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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2022

-OR-

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

Commission File No. 1-33145

SALLY BEAUTY HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**36-2257936**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3001 Colorado Boulevard **Denton, Texas**	**76210**
(Address of principal executive offices)	(Zip Code)

(940) 898-7500
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report): N/A

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	SBH	The New York Stock Exchange

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 Section13(a) of the Exchange Act. ☐

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

As of July 29, 2022, there were 107,016,939 shares of the issuer's common stock outstanding.

TABLE OF CONTENTS

In this Quarterly 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 Quarterly Report on Form 10-Q 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” or similar expressions may also identify such forward-looking statements. Forward-looking statements may relate to, among other things, the impact on our business, operations and financial results of the novel coronavirus (“COVID-19”) pandemic.

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 contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, 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 — FINANCIAL INFORMATION

Item 1. Financial Statements.

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except par value data)

	June 30, 2022 (Unaudited)	September 30, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 101,318	$ 400,959
Trade accounts receivable, net	31,462	32,623
Accounts receivable, other	35,911	33,958
Inventory	1,014,622	871,349
Other current assets	59,806	44,686
Total current assets	1,243,119	1,383,575
Property and equipment, net of accumulated depreciation of $808,298 at June 30, 2022, and $767,403 at September 30, 2021	289,814	307,377
Operating lease assets	549,493	537,673
Goodwill	533,147	541,209
Intangible assets, excluding goodwill, net of accumulated amortization of $40,336 at June 30, 2022, and $38,957 at September 30, 2021	50,386	55,532
Other assets	19,907	21,766
Total assets	$ 2,685,866	$ 2,847,132
Liabilities and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 167,169	$ 194
Accounts payable	279,359	291,632
Accrued liabilities	165,996	206,155
Current operating lease liabilities	159,452	156,234
Income taxes payable	2,985	10,666
Total current liabilities	774,961	664,881
Long-term debt	1,083,924	1,382,530
Long-term operating lease liabilities	421,072	404,147
Other liabilities	16,781	29,056
Deferred income tax liabilities, net	93,257	85,777
Total liabilities	2,389,995	2,566,391
Stockholders' equity:		
Common stock, $0.01 par value. Authorized 500,000 shares; 107,017 and 113,138 shares issued and 106,963 and 112,913 shares outstanding at June 30, 2022, and September 30, 2021, respectively	1,070	1,129
Preferred stock, $0.01 par value. Authorized 50,000 shares; none issued	—	—
Additional paid-in capital	2,339	17,286
Accumulated earnings	418,832	356,967
Accumulated other comprehensive loss, net of tax	(126,370)	(94,641)
Total stockholders' equity	295,871	280,741
Total liabilities and stockholders' equity	$ 2,685,866	$ 2,847,132

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Net sales	$ 961,467	$ 1,022,387	$ 2,853,105	$ 2,884,737
Cost of goods sold	471,259	507,981	1,397,436	1,432,378
Gross profit	490,208	514,406	1,455,669	1,452,359
Selling, general and administrative expenses	390,961	386,481	1,156,082	1,143,738
Restructuring	44	508	1,143	1,371
Operating earnings	99,203	127,417	298,444	307,250
Interest expense	35,977	23,452	76,113	73,313
Earnings before provision for income taxes	63,226	103,965	222,331	233,937
Provision for income taxes	16,659	27,759	60,117	62,228
Net earnings	$ 46,567	$ 76,206	$ 162,214	$ 171,709
Earnings per share:				
Basic	$ 0.44	$ 0.68	$ 1.48	$ 1.52
Diluted	$ 0.43	$ 0.66	$ 1.46	$ 1.50
Weighted-average shares:				
Basic	106,940	112,739	109,238	112,605
Diluted	108,526	114,927	110,907	114,274

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Net earnings	$ 46,567	$ 76,206	$ 162,214	$ 171,709
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(27,384)	6,617	(34,645)	23,734
Interest rate caps, net of tax	2,050	471	2,328	646
Foreign exchange contracts, net of tax	432	(191)	588	(1,211)
Other comprehensive (loss) income, net of tax	(24,902)	6,897	(31,729)	23,169
Total comprehensive income	$ 21,665	$ 83,103	$ 130,485	$ 194,878

