Human Capital Management**

As of September 30, 2023, we had approximately 27,000 global associates, including approximately 13,000 full-time associates. We believe they are our greatest asset with their combined skills, knowledge, work/life experiences and capabilities. At the front line interacting with our customers or behind-the-scenes supporting our field teams, our associates play a major role in our business. While we often emphasize our technology-based transformations and our wide variety of professional beauty products as key attributes, nothing happens or succeeds without our people.

In return for what they do for us, among many other things, we strive to:

- Ensure our associates work in a safe, healthy environment;
- Provide competitive compensation and benefits packages that attract and retain talent in every facet of our business – stores, direct sales, distribution centers and corporate headquarters. Our benefits range from medical, dental and vision care – including options for our part-time associates – to 401(k), short and long-term disability and a robust Employee Assistance Program. Starting fiscal year 2023, we began providing six weeks of paid parental leave for mothers, fathers or partners upon the birth or placement of a child;
- Provide meaningful, engaging learning and development that grows our associates' knowledge and capability with respect to our business and skills that will help them in business and life; and
- Create an environment and culture where everyone can bring their true self to work, because our differences are what make us beautiful. At SBH, we believe our focus on Diversity, Inclusion & Belonging are crucial to improving how we interact with and influence our associates, customer environments and broader communities. We are committed to being a force for change.

### **Associate Health & Safety**

*We strive to create a safe and healthy work environment for all associates*

We place a high value on the health and safety of our associates, customers, suppliers and vendors. This commitment is evidenced, in part, by our background check policy for new hires, training and policy implementations related to handling both associate and customer incidents, partnerships to maintain the stores and make necessary repairs, as well as ongoing support in the field and at the support center.

Additionally, we value our partnerships with suppliers and vendors and understand the impact they can have on our associates. Thus, SBH has included rules governing their conduct, both with respect to expectations while interacting with our associates and, with our foreign suppliers, assurances that they too are providing a safe and healthy working environment for their associates.

### **Labor Practices**

*We provide competitive wages and benefits in a positive work environment where we focus on doing what is right*

We are an Equal Opportunity Employer with up-to-date policies, procedures and practices with respect to such important issues as safety, discrimination, harassment and retaliation. We provide focused training on these issues to our associates and managers.

We clearly communicate that any concerns related to issues such as discrimination, harassment, retaliation – and other issues such as wage law compliance and fraud – should be reported immediately. We also communicate the avenues available to our associates to do so through our “SBH CARES” communications and posters. The reporting avenues include options to do so by phone or online through our “Employee Concern Line” and to do so anonymously if an associate prefers to take that approach.

We ensure compliance with other important labor and employment law issues through a variety of processes and procedures, using both internal and external expertise and resources.

We also emphasize the importance of taking care of our associates in our Company's Code of Business Conduct and Ethics, the standard of conduct that applies to all of our associates, executive officers and Board of Directors. The Code reflects the core principles of conducting our business as a good corporate citizen in compliance with all laws, rules and regulations applicable to us and the conduct business with regard for the welfare of our associates and providing equal opportunity to all associates and job applicants. You can review this important document at <http://investor.sallybeautyholdings.com>.

## **Associate Engagement, Development and Culture**

*We live our values, listen to our associates and take action*

We make significant efforts to ensure our associates are informed, engaged and excited about the work they are doing and contributions they are making to our Company and our customers. We are committed to providing associates with what they need to thrive and grow their career. We significantly invest in our talent processes and set clear expectations around leadership competencies and our cultural values at all levels in the organization. At SBH, we consider the whole end-to-end talent cycle of an associate to ensure we select exceptional people to represent our business and best serve our customer. This includes robust interviewing processes as well as comprehensive onboarding programs to ensure new hires are set up to succeed in their early stages of joining SBH. There is also a strong cadence on completing regular cycles of performance management, linked to our Company values and leadership competencies, as well as regular reviews of our talent and succession pipelines.

Importantly, we devote significant effort and resources to the development of our associates, including providing almost all of our associates access to state-of-the-art learning management systems. We use these platforms to provide specifically designed and interactive award-winning e-learning courses in sales and service, product and hair knowledge, compliance training, and health and safety.

We also place significant value and attention on responding to feedback and input from associates. This includes surveys regarding issues such as Diversity, Inclusion & Belonging and our annual engagement survey. We review our team's input and comments, identify common themes and set out action plans to respond. We believe listening is crucial, but taking action and making commitments are even more important.

A core focus of our associate engagement and culture are our efforts focused on Diversity, Inclusion & Belonging, discussed below.

### **Diversity, Inclusion & Belonging**

At Sally Beauty we celebrate differences, inclusivity and self-expression. This fundamental aspect of SBH's culture is rooted in our belief that beauty is for everyone, and everyone should find their own path to beauty. Our associates and our customers care about celebrating diversity and self-expression. We want our Company and our stores to be places where all of our associates and customers feel valued for who they are and experience a sense of belonging.

*We come together to create a culture for "One & All"*

Diversity, Inclusion & Belonging are at the heart of who we are as a Company – at the Board level, throughout our global workforce and in our shared commitment to serving a diverse customer base and their communities.

Our Diversity, Inclusion & Belonging Mission Statement:

We find beauty in YOU!

Finding beauty in diversity is in our DNA because our differences are what make us beautiful. Our diversity, inclusivity and self-expression are what fuel our innovation and growth.

At SBH, we come together to create a culture for ONE & ALL.

**At the Board Level:** Our Board's composition leads the Company's commitment to Diversity, Inclusion and Belonging. Having diverse voices on our Board enhances the Board's expertise, broadens its viewpoint and sets the tone to encourage leaders at all levels of the Company to listen to the concerns of our associates and customers alike. Our Compensation & Talent Committee provides hands-on oversight and guidance of our Diversity, Inclusion & Belonging initiatives. Our Board believes listening and responding to diverse voices is crucial to the Company's success and long-term sustainability.

***In Our Workforce:*** Our SBH Team in the U.S. & Canada is approximately 90% women and approximately 50% people of color. This year, Newsweek recognized SBH among America’s Greatest Workplaces, America’s Greatest Workplaces for Diversity and America’s Greatest Workplaces for Women. We recognize and celebrate the bedrock values of workforce diversity, inclusion, belonging and engagement within our teams. For us, these are key drivers of the success of the business, as our associates should – and do – reflect the various qualities of our customers and what they desire and expect from SBH.

During the fiscal year, we further embedded the Company’s Employee Resource Groups (ERGs), with our first four groups that represent our Black, Hispanic, Women and LGBTQ+ associates. These ERGS have made a meaningful impact on our team and business, and we will continue to connect and engage them on how we do business, how we best serve our customers, and how we enhance our team and culture.

***In Our Customer Base:*** Our customers span the entire continuum of gender and ethnic diversity. We sell beauty products to treat and style every kind of hair; we deliver a tailored assortment of beauty products that serve the local communities where our over 3,500 U.S. and Canada stores are located. Serving the diverse demographics and needs of our customers drives a culture and workforce that embraces and reflects the communities we serve.

We will continue to develop and evolve how we enhance Diversity, Inclusion & Belonging throughout SBH. We recognize the value these initiatives bring to our Company, our associates, our customers and the communities we serve.

More information on our approach to Diversity, Inclusion & Belonging can be found at: [www.sallybeautyholdings.com/our-company/diversity-inclusion-and-belonging](http://www.sallybeautyholdings.com/our-company/diversity-inclusion-and-belonging).

## **Regulation**

We are subject to a number of U.S., federal, state and local laws and regulations as well as the laws and regulations applicable in each foreign country or jurisdiction in which we do business. These laws and regulations govern, among other things, the composition, packaging, labeling and safety of the products we sell, the methods we use to sell these products and the methods we use to import these products.

For example, in the U.S., most of the products we sell and the content and methods of advertising and marketing utilized are subject to both federal and state regulations administered by a host of federal and state agencies, including, in each case, one or more of the following: the Food and Drug Administration, or FDA, the Federal Trade Commission and the Consumer Products Safety Commission. The transportation and disposal of many of our products are also subject to federal and state regulation. State and local agencies regulate many aspects of our business. We also face comprehensive regulation outside the U.S., focused primarily on product labeling and safety issues. We believe we are in material compliance with the laws and regulations we are subject to, although no assurance can be provided that this will remain true going forward or that we will not be required to incur meaningful expenses complying with such laws and regulations.

As of September 30, 2023, we supplied franchised stores primarily located in the U.S. As a result of these franchisor-franchisee relationships, we are subject to regulation when offering and selling franchises. The applicable laws and regulations affect our business practices, as franchisor, in a number of ways, including restrictions placed upon the offering, renewal, termination and disapproval of assignment of franchises. To date, these laws and regulations have not had a material effect upon our operations.

## **Access to Public Filings**

Our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to such reports are available, without charge, on our website, [www.sallybeautyholdings.com](http://www.sallybeautyholdings.com), as soon as reasonably possible after they are filed electronically with the Securities and Exchange Commission, or SEC,



under the Exchange Act. The SEC maintains an internet site that contains our reports, proxy and information statements, and other information we file electronically with the SEC at [www.sec.gov](http://www.sec.gov). We will provide copies of such reports to any person, without charge, upon written request to our Investor Relations Department at our principal office. The information found on our website shall not be considered to be part of this or any other report filed with or furnished to the SEC.

## **ITEM 1A. RISK FACTORS**

Important risk factors that could materially affect our business, financial condition or results of operations in future periods are described below. These factors are not intended to be an all-encompassing list of risks and uncertainties and are not the only risks and uncertainties we face. Additional risks not currently known to us, or we currently deem to be immaterial, also may materially adversely affect our business, financial condition or results of operations in future periods.

### **Operational, Strategic and General Business Risks**

*The beauty products distribution industry is highly competitive and is consolidating.*

We face significant competition from other beauty stores and outlets, salons, mass merchandisers, online retailers, drug stores and supermarkets. The primary competitive factors in the beauty products distribution industry are price, quality, perceived value, consumer brand name recognition, packaging and variety and availability, customer service, desirable store locations, in-stock inventory and, with respect to e-commerce, look and feel of website and delivery times and costs. Competitive conditions may limit our ability to maintain prices or may require us to reduce prices in efforts to retain business or channel share, particularly because customers are able to quickly and conveniently comparison shop and determine real-time product availability using digital tools, which can lead to decisions driven solely by price, the functionality of the digital tools, or a combination of these and other factors. Some of our competitors have greater financial and other resources than we do and are less leveraged than our business and may therefore be able to spend more aggressively on advertising and promotional activities and respond more effectively to changing business and economic conditions. Furthermore, there are few significant barriers to entry into the marketplace for most of the products we sell making it easy for new market entrants to compete with us. We expect existing competitors, business partners and new entrants to the beauty products distribution industry to constantly revise or improve their business models in response to challenges from competing businesses, including ours. If these competitors introduce changes or developments that we cannot address in a timely or cost-effective manner, our business may be adversely affected.

In addition, our industry is consolidating, which may give our suppliers and our competitors increased negotiating leverage and greater marketing resources. For instance, we may lose customers if those competitors which have broad geographic reach attract additional salons (individual and chain) that are currently BSG customers, or if professional beauty supply manufacturers align themselves with our competitors or begin selling direct to customers. Not only does consolidation in distribution pose risks from competing distributors, but it may also place more leverage in the hands of certain manufacturers, resulting in smaller margins on products sold through our network.

If we are unable to compete effectively in our marketplace or if competitors divert our customers away from our networks, it would adversely impact our business, financial condition and results of operations.

*We may be unable to anticipate and effectively respond to changes in consumer preferences and buying trends in a timely manner.*

Our success depends in part on our ability, and our distributed third-party brands' ability, to anticipate, gauge and react in a timely manner to changes in consumer spending patterns and preferences for specific beauty products. If we or the brands we distribute do not timely identify and properly respond to evolving trends and changing

consumer demands for beauty products in the geographies in which we compete, our sales may decline significantly. Furthermore, we may accumulate additional inventory and be required to mark down unsold inventory to prices that are significantly lower than normal prices, which would adversely impact our margins and could further adversely impact our business, financial condition and results of operations. Additionally, a large percentage of our SBS product sales come from our owned and exclusive-label brand products. The development and promotion of these owned and exclusive-label brand products often occur well before these products are sold in our stores. As a result, the success of these owned and exclusive-label brand products is largely dependent on our ability to develop products that meet future consumer preferences at prices that are acceptable to our customers. Furthermore, we may have to spend a significant amount on the advertising and marketing of our owned and exclusive-label brands to drive customer awareness of these brands. There can be no assurance that any new owned and exclusive-label brand will meet consumer preferences, gain acceptance among our customer base or generate sales to become profitable or to cover the costs of its development and promotion.

We expect continuously changing fashion-related trends and consumer tastes to influence future demand for beauty products. Changes in consumer tastes, fashion trends and brand reputation can have an impact on our financial performance. If we or third-party brands we distribute are unable to anticipate and respond to trends in the marketplace for beauty products and changing consumer demands and/or maintain a strong brand reputation, our business could suffer.

***Our future success depends in part on our ability to successfully implement our strategic initiatives to improve the customer experience, attract new customers and improve the sales productivity of our stores.***

We are continuing the implementation of a significant number of strategic initiatives designed to enhance our customer centricity, increase our owned brand sales penetration, improve operational efficiency and optimize our capabilities, including through closure of underperforming stores and consolidation of distribution centers. There can be no assurance that these or future strategic initiatives will be successful. Furthermore, we are investing significant resources in these initiatives and the costs of the initiatives may outweigh their benefits. If these strategic initiatives are not successful, our comparative sales will suffer and our growth prospects, financial results, profitability and cash flows will also be adversely impacted.

***Our restructuring plans may not be successful, or we may not fully realize the expected cost savings and/or operating efficiencies.***

Our ability to grow profitably depends in large part on our ability to successfully control or reduce our operating expenses. In furtherance of this strategy, we have engaged and continue to engage in activities to reduce or control costs, some of which are complicated and require us to expend significant resources to implement. Over the past several years, we have implemented, and plan to continue to implement, plans to transform the Company for the future and support long-term sales growth and profitability. These programs are intended to touch all aspects of the business, enhance operating capabilities and create greater efficiencies. These strategic plans present potential risks that may impair our ability to achieve anticipated operating enhancements and efficiencies and/or cost reductions.

***We depend upon manufacturers who may be unable to provide products of adequate quality or who may be unwilling to continue to supply products to us.***

We do not manufacture any products we sell and instead purchase our products from recognized brand manufacturers and private label fillers. We depend on a limited number of manufacturers for a significant percentage of the products we sell.

Additionally, since we purchase products from many manufacturers and fillers under at-will contracts and contracts which can be terminated without cause upon 90 days' notice or less, or which expire without express rights of renewal, manufacturers and fillers could discontinue sales to us immediately or upon short notice. Some

of our contracts with manufacturers may be terminated if we fail to meet specified minimum purchase requirements. If minimum purchase requirements are not met, we do not have contractual assurances of continued supply. In lieu of termination, a manufacturer may also change the terms upon which it sells, for example, by raising prices or broadening distribution to third parties. For these and other reasons, we may not be able to acquire desired merchandise in sufficient quantities or on acceptable terms in the future.

Changes in SBS's and BSG's relationships with suppliers occur often and could positively or negatively impact the net sales and operating earnings of both business segments. Some of our suppliers may seek to decrease their reliance on distribution intermediaries, including full-service/exclusive and open-line distributors like BSG and SBS, by promoting their own distribution channels. These suppliers may offer advantages, such as lower prices, when their products are purchased from distribution channels they control. If our access to supplier-provided products were to diminish relative to our competitors or we were not able to purchase products at the same prices as our competitors, our business could be materially and adversely affected. Also, consolidation among suppliers may increase their negotiating leverage, thereby providing them with competitive advantages that may increase our costs and reduce our revenues, adversely affecting our business, financial condition and results of operations. Therefore, there can be no assurance that the impact of these developments, if they were to occur, will not adversely impact revenue or margins or that our efforts to mitigate the impact of these developments will be successful.

Furthermore, from time to time, we receive shipments of product from our suppliers that fail to conform to our quality control standards. A failure in our quality control program may result in diminished inventory levels and product quality, which in turn may result in increased order cancellations and product returns, decreased consumer demand for our products, or product recalls, any of which may have a material adverse effect on our results of operations and financial condition.

***Any significant interruption in the supply of products by manufacturers and fillers or disruptions in our supply chain infrastructure could disrupt our ability to deliver merchandise to our stores and customers in a timely manner, which could have a material adverse effect on our business, financial condition and results of operations.***

Manufacturers and owned and exclusive-label brand fillers of beauty supply products are subject to certain risks that could adversely impact their ability to provide us with their products on a timely basis, including inability to procure ingredients, industrial accidents, environmental events, strikes and other labor disputes, union organizing activity, disruptions in logistics or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, pandemics and other external factors over which neither they nor we have control.

In addition, we directly source many of our owned and exclusive-label brand products, including, but not limited to, styling tools, salon equipment, sundries and other promotional products, from foreign third-party manufacturers and many of our vendors also use overseas sourcing to manufacture some or all of their products. Any event causing a sudden disruption of manufacturing or imports from such foreign countries, including the imposition of additional or increased import restrictions, duties or tariffs, political instability, local business practices, legal or economic restrictions on overseas suppliers' ability to produce and deliver products or acts of war or terrorism or pandemics, could materially harm our operations to the extent they affect the production, shipment or receipt of merchandise. Our operating results depend to some extent on the orderly operation of our receiving and distribution processes, which depend on manufacturers' adherence to shipping schedules and our effective management of our distribution facilities and capacity.

***Fluctuations in the price, availability and quality of inventory may result in higher cost of goods, which we may not be able to pass on to the customers.***

Our suppliers frequently attempt to pass on higher production costs, which have generally increased as a result of inflation over the past few years, which may impact our ability to maintain or grow our margins. The price and

availability of raw materials may be impacted by inflation, demand, regulation, weather and other factors. Additionally, manufacturers have and may continue to have increases in other manufacturing costs, such as transportation, labor and benefit costs. These increases in production costs result in higher merchandise costs to us. We may not always be able to pass on those cost increases to our customers, which could have a material adverse effect on our business, financial condition and results of operations.

***Our e-commerce businesses may be unsuccessful or, if successful, may redirect sales from our stores.***

We offer many of our beauty products for sale through our e-commerce businesses in the U.S. (such as [www.sallybeauty.com](http://www.sallybeauty.com), [www.cosmoprofbeauty.com](http://www.cosmoprofbeauty.com), [www.cosmoprofequipment.com](http://www.cosmoprofequipment.com) and mobile commerce-based apps) and abroad. We have recently undertaken a number of initiatives to significantly advance our digital commerce capabilities and grow our e-commerce businesses. As a result, we are more susceptible to risks and difficulties frequently experienced by internet-based businesses, including risks related to our ability to attract and retain customers on a cost-effective basis and our ability to operate, support, expand and develop our e-commerce operations, websites and software and other related operational systems. Furthermore, our e-commerce businesses face significant competition from larger retailers with more established e-commerce platforms as well as online retailers, including Amazon, and on-line store e-commerce platforms such as Shopify.

Although we believe our participation in both e-commerce and physical store sales is a distinct advantage for us due to synergies and the potential for new customers, supporting product offerings through both of these channels could create issues that have the potential to adversely affect our results of operations. For example, growth in our e-commerce business relative to in-store sales may result in dilution of operating margin and profit due to higher delivery expenses incurred in our e-commerce sales. Furthermore, if our e-commerce businesses successfully grow, they may do so in part by attracting existing customers, rather than new customers, who choose to purchase products from us online rather than from our physical stores, thereby reducing the financial performance of our stores. In addition, offering different products through each channel could cause conflicts and cause some of our current or potential internet customers to consider competing distributors of beauty products. In addition, offering products through our e-commerce channels (particularly directly to consumers through our professional business) could cause some of our current or potential vendors to consider competing internet offerings of their products either directly or through competing distributors. As we continue to grow our e-commerce businesses, the impact of attracting existing rather than new customers, of conflicts between product offerings online and through our stores, and of opening up our channels to increased internet competition could have a material adverse impact on our business, financial condition and results of operations, including operating margin, profit, future growth and comparative sales. Furthermore, our recent initiatives to upgrade our e-commerce platforms may not be successful in driving traffic to our websites and increasing our online sales in the long term, which could adversely impact our net sales.

***Diversion of professional products sold by BSG could have an adverse impact on our revenues.***

The majority of the products that BSG sells, including those sold by our Armstrong McCall franchisees, are meant to be used exclusively by salons and individual salon professionals or sold exclusively to their retail consumers. However, despite our efforts to prevent diversion, incidents of product diversion occur, whereby our products are sold by these purchasers (and possibly by other bulk purchasers such as franchisees) to wholesalers and ultimately to general merchandise retailers, among others. These retailers, in turn, sell such products to consumers. The diverted product may be old, tainted or damaged and sold through unapproved outlets, all of which could diminish the value of the particular brand. In addition, such diversion may result in lower net sales for BSG should consumers choose to purchase diverted products from retailers rather than purchasing from our customers or choose other products altogether because of the perceived loss of brand prestige. Furthermore, in many instances, BSG is subject to certain anti-diversion obligations under these manufacturers' contracts, that if violated may result in the termination of such contracts. In addition, our investigation and enforcement of these anti-diversion obligations may require us to cease selling to customers suspected of diversion which could impact BSG's net sales.



***The loss of exclusive distribution rights with key vendors could have a material adverse effect on our business, financial condition and results of operations.***

We have exclusive and non-exclusive distribution rights with several key vendors for well-known brands in certain geographies. If key vendors ceased granting us exclusive distribution rights, or decided to utilize other distribution channels for their products, therefore widening the availability of these products in other channels, the revenue we earn from the sale of such products could be negatively impacted, which could have a material adverse effect on our business, financial condition and results of operations.

***BSG's financial results are affected by the financial results of BSG's franchised-based business (Armstrong McCall).***

BSG receives revenue from its sale of products to Armstrong McCall franchisees. Accordingly, a portion of BSG's financial results is dependent upon the operational and financial success of these franchisees, including their implementation of BSG's strategic plans. If sales trends or economic conditions worsen for Armstrong McCall's franchisees, their financial results may worsen. Additionally, the failure of Armstrong McCall franchisees to renew their franchise agreements, any requirement that Armstrong McCall restructure its franchise agreements in connection with such renewals, or any failure of Armstrong McCall to meet its obligations under its franchise agreements, could result in decreased revenues for BSG or create legal issues with our franchisees or with manufacturers.

Furthermore, our franchisees may not run the stores and sales teams according to our standards, which could have a material adverse effect on our brand reputation and our business.

***If we are unable to optimize our store base by profitably opening and operating new stores and closing less profitable stores, our business, financial condition and results of operations may be adversely affected.***

Our future growth strategy depends in part on our ability to optimize and profitably operate our stores in existing and additional geographic areas, including in international geographies, and to close underperforming stores. While the capital requirements to open an SBS or BSG store, excluding inventory, vary from geography to geography, such capital requirements have historically been relatively low in the U.S. and Canada. Despite these relatively low opening costs, we may not be able to open all the new stores we plan to open and we may be unable to optimize our store base by closing stores that are underperforming or open stores that are profitable, any of which could have a material adverse impact on our business, financial condition and results of operations. Furthermore, we may incur costs associated with the closure of underperforming stores and such store closures may adversely impact our revenues.

In addition, as we continue to open new stores, our management – as well as our financial, distribution and information systems – and other resources will be subject to greater demands. If our personnel and systems are unable to successfully manage this increased burden, our business, financial condition and results of operations may be materially affected.

