



SALLYBEAUTY
HOLDINGS, INC.

2021 Annual Report



DEAR SHAREHOLDERS

I am excited to be writing you as the newly appointed Chief Executive Officer of Sally Beauty Holdings (SBH). Having served on the SBH board since 2018, I am fortunate to be bringing firsthand perspective and a deep working knowledge of the business from day one. As a Board member, I witnessed the retooling of virtually every aspect of the company's infrastructure, including our technology, marketing, merchandising, supply chain, human resources, finance and talent. I am incredibly proud of our exceptional teams who took on this challenge and helped us evolve into a modern, dynamic omni-channel beauty retailer that is now set up for long-term success.

Fiscal Year 2021 Overview

During fiscal 2021, we experienced continued disruptions from the impact of COVID-19 in the first half of the year, especially to our international operations in the United Kingdom, Europe and Canada. Despite the challenges we faced, we showed great agility and strong execution in delivering full year sales that were back to pre-pandemic levels. We also saw tremendous growth in our core category of hair color, which was accelerated by the growth in vivid colors as our customers demonstrated a continued strong desire for self-expression. Additionally, we accomplished the majority of the remaining elements of our transformation plan by rolling out new fulfillment options of "Buy Online/Pickup In-Store" and rapid/2-hour delivery, re-platforming the Beauty Systems Group e-commerce site, optimizing our loyalty and CRM programs with loyalty membership exceeding pre-pandemic levels, and continued the rollout of JDA across our supply chain network.

Financial Results in Fiscal Year 2021

For fiscal year 2021, our consolidated net sales were \$3.87 billion, an increase of 10.3%, as compared to the prior year, driven primarily by strong growth in our differentiated core of hair color, the rollout of new digital fulfillment options like "Buy Online/Pickup In-Store" and rapid/2-hour delivery, fewer operating restrictions related to the impact of COVID-19, and higher operating capacities in salons. Global e-commerce sales were \$281 million or 7.2% of net sales for the full-year. Diluted net earnings per share were \$2.10, up from \$0.99 in the prior year, as business operations mostly normalized from the COVID-19 related disruptions that affected the prior year. We generated \$382 million in cash flow from operations in fiscal year 2021, which allowed us to repay over \$400 million in debt. We were particularly pleased to see ongoing momentum and consistency across the business despite the various impacts of the pandemic.

Looking Ahead to Fiscal Year 2022

As we embark on our new fiscal year, our mission to recruit and retain color customers remains a core component of our roadmap, and continued tailwinds around self-expression through hair, product sustainability and innovation, and the growing number of independent stylists continue to reinforce the strength of our color and care business. Putting the customer first and enhancing their experience with us is critical to our success. We're continuing to prioritize the customer through personalization, inspiration, education and training. We're also focusing on creating the easiest shopping experience for our customers. Through our robust, omni-channel platform and multiple fulfillment options, our customers can get product how they want it and when they want it, faster than ever before. In addition, we will continue to emphasize and support sustainable and clean products, which are increasingly being selected and commanding a premium from consumers.

Importantly, we believe our authority in color and care provides a logical path and powerful platform for standing up new brands that go beyond our four walls.

Against that backdrop, we will be focusing on four strategic growth pillars to drive the top line in fiscal 2022:

- Leveraging our digital platform
- Driving loyalty and personalization
- Delivering product innovation
- Advancing our supply chain

We believe our initiatives under these four growth pillars will allow us to drive strong top line growth and generate robust operating cash flows in fiscal 2022 and beyond. This reflects our ability to maintain strong gross margins, while mitigating inflationary pressures through careful cost controls, pricing levers and store optimization.

As SBH pivots to growth, we do so with a new purpose: To Inspire a More Colorful, Confident and Welcoming World. Our purpose is our North Star, our rallying cry, the reason we come to work every day. It's why we exist as a company, and what motivates us as a team. To me, our purpose is about bringing out the best in ourselves, in each other, and in our customers. It's about celebrating our differences and bringing our authentic selves to work every day.

Summary

In summary, we are entering fiscal 2022 with a solid infrastructure, a well-defined roadmap for growth and favorable industry dynamics that support the significant opportunity in front of us. In the coming months, I look forward to working with the team to build out additional growth opportunities that will fuel our business and create meaningful shareholder value.

In addition, I would like to thank all of our associates across our store networks, field operations, distribution centers, and support centers throughout the globe for their passion, dedication and hard work, which helped us finish a strong 2021. Thank you for everything you do each day to make us better and for serving our customers.

As always, thank you for your 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, 2021

-OR-

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

For the transition period from _____ to _____

Commission File 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.

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, 2021, was approximately \$2,273,796,000. At November 12, 2021, there were 113,046,139 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's 2022 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,” “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, Inc. is an international specialty retailer and distributor of professional beauty supplies with operations in North America, South America and Europe. We are one of the largest distributors of professional beauty supplies in the U.S. based on store count. At September 30, 2021, we operated two business segments, Sally Beauty Supply (“SBS”) and Beauty Systems Group (“BSG”), with 4,777 company-operated stores, 134 franchised stores and several e-commerce platforms. Within BSG, we also have one of the largest networks of distributor sales consultants (“DSCs”) for professional beauty products in North America, with 719 sales consultants who sell directly to salons and salon professionals. SBS targets retail consumers, salons and salon professionals, while BSG exclusively targets salons and salon professionals.

We provide our customers with a wide variety of leading third-party branded and owned-brand professional beauty supplies, including hair color and care products, styling tools, skin and nail care products and other beauty items. For each of the fiscal years ended September 30, 2021, 2020 and 2019, over 80% of our consolidated net sales were from customers located in the U.S.

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

Operating Strategy

Our mission is to empower our customers to express themselves through hair. Our strategy is to be the expert in hair color and hair care for the consumer and the salon professional. We emphasize hair color and hair care through our strategic product assortment and compelling customer experiences, while also focusing on our operating efficiency and increasing profitability.

We believe that we offer our customers a strong and differentiated value proposition by providing salon-quality products, including an extensive collection of owned and exclusive-label brands and solutions at attractive prices.

Our focus and experiences with hair color include a strong emphasis on our sales force. We believe our approach to recruiting, training, and compensation results in a highly knowledgeable, engaged and effective sales force. Also, as the partner of choice for established brands, as well as product innovators, we offer our customers a broad strategic product assortment.

Our stores are conveniently located and offer a wide selection of competitively priced beauty products, beauty solutions and expertise delivered by our knowledgeable sales associates. We also continue to expand our selection of textured hair products, including over 50 Black-founded brands, and offer innovation in the nails category that we believe further differentiates us from our competitors.

On the professional side of our business, we believe that our DSCs distinguish us from other full-service/exclusive-channel distributors by providing us with a better understanding of our professional customers’ needs. In addition to placing orders through our DSCs, our customers have the ability to order through our websites (www.cosmoprofbeauty.com and www.cosmoprofequipment.com and the CosmoProf mobile commerce-based app) and pick up the products they need between visits from our DSCs by visiting a nearby BSG store. We believe that our differentiated customer value proposition and strong brands drive customer loyalty.

We continue to invest in initiatives that support our omni-channel strategies. Our goal is to deliver an easy, reliable shopping experience and deliver best-in-class customer service online and in stores. In connection with these investments, we have robust omni-channel fulfillment capabilities such as parcel delivery, 2-hour rapid delivery, and buy online/pick up in-store (“BOPIS”). Additionally, we have recently relaunched mobile-optimized e-commerce websites and mobile apps.

Professional Beauty Supply Industry Distribution Channels

The professional beauty supply industry serves end-users through four distribution channels:

Open-Line

This channel serves retail consumers and salon professionals through retail stores and e-commerce platforms. This channel is served by a large number of localized retailers and distributors, with only a few having a regional or national presence and significant channel share. We believe that SBS, with its nationwide network of retail stores, is the largest open-line distributor in the U.S. Our extensive store network allows us to service our customers when and where they want to shop with our in-store experience and omni service capabilities, including last-mile delivery. In addition, SBS’s websites (including www.sallybeauty.com) and other e-commerce platforms, including our new SBS mobile commerce-based app, provide retail consumers and salon professionals access to product offerings and information beyond our retail stores.

Full-Service/Exclusive

This channel exclusively serves salons and salon professionals and distributes “professional-only” and other products for use in salons and for resale to consumers in salons. Many brands are distributed through exclusive arrangements with suppliers by geographic territory. BSG is one of the leading full-service distributors in the U.S. and Canada, with its network of professional-only stores and DSCs. In addition, BSG offers its products for sale to salons and salon professionals through e-commerce platforms (including www.cosmoprofbeauty.com, www.cosmoprofequipment.com and the CosmoProf mobile commerce-based app).

Direct

This channel focuses on direct sales to salons and salon professionals by large manufacturers. This is the dominant form of distribution in Europe but represents a smaller channel in the U.S. due to the highly fragmented nature of the U.S. salon industry, which makes direct distribution costs prohibitive for many manufacturers.

Mega-Salon Stores

In this channel, large-format salons are supplied directly by manufacturers due to their significant purchase requirements.

Key Industry and Business Trends

We believe the following key industry and business trends and characteristics will influence our business and our financial results going forward:

High level of marketplace fragmentation. The U.S. salon industry is highly fragmented with salons and barbershops. Given the fragmented nature of the salon industry, we believe that salon operators will continue to depend on full-service/exclusive distributors and open-line channels for a majority of their beauty supply products.

Rapidly evolving consumer trends. Our industry is characterized by continuously changing fashion-related trends that drive new styles, including hair and nail styles, and continuing demand for beauty products. In addition, we

expect millennials and the aging baby-boomer population in the U.S. to continue to drive sales growth in certain professional beauty product categories, including through an increase in the usage of hair color and care products. Our focus on hair color as a form of self-expression resonates with the Gen Z shoppers as their individualism is expressed through their hair journey.

We know convenience is important to customers and shopping patterns have changed post-COVID. We have made significant investments in projects to “meet them where they are”, including new capabilities and tools on our mobile-native websites and mobile apps. In addition, we continue to optimize our delivery modalities (curbside and in-store pickup, 2-hour/rapid delivery, as well as traditional delivery methods).

Increasing use of owned and exclusive-label brand products. We offer an extensive range of owned and exclusive-label brand professional beauty products. Our lines of owned and exclusive-label brand products have matured and become better known in our retail stores and e-commerce platforms, continuing to represent and ever increasing percentage of our overall sales.

Growth in chair renting and frequent stocking needs. Salon professionals primarily rely on just-in-time inventory due to capital constraints and limited warehouse and shelf space. In addition, chair renters and suite renters, who now comprise a significant percentage of the total U.S. salon professionals, are often responsible for purchasing their own supplies. The number of chair renters and suite renters has significantly increased as a percentage of total salon professionals in recent years, and we expect this trend to continue. Chair renters and suite renters, given their smaller and more frequent purchasing patterns, are dependent on frequent trips to professional beauty supply stores. We expect that these factors will continue to drive demand for conveniently located professional beauty supply stores, like BSG and SBS.

Business Segments

We operate in two business segments: (i) SBS, an open-line retailer of professional beauty supplies offering professional beauty supplies to both retail consumers and salon professionals, in North America, South America and Europe, and (ii) BSG, including its franchise-based business Armstrong McCall, a full-service beauty supply distributor offering professional brands directly to salons and salon professionals through our own sales force and professional-only stores, many in exclusive geographical territories, in North America. SBS stores generally operate under the Sally Beauty banner, while BSG stores generally operate under the CosmoProf banner.

Neither the sales nor the product assortment for SBS or BSG are generally seasonal in nature.

The following table sets forth the percentage of our sales attributable to each of our major sales channels:

	SBS			BSG		
	Fiscal Year Ended September 30,			Fiscal Year Ended September 30,		
	2021	2020	2019	2021	2020	2019
Company-operated stores	94.1%	91.8%	96.9%	69.1%	68.9%	69.4%
E-commerce	5.9%	8.0%	2.8%	9.2%	8.7%	4.8%
Franchise stores	—	0.2%	0.3%	7.5%	7.1%	7.6%
Distributor sales consultants	—	—	—	14.2%	15.3%	18.2%
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>

Store Design and Locations

Sally Beauty Supply

SBS stores are designed to highlight SBS’s extensive product offering and differentiated position in hair color and hair care. In the U.S. and Canada, SBS stores average approximately 1,700 square feet in size and are located

primarily in strip shopping centers, which are occupied by other high traffic retailers such as grocery stores, mass merchants and home improvement centers. SBS applies strong category management processes, including store specific planograms, to maintain consistent merchandise presentation across its store base. Store formats, including average size and product selection, vary by marketplace to meet the needs of the customer.

SBS balances its store renewals, remodels and expansions between new and existing geographies and regularly evaluates each store's performance and strategically closes stores as necessary. In its existing marketplaces, SBS adds stores as necessary to provide additional coverage. In new marketplaces, SBS generally seeks to expand in geographically contiguous areas to leverage its experience. 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.

As of September 30, 2021, SBS had 3,547 company-operated retail stores, 2,685 of which are located in the U.S. (including Puerto Rico), with the remaining 862 company-operated retail stores located in Canada, Mexico, the United Kingdom, Ireland, Belgium, France, Germany, the Netherlands, Spain, Chile and Peru. SBS also supplied two franchised stores located in the United Kingdom and Belgium.

Beauty Systems Group

BSG stores, including its franchise-based Armstrong McCall stores, are designed to create a professional shopping environment that highlights its extensive product offering and embraces the salon professional. Company-operated BSG stores average approximately 2,700 square feet and are located primarily in secondary strip shopping centers, since the stores are a 'destination' for professionals not requiring a traffic-supporting neighbor retail location. BSG store layouts are designed to provide variety and options to the salon professional. Stores are segmented into distinctive areas arranged by product type, with certain areas dedicated to leading third-party brands. The selection of these and other brands varies by territory.

As of September 30, 2021, BSG operated 1,230 company-operated stores, with 1,100 located in the U.S. (including Puerto Rico) and the remaining 130 company-operated retail stores located in Canada. In addition, as of September 30, 2021, BSG supplied 132 franchised stores.

All SBS and BSG stores have implemented recommended practices and procedures within stores to ensure our customers and employees experience a safe and healthy environment, including, but not limited to, increased cleaning frequency and social distancing signage.