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance at September 30, 2021	**112,913**	**$ 1,129**	**$ 17,286**	**$ 356,967**	**$ (94,641)**	**$ 280,741**
Net earnings	—	—	—	68,838	—	68,838
Other comprehensive loss	—	—	—	—	(3,751)	(3,751)
Share-based compensation	—	—	3,958	—	—	3,958
Stock issued for equity awards	795	8	7,364	—	—	7,372
Employee withholding taxes paid related to net share settlement	(56)	(1)	(1,136)	—	—	(1,137)
Repurchases and cancellations of common stock	(3,675)	(36)	(27,472)	(47,492)	—	(75,000)
Balance at December 31, 2021	**109,977**	**$ 1,100**	**$ —**	**$ 378,313**	**$ (98,392)**	**$ 281,021**
Net earnings	—	—	—	46,808	—	46,808
Other comprehensive loss	—	—	—	—	(3,076)	(3,076)
Share-based compensation	—	—	2,032	—	—	2,032
Stock issued for equity awards	111	1	423	—	—	424
Employee withholding taxes paid related to net share settlement	(1)	—	(15)	—	—	(15)
Repurchases and cancellations of common stock	(3,157)	(32)	(2,440)	(52,856)	—	(55,328)
Balance at March 31, 2022	**106,930**	**$ 1,069**	**$ —**	**$ 372,265**	**$ (101,468)**	**$ 271,866**
Net earnings	—	—	—	46,567	—	46,567
Other comprehensive loss	—	—	—	—	(24,902)	(24,902)
Share-based compensation	—	—	2,113	—	—	2,113
Stock issued for equity awards	35	1	253	—	—	254
Employee withholding taxes paid related to net share settlement	(2)	—	(27)	—	—	(27)
Balance at June 30, 2022	**106,963**	**$ 1,070**	**$ 2,339**	**$ 418,832**	**$ (126,370)**	**$ 295,871**

	Common Stock		Additional Paid-in Capital	Accumulated Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance at September 30, 2020	**112,405**	**$ 1,124**	**$ 1,913**	**$ 117,109**	**$ (104,703)**	**$ 15,443**
Net earnings	—	—	—	57,191	—	57,191
Other comprehensive income	—	—	—	—	23,588	23,588
Share-based compensation	—	—	2,893	—	—	2,893
Stock issued for equity awards	158	2	(2)	—	—	—
Employee withholding taxes paid related to net share settlement	(25)	(1)	(248)	—	—	(249)
Balance at December 31, 2020	**112,538**	**$ 1,125**	**$ 4,556**	**$ 174,300**	**$ (81,115)**	**$ 98,866**
Net earnings	—	—	—	38,312	—	38,312
Other comprehensive loss	—	—	—	—	(7,316)	(7,316)
Share-based compensation	—	—	2,648	—	—	2,648
Stock issued for equity awards	141	2	2,321	—	—	2,323
Balance at March 31, 2021	**112,679**	**$ 1,127**	**$ 9,525**	**$ 212,612**	**$ (88,431)**	**$ 134,833**
Net loss	—	—	—	76,206	—	76,206
Other comprehensive income	—	—	—	—	6,897	6,897
Share-based compensation	—	—	2,617	—	—	2,617
Stock issued for stock options	101	1	1,716	—	—	1,717
Balance at June 30, 2021	**112,780**	**$ 1,128**	**$ 13,858**	**$ 288,818**	**$ (81,534)**	**$ 222,270**

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Cash Flows from Operating Activities:		
Net earnings	$ 162,214	$ 171,709
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	73,361	78,090
Share-based compensation expense	8,103	8,158
Amortization of deferred financing costs	2,702	3,280
Loss on early extinguishment of debt	16,439	2,449
Loss on disposal of equipment and other property	57	1,638
Deferred income taxes	7,702	(998)
Changes in (exclusive of effects of acquisitions):		
Trade accounts receivable	243	(8,612)
Accounts receivable, other	(3,034)	(10,363)
Inventory	(160,194)	(108,317)
Other current assets	(15,577)	(931)
Other assets	3,547	1,578
Operating leases, net	8,448	(1,595)
Accounts payable and accrued liabilities	(34,349)	78,250
Income taxes payable	(8,169)	6,372
Other liabilities	(12,266)	(2,980)
Net cash provided by operating activities	49,227	217,728
Cash Flows from Investing Activities:		
Payments for property and equipment, net of proceeds	(67,234)	(44,888)
Acquisitions, net of cash acquired	(665)	(2,351)
Net cash used by investing activities	(67,899)	(47,239)
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	283,003	—
Repayments of long-term debt, including prepayment costs	(433,383)	(418,986)
Debt issuance costs	—	(1,300)
Payments for common stock repurchased	(130,328)	—
Proceeds from equity awards	8,050	4,039
Employee withholding taxes paid related to net share settlement of equity awards	(1,179)	(249)
Net cash used by financing activities	(273,837)	(416,496)
Effect of foreign exchange rate changes on cash and cash equivalents	(7,132)	2,173
Net decrease in cash and cash equivalents	(299,641)	(243,834)
Cash and cash equivalents, beginning of period	400,959	514,151
Cash and cash equivalents, end of period	$ 101,318	$ 270,317
Supplemental Cash Flow Information:		
Interest paid	$ 75,660	$ 86,293
Income taxes paid	$ 73,862	$ 53,764
Capital expenditures incurred but not paid	$ 7,682	$ 2,098

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

1. Significant Accounting Policies

Business Operations

Sally Beauty Holdings 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, operating under two segments, Sally Beauty Supply ("SBS") and Beauty Systems Group ("BSG"). Our operations consist of company-operated stores, franchise 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, who sell directly to salons and salon professionals. SBS targets retail consumers, salons and salon professionals, while BSG targets salons and salon professionals.