***If our marketing, advertising and promotional programs are unsuccessful, our results of operations and financial condition could be adversely affected.***

If our marketing, advertising and promotional programs are unsuccessful, our results of operations and financial condition could be adversely affected. Customer traffic and demand for our merchandise are influenced by our advertising, marketing and promotional activities. We use marketing, advertising and promotional programs to attract customers through various media, including social media, websites, mobile applications, e-mail, and print. Our future growth and profitability will depend in part upon the effectiveness and efficiency of our advertising and marketing programs. Further, disruption to certain media channels could have a material adverse effect on our results of operations and financial condition.

In particular, there has been a substantial increase in the use of social media platforms – including blogs, social media websites and other forms of digital communications – and the influence of social media influencers in the beauty products industry. Furthermore, social media advertising and marketing continues to increase in importance as consumers are paying less attention to more traditional media. As a result, the success of our marketing and advertising programs are increasingly dependent on the effectiveness of industry influencers that we engage to promote our products. Furthermore, actions taken by these individuals could harm our brand image. Our marketing efforts through social media platforms and influencers may not be successful and the availability of these platforms may make it easier for smaller competitors to compete with us.

Negative commentary regarding us or the products we sell may be also posted on social media platforms or other electronic means at any time and may be adverse to our reputation or business. Customers value readily available information and often act on such information without further investigation and without regard to its accuracy. Any harm to us or the products we sell may be immediate without allowing us an opportunity for redress or correction.

***If we fail to attract and retain highly skilled management and other personnel at all levels of the Company, our business, financial condition and results of operations may be harmed.***

Our success has depended, and will continue to depend, in large part on our ability to attract and retain senior executives who possess extensive knowledge, experience and managerial skill applicable to our business. Significant leadership changes or executive management transitions involve inherent risk and any failure to ensure the effective transfer of knowledge and a smooth transition could hinder our strategic planning, execution and future performance. In addition, from time to time, key executive personnel leave our Company, and we may not be successful in attracting, integrating and retaining the personnel required to grow and operate our business profitably. While we strive to mitigate the negative impact associated with the loss of a key executive employee, an unsuccessful transition or loss could significantly disrupt our operations and could have a material adverse effect on our business, financial condition and results of operations.

We are also dependent on recruiting, training, motivating, managing and retaining our store employees that interact with our customers on a daily basis. Many team members are in entry-level or part-time positions with historically high turnover rates. Competition for these types of qualified employees, especially in light of recent labor shortages among entry-level workers, is intense and the failure to attract, retain and properly train qualified and motivated employees could result in decreased customer satisfaction, loss of customers and lower sales. In addition, our ability to meet our labor needs while controlling labor costs is subject to numerous external factors, including market pressures with respect to prevailing wage rates, unemployment levels, and health and other insurance costs; the impact of legislation or regulations governing labor relations, immigration, minimum wage and healthcare benefits; changing demographics; and our reputation within the labor market. Our inability to control our labor costs could affect our results of operations and result in lower margins in our two segments.

***We may not be successful in introducing additional store concepts.***

We may, from time to time, seek to develop and introduce new store concepts. Our ability to succeed in the early stages of new concepts could require significant capital expenditures and management attention. Additionally, any new concept is subject to certain risks, including customer acceptance, competition, product differentiation, challenges relating to economies of scale in merchandise sourcing and the ability to attract and retain qualified personnel, including management and designers. There can be no assurance that we will be able to develop and grow these or any other new concepts to a point where they will become profitable, or generate positive cash flow. If we cannot successfully develop and grow these new concepts, our financial condition and results of operations may be adversely impacted.

## **General Economic, Market and Foreign Risks**

***The political, social and economic conditions in the geographies we serve may affect consumer purchases of discretionary items such as beauty products and salon services, which could have a material adverse effect on our business, financial condition and results of operations.***

Our results of operations may be materially affected by conditions in the global capital markets and the economy and regulatory environment generally, both in the U.S. and internationally. Concerns over inflation, rising interest rates, labor shortages, energy costs, geopolitical issues, uncertainty with respect to elections, terrorism, civil unrest, the availability and cost of credit, the mortgage market, and the real estate and other financial markets in the U.S. and Europe have contributed to increased volatility and diminished expectations for the U.S. and certain foreign economies. We appeal to a wide demographic consumer profile and offer an extensive selection of beauty products sold directly to retail consumers and salons and salon professionals. Continued uncertainty in the economy could adversely impact consumer purchases of discretionary items such as beauty products as well as adversely impact the frequency of salon services performed by professionals using products purchased from us. Factors that could affect consumers' willingness to make such discretionary purchases include: inflation, general business conditions, levels of employment, interest rates, tax rates, the availability of consumer credit and consumer confidence in future economic conditions. A prolonged economic downturn or acute recession can adversely affect consumer spending habits and result in lower than expected net sales. The economic climate could also adversely affect our vendors. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

In addition, the disruption to the global economy and to our business, along with any sustained decline in our stock price, could lead to triggering events that may indicate that the carrying value of certain assets – including inventories, accounts receivables, long-lived assets, intangibles and goodwill – may not be recoverable, which could lead to impairment or other asset write-downs in the future.

***Price inflation for labor, materials and services, could adversely affect our business, results of operations and financial condition.***

We experienced considerable price inflation in costs for labor, materials and services during the past two years. While inflation is stabilizing, we may not be able to continue to pass through inflationary cost increases and, if inflationary pressures are sustained, we may only be able to recoup a portion of our increased costs in future periods. Our ability to raise prices to reflect increased costs may also be limited by competitive conditions in the market for our products.

***The occurrence of natural disasters or acts of violence or terrorism could adversely affect our operations and financial performance.***

The occurrence of natural disasters (the severity and frequency of which may be exacerbated by climate change) or acts of violence, terrorism or civil unrest could result in physical damage to our properties, the temporary closure of stores or distribution centers, the temporary lack of an adequate work force, the temporary or long-term disruption in the supply of products (or a substantial increase in the cost of those products) from domestic or foreign suppliers, the temporary disruption in the delivery of goods to our distribution centers (or a substantial increase in the cost of those deliveries), the temporary reduction in the availability of products in our stores and/or the temporary reduction in visits to stores by customers. If one or more natural disasters or acts of violence or terrorism were to impact our business, we could, among other things, incur significantly higher costs and longer lead times associated with distributing products. Furthermore, insurance costs associated with our business may rise significantly in the event of a large scale natural disaster or act of violence or terrorism.

***Currency exchange rate fluctuations could result in higher costs and decreased margins and earnings.***

Many of our products are sold outside of the United States. As a result, we conduct transactions in various currencies, which increase our exposure to fluctuations in foreign currency exchange rates relative to the U.S.

dollar and recently these foreign currencies have in general weakened significantly against the U.S. dollar. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, including amounts recorded in foreign currencies and translated into U.S. dollars for consolidated financial reporting. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials as well as transportation and freight, more expensive and more difficult to finance. Foreign currency fluctuations could have an adverse effect on our results of operations and financial condition.

***We are subject to risks related to our international operations.***

We operate on a global basis, and approximately 10% of our net revenues from continuing operations in fiscal year 2023, were generated outside North America. Non-U.S. operations are subject to many risks and uncertainties, including ongoing instability or changes in a country's or region's economic, regulatory or political conditions, including inflation, recession, interest rate fluctuations, sovereign default risk and actual or anticipated military or political conflicts, labor market disruptions, sanctions, boycotts, new or increased tariffs, quotas, exchange or price controls, trade barriers or other restrictions on foreign businesses, our failure to effectively and timely implement processes and policies across our diverse operations and employee base and difficulties and costs associated with complying with a wide variety of complex and potentially conflicting regulations across multiple jurisdictions. Non-U.S. operations also increase the risk of non-compliance with U.S. laws and regulations applicable to such non-U.S. operations, such as those relating to sanctions, boycotts and improper payments.

In addition, sudden disruptions in business conditions as a consequence of events such as terrorist attacks, war or other military action or the threat of further attacks, including the wars in Ukraine and in the Middle East, pandemics or other crises or vulnerabilities or as a result of adverse weather conditions or climate changes, may have an impact on consumer spending, which could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows as well as the trading price of our securities.

***A reduction in traffic to, or the closing of, other retailers in shopping areas where our SBS stores are located could significantly reduce our sales and leave us with excess inventory, which could have a material adverse effect on our business, financial condition, profitability and cash flows.***

As a result of our real estate strategy, most of our SBS stores are located in strip shopping centers. These strip shopping centers are occupied by other high traffic retailers such as grocery stores, mass merchants and home improvement centers. As a consequence of most of our SBS stores being located in strip shopping centers, our sales are derived, in part, from the volume of traffic generated by the other high traffic retailers where our stores are located. Customer traffic to these strip shopping centers may be adversely affected by the closing of stores in the strip shopping center, or by a reduction in traffic to such stores resulting from a regional or global economic downturn, an outbreak of flu or other viruses (such as COVID-19), a general downturn in the local area where our SBS store is located, or a decline in the desirability of the shopping environment of a particular strip shopping center. Such a reduction in customer traffic could reduce our sales and leave us with excess inventory, which could have a material adverse effect on our business, financial condition, profitability and cash flows.

**Regulatory, Legal and Cybersecurity Risks**

***If products sold by us are found to be defective in labeling or content, our credibility and that of the brands we sell may be harmed, marketplace acceptance of our products may decrease, and we may be exposed to liability in excess of our products liability insurance coverage and manufacturer indemnities.***

We do not control the production process for the products we sell. We may not be able to identify a defect in a product we purchase from a manufacturer or owned and exclusive-label brand filler before we offer such product



for resale. In many cases, we rely on representations of manufacturers and fillers about the products we purchase for resale regarding the composition, manufacture and safety of the products as well as the compliance of our product labels with government regulations. Our sale of certain products exposes us to potential product liability claims, recalls or other regulatory or enforcement actions initiated by federal, state or foreign regulatory authorities or through private causes of action. Such claims, recalls or actions could be based on allegations that, among other things, the products sold by us are misbranded, contain contaminants or impermissible ingredients, provide inadequate instructions regarding their use or misuse, include inadequate warnings concerning flammability or interactions with other substances or that we knew or should have known of an alleged defect. For example, recently numerous cases have been filed against beauty product manufacturers and distributors alleging harm from chemical hair straighteners and hair relaxer products, which could have a material adverse effect on the Company's business, financial condition, and results of operations. Claims against us could also arise as a result of the misuse by purchasers of such products or as a result of their use in a manner different than the intended use. We may be required to pay for losses or injuries actually or allegedly caused by the products we sell and to recall any product we sell that is alleged to be or is found to be defective. Furthermore, such claims could have an adverse impact on our reputation.

Any actual defects or allegations of defects in products sold by us could result in adverse publicity and harm our credibility or the credibility of the manufacturer, which could adversely affect our business, financial condition and results of operations. Although we may have indemnification rights against the manufacturers of many of the products we distribute and rights as an "additional insured" under the manufacturers' insurance policies, it is not certain that any manufacturer or insurer will be financially solvent and capable of making payment to any party suffering loss or injury caused by products sold by us or if all losses would be covered by such indemnification rights or insurance policies. If we are forced to expend significant resources and time to resolve such claims or to pay material amounts to satisfy such claims, it could have an adverse effect on our business, financial condition and results of operations.

***We could be adversely affected if we do not comply with current laws and regulations or if we become subject to additional or more stringent laws and regulations.***

We are subject to a number of federal, state and local laws and regulations in the U.S. as well as applicable laws and regulations in each foreign marketplace in which we do business. These laws and regulations govern the composition, packaging, labeling and safety of the products we sell as well as the methods we use to sell and import these products and other aspects of our business. Non-compliance with applicable laws and regulations of governmental authorities, including the FDA and similar authorities in other jurisdictions – by us or the manufacturers and fillers of the products sold by us – could result in fines, product recalls and enforcement actions and otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations.

In addition, the laws and regulations applicable to us or manufacturers of the products sold by us may become more stringent. Failure to comply with these new and existing regulations could result in significant fines or damages, in addition to costs and expenses to defend claims related thereto. Legal compliance could also lead to considerably higher internal regulatory costs. Manufacturers may try to recover some or all of any increased costs of compliance by increasing the prices at which we purchase products, and we may not be able to recover some or all of such increased cost in our own prices to our customers. We are also subject to state and local laws and regulations that affect our franchisor-franchisee relationships. Increased compliance costs and the loss of sales of certain products due to more stringent or new laws and regulations could adversely affect our business, financial condition and results of operations.

***The risks associated with climate change and other environmental impacts and increased focus by stakeholders on environmental issues, including those associated with climate change, could adversely affect our business, financial condition and operating results.***

Climatologists predict the long-term effects of climate change and global warming will result in the increased frequency, intensity and duration of weather events, which could significantly disrupt supply chains, potentially impacting our vendors' raw material costs and the production of products we sell. These weather events could also lead to an increased rate of temporary store closures and reduced customer traffic at our stores.

In addition, concern over climate change may result in new or increased regional, federal or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. These requirements may lead to an increase in tax, transportation and utility expenses.

Lastly, there is increased focus, including by governmental and non-governmental organizations, investors, customers and consumers on these and other environmental sustainability matters, including deforestation, land use, climate impact and recyclability or recoverability of packaging, including plastic. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to our impact on the environment.

***Failure to meet evolving expectations for reporting on environmental, social, and governance ("ESG") matters could adversely affect our sales and results of operations.***

Expectations from investors, customers, team members, government agencies and other third parties concerning ESG reporting have increased, and our ability to meet those expectations is dependent on a variety of factors, including cooperation from sourcing vendors and other third parties and having access to consistent and reliable data. Negative customer perceptions regarding the safety and sourcing of the products we sell and the sufficiency and transparency of our reporting on ESG matters and events that give rise to actual, potential, or perceived compliance and social responsibility concerns could hurt our reputation, result in lost sales, cause our customers to seek alternative sources for their needs and make it difficult and costly for us to regain the confidence of our customers. Furthermore, costs associated with ESG initiatives may have an adverse impact on our business, financial condition and operating results.

***If we fail to protect our intellectual property rights or if our products are found to infringe on the intellectual property rights of others, it could materially and negatively impact our business.***

We rely upon trade secrets and know-how to develop and maintain our competitive position. Our trademarks, certain of which are material to our business, are registered or legally protected in the U.S., Canada and other countries in which we operate. The success of our business depends to a certain extent upon the value associated with our intellectual property rights. We protect our intellectual property rights through a variety of methods, including, but not limited to, applying for and obtaining trademark protection in the U.S., Canada and other countries throughout the world in which our business operates. We also rely on trade secret laws, in addition to confidentiality agreements with vendors, employees, consultants and others who have access to our proprietary information. While we intend to vigorously protect our trademarks against infringement, we may not be successful. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. The costs required to protect our intellectual property rights and trademarks are expected to continue to be substantial.

Furthermore, the industry in which we operate is characterized by the need for a large number of copyrights, trade secrets and trademarks and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. A third-party may at any time assert our products violate such party's intellectual property rights. Successful intellectual property claims against us could result in significant financial liabilities and/or prevent us from selling certain of our products. In addition, the resolution of infringement claims may require us to redesign our products, to obtain licenses to use intellectual property belonging to third parties, which may not be attainable on reasonable terms, or to cease using the intellectual property altogether.

***We may be adversely affected by any disruption in our information technology systems.***

Our operations are dependent upon our information technology systems, which encompass all of our major business functions. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages or delays in our service) could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including, without limitation, fire, natural disasters, power outages, systems disruptions, system conversions, security breaches, cyberattacks, phishing attacks, viruses and/or human error. In any such event, we could be required to make a significant investment to fix or replace our information technology systems, and we could experience interruptions in our ability to service customers. Such delays, problems or costs may have a material adverse effect on our business, financial condition and results of operations.

We continuously need to improve and upgrade our systems and infrastructure while maintaining their reliability and integrity. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources before the volume of our business increases, with no assurance the volume of business will increase. The development and implementation of new systems and any other future upgrades to our systems and information technology may require significant costs and divert our management's attention and other resources from our core business. There are also no assurances these new systems and upgrades will provide us with the anticipated benefits and efficiencies. Many of our systems are proprietary and, as a result, our options are limited in seeking third-party help with the operation and upgrade of those systems. There can be no assurance the time and resources our management will need to devote to operations and upgrades, any delays due to the installation of any upgrade (and customer issues therewith), any resulting service outages, or the impact on the reliability of our data from any upgrade or any legacy system, will not have a material adverse effect on our business, financial condition, control environment or results of operations.

***Unauthorized access to confidential information and data on our information technology systems, security and data breaches and/or failure to comply with rapidly evolving data privacy laws could materially adversely affect our business, financial condition and operating results.***

As part of our operations, we, together with third parties acting on our behalf, receive, process and maintain sensitive and confidential information about our customers, employees and other third parties. Processing, maintenance and transmission of information is a critical part of our business operations. We have physical, technical and procedural safeguards in place that are designed to protect information and protect against security and data breaches as well as fraudulent transactions and other activities. We believe that our security safeguards follow appropriate practices in the prevention of security and data breaches and the mitigation of cybersecurity risks. Despite these safeguards and our other security processes and protections, our systems and processes may be vulnerable to security breaches and cyber-attacks, which are evolving and increasingly sophisticated (such as denial-of-service, ransomware, phishing, supply chain and social engineering attacks), as well as to physical breach, vandalism, sabotage, user malfeasance, viruses, misplaced or lost data and inadvertent data disclosure by third parties or us.

A significant data security breach, including misappropriation of our customers' or employees' confidential information, could result in significant costs to us, which may include, among others, potential liabilities to payment card networks for reimbursements of credit card fraud and card reissuance costs, including fines and penalties, potential liabilities from governmental or third-party investigations, proceedings or litigation, legal, forensic and consulting fees and expenses, costs and diversion of management attention required for investigation and remediation actions, and the negative impact on our reputation and loss of confidence of our customers, suppliers and others, any of which could have a material adverse impact on our business, financial condition and operating results. If our third-party suppliers or vendors are subject to cyber-attacks, data breaches, other security incidents, or disruption of information technology systems or software, such events could expose

us to liability, damage our reputation, and have a material adverse effect on our business. While we carry insurance that would mitigate losses in connection with security breaches and cyber incidents, insurance may be insufficient to compensate us fully for potentially significant losses.

There can be no assurance that our security upgrades and other measures will be effective, we will not suffer a criminal attack in the future, unauthorized parties will not gain access to confidential information, or any such incident will be discovered promptly. In particular, we understand that the techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognized until launched against a target; accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. The failure to promptly detect, determine the extent of and appropriately respond to a significant data security breach could have a material adverse impact on our business, financial condition and operating results.

We are also subject to an evolving body of federal, state and non-U.S. laws, rules, regulations, guidelines and principles regarding data privacy and security, the scope and impact of which are uncertain. Several governments, as well as the EU, have regulations dealing with the collection and use of personal information obtained from their citizens, and regulators globally are also imposing greater monetary fines for privacy violations, and there is an increase in allowing private rights of action. In 2023, changes to the California Consumer Privacy Act occurred in the form of the California Privacy Rights Act (“CPRA”), which expanded consumer privacy rights and extend application to our California employees. In addition, a number of U.S. states have enacted consumer privacy laws that are expected to take effect in 2024 and beyond, or have revived existing state laws with new meaning, potentially subjecting retailers to privacy-based class action lawsuits. We also expect to see rapid changes and corresponding regulator action and private rights of action related to the use of text messaging to communicate with customers, the collection and use of biometric data and dark patterns. We continue to monitor our compliance with the European privacy regulation, General Data Protection Regulation (“GDPR”), which applies to how organizations are required to handle the personal data of EU citizens and individuals residing in the EU as well as the UK GDPR post-Brexit. Data privacy is, and may continue to be, a rapidly evolving area of law. Any potential inability to comply with such laws, rules, regulations, guidelines and principles or to quickly adapt our practices to reflect them as they develop, could potentially subject us to significant fines, damages, liabilities and reputational harm, which could have a material adverse effect on our business, prospects, results of operations, financial condition and cash flows.

## **Financial Risks**

***Our comparable sales and quarterly financial performance may fluctuate for a variety of reasons.***

Our comparable sales and quarterly results of operations have fluctuated in the past and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable sales and quarterly financial performance, including:

- changes in our merchandising strategy or mix;
- a portion of a typical new store’s sales coming from customers who previously shopped at other existing stores;
- the timing and effectiveness of our marketing and promotional activities and those of our competitors;
- the effects of severe weather events or other natural disasters;
- the number of shopping days in a quarter;
- fluctuations in the cost to purchase products we sell;
- store closures in response to state or local regulations due to health concerns; and
- worldwide economic conditions and, in particular, the retail sales environment in the North America and Europe

Fluctuations in foreign currency exchange rates may also affect our quarterly financial performance. Accordingly, our results, including comparable sales, for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, and may even decrease, which could have a material adverse effect on our business, financial condition and results of operations.

***A portion of our indebtedness is subject to floating interest rates.***

Outstanding borrowings under our ABL facility, if any, and our term loan B are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness referred to above would increase even if the principal amount borrowed remained the same, and our net earnings and cash flows will correspondingly decrease. We are currently party to, and in the future, we may enter into additional, derivative instruments, such as interest rate caps and swaps, to reduce our exposure to changes in interest rates on our term loan B. However, we may not maintain derivative instruments with respect to all of our variable rate indebtedness, and any instruments we enter into may not fully mitigate our interest rate risk.

***We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, our ability to obtain financing in the future and our ability to react to changes in our business.***

As of September 30, 2023, certain of our subsidiaries, including Sally Holdings LLC, which we refer to as Sally Holdings, had an aggregate principal amount of approximately \$1.1 billion of outstanding debt.

Our substantial debt could have significant consequences. For example, it could:

- make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such indebtedness;
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of such cash flows to fund working capital, capital expenditures, share repurchases and other general corporate purposes;
- restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us, which could limit our ability to conduct repurchases of our own equity securities or pay dividends to our stockholders, thereby limiting our ability to enhance stockholder value through such transactions;
- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations (because a portion of our borrowings are at variable rates of interest), including borrowings under our \$500 million asset-based senior secured loan facility, which we refer to as the “ABL facility” and our term loan B;
- place us at a competitive disadvantage compared to our competitors with proportionately less debt or comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns;
- require us to comply with restrictive covenants that may restrict our ability to, among other things, pay dividends, conduct share repurchases, make acquisitions, dispose of assets or prepay debt;
- limit our ability to refinance indebtedness or cause the associated costs of such refinancing to increase; and
- limit our flexibility to adjust to changing market conditions and ability to withstand competitive pressures, or prevent us from carrying out capital spending that is necessary or important to our growth strategy and efforts to improve operating margins or our business.



Any of the foregoing impacts of our substantial indebtedness could have a material adverse effect on our business, financial condition and results of operations.

Each of our ABL facility, institutional term loan and senior notes contain certain covenants and restrictions that we are required to comply with. Our ability to comply with these covenants and restrictions may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants and restrictions could result in a default under either the ABL facility, the institutional term loan or the indentures that would permit the applicable lenders or senior note holders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay debt, lenders having secured obligations, such as the lenders under the ABL facility, could proceed against the collateral securing the debt. In any such case, our subsidiaries may be unable to borrow under the ABL facility and may not be able to repay the amounts due under the senior notes and the institutional term loan. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent.