Merchandise

Sally Beauty Supply

SBS stores and websites carry an extensive selection of professional beauty supplies for retail customers, salons and salon professionals, featuring an average of 7,000 SKUs of beauty products in our stores across a variety of product categories including hair color and care, skin and nail care, styling tools and other beauty products. SBS's stores and e-commerce platforms carry products from one or more of the leading manufacturers in each category, including third-party brands such as Wella®, Clairol®, OPI®, Conair® and L'Oreal®, as well as an extensive selection of owned and exclusive-label brand products. We believe that delivering an extensive selection of leading third-party, owned and exclusive-label brand professional beauty products at attractive prices through knowledgeable sales associates and convenient store locations is what differentiates SBS. Additionally, we believe that carrying a wide selection of the latest premier branded merchandise is critical for SBS in building long-term relationships with its customers and attracting new customers. As beauty trends continue to evolve, SBS will continue to offer the changing professional beauty product assortment necessary to meet the needs of retail consumers and salon professionals.

In addition, SBS's extensive selection of owned and exclusive-label brand professional beauty products are only available at SBS stores and through its e-commerce platforms. We believe that SBS's owned and exclusive-label

brand products offer equal or better quality than higher-priced leading third-party brands, providing the customer attractive alternatives to those brands at lower prices. Generally, SBS's owned-brand products have higher gross margins than the leading third-party branded products and, we believe, offer continued sales and profit growth potential. During the fiscal year ended September 30, 2021, owned and exclusive-label brand products accounted for approximately 45% of SBS's product sales in the U.S. and Canada. SBS intends to continue to invest in the growth of its owned and exclusive-label brands and to actively promote these products.

Beauty Systems Group

BSG's stores and e-commerce platforms carry an extensive selection of third-party branded products, such as Paul Mitchell®, Wella®, Matrix®, Schwarzkopf®, Kenra®, Goldwell®, Joico® and Olaplex®, for salons and salon professionals at competitive prices. We feature an average of 10,000 SKUs in our BSG stores across a variety of product categories including hair color and care, skin and nail care, styling tools and other beauty items. Additionally, BSG has exclusive and non-exclusive distribution rights for well-known brands in certain geographies with several key vendors. As part of its growth strategy, BSG continues to pursue the acquisition of additional distribution rights. We believe that carrying an extensive selection of branded merchandise is critical to maintaining relationships with our professional customers.

We believe BSG is the largest full-service distributor of professional beauty supplies in North America exclusively targeting salons and salon professionals. Through BSG's large store base, e-commerce platforms and sales force, including Armstrong McCall, BSG is able to access a significant portion of the highly fragmented U.S. professional beauty salon products industry.

Marketing and Advertising

SBS's marketing programs are designed to drive customer traffic by differentiating SBS as a source of professional advice, solutions and salon-quality products at competitive prices, all backed by our "Love It or Return It" guarantee. We believe that recent initiatives have differentiated SBS through value added education and content, such as launching DIY University by Sally Beauty last year and through our SallyCrew educators. These programs provide hands-on education on a wide range of topics from the latest trends in hair color, textured hair, hair styling, and nails.

We continuously adapt our marketing initiatives and adjust our media and messaging mix to achieve a high return on our marketing and advertising dollars. We target existing and potential customers through an integrated marketing approach designed to reach the customer through a variety of media, including digital advertising, email, social media, text messaging, direct mail and print advertising.

We continue to refine the strategy for *sallybeauty.com* and our other e-commerce platforms, becoming a more personalized and content-rich experience that empowers and inspires customers to discover new styles and find the confidence to try new products. We are building more robust tools to help customers understand not just what but how, and to do so in a way that is fast, easy, and built for mobile devices, where our customers increasingly are accessing us. Beyond generating e-commerce sales, we believe our website and new SBS mobile app are important vehicles to reach consumers researching beauty products online who could potentially visit our stores as a result of their experience on our website or our SBS mobile app.

Our customer loyalty and customer relationship management ("CRM") programs in the U.S. and Canada help generate loyalty through our Sally Beauty Rewards Program and our private label rewards credit card. In return, we are able to collect valuable point-of-sale customer data as a means of increasing its understanding of customers' needs and enhancing its ability to market to them in more personalized, relevant ways. We continue to assess and update our customer loyalty and CRM programs 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.

BSG's marketing programs are designed primarily to promote its extensive selection of brand name products at competitive prices and to educate, motivate and empower its customers to grow professionally. BSG communicates on a frequent basis with its customers and potential customers, and distributes promotional material through multiple communication channels, including trade shows, educational events, store personnel, DSCs, print mail, e-mail, app push notifications and social media. In addition, we believe that BSG's websites (*www.cosmoprofbeauty.com* and *www.cosmoprofequipment.com*) and the CosmoProf mobile commerce-based app enhance other efforts intended to promote awareness of BSG's products by salons and salon professionals. In addition, we believe the redesign of *www.cosmoprofbeauty.com*, the implementation of BOPIS, rapid delivery, and the upgrade of the CosmoProf mobile commerce-based app, which offers barcode scanning, updated order tracking and a digital membership card, enhance efforts intended to promote awareness and adoption of BSG products and services for salons and salon professionals.

As of September 30, 2021, BSG had a network of 719 DSCs, which exclusively consult, support and sell directly to salons and salon professionals. In order to provide a knowledgeable sales consultant team, BSG actively recruits and trains individuals with industry knowledge or sales experience. We believe that DSCs with broad product knowledge and direct sales experience are more successful in driving sales. Our sales commission program is an important component of the compensation of our DSCs, which is designed to drive sales and to focus DSCs on selling products that are best suited to individual salons and salon professionals.

Our Customers

We appeal to a wide demographic consumer profile and offer an extensive selection of professional-grade beauty products sold directly to retail consumers, salons and salon professionals. Historically, these factors have provided us with reduced exposure to downturns in economic conditions in the countries in which we operate.

Our Competition

The global beauty industry is highly competitive. SBS competes with domestic and international 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 domestic and international beauty product wholesale suppliers, including online retailers, and manufacturers selling professional beauty products directly to salons and individual salon professionals. The primary competitive factors in the beauty products distribution industry are the price at which branded and owned-brand products are sold to customers; exclusive distribution contracts; the quality, perceived value, consumer brand name recognition, packaging and variety of the products sold; customer service; the efficiency of distribution networks; and the availability of desirable store locations.

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 integrating through the acquisition of distributors and stores. We also face competition from authorized and unauthorized retailers and internet sites offering professional salon-only products.

Our Suppliers

We purchase our merchandise directly from manufacturers through supply contracts and by purchase orders. For fiscal year 2021, our five largest suppliers – Wella Company, Henkel AG & Co. KGaA, the Professional Products Division of L'Oreal USA S/D, Inc., or L'Oreal, John Paul Mitchell Systems, and Beauty Quest Group – accounted for approximately 29% of our consolidated merchandise purchases. Products are purchased 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.

Our Company Purpose & Values

In late 2021, we released our new Company Purpose & Values, with the intent of establishing our rallying cry and focus our teams on the impact we intend to have in the world.

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

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.

Our Associates

At September 30, 2021, we had approximately 29,000 global associates and 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 huge role in our business. While we often emphasize our technology-based transformation and our wide variety of amazing hair and 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 – the importance of which has only risen in light of COVID-19;
- Provide competitive total rewards packages that attract and retain talent in every facet of our business – stores, direct sales, distribution centers and corporate headquarters;
- 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

SBH places 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, SBH values our partnerships with suppliers and vendors and understands 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.

Over the course of our fiscal year 2021, we have continued to adapt and respond to the various impacts of COVID-19 across our business. As mentioned above, our main focus has been on health and safety. Such efforts included various safety protocols such as detailed cleaning protocols, personal protective equipment requirements, and visual cues regarding social distancing, mask-wearing, etc. At times of peak case counts or the emergence of the new variants, we have instituted rolling, rapid testing for COVID-19 at a number of our distribution centers. We have continued to maintain and update these protocols, monitor for compliance and make improvements and adjustments where needed throughout fiscal year 2021. We have also managed through closures and capacity restrictions where required by local law, and sought to provide as much notice and support to our teams as reasonably possible.

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, which is 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 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 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 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 over 91% female and over 50% racially/ethnically diverse. In 2019 and 2020, Forbes named our Company one of America's Best Employers for Diversity. In 2021, Forbes named SBH as one of America's Best Employers 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.

In Our Customer Base: Our customers span the entire continuum of gender and ethnic diversity. We sell 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 4,200 U.S. and Canadian 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.

Regulation

We are subject to a wide variety of laws and regulations, which historically have not had a material effect on our business. For example, in the U.S., most of the products sold 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.

As of September 30, 2021, SBS and BSG supplied franchised stores located in the U.S. and certain countries in Europe. As a result of these franchisor-franchisee relationships, we are subject to regulation when offering and selling franchises in the applicable countries. 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 and our Current Reports on Form 8-K, and amendments to such reports are available, without charge, on our website, 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. 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.

The beauty products distribution industry is highly fragmented and competitive, with few significant barriers to entry into the marketplaces for most of the types of products we sell. 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, and desirable store locations. 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. 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 to anticipate, gauge and react in a timely manner to changes in consumer spending patterns and preferences for specific beauty products. If we 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 and fashion trends can have an impact on our financial performance. If we are unable to anticipate and respond to trends in the marketplace for beauty products and changing consumer demands, 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 ‘play to win’ by focusing on our hair color and hair care business, improving our retail fundamentals, enhancing our digital capabilities and balancing our cost structure. 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 same store sales will suffer and our growth prospects, financial results, profitability and cash flows will also be adversely impacted.

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

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 in ongoing 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, restructuring 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, create greater efficiencies and take advantage of our considerable scale. Restructuring plans present significant potential risks that may impair our ability to achieve anticipated operating enhancements and/or cost reductions, or otherwise harm our business, including higher than anticipated costs in implementing our restructuring plans, as well as management distraction. The restructuring program and workforce changes may negatively impact communication, morale, management cohesiveness and effective decision-making. Despite these cost control plans, our costs may continue to increase for the foreseeable future.

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.

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.

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.

We distribute products to our stores without supplementing such deliveries with direct-to-store arrangements from vendors or wholesalers. We are a retailer carrying beauty products that change on a regular basis in response to beauty trends, which makes the success of our operations particularly vulnerable to disruptions in our distribution infrastructure. Any significant interruption in the operation of our supply chain infrastructure, such as disruptions in our information systems, disruptions in operations due to fire or other catastrophic events, labor disagreements or shipping and transportation problems, could drastically reduce our ability to receive and process orders and provide products and services to our stores, full service customers or e-commerce customers.

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 may impact our ability to maintain or grow our margins. The price and availability of raw materials may be impacted by 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, www.cosmoprofbeauty.com, www.cosmoprofequipment.com and mobile commerce-based apps) and abroad. We have recently undertaken a number of initiatives, including as part of our Transformation Plan and in response to COVID-19, 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.

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 same store 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.

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.

We may not be able to successfully identify acquisition candidates or successfully complete desirable acquisitions, and any acquisition could prove difficult to integrate, disrupt our business or have an adverse effect on our results of operations.

In the past several years, we have completed multiple acquisitions and we intend to pursue additional acquisitions in the future. We actively review acquisition prospects we believe would complement our existing lines of business, increase the size and geographic scope of our operations or otherwise offer profitable growth and operating efficiency opportunities. There can be no assurance we will continue to identify suitable acquisition candidates. Furthermore, due to, among other things, increasing competition for suitable acquisition

candidates, our ability to reach agreement with acquisition candidates or finance such acquisitions on favorable terms, we may not be able to consummate such acquisitions on favorable terms or at all.

Any acquisitions we do make may be difficult to integrate profitably into our business and may entail numerous risks, including:

- difficulties in assimilating acquired operations, stores or products, including the loss of key employees from acquired businesses;
- diversion of management's attention from our core business, including loss of management focus on marketplace developments;
- operating inefficiencies and negative impact on profitability;
- entering geographic areas or channels in which we have limited or no prior experience; and
- unknown liabilities of the businesses that we acquire.

As a result, we may not realize the anticipated benefits of our acquisitions.

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 unprofitable or open stores that are profitable, any of which could have a material adverse impact on our business, financial condition and results of operations.

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.

Use of social media may adversely impact our reputation.

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 medial influencers in the beauty products industry. Negative commentary regarding us or the products we sell may be 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.

We also use social media platforms as marketing tools. For example, we maintain Facebook, Twitter, Instagram and Pinterest accounts. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees, or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our business, financial condition, profitability, and cash flows.

In addition, we have agreements with a variety of industry influencers, and we feature industry influencers in our advertising and marketing efforts and may include them in some of our branding. Further, many industry

influencers use our products and feature our products through their own platforms. Actions taken by these individuals could harm our brand image, net revenues and profitability. 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.

If we fail to attract and retain highly skilled management and other personnel, 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 and managing our store employees that interact with our customers on a daily basis. Competition for these types of qualified employees 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.

Our associates or others may engage in misconduct or other improper activities, including noncompliance with our policies and procedures.

We are exposed to the risk of misconduct or other improper activities by our associates and third parties such as independent contractors or agents. Misconduct by associates, independent contractors, or agents could include inadvertent or intentional failures to comply with our policies and procedures, the laws and regulations to which we are subject, and/or ethical, social, product, labor, and environmental standards. Our current and former associates or independent contractors may also become subject to allegations of sexual harassment, racial and gender discrimination, or other similar misconduct, which, regardless of the ultimate outcome, may result in adverse publicity that could significantly harm our brand, reputation, and operations. Associate misconduct could also involve improper use of information obtained in the course of the associate's prior or current employment, which could result in legal or regulatory action and harm to our reputation.

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, or include inadequate warnings concerning flammability or interactions with other substances. 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 sold at our stores. 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.

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 and security and data breaches could materially adversely affect our business, financial condition and operating results.

As part of our operations, we receive and maintain information about our customers, employees and other third parties. 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. Despite these safeguards and our other security processes and protections, we cannot be assured that all of our systems and processes are free from vulnerability to security breaches (through cyber-attacks, which are evolving and becoming increasingly sophisticated, physical breach or other means) or 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.

Further, we are subject to an evolving body of federal, state and non-U.S. laws, rules, regulations, guidelines and principles regarding data privacy and security. Several governments, including 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. As of May 2018, the European privacy regulation General Data Protection Regulation ("GDPR") went into effect, strengthening and expanding the rules pertaining to how organizations are required to handle the personal data of individuals located in the EU at the time the data is collected. GDPR establishes new requirements regarding the handling of personal data, and non-compliance with the GDPR may result in significant monetary penalty. In addition, the State of California recently enacted a data privacy law applicable to entities serving or employing California residents (the "CCPA") that required compliance by January 2020. 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.

In response to prior data security incidents, we have taken and are continuing to take actions to further strengthen the security of our information technology systems, including adopting payment terminals with end-to-end encryption technology in order to enhance the security of our credit card payment systems. Nevertheless, there can be no assurance our security upgrades will be effective, we will not suffer a similar 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.