Basis of Presentation

The condensed consolidated interim financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and pursuant to the rules and regulations of the SEC. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the SEC, although we believe that the disclosures included herein are adequate for the interim period presented. These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021. In the opinion of management, these condensed consolidated interim financial statements reflect all adjustments that are of a normal recurring nature and which are necessary to present fairly our consolidated financial position as of June 30, 2022, and September 30, 2021, and our consolidated results of operations, consolidated comprehensive income, consolidated statements of stockholders' equity for the three and nine months ended June 30, 2022 and 2021, and our consolidated cash flows for the nine months ended June 30, 2022 and 2021.

Principles of Consolidation

The condensed consolidated interim financial statements include all accounts of Sally Beauty Holdings, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. All amounts are in U.S. Dollars.

Accounting Policies

We adhere to the same accounting policies in the preparation of our condensed consolidated interim financial statements as we do in the preparation of our full year consolidated financial statements. As permitted under GAAP, interim accounting for certain expenses, including income taxes, is based on full-year assumptions. For interim financial reporting purposes, income taxes are recorded based upon our estimated annual effective income tax.

Use of Estimates

In order to present our financial statements in conformity with GAAP, we are required to make certain estimates and assumptions that impact our interim financial statements and supplementary disclosures. These estimates may use forecasted financial information based on reasonable information available, however are subject to change in the future. Additionally, unknown future impacts of COVID-19 may impact those estimates and assumptions as well. Significant estimates and assumptions are part of our accounting for sales allowances, deferred revenue, valuation of inventory, amortization and depreciation, intangibles and goodwill, and other reserves. We believe these estimates and assumptions are reasonable; however, they are based on management's current knowledge of events and actions, and changes in facts and circumstances may result in revised estimates and impact actual results.

Impact of COVID-19

Our operating results for the fiscal years 2022 and 2021 were adversely impacted by the COVID-19 pandemic and its effects on the global economy. Given the uncertainty around the continued effects of the COVID-19 pandemic and macro-environment, we cannot reasonably predict the effect they will have on future periods. If once again we become materially and adversely impacted, we may have to consider adjustments to our operations, inventory, liquidity, capital expenditures and accounting estimates and reserves.

2. Revenue Recognition

Substantially all of our revenue is derived through the sale of merchandise at the point-of-sale. Revenue is recognized net of estimated sales returns and sales taxes. We estimate sales returns based on historical data.

Changes to our contract liabilities, which are included in accrued liabilities in our condensed consolidated balance sheets, for the periods were as follows (in thousands):

	Nine Months Ended June 30,	
	2022	2021
Beginning Balance	$ 16,744	$ 13,947
Loyalty points and gift cards issued but not redeemed, net of estimated breakage	5,195	11,950
Revenue recognized from beginning liability	(8,132)	(9,391)
Ending Balance	$ 13,807	$ 16,506

See Note 10, *Segment Reporting*, for additional information regarding the disaggregation of our sales revenue.

3. Fair Value Measurements

Financial instruments measured on recurring basis

Consistent with the three-level hierarchy defined in ASC Topic 820, *Fair Value Measurement*, as amended, we categorize our financial assets and liabilities as follows:

(in thousands)	Classification	Fair Value Hierarchy Level	June 30, 2022	September 30, 2021
Financial Assets:				
Foreign exchange contracts	Other current assets	Level 2	$ 547	$ —
Interest rate caps	Other assets	Level 2	2,029	35
Total assets			$ 2,576	$ 35
Financial Liabilities:				
Foreign exchange contracts	Accrued liabilities	Level 2	$ 315	$ —

Financial instruments not measured at fair value

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

		June 30, 2022		September 30, 2021	
(in thousands)	Fair Value Hierarchy Level	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt, excluding capital leases					
Senior notes	Level 1	$ 679,961	$ 638,313	$ 979,961	$ 1,019,635
Term loan B	Level 2	408,875	403,764	413,000	411,451
Total long-term debt		$ 1,088,836	$ 1,042,077	$ 1,392,961	$ 1,431,086

The table above excludes amounts, if any, related to our ABL facility as the balance approximates fair value due to the short-term nature of our borrowings. The fair value of the senior notes was measured using unadjusted quoted market prices. The fair value of Term Loan B 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.

4. Stockholders’ Equity

Share Repurchases

In August 2017, our Board of Directors approved a share repurchase program authorizing the Company to repurchase up to $1.0 billion of its common stock, subject to certain limitations governed by our debt agreements. In July 2021, our Board of Directors approved a term extension of the share repurchase program for the four-year period ending September 30, 2025. As of June 30, 2022, we had authorization of approximately $595.8 million of additional potential share repurchases remaining under our share repurchase program.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Number of shares repurchased	—	—	6,832	—
Total cost of share repurchased	$ —	$ —	$ 130,328	$ —

Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustments	Interest Rate Caps	Foreign Exchange Contracts	Total
Balance at September 30, 2021	$ (92,154)	$ (2,085)	$ (402)	$ (94,641)
Other comprehensive loss before reclassification, net of tax	(34,645)	1,073	400	(33,172)
Reclassification to net earnings, net of tax	—	1,255	188	1,443
Balance at June 30, 2022	$ (126,799)	$ 243	$ 186	$ (