In addition, we and our subsidiaries may incur substantial additional indebtedness in the future. As of September 30, 2023, our ABL facility provided us commitments for additional borrowings of up to approximately \$482.6 million, subject to borrowing base limitations, outstanding letters of credit and limitations on cash hoarding above certain balances, once utilized. If new debt is added to our current debt levels, the related risks we face would increase, and we may not be able to meet all our debt obligations.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 2. PROPERTIES**

Substantially all of our stores and a number of our warehouse and remote office locations are leased while our corporate headquarters in Denton, Texas and three warehouses/distribution centers are owned. The average store lease is for a term of five years with customary renewal options. The following table provides the number of stores per state in the U.S. and certain international locations, as of September 30, 2023:

<u>Location</u>	<u>SBS</u>	<u>BSG</u>	
	<u>Company-Operated</u>	<u>Company-Operated</u>	<u>Franchise</u>
United States (including Puerto Rico)			
Alabama . . . . .	39	12	2
Alaska . . . . .	4	3	—
Arizona . . . . .	74	32	4
Arkansas . . . . .	25	11	—
California . . . . .	244	154	—
Colorado . . . . .	46	19	—
Connecticut . . . . .	24	20	—
Delaware . . . . .	6	2	—
Florida . . . . .	167	76	2
Georgia . . . . .	76	29	—
Hawaii . . . . .	6	5	—
Idaho . . . . .	14	11	—
Illinois . . . . .	73	49	—
Indiana . . . . .	49	32	—
Iowa . . . . .	23	11	—
Kansas . . . . .	19	9	—
Kentucky . . . . .	41	21	—
Louisiana . . . . .	37	—	16

<u>Location</u>	<u>SBS</u>	<u>BSG</u>	
	<u>Company-Operated</u>	<u>Company-Operated</u>	<u>Franchise</u>
Maine . . . . .	7	4	—
Maryland . . . . .	24	22	—
Massachusetts . . . . .	39	27	—
Michigan . . . . .	64	35	—
Minnesota . . . . .	33	20	—
Mississippi . . . . .	24	2	6
Missouri . . . . .	41	17	—
Montana . . . . .	8	7	—
Nebraska . . . . .	17	8	—
Nevada . . . . .	31	15	—
New Hampshire . . . . .	14	8	—
New Jersey . . . . .	37	14	—
New Mexico . . . . .	22	4	3
New York . . . . .	69	47	—
North Carolina . . . . .	86	38	—
North Dakota . . . . .	4	5	—
Ohio . . . . .	107	57	—
Oklahoma . . . . .	39	2	5
Oregon . . . . .	32	14	—
Pennsylvania . . . . .	75	58	—
Puerto Rico . . . . .	37	6	—
Rhode Island . . . . .	6	4	—
South Carolina . . . . .	38	14	—
South Dakota . . . . .	5	4	—
Tennessee . . . . .	59	30	—
Texas . . . . .	268	6	94
Utah . . . . .	31	23	—
Vermont . . . . .	2	1	—
Virginia . . . . .	47	33	—
Washington . . . . .	47	29	—
West Virginia . . . . .	11	7	—
Wisconsin . . . . .	32	27	—
Wyoming . . . . .	4	1	—
Total United States (including Puerto Rico) . . . . .	<u>2,327</u>	<u>1,085</u>	<u>132</u>
International:			
United Kingdom . . . . .	236	—	—
Mexico . . . . .	243	—	—
Canada . . . . .	109	121	—
France . . . . .	75	—	—
Belgium . . . . .	53	—	—
Chile . . . . .	35	—	—
Netherlands . . . . .	27	—	—
Spain . . . . .	20	—	—
Other . . . . .	23	—	—
Total International . . . . .	<u>821</u>	<u>121</u>	<u>—</u>
Total Store Count . . . . .	<u>3,148</u>	<u>1,206</u>	<u>132</u>

The following table provides locations for our significant offices and warehouses and our corporate headquarters, as of September 30, 2023:

<u>Location</u>	<u>Type of Facility</u>	<u>Approximate Sq. Feet</u>	<u>Business Segment</u>
Company-Owned Properties:			
Denton, Texas . . . . .	Corporate Headquarters	200,000	N/A
Reno, Nevada . . . . .	Warehouse	253,000	SBS
Columbus, Ohio . . . . .	Warehouse	246,000	SBS
Jacksonville, Florida . . . . .	Warehouse	237,000	SBS
Leased Properties:			
Fort Worth, Texas . . . . .	Warehouse	494,000	BSG
Greenville, Ohio . . . . .	Warehouse	245,000	BSG
Fresno, California . . . . .	Warehouse	200,000	BSG
Blackburn, Lancashire, England . . . . .	Warehouse	195,000	SBS
Spartanburg, South Carolina . . . . .	Warehouse	190,000	BSG
Ghent, Belgium . . . . .	Office, Warehouse	94,000	SBS
Ronse, Belgium . . . . .	Office, Warehouse	91,000	SBS
Guadalupe, Nuevo Leon, Mexico . . . . .	Warehouse	78,000	SBS
Ghent, Belgium . . . . .	Warehouse	67,000	SBS
Calgary, Alberta, Canada . . . . .	Warehouse	60,000	BSG
Mississauga, Ontario, Canada . . . . .	Warehouse	60,000	BSG
Saint-Jerome, Quebec, Canada . . . . .	Warehouse	50,000	BSG

**ITEM 3. LEGAL PROCEEDINGS**

We are involved, from time to time, in various claims and lawsuits incidental to the conduct of our business. We carry insurance coverage in such amounts in excess of our self-insured retention as we believe to be reasonable under the circumstances and may or may not cover any or all of our liabilities in respect of these matters.

Although the ultimate disposition of these claims and proceedings cannot be predicted with certainty, we do not currently believe the ultimate resolution of these matters will have a material adverse impact on our consolidated financial position, cash flows or results of operations. However, there can be no assurances that future adverse judgments and costs would not be material to our financial position, cash flows or results of operations for a particular period.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

## PART II

### **ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Market for the Registrant’s Common Equity**

##### *Market Information*

Our common stock is listed on the New York Stock Exchange under the symbol “SBH.”

##### *Holder*

As of November 10, 2023, there were 432 stockholders of record of our common stock.

##### *Dividends*

We have not declared or paid dividends at any time during the two fiscal years prior to the date of this Annual Report. We currently anticipate we will retain future earnings to support investments in our business, to repay outstanding debt or to return capital to shareholders through share repurchases. Any determination to pay dividends will be made at the discretion of our Board of Directors and will depend on our financial condition, results of operations, contractual restrictions, including under our debt agreements and instruments, cash requirements and other factors our Board of Directors deem relevant.

#### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides information about the Company’s repurchases of shares of its common stock during the three months ended September 30, 2023:

<u>Fiscal Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</u>
July 1 through July 31, 2023 . . . . .	—	\$ —	—	\$595,792,425
August 1 through August 31, 2023 . . . . .	1,511,427	9.92	1,511,427	580,792,429
September 1 through September 30, 2023 . . . . .	—	—	—	580,792,429
Total this quarter . . . . .	<u>1,511,427</u>	<u>\$9.92</u>	<u>1,511,427</u>	<u>\$580,792,429</u>

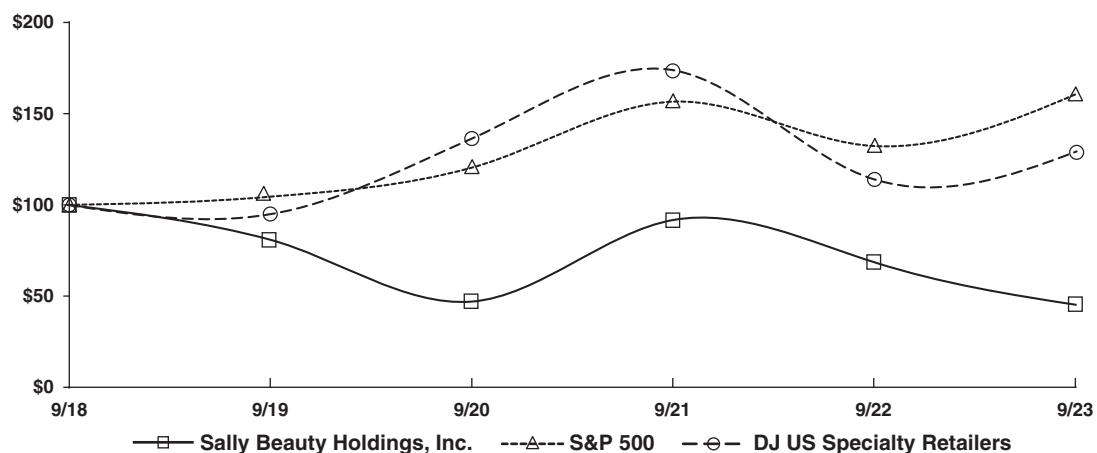
(1) The Board approved a share repurchase program authorizing us to repurchase up to \$1.0 billion of our common stock through September 30, 2025.

*Performance Graph*

The following performance graph and related information shall not be deemed “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The following graph illustrates the five-year comparative total return among Sally Beauty Holdings, Inc., the S&P 500 Index (“S&P 500”) and the Dow Jones U.S. Specialty Retailers Index (“DJ US Specialty Retailers”) assuming \$100 was invested on September 30, 2018, and dividends, if any, were reinvested. The DJ US Specialty Retailers is a non-managed index and provides a comprehensive view of issuers, including our common stock, that are primarily in the U.S. retail sector.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN**



<u>Fiscal year ended</u>	<u>September 30, 2018</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>	<u>September 30, 2021</u>	<u>September 30, 2022</u>	<u>September 30, 2023</u>
Sally Beauty Holdings, Inc. . . .	\$100.00	\$ 80.97	\$ 47.25	\$ 91.63	\$ 68.52	\$ 45.57
S&P 500 . . . . .	100.00	104.25	120.05	156.07	131.92	160.44
DJ US Specialty Retailers . . . .	100.00	94.71	135.93	173.25	113.59	129.08



## **ITEM 6. [RESERVED]**

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following section discusses management's view of Sally Beauty's financial condition and results of operations for fiscal year 2023 compared to fiscal year 2022. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II of our Annual Report on Form 10-K for the fiscal year ended September 30, 2022, for a discussion of the financial condition and results of operations for fiscal year 2022 compared to fiscal year 2021. This section should be read in conjunction with the audited consolidated financial statements of Sally Beauty and the related notes included elsewhere in this Annual Report. This Management's Discussion and Analysis of Financial Condition and Results of Operations section may contain forward-looking statements. See "Cautionary Notice Regarding Forward-Looking Statements" and "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements that could cause results to differ materially from those reflected in such forward-looking statements.

### **Financial Results Summary of the Fiscal Year Ended September 30, 2023:**

- Consolidated net sales for the fiscal year decreased \$87.4 million, or 2.3%, to \$3,728.1 million and included a negative impact from changes in foreign currency exchange rates of \$9.2 million, or 0.2% of consolidated net sales;
- Consolidated comparable sales for the fiscal year increased 1.4%, compared to the prior fiscal year;
- Consolidated gross profit decreased by \$21.0 million, or 1.1%, to \$1,898.2 million. Gross margin increased 60 basis points to 50.9% compared to the prior fiscal year;
- Consolidated operating earnings for the fiscal year decreased \$12.6 million, or 3.7%, to \$325.0 million. Operating margin decreased 10 basis points to 8.7% compared to the prior fiscal year;
- Consolidated net earnings for the fiscal year decreased \$1.0 million, or 0.6%, to \$184.6 million;
- Diluted earnings per share for the fiscal year were \$1.69 compared to \$1.66 for the prior fiscal year; and
- Cash provided by operations was \$249.3 million for the fiscal year compared to \$156.5 million for the prior fiscal year.

### **Distribution Center Consolidation and Store Optimization Plan**

Last fiscal year, we announced our Distribution Center Consolidation and Store Optimization Plan (the "Plan"). The Plan was designed to improve overall profitability by optimizing our store base and distribution network through the planned closing of 330 SBS stores, 35 BSG stores and two BSG distribution centers. This fiscal year, we were able to complete the majority of our planned closures and further optimized our store supply chain network based on our new store fleet, while meeting our sales recapture and cost savings expectations. As of September 30, 2023, we have two BSG stores left to be closed as part of the Plan and expect additional immaterial costs to be incurred in the first half of fiscal year 2024.

See Note 16 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report for more information on the Plan.

### **Trends Impacting Our Business**

Global inflationary pressures continued to influence consumer and stylist shopping behavior along with the cost for products and services. In the U.S. and Canada, we saw our SBS retail customers color their hair less

frequently and reduce the size of their basket when they shop with us, while at BSG we saw a continuation of stylist demand trends of buying closer to needs we've seen over the last several quarters. These inflationary pressures have also impacted wages, especially among retail and hourly employees, as we have experienced an increase in our labor costs in order to attract and retain associates.

During the fiscal year, these headwinds have resulted in lower traffic and conversion in our business and increases in certain operating costs. We continue to monitor these challenges and implement measures to help mitigate their impacts, including managing our inventory levels to reduce out-of-stock items, adjusting our promotional activities, optimizing our store base and expanding our partnerships with delivery service providers. Although these initiatives have helped mitigate ongoing macro-headwinds, we cannot reasonably predict the long-term effects of inflation. Furthermore, in a measure to curb inflation, the U.S. Federal Reserve has increased the federal funds effective rate. In turn, these increases have raised the interest expense of some of our customers' outstanding borrowings which has reduced their discretionary spending.

### Comparable Sales

The Company's initiative to invest in our digital platforms support our omni-channel strategy to provide customers an enhanced shopping experience. As such, we believe that comparable sales is an appropriate performance indicator to measure our sales growth compared to the prior period. Our comparable sales include sales from stores that have been operating for 14 months or longer as of the last day of a month and e-commerce revenue. Additionally, comparable sales include sales to franchisees and full-service sales. Our comparable sales metric excludes the effect of changes in foreign exchange rates and sales from stores relocated until 14 months after the relocation. Revenue from acquired stores are excluded from our comparable sales calculation until 14 months after the acquisition. Our calculation of comparable sales might not be the same as other retailers as the calculation varies across the retail industry.

### Results of Operations

#### Key Operating Metrics

The following table sets forth, for the periods indicated, information concerning key measures we rely on to assess our operating performance (dollars in thousands):

	Fiscal Year Ended September 30,		2023 vs. 2022	
			Amount	%
	2023	2022	Change	Change
Net sales:				
SBS .....	\$2,139,206	\$2,193,044	\$ (53,838)	(2.5)%
BSG .....	1,588,925	1,622,521	(33,596)	(2.1)%
Consolidated .....	<u>\$3,728,131</u>	<u>\$3,815,565</u>	<u>\$ (87,434)</u>	<u>(2.3)%</u>
Gross profit:				
SBS .....	\$1,265,683	\$1,273,882	\$ (8,199)	(0.6)%
BSG .....	632,497	645,283	(12,786)	(2.0)%
Consolidated .....	<u>\$1,898,180</u>	<u>\$1,919,165</u>	<u>\$ (20,985)</u>	<u>(1.1)%</u>
Segment gross margin:				
SBS .....	59.2%	58.1%	110 bps	
BSG .....	39.8%	39.8%	— bps	
Consolidated .....	50.9%	50.3%	60 bps	

	Fiscal Year Ended September 30,		2023 vs. 2022	
			Amount	%
	2023	2022	Change	Change
Net earnings:				
Segment operating earnings:				
SBS .....	\$ 358,474	\$ 350,884	\$ 7,590	2.2%
BSG .....	181,275	193,407	(12,132)	(6.3)%
Segment operating earnings .....	539,749	544,291	(4,542)	(0.8)%
Unallocated expenses and restructuring <sup>(a) (b)</sup> .....	214,720	206,651	8,069	3.9%
Consolidated operating earnings .....	325,029	337,640	(12,611)	(3.7)%
Interest expense .....	72,979	93,543	(20,564)	(22.0)%
Earnings before provision for income taxes .....	252,050	244,097	7,953	3.3%
Provision for income taxes .....	67,450	60,544	6,906	11.4%
Net earnings .....	\$ 184,600	\$ 183,553	\$ 1,047	0.6%
Number of stores at end-of-period (including franchises):				
SBS .....	3,148	3,439	(291)	(8.5)%
BSG .....	1,338	1,355	(17)	(1.3)%
Consolidated .....	4,486	4,794	(308)	(6.4)%
Comparable sales growth (decline)				
SBS .....	3.4%	(0.6)%	400 bps	
BSG .....	(1.3)%	2.3%	(360) bps	
Consolidated .....	1.4%	0.6%	80 bps	

- (a) Unallocated expenses represent certain corporate costs (such as payroll, share-based compensation, employee benefits and travel expense for corporate staff, certain professional fees and corporate governance expenses) that have not been charged to our segments and are included in SG&A expenses in our consolidated statements of earnings.
- (b) Restructuring primarily relates to the Plan.

***The Fiscal Year Ended September 30, 2023, compared to the Fiscal Year Ended September 30, 2022***

***Net Sales***

SBS. The decrease in net sales for SBS was primarily driven by the following (in thousands):

Comparable sales .....	\$ 69,253
Sales outside comparable sales <sup>(a)</sup> .....	(121,284)
Foreign currency exchange .....	(1,807)
Total .....	\$ (53,838)

- (a) Includes closed stores, including stores closed under the Plan, net of stores opened for less than 14 months.

SBS's sales decrease was primarily driven by the impact of store closures in connection with the Plan in an amount of approximately \$112.0 million, partially offset by a significant portion of these sales being recaptured in other locations including within comparable sales. The increase in SBS's comparable sales was a result of growth in our average unit retail, primarily from inflationary impacts and pricing leverage, partially offset by a decrease in our average units per transaction.

BSG. The decrease in net sales for BSG was driven by the following (in thousands):

Comparable sales .....	\$(20,117)
Sales outside comparable sales <sup>(a)</sup> .....	(6,086)
Foreign currency exchange .....	<u>(7,393)</u>
Total .....	<u><u>\$(33,596)</u></u>

(a) Includes closed stores, including stores closed under the Plan, net of stores opened (or acquired) for less than 14 months.

BSG's sales decrease was primarily driven by the impact of store closures in connection with the Plan in an amount of approximately \$8.8 million and the negative impacts of exchange rates, partially offset by a significant portion of these sales being recaptured in other locations, including within comparable sales. Additionally, BSG's comparable sales were impacted by the continuation of stylist demand trends seen over the last several quarters, which resulted in fewer transactions and units per transaction, partially offset by an increase in our average unit retail.

### ***Gross Profit***

SBS. SBS's gross profit decrease was driven by lower net sales, partially offset by a higher gross margin. SBS's gross margin grew as a result of pricing leverage, increased penetration of our owned-brand products and adjustments to our expected obsolescence reserve related to the Plan.

BSG. BSG's gross profit decreased as a result of lower net sales, while BSG's gross margin was unchanged. Gross margin included lower product margin resulting from an unfavorable sales channel mix between stores and lower-margin Regis e-commerce sales, and a shift in some distribution center costs from selling, general and administrative expenses into gross margin, offset by adjustments to our expected obsolescence reserve related to the Plan.

### ***Selling, General and Administrative Expenses***

SBS. SBS's SG&A expenses decreased \$15.8 million, or 1.7%, to \$907.2 million for fiscal year 2023, which includes the favorable impact from foreign exchange rates of \$0.6 million due to the weakening of the U.S. Dollar compared to currencies in our foreign operations. As a percentage of SBS net sales, SG&A for fiscal year 2023 was 42.4% compared to 42.1% for fiscal year 2022. The increase as a percentage of sales was driven by higher wage and bonus expenses, partially offset by cost savings from the closure of stores in connection with the Plan and lower advertising expenses.

BSG. BSG's SG&A expenses decreased \$0.7 million, or 0.1%, to \$451.2 million for fiscal year 2023 and includes a favorable impact from foreign exchange rates of \$2.5 million. As a percentage of BSG net sales, SG&A for fiscal year 2023 was 28.4% compared to 27.9% for fiscal year 2022. The increase was primarily driven by higher labor and bonus expenses, partially offset by a shift in some distribution center costs from selling, general and administrative expense into gross margin.

Unallocated. Unallocated SG&A expenses, which represent certain corporate costs that have not been charged to our reporting segments, increased \$18.4 million, or 10.3%, to \$197.5 million, primarily due to higher wage and bonus expenses, insurance costs and information technology expenses. These increases were partially offset by prudent cost control and the lapping of disposal costs for obsolete personal-protective equipment inventory.

### ***Restructuring***

For fiscal year 2023, we substantially completed the planned closures under the Plan and incurred \$17.2 million in restructuring charges, primarily from lease termination costs. For fiscal year 2022, we incurred \$27.6 million

in restructuring charges, which includes \$24.8 million in asset impairments related to the Plan and other expenses in connection with a prior restructuring plan. See Note 16 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report for more information on our restructuring plans.

### ***Interest Expense***

The decrease in interest expense was primarily due to the lapping of debt extinguishment costs related to the repayment of our 8.75% Senior Notes due 2025 in fiscal year 2022, partially offset by debt extinguishment costs related to the repricing of our Term Loan B, higher interest rates on our variable rate debt and an increase in our average borrowings outstanding under our ABL facility. Additionally, our interest rate derivatives have helped mitigate some of the impacts from higher interest rates on a portion of our variable rate debt.

### ***Provision for Income Taxes***

For fiscal year 2023 and 2022, our effective tax rate was 26.8% and 24.8%, respectively. The increase in our effective tax rate was primarily due to additional taxes and interest recorded in the current fiscal year in connection with the one-time transition tax on unrepatriated foreign earnings (“Repatriation Tax”) related to fiscal year 2018, and the net benefit recognized in the prior fiscal year from the release of \$19.9 million of valuation allowances against foreign subsidiary net operating losses in the prior year for which a tax benefit was recognized, offset by \$7.0 million in expense arising from uncertain tax positions. See Note 14, *Income Taxes*, for more information on our effective tax rate.

Our effective tax rate may fluctuate on a quarterly and/or annual basis due to various factors including, but not limited to, total earnings and the mix of earnings by jurisdiction, new tax laws, as well as changes in valuation allowances and uncertain tax positions.

### ***Liquidity and Capital Resources***

Our principal sources of liquidity are cash from operations, cash and cash equivalents, and borrowings under our ABL facility. A substantial portion of our liquidity needs arise from funding the costs of our operations, working capital, capital expenditures and debt-servicing. Additionally, under our share repurchase program (see below for more details) we will from time-to-time repurchase shares of our common stock on the open market to return value to our shareholders. At September 30, 2023, we had \$605.6 million in our liquidity pool, which includes amounts available for borrowings under our ABL facility of \$482.6 million and cash and cash equivalents of \$123.0 million. Based upon the current level of operations and anticipated growth, we anticipate existing cash balances (excluding certain amounts permanently invested in connection with foreign operations), as well as cash expected to be generated by operations and funds available under the ABL facility, will be sufficient to fund working capital requirements, potential acquisitions, anticipated capital expenditures (including information technology investments and store projects) and service our debt obligations over the next 12 months.

Our working capital (current assets less current liabilities) increased \$184.2 million to \$648.7 million at September 30, 2023, compared to \$464.5 million at September 30, 2022. The increase in our working capital was driven by higher inventory balances, resulting from \$17.2 million from foreign exchange rates and inflationary vendor cost increases, partially offset by the optimization efforts to improve inventory stocking levels. The increase was further driven by an increase in cash and cash equivalents, fewer outstanding borrowings under our ABL facility, a reduction in our accounts payable due to the timing of payments, and impacts of optimization efforts around inventory purchases. The ratio of current assets to current liabilities was 2.12 to 1.00 at September 30, 2023, compared to 1.70 to 1.00 at September 30, 2022.

### ***Share Repurchase Programs***

During the fiscal years 2023 and 2022, we repurchased and subsequently retired approximately 1.5 million shares and 6.8 million shares of our common stock under our share repurchase program at a cost of \$15.0 million and



\$130.3 million, respectively, excluding the impact of excess taxes on share repurchases. Share repurchases are funded primarily with cash from operations and, occasionally, with borrowings under the ABL facility. As of September 30, 2023, we had approximately \$580.8 million of additional share repurchase authorization remaining under our Share Repurchase Program, that expires September 30, 2025.