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 the COVID-19 pandemic and future pandemics, inflation, employment, tax laws, energy costs, geopolitical issues, uncertainty with respect to elections, terrorism, civil unrest, the availability and cost of credit, the mortgage market, sovereign and private banking systems, sovereign deficits and increasing debt burdens 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: general business conditions, levels of employment, interest rates, tax rates, the availability of consumer credit and consumer confidence in future economic conditions. As we have experienced and continue to experience with the COVID-19 pandemic, 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.

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

The occurrence of natural disasters 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. 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.

The COVID-19 pandemic has had and may continue to have an adverse effect on our business and results of operations.

In March 2020, the World Health Organization declared COVID-19 a global pandemic, and governmental authorities around the world implemented various measures to reduce the spread of COVID-19, including

shelter-in-place and quarantine orders. As a result of COVID-19 and these measures, for part of fiscal year 2020 we temporarily closed all U.S. and Canadian retail and wholesale store fronts to customers and temporarily idled a number of our distribution centers. While our stores have remained open for fiscal year 2021, there is no guarantee that we will not have to close stores in the future as a result of COVID-19 or its variants, or measures designed to reduce the spread of COVID-19, and any such store closures or related business disruptions may have a material and adverse effect on our results of operations.

We have taken and continue to take decisive actions across our businesses to help protect employees, customers, and others in the communities we serve in response to the impact of COVID-19. These actions include increased sanitization and social distancing practices in our stores and remote work arrangements for a significant number of our corporate employees. These actions have the potential to increase our operating costs and decrease consumer traffic in our stores.

While the COVID-19 pandemic did not have a material impact on our supply chain, it has the potential to have a meaningful impact on our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages. We may also see disruptions or delays in shipments and negative impacts to pricing of certain products as a result of such disruptions.

In addition, the disruption to the global economy and to our business, along with a sustained decline in our stock price, may 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.

Changes in consumer behavior as a result of COVID-19 may materially and adversely affect our business.

Consumer fears about becoming ill with COVID-19 will continue in the near-term and consumer behavior may fundamentally change as a result of COVID-19 in both the near and long term. As a result, traffic in retail stores, including our stores, in the short term has been and in the long term may be materially and adversely affected with more consumers relying on e-commerce to purchase beauty products. Consumer spending may also be negatively impacted by general macroeconomic conditions and consumer confidence, including the impacts of the recession which resulted from the COVID-19 pandemic. All of this could materially and adversely impact sales at our retail stores. While we have accelerated the roll-out of our digital programs in response to the temporary closure of our stores and potential changes in consumer behavior, there is no guarantee we will be successful in growing our e-commerce sales or materially offsetting lower sales at our retail stores. We have expended and plan to continue to expend significant resources to strengthen our digital platforms and we are re-designing our supply chain to focus more on e-commerce sales and fulfillment in the future, each of which have resulted in additional unexpected capital expenditures, business disruption and lower margin sales.

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.

Financial Risks

Our same store sales and quarterly financial performance may fluctuate for a variety of reasons.

Our same store 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 same store sales and quarterly financial performance, including:

- changes in our merchandising strategy or mix;
- a portion of a typical new store's sales (or sales we make over our e-commerce channels) 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 us of products we sell;
- store closures in response to state or local regulations due to the COVID-19 pandemic or other health concerns; and
- worldwide economic conditions and, in particular, the retail sales environment in the North America and Europe

Accordingly, our results, including same store 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.

Borrowings under our ABL facility and the variable portion of 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 income 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, to reduce our exposure to changes in interest rates. 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.

In addition, amounts drawn under our ABL facility and the variable portion of our term loan B may bear interest rates in relation to the London Interbank Offered Rate ("LIBOR"). It is unclear if LIBOR will cease to exist at the end of 2021, when it is intended to be phased out, or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. While both the ABL facility and the variable portion of our term loan B contain "fallback" provisions providing for alternative rate calculations in the event LIBOR is unavailable, these "fallback" provisions may not adequately address the actual changes to LIBOR or successor rates.

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, 2021, certain of our subsidiaries, including Sally Holdings LLC, which we refer to as Sally Holdings, had an aggregate principal amount of approximately \$1.4 billion of outstanding debt, including capital lease obligations.

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 a portion of 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, 2021, our ABL facility provided us commitments for additional borrowings of up to approximately \$468.5 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, 2021:

<u>Location</u>	<u>SBS</u>		<u>BSG</u>	
	<u>Company-Operated</u>	<u>Franchise</u>	<u>Company-Operated</u>	<u>Franchise</u>
United States (including Puerto Rico)				
Alabama	46	—	12	2
Alaska	4	—	3	—
Arizona	81	—	34	4
Arkansas	27	—	10	—
California	267	—	156	—
Colorado	54	—	18	—
Connecticut	28	—	24	—
Delaware	6	—	2	—
Florida	205	—	77	2
Georgia	89	—	27	2
Hawaii	7	—	5	—
Idaho	14	—	11	—
Illinois	94	—	51	—
Indiana	58	—	32	—
Iowa	25	—	13	—
Kansas	22	—	11	—
Kentucky	42	—	21	—
Louisiana	45	—	—	16
Maine	7	—	4	—
Maryland	38	—	22	—
Massachusetts	46	—	26	—
Michigan	70	—	35	—
Minnesota	39	—	20	—
Mississippi	29	—	2	6
Missouri	51	—	19	—
Montana	8	—	7	—
Nebraska	19	—	8	—
Nevada	34	—	14	—
New Hampshire	17	—	8	—
New Jersey	49	—	17	—
New Mexico	26	—	4	3
New York	88	—	50	—
North Carolina	101	—	40	—
North Dakota	4	—	6	—
Ohio	118	—	58	—
Oklahoma	45	—	3	5
Oregon	32	—	13	—
Pennsylvania	88	—	57	—
Puerto Rico	37	—	2	—
Rhode Island	9	—	4	—
South Carolina	43	—	13	—
South Dakota	6	—	4	—
Tennessee	70	—	30	—

<u>Location</u>	<u>SBS</u>		<u>BSG</u>	
	<u>Company-Operated</u>	<u>Franchise</u>	<u>Company-Operated</u>	<u>Franchise</u>
Texas	294	—	7	92
Utah	33	—	21	—
Vermont	2	—	1	—
Virginia	65	—	33	—
Washington	50	—	30	—
West Virginia	14	—	7	—
Wisconsin	35	—	26	—
Wyoming	4	—	2	—
Total United States (including Puerto Rico)	<u>2,685</u>	<u>—</u>	<u>1,100</u>	<u>132</u>
International:				
United Kingdom	243	1	—	—
Mexico	235	—	—	—
Canada	132	—	130	—
France	75	—	—	—
Belgium	50	1	—	—
Chile	35	—	—	—
Netherlands	29	—	—	—
Spain	24	—	—	—
Other	39	—	—	—
Total International	<u>862</u>	<u>2</u>	<u>130</u>	<u>—</u>
Total Store Count	<u>3,547</u>	<u>2</u>	<u>1,230</u>	<u>132</u>

The following table provides locations for our significant offices and warehouses and our corporate headquarters, as of September 30, 2021:

<u>Location</u>	<u>Type of Facility</u>	<u>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	SBS & BSG
Greenville, Ohio	Warehouse	246,000	BSG
Fresno, California	Warehouse	200,000	BSG
Blackburn, Lancashire, England	Warehouse	195,000	SBS
Spartanburg, South Carolina	Warehouse	190,000	BSG
Pottsville, Pennsylvania	Warehouse	140,000	BSG
Clackamas, Oregon	Warehouse	104,000	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	62,000	BSG
Mississauga, Ontario, Canada	Warehouse	60,000	BSG
Saint-Jerome, Quebec, Canada	Warehouse	52,000	BSG

ITEM 3. LEGAL PROCEEDINGS

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

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. We believe we are in material compliance with such laws and regulations, although no assurance can be provided that this will remain true going forward.

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 12, 2021, there were 558 stockholders of record of our common stock.

Dividends

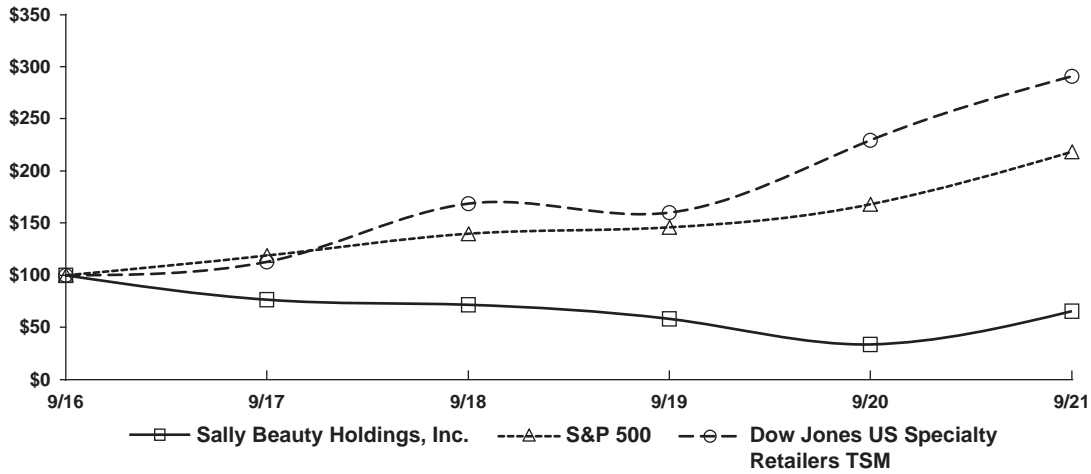
We have not declared or paid dividends at any time during the two fiscal years prior to the date of this Annual Report. We currently anticipate we will retain future earnings to support investments in our business, to repay outstanding debt or to return capital to shareholders through share repurchases. 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, cash requirements and other factors our Board of Directors deem relevant. Furthermore, as a holding company we rely on cash from our subsidiaries to pay dividends. The terms of our debt agreements and instruments significantly restrict the ability of our subsidiaries to make certain restricted payments to us and our ability to pay dividends. Additionally, we and our subsidiaries may incur substantial additional indebtedness in the future that may severely restrict or prohibit our subsidiaries from making distributions, paying dividends or making loans to us.

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, 2016, 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, 2016</u>	<u>September 30, 2017</u>	<u>September 30, 2018</u>	<u>September 30, 2019</u>	<u>September 30, 2020</u>	<u>September 30, 2021</u>
Sally Beauty Holdings, Inc. . . .	\$100.00	\$ 76.25	\$ 71.61	\$ 57.98	\$ 33.84	\$ 65.62
S&P 500	100.00	118.61	139.85	145.80	167.89	218.27
DJ US Specialty Retailers	100.00	112.87	168.79	159.87	229.44	290.58

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 2021 compared to fiscal year 2020. 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, 2020, for a discussion of the financial condition and results of operations for fiscal year 2020 compared to fiscal year 2019. 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.

Highlights of the Fiscal Year Ended September 30, 2021:

- Consolidated net sales for the fiscal year increased \$360.7 million, or 10.3%, to \$3,875.0 million and included a positive impact from changes in foreign currency exchange rates of \$32.9 million, or 0.9% of consolidated net sales;
- Consolidated same store sales for the fiscal year increased 10.2%, compared to the prior fiscal year;
- Consolidated gross profit increased by \$237.7 million, or 13.9%, to \$1,953.3 million. Gross margin increased 160 basis points to 50.4% compared to the prior fiscal year;
- Consolidated operating earnings for the fiscal year increased \$159.7 million, or 61.7%, to \$418.4 million. Operating margin increased 340 basis points to 10.8% compared to the prior fiscal year;
- Consolidated net earnings for the fiscal year increased \$126.6 million, or 111.8%, to \$239.9 million;
- Diluted earnings per share for the fiscal year were \$2.10 compared to \$0.99 for the prior fiscal year;
- Cash provided by operations was \$381.9 million for the fiscal year compared to \$426.9 million for the prior fiscal year;

Impact of COVID-19 on Our Business and Business Strategy Update

COVID-19 restrictions on our global store operations continued to ease over the fiscal year. However, due to the continued uncertainty over the duration and severity of the economic and operational impacts of COVID-19, the adverse impact of the pandemic will likely continue into fiscal year 2022 and possibly beyond, and it may be material.

Furthermore, we made substantial progress against our key business initiatives, which includes leveraging and optimizing our elevated digital capabilities, growing our customer engagement and loyalty, and implementing the final steps in our successful transformation journey.

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,		2021 vs 2020	
			Amount	%
	2021	2020	Change	Change
Net sales:				
SBS	\$2,278,382	\$2,080,703	\$197,679	9.5%
BSG	1,596,615	1,433,627	162,988	11.4%
Consolidated	<u>\$3,874,997</u>	<u>\$3,514,330</u>	<u>\$360,667</u>	10.3%
Gross profit:				
SBS	\$1,318,473	\$1,132,436	\$186,037	16.4%
BSG	634,861	583,158	51,703	8.9%
Consolidated	<u>\$1,953,334</u>	<u>\$1,715,594</u>	<u>\$237,740</u>	13.9%
Segment gross margin:				
SBS	57.9%	54.4%	350 bps	
BSG	39.8%	40.7%	(90) bps	
Consolidated	50.4%	48.8%	160 bps	
Net earnings:				
Segment operating earnings:				
SBS	\$ 417,658	\$ 237,588	\$180,070	75.8%
BSG	205,078	194,206	10,872	5.6%
Segment operating earnings	622,736	431,794	190,942	44.2%
Unallocated expenses and restructuring ^{(a) (b)}	204,293	173,034	31,259	18.1%
Consolidated operating earnings	418,443	258,760	159,683	61.7%
Interest expense	93,509	98,793	(5,284)	(5.3)%
Earnings before provision for income taxes	324,934	159,967	164,967	103.1%
Provision for income taxes	85,076	46,722	38,354	82.1%
Net earnings	<u>\$ 239,858</u>	<u>\$ 113,245</u>	<u>\$126,613</u>	111.8%
Number of stores at end-of-period (including franchises):				
SBS	3,549	3,653	(104)	(2.8)%
BSG	1,362	1,385	(23)	(1.7)%
Consolidated	<u>4,911</u>	<u>5,038</u>	<u>(127)</u>	(2.5)%
Same store sales growth (decline)				
SBS	9.7%	(8.1)%	1,780 bps	
BSG	11.0%	(8.3)%	1,930 bps	
Consolidated	10.2%	(8.1)%	1,830 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 selling, general and administrative expenses in our consolidated statements of earnings.

(b) Restructuring relates to Project Surge and our Transformation Plan.