### **Historical Cash Flows**

The following table shows our sources and uses of cash for the periods presented (in thousands):

	<b>Fiscal Year Ended September 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>Change</b>
Net cash provided by operating activities . . . . .	\$ 249,311	\$ 156,500	\$ 92,811
Net cash used by investing activities . . . . .	(99,776)	(102,419)	2,643
Net cash used by financing activities . . . . .	(100,824)	(373,679)	272,855
Effect of foreign currency exchange rate changes on cash and cash equivalents . . . . .	3,732	(10,803)	14,535
Net increase (decrease) in cash and cash equivalents . . . . .	<u>\$ 52,443</u>	<u>\$(330,401)</u>	<u>\$382,844</u>

#### *Operating Activities*

The increase in net cash provided by operating activities for fiscal year 2023, compared to fiscal year 2022, was primarily driven by fewer inventory purchases in the current year as a result of the Plan and the additional inventory purchases related to BSG’s growth through distribution partnerships in the prior fiscal year.

#### *Investing Activities*

The decrease in net cash used by investing activities for fiscal year 2023, compared to fiscal year 2022, was primarily due to fewer capital expenditures, partially offset by cash paid for acquisitions this fiscal year compared to last fiscal year. During the fiscal year ended 2023, we had total capital expenditures of approximately \$97.8 million, excluding amounts paid in connection with the prior year, primarily in connection with investments in technology and store leasehold improvements.

#### *Financing Activities*

Net cash used by financing activities decreased as a result of fewer debt repayments during the fiscal year, compared to prior fiscal year, and fewer shares repurchased under our share repurchase program.

### **Debt and Guarantor Financial Information**

During fiscal year 2023, we entered into a seven-year term loan facility agreement in the aggregate principal amount of \$400.0 million and used the proceeds to subsequently repay our previously existing term loan facility. Subsequently during the fiscal year, we were successfully able to negotiate a reduction in the fixed interest rate spreads on borrowings under the term loan facility.

At September 30, 2023, we had \$1,078.0 million in outstanding debt, excluding finance lease obligations, unamortized debt issuance costs and discounts, in the aggregate, of \$8.0 million. Our debt consists of \$680.0 million in 2025 Senior Notes outstanding and \$398.0 million remaining on our term loan. At September 30, 2023, there were no outstanding borrowings under our ABL facility. We utilize our ABL facility for the issuance of letters of credit, certain working capital and liquidity needs, and to manage normal fluctuations in our operational cash flow. In that regard, we may from time to time draw funds under the ABL facility for general corporate purposes, including funding of capital expenditures, acquisitions, debt servicing

and, occasionally, share repurchases. Amounts drawn on our ABL facility are generally paid down with cash provided by our operating activities. During fiscal year 2023, the weighted average interest rate on our borrowings under the ABL facility was 6.1%.

We are currently in compliance with the agreements and instruments governing our debt, including our financial covenants.

See Note 10 of the Notes to Consolidated Financial Statements in Item 8 contained in this Annual Report for additional information about our debt.

#### *Guarantor Financial Information*

Our 2025 Senior Notes were issued by our wholly-owned subsidiaries, Sally Holdings LLC and Sally Capital Inc. (the “Issuers”). The notes are unsecured debt instruments guaranteed by us and certain of our wholly-owned domestic subsidiaries (together, the “Guarantors”) and have certain restrictions on the ability of our subsidiaries to make certain restrictive payments to Sally Beauty. The guarantees are joint and several, and full and unconditional. Certain other subsidiaries, including our foreign subsidiaries, do not serve as guarantors.

The following summarized consolidating financial information represents financial information for the Issuers and the Guarantors on a combined basis. All transactions and intercompany balances between these combined entities has been eliminated.

The following table presents the summarized balance sheets information for the Issuers and the Guarantors as of September 30, 2023 and 2022 (in thousands):

<u>(in thousands)</u>	<u>September 30, 2023</u>	<u>September 30, 2022</u>
Cash and cash equivalents . . . . .	\$ 66,148	\$ 23,325
Inventory . . . . .	\$ 735,853	\$ 714,477
Intercompany receivable . . . . .	\$ 1,658	\$ —
Current assets . . . . .	\$ 890,462	\$ 827,155
Total assets . . . . .	\$2,076,413	\$1,982,982
Current liabilities . . . . .	\$ 468,202	\$ 549,415
Intercompany payable . . . . .	\$ —	\$ 4,431
Total liabilities . . . . .	\$2,011,075	\$2,085,169

The following table presents the summarized statement of earnings information for fiscal year 2023 (in thousands):

Net sales . . . . .	\$3,011,054
Gross profit . . . . .	\$1,551,214
Earnings before provision for income taxes . . . . .	\$ 209,632
Net Earnings . . . . .	\$ 154,584

## Contractual Obligations

The following table summarizes our contractual obligations at September 30, 2023 (in thousands):

	Payments Due by Period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Long-term debt obligations, including					
interest <sup>(a)</sup> . . . . .	\$ 72,247	\$ 791,675	\$ 65,881	\$413,561	\$1,343,364
Obligations under operating leases <sup>(b)</sup> . . . . .	175,327	262,059	147,651	105,786	690,823
Obligations under finance leases . . . . .	174	144	—	—	318
Purchase obligations <sup>(c)</sup> . . . . .	23,345	21,824	—	—	45,169
Other long-term obligations <sup>(d) (e)</sup> . . . . .	7,716	8,142	1,630	1,532	19,020
Total . . . . .	<u>\$278,809</u>	<u>\$1,083,844</u>	<u>\$215,162</u>	<u>\$520,879</u>	<u>\$2,098,694</u>

- (a) Long-term debt obligations include future interest payments on our debt outstanding as of September 30, 2023. The amounts shown above do not include deferred debt issuance costs reflected in our consolidated balance sheets, nor do they include the impact of any interest received from the impact of our interest rate swap.
- (b) The amounts reported for operating leases do not include common area maintenance (CAM), property taxes or other executory costs. The amounts shown above do not include immaterial contingent liabilities for operating leases for which we are liable in the event of default by a franchisee.
- (c) Purchase obligations reflect legally binding agreements that are entered into by us to purchase goods or services, that specify minimum quantities to be purchased and with fixed or variable price provisions. Amounts shown do not reflect open purchase orders, mainly for merchandise, to be fulfilled within one year, which are generally cancellable or contracts that tend to be reoccurring in nature and similar in amount year over year.
- (d) Other long-term obligations, including current portion, principally represent obligations under our insurance and self-insurance programs. These obligations are included in accrued liabilities and other liabilities, as appropriate, in our consolidated balance sheets.
- (e) The table above does not include an estimated \$8.3 million of unrecognized tax benefits due to uncertainty regarding the realization and timing of the related future cash flows, if any.

The information contained in the table above with regards to our long-term debt obligations is based on the current terms of such debt obligations and does not reflect any assumptions about our ability or intent to refinance any of our debt either on or before their maturity. In the event we refinance some or all of the debt either on or before maturity, actual payments for some of the periods shown may differ materially from the amounts reported herein. In addition, other future events, including potential increases in interest rates, could cause actual payments to differ materially from these amounts.

## Off-Balance Sheet Financing Arrangements

At September 30, 2023, we did not have any off-balance sheet financing arrangements other than obligations under letters of credit, as discussed above.

## Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles in the United States (“GAAP”) requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure. Actual results could differ from the

estimates and assumptions used, which could have a material impact to financial statements. We believe the following are our most critical accounting estimates that require subjective judgments, estimates and assumptions:

### Valuation of Inventory

Our inventory is stated at the lower of weighted average cost or net realizable value. In assessing the net realizable value of inventory, we will adjust the carrying value of inventory for estimated shrinkage, damage and obsolescence using several key factors including estimates of the future demand for our products, historical turn-over rates, the age and sales history of the inventory, and historic as well as anticipated changes in SKUs.

We estimate inventory shrinkage between physical counts and product damage based upon our historical experience. Actual results differing from these estimates could significantly affect our carrying value of inventory and cost of goods sold. Inventory shrinkage, in the aggregate, has remained less than 1.0% of consolidated net sales over the past two fiscal years. A 10% change in our estimate of inventory shrinkage and obsolescence reserves at September 30, 2023, would impact net earnings by approximately \$2.1 million.

### Vendor Rebates and Concessions

We deem cash consideration received from a vendor to be a reduction of the cost of goods sold unless it is in exchange for an asset or service or a reimbursement of a specific, incremental, identifiable cost incurred by us in selling the vendor's products. The majority of cash consideration we receive is considered to be a reduction of inventory and a subsequent reduction in cost of goods sold as the related products are sold. We consider the facts and circumstances of the various contractual agreements with vendors in order to determine the appropriate classification of amounts received in our consolidated statements of earnings. We record cash consideration expected to be received from vendors in accounts receivables, other when earned and at the amount we believe will be collected. These receivables could be significantly affected if the actual amounts subsequently collected differ from our expectations. Historically, adjustments between the amount recorded and the amount collected have not had a material impact to our results of operations.

### Insurance

We retain a substantial portion of the risk related to employee health (primarily in the U.S.), workers' compensation and general liability. However, we maintain stop-loss coverage to limit the exposure related to certain insurance risks. We base our health insurance liability estimate on trends in claim payment history, historical trends in claims incurred but not yet reported and other components such as expected increases in medical costs, projected premium costs and the number of plan participants. Additionally, we base our estimates for workers' compensation, general and product liability on an actuarial analysis performed by an independent third-party actuary. We review our insurance liability on a regular basis and adjust our accruals accordingly.

Changes in facts and circumstances may lead to a change in the estimated liability due to revisions of the estimated ultimate costs that affect our liability insurance coverage. Our liabilities could be significantly affected if actual results differ from our expectations or prior actuarial analyses. A 10% adjustment in our insurance liabilities at September 30, 2023, would impact net earnings by approximately \$1.6 million.

The changes in our insurance liabilities were as follows (in thousands):

	<b>Fiscal Year Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
Balance at beginning of period . . . . .	\$ 20,555	\$ 20,596
Self-insurance expense . . . . .	74,788	68,695
Payments, net of employee contributions . . . . .	<u>(73,331)</u>	<u>(68,736)</u>
Balance at end of period . . . . .	<u>\$ 22,012</u>	<u>\$ 20,555</u>

### **Income Taxes**

We record income tax provisions in our consolidated financial statements based on an estimate of current income tax liabilities. The development of these provisions requires judgments about tax positions, potential outcomes and timing. If we prevail in tax matters for which provisions have been established or are required to settle matters in excess of established provisions, our effective tax rate for a particular period could be significantly affected.

Additionally, deferred income taxes are recognized for the future tax consequences attributable to differences between our financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are estimated to be recovered or settled. We believe it is more-likely-than-not that our results of operations in the future will generate sufficient taxable income to realize our deferred tax assets, net of the valuation allowance currently recorded. We have recorded a valuation allowance to account for uncertainties regarding the recoverability of certain deferred tax assets, primarily foreign loss carryforwards and tax credit carryforwards. In the future, if we determine certain deferred tax assets will not be realizable, the related adjustments could significantly affect our effective tax rate at that time. An estimated tax benefit related to an uncertain tax position is recorded in our consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax position will withstand challenge, if any, from applicable taxing authorities.

### **Assessment of Long-Lived Assets for Impairment and Restructuring**

We review long-lived assets, including operating lease assets, for impairment whenever events or circumstances indicate the carrying amount of an asset may not be fully recoverable based on estimated undiscounted future cash flows. Long-lived assets are reviewed at the lowest level of identifiable cash flows, which typically is at the store level. In assessing for impairment, we determine the fair value of each individual store by discounting projected future cash flows. There are certain estimates and assumptions used to arrive at estimated future cash flows, including projected earnings and growth rates. The carrying amount of a long-lived asset or asset group is considered impaired when the carrying value of the asset or asset group exceeds the expected future cash flows from the asset or asset group. The impairment loss recognized is the excess of the carrying value of the asset or asset group over its fair value.

When we commit to an exit plan of scale that we believe will result in the disposal of long-lived assets prior to the end their useful lives, the approval of such plan may be considered a triggering event and therefore require a reassessment of asset carrying values for recoverability, based on projected cash flows. If the carrying values are not recoverable, write-downs or impairment charges may be required to bring carrying values of certain long-lived assets, including operating lease asset, to fair value. In connection with facility and store closures, we typically will also incur charges for employee severance, disposal costs and other expenses incurred with closures. These charges are accrued and estimated based on facts and circumstances at the time. Actual cash flows and expected payments could be significantly different from our estimates.

For fiscal years 2023 and 2021, no material impairment losses were recognized. For fiscal year 2022, we recognized an impairment loss of \$24.8 million in connection with the Plan within restructuring.

### **Assessment of Goodwill and Intangible Assets for Impairment**

We review goodwill and intangible assets for impairment annually, or when events or circumstances indicate it is more-likely-than-not that the value of the asset may be impaired. In assessing these types of assets for impairment, there are significant estimates and assumptions used to determine the fair value, including relevant market and economic conditions, anticipated future revenues and cash flows, royalty rates and discount rates.



When assessing goodwill for impairment, we may perform a qualitative assessment which evaluates macro-economic conditions, current and projected cash flows, and other events or changes in circumstances to determine if a quantitative assessment is necessary. During quantitative assessment, we use a discounted cash flow model to determine an estimated fair value. If it is determined that the fair value of a reporting unit is less than its carrying value, an impairment charge will be recorded to bring the carrying value down to its fair value.

At the end of September 2023, we determined that a triggering event had occurred, due to the recent decline in the Company's share price and market capitalization, among other factors. As a result, we conducted a quantitative assessment at September 30, 2023. The analysis requires management to make estimates and assumptions, which may differ significantly from actual results, particularly if there are significant adverse changes in our operating environment.

Based on our discounted cash flow analysis, we estimated the fair value, at September 30, 2023, for our BSG reporting unit to be approximately 18% more than its carrying value. Goodwill allocated to the BSG reporting unit, which is also defined as our BSG segment, was \$457.8 million as of September 30, 2023. The critical assumptions used as part of our evaluation include a projected long-term revenue growth rate of 2.0% and a discount rate of 11.25%, based on a weighted-average cost of capital analysis (adjusted for company specific risk). The assumptions used to estimate fair value were based on the past performance of the reporting unit as well as the projections incorporated in our strategic plan, adjusted for consistency with the valuation objective of estimating the fair value of the reporting unit under ASC 350. Assuming all changes are isolated, a decrease of 100 bps in our long-term revenue growth rate would reduce our estimated fair value to be approximately 8% more than its carrying value, while a 100 bps increase to our discount rate would reduce our estimated fair value to be approximately 7% more than its carrying value.

Additionally, we determined our estimated fair value for SBS reporting unit was substantially higher than its carrying value. Goodwill allocated to the SBS reporting unit, which is also defined as our SBS segment was \$75.3 million as of September 30, 2023.

Based on our quantitative analysis, we determined that no impairment existed with either reporting unit. As such, no impairment was recorded for the fiscal years 2023, 2022 or 2021.

Like goodwill, our indefinite-lived intangible assets are tested for impairment by comparing the fair value of each asset to its carrying value, but only if a triggering event exists. As of September 30, 2023, our indefinite-lived assets were comprised of only trade names. To determine the fair value of each trade name, we use the relief-from-royalty method, which estimates what a third-party would be willing to pay in royalties to receive a benefit from the use of the asset. If it is determined the asset's fair value is less than its carrying value, then an impairment charge is recorded to reduce the carrying value down to its fair value. Due to the aforementioned goodwill triggering event, during the three months ended September 30, 2023, the Company determined that a triggering event had occurred for its intangible assets. As a result, we conducted a quantitative assessment for these intangibles at September 30, 2023, and determined that the estimated fair value for all of our material trade names were substantially higher than their carrying values. No impairment losses were recognized in fiscal years 2023, 2022 or 2021.

### **Recent Accounting Pronouncements**

There have been no recent accounting pronouncements issued that will have a material impact to our business.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a multinational corporation, we are subject to certain market risks including risks resulting from our exposure to foreign currency fluctuations, changes in interest rates and government actions. We consider a variety of practices to manage these market risks, including, when deemed appropriate, the use of derivative financial

instruments. Currently, we do not purchase or hold any derivative instruments for speculative or trading purposes, and are restricted from engaging in, by our debt and credit agreements.

### **Foreign currency exchange rate risk**

We are exposed to potential gains or losses from foreign currency fluctuations affecting net investments in subsidiaries (including intercompany balances not permanently invested) and earnings denominated in foreign currencies as well as exposure resulting from the purchase of merchandise by certain of our subsidiaries in a currency other than their functional currency and from the sale of products and services among the parent company and subsidiaries with a functional currency different from the parent or among subsidiaries with different functional currencies. Our primary exposures are to changes in exchange rates for the U.S. dollar versus the Euro, the British pound sterling, the Canadian dollar and the Mexican peso. In addition, we currently have exposure to the currencies of certain countries located in South America and from time to time we may have exposure to changes in the exchange rate for the British pound sterling versus the Euro in connection with the sale of products and services among certain of our European subsidiaries. For each of the fiscal years 2023, 2022 and 2021, less than 20% of our consolidated net sales were made in currencies other than the U.S. dollar.

A 10% increase or decrease in the exchange rates for the U.S. dollar versus the foreign currencies to which we have exposure would have impacted our consolidated net sales by approximately 1.8% in the fiscal year 2023, and it would have impacted our consolidated net assets by approximately 2.2% at September 30, 2023.

As more fully discussed in Note 11 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report, we use, from time to time, foreign exchange forward contracts to mitigate exposure to changes in foreign currency exchange rates.

### **Interest rate risk**

We are sensitive to interest rate fluctuations as a result of borrowings under our ABL facility and term loan B. At September 30, 2023, there were no outstanding borrowings under the ABL facility, and the term loan B had \$398.0 million in outstanding principal balance. Additionally, at September 30, 2023, we held a \$200 million of SOFR denominated interest hedged under an interest rate swap agreement to help mitigate a portion of our interest rate risk. At September 30, 2023, a 1.0 percentage point interest rate increase would negatively impact our annual interest expense and cash flows by \$2.2 million.

As more fully discussed in Note 11 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report, we use, from time to time, derivative instruments in order to manage risk relating to cash flows and interest rate exposure.

### **Credit risk**

We are exposed to credit risk in connection with certain assets, primarily accounts receivable. We provide credit to customers in the ordinary course of business and perform ongoing credit evaluations. We believe our exposure of credit risk with respect to trade receivables is largely mitigated by our broad customer base and that our allowance for doubtful accounts is sufficient to cover customer credit risks at September 30, 2023.

Our derivative instruments expose us to credit risk in the event of default by a counterparty. We believe such exposure is mitigated by the substantial resources and strong creditworthiness of the counterparties to our derivative instruments at September 30, 2023. In the event a counterparty defaults in its obligation under our derivative instruments, we could incur substantial financial losses. However, at the present time, no such losses are deemed probable.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See “Index to Financial Statements” which is located on page 47 of this Annual Report.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

*Background.* Attached as exhibits to this Annual Report on Form 10-K are certifications of our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), which are required in accordance with Rule 13a-14 of the Exchange Act. This “Controls and Procedures” section includes information concerning the controls and controls evaluation referred to in the certifications. Part II, Item 8 — Financial Statements and Supplementary Data of this Annual Report on Form 10-K sets forth the attestation report of KPMG LLP, our independent registered public accounting firm, regarding its audit of our internal control over financial reporting. This section should be read in conjunction with the certifications and the KPMG attestation report for a more complete understanding of the topics presented.

*Controls Evaluation and Related CEO and CFO Certifications.* Our management, with the participation of our CEO and CFO, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. The controls evaluation was conducted by our Disclosure Committee, comprised of senior representatives from our finance, accounting, internal audit and legal departments under the supervision of our CEO and CFO.

Certifications of our CEO and our CFO, which are required in accordance with Rule 13a-14 of the Exchange Act, are attached as exhibits to this Annual Report. This “Controls and Procedures” section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

*Limitations on the Effectiveness of Controls.* We do not expect our disclosure controls and procedures will prevent all errors and all fraud. A system of controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Because of the limitations in all such systems, no evaluation can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Furthermore, the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how unlikely. Because of these inherent limitations in a cost-effective system of controls and procedures, misstatements or omissions due to error or fraud may occur and not be detected.

*Scope of the Controls Evaluation.* The evaluation of our disclosure controls and procedures included a review of their objectives and design, our implementation of the controls and procedures and the effect of the controls and procedures on the information generated for use in this Annual Report. In the course of the evaluation, we sought to identify whether we had any data errors, control problems or acts of fraud and to confirm appropriate corrective action, including process improvements, was being undertaken if needed. This type of evaluation is performed on a quarterly basis so conclusions concerning the effectiveness of our disclosure controls and procedures can be reported in our Quarterly Reports on Form 10-Q and our Annual Reports on Form 10-K. Many of the components of our disclosure controls and procedures are also evaluated by our internal audit department, by our legal department and by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and procedures on an ongoing basis and to maintain them as dynamic systems that change as conditions warrant.

Conclusions regarding Disclosure Controls. Based on the required evaluation of our disclosure controls and procedures, our CEO and CFO have concluded that, as of September 30, 2023, we maintain disclosure controls and procedures that are effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Management’s Annual Report on Internal Control over Financial Reporting.

Management of the Company, including the CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control system was designed to provide reasonable assurance to management and our Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. A system of internal controls may become inadequate over time because of changes in conditions or deterioration in the degree of compliance with the policies or procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of our internal control over financial reporting as of September 30, 2023, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control-Integrated Framework (2013)*. Based on this assessment, management has concluded that, as of September 30, 2023, our internal control over financial reporting was effective 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 based on such criteria.

Report of Independent Registered Public Accounting Firm. Please refer to KPMG’s Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting on page F-1 of the financial statements, which begin on page 47 of this Annual Report.

Changes in Internal Control over Financial Reporting. During our last fiscal quarter, there have been no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The Board of Directors has adopted: (i) Corporate Governance Guidelines and a (ii) Code of Business Conduct and Ethics that apply to directors, officers and employees. Copies of these documents and the committee charters are available on our website at [www.sallybeautyholdings.com](http://www.sallybeautyholdings.com) and are available in print to any person, without charge, upon written request to our Vice President of Investor Relations. We intend to disclose on our website at [www.sallybeautyholdings.com](http://www.sallybeautyholdings.com) any substantive amendment to, or waiver from, a provision of the Code of Business Conduct and Ethics that applies to these individuals or persons performing similar functions.

The additional information required by Item 10 of this Annual Report on Form 10-K is incorporated herein by reference from our Proxy Statement related to the 2024 Annual Meeting of Stockholders under the headings “Proposal 1 – Election of Directors,” “Executive Officers,” “Corporate Governance, the Board, and Its Committees” and “Report of the Audit Committee.”

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by Item 11 of this Annual Report on Form 10-K is incorporated herein by reference from our Proxy Statement related to the 2024 Annual Meeting of Stockholders under the headings “Directors’ Compensation and Benefits,” “Narrative Discussion of Director Compensation Table,” “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation.”

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 12 of this Annual Report on Form 10-K is incorporated herein by reference from our Proxy Statement related to the 2024 Annual Meeting of Stockholders under the heading “Beneficial Ownership of Company’s Stock.”

## EQUITY COMPENSATION PLAN INFORMATION

The following table gives information as of September 30, 2023, about our common stock that may be issued under all of our existing equity compensation plans:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup></u> <u>(a)</u>	<u>Weighted average exercise price of outstanding options, warrants and rights <sup>(2)</sup></u> <u>(b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(3)</sup></u> <u>(c)</u>
Equity compensation plans approved by security holders .....	5,180,824	\$17.45	6,620,616
Equity compensation plans not approved by security holders .....	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total .....	<u>5,180,824</u>	<u>\$17.45</u>	<u>6,620,616</u>

- (a) Includes options issued and available for exercise in connection with awards under the Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan (the “2019 Plan”) and predecessor share-based compensation plans. The Company currently grants awards only under the 2019 Plan.