The Fiscal Year Ended September 30, 2021 compared to the Fiscal Year Ended September 30, 2020

Net Sales

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

Same store sales	\$193,101
Stores outside same store sales	(14,487)
Other ^(a)	(7,354)
Foreign currency exchange	26,419
Total	<u>\$197,679</u>

(a) Other consists of non-store sales, which include catalog and internet sales of our Sinelco Group subsidiaries.

The increase in SBS net sales was attributable to improving consumer confidence in the U.S. and the easing of COVID-19 restrictions across international territories compared to the negative impact COVID-19 had on operations in fiscal year 2020, which included the temporary closure of customer-facing store operations during part of the year. Additionally, SBS experienced an increase in its average unit prices as a result of a reduction in promotional activity and increased sales of higher-priced products. SBS total unit volume was slightly down due to fewer units sold in the styling tools and salon supplies and accessories categories, partially offset by growth in our core hair color category.

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

Same store sales	\$107,158
Distributor sales consultants	20,412
Sales to franchisees	16,911
Stores outside same store sales	11,994
Foreign currency exchange	6,513
Total	<u>\$162,988</u>

The increase in BSG net sales was attributable to the easing of COVID-19 restrictions in the U.S. and Canadian fiscal year 2021, including the reopening of salons in parts of California and Canada compared to the negative impact COVID-19 had on operations in fiscal year 2020, which included the temporary closure of customer-facing store operations during part of the year. Additionally, BSG had higher unit volume and an increase in average unit prices. The higher unit volume was primarily due to the impact of reopening of customer-facing store operations in the U.S. and Canada. The increase in the average unit price was driven primarily by category mix shift and lower promotional activity.

Gross Profit

SBS. SBS's gross profit increased as a result of increased net sales and a higher gross margin. SBS's higher gross margin was primarily a result of fewer promotions and the write down of inventory that occurred in the prior year resulting from aggressive inventory clearance actions.

BSG. BSG's gross profit increased as a result of higher net sales, partially offset by a lower gross margin. BSG's gross margin decreased primarily as a result of sales mix shift towards large volume/lower margin full service customers, which have rebounded from the prior year's impact from COVID-19 disruptions.

Selling, General and Administrative Expenses

SBS. SBS's selling, general and administrative expenses increased \$6.0 million, or 0.7%. This increase was driven by higher compensation and compensation-related expense of \$42.0 million, primarily as a result of the

reemployment of a significant number of employees that were furloughed in the prior year and an increase in bonus expenses as a result of improved operating result. This increase was partially offset by lower delivery expense of \$22.6 million due to lower e-commerce volume as stores reopened, lower supplies expense of \$6.4 million primarily from a decrease in personal protective equipment purchases, lower advertising expenses of \$3.5 million and fewer implementation costs in connection with our private label rewards credit card of \$3.3 million.

BSG. BSG's selling, general and administrative expenses increased \$40.8 million, or 10.5%. This increase reflects higher compensation and compensation-related expense of \$18.8 million, primarily as a result of the reemployment of a significant number of employees that were furloughed in the prior year. Additionally, this increase was driven by incremental expenses associated with prior year acquisitions and rent expense of \$6.2 million, due to rent abatements in the prior year.

Unallocated. Unallocated selling, general and administrative expenses, which represent certain corporate costs that have not been charged to our reporting segments, increased \$40.7 million, or 25.6%. This increase was primarily due to higher compensation and compensation-related expenses of \$35.3 million, primarily as a result of the reemployment of a significant number of employees that were furloughed in the prior year and an increase in bonus expenses as a result of improved operating result. Additionally, COVID-19 expense was higher in the current year driven by expenses from the donation of personal protective equipment.

Restructuring

For fiscal years 2021 and 2020, we incurred restructuring charges in connection with Project Surge and the Transformation Plan. As of the end of fiscal year 2021, these restructuring plans have been substantially completed.

Interest Expense

Interest expense was lower due to the impact of the repayments of our term loan B fixed tranche in January 2021 of \$9.9 million and the senior notes due 2023 in April 2021 of \$5.4 million, partially offset by the incremental interest on the senior notes issued in April 2020 of \$14.8 million and incremental debt extinguishment costs of \$4.1 million. Additionally, the lower outstanding principal balance on our ABL facility resulted in lower interest expense of \$5.4 million and the lower interest rates on our term loan B variable tranche of \$4.1 million.

Provision for Income Taxes

For fiscal year 2021 and 2020, our effective tax rate was 26.2% and 29.2%, respectively. The decrease in the effective tax rate was primarily due to greater losses in the prior year from foreign subsidiaries for which a tax benefit could not be recognized and the establishment of a valuation allowance in a foreign subsidiary in the prior year. See Note 15, *Income Tax*, 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

At September 30, 2021, cash and cash equivalents were \$401.0 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), funds expected to be generated by operations and funds available under the ABL facility will be sufficient to fund working capital requirements, potential acquisitions, finance anticipated capital expenditures, including information technology upgrades and store remodels and debt repayments over the next 12 months.

Working capital (current assets less current liabilities) decreased \$151.0 million to \$718.7 million at September 30, 2021, compared to \$869.7 million at September 30, 2020, resulting primarily from the decrease in our cash and cash equivalents and the increases in accounts payable and accrued liabilities, partially offset by an increase in inventory. The increase in inventory and accounts payable is a result of improving COVID-19 conditions. The ratio of current assets to current liabilities was 2.08 to 1.00 at September 30, 2021, compared to 2.54 to 1.00 at September 30, 2020.

We utilize our ABL facility for the issuance of letters of credit, for 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, interest payments due on our indebtedness, paying down other debt and opportunistic share repurchases. During the fiscal year ended September 30, 2021, we did not borrow on our ABL facility. The amounts drawn are generally paid down with cash provided by our operating activities. As of September 30, 2021, we had \$468.5 million available for borrowings under the ABL facility, subject to borrowing base limitations and outstanding letters of credit of \$18.3 million.

Share Repurchase Programs

During the fiscal year 2021, we did not repurchase any of our common stock. During the fiscal years 2020 and 2019, we repurchased and subsequently retired approximately 4.7 million shares and 3.6 million shares, respectively, of our common stock under a share repurchase program a cost of \$61.4 million and \$46.6 million, respectively. We funded these share repurchases with cash from operations and borrowings under the ABL facility. As of September 30, 2021, we had approximately \$726.1 million of additional share repurchase authorization remaining under our Share Repurchase Program. In July 2021, the Board approved a term extension of the program through September 30, 2025.

Historical Cash Flows

For the fiscal years 2021, 2020 and 2019, our primary sources of cash have been funds provided by operating activities and, when necessary, borrowings under our ABL facility, as appropriate. The primary non-operating uses of cash during the past three years were for share repurchases, debt service and capital expenditures.

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

	<u>Fiscal Year Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>Change</u>
Net cash provided by operating activities	\$ 381,860	\$ 426,889	\$ (45,029)
Net cash used by investing activities	(76,019)	(123,775)	47,756
Net cash (used) provided by financing activities	(419,968)	139,761	(559,729)
Effect of foreign currency exchange rate changes on cash and cash equivalents	935	(219)	1,154
Net (decrease) increase in cash and cash equivalents	<u>\$(113,192)</u>	<u>\$ 442,656</u>	<u>\$(555,848)</u>

Net Cash Provided by Operating Activities

Net cash provided by operating activities decreased for fiscal year 2021, compared to fiscal year 2020, primarily due to increased inventory as a result of restocking to new levels of demand and an increase in vendor co-op receivables driven by the increase in net sales. These were partially offset by higher net income for the fiscal year and an increase in accounts payable resulting from the increased inventory purchases.

Net Cash Used by Investing Activities

Net cash used by investing activities was lower for fiscal year 2021, compared to fiscal year 2020, primarily due to our focus on reduced capital expenditures and the impact of opening our North Texas warehouse in the prior fiscal year.

Net Cash (Used) Provided by Financing Activities

For fiscal year 2021, we had a concerted effort to reduce our outstanding debt as conditions around COVID-19 improved. As a result, we repaid our term loan B fixed tranche, senior notes due 2023 and a portion of the term loan B variable tranche. For fiscal year 2020, our focus was on maintaining cash flexibility and liquidity needs as a result of COVID-19 and issued \$300.0 million in senior notes.

Long-Term Debt

At September 30, 2021, we have \$1,393.0 million in outstanding principal under a term loan B and senior notes, not including capital leases, unamortized debt issuance costs or debt discounts, in the aggregate, of \$11.6 million. There were no outstanding balances under the ABL facility at September 30, 2021. See Note 12 of the Notes to Consolidated Financial Statements in Item 8 contained in this Annual Report for additional information about our debt.

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

Guarantor Financial Information

We are providing the following information in compliance with Rule 13-01 of Regulation S-X for guaranteed issued securities that have been registered under such regulation. Currently, our issued securities consist of the 5.625% Senior Notes due 2025. This debt instrument was issued by our wholly-owned subsidiaries, Sally Holdings LLC and Sally Capital Inc. (the “Issuers”), under a shelf registration statement.

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 to pay 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, 2021 and 2020 (in thousands):

	<u>September 30, 2021</u>	<u>September 30, 2020</u>
Inventory	\$ 662,802	\$ 615,092
Intercompany receivable	\$ 67,337	\$ 75,892
Current assets	\$1,069,266	\$1,166,250
Total assets	\$2,198,990	\$2,281,896
Current liabilities	\$ 422,137	\$ 325,380
Total liabilities	\$2,343,946	\$2,657,033

The following table presents the summarized statement of income information for fiscal year 2021 (in thousands):

Net sales	\$3,188,839
Gross profit	\$1,624,019
Earnings before provision for income taxes	\$ 275,907
Net Earnings	\$ 205,886

Capital Requirements

During fiscal year ended 2021, we had total capital expenditures of approximately \$84.1 million, excluding amounts paid in connection with the prior year, primarily in connection with information technology projects, new store openings and store maintenance.

Contractual Obligations

The following table summarizes our contractual obligations at September 30, 2021 (in thousands):

	Payments Due by Period				
	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Long-term debt obligations, including interest ^(a)	\$ 74,358	\$561,712	\$1,047,600	\$ —	\$1,683,670
Obligations under operating leases ^(b)	173,990	234,845	117,896	100,415	627,146
Purchase obligations ^(c)	4,387	5,730	—	—	10,117
Other long-term obligations ^{(d)(e)}	17,770	19,106	5,161	882	42,919
Total	\$270,505	\$821,393	\$1,170,657	\$101,297	\$2,363,852

- (a) Long-term debt obligations include obligations under capital leases and future interest payments on our debt outstanding as of September 30, 2021. The amounts shown above do not include unamortized discount or deferred debt issuance costs reflected in our consolidated balance sheets since those amounts do not represent contractual obligations.
- (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 non-cancellable 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 insurance and self-insurance programs and deferral of social security taxes in connection with the Coronavirus Aid, Relief, and Economic Security Act. 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 \$2.1 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 debt either on or before their 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, 2021, 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, averaged less than 1.0% of consolidated net sales in fiscal years 2021, 2020 and 2019. A 10% increase or decrease in our estimate of inventory shrinkage and obsolescence reserves at September 30, 2021, would impact net earnings by approximately \$3.1 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 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, general and product 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% increase or decrease in our insurance liabilities at September 30, 2021, would impact net earnings by approximately \$1.5 million.

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

	Fiscal Year Ended September 30,	
	2021	2020
Balance at beginning of period	\$ 21,436	\$ 20,294
Self-insurance expense	61,388	59,963
Payments, net of employee contributions	<u>(62,228)</u>	<u>(58,821)</u>
Balance at end of period	<u>\$ 20,596</u>	<u>\$ 21,436</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. 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

We review long-lived 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 is at the store level. In assessing for impairment, we determine the fair value of each individual store by discounting projected future cash flows over the remaining lease term. There are significant estimates and assumptions used to arrive at estimated future cash flows, including local market conditions and growth rates. If the carrying amount of the store asset, which includes the operating lease asset, exceeds the sum of its undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the estimated fair value of the store.

No material impairment losses were recognized in fiscal years 2021 or 2019. For fiscal year 2020, we recognized an impairment loss of \$4.1 million, due to the impact of COVID-19.

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. If we need to complete a quantitative assessment, which last occurred in fiscal year 2020 as a result of COVID-19, 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. As of the date of our last quantitative impairment test, March 31, 2020, a 10% decrease in either reporting unit's fair value would not have resulted in an impairment. For fiscal year 2021, we completed a qualitative assessment and determined that while COVID-19 had a macro-economic impact, there were no material impacts to the reporting units to require a quantitative assessment.

Like goodwill, our indefinite-lived intangible assets are tested for impairment by comparing the fair value of each asset to its carrying value. As of September 30, 2021, 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. No impairment losses were recognized in fiscal years 2021, 2020 or 2019.

Recent Accounting Pronouncements

See Note 3 of the Notes to Consolidated Financial Statements in Item 8 contained in this Annual Report for information about recent accounting pronouncements.

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 2021, 2020 and 2019, 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 1.7% in the fiscal year 2021, and would have impacted our consolidated net assets by approximately 2.0% at September 30, 2021.

As more fully discussed in Note 13 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 the variable-rate tranche of our term loan B. At September 30, 2021, there were no borrowings outstanding under the ABL facility and the term loan B had \$413.0 million outstanding principal balance under the variable-rate tranche. Based on our September 30, 2021 outstanding floating interest rate debt, a 1.0 percentage point interest rate increase would impact interest expense by \$4.1 million.

As more fully discussed in Note 13 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, 2021.

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, 2021. 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, 2021, 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, 2021 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, 2021, 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 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 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 2022 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 2022 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 2022 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, 2021, 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 ⁽¹⁾</u> (a)	<u>Weighted average exercise price of outstanding options, warrants and rights ⁽²⁾</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) ⁽³⁾</u> (c)
Equity compensation plans approved by security holders	6,567,580	\$18.46	7,082,919
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	<u>6,567,580</u>	\$18.46	<u>7,082,919</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 2022 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 2022 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	Amended and Restated Security Agreement by Sally Holdings LLC, Beauty Systems Group LLC, Sally Beauty Supply LLC, as the domestic borrowers and the other domestic borrowers and domestic guarantors party hereto from time to time and Bank of America, N.A. as collateral agent dated as of July 26, 2013, which is incorporated herein by reference from Exhibit 4.4 to the Company’s Annual Report on Form 10-K filed on November 14, 2013 †
4.3	Amended and Restated General Security Agreement by Beauty Systems Group (Canada), Inc., as the Canadian borrower and Bank of America, N.A., (acting through its Canada branch), as Canadian agent dated as of July 26, 2013, which is incorporated herein by reference from Exhibit 4.5 to the Company’s Annual Report on Form 10-K filed on November 14, 2013 †
4.4	Joinder to Loan Documents, dated as of December 20, 2011, by and among Sally Holdings LLC, Beauty Systems Group LLC, Sally Beauty Supply LLC, Beauty Systems Group (Canada), Inc., SBH Finance B.V., the Guarantors named therein, Sally Beauty Holdings, Inc., Sally Investment Holdings LLC and Bank of America, N.A., as administrative agent and as collateral agent, which is incorporated herein by reference from Exhibit 4.10 to the Company’s Quarterly Report on Form 10-Q filed on February 2, 2012 †
4.5	Joinder to Loan Documents, dated as of May 28, 2015, by and among Sally Holdings LLC, Beauty Systems Group LLC, Sally Beauty Supply LLC, Beauty Systems Group (Canada), Inc., SBH Finance B.V., the Guarantors named therein, Sally Beauty Military Supply LLC, Loxa Beauty LLC and Bank of America, N.A., as administrative agent and as collateral agent, which is incorporated herein by reference from Exhibit 4.1 to the Company’s Quarterly Report on Form 10-Q filed on August 6, 2015 †

<u>Exhibit No.</u>	<u>Description</u>
4.6	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.
4.7	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
4.8	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
4.9	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 4.1 to the Company's Current Report on Form 8-K filed on July 6, 2017 †
4.10	Amendment No. 1 dated March 27, 2018, 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 May 3, 2018
4.11	Indenture, dated as of April 24, 2020, by and among Sally Holdings LLC, Sally Capital Inc., the guarantors listed therein and Wells Fargo, National Association, which is incorporated herein by reference from Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 27, 2020 †
10.1	Sally Beauty Holdings, Inc. 2007 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 4.4 to the Company's Registration Statement on Form S-8 filed on May 3, 2007
10.2	2007 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holdings, Inc. 2007 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 27, 2007
10.3	2009 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holdings, Inc. 2007 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 20, 2008
10.4	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
10.5	2010 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holdings, Inc. 2007 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on November 19, 2009
10.6	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

<u>Exhibit No.</u>	<u>Description</u>
10.7	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
10.8	2011 Form of Restricted Stock Agreement for Employees pursuant to the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on November 18, 2010
10.9	2011 Form of Stock Option Agreement for Employees pursuant to the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.34 to the Company's Annual Report on Form 10-K filed on November 18, 2010
10.10	2011 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.25 to the Company's Annual Report on Form 10-K filed November 15, 2012
10.11	2016 Form of Performance Unit Award Agreement pursuant to the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on February 4, 2016
10.12	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
10.13	2019 Form of Performance Unit Award Agreement pursuant to the Sally Beauty Holdings, Inc. 2019 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on February 5, 2019
10.14	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
10.15	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
10.16	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
10.17	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, Pamela K. Kohn and the Company effective October 3, 2019, 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
10.18	2012 Form of Restricted Stock Unit Agreement for Independent Directors pursuant to the Sally Beauty Holdings, Inc. Amended and Restated 2010 Omnibus Incentive Plan, which is incorporated herein by reference from Exhibit 10.37 to the Company's Annual Report on Form 10-K filed on November 15, 2012
10.19	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

<u>Exhibit No.</u>	<u>Description</u>
10.20	Sally Beauty Holdings, Inc. Annual Incentive Plan*
10.21	Separation agreement between Christian A. Brickman and the Company effective as of August 26, 2021, including Release of Claims effective as of October 1, 2021*
10.22	Consulting Agreement between Christian A. Brickman and the Company effective September 30, 2021*
10.23	Offer Letter to Denise Paulonis, dated as of August 26, 2021*
21.1	List of Subsidiaries of Sally Beauty Holdings, Inc.*
22	List of Subsidiary Guarantors*
23.1	Consent of KPMG*
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, 2021, 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 (Deficit) 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 19th day of November, 2021.

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 19, 2021
<u>/s/ Marlo M. Cormier</u> Marlo M. Cormier	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	November 19, 2021
<u>/s/ Kim McIntosh</u> Kim McIntosh	Group Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)	November 19, 2021
<u>/s/ Robert R. McMaster</u> Robert R. McMaster	Chairman of the Board of Directors	November 19, 2021
<u>/s/ Timothy R. Baer</u> Timothy R. Baer	Director	November 19, 2021
<u>/s/ Marshall E. Eisenberg</u> Marshall E. Eisenberg	Director	November 19, 2021
<u>/s/ Diana S. Ferguson</u> Diana S. Ferguson	Director	November 19, 2021
<u>/s/ Dorlisa K. Flur</u> Dorlisa K. Flur	Director	November 19, 2021
<u>/s/ James M. Head</u> James M. Head	Director	November 19, 2021
<u>/s/ Linda Heasley</u> Linda Heasley	Director	November 19, 2021
<u>/s/ John A. Miller</u> John A. Miller	Director	November 19, 2021
<u>/s/ Susan R. Mulder</u> Susan R. Mulder	Director	November 19, 2021
<u>/s/ Erin Nealy Cox</u> Erin Nealy Cox	Director	November 19, 2021
<u>/s/ Edward W. Rabin</u> Edward W. Rabin	Director	November 19, 2021

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Financial Statements
Years ended September 30, 2021, 2020 and 2019

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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, 2021 and 2020, the related consolidated statements of earnings, comprehensive income, cash flows and stockholders' equity (deficit) for each of the years in the three-year period ended September 30, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2021, 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, 2021 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its method of accounting for leases as of October 1, 2019 due to the adoption of ASU No. 2016-02, *Leases (Topic 842)*. As discussed in Note 3 to the consolidated financial statements, the Company has elected to change its method of accounting for inventory located in the U.S. and Canada at both its distribution centers and store fronts as of August 1, 2020 from lower of cost or net realizable value on a first-in first-out ("FIFO") basis to lower of cost or net realizable value using the weighted average cost method.

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 Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter 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 matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of vendor rebates and concessions

As discussed in Note 2 to the consolidated financial statements, other accounts receivable consists primarily of amounts earned 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. Other accounts receivable was \$34.0 million as of September 30, 2021.

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 compared the amount of cash received to the amount previously recognized by the Company for a sample of the vendor rebates and concessions that were collected subsequent to year end.

/s/ KPMG LLP

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

Dallas, Texas
November 19, 2021

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2021 and 2020

(In thousands, except par value data)

	<u>2021</u>	<u>2020</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 400,959	\$ 514,151
Trade accounts receivable, net	32,623	35,590
Accounts receivable, other	33,958	20,839
Inventory	871,349	814,503
Other current assets	44,686	48,014
Total current assets	<u>1,383,575</u>	<u>1,433,097</u>
Property and equipment, net	307,377	315,029
Operating lease assets	537,673	525,634
Goodwill	541,209	540,038
Intangible assets, excluding goodwill, net	55,532	58,283
Other assets	21,766	23,066
Total assets	<u>\$2,847,132</u>	<u>\$2,895,147</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$ 194	\$ 180
Accounts payable	291,632	236,333
Accrued liabilities	206,155	170,665
Current operating lease liabilities	156,234	153,267
Income taxes payable	10,666	2,917
Total current liabilities	<u>664,881</u>	<u>563,362</u>
Long-term debt	1,382,530	1,796,897
Long-term operating lease liabilities	404,147	394,375
Other liabilities	29,056	32,976
Deferred income tax liabilities, net	85,777	92,094
Total liabilities	<u>2,566,391</u>	<u>2,879,704</u>
Stockholders' equity:		
Common stock, \$0.01 par value. Authorized 500,000 shares; 113,138 and 116,986 shares issued and 112,913 and 116,725 shares outstanding at September 30, 2021 and 2020, respectively	1,129	1,124
Preferred stock, \$0.01 par value. Authorized 50,000 shares; none issued	—	—
Additional paid-in capital	17,286	1,913
Accumulated earnings	356,967	117,109
Accumulated other comprehensive loss, net of tax	(94,641)	(104,703)
Total stockholders' equity	<u>280,741</u>	<u>15,443</u>
Total liabilities and stockholders' equity	<u>\$2,847,132</u>	<u>\$2,895,147</u>

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, 2021, 2020 and 2019
(In thousands, except per share data)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net sales	\$3,874,997	\$3,514,330	\$3,876,411
Cost of goods sold	<u>1,921,663</u>	<u>1,798,736</u>	<u>1,965,869</u>
Gross profit	1,953,334	1,715,594	1,910,542
Selling, general and administrative expenses	1,530,280	1,442,809	1,452,751
Restructuring	<u>4,611</u>	<u>14,025</u>	<u>(682)</u>
Operating earnings	418,443	258,760	458,473
Interest expense	<u>93,509</u>	<u>98,793</u>	<u>96,309</u>
Earnings before provision for income taxes	324,934	159,967	362,164
Provision for income taxes	<u>85,076</u>	<u>46,722</u>	<u>90,541</u>
Net earnings	<u>\$ 239,858</u>	<u>\$ 113,245</u>	<u>\$ 271,623</u>
Earnings per share:			
Basic	<u>\$ 2.13</u>	<u>\$ 0.99</u>	<u>\$ 2.27</u>
Diluted	<u>\$ 2.10</u>	<u>\$ 0.99</u>	<u>\$ 2.26</u>
Weighted average shares:			
Basic	<u>112,653</u>	<u>113,881</u>	<u>119,636</u>
Diluted	<u>114,212</u>	<u>114,680</u>	<u>120,283</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, 2021, 2020 and 2019
(In thousands)

	2021	2020	2019
Net earnings	\$239,858	\$113,245	\$271,623
Other comprehensive income (loss):			
Foreign currency translation adjustments	9,957	11,821	(22,576)
Interest rate caps, net of tax	918	198	(4,566)
Foreign exchange contracts, net of tax	(813)	565	(154)
Other comprehensive income (loss), net of tax	10,062	12,584	(27,296)
Total comprehensive income	\$249,920	\$125,829	\$244,327

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, 2021, 2020 and 2019
(In thousands)

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:			
Net earnings	\$ 239,858	\$ 113,245	\$ 271,623
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	102,201	106,779	107,658
Share-based compensation expense	11,656	8,426	9,180
Amortization of deferred financing costs	4,212	4,118	3,786
Net loss/(gain) on disposal and impairment of assets	290	3,562	(7,544)
Net loss on extinguishment of debt	4,260	38	951
Deferred income taxes	(7,336)	13,691	5,532
Changes in (exclusive of effects of acquisitions):			
Trade accounts receivable	2,923	10,031	4,399
Accounts receivable, other	(13,972)	41,463	(20,432)
Inventory	(52,277)	149,845	(20,272)
Other current assets	976	(15,654)	7,418
Other assets	4,360	(2,007)	(3,225)
Accounts payable and accrued liabilities	79,851	(26,876)	(42,719)
Income taxes payable	8,041	(5,489)	6,144
Operating lease assets and liabilities	730	10,339	—
Other liabilities	(3,913)	15,378	(2,084)
Net cash provided by operating activities	<u>381,860</u>	<u>426,889</u>	<u>320,415</u>
Cash Flows from Investing Activities:			
Payments for property and equipment	(73,904)	(110,858)	(107,755)
Proceeds from sales of property and equipment	235	53	15,312
Acquisitions, net of cash acquired	(2,350)	(12,970)	(3,424)
Net cash used by investing activities	<u>(76,019)</u>	<u>(123,775)</u>	<u>(95,867)</u>
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	22	1,087,504	593,504
Repayments of long-term debt	(422,258)	(882,921)	(777,538)
Debt issuance costs	(1,300)	(6,257)	—
Payments for common stock repurchased	—	(61,357)	(47,434)
Proceeds from exercises of stock options	3,568	2,792	2,160
Net cash (used) provided by financing activities	<u>(419,968)</u>	<u>139,761</u>	<u>(229,308)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	935	(219)	(1,040)
Net (decrease) increase in cash and cash equivalents	<u>(113,192)</u>	<u>442,656</u>	<u>(5,800)</u>
Cash and cash equivalents, beginning of period	<u>514,151</u>	<u>71,495</u>	<u>77,295</u>
Cash and cash equivalents, end of period	<u>\$ 400,959</u>	<u>\$ 514,151</u>	<u>\$ 71,495</u>
Supplemental Cash Flow Information:			
Interest paid	\$ 88,982	\$ 83,123	\$ 95,171
Income taxes paid	\$ 79,765	\$ 49,869	\$ 83,783
Capital expenditures incurred but not paid	\$ 19,932	\$ 9,772	\$ 26,233

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity (Deficit)

Fiscal Years ended September 30, 2021, 2020 and 2019

(In thousands)

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in	Earnings	Other	Stockholders'
			Capital	(Deficit)	Comprehensive	Equity
					Income (Loss)	(Deficit)
Balance at September 30, 2018	119,926	\$1,199	\$ —	\$(179,764)	\$ (89,991)	\$(268,556)
Net earnings	—	—	—	271,623	—	271,623
Other comprehensive loss, net of tax	—	—	—	—	(27,296)	(27,296)
Repurchases of common stock	(3,562)	(36)	(11,336)	(36,062)	—	(47,434)
Share-based compensation	209	2	9,178	—	—	9,180
Stock issued for equity awards	152	2	2,158	—	—	2,160
Balance at September 30, 2019	116,725	1,167	—	55,797	(117,287)	(60,323)
Cumulative effect of ASC 842 adoption	—	—	—	76	—	76
Net earnings	—	—	—	113,245	—	113,245
Other comprehensive income, net of tax	—	—	—	—	12,584	12,584
Repurchases of common stock	(4,702)	(46)	(9,302)	(52,009)	—	(61,357)
Share-based compensation	159	1	8,425	—	—	8,426
Stock issued for equity awards	223	2	2,790	—	—	2,792
Balance at September 30, 2020	112,405	1,124	1,913	117,109	(104,703)	15,443
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	508	5	3,717	—	—	3,722
Balance at September 30, 2021	112,913	\$1,129	\$ 17,286	\$ 356,967	\$ (94,641)	\$ 280,741

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, 2021, 2020 and 2019

1. 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.

2. Significant Accounting Policies

The preparation of financial statements in conformity with GAAP requires us to interpret and apply accounting standards and to develop and follow accounting policies consistent with such standards. The following is a summary of the significant accounting policies used in preparing our consolidated financial statements.

Use of Estimates

In accordance with GAAP, management makes 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 receivable 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 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. At September 30, 2021 and 2020, our allowance for doubtful accounts was \$1.1 million and \$1.9 million, respectively.

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

Effective August 1, 2020, we changed how we value our inventory. See Note 3 for more information related to the change in our costing method. At September 30, 2020, inventory is stated at the lower of weighted average cost or net realizable value. 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 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.

Sally Beauty Holdings, Inc. and Subsidiaries
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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 cost associated with our distribution centers (including employee compensation expense, depreciation and 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.