- (b) Calculation of weighted-average exercise price of outstanding awards includes stock options but does not include shares of restricted stock or restricted stock units that convert to shares of common stock for no consideration.
- (c) Represents shares that are available for issuance pursuant to the 2019 Plan, all of which are available as full value awards.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by Item 13 of this Annual Report on Form 10-K is incorporated herein by reference from our Proxy Statement related to the 2024 Annual Meeting of Stockholders under the headings “Corporate Governance, the Board, and Its Committees,” “Compensation Committee Interlocks and Insider Participation” and “Related Party Transactions.”

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by Item 14 of this Annual Report on Form 10-K is incorporated herein by reference from our Proxy Statement related to the 2024 Annual Meeting of Stockholders under the heading “Proposal 3 – Ratification of Selection of Auditors.”



## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Annual Report:

#### **(a) List of Financial Statements and Financial Statement Schedules**

See “Index to Financial Statements” which is located on page 47 of this Annual Report.

#### **(b) Exhibits**

The following exhibits are filed as part of this Annual Report or are incorporated herein by reference:

<u>Exhibit No.</u>	<u>Description</u>
3.1	Third Restated Certificate of Incorporation of Sally Beauty Holdings, Inc., dated January 30, 2014, which is incorporated herein by reference from Exhibit 3.3 to the Company’s Current Report on Form 8-K filed on January 30, 2014
3.2	Amended and Restated Bylaws of Sally Beauty Holdings, Inc., dated April 26, 2017, which is incorporated herein by reference from Exhibit 3.1 to the Company’s Current Report on Form 8-K filed on April 28, 2017
4.1	Amended and Restated Credit Agreement dated July 6, 2017, among the Borrowers, the Guarantors, the Lenders party thereto, the Administrative Agent, the Collateral Agent, the Syndication Agent and the Documentation Agent (as such terms are defined therein), which is incorporated herein by reference from Exhibit 4.2 to the Company’s Current Report on Form 8-K filed on July 6, 2017 †
4.2	First Amendment to Amended and Restated Credit Agreement dated April 15, 2020 among the Borrowers, the Parent Guarantors, the Administrative Agent, the Syndication Agent, the Documentation Agent, and the Lenders party thereto (as such terms are defined therein), which is incorporated herein by reference from Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on April 16, 2020
4.3	Second Amendment to Amended and Restated Credit Agreement dated September 2, 2020, among the Borrowers, the Guarantors, the Administrative Agent, the Collateral Agent, the Canadian Agent and the Lenders party thereto (as such terms are defined therein) which is incorporated herein by reference from Exhibit 4.1 to the Company’s Current Report on Form 8-K filed on September 3, 2020
4.4	Third Amendment to Amended and Restated Credit Agreement dated May 11, 2021, among the Borrowers, the Guarantors, the Administrative Agent, the Collateral Agent, the Canadian Agent and the Lenders party thereto (as such terms are defined therein), which is incorporated herein by reference from Exhibit 4.13 to the Company’s Annual Report on Form 10-K/A filed on December 8, 2021
4.5	Amendment No. 4 dated April 19, 2023, to Credit Agreement dated July 6, 2017, among the Borrowers, the Parent Guarantors, the Administrative Agent, the Syndication Agent, the Documentation Agent, and the Lenders party thereto (as such terms are defined therein), which is incorporated herein by reference from Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q filed on August 3, 2023

<u>Exhibit No.</u>	<u>Description</u>
4.6	Indenture, dated as of May 18, 2012, by and among Sally Holdings LLC, Sally Capital Inc., the guarantors listed therein and Wells Fargo Bank, National Association, which is incorporated herein by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on May 18, 2012
4.7	Third Supplemental Indenture, dated as of December 3, 2015, by and among Sally Holdings LLC, Sally Capital Inc., the guarantors listed therein and Wells Fargo Bank, National Association (including the form of Note attached as an exhibit thereto), which is incorporated herein by reference from Exhibit 4.2 to the Company's Current Report on Form 8-K filed on December 3, 2015
4.8	Credit Agreement, dated as of February 28, 2023, by and among Sally Holdings LLC, Sally Capital, Inc., Bank of America, N.A., as Administrative Agent and Collateral Agent, and the lenders and other parties, which is incorporated herein by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 1, 2023
4.9	First Refinancing Amendment to Credit Agreement, dated as of September 13, 2023, by and among Sally Holdings LLC, Sally Capital, Inc., Bank of America, N.A., as Administrative Agent and Collateral Agent, and the lenders and other parties *
10.1	Tax Sharing Agreement, dated as of November 16, 2006, made and entered into by and among Sally Beauty Holdings, Inc., Sally Investment Holdings LLC and Sally Holdings LLC, which is incorporated herein by reference from Exhibit 10.14 of the Quarterly Report on Form 10-Q of Sally Holdings LLC and Sally Capital Inc. filed on August 29, 2007
10.2	Form of Amended and Restated Indemnification Agreement with Directors, which is incorporated herein by reference from Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on November 19, 2009
10.3	Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.39 to the Company's Annual Report on Form 10-K filed on November 15, 2012
10.4	Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on December 19, 2018
10.5	Sally Beauty Holdings, Inc. Second Amended and Restated 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.20 from the Company's Annual report on Form 10-K filed on November 22, 2021
10.6	2019 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on February 5, 2019
10.7	2019 Form of Stock Option Agreement pursuant to the Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.20 from the Company's Annual Report on Form 10-K filed on November 25, 2019
10.8	2019 Form of Restricted Stock Agreement pursuant to the Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.21 from the Company's Annual Report on Form 10-K filed on November 25, 2019

<u>Exhibit No.</u>	<u>Description</u>
10.9	Form of Severance Agreement between each of Mark G. Spinks and the Company effective July 31, 2015, Scott C. Sherman and the Company effective October 1, 2017, John M. Henrich and the Company effective June 10, 2019, Marlo Cormier and the Company effective April 9, 2020, and Denise Paulonis and the Company effective October 1, 2021, which is incorporated herein by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on November 5, 2012
10.10	Sally Beauty Holdings, Inc. Fourth Amended and Restated Independent Director Compensation Policy, which is incorporated herein by reference from Exhibit 10.28 to the Company's Annual Report on Form 10-K filed on November 14, 2018
10.11	2022 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.21 to the Company's Annual Report on Form 10-K filed on November 17, 2022
10.12	2022 Form of Restricted Stock Unit Agreement pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.22 to the Company's Annual Report on Form 10-K filed on November 17, 2022
10.13	2022 Form of Performance Unit Award Agreement in connection to Relative Total Shareholder Return pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.23 to the Company's Annual Report on Form 10-K filed on November 17, 2022
10.14	2022 Form of Performance Unit Award Agreement in connection to FY2023 Adjusted Operating Income pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.24 to the Company's Annual Report on Form 10-K filed on November 17, 2022
10.15	2022 Form of Performance Unit Award Agreement in connection to FY2024 Adjusted Operating Income pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.25 to the Company's Annual Report on Form 10-K filed on November 17, 2022
10.16	2022 Form of Performance Unit Award Agreement in connection to FY2025 Adjusted Operating Income pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.26 to the Company's Annual Report on Form 10-K filed on November 17, 2022
10.17	Sally Beauty Holdings, Inc. Third Amended and Restated 2019 Omnibus Incentive Plan *
10.18	Sally Beauty Holdings, Inc. Compensation Recoupment Policy *
10.19	Sally Beauty Holdings, Inc. Fifth Amended and Restated Independent Director Compensation Policy *
10.20	2023 Form of Performance Unit Award Agreement in connection to FY24, FY25 and FY26 Adjusted Operating Income pursuant to the Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan *
10.21	2023 Form of Performance Unit Award Agreement in connection to Relative Total Shareholder Return pursuant to the Sally Beauty Holding, Inc. 2019 Omnibus Incentive Plan *
21.1	List of Subsidiaries of Sally Beauty Holdings, Inc.*
22	List of Subsidiary Guarantors*
23.1	Consent of KPMG*

<u>Exhibit No.</u>	<u>Description</u>
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification of Denise Paulonis*
31.2	Rule 13(a)-14(a)/15(d)-14(a) Certification of Marlo M. Cormier*
32.1	Section 1350 Certification of Denise Paulonis*
32.2	Section 1350 Certification of Marlo M. Cormier*
101	The following financial information from our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Earnings; (iii) the Consolidated Statements of Comprehensive Income; (iv) the Consolidated Statements of Cash Flows; (v) Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements*
104	Cover Page Interactive Data File (formatted as Inline XBRL) and contained in Exhibit 101

\* Included herewith

† Certain schedules and exhibits have been omitted pursuant to Item 601(b) (2) of Regulation S-K. The Registrant agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule or exhibit upon request.

**(c) Financial Statement Schedules**

None

**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, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 16<sup>th</sup> day of November, 2023.

SALLY BEAUTY HOLDINGS, INC.

By: /s/ Denise Paulonis

Denise Paulonis  
President, Chief Executive Officer and Director

By: /s/ Marlo M. Cormier

Marlo M. Cormier  
Senior Vice President, Chief Financial Officer

By: /s/ Kim McIntosh

Kim McIntosh  
Group Vice President, Controller and  
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Denise Paulonis</u> Denise Paulonis	President, Chief Executive Officer and Director (Principal Executive Officer)	November 16, 2023
<u>/s/ Marlo M. Cormier</u> Marlo M. Cormier	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	November 16, 2023
<u>/s/ Kim McIntosh</u> Kim McIntosh	Group Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	November 16, 2023
<u>/s/ Diana S. Ferguson</u> Diana S. Ferguson	Chairman of the Board of Directors	November 16, 2023
<u>/s/ Rachel R. Bishop</u> Rachel R. Bishop	Director	November 16, 2023
<u>/s/ Jeffrey Boyer</u> Jeffrey Boyer	Director	November 16, 2023
<u>/s/ Dorlisa K. Flur</u> Dorlisa K. Flur	Director	November 16, 2023
<u>/s/ James M. Head</u> James M. Head	Director	November 16, 2023
<u>/s/ Linda Heasley</u> Linda Heasley	Director	November 16, 2023
<u>/s/ Lawrence P. Molloy</u> Lawrence P. Molloy	Director	November 16, 2023
<u>/s/ Erin Nealy Cox</u> Erin Nealy Cox	Director	November 16, 2023



**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Financial Statements  
Years ended September 30, 2023, 2022 and 2021

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## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
Sally Beauty Holdings, Inc.:

### *Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated balance sheets of Sally Beauty Holdings, Inc. and subsidiaries (the Company) as of September 30, 2023 and 2022, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2023, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of September 30, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2023, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### *Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, 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 consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### *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.

### *Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated 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 consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### *Evaluation of vendor rebates and concessions*

As discussed in Note 1 to the consolidated financial statements, accounts receivable, other, consists primarily of amounts due from the Company's vendors under contractual agreements (collectively referred to as vendor rebates and concessions). These agreements are often specific to a particular product or promotion for a specified period of time, which results in a high volume of agreements, each with potentially non-standardized terms and conditions governing how the rebate is earned and calculated. Therefore, the inputs used to calculate the vendor rebates and concessions, which can include financial and non-financial data from multiple sources, will vary depending on the specific terms of the agreements. Accounts receivable, other was \$42.5 million as of September 30, 2023.

We identified the evaluation of vendor rebates and concessions as a critical audit matter because of the challenging auditor judgment required to assess the non-standardized terms of the agreements and the nature and source of the inputs used in the recognition and measurement of the receivable.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's process to calculate vendor rebates and concessions. This included controls over the derivation of key inputs and the evaluation of the contractual terms of the agreements. For a sample of the vendor rebates and concessions, we evaluated the nature and source of the inputs used, and the terms of the contractual agreements. We recalculated the amount of the receivable based on the inputs and the terms of the agreements. We also confirmed outstanding vendor receivables directly with the Company's vendors and compared the confirmed amount to the amount previously recognized by the Company for a sample of vendor rebates and concessions.

### *Assessment of goodwill for impairment*

As discussed in Notes 1 and 7 to the consolidated financial statements, the Company tests goodwill for impairment at least annually and whenever events or changes in circumstances indicate that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. The total goodwill balance as of September 30, 2023, was \$533.1 million, of which \$75.3 million and \$457.8 million were allocated to the Sally Beauty Supply reporting unit and the Beauty Systems Group reporting unit, respectively. At the end of September 2023, the Company experienced a decline in share price and market capitalization, among other factors. As a result, the Company determined that a triggering event had occurred, which required the performance of a goodwill impairment test. The Company used the discounted cash flow method to determine the fair value of its reporting units.

We identified the assessment of goodwill for impairment as a critical audit matter. A high degree of subjective auditor judgment and the need to involve valuation professionals with specialized skills and knowledge were required to evaluate the projected revenue growth rates, terminal growth rate, and discount rate for the Beauty Systems Group reporting unit. Additionally, the comparison of the Company's estimate of fair value as determined by the discounted cash flow models and the Company's market capitalization at the reporting date required the involvement of professionals with specialized skills and knowledge.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's goodwill impairment assessment process. This included controls over the projected revenue growth rates, terminal growth rate, and development of the discount rate for the Beauty Systems Group reporting unit. We compared the Company's projected revenue growth rates and terminal growth rate for the Beauty Systems Group reporting unit to the reporting unit's historical performance and to relevant market data. We also performed sensitivity analyses for the fair value of the Beauty Systems Group reporting unit using various projected revenue growth rates, terminal growth rates, and various discount rates to assess their impact on the Company's determination of the fair value of the Beauty Systems Group reporting unit. To assess the Beauty Systems Group reporting unit's ability to project revenues, we compared the Beauty Systems Group reporting unit's historical growth rate forecasts to actual results. We involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the Beauty Systems Group reporting unit's discount rate by comparing it against discount rates that were independently developed using publicly available third-party market data for comparable entities,
- evaluating the Beauty Systems Group reporting unit's terminal growth rate by comparing it with projected revenue growth rates of peer companies based on publicly available market data,
- calculating the Beauty Systems Group reporting unit's implied fair value earnings multiples as derived from the reporting unit's discounted cash flow values, and comparing them to the observed earnings multiples from a set of comparable public companies, and
- assessing the Company's estimated fair values of its reporting units on a combined basis compared to the Company's market capitalization.

We have served as the Company's auditor since 2006.

/s/ KPMG LLP

Dallas, Texas  
November 16, 2023

**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Balance Sheets  
September 30, 2023 and 2022  
(In thousands, except par value data)

	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 123,001	\$ 70,558
Trade accounts receivable, net . . . . .	33,421	34,102
Accounts receivable, other . . . . .	42,454	38,175
Inventory . . . . .	975,218	936,374
Other current assets . . . . .	53,903	53,192
Total current assets . . . . .	1,227,997	1,132,401
Property and equipment, net . . . . .	297,779	297,876
Operating lease assets . . . . .	570,657	532,177
Goodwill . . . . .	533,081	526,066
Intangible assets, excluding goodwill, net . . . . .	55,171	50,315
Other assets . . . . .	40,565	38,032
Total assets . . . . .	\$2,725,250	\$2,576,867
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current maturities of long-term debt . . . . .	\$ 4,173	\$ 68,658
Accounts payable . . . . .	258,884	275,717
Accrued liabilities . . . . .	163,366	161,065
Current operating lease liabilities . . . . .	150,479	157,734
Income taxes payable . . . . .	2,355	4,740
Total current liabilities . . . . .	579,257	667,914
Long-term debt . . . . .	1,065,811	1,083,043
Long-term operating lease liabilities . . . . .	455,071	424,762
Other liabilities . . . . .	23,139	22,427
Deferred income tax liabilities, net . . . . .	93,224	85,085
Total liabilities . . . . .	2,216,502	2,283,231
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 500,000 shares; 106,266 and 107,024 shares issued and 106,266 and 106,970 shares outstanding at September 30, 2023 and 2022, respectively . . . . .	1,063	1,070
Preferred stock, \$0.01 par value. Authorized 50,000 shares; none issued . . . . .	—	—
Additional paid-in capital . . . . .	5,677	4,241
Accumulated earnings . . . . .	624,772	440,172
Accumulated other comprehensive loss, net of tax . . . . .	(122,764)	(151,847)
Total stockholders' equity . . . . .	508,748	293,636
Total liabilities and stockholders' equity . . . . .	\$2,725,250	\$2,576,867

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



**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Statements of Earnings

Fiscal Years ended September 30, 2023, 2022 and 2021

(In thousands, except per share data)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net sales .....	\$3,728,131	\$3,815,565	\$3,874,997
Cost of goods sold .....	1,829,951	1,896,400	1,921,663
Gross profit .....	1,898,180	1,919,165	1,953,334
Selling, general and administrative expenses .....	1,555,946	1,553,948	1,530,280
Restructuring .....	17,205	27,577	4,611
Operating earnings .....	325,029	337,640	418,443
Interest expense .....	72,979	93,543	93,509
Earnings before provision for income taxes .....	252,050	244,097	324,934
Provision for income taxes .....	67,450	60,544	85,076
Net earnings .....	<u>\$ 184,600</u>	<u>\$ 183,553</u>	<u>\$ 239,858</u>
Earnings per share:			
Basic .....	<u>\$ 1.72</u>	<u>\$ 1.69</u>	<u>\$ 2.13</u>
Diluted .....	<u>\$ 1.69</u>	<u>\$ 1.66</u>	<u>\$ 2.10</u>
Weighted average shares:			
Basic .....	<u>107,332</u>	<u>108,665</u>	<u>112,653</u>
Diluted .....	<u>109,336</u>	<u>110,293</u>	<u>114,212</u>

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

**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**  
Consolidated Statements of Comprehensive Income  
Fiscal Years ended September 30, 2023, 2022 and 2021  
(In thousands)

	<b>2023</b>	<b>2022</b>	<b>2021</b>
Net earnings .....	\$184,600	\$183,553	\$239,858
Other comprehensive (loss) income:			
Foreign currency translation adjustments .....	28,282	(60,974)	9,957
Interest rate swap, net of tax .....	3,716	—	—
Interest rate caps, net of tax .....	(1,960)	4,045	918
Foreign exchange contracts, net of tax .....	(955)	(277)	(813)
Other comprehensive (loss) income, net of tax .....	29,083	(57,206)	10,062
Total comprehensive income .....	<u>\$213,683</u>	<u>\$126,347</u>	<u>\$249,920</u>

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

**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Fiscal Years ended September 30, 2023, 2022 and 2021

(In thousands)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities:</b>			
Net earnings . . . . .	\$ 184,600	\$ 183,553	\$ 239,858
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization . . . . .	102,409	99,929	102,201
Share-based compensation expense . . . . .	15,862	9,944	11,656
Amortization of deferred financing costs . . . . .	2,693	3,351	4,212
Impairment of long-lived assets, including operating lease assets . . . . .	3,424	25,029	628
Net gain on disposal of long-lived assets . . . . .	(92)	(53)	(338)
Net loss on extinguishment of debt . . . . .	2,395	16,439	4,260
Deferred income taxes . . . . .	9,626	(17,592)	(7,336)
Changes in (exclusive of effects of acquisitions):			
Trade accounts receivable . . . . .	1,462	(3,184)	2,923
Accounts receivable, other . . . . .	(3,327)	(5,999)	(13,972)
Inventory . . . . .	(21,533)	(96,195)	(52,277)
Other current assets . . . . .	(102)	(9,536)	976
Other assets . . . . .	(695)	4,148	4,360
Accounts payable and accrued liabilities . . . . .	(29,697)	(46,289)	79,851
Income taxes payable . . . . .	(2,152)	(6,698)	8,041
Operating lease assets and liabilities . . . . .	(16,268)	6,233	730
Other liabilities . . . . .	706	(6,580)	(3,913)
Net cash provided by operating activities . . . . .	<u>249,311</u>	<u>156,500</u>	<u>381,860</u>
<b>Cash Flows from Investing Activities:</b>			
Payments for property and equipment . . . . .	(90,742)	(99,250)	(73,904)
Proceeds from sales of property and equipment . . . . .	—	—	235
Acquisitions, net of cash acquired . . . . .	(9,034)	(3,169)	(2,350)
Net cash used by investing activities . . . . .	<u>(99,776)</u>	<u>(102,419)</u>	<u>(76,019)</u>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from issuance of long-term debt . . . . .	1,289,622	520,003	22
Repayments of long-term debt . . . . .	(1,370,799)	(770,286)	(422,258)
Debt issuance costs . . . . .	(5,214)	—	(1,300)
Payments for common stock repurchased . . . . .	(15,150)	(130,328)	—
Proceeds from exercises of stock options . . . . .	717	6,932	3,568
Net cash used by financing activities . . . . .	<u>(100,824)</u>	<u>(373,679)</u>	<u>(419,968)</u>
Effect of foreign exchange rate changes on cash and cash equivalents . . . . .	3,732	(10,803)	935
Net increase (decrease) in cash and cash equivalents . . . . .	52,443	(330,401)	(113,192)
Cash and cash equivalents, beginning of period . . . . .	70,558	400,959	514,151
Cash and cash equivalents, end of period . . . . .	<u>\$ 123,001</u>	<u>\$ 70,558</u>	<u>\$ 400,959</u>
<b>Supplemental Cash Flow Information:</b>			
Interest paid . . . . .	\$ 71,945	\$ 82,072	\$ 88,982
Income taxes paid . . . . .	\$ 63,808	\$ 82,607	\$ 79,765
Capital expenditures incurred but not paid . . . . .	\$ 22,790	\$ 15,757	\$ 19,932

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

**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**

Consolidated Statements of Stockholders' Equity  
Fiscal Years ended September 30, 2023, 2022 and 2021  
(In thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at September 30, 2020</b> . . . .	<b>112,405</b>	<b>\$ 1,124</b>	<b>\$ 1,913</b>	<b>\$ 117,109</b>	<b>\$(104,703)</b>	<b>\$ 15,443</b>
Net earnings . . . . .	—	—	—	239,858	—	239,858
Other comprehensive income, net of tax . . . . .	—	—	—	—	10,062	10,062
Share-based compensation . . . . .	—	—	11,656	—	—	11,656
Stock issued for equity awards . . . . .	579	6	4,762	—	—	4,768
Employee withholding taxes paid related to net share settlement . . . .	(71)	(1)	(1,045)	—	—	(1,046)
<b>Balance at September 30, 2021</b> . . . .	<b>112,913</b>	<b>1,129</b>	<b>17,286</b>	<b>356,967</b>	<b>(94,641)</b>	<b>280,741</b>
Net earnings . . . . .	—	—	—	183,553	—	183,553
Other comprehensive loss, net of tax . . . . .	—	—	—	—	(57,206)	(57,206)
Repurchases of common stock . . . . .	(6,833)	(68)	(29,912)	(100,348)	—	(130,328)
Share-based compensation . . . . .	—	—	9,944	—	—	9,944
Stock issued for equity awards . . . . .	949	10	8,102	—	—	8,112
Employee withholding taxes paid related to net share settlement . . . .	(59)	(1)	(1,179)	—	—	(1,180)
<b>Balance at September 30, 2022</b> . . . .	<b>106,970</b>	<b>1,070</b>	<b>4,241</b>	<b>440,172</b>	<b>(151,847)</b>	<b>293,636</b>
Net earnings . . . . .	—	—	—	184,600	—	184,600
Other comprehensive income, net of tax . . . . .	—	—	—	—	29,083	29,083
Repurchases of common stock . . . . .	(1,511)	(15)	(15,135)	—	—	(15,150)
Share-based compensation . . . . .	—	—	15,862	—	—	15,862
Stock issued for equity awards . . . . .	900	9	1,876	—	—	1,885
Employee withholding taxes paid related to net share settlement . . . .	(93)	(1)	(1,167)	—	—	(1,168)
<b>Balance at September 30, 2023</b> . . . .	<b>106,266</b>	<b>\$ 1,063</b>	<b>\$ 5,677</b>	<b>\$ 624,772</b>	<b>\$(122,764)</b>	<b>\$ 508,748</b>

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

**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

**1. Basis of Presentation and Significant Accounting Policies**

*Basis of Presentation*

The consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). All significant intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

In accordance with GAAP, we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent liabilities in the consolidated financial statements. Actual results may differ from these estimates in amounts that may be material to our consolidated financial statements.