Lease Accounting

Substantially all of our leases are operating leases and relate primarily to retail stores and warehousing properties with lease terms of 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. During fiscal year 2020, we impaired approximately \$1.9 million, respectively in operating lease assets and leasehold improvements, primarily as a result of the impact of COVID-19, within selling, general and administrative expenses.

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

Sally Beauty Holdings, Inc. and Subsidiaries
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The following table summarizes our property and equipment balances and their estimated useful lives (dollars in thousands):

	Life (in years)	September 30,	
		2021	2020
Land	N/A	\$ 10,119	\$ 10,120
Buildings and building improvements	5 – 40	57,049	54,521
Leasehold improvements	2 – 10	326,595	304,404
Furniture, fixtures and equipment	2 – 10	681,017	640,693
Total property and equipment, gross		1,074,780	1,009,738
Accumulated depreciation and amortization		(767,403)	(694,709)
Total property and equipment, net		<u>\$ 307,377</u>	<u>\$ 315,029</u>

Depreciation expense for the fiscal years 2021, 2020 and 2019 was \$93.2 million, \$95.5 million and \$96.1 million, respectively, and is included in selling, general and administrative expenses in our consolidated statements of earnings.

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

Long-lived assets 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 is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset.

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 31st, and whenever events or 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 determined there were no such events during the current fiscal year.

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, 2021 and 2020, 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. For fiscal year 2021, we completed a qualitative assessment and determined that while COVID-19 had a macro-economic impact, there were no material impacts to the

Sally Beauty Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Fiscal Years ended September 30, 2021, 2020 and 2019

reporting units to require a quantitative assessment. 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. 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 31st, 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. Based on our assessments, no material impairment charges related to intangible assets were recorded 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.

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 all transactions.

See Note 17 for additional information regarding the disaggregation of our revenue.

Merchandise Revenues

The majority of our revenue comes from the sale of products in our company-operated stores. These sales generally have one single performance obligation and the revenue is recognized at the point of sale. However, discounts and incentives issued at the point of sale to entice a customer to a future purchase are treated as a separate performance obligation. As such, we allocate a portion of the revenue generated from the point of sale to each of the additional performance obligations separately using explicitly stated amounts or our best estimate using historical data.

We also sell merchandise on our online platforms, to our franchisees and by using distributor sales consultants. These sales generally have one single performance obligation and revenue is recognized upon the shipment of the

Sally Beauty Holdings, Inc. and Subsidiaries
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merchandise. Any shipping and handling fees charged to the customer are recognized as revenue, while any shipping and handling costs to get the merchandise shipped is recognized in cost of goods sold.

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 revenue 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.

Private Label Rewards Credit Card

In September 2019, we signed a multi-year agreement with a third-party bank (the “Bank”) to launch a private label rewards credit card. Under the agreement, the Bank will manage and extend credit to our SBS and BSG customers and we will provide licensing to our brand, marketing services and facilitate credit applications. The Bank will be the sole owner of the private label rewards credit card accounts and takes on the risk of default by the private label rewards card holders. 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 will 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 reimburse us for certain expenses we incur for the launch and marketing of the Program. Amounts reimbursed are recognized in net sales in our consolidated statements of earnings. In addition, we can earn other amounts from the Bank, including incentive payments for achieving performance targets and the activation of credit cards. During the fiscal year ended September 30, 2020, we commenced operations and started to roll out our first SBS and BSG branded credit cards.

Customer Loyalty Rewards

Our Sally Beauty Rewards Loyalty Program in the U.S. and Canada, enables customers to earn points based on their status for every dollar spent on merchandise purchased in our SBS stores and through our *sallybeauty.com* website, including on our SBS mobile commerce-based app. When a specific tier has been reached, a customer will receive a certificate which can be used at any of our U.S. and Canadian SBS stores or through our *sallybeauty.com* website including on our SBS mobile commerce-based app, on their next purchase. Based on the rewards loyalty program policies, points expire after twelve months of inactivity and certificates will expire after a specific time period from the date of issuance. Certificates generated from our rewards loyalty program provide a material right to customers and represent a separate performance obligation. Rewards loyalty points are accrued at the standalone value per point, net of estimated breakage, and are included within accrued liabilities on our consolidated balance sheets. We recognize the revenue when the customer redeems the certificate. Points and certificates are issued by and represent liabilities of Sally Beauty Supply LLC.

Sally Beauty Holdings, Inc. and Subsidiaries
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Fiscal Years ended September 30, 2021, 2020 and 2019

The following table shows the amount of contract liabilities on our consolidated balance sheets as of September 30, 2021 and 2020 (in thousands):

<u>Contracts</u>	<u>Balance Sheet Classification</u>	<u>September 30,</u>	
		<u>2021</u>	<u>2020</u>
Gift cards	Accrued liabilities	\$ 5,299	\$ 5,066
Rewards loyalty program	Accrued liabilities	11,445	8,881
Total liability		<u>\$16,744</u>	<u>\$13,947</u>

Changes to our contract liabilities for fiscal year 2021 were as follows (in thousands):

September 30, 2020	\$ 13,947
Loyalty points and gift cards issued but not redeemed, net of estimated breakage	15,226
Revenue recognized from beginning liability	(12,429)
September 30, 2021	<u>\$ 16,744</u>

Advertising Costs

Advertising costs relate mainly to print advertisements, digital marketing, 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 \$70.9 million, \$72.7 million and \$73.3 million for the fiscal years 2021, 2020 and 2019, 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 our employees and 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 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.

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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.

3. Accounting Changes and Recent Accounting Pronouncements

Accounting Changes

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02 which requires most leases to be reported on the balance sheet as a right-of-use asset and a lease liability. On October 1, 2019, we adopted ASU No. 2016-02 using a modified retrospective transition method without restating comparative periods. We have elected the package of practical expedients permitted within the transition guidance under the new standard relating to the identification, classification and initial direct costs of leases commencing before the effective date of Topic 842. In addition, we have elected to not recognize a right-of-use asset or lease obligation for short-term leases with an initial term of 12 months or less. The adoption of ASU No. 2016-02, as amended, resulted in the recognition of an operating lease asset of \$513.9 million and an operating lease liability of \$523.5 million. Existing straight-line rent liability, prepaid rent and accrued rent were reclassified from certain other assets and liabilities into the operating lease asset. Furthermore, the cumulative effect of the adoption of ASU No. 2016-02 resulted in a \$0.1 million adjustment to accumulated earnings resulting from the impairment of certain operating lease assets as well certain deferred tax balances that were written off as a result of the adoption of the new standard. The impact on our consolidated results of operations or consolidated cash flows was not material. See Note 8 for additional information in connection with ASU No. 2016-02.

Effective August 1, 2020, we changed our method of accounting for inventory located in the U.S. and Canada at both our distribution centers and store fronts. Prior to August 2020, we valued inventory at the lower of cost or net realizable value on a FIFO basis. Effective August 1, 2020, all company-wide inventories have been valued at the lower of cost or net realizable value using the weighted average cost method. These changes were made in connection with the implementation of a new perpetual inventory system, which provides us with better information to manage inventory. We believe the weighted average cost method is preferable to the FIFO cost method because it results in greater precision in the determination of cost of goods sold and inventories at the SKU level and results in a consistent inventory valuation method for all of the Company’s inventories. We recorded the cumulative effect of this change in accounting principle as of August 1, 2020. The effects of this change in accounting principle as of August 1, 2020 were not material to our consolidated financial statements. Prior to implementation of the new perpetual inventory system, we were not able to determine the impact of the change to the weighted average cost method. Therefore, we did not retroactively apply the change to prior periods.

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Recent Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes* (“ASC 740”), which simplifies the accounting for income taxes by removing an exception related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period with year to date losses and the recognition of deferred tax liabilities for outside basis differences. Additionally, the update clarifies and simplifies other areas of ASC 740, *Income Taxes*. For public companies, the amendments in the update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, but all amendments must be adopted at once. The amendments in this update have different adoption methods including prospective basis, retrospective basis, and a modified retrospective basis dependent on the specific change. We do not believe that adoption of this update will have a material impact on our results of operations or financial position.

4. 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 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	Pricing Category	As of September 30,	
			2021	2020
Financial Assets				
Cash equivalents	Cash and cash equivalents	Level 1	\$—	\$194,612
Interest rate caps	Other assets	Level 2	35	27
Total assets			<u>\$ 35</u>	<u>\$194,639</u>
Financial Liabilities				
None				

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Cash equivalents, at September 30, 2021, consist of highly liquid investments which mature daily and are valued using unadjusted quoted market prices for such securities. The fair value for interest rate caps were measured using widely accepted valuation techniques, such as discounted cash flow analyses, and observable inputs, such as market interest rates.

Other fair value disclosures

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

	Pricing Category	As of September 30,			
		2021		2020	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt					
Senior notes	Level 1	979,961	1,019,635	\$1,177,380	\$1,217,707
Other long-term debt	Level 2	413,000	411,451	635,788	619,397
Total debt		<u>\$1,392,961</u>	<u>\$1,431,086</u>	<u>\$1,813,168</u>	<u>\$1,837,104</u>

The fair value of the senior notes was measured using unadjusted quoted market prices. The fair value of other long-term debt was measured using quoted market prices for similar debt securities in active markets or widely accepted valuation techniques, such as discounted cash flow analyses, using observable inputs, such as market interest rates.

5. Accumulated Stockholders' Equity

Share Repurchases

In August 2017, our Board of Directors (the "Board") approved a share repurchase program authorizing us to repurchase up to \$1.0 billion of our common stock over an approximate four-year period expiring on September 30, 2021. In July 2021, the Board approved a term extension of the program through September 30, 2025.

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

	Fiscal Year Ended September 30,		
	2021	2020	2019
Number of shares repurchased	—	4,702	3,562
Total cost of share repurchased	\$—	\$61,357	\$46,621

The amounts above do not include approximately 71,000, 159,000 and 209,000 shares surrendered by grantees to satisfy personal income tax withholdings obligations upon vesting of equity-based awards valued at approximately \$1.0 million, \$0.3 million and \$0.8 million during the fiscal years 2021, 2020 and 2019, 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.

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Accumulated other Comprehensive Loss

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

	<u>Foreign Currency Translation Adjustments</u>	<u>Interest Rate Caps</u>	<u>Foreign Exchange Contracts</u>	<u>Total</u>
Balance at September 30, 2019	\$(113,932)	\$(3,201)	\$ (154)	\$(117,287)
Other comprehensive income (loss) before reclassifications, net of tax	11,821	(411)	(531)	10,879
Reclassification to net earnings, net of tax . . .	<u>—</u>	<u>609</u>	<u>1,096</u>	<u>1,705</u>
Balance at September 30, 2020	(102,111)	(3,003)	411	(104,703)
Other comprehensive income (loss) before reclassifications, net of tax	9,957	(282)	(1,070)	8,605
Reclassification to net earnings, net of tax . . .	<u>—</u>	<u>1,200</u>	<u>257</u>	<u>1,457</u>
Balance at September 30, 2021	<u>\$ (92,154)</u>	<u>\$(2,085)</u>	<u>\$ (402)</u>	<u>\$ (94,641)</u>

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

6. Weighted Average Shares

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

	<u>Fiscal Year Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Weighted-average basic shares	112,653	113,881	119,636
Dilutive securities:			
Stock option and stock award programs	<u>1,559</u>	<u>799</u>	<u>647</u>
Weighted-average diluted shares	<u>114,212</u>	<u>114,680</u>	<u>120,283</u>

At September 30, 2021, 2020 and 2019, options to purchase approximately 3.9 million, 4.7 million and 4.7 million shares, respectively, of our common stock were outstanding but not included in the computation of diluted earnings per share, because these options were anti-dilutive.-

7. 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.

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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,		
	2021	2020	2019
Share-based compensation expense	\$11,656	\$8,426	\$9,180
Income tax benefit related to share-based compensation expense	\$ 2,834	\$2,059	\$2,357

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 year 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 the fiscal year 2020 and 2019 performance awards, the performance targets included growth of AOI and return on invested capital during the three-year performance period.

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, 2021, 2020 and 2019, the fair value of our performance awards was \$15.33, \$16.65 and \$17.22, respectively.

Market-based awards: In fiscal year 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”) 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. 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 awarded to our independent directors 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.

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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, 2020	542	\$17.06
Granted	142	15.33
Vested	—	—
Forfeited	(382)	17.16
Unvested at September 30, 2021	<u>302</u>	\$16.59

As of September 30, 2021, approximately \$1.2 million of total unrecognized compensation costs related to unvested performance awards are expected to be recognized over the weighted average period of 1.5 years.

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, 2020	—	\$ —
Granted	142	20.96
Vested	—	—
Forfeited	(52)	20.96
Unvested at September 30, 2021	<u>90</u>	\$20.96

As of September 30, 2021, approximately \$1.4 million of total unrecognized compensation costs related to unvested market awards are expected to be recognized over the weighted average period of 2.1 years.

The weighted average assumptions used in the Monte Carlo model relating to the valuation of our rTSR issued in fiscal year 2021 were as follows:

Expected term (in years)	2.7
Expected volatility	59.4%
Risk-free interest rate	0.2%
Dividend yield	0.0%

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Service-Based Awards

Stock Option Awards

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

	Number of Outstanding Options (in Thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Thousands)
Outstanding at September 30, 2020	4,738	\$20.92	6.2	\$ —
Granted	1,638	9.13		
Exercised	(268)	17.20		
Forfeited or expired	(943)	14.96		
Outstanding at September 30, 2021	<u>5,165</u>	\$18.46	4.6	\$9,627
Exercisable at September 30, 2021	<u>3,653</u>	\$21.49	2.9	\$ 983

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

	Fiscal Year Ended September 30,		
	2021	2020	2019
Expected life (in years)	6.0	5.0	5.0
Expected volatility	44.5%	35.8%	30.5%
Risk-free interest rate	0.4%	1.7%	3.0%
Dividend yield	0.0%	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 2021, 2020 and 2019 was \$3.85, \$5.66 and \$5.86, respectively. The aggregate fair value of stock options vested during the fiscal years 2021, 2020 and 2019 was \$3.4 million, \$2.7 million and \$5.1 million, respectively.

The aggregate intrinsic value of options exercised during the fiscal years 2021, 2020 and 2019 was \$0.7 million, \$0.5 million and \$0.9 million, respectively. The total cash received during the fiscal years 2021, 2020 and 2019 from these option exercises was \$4.6 million, \$3.0 million and \$2.2 million, respectively, and the tax benefit realized for the tax deductions from these option exercises was \$0.1 million, \$0.1 million and \$0.2 million, respectively.

At September 30, 2021, approximately \$3.8 million of total unrecognized compensation costs related to unvested stock option awards are expected to be recognized over the weighted average period of 1.8 years.

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RSAs

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

<u>Restricted Stock Awards</u>	<u>Number of Shares (in Thousands)</u>	<u>Weighted Average Fair Value Per Share</u>
Unvested at September 30, 2020	419	\$16.32
Granted	—	—
Vested	(107)	15.99
Forfeited	<u>(87)</u>	16.45
Unvested at September 30, 2021	<u>225</u>	\$16.44

At September 30, 2021, approximately \$1.0 million of total unrecognized compensation costs related to unvested RSAs are expected to be recognized over the weighted average period of 1.1 years.

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, 2020	91	\$16.47
Granted	819	9.32
Vested	(140)	13.90
Forfeited	<u>(202)</u>	9.09
Unvested at September 30, 2021	<u>568</u>	\$ 9.41

At September 30, 2021, approximately \$2.6 million of total unrecognized compensation costs related to unvested RSUs are expected to be recognized over the weighted average period of 2.0 years.

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8. Leases

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

	<u>Balance Sheet Classification</u>	<u>September 30,</u>	
		<u>2021</u>	<u>2020</u>
Assets:			
Operating lease	Operating lease assets	\$537,673	\$525,634
Finance lease	Property and equipment, net	2,556	2,888
Total lease assets		<u>\$540,229</u>	<u>\$528,522</u>
Liabilities:			
Current:			
Operating lease	Current operating lease liabilities	\$156,234	\$153,267
Finance lease	Current maturities of long-term debt	194	180
Long-term:			
Operating lease	Long-term operating lease liabilities	404,147	394,375
Finance lease	Long-term debt	485	684
Total lease liabilities		<u>\$561,060</u>	<u>\$548,506</u>

Our lease costs, net of immaterial sublease income, consisted of the following (in thousands):

	<u>Statement of Earnings Classification</u>	<u>For the Year Ended</u> <u>September 30,</u>	
		<u>2021</u>	<u>2020</u>
Operating lease costs ^(a)	Cost of goods sold and selling, general and administrative expenses ^(b)	\$193,583	\$192,484
Finance lease costs:			
Amortization of leased assets	Selling, general and administrative expenses	328	303
Interest on lease liabilities	Interest expense	14	36
Variable lease costs ^(c)	Selling, general and administrative expenses	53,698	45,191
Total lease costs		<u>\$247,623</u>	<u>\$238,014</u>

(a) Includes costs related to short-term leases, which are immaterial.

(b) Certain supply chain-related amounts are included in cost of goods sold.

(c) Includes common area maintenance, real estate taxes and insurance related to leases

In response to COVID-19, the FASB issued interpretive guidance that provides an option for entities to make a policy election for lease concessions as a result of COVID-19, provided that the modified contracts result in total cash flows that are substantially the same or less than the original contracts. This policy election allows for lease concessions to be treated as though enforceable rights and obligations for those concessions existed (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contracts). We have

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elected to apply this policy election and have included rent abatements related to COVID-19 into variable lease costs. For the year ended September 30, 2021 and 2020, we recognized benefits of \$3.1 million and \$11.7 million for rent abatements related to COVID-19, respectively.

As of September 30, 2021, 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>
2022	\$173,990	\$197
2023	135,971	197
2024	98,874	191
2025	69,565	158
2026	48,331	—
Thereafter	100,415	—
Total undiscounted lease payments	627,146	743
Less: imputed interest	66,765	64
Present value of lease liabilities	<u>\$560,381</u>	<u>\$679</u>

The table above does not include operating leases we have entered into of approximately \$27.8 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>2021</u>	<u>2020</u>
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows – operating leases	\$189,012	\$183,808
Operating cash flows – finance leases	14	36
Financing cash flows – finance leases	202	34
Supplemental non-cash information on lease liabilities:		
Lease assets obtained in exchange for new operating lease liabilities	\$180,945	\$204,245
Lease assets obtained in exchange for new finance lease liabilities	22	4
	<u>September 30,</u>	
	<u>2021</u>	<u>2020</u>
Weighted-average remaining lease term (in years):		
Operating leases	5.1	5.1
Finance leases	3.7	3.8
Weighted-average discount rate:		
Operating leases	4.5%	4.4%
Finance leases	0.3%	0.3%

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9. Goodwill and Intangible Assets

The changes in the carrying amounts of goodwill during the fiscal years 2021 and 2020 are as follows (in thousands):

	<u>SBS</u>	<u>BSG</u>	<u>Total</u>
Balance at September 30, 2019 . . .	\$76,905	\$453,881	530,786
Acquisitions	—	5,342	5,342
Foreign currency translation	4,281	(371)	3,910
Balance at September 30, 2020 . . .	\$81,186	\$458,852	\$540,038
Acquisitions	231	(1,582)	(1,351)
Foreign currency translation	743	1,779	2,522
Balance at September 30, 2021 . . .	<u>\$82,160</u>	<u>\$459,049</u>	<u>\$541,209</u>

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. In the table below, prior year amounts for definite-lived intangible assets have been conformed to the current year's presentation. As of September 30, 2021 and 2020, we had the following (in thousands):

	<u>September 30, 2021</u>			<u>September 30, 2020</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Definite-lived Intangible assets:						
Customer relationships	\$32,621	\$(26,246)	\$ 6,375	\$ 47,787	\$(38,876)	\$ 8,911
Distribution rights	11,660	(9,251)	2,409	24,509	(21,570)	2,939
Other intangible assets	5,238	(3,460)	1,778	5,300	(3,045)	2,255
Total definite-lived intangible assets	49,519	(38,957)	10,562	77,596	(63,491)	14,105
Indefinite-lived Intangible assets:						
Trade names	44,970	—	44,970	44,178	—	44,178
Total intangible assets, excluding goodwill, net	<u>\$94,489</u>	<u>\$(38,957)</u>	<u>\$55,532</u>	<u>\$121,774</u>	<u>\$(63,491)</u>	<u>\$58,283</u>

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 the fiscal years ended September 30, 2021, 2020 and 2019, amortization expense related to intangible assets totaled \$6.6 million, \$9.0 million and \$11.3 million, respectively.

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As of September 30, 2021, the expected future amortization expense related to definite-lived intangible assets is as follows (in thousands):

<u>Fiscal Year:</u>	
2022	\$ 4,017
2023	2,867
2024	1,894
2025	1,439
2026	345
Thereafter	—
	<u>\$10,562</u>

10. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	<u>September 30,</u>	
	<u>2021</u>	<u>2020</u>
Compensation and benefits	\$ 73,344	\$ 54,749
Interest payable	24,101	29,048
Deferred revenue	18,543	16,728
Rental obligations	10,501	8,964
Insurance reserves	5,934	4,796
Property and other taxes	3,853	4,109
Operating accruals and other	69,879	52,271
Total accrued liabilities	<u>\$206,155</u>	<u>\$170,665</u>

11. Commitments and Contingencies

Commitments

Letters of Credit

We had \$18.3 million and \$18.6 million of outstanding letters of credit as of September 30, 2021 and 2020, respectively.

Contingencies

Legal Proceedings

The Company is, from time to time, involved in various claims and lawsuits incidental to the conduct of its 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, 2021 and 2020.

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12. Debt

Short-term Debt

In May 2021, we entered into a third amendment to our five-year asset-based senior secured loan facility (the “ABL facility”) with a syndicate of banks, which reduced the revolving commitment thereunder from \$600.0 million to \$500.0 million and extended the maturity to May 11, 2026. In connection with the amendment, we incurred \$1.3 million in debt issuance costs that will be amortized over the life of the ABL facility.

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) London Interbank Offered Rate 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, 2021 and 2020, there were no outstanding borrowings under our ABL facility. At September 30, 2021, we had \$468.5 million available for borrowing, thereunder, including our Canadian sub-facility, subject to borrowing base limitations, as reduced by outstanding letters of credit.

Long-term Debt

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

	September 30,		Interest Rates
	2021	2020	
Term loan B:			
Variable-rate tranche	\$ 413,000	\$ 422,625	LIBOR plus 2.25%
Fixed-rate tranche	—	213,163	4.500%
Senior notes due Nov. 2023	—	197,419	5.500%
Senior notes due Apr. 2025	300,000	300,000	8.750%
Senior notes due Dec. 2025	679,961	679,961	5.625%
Total	<u>\$1,392,961</u>	<u>\$1,813,168</u>	
Plus: capital lease obligations	679	864	
Less: unamortized debt issuance costs and discount, net	<u>10,916</u>	<u>16,955</u>	
Total debt	<u>\$1,382,724</u>	<u>\$1,797,077</u>	
Less: current maturities	<u>194</u>	<u>180</u>	
Total long-term debt	<u><u>\$1,382,530</u></u>	<u><u>\$1,796,897</u></u>	

Maturities of our debt, excluding capital leases, are as follows at September 30, 2021 (in thousands):

Fiscal Year:	
2022-2023	\$ —
2024	413,000
2025	300,000
2026	679,961
Thereafter	—
Total	<u><u>\$1,392,961</u></u>

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Term Loan B

In July 2017, we entered into a seven-year term loan pursuant to which we borrowed \$850 million (the “term loan B”). Borrowings under the term loan B are 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 the ABL facility on a first priority basis. The term loan B matures on July 5, 2024. Interest is payable monthly on the variable-rate tranche and quarterly on the fixed-rate tranche.

In January 2021, we paid the remaining \$213.2 million aggregate principal amount of our term loan B fixed tranche at par, excluding accrued interest. In connection with the repayment, we recognized a \$1.4 million loss on the extinguishment of debt from the write-off of unamortized deferred financing costs.

Additionally in June 2021, we elected to repay \$8.3 million aggregate principal amount of our term loan B variable tranche. Furthermore in September 2021, we elected to repay an additional \$1.4 million aggregate principal amount. These optional prepayments did not have any early prepayment penalties. In connection with the prepayments, we recognized a loss on extinguishment of debt of \$0.1 million from the write-off of unamortized deferred financing costs.

Senior Notes

The senior notes due 2023 and the senior notes due December 2025, which we refer to collectively as “the senior notes due 2023 and 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 senior notes due 2023 and 2025 is payable semi-annually, during our first and third fiscal quarters.

On April 1, 2021, we called the entire outstanding balance of \$197.4 million of our 5.50% senior notes due 2023 at par plus a premium. In connection with the repayment, we recognized losses on extinguishment of debt in the aggregate amount of \$2.8 million, which included a \$1.8 million call premium and the write-off of \$1.0 million in unamortized deferred financing costs.

On April 24, 2020, we closed on \$300.0 million of our Senior Secured Notes and received \$295.5 million in net proceeds from the Senior Secured Notes offering. The notes bear interest at a rate of 8.75% and were issued at par. The Senior Secured Notes are guaranteed on a senior secured basis by the guarantors who have guaranteed obligations under our senior secured credit facilities and our existing notes.

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. As of September 30, 2021, we are in compliance with all debt covenants and all the net assets of our consolidated subsidiaries were unrestricted from transfer.

13. Derivative Instruments

As of September 30, 2021, we did not purchase or hold any derivative instruments for trading or speculative purposes. See Note 4 for the classification and fair value of our derivative instruments.

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Designated Cash Flow Hedges

Foreign Currency Forwards

During the fiscal year ended September 30, 2021, 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 2021. As of September 30, 2021, 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, 2021, we expect to reclassify approximately \$0.5 million in net losses into cost of goods sold over the next 12 months.

During the fiscal year ended September 30, 2021, we reclassified \$0.3 million of net losses 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”). The interest rate caps are made up of individual caplets that expire monthly through June 30, 2023 and are designated as cash flow hedges.

Over the next 12 months, we expect to reclassify approximately \$1.7 million into interest expense, which represents the original value of the expiring caplets.

During the fiscal year ended September 30, 2021, we reclassified \$1.2 million into interest expense.

14. 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 \$6.2 million, \$5.8 million and \$6.2 million in the fiscal years ended September 30, 2021, 2020 and 2019, 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 years ended September 30, 2021, 2020 and 2019, we did not make a profit sharing contribution to the 401(k) Plans.

15. Income Taxes

U.S. Tax Law Changes

In response to the global pandemic related to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted on March 27, 2020. The CARES Act provides numerous tax provisions and other stimulus measures, including temporary changes regarding the prior and future utilization of net operating losses, temporary changes to the prior and future limitations on interest deductions, technical corrections from

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prior tax legislation for tax depreciation of certain qualified improvement property, temporary suspension of certain payment requirements for the employer portion of social security taxes, and the creation of certain refundable employee retention credits. There was not a material impact on our income tax expense for the fiscal years ended September 30, 2021 and 2020, related to the CARES Act. We will continue to monitor legislative developments related to COVID-19 and will record the associated income tax impacts in the periods that guidance is finalized or when we are able to reasonably estimate an impact.

On December 22, 2017, the U.S. enacted comprehensive amendments to the Internal Revenue Code of 1986 (“U.S. Tax Reform”). Among other things, U.S. Tax Reform (a) reduced the federal statutory tax rate for corporate taxpayers, (b) provided for a deemed repatriation of undistributed foreign earnings by U.S. taxpayers and made other fundamental changes on how foreign earnings will be taxed by the U.S. and (c) otherwise modified corporate tax rules in significant ways.

The U.S. Treasury Department has issued final regulations covering the one-time transition tax on unrepatriated foreign earnings, which was enacted as part of U.S. Tax Reform. Certain guidance included in these final regulations is inconsistent with our interpretation of the enacted tax law that led to the recognition of a \$2.5 million benefit in the first quarter of fiscal year 2019. Notwithstanding this inconsistency, we remain confident in our interpretation of the Internal Revenue Code and intend to defend this position through litigation, if necessary. However, if we are ultimately unsuccessful in defending our position, we may be required to reverse the benefit.

Beginning with our first quarter of fiscal year 2019, we are subject to taxation on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries. We have made the policy election to record this tax as a period cost at the time it is incurred. The impact from GILTI was immaterial for fiscal years 2021, 2020, and 2019. For the fiscal year ended September 30, 2020, the provision for income taxes also includes a benefit due to a reduction of prior year tax related to GILTI. The benefit is a result of favorable final Regulations being issued by the Department of Treasury in July 2020, which can be applied retroactively.