*Cash and Cash Equivalents*

Cash represents currency on hand, debit and credit card receivables and third-party online payment systems transactions, while cash equivalents consist of highly liquid investments which have an original maturity of three months or less.

*Trade Accounts Receivable and Accounts Receivable, Other*

Trade accounts receivable consist of credit extended directly to certain customers who meet our credit requirements in the ordinary course of business and are stated at their carrying values, net of an allowance for doubtful accounts. Our allowance is determined by estimating expected credit losses based on historical trends. At September 30, 2023 and 2022, our allowance for doubtful accounts was \$1.1 million for both years. Our allowance for doubtful accounts is regularly reviewed on the basis of our historical collection data and current customer information. Customer account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Other accounts receivable consist primarily of amounts due from vendors under various contractual agreements and include volume rebates and other promotional considerations.

*Inventory and Cost of Goods Sold*

Inventory is stated at the lower of weighted average cost or net realizable value. Inventory cost reflects actual product costs, the cost of transportation to our distribution centers, buying costs and certain shipping and handling costs, such as freight from the distribution centers to the stores and handling costs incurred at the distribution centers. When assessing the net realizable value of inventory, we consider several factors including estimates of future demand for our products, historical turn-over rates, the age and sales history of the inventory, and historic and anticipated changes in stock keeping units.

Physical inventory counts are performed at substantially all stores and significant distribution centers at least annually. Upon completion of physical inventory counts, our consolidated financial statements are adjusted to reflect actual quantities on hand. Between physical counts, we estimate inventory shrinkage based on our historical experience. We have policies and processes in place that are intended to minimize inventory shrinkage.

Cost of goods sold includes actual product costs, the cost of transportation to our distribution centers, operating costs associated with our distribution centers (including employee compensation expense, depreciation and

**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

amortization, rent and other occupancy-related expenses), vendor rebates and allowances, inventory shrinkage and certain shipping and handling costs, such as freight from the distribution centers to the stores. All other shipping and handling costs are included in selling, general and administrative expenses when incurred.

We deem cash consideration received from a supplier to be a reduction of the cost of inventory purchased, unless it is in exchange for an asset or service or a reimbursement of a specific, incremental, identifiable cost incurred by us in selling the vendor's products. The majority of cash consideration we receive is considered to be a reduction of inventory and a subsequent reduction in cost of goods sold as the related products are sold.

Furthermore, during fiscal year 2023, we had subsequent favorable adjustments related to the established inventory reserves recorded in fiscal year 2022 in connection with our Distribution Center Consolidation and Store Optimization Plan (the "Plan") included in cost of products sold on our consolidated statements of earnings. During fiscal year 2021, we had favorable adjustments related to the established inventory reserve in connection with our Transformation Plan in cost of products sold on our consolidated statements of earnings. Please see Note 16, *Restructuring*, for more information on our restructuring plans.

*Lease Accounting*

Substantially all of our leases are operating leases and relate primarily to retail stores and warehousing properties with lease terms typically five to ten years. Some of our leases include options to extend the agreement by a certain number of years, typically five years. At the lease commencement date, an operating lease liability and related operating lease asset are recognized and typically do not assume renewals unless we are reasonably certain that we will exercise the option.

The operating lease liabilities are calculated using the present value of lease payments. The discount rate used is either the rate implicit in the lease, when known, or our estimated incremental borrowing rate. Our incremental borrowing rate for a lease is the rate of interest we would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because we do not generally borrow on a collateralized basis, we derive an appropriate incremental borrowing rate using the interest rate we pay on our non-collateralized borrowings, adjusted for the amount of the lease payments, the lease term and the effect of designating specific collateral with a value equal to the unpaid lease payments for that lease. We apply the incremental borrowing rate on a portfolio basis given the impact of applying it on a lease by lease basis would be immaterial.

Operating lease assets are valued based on the initial operating lease liabilities plus any prepaid rent and direct costs from executing the leases, reduced by tenant improvement allowances and any rent abatement. Operating lease assets are tested for impairment in the same manner as our long-lived assets. No material impairment losses were recorded during fiscal years 2023 or 2021. For fiscal year 2022, we recognized impairment loss in connection with our operating leases assets of \$21.6 million in connection with the Plan and are included within restructuring on our consolidated statements of earnings. Please see Note 16, *Restructuring*, for more information on our restructuring plans.

*Property and Equipment*

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are depreciated over the lesser of the estimated useful lives of the assets or the term of the related lease, including renewals considered reasonably assured. Expenditures for maintenance and repairs are included in selling, general and administrative expenses when incurred, while



**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

expenditures for major renewals and improvements that substantially extend the useful life of an asset are capitalized.

The following table summarizes our property and equipment balances and their estimated useful lives (dollars in thousands):

	<u>Life</u>	<u>September 30,</u>	
	<u>(in years)</u>	<u>2023</u>	<u>2022</u>
Land .....	N/A	\$ 10,038	\$ 9,949
Buildings and building improvements .....	5 – 40	56,688	56,834
Leasehold improvements .....	2 – 10	280,626	342,326
Furniture, fixtures and equipment .....	2 – 10	730,639	709,578
Total property and equipment, gross .....		1,077,991	1,118,687
Accumulated depreciation and amortization .....		(780,212)	(820,811)
Total property and equipment, net .....		<u>\$ 297,779</u>	<u>\$ 297,876</u>

Depreciation expense for the fiscal years 2023, 2022 and 2021 was \$99.0 million, \$95.9 million and \$93.2 million, respectively, and is included in selling, general and administrative expenses, or cost of goods sold if associated with our distribution centers, in our consolidated statements of earnings. No material impairments were recorded for fiscal years 2023 or 2021. During fiscal year 2022, we recognized impairment loss of \$3.3 million in connection with the Plan and are included within restructuring on our consolidated statements of earnings. Please see Note 16, *Restructuring*, for more information on our restructuring plans.

*Valuation of Long-Lived Assets and Definite-lived Intangible Assets*

Long-lived assets, including operating lease assets and property and equipment, and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be fully recoverable. The recoverability of long-lived assets and intangible assets subject to amortization is assessed by comparing the net carrying amount of each asset to the total estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its undiscounted future cash flows, an impairment charge may be recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset using a discounted cash flow approach.

When we commit to an exit plan of scale that we believe will result in the disposal of long-lived assets prior to the end their useful lives, the approval of such plan may be considered a triggering event and therefore require a reassessment of asset carrying values for recoverability, based on projected cash flows. If the carrying values are not recoverable, write-downs or impairment charges may be required to bring carrying values of certain long-lived assets, including operating lease asset, to fair value.

*Goodwill and Indefinite-lived Intangible Assets*

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in a business combination. Goodwill is tested for impairment at least annually, as of January 31<sup>st</sup>, and whenever events or

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changes in circumstances indicate its carrying amount may be less than its recoverable amount, to determine whether or not it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. Furthermore, we considered potential triggering events each quarter, including fluctuations of our stock price and borrowing rates in the debt markets.

Components within the same operating segment are aggregated and deemed a single reporting unit if the components have similar economic characteristics. As of September 30, 2023 and 2022, our reporting units consisted of Sally Beauty Supply (“SBS”) and Beauty Systems Group (“BSG”). We assign goodwill to the reporting unit which consolidates the acquisition.

When assessing goodwill for impairment, we may perform a qualitative assessment which evaluates macro-economic conditions, current and projected cash flows, and other events or changes in circumstances to determine if a quantitative assessment is necessary. At the end of September 2023, we determined that a triggering event had occurred, due to the recent decline in the Company’s share price and market capitalization, among other factors. As a result, we conducted a quantitative assessment at September 30, 2023, and determined that no impairment existed for either reporting unit. We have not recorded any impairment charges related to goodwill in the current or prior fiscal years presented.

Indefinite-lived Intangible Assets

Our intangible assets with indefinite lives consist of trade names acquired in business combinations or asset purchases. Upon acquisition of these identifiable intangible assets, we base our valuation on the information and assumptions available to us at the time of acquisition, using income and market approaches to determine fair value. These assets are evaluated for impairment annually, as of January 31<sup>st</sup>, and whenever events or changes in circumstances indicate the asset’s carrying amount may be less than its recoverable amount, to determine whether or not it is more-likely-than-not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. When assessing intangible assets with indefinite lives for impairment, we compare the fair value of each asset against its carrying value. Fair value is based on the relief-from-royalty method. Due to the aforementioned goodwill triggering event, during the three months ended September 30, 2023, the Company determined that a triggering event had occurred for its intangible assets. As a result, we conducted a quantitative assessment on our material trade names at September 30, 2023. Based on our assessments, no impairment charges related to our intangible assets were recorded. We have not recorded any impairment charges related to indefinite-lived intangibles in the current or prior fiscal years presented.

*Self-Insurance Programs*

We self-insure the risks related to workers’ compensation, general and auto liability, property and certain employee-related healthcare benefits. We have obtained third-party excess insurance coverage to limit our exposure per occurrence and aggregate cash outlay.

We record an estimated liability for the ultimate cost of claims incurred and unpaid as of the balance sheet date, which includes claims filed and estimated losses incurred but not yet reported. We estimate the ultimate cost based on an analysis of our historical data and actuarial estimates. These estimates are reviewed on a regular basis to ensure the recorded liability is adequate. The current and long-term portions of these liabilities are recorded at their present value and included in accrued liabilities and other liabilities in our consolidated balance sheets, respectively.

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*Revenue Recognition*

Substantially all of our revenue is derived through the sale of merchandise. Revenue is recognized net of estimated sales returns and sales taxes. We estimate sales returns based on historical data. Additionally, we have assessed all revenue streams for principal versus agent considerations and have concluded we are the principal for the vast majority of all our transactions.

See Note 15, *Segments and Disaggregated Revenue*, for additional information regarding the disaggregation of our revenue.

Merchandise Revenues

We sell merchandise through our company-operated stores, digital platforms, to our franchisees and by using DSCs. These sales generally have one single performance obligation and revenue is recognized at the point of sale or upon shipment of the merchandise, whenever control of items sold transfers to the customer. Shipping fees charged through digital channels are considered a separate performance obligation and are recognized in net sales, while the related shipping cost is recognized in selling, general and administrative expenses.

We extend credit to certain customers, primarily salon professionals, which generally have 30 day payment terms. Based on the nature of these receivables, no significant financing component exists.

Gift Cards

The revenue from the sale of our gift cards is recognized at the time the gift card is used to purchase merchandise, which is generally within one year from the date of purchase. Our gift cards do not carry expiration dates or impose post-sale fees. Based on historical experience, a certain amount of our gift cards will not be redeemed, also referred to as “gift card breakage.” We recognize revenue related to gift card breakage within net sales in our consolidated statements of earnings over time proportionately to historical redemption patterns. The gift cards are issued and represent liabilities of either of our operating entities, Sally Beauty Supply LLC or Beauty Systems Group LLC, which are both limited liability companies formed in the state of Virginia.

Customer Loyalty Rewards

Our Sally Beauty Rewards Program in the U.S. and Canada, enables customers to earn points based on their status for every dollar spent on qualifying SBS purchases. The program is free to join, and it provides our loyalty customers the ability to earn points on their SBS purchases, that convert to Sally Beauty Rewards certificates when select thresholds are attained. Points earned expire after twelve months of inactivity and certificates issued expire 30 days after earned. Certificates generated from our rewards loyalty program provide a material right to customers and represent a separate performance obligation. As such, we defer revenue for future rewards on a standalone value per point, net of estimated breakage based on historical data, within accrued liabilities on our consolidated balance sheets.

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The following table shows the amount of performance-based contract liabilities on our consolidated balance sheets as of September 30, 2023 and 2022 (in thousands):

<u>Contracts</u>	<u>Balance Sheet Classification</u>	<u>September 30,</u>	
		<u>2023</u>	<u>2022</u>
Gift cards . . . . .	Accrued liabilities	\$ 5,940	\$ 5,060
Rewards loyalty program . . . . .	Accrued liabilities	8,098	8,400
Total liability . . . . .		<u>\$14,038</u>	<u>\$13,460</u>

Changes to our performance-based contract liabilities for fiscal year 2023 were as follows (in thousands):

September 30, 2022 . . . . .	\$ 13,460
Loyalty points and gift cards issued but not redeemed, net of estimated breakage . . . . .	15,639
Revenue recognized from beginning liability . . . . .	<u>(15,061)</u>
September 30, 2023 . . . . .	<u>\$ 14,038</u>

Private Label Rewards Credit Cards

We have a multi-year agreement with a third-party bank (the “Bank”) to provide our customers a private label credit card program in the U.S. Under the agreement, the Bank manages our customer’s credit approval and credit card accounts, while we facilitate credit applications and provide licensing to our brand and marketing services. The Bank accepts all customer default risks associated with these accounts. In connection with signing the agreement, we received a refundable payment from the Bank that we recorded as deferred revenue within other liabilities on our consolidated balance sheets and is being recognize on a straight-line basis, over the initial term of the agreement, into net sales in our consolidated statements of earnings.

Pursuant to the agreement, the Bank will contribute funding for the program marketing expenses and are recognized in net sales in our consolidated statements of earnings. In addition, we earn other immaterial amounts from the Bank, including incentive payments for achieving performance targets and the activation of credit cards.

*Advertising Costs*

Advertising costs relate mainly to digital and web advertising, in-store and traditional print advertisements, customer relationship management, trade shows and product education for salon professionals. Advertising costs incurred in connection with print advertisements are expensed the first time the advertisement is run. Other advertising costs are expensed when incurred. Advertising costs were \$65.4 million, \$69.8 million and \$70.9 million for the fiscal years 2023, 2022 and 2021, respectively, and are included in selling, general and administrative expenses in our consolidated statements of earnings.

*Share-based Compensation*

We measure the cost of services received from certain of our employees and Board of Directors in exchange for an award of equity instruments based on the fair value of the award on the date of grant which are expensed ratably over the vesting period, except for awards issued to retirement eligible participants, which are expensed

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on an accelerated basis. We recognize the impact of forfeitures as they occur. Share-based compensation expense is included in selling, general and administrative expenses in our consolidated statements of earnings.

*Income Taxes*

We recognize deferred income taxes for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. The effect on deferred taxes of a change in income tax rates is recognized in the consolidated statements of earnings in the period of enactment. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets to the amount expected to be realized unless it is more-likely-than-not that such assets will be realized in full. The estimated tax benefit of an uncertain tax position is recorded in our consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax position will withstand challenge, if any, from applicable taxing authorities.

*Foreign Currency*

The functional currency of each of our foreign operations is generally the respective local currency. Balance sheet accounts are translated into U.S. dollars (our reporting currency) at the rates of exchange in effect at the balance sheet date, while the results of operations and cash flows are generally translated using average exchange rates for the periods presented. Individually material transactions, if any, are translated using the actual rate of exchange on the transaction date. The resulting translation adjustments are recorded as a component of accumulated other comprehensive loss in our consolidated balance sheets.

Foreign currency transaction gains or losses, including changes in the fair value (i.e., marked-to-market adjustments) of certain foreign exchange contracts we hold, are included in selling, general and administrative expenses in our consolidated statements of earnings when incurred and were not significant in any of the periods presented in the accompanying consolidated financial statements.

## **2. Fair Value Measurements**

Our financial instruments consist of cash equivalents, trade and other accounts receivable, accounts payable, derivative instruments, including foreign exchange contracts and interest rate caps, and debt. The carrying amounts of cash equivalents, trade and other accounts receivable and accounts payable approximate their respective fair values due to the short-term nature of these financial instruments.

We measure on a recurring basis and disclose the fair value of our financial instruments under the provisions of ASC Topic 820, *Fair Value Measurement*, as amended (“ASC 820”). We define “fair value” as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level hierarchy for measuring fair value and requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. This valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date.

The three levels of that hierarchy are defined as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities; or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted

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prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data; and

Level 3—Unobservable inputs for the asset or liability.

**Fair value on recurring basis**

Consistent with the fair value hierarchy, we categorized our financial assets and liabilities as follows (in thousands):

	Classification	Fair Value Hierarchy Level	As of September 30,	
			2023	2022
<b>Financial Assets</b>				
Non-designated foreign exchange contracts	Other current assets	Level 2	\$1,160	\$ 294
Interest rate swap	Other assets	Level 2	4,668	—
Interest rate caps	Other assets	Level 2	—	3,860
Total assets			<u>\$5,828</u>	<u>\$4,154</u>
<b>Financial Liabilities</b>				
Non-designated foreign exchange contracts	Accrued liabilities	Level 2	\$ 397	\$ 79

The fair value for our interest rate swap, interest rate caps and foreign exchange contracts were measured using widely accepted valuation techniques, such as discounted cash flow analyses and observable inputs, such as market interest rates and foreign exchange rates.

**Other fair value disclosures**

Carrying amounts and the related estimated fair value of our long-term debt, excluding finance lease obligations, are as follows:

(in thousands)	Fair Value Hierarchy Level	As of September 30,			
		2023		2022	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding finance lease obligations					
Senior notes	Level 1	\$ 679,961	\$ 662,962	\$ 679,961	\$ 639,163
Term loan B due 2030	Level 2	398,000	398,000	—	—
Term loan B due 2024	Level 2	—	—	407,500	398,331
Total long-term debt		<u>\$1,077,961</u>	<u>\$1,060,962</u>	<u>\$1,087,461</u>	<u>\$1,037,494</u>

The fair value of our senior notes was measured using unadjusted quoted market prices. The fair value of our term loan B agreements were measured using unadjusted quoted market prices for similar debt securities in active markets.



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**3. Accumulated Stockholders' Equity**

**Share Repurchases**

The Board approved a share repurchase program authorizing us to repurchase up to \$1.0 billion of our common stock through September 30, 2025.

Information related to our shares repurchased and subsequently retired were as follows (in thousands):

	<b>Fiscal Year Ended September 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Number of shares repurchased . . . . .	1,511	6,832	—
Total cost of share repurchased . . . . .	\$15,150	\$130,328	\$—

The amounts above do not include approximately 93,000, 59,000 and 71,000 shares surrendered by grantees to satisfy personal income tax withholding obligations upon vesting of equity-based awards valued at approximately \$1.2 million, \$1.2 million and \$1.0 million during the fiscal years 2023, 2022 and 2021, respectively.

We reduced common stock and additional paid-in capital, in the aggregate, by these amounts. However, as required by GAAP, to the extent share repurchase amounts exceeded the balance of additional paid-in capital prior to such repurchases, we recorded the excess in accumulated stockholders' equity on our consolidated balance sheets. We funded these share repurchases with cash from operations and borrowings under the ABL facility, as appropriate.

**Accumulated Other Comprehensive Loss**

The change in accumulated other comprehensive loss ("AOCL") was as follows (in thousands):

	<b>Foreign Currency Translation Adjustments</b>	<b>Interest Rate Swap</b>	<b>Interest Rate Caps</b>	<b>Foreign Exchange Contracts</b>	<b>Total</b>
Balance at September 30, 2021 . . . . .	\$ (92,154)	\$ —	\$(2,085)	\$ (402)	\$ (94,641)
Other comprehensive income (loss) before reclassifications, net of tax . . .	(60,974)	—	2,310	(149)	(58,813)
Reclassification to net earnings, net of tax . . . . .	—	—	1,735	(128)	1,607
Balance at September 30, 2022 . . . . .	(153,128)	—	1,960	(679)	(151,847)
Other comprehensive income (loss) before reclassifications, net of tax . . .	28,282	4,990	817	(2,837)	31,252
Reclassification to net earnings, net of tax . . . . .	—	(1,274)	(2,777)	1,882	(2,169)
Balance at September 30, 2023 . . . . .	<u>\$ (124,846)</u>	<u>\$ 3,716</u>	<u>\$ —</u>	<u>\$(1,634)</u>	<u>\$(122,764)</u>

The tax impact for the changes in other comprehensive loss and the reclassifications to net earnings was not material.

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**4. Weighted Average Shares**

The following table sets forth the computations of basic and diluted earnings per share (in thousands):

	Fiscal Year Ended September 30,		
	2023	2022	2021
Weighted-average basic shares . . . . .	107,332	108,665	112,653
Dilutive securities:			
Stock option and stock award programs . . . . .	2,004	1,628	1,559
Weighted-average diluted shares . . . . .	109,336	110,293	114,212

At September 30, 2023, 2022 and 2021, options to purchase approximately 1.9 million, 2.4 million and 3.9 million shares, respectively, of our common stock were outstanding but not included in the computation of diluted earnings per share, due to the options being anti-dilutive.

**5. Share-Based Payments**

Our Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan (the “Omnibus Plan”) allows us to grant awards to its employees up to 8.0 million shares of our common stock, plus an additional number of shares based on the number of shares outstanding as of the beginning of the current plan that have subsequently been terminated, expired unexercised, cash-settled, cancelled, forfeited or lapsed for any reason. Currently, we have awarded grants to employees and non-employee directors under the terms of the Omnibus Plan.

The following table presents total compensation cost for all share-based compensation arrangements and the related income tax benefits recognized in our consolidated statement of earnings (in thousands):

	Fiscal Year Ended September 30,		
	2023	2022	2021
Share-based compensation expense . . . . .	\$15,862	\$9,944	\$11,656
Income tax benefit related to share-based compensation expense . . . . .	\$ 3,487	\$2,634	\$ 2,834

The Omnibus Plan award types are as follows:

*Performance-based awards:* Our performance awards vest over three years upon the satisfaction of the employee service condition and our level of achievement with respect to a mix of certain specified performance targets. For fiscal years 2023, 2022 and 2021, we issued performance awards with a financial performance target based on the growth on adjusted consolidated operating income (“AOI”) for each of the next three years.

For each performance award, a grantee may earn from 0% to 200% of the original awarded amount. Fair value of our performance awards related to the achievement of financial performance targets are based on our stock price on the date of grant. During the fiscal years ended September 30, 2023, 2022 and 2021, the fair value of our performance awards was \$12.04, \$17.40 and \$15.33, respectively. Expense is determined upon issuance and recognized based on projections of future performance and actual results.

*Market-based awards:* In fiscal years 2023, 2022 and 2021, we issued market-based awards that vest over three years and are dependent on the level of achievement of relative total shareholder return (“rTSR”)

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against a group of peer companies measured over a three-year period. For each rTSR, a grantee may earn from 0% to 200% of the original awarded amount. The fair value was determined by using the Monte Carlo simulation model due to the award being subject to a market condition. During fiscal years 2023, 2022 and 2021, the fair value of our market-based awards was \$15.54, \$23.39 and \$20.96, respectively. Expense is determined upon issuance and is recognized regardless of whether the market performance target is achieved.

*Stock options:* Stock option awards are valued using the Black-Scholes option pricing model to estimate the fair value of each stock option award on the date of grant and expense ratably over the vesting period, generally three years. Stock options have a ten year life.

*Restricted stock:* Restricted stock awards (“RSA”) and restricted stock units (“RSU”) are valued using the closing market price of our common stock on the date of grant. Expense is recognized ratably over the vesting period, generally three years for RSAs and RSUs issued to employees and one year for RSUs issued to our independent directors. An RSA award is an award of our shares that have full voting rights and dividend rights but are restricted with regard to sale or transfer. These restrictions lapse over the vesting period. RSUs are awarded to our independent directors who may elect, upon receipt of such award, to defer until a later date delivery of the shares of our common stock that would otherwise be issued on the vesting date. RSUs granted to independent directors prior to the fiscal year 2012, are generally retained by the Company as deferred stock units that are not distributed until six months after the independent director’s service as a director terminates.

**Performance-Based Awards**

The following table presents a summary of the activity for our performance awards assuming 100% payout:

<u>Performance Awards</u>	<u>Number of Shares (in Thousands)</u>	<u>Weighted Average Fair Value Per Share</u>
Unvested at September 30, 2022 .....	360	\$16.75
Granted .....	319	12.04
Adjustment for performance achievement ....	—	—
Vested .....	—	—
Forfeited .....	<u>(208)</u>	16.29
Unvested at September 30, 2023 .....	<u>471</u>	\$11.26

As of September 30, 2023, if we assume a 100% payout for unvested performance-based awards, we would expect to recognize \$1.8 million in expense over the weighted average period of 1.7 years.

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**Market-Based Awards**

The following table presents a summary of the activity for our market awards:

<u>Market Awards</u>	<u>Number of Shares (in Thousands)</u>	<u>Weighted Average Fair Value Per Share</u>
Unvested at September 30, 2022 .....	254	\$22.72
Granted .....	319	12.04
Vested .....	—	—
Forfeited .....	<u>(29)</u>	16.76
Unvested at September 30, 2023 .....	<u>544</u>	\$16.77

As of September 30, 2023, approximately \$4.8 million of total unrecognized compensation costs related to unvested market-based awards are expected to be recognized over the weighted average period of 1.8 years.

The assumptions used in the Monte Carlo model relating to the valuation of our rTSR awards issued in fiscal years 2023, 2022 and 2021 were as follows:

	<u>Fiscal Year Ended September 30,</u>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Expected term (in years) .....	2.9	2.9	2.7
Expected volatility .....	60.3%	59.5%	59.4%
Risk-free interest rate .....	4.6%	0.7%	0.2%
Dividend yield .....	0.0%	0.0%	0.0%

**Service-Based Awards**

*Stock Option Awards*

The following table presents a summary of the activity for our stock option awards:

	<u>Number of Outstanding Options (in Thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in Years)</u>	<u>Aggregate Intrinsic Value (in Thousands)</u>
Outstanding at September 30, 2022 .....	3,183	\$17.54	5.8	\$2,863
Granted .....	—	—		
Exercised .....	(203)	9.31		
Forfeited or expired .....	<u>(502)</u>	21.34		
Outstanding at September 30, 2023 .....	<u>2,478</u>	\$17.45	5.2	\$ —
Exercisable at September 30, 2023 .....	<u>2,018</u>	\$18.61	4.7	\$ —

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The weighted average assumptions used in the Black-Scholes model relating to the valuation of our stock options are as follows:

	<b>Fiscal Year Ended</b>	
	<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>
Expected term (in years) . . . . .	6.0	6.0
Expected volatility . . . . .	48.7%	44.5%
Risk-free interest rate . . . . .	1.2%	0.4%
Dividend yield . . . . .	0.0%	0.0%

The expected life of options awarded represents the period of time such options are expected to be outstanding and is based on our historical experience. The risk-free interest rate is based on the zero-coupon U.S. Treasury notes with a term comparable to the expected life of an award at the date of the grant. Since we do not currently expect to pay dividends, the dividend yield used for this purpose is 0%.

The weighted average fair value per share at the date of grant of the stock options awarded during the fiscal years 2022 and 2021 was \$8.12 and \$5.66, respectively. The aggregate fair value of stock options vested during the fiscal years 2023, 2022 and 2021 was \$3.2 million, \$2.5 million and \$3.4 million, respectively.

The aggregate intrinsic value of options exercised during the fiscal years 2023, 2022 and 2021 was \$1.4 million, \$4.0 million and \$0.7 million, respectively. The total cash received during the fiscal years 2023, 2022 and 2021 from option exercises was \$1.9 million, \$8.1 million and \$4.6 million, respectively, and the tax benefit realized for the tax deductions from these option exercises was \$0.2 million, \$0.8 million and \$0.1 million, respectively.

At September 30, 2023, approximately \$0.8 million of total unrecognized compensation costs related to unvested stock option awards are expected to be recognized over the weighted average period of 0.9 years.

*RSAs*

The following table presents a summary of the activity for our RSAs:

<b><u>Restricted Stock Awards</u></b>	<b><u>Number of Shares (in Thousands)</u></b>	<b><u>Weighted Average Fair Value Per Share</u></b>
Unvested at September 30, 2022 . . . . .	53	\$15.55
Granted . . . . .	—	—
Vested . . . . .	(53)	15.55
Forfeited . . . . .	—	—
Unvested at September 30, 2023 . . . . .	—	\$ —

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*RSUs*

The following table presents a summary of the activity for our RSUs:

<u>Restricted Stock Units</u>	<u>Number of Shares (in Thousands)</u>	<u>Weighted Average Fair Value Per Share</u>
Unvested at September 30, 2022 .....	924	\$15.52
Granted .....	1,254	12.07
Vested .....	(391)	15.22
Forfeited .....	(184)	12.90
Unvested at September 30, 2023 .....	<u>1,603</u>	\$13.19

At September 30, 2023, approximately \$11.2 million of total unrecognized compensation costs related to unvested RSUs are expected to be recognized over the weighted average period of 1.8 years.

**6. Leases**

Our operating and finance leases consisted of the following (in thousands):

	<u>Balance Sheet Classification</u>	<u>September 30,</u>	
		<u>2023</u>	<u>2022</u>
<b>Assets:</b>			
Operating lease <sup>(a)</sup> .....	Operating lease assets	\$570,657	\$532,177
Finance lease .....	Property and equipment, net	1,754	1,897
Total lease assets .....		<u>\$572,411</u>	<u>\$534,074</u>
<b>Liabilities:</b>			
Current:			
Operating lease .....	Current operating lease liabilities	\$150,479	\$157,734
Finance lease .....	Current maturities of long-term debt	173	158
Long-term:			
Operating lease .....	Long-term operating lease liabilities	455,071	424,762
Finance lease .....	Long-term debt	119	277
Total lease liabilities .....		<u>\$605,842</u>	<u>\$582,931</u>

(a) During the fiscal years 2023 and 2022, we recognized \$0.6 million and \$21.6 million, respectively, in impairment charges related to the Plan. See Note 16, *Restructuring*, for more information on the Plan.



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Our lease costs consisted of the following (in thousands):

	<u>Statement of Earnings Classification</u>	<u>For the Year Ended September 30,</u>	
		<u>2023</u>	<u>2022</u>
Operating lease costs . . . . .	Cost of goods sold and selling, general and administrative expenses <sup>(a)</sup>	\$180,624	\$188,206
Finance lease costs:			
Amortization of leased assets . . . . .	Selling, general and administrative expenses	292	299
Interest on lease liabilities . . . . .	Interest expense	12	13
Variable lease costs <sup>(b)</sup> . . . . .	Selling, general and administrative expenses	59,996	62,201
Total lease costs . . . . .		<u>\$240,924</u>	<u>\$250,719</u>

- (a) Certain supply chain-related amounts are included in cost of goods sold.  
(b) Includes common area maintenance, real estate taxes and insurance related to leases

As of September 30, 2023, the approximate future lease payments under our leases under ASC 842, *Leases*, are as follows (in thousands):

<u>Fiscal Year</u>	<u>Operating leases</u>	<u>Finance leases</u>
2024 . . . . .	\$175,327	\$174
2025 . . . . .	146,179	144
2026 . . . . .	115,880	—
2027 . . . . .	88,317	—
2028 . . . . .	59,334	—
Thereafter . . . . .	105,786	—
Total undiscounted lease payments . . . . .	690,823	318
Less: imputed interest . . . . .	85,273	26
Present value of lease liabilities . . . . .	<u>\$605,550</u>	<u>\$292</u>

The table above does not include operating leases we have entered into of approximately \$9.4 million that have not commenced, primarily related to future retail stores.

Other lease information is as follows (dollars in thousands):

	<u>For the Year Ended September 30,</u>	
	<u>2023</u>	<u>2022</u>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash flows – operating leases . . . . .	\$182,405	\$183,943
Operating cash flows – finance leases . . . . .	12	13
Financing cash flows – finance leases . . . . .	176	161

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	For the Year Ended September 30,	
	2023	2022
<b>Supplemental non-cash information on lease liabilities:</b>		
Lease assets obtained in exchange for new operating lease liabilities . . . . .	\$184,039	\$201,542
Lease assets obtained in exchange for new finance lease liabilities . . . . .	—	3
	September 30,	
	2023	2022
<b>Weighted-average remaining lease term (in years):</b>		
Operating leases . . . . .	5.2	5.2
Finance leases . . . . .	1.7	2.7
<b>Weighted-average discount rate:</b>		
Operating leases . . . . .	5.3%	4.6%
Finance leases . . . . .	0.3%	0.3%

**7. Goodwill and Intangible Assets**

The changes in the carrying amounts of goodwill during the fiscal years 2023 and 2022 are as follows (in thousands):

	SBS	BSG	Total
Balance at September 30, 2021 . . . . .	\$ 82,160	\$459,049	541,209
Acquisitions . . . . .	271	—	271
Foreign currency translation . . . . .	(12,871)	(2,543)	(15,414)
Balance at September 30, 2022 . . . . .	\$ 69,560	\$456,506	\$526,066
Acquisitions <sup>(a)</sup> . . . . .	—	998	998
Foreign currency translation . . . . .	5,744	273	6,017
Balance at September 30, 2023 . . . . .	\$ 75,304	\$457,777	\$533,081

(a) See Note 12, *Acquisitions*, for additional information regarding goodwill recorded during the fiscal year.

The following table reflects our other intangible assets, excluding goodwill, on our consolidated balance sheets. Once an intangible becomes fully amortized, the original cost and accumulated amortization is removed in the subsequent period. As of September 30, 2023 and 2022, we had the following (in thousands):

	September 30, 2023			September 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<b>Definite-lived Intangible assets:</b>						
Customer relationships . . . . .	\$22,007	\$(19,768)	\$ 2,239	\$21,406	\$(17,406)	\$4,000
Distribution rights <sup>(a)</sup> . . . . .	16,250	(7,747)	8,503	10,155	(6,770)	3,385
Other intangible assets . . . . .	4,381	(3,072)	1,309	3,968	(2,618)	1,350
Total definite-lived intangible assets . . . . .	42,638	(30,587)	12,051	35,529	(26,794)	8,735

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	September 30, 2023			September 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
<b>Indefinite-lived Intangible assets:</b>						
Trade names .....	43,120	—	43,120	41,580	—	41,580
Total intangible assets, excluding goodwill, net .....	<u>\$85,758</u>	<u>\$(30,587)</u>	<u>\$55,171</u>	<u>\$77,109</u>	<u>\$(26,794)</u>	<u>\$50,315</u>

- (a) See Note 12, *Acquisitions*, for additional information regarding distribution rights recorded during the fiscal year.

Our definite-lived intangible assets are amortized on a straight-line basis over the period that we expected an economic benefit, typically over periods of three to ten years. For fiscal years 2023, 2022 and 2021, amortization expense related to intangible assets totaled \$3.4 million, \$4.1 million and \$6.6 million, respectively and are included within selling, general and administrative expenses on our consolidated statements of earnings.

As of September 30, 2023, the expected future amortization expense related to definite-lived intangible assets is as follows (in thousands):

<u>Fiscal Year:</u>	
2024 .....	\$ 3,173
2025 .....	2,634
2026 .....	1,566
2027 .....	1,104
2028 .....	675
Thereafter .....	<u>2,899</u>
	<u>\$12,051</u>

## 8. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	September 30,	
	2023	2022
Compensation and benefits .....	\$ 69,915	\$ 58,693
Deferred revenue .....	18,259	18,810
Interest payable .....	13,447	13,445
Rental obligations .....	11,266	10,701
Insurance reserves .....	6,656	5,742
Property and other taxes .....	2,617	4,161
Operating accruals and other .....	<u>41,206</u>	<u>49,513</u>
Total accrued liabilities .....	<u>\$163,366</u>	<u>\$161,065</u>

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## **9. Commitments and Contingencies**

### **Commitments**

#### *Letters of Credit*

We had \$17.4 million and \$18.6 million of outstanding letters of credit as of September 30, 2023 and 2022, respectively.

### **Contingencies**

#### *Legal Proceedings*

From time to time, we are involved in various claims and lawsuits incidental to the conduct of our business in the ordinary course. We do not believe that the ultimate resolution of these matters will have a material adverse impact on our consolidated financial position, results of operations or cash flows.

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, penalties, the data security incidents and other sources, are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. We have no significant liabilities for loss contingencies at September 30, 2023 and 2022.

## **10. Debt**

### **Short-term Debt**

In fiscal year 2023, we entered into a fourth amendment to our five-year asset-based senior secured loan facility (the “ABL facility”) with a syndicate of banks, which has a revolving commitment of \$500.0 million and a maturity date of the earlier of (i) May 11, 2026, (ii) the date which is ninety-one (91) days prior to the maturity date of any indebtedness arising under the TLB 2030 and any refinancing thereof, and (iii) the date which is ninety-one (91) days prior to the maturity date of any indebtedness arising under the 2025 Senior Notes and any refinancing thereof. The interest rate on the ABL facility is variable and determined at our option as (i) prime plus 0.25% or 0.50% or (ii) Secured Overnight Financing Rate (“SOFR”) plus 1.25% or 1.50%. In addition, the terms of the ABL facility contain a commitment fee of 0.20% on the unused portion of the facility. Borrowings under the ABL facility are secured by a first-priority lien in and upon the accounts and inventory (and the proceeds thereof) of the Company and its guarantor subsidiaries. Furthermore, the ABL facility is also secured by a second-priority lien in and upon the remaining assets of the Company and its guarantor subsidiaries.

At September 30, 2023 and 2022, there were no outstanding borrowings and \$68.5 million outstanding borrowings under our ABL facility, respectively. At September 30, 2023, we had \$482.6 million available for borrowing, thereunder, including our Canadian sub-facility, subject to borrowing base limitations, as reduced by outstanding letters of credit.

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**Long-term Debt**

Long-term debt consists of the following (dollars in thousands):

	<u>September 30,</u>		<u>Interest Rates</u>
	<u>2023</u>	<u>2022</u>	
Term Loan B due 2024 .....	\$ —	\$ 407,500	LIBOR plus 2.25%
Term Loan B due 2030 .....	398,000	—	SOFR plus 2.25%
Senior notes due Dec. 2025 .....	679,961	679,961	5.625%
Total .....	<u>\$1,077,961</u>	<u>\$1,087,461</u>	
Plus: finance lease obligations .....	292	435	
Less: unamortized debt issuance costs and discount, net .....	<u>8,269</u>	<u>4,695</u>	
Total debt .....	<u>\$1,069,984</u>	<u>\$1,083,201</u>	
Less: current maturities .....	<u>4,173</u>	<u>158</u>	
Total long-term debt .....	<u><u>\$1,065,811</u></u>	<u><u>\$1,083,043</u></u>	

Maturities of our debt, excluding finance leases and our ABL facility, are as follows at September 30, 2023 (in thousands):

<u>Fiscal Year:</u>	
2024 .....	\$ 4,000
2025 .....	4,000
2026 .....	683,961
2027 .....	4,000
2028 .....	4,000
Thereafter .....	<u>378,000</u>
Total .....	<u><u>\$1,077,961</u></u>

*Term Loan B*

In February 2023, we entered into a credit agreement for a term loan B facility (“TLB 2030”) in an aggregate principal amount equal to \$400.0 million, the net proceeds of which were used to repay our term loan B due 2024 (“TLB 2024”). At the time, the TLB 2030 bore interest at a floating rate equal to, at our option, either the Adjusted Term SOFR Rate plus 2.50% or an adjusted base rate plus 1.50%. Interest on the TLB 2030 is payable quarterly on March 31, June 30, September 30 and December 31 of each year. The TLB 2030 matures on the earlier of (i) February 28, 2030 and (ii) the date that is 91 days prior to the stated maturity of our Senior Unsecured Notes due 2025 (the “2025 Senior Notes”) unless all amounts exceeding \$200.0 million of the 2025 Senior Notes are refinanced or repaid according to certain conditions (the “Maturity Date”). The principal of the TLB 2030 is repayable in quarterly installments equal to 0.25% of the original principal amount of the TLB 2030, with a final installment equal to the entire remaining outstanding principal amount due on the Maturity Date. The TLB 2030 was issued at a discount of 0.75%, and we incurred \$4.7 million in issuance costs; both of which are being amortized using the effective interest method.

In September 2023, we entered into a first refinancing amendment, where we negotiated a 25 basis point reduction in the fixed interest spread on our TLB 2030. The TLB 2030 now bears interest at a floating rate equal to, at our option, either the Adjusted Term SOFR Rate plus 2.25% or an adjusted base rate plus 1.25%. No other

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terms of the agreement were amended. In connection with the repricing, we evaluated the fair value of the debt, before and after the amendment, for each syndicate loan and accounted for the transaction as both a partial extinguishment and modification. As a result, we recognized a loss on extinguishment of \$1.8 million within interest expense. In connection with the repricing, we incurred additional immaterial cost, of which, the majority was recorded to interest expense. Furthermore, the extinguishment of debt and subsequent exchange of new debt with existing creditors resulted in non-cash financing activities of \$7.9 million for the fiscal year ending 2023.

The TLB 2030 is secured by a first-priority lien in and upon substantially all of the assets of the Company and its domestic subsidiaries other than the accounts, inventory (and the proceeds thereof) and other assets that secure Sally Holdings' existing ABL facility on a first-priority basis (the "ABL Priority Collateral"). Additionally, the TLB 2030 is secured by a second-priority lien in and upon the ABL Priority Collateral. The TLB 2030 does not contain any financial maintenance covenants and is subject to a covenant package that is substantially consistent with the covenant package governing the 2025 Senior Notes. The TLB 2030 is subject to customary asset sale mandatory prepayment provisions and excess cash flow mandatory prepayment provisions.

The TLB 2030 may be prepaid without penalty or premium, other than customary breakage costs for prepayments that are made prior to the last date of an interest period. The repayment of our TLB 2024, in the aggregate outstanding principal amount of \$406.1 million, was made pursuant to the terms of the credit agreement underlying our TLB 2024, at par plus interest accrued but unpaid up to, though not including, the repayment date. In connection with the repayment, we recognized a loss on the extinguishment of debt of \$0.6 million within interest expense, which included the write-off of unamortized discount and deferred financing costs of \$0.2 million and \$0.4 million, respectively.

#### *Senior Notes*

The senior notes due December 2025 are unsecured obligations that are jointly and severally guaranteed by Sally Beauty Holdings, Inc. and Sally Investment, and by each material domestic subsidiary. Interest on the notes is fixed at 5.625% and payable semi-annually, during our first and third fiscal quarters.

During fiscal year 2022, we called the entire \$300.0 million outstanding balance of our senior secured notes, issued during fiscal year 2020, at par plus a premium. In connection with the repayment, we recognized losses on extinguishment of debt in the aggregate amount of \$16.4 million, which included a \$13.1 million call premium and the write-off of \$3.3 million in unamortized deferred financing costs.

#### **Covenants**

The agreements governing our debt contain a customary covenant package that places restrictions on the disposition of assets, the granting of liens and security interests, the prepayment of certain indebtedness, and other matters and customary events of default, including customary cross-default and/or cross-acceleration provisions.

#### **11. Derivative Instruments**

As of September 30, 2023, we did not purchase or hold any derivative instruments for trading or speculative purposes. See Note 2 for the classification and fair value of our derivative instruments.



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**Designated Cash Flow Hedges**

*Foreign Currency Forwards*

During fiscal year 2023, we entered into foreign currency forwards to mitigate the exposure to exchange rate changes on inventory purchases in USD by our foreign subsidiaries over fiscal year 2023. As of September 30, 2023, all of our foreign currency forward derivatives instruments had settled. We record, net of income tax, the changes in fair value related to the foreign currency forwards into AOCL and recognize realized gain or loss into cost of goods sold based on inventory turns. As of September 30, 2023, we expect to reclassify approximately \$1.8 million in net losses into cost of goods sold over the next 12 months.

During fiscal year 2023, 2022 and 2021, we reclassified a net loss of \$1.9 million, a net gain of \$0.1 million and a net loss of \$0.3 million, respectively, into cost of goods sold.

*Interest Rate Caps*

In July 2017, we purchased two interest rate caps with an initial aggregate notional amount of \$550 million (the “interest rate caps”) to mitigate the exposure to higher interest rates in connection with our TLB 2024. The interest rate caps were comprised of individual caplets that were expiring ratably through June 30, 2023, and were designated as cash flow hedges. Accordingly, the changes in fair value of the interest rate caps were recorded quarterly, net of income tax, and included in AOCL.

During the three months ended March 31, 2023, we early settled both interest rate caps due to the forecasted transactions being hedged no longer occurring as a result of the repayment of our TLB 2024. In connection with the early settlement, we received approximately \$2.7 million, which represented the fair value at the time of settlement. Furthermore, we released the remaining AOCL balances related to the interest rate caps into interest expense. For fiscal years 2023, 2022 and 2021, we recognized income of \$2.8 million, expense of \$1.7 million and expense of \$1.2 million, respectively, into interest expense on our condensed consolidated statements of earnings related to the caps.

*Interest Rate Swap*

In April 2023, we entered into a three-year interest rate swap with an initial notional amount of \$200 million (the “interest rate swap”) to mitigate the exposure to higher interest rates in connection with our TLB 2030. The interest rate swap involves fixed monthly payments at the contract rate of 3.705%, and in return, we will receive a floating interest payment based on the 1-month Adjusted Term SOFR Rate. The interest rate swap will mature in April 2026 and is designated as a cash flow hedge. Changes in the fair value of the interest rate swap are recorded quarterly, net of income tax, and included in AOCL.

For fiscal year 2023, we recognized income of \$1.3 million into interest expense on our condensed consolidated statements of earnings related to the interest rate swap. At September 30, 2023, we expect to reclassify gains of approximately \$3.1 million out of AOCL and into interest expense over the next 12 months.

**Non-Designated Cash Flow Hedges**

We also use foreign exchange contracts to mitigate our exposure to exchange rate changes in connection with certain intercompany balances not permanently invested. At September 30, 2023, we held forwards, which expire

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on various dates during the first four months of fiscal year 2024, with a notional amount, based upon exchange rates at September 30, 2023, as follows (in thousands):

<u>Notional Currency</u>	<u>Notional Amount</u>
Canadian Dollar .....	\$ 16,777,282
Euro .....	19,263,661
British Pound .....	42,421,337
Mexican Peso .....	24,388,155
Total .....	<u>\$102,850,435</u>

We record changes in fair value and realized gains or losses related to the foreign currency forwards into selling, general and administrative expenses. The effects of these foreign exchange contracts on our condensed consolidated financial statements were losses of \$2.2 million, \$9.6 million and \$3.0 million for fiscal years 2023, 2022 and 2021, respectively.

## 12. Acquisitions

On September 22, 2023, we acquired certain assets and business operations from Goldwell of NY, Inc. (“Goldwell of NY”), a distributor of professional beauty products operating in the State of New York, for approximately \$9.0 million, subject to certain adjustments. Under the terms of the agreement, we acquired the operations of five stores and a direct sales force, inventory, and exclusive and non-exclusive product distribution rights. As part of BSG’s growth strategies, this acquisition complements its existing lines of business and increases the size and geographic scope of its operations.

This acquisition was accounted for using the acquisition method of accounting for business combinations and funded with cash from operations. As of September 30, 2023, the purchase price of the acquisition has been allocated to all assets acquired and liabilities assumed based on their preliminary estimated fair values at the date of acquisition. Based on preliminary estimates, we recorded \$6.6 million in intangible assets subject to amortization, \$1.7 million in inventory and \$1.0 million in goodwill, which has been allocated to BSG and is expected to be deductible for tax purposes. Subsequent of the acquisition date, all operating results were included in BSG and were not material to the results of operations.

For fiscal years 2022 and 2021, we did not acquire any substantial businesses.

## 13. 401(k) and Profit Sharing Plan

We offer 401(k) Plans to our U.S. and Puerto Rico employees who meet certain eligibility requirements. The U.S. 401(k) Plan allows employees to contribute immediately upon hire, while the Puerto Rico 401(k) Plan allows employees to contribute after one year of employment. Under the terms of each 401(k) Plan, employees may contribute a percentage of their annual compensation up to certain maximums, as defined by each 401(k) Plan and by statutory limitations. We currently match a portion of employee contributions, as defined by each 401(k) Plan. We recognized expense of \$7.3 million, \$6.8 million and \$6.2 million in the fiscal years ended September 30, 2023, 2022 and 2021, respectively, related to such matching contributions and these amounts are included in selling, general and administrative expenses in our consolidated statements of earnings.

In addition, pursuant to the 401(k) Plans, we may elect to make voluntary profit sharing contributions to the accounts of eligible employees as determined by the Compensation Committee of the Board. During the fiscal

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years ended September 30, 2023, 2022 and 2021, we did not make a profit sharing contribution to the 401(k) Plans.

**14. Income Taxes**

The provision for income taxes for the fiscal years 2023, 2022 and 2021 consists of the following (in thousands):

	<b>Fiscal Year Ended September 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
Current:			
Federal .....	\$42,103	\$ 48,888	\$64,526
Foreign .....	7,317	16,370	14,869
State .....	9,830	10,739	14,364
Total current portion .....	<u>59,250</u>	<u>75,997</u>	<u>93,759</u>
Deferred:			
Federal .....	3,299	93	(6,054)
Foreign .....	3,233	(15,380)	(1,195)
State .....	1,668	(166)	(1,434)
Total deferred portion .....	<u>8,200</u>	<u>(15,453)</u>	<u>(8,683)</u>
Total provision for income taxes .....	<u>\$67,450</u>	<u>\$ 60,544</u>	<u>\$85,076</u>

The difference between the U.S. statutory federal income tax rate and the effective income tax rate is summarized below:

	<b>Fiscal Year Ended September 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
U.S. federal statutory income tax rate .....	21.0%	21.0%	21.0%
State income taxes, net of federal tax benefit .....	3.4	2.6	3.0
Effect of foreign operations .....	1.3	2.2	0.8
Repatriation Tax .....	1.1	—	—
Share-based payment awards .....	0.5	0.6	0.6
Unrecognized tax benefit .....	0.3	2.9	—
Valuation allowances .....	0.1	(7.2)	0.6
Deferred tax impact of foreign branch conversion .....	—	2.7	—
Other, net .....	<u>(0.9)</u>	<u>—</u>	<u>0.2</u>
Effective tax rate .....	<u>26.8%</u>	<u>24.8%</u>	<u>26.2%</u>

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The tax effects of temporary differences that give rise to our deferred tax assets and liabilities are as follows (in thousands):

	September 30,	
	2023	2022
Deferred tax assets attributable to:		
Foreign loss carryforwards	\$ 32,435	\$ 30,548
Accrued liabilities	17,672	24,023
Share-based compensation expense	7,430	7,320
U.S. foreign tax credits	12,913	10,712
Inventory adjustments	—	8,156
Other	(2,937)	(391)
Total deferred tax assets	67,513	80,368
Valuation allowance	(35,912)	(31,920)
Total deferred tax assets, net	31,601	48,448
Deferred tax liabilities attributable to:		
Depreciation and amortization	101,957	112,115
Inventory adjustments	1,452	—
Total deferred tax assets	103,409	112,115
Net deferred tax liability	\$ 71,808	\$ 63,667

We believe that it is more-likely-than-not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of the valuation allowance. During fiscal year 2023, existing valuation allowances were increased by approximately \$4.0 million, primarily for net operating loss carry-forwards of various members of the affiliated group in foreign jurisdictions and foreign tax credits. We continue to record a valuation allowance to account for uncertainties regarding recoverability of certain deferred tax assets, primarily foreign loss carry-forwards and tax credit carry-forwards.

Domestic earnings before provision for income taxes were \$217.7 million, \$205.2 million and \$288.0 million in the fiscal years 2023, 2022 and 2021, respectively. Foreign earnings before provision for income taxes of \$34.4 million, \$38.9 million and \$36.9 million in the fiscal years 2023, 2022 and 2021, respectively.

Tax reserves are evaluated and adjusted as appropriate, while taking into account the progress of audits by various taxing jurisdictions and other changes in relevant facts and circumstances evident at each balance sheet date. We do not expect the outcome of current or future tax audits to have a material adverse effect on our consolidated financial condition, results of operations or cash flow.

Applicable deferred tax liabilities have been provided for undistributed foreign earnings in excess of foreign working capital and cash requirements. As a result of U.S. Tax Reform, the repatriation of cash to the U.S. is generally no longer taxable for federal income tax purposes but could be subject to foreign withholding taxes and state income taxes. If undistributed earnings of our foreign operations were not considered permanently reinvested as of September 30, 2023, an immaterial amount of additional deferred taxes would have been provided.

At September 30, 2023 and 2022, we had total operating loss carry-forwards of \$119.4 million and \$110.8 million, respectively, of which \$62.7 million and \$60.9 million, respectively, are subject to a valuation

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allowance. At September 30, 2023, operating loss carry-forwards of \$119.4 million have no expiration date. At September 30, 2023 and 2022, we had tax credit carry-forwards of \$15.5 million and \$13.1 million, respectively. This includes a U.S. foreign tax credit carry-forward of \$12.9 million, primarily as a result of the deemed repatriation tax under U.S. Tax Reform. This credit expires in 2028. We do not believe the realization of the U.S. foreign tax credit is more-likely-than-not, so a valuation allowance has been recorded against its full value. Of the remaining tax credit carry-forwards, at September 30, 2023, \$1.0 million expire between 2024 and 2028, \$0.3 million expire between 2033 and 2037 and \$1.3 million have no expiration date. Total tax credit carry-forwards of \$14.2 million and \$11.9 million are subject to a valuation allowance at September 30, 2023 and 2022, respectively.

The changes in the amount of unrecognized tax benefits are as follows (in thousands):

	<b>Fiscal Year Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
Balance at beginning of the fiscal year . . . . .	\$ 9,165	\$2,092
Increases related to prior year tax positions . . . . .	1,983	7,603
Decreases related to prior year tax positions . . . . .	(128)	(874)
Increases related to current year tax positions . . . . .	759	710
Decreases due to settlements . . . . .	(3,337)	
Lapse of statute . . . . .	(130)	(366)
Balance at end of fiscal year . . . . .	<u>\$ 8,312</u>	<u>\$9,165</u>

If recognized, these positions would affect our effective tax rate.

On December 22, 2017, the Tax Cuts and Jobs Act (“TCJA”) enacted comprehensive amendments to the Internal Revenue Code of 1986. Among other things, TCJA provided for a deemed repatriation of undistributed foreign earnings by U.S. taxpayers giving rise to a one-time transition tax on those earnings (“Repatriation Tax”). The U.S. Treasury Department issued final regulations (“Regulations”) addressing certain aspects of how the Repatriation Tax is calculated. In our view, certain guidance included in the Regulations is inconsistent with our interpretation of the statutory language contained in the TCJA. Our consolidated federal income tax return for the fiscal year ended September 30, 2018 is currently under audit on this matter. In fiscal year 2023, we remitted \$3.3 million in tax to the IRS, designated as a \$6603 deposit due to the differing interpretation of the statute. Estimated interest of \$1 million was also remitted. Income tax expense of \$2.7 million was recorded in fiscal year 2023 related to the payments. Previously, \$1.6 million had been reserved for this issue. At September 30, 2022, the Company recorded \$7.6 million of uncertain tax benefits related to transfer pricing matters. We maintain our tax positions are fully supportable.

We recognize interest and penalties, accrued in connection with unrecognized tax benefits, in provision for income taxes. Accrued interest and penalties, in the aggregate, were \$0.5 million and \$0.4 million at September 30, 2023 and 2022, respectively.

Because existing tax positions will continue to generate increased liabilities for unrecognized tax benefits over the next 12 months, and the fact that from time to time our tax returns are routinely under audit by various taxing authorities, it is reasonably possible that the amount of unrecognized tax benefits will change during the next 12 months. An estimate of the amount of such change, or a range thereof, cannot reasonably be made at this time. However, we do not expect the change, if any, to have a material effect on our consolidated financial condition or results of operations within the next 12 months.

**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

Our consolidated federal income tax return for the fiscal year ended September 30, 2022, is currently under IRS examination. Our statute remains open for the fiscal year ended September 30, 2020, forward. Our U.S. state income tax returns are impacted by various statutes of limitations and are generally open for the fiscal year ended September 30, 2018 and future years. Our foreign income tax returns are impacted by various statutes of limitations, which are generally open from 2018 forward.

**15. Segments and Disaggregated Revenue**

Our segments are defined on how our chief operating decision maker, which we consider the Chief Executive Officer and Chief Financial Officer together, regularly reviews performance and allocates resources to our operating segments.

Our business is organized into two reportable segments: (i) SBS, a domestic and international chain of retail stores and a consumer-facing e-commerce website that offers professional beauty supplies to both salon professionals and retail customers primarily in North America, Puerto Rico and parts of Europe and South America and (ii) BSG, including its franchise-based business Armstrong McCall, a full service distributor of beauty products and supplies that offers professional beauty products directly to salons and salon professionals through its professional-only stores, e-commerce platforms and its own sales force in partially exclusive geographical territories in the U.S. and Canada.

The accounting policies of both of our reportable segments are the same as described in the summary of significant accounting policies contained in Note 1. Sales between segments, which were eliminated in consolidation, were not material for the fiscal years ended September 30, 2023, 2022 and 2021.

***Business Segments Information***

Segment data for the fiscal years 2023, 2022 and 2021 are as follows (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net sales (for the fiscal year indicated):			
SBS .....	\$2,139,206	\$2,193,044	\$2,278,382
BSG .....	<u>1,588,925</u>	<u>1,622,521</u>	<u>1,596,615</u>
Total .....	<u>\$3,728,131</u>	<u>\$3,815,565</u>	<u>\$3,874,997</u>
Earnings before provision for income taxes:			
Segment operating earnings:			
SBS .....	\$ 358,474	\$ 350,884	\$ 417,658
BSG .....	<u>181,275</u>	<u>193,407</u>	<u>205,078</u>
Segment operating earnings .....	539,749	544,291	622,736
Unallocated expenses .....	197,515	179,074	199,682
Restructuring .....	<u>17,205</u>	<u>27,577</u>	<u>4,611</u>
Consolidated operating earnings .....	325,029	337,640	418,443
Interest expense .....	<u>72,979</u>	<u>93,543</u>	<u>93,509</u>
Earnings before provision for income taxes .....	<u>\$ 252,050</u>	<u>\$ 244,097</u>	<u>\$ 324,934</u>

**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Depreciation and amortization:			
SBS .....	\$ 57,663	\$ 57,798	\$ 61,887
BSG .....	32,362	30,098	28,597
Corporate .....	12,384	12,033	11,717
Total .....	<u>\$ 102,409</u>	<u>\$ 99,929</u>	<u>\$ 102,201</u>
Payments for property and equipment:			
SBS .....	\$ 52,535	\$ 53,788	\$ 43,165
BSG .....	30,581	34,312	24,880
Corporate .....	7,626	11,150	5,859
Total .....	<u>\$ 90,742</u>	<u>\$ 99,250</u>	<u>\$ 73,904</u>
Total assets (as of September 30):			
SBS .....	\$1,279,200	\$1,195,732	\$1,235,427
BSG .....	1,293,157	1,251,455	1,179,263
Sub-total .....	2,572,357	2,447,187	2,414,690
Corporate .....	152,893	129,680	432,442
Total .....	<u>\$2,725,250</u>	<u>\$2,576,867</u>	<u>\$2,847,132</u>

Unallocated expenses consist of corporate and shared costs and are included in selling, general and administrative expenses in our consolidated statements of earnings. In the fiscal years 2023, 2022 and 2021, no single customer accounted for 10% or more of revenue.

***Geographic Area Information***

Certain geographic data is as follows (in thousands):

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net sales (for the fiscal year indicated):			
United States .....	\$3,050,334	\$3,142,898	\$3,228,091
Other countries .....	677,797	672,667	646,906
Total .....	<u>\$3,728,131</u>	<u>\$3,815,565</u>	<u>\$3,874,997</u>
Long-lived assets (as of September 30):			
United States .....	\$ 258,157	\$ 263,929	\$ 267,839
United Kingdom .....	9,988	9,147	15,089
Other countries .....	29,634	24,800	24,449
Total .....	<u>\$ 297,779</u>	<u>\$ 297,876</u>	<u>\$ 307,377</u>



**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

**Disaggregated Revenues**

The following tables disaggregate our segment revenues by merchandise category. We have reclassified certain prior year amounts to conform to current year presentation.

<u>SBS</u>	<b>Fiscal Year Ended September 30,</b>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Hair color .....	39.9%	38.2%	36.3%
Hair care .....	23.9%	23.6%	22.1%
Styling tools and supplies .....	17.9%	19.1%	21.7%
Nail .....	10.1%	10.8%	10.9%
Skin and cosmetics .....	7.6%	7.6%	8.3%
Other beauty items .....	0.6%	0.7%	0.7%
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

<u>BSG</u>	<b>Fiscal Year Ended September 30,</b>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Hair care .....	42.3%	43.5%	41.5%
Hair color .....	40.2%	39.0%	39.8%
Styling tools and supplies .....	10.6%	10.9%	11.5%
Skin and cosmetics .....	3.9%	3.8%	4.0%
Nail .....	2.7%	2.4%	2.7%
Other beauty items .....	0.3%	0.4%	0.5%
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The following table disaggregates our segment revenue by sales channels:

	<u>SBS</u>			<u>BSG</u>		
	<b>Fiscal Year Ended September 30,</b>			<b>Fiscal Year Ended September 30,</b>		
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Company-operated stores .....	93.8%	94.0%	94.1%	67.2%	66.4%	69.1%
E-commerce .....	6.2%	6.0%	5.9%	13.5%	12.3%	9.2%
Franchise stores .....	—	—	—	7.5%	7.4%	7.5%
Distributor sales consultants .....	—	—	—	11.8%	13.9%	14.2%
Total .....	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

**16. Restructuring**

Restructuring expenses, included in Cost of Goods Sold (“COGS”) and Restructuring for the fiscal years ended September 30, 2023, 2022 and 2021, are as follows (in thousands):

	<b>2023 <sup>(a)</sup></b>	<b>2022</b>	<b>2021</b>
<b><u>Included in COGS</u></b>			
Distribution Center Consolidation and Store Optimization Plan . . . . .	\$ (5,788)	\$19,403	\$ —
Transformation Plan . . . . .	—	(1,087)	1,444
Total in COGS . . . . .	<u>\$ (5,788)</u>	<u>\$18,316</u>	<u>\$1,444</u>
<b><u>Included in Restructuring</u></b>			
Distribution Center Consolidation and Store Optimization Plan . . . . .	\$17,205	\$26,110	\$ —
Transformation Plan . . . . .	—	1,467	3,160
Project Surge . . . . .	—	—	1,451
Total in Restructuring . . . . .	<u>17,205</u>	<u>27,577</u>	<u>4,611</u>
Total Restructuring Expenses . . . . .	<u>\$11,417</u>	<u>\$45,893</u>	<u>\$6,055</u>

(a) Amounts related to the Plan included favorable adjustments to our expected obsolescence reserve within COGS and costs associated with the closure of stores and distribution centers during the period.

***Distribution Center Consolidation and Store Optimization Plan***

In the fourth quarter of fiscal year 2022, our Board approved the Plan consisting of the planned closure of 330 SBS stores and 35 BSG stores and two BSG distribution centers in Clackamas, Oregon and Pottsville, Pennsylvania. Stores identified for early closure were part of a strategic evaluation which included a market analysis of certain locations where we believed we would be able to recapture demand and improve profitability.

As of September 30, 2023, the Plan has been substantially completed, with only two BSG stores to be closed in the first half of fiscal year 2024, and therefore it may include future immaterial charges related to store closures such as exit costs, lease negotiation penalties, termination benefits and adjustments to estimates.

**Sally Beauty Holdings, Inc. and Subsidiaries**  
Notes to Consolidated Financial Statements  
Fiscal Years ended September 30, 2023, 2022 and 2021

A roll forward of our liability related to the Plan, which is included in accrued liabilities on our consolidated balance sheets, is as follows (in thousands):

<u>(in thousands)</u>	<u>Liability at September 30, 2022</u>	<u>SBS Expense</u>	<u>BSG Expense</u>	<u>Cash Payments</u>	<u>Non-Cash Amounts</u>	<u>Liability at September 30, 2023</u>
Closing costs – leases <sup>(a)</sup> . . . . .	\$ —	\$ 7,220	\$1,270	\$ (7,760)	\$ (693)	\$ 37
Closing costs – payroll expenses <sup>(b)</sup> . . . . .	—	1,617	1,192	(2,809)	—	—
Impairment – property and equipment <sup>(c)</sup> . . . . .	—	1,277	218	—	(1,495)	—
Inventory transfer costs . . . . .	—	963	76	(1,039)	—	—
Impairment – operating lease assets <sup>(c)</sup> . . . . .	—	350	244	—	(594)	—
Other closure costs <sup>(d)</sup> . . . . .	<u>1,291</u>	<u>2,844</u>	<u>(66)</u>	<u>(4,020)</u>	<u>—</u>	<u>49</u>
Total . . . . .	<u>\$1,291</u>	<u>\$14,271</u>	<u>\$2,934</u>	<u>\$(15,628)</u>	<u>\$(2,782)</u>	<u>\$ 86</u>

- (a) Lease-related closing costs include contract terminations costs, repairs, maintenance, and other rental obligations associated with closing stores.
- (b) Payroll-related closing costs include one-time termination benefits related to the closure of our distribution centers as well as other payroll expenses associated with closing stores.
- (c) Remaining carrying value for the long-lived assets, including operating lease assets, were not material and approximate their fair value.
- (d) Other closure costs predominantly consist of exit costs associated with shutting down of operations at various locations.

***Transformation Plan***

We previously disclosed a plan to focus on certain core business strategies. In addition to optimizing our supply chain network with changes to our transportation model and network of nodes, we improved our marketing and digital commerce capabilities and advanced our merchandising transformation efforts. In addition, we expanded our plan and announced a reduction in workforce within our field and headquarters. Furthermore, our Board approved the divestiture of our operations in Peru, which was not material to our results of operation. All these together made up our Transformation Plan. We did not incur any additional expenses or liabilities related to our Transformation Plan in fiscal year 2023.

***Project Surge***

In fiscal year 2020, we announced the launch of Project Surge, which takes the successful elements of the North American Sally Beauty transformation and integrates them into our European operations, with the support and participation of several key leaders from the corporate headquarters. As part of this plan, we focused on several operating elements, including a review of our talent and operating structure. We did not incur any additional expenses or liabilities related to Project Surge in fiscal years 2022 or 2023.

**CERTIFICATION**  
**PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),**  
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Denise Paulonis, certify that:

- (1) I have reviewed this Annual Report on Form 10-K of Sally Beauty Holdings, 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 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: November 16, 2023

By: /s/ Denise Paulonis  
Denise Paulonis  
Chief Executive Officer

**CERTIFICATION**  
**PURSUANT TO EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),**  
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Marlo M. Cormier, certify that:

- (1) I have reviewed this Annual Report on Form 10-K of Sally Beauty Holdings, 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 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: November 16, 2023

By: /s/ Marlo M. Cormier  
Marlo M. Cormier  
Senior Vice President, Chief Financial 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 Sally Beauty Holdings, Inc. (the “Company”) on Form 10-K for the fiscal year ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Denise Paulonis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Denise Paulonis  
Denise Paulonis  
Chief Executive Officer

Date: November 16, 2023

**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 Sally Beauty Holdings, Inc. (the “Company”) on Form 10-K for the fiscal year ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Marlo M. Cormier, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Marlo M. Cormier  
Marlo M. Cormier  
Senior Vice President, Chief Financial Officer

Date: November 16, 2023







# SHAREHOLDER INFORMATION

## BOARD OF DIRECTORS

### Diana S. Ferguson

Principal, Scarlett Investments, LLC  
Chair of the Board

### Denise Paulonis

President and Chief Executive Officer  
Sally Beauty Holdings, Inc.

### Rachel R. Bishop, PhD

President  
Hefty Tableware, Reynolds Consumer Products

### Jeffrey Boyer

Chief Operating Officer  
Fossil Group

### Dorlisa K. Flur

Former Chief Strategy and Transformation Officer  
Southeastern Grocers, Inc.

### James M. Head

Executive Vice President and Chief Financial Officer  
MultiPlan Corporation

### Linda Heasley

Former President and Chief Executive Officer  
Janie and Jack

### Lawrence "Chip" Molloy

Chief Financial Officer  
Sprouts Farmers Market

### Erin Nealy Cox

Partner  
Kirkland & Ellis

## EXECUTIVE OFFICERS

### Denise Paulonis

President and Chief Executive Officer

### Marlo M. Cormier

Senior Vice President, Chief Financial Officer

### John H. Goss

President – Sally Beauty Supply

### Mark G. Spinks

President – Beauty Systems Group

### John M. Henrich

Senior Vice President, General Counsel and Secretary

### Mary Beth Edwards

Senior Vice President, Chief Transformation and Business Services Officer

### Scott C. Sherman

Senior Vice President and Chief Human Resources Officer

## CAUTIONARY STATEMENT

### Cautionary Notice Regarding Forward-Looking Statements

Statements in this report which are not purely historical facts or which depend upon future events may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would," "might," or similar expressions may also identify such forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements as such statements speak only as of the date they were made and involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements. The most important factors which could cause our actual results to differ from our forward-looking statements are set forth in our filings with the Securities and Exchange Commission, including our description of risk factors in Item 1A to our Annual Report on Form 10-K for the year ended September 30, 2023.

Consequently, all forward-looking statements in this report are qualified by the factors, risks and uncertainties contained therein. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement.

The events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. As a result, our actual results may differ materially from the results contemplated by these forward-looking statements.

## EXECUTIVE OFFICES

3001 Colorado Boulevard  
Denton, Texas 76210  
940-898-7500  
800-777-5706  
sallybeautyholdings.com

## COMMON STOCK

Traded on the New York Stock Exchange (the "NYSE")  
Symbol: SBH

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Dallas, Texas

## TRANSFER AGENT

Computershare Trust Company, N.A.  
P.O. Box 505000  
Louisville, KY 40233  
Tel: 800-733-5001  
computershare.com/investor

## ANNUAL MEETING

The Annual Meeting of Stockholders is to be held on January 25, 2024, at 9:00 a.m. (Central Time) and will be done in a virtual format. The Board of Directors has also set November 27, 2023, as the record date for determination of stockholders entitled to vote at the annual meeting.

## FORM 10-K REPORTS AND INVESTOR RELATIONS

The Company has included as exhibits to its Annual Report on Form 10-K filed with the Securities and Exchange Commission the certificates of its Chief Executive Officer and Chief Financial Officer required to be filed pursuant to Section 302 of the Sarbanes-Oxley Act. The certification of our Chief Executive Officer regarding compliance with the New York Stock Exchange (NYSE) corporate governance listing standards required by NYSE Rule 303A.12 will be filed with the NYSE in February of 2024 following the 2024 Annual Meeting of Stockholders. Last year, we filed this certification with the NYSE after the 2023 Annual Meeting of Stockholders. A copy of the Sally Beauty Holdings, Inc. 2023 Form 10-K, as filed with the Securities and Exchange Commission, is available on the investing section of the Company's website at [investor.sallybeautyholdings.com](http://investor.sallybeautyholdings.com). Investor inquiries or a copy of the Company Annual Report or Form 10-K or any exhibit thereto can be obtained without charge by writing, submitting a request via the investor section of the website, or calling the Investor Relations department at:

Sally Beauty Holdings, Inc.  
3001 Colorado Boulevard  
Denton, Texas 76210  
940-297-3877  
[investor.sallybeautyholdings.com](http://investor.sallybeautyholdings.com)

INNOVATION DELIVERS

GROWTH