The provision for income taxes for the fiscal years 2021, 2020 and 2019 consists of the following (in thousands):

	<u>Fiscal Year Ended September 30,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current:			
Federal	\$64,526	\$22,282	\$59,855
Foreign	14,869	6,120	10,132
State	14,364	4,730	15,339
Total current portion	<u>93,759</u>	<u>33,132</u>	<u>85,326</u>
Deferred:			
Federal	(6,054)	10,177	4,905
Foreign	(1,195)	1,321	(1,498)
State	(1,434)	2,092	1,808
Total deferred portion	<u>(8,683)</u>	<u>13,590</u>	<u>5,215</u>
Total provision for income taxes	<u>\$85,076</u>	<u>\$46,722</u>	<u>\$90,541</u>

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

	Fiscal Year Ended September 30,		
	2021	2020	2019
U.S. federal statutory income tax rate	21.0%	21.0%	21.0%
State income taxes, net of federal tax benefit	3.0	3.4	3.4
Effect of foreign operations	0.8	(0.4)	0.2
Foreign valuation allowances	0.6	4.6	(0.2)
Tax law change - GILTI	—	(1.0)	—
Deemed repatriation tax	—	0.2	(0.3)
Share-based payment awards	0.6	1.2	0.6
Other, net	<u>0.2</u>	<u>0.2</u>	<u>0.3</u>
Effective tax rate	<u>26.2%</u>	<u>29.2%</u>	<u>25.0%</u>

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

	September 30,	
	2021	2020
Deferred tax assets attributable to:		
Foreign loss carryforwards	\$ 34,007	\$ 35,091
Accrued liabilities	18,662	8,871
Share-based compensation expense	8,392	8,988
U.S. foreign tax credits	11,199	11,199
U.S. federal social security tax deferral	3,089	4,038
Inventory adjustments	2,754	2,131
Other	<u>2,984</u>	<u>1,101</u>
Total deferred tax assets	81,087	71,419
Valuation allowance	<u>(51,810)</u>	<u>(50,543)</u>
Total deferred tax assets, net	<u>29,277</u>	<u>20,876</u>
Deferred tax liabilities attributable to:		
Depreciation and amortization	<u>109,038</u>	<u>107,672</u>
Net deferred tax liability	<u>\$ 79,761</u>	<u>\$ 86,796</u>

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. We have recorded a valuation allowance to account for uncertainties regarding recoverability of certain deferred tax assets, primarily foreign loss carryforwards.

Domestic earnings before provision for income taxes were \$288.0 million, \$168.0 million and \$328.3 million in the fiscal years 2021, 2020 and 2019, respectively. Foreign earnings before provision for income taxes of \$36.9 million in the fiscal year 2021, a loss before provision for income taxes of \$8.0 million in the fiscal year 2020 and earnings before provision for income taxes of \$33.9 million in the fiscal year 2019.

Sally Beauty Holdings, Inc. and Subsidiaries
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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.

As of September 30, 2021, 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, 2021, an immaterial amount of additional deferred taxes would have been provided.

At September 30, 2021 and 2020, we had total operating loss carry-forwards of \$125.7 million and \$128.2 million, respectively, of which \$109.4 million and \$111.7 million, respectively, are subject to a valuation allowance. At September 30, 2021, operating loss carry-forwards of \$3.0 million expire between 2021 and 2032 and operating loss carry-forwards of \$122.7 million have no expiration date. At September 30, 2021 and 2020, we had tax credit carry-forwards of \$14.1 million and \$13.8 million, respectively. This includes a U.S. foreign tax credit carry-forward of \$11.2 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, 2021, \$1.2 million expire between 2024 and 2028, \$0.3 million expire between 2032 and 2036 and \$1.4 million have no expiration date. Total tax credit carry-forwards of \$12.6 million are subject to a valuation allowance at September 30, 2021 and 2020.

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

	Fiscal Year Ended	
	September 30,	
	<u>2021</u>	<u>2020</u>
Balance at beginning of the fiscal year	\$2,053	\$2,000
Increases related to prior year tax positions	5	—
Decreases related to prior year tax positions	(2)	(4)
Increases related to current year tax positions	195	250
Lapse of statute	(159)	(193)
Balance at end of fiscal year	<u>\$2,092</u>	<u>\$2,053</u>

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

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 \$0.3 million and \$0.2 million at September 30, 2021 and 2020, 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.

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Our consolidated federal income tax return for the fiscal year ended September 30, 2019, is currently under IRS examination. Our consolidated federal income tax return for the fiscal year ended September 30, 2018 is currently under IRS Appeals for the aforementioned issue related to the transition tax on unrepatriated earnings. Our statute remains open for the fiscal year ended September 30, 2018, 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 2016 forward.

16. Acquisitions

On September 28, 2020, we acquired La Maison Ami-Co (1981) Inc. (“Ami-Co”), a professional beauty products distributor with ten stores in the province of Quebec, Canada, for approximately \$8.9 million, pending certain holdbacks. In addition, this acquisition includes exclusive distribution rights in Quebec to premier professional hair color and hair care brands. We accounted for this acquisition using the acquisition method of accounting for business combinations and funded by cash on hand. Upon acquisition, we preliminarily recorded goodwill of \$5.3 million, which is not expected to be deductible for tax purposes, in connection with this acquisition. The results of operations of Ami-Co subsequent to the acquisition date and the goodwill recorded in connection with the acquisition was included within our BSG segment. The acquisition of Ami-Co was not material to our results of operations. During fiscal year 2021, we recorded post-acquisition adjustments from our purchase of Ami-Co that reduced goodwill and established \$2.5 million in intangible assets subject to amortization. Additionally, we released \$1.6 million in holdbacks in connection with the Ami-Co acquisition during the fiscal year.

In addition, we completed several other individually immaterial acquisitions during the fiscal years 2021 and 2020 in the aggregate cost of approximately \$0.7 million and \$5.7 million, respectively. As a result of these acquisitions, we recorded intangible assets subject to amortization in fiscal years 2021 and 2020 of approximately \$0.6 million and \$3.9 million, respectively.

17. 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 2. Sales between segments, which were eliminated in consolidation, were not material for the fiscal years ended September 30, 2021, 2020 and 2019.

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Business Segments Information

Segment data for the fiscal years 2021, 2020 and 2019 are as follows (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net sales (for the fiscal year indicated):			
SBS	\$2,278,382	\$2,080,703	\$2,293,094
BSG	1,596,615	1,433,627	1,583,317
Total	<u>\$3,874,997</u>	<u>\$3,514,330</u>	<u>\$3,876,411</u>
Earnings before provision for income taxes:			
Segment operating earnings:			
SBS	\$ 417,658	\$ 237,588	\$ 366,412
BSG	205,078	194,206	239,572
Segment operating earnings	622,736	431,794	605,984
Unallocated expenses	199,682	159,009	148,193
Restructuring	4,611	14,025	(682)
Consolidated operating earnings	418,443	258,760	458,473
Interest expense	93,509	98,793	96,309
Earnings before provision for income taxes	<u>\$ 324,934</u>	<u>\$ 159,967</u>	<u>\$ 362,164</u>
Depreciation and amortization:			
SBS	\$ 61,887	\$ 65,207	\$ 65,561
BSG	28,597	29,324	28,568
Corporate	11,717	12,248	13,529
Total	<u>\$ 102,201</u>	<u>\$ 106,779</u>	<u>\$ 107,658</u>
Payments for property and equipment:			
SBS	\$ 43,165	\$ 73,130	\$ 69,802
BSG	24,880	27,338	18,997
Corporate	5,859	10,390	18,956
Total	<u>\$ 73,904</u>	<u>\$ 110,858</u>	<u>\$ 107,755</u>
Total assets (as of September 30):			
SBS	\$1,235,427	\$1,370,745	\$ 973,304
BSG	1,179,263	1,106,801	1,012,336
Sub-total	2,414,690	2,477,546	1,985,640
Corporate	432,442	417,601	112,806
Total	<u>\$2,847,132</u>	<u>\$2,895,147</u>	<u>\$2,098,446</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 2021, 2020 and 2019, no single customer accounted for 10% or more of revenue.

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Geographic Area Information

Certain geographic data is as follows (in thousands):

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net sales (for the fiscal year indicated):			
United States	\$3,228,091	\$2,914,171	\$3,169,821
Other countries	646,906	600,159	706,590
Total	<u>\$3,874,997</u>	<u>\$3,514,330</u>	<u>\$3,876,411</u>
Long-lived assets (as of September 30):			
United States	\$ 267,839	\$ 264,936	\$ 259,815
United Kingdom	15,089	20,183	24,476
Other countries	24,449	29,910	35,337
Total	<u>\$ 307,377</u>	<u>\$ 315,029</u>	<u>\$ 319,628</u>

Disaggregated Revenues

The following tables disaggregate our segment revenues by merchandise category:

	Fiscal Year Ended September 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>SBS</u>			
Hair color	35.6%	33.0%	29.4%
Hair care	18.9%	18.9%	20.4%
Skin and nail care	13.9%	14.3%	14.8%
Styling tools	12.3%	12.8%	13.5%
Salon supplies and accessories	7.6%	8.1%	6.6%
Textured hair	5.9%	5.8%	7.1%
Other beauty items	5.8%	7.1%	8.2%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

	Fiscal Year Ended September 30,		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
<u>BSG</u>			
Hair color	43.7%	40.6%	39.5%
Hair care	36.8%	35.0%	35.1%
Skin and nail care	7.0%	8.0%	8.1%
Styling tools	6.4%	6.2%	3.4%
Other beauty items	2.3%	3.4%	6.3%
Promotional items	3.8%	6.8%	7.6%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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The following table disaggregates our segment revenue by sales channels:

	SBS			BSG		
	Fiscal Year Ended September 30,			Fiscal Year Ended September 30,		
	2021	2020	2019	2021	2020	2019
Company-operated stores	94.1%	91.8%	96.9%	69.1%	68.9%	69.4%
E-commerce	5.9%	8.0%	2.8%	9.2%	8.7%	4.8%
Franchise stores	—	0.2%	0.3%	7.5%	7.1%	7.6%
Distributor sales consultants	—	—	—	14.2%	15.3%	18.2%
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>

18. Restructuring

Restructuring expense and gains for the fiscal years ended September 30, 2021, 2020 and 2019, are as follows (in thousands):

	2021	2020	2019
Project Surge	\$1,451	\$ 1,511	\$ —
Transformation Plan	3,160	12,514	(682)
Total expense (gain)	<u>\$4,611</u>	<u>\$14,025</u>	<u>\$(682)</u>

Project Surge

In November 2019, we announced that we were launching 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 are focusing on several operating elements, including a review of our talent and operating structure.

The liability related to Project Surge, which is included in accrued liabilities on our consolidated balance sheets, is as follows (in thousands):

<u>Project Surge</u>	Liability at September 30, 2020	Expenses	Cash Payments	Adjustments	Liability at September 30, 2021
Workforce reductions	\$—	\$1,061	\$ 981	\$—	\$ 80
Facility closures	—	—	—	—	—
Other	—	390	390	—	—
Total	<u>\$—</u>	<u>\$1,451</u>	<u>\$1,371</u>	<u>\$—</u>	<u>\$ 80</u>

Expenses incurred during the fiscal year ended September 30, 2021, represent costs incurred by SBS of \$0.7 million, corporate of \$0.5 million and BSG of \$0.2 million.

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 are improving our marketing

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and digital commerce capabilities, and advancing our merchandising transformation efforts. In addition, we expanded our plan and announced a reduction in workforce within our field and headquarters. All these together, make up our Transformation Plan.

The liability related to the Transformation Plan, which is included in accrued liabilities on our consolidated balance sheets, is as follows (in thousands):

<u>Transformation Plan</u>	<u>Liability at September 30, 2020</u>	<u>Expenses</u>	<u>Cash Payments</u>	<u>Adjustments</u>	<u>Liability at September 30, 2021</u>
Workforce reductions	\$ 65	\$1,327	\$ 674	\$—	\$ 718
Facility closures	—	790	368	—	422
Other	—	1,043	1,043	—	—
Total	<u>\$ 65</u>	<u>\$3,160</u>	<u>\$2,085</u>	<u>\$—</u>	<u>\$1,140</u>

Expenses incurred during the fiscal year ended September 30, 2020, represent costs incurred by SBS of \$3.2 million. In addition, SBS recognized \$1.4 million in cost related to inventory write-downs in connection with the plan within cost of products sold.

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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 19, 2021

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 19, 2021

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, 2021 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 19, 2021

**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, 2021 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 19, 2021

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Robert R. McMaster

Retired Partner of KPMG LLP
Chairman of the Board

Denise Paulonis

President and Chief Executive Officer
Sally Beauty Holdings, Inc.

Timothy R. Baer

Founding Partner
TRB Partners LLC

Marshall E. Eisenberg

Founding Partner
Neal, Gerber & Eisenberg LLP

Diana S. Ferguson

Former Chief Financial Officer
Cleveland Avenue, LLC

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

President and Chief Executive Officer
Janie and Jack

John A. Miller

Co-Chairman
Envoy Solutions

Susan R. Mulder

Global Brand President
Timberland

Erin Nealy Cox

Partner
Kirkland & Ellis

Edward W. Rabin

Retired President of Hyatt Hotels Corporation

EXECUTIVE OFFICERS

Denise Paulonis

President and Chief Executive Officer

Marlo Cormier

Senior Vice President, Chief Financial Officer

John Goss

President – Sally Beauty Supply

Mark G. Spinks

President – Beauty Systems Group

John Henrich

Senior Vice President, General Counsel and
Secretary

Pamela K. Kohn

Senior Vice President and Chief Merchandising
Officer

Mary Beth Edwards

Senior Vice President, Chief Information Officer
and Chief Transformation Officer

Scott C. Sherman

Senior Vice President and Chief Human
Resources Officer

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 27, 2022, at 9:00 a.m. (Central Time) and will be done in a virtual format. The Board of Directors has also set November 29, 2021, 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 2022 following the 2022 Annual Meeting of Stockholders. Last year, we filed this certification with the NYSE after the 2021 Annual Meeting of Stockholders. A copy of the Sally Beauty Holdings, Inc. 2021 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. 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

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 be 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. Forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995, can be identified by the use of forward-looking terminology such as “believes,” “projects,” “expects,” “can,” “may,” “estimates,” “should,” “plans,” “targets,” “intends,” “could,” “will,” “would,” “anticipates,” “potential,” “confident,” “optimistic,” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy, objectives, estimates, guidance, expectations and future plans. Forward-looking statements can also be identified by the fact that these statements do not relate strictly to historical or current matters. Readers are cautioned not to place undue reliance on forward-looking statements as such statements speak only as of the date they were made. Any forward-looking statements 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, including, but not limited to, the risks and uncertainties described in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K for the year ended September 30, 2021, as filed with the Securities and Exchange Commission. Consequently, all forward-looking statements in this report are qualified by the factors, risks and uncertainties contained therein. We assume no obligation to publicly update or revise any forward-looking statements. 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.

SALLYBEAUTY
HOLDINGS, INC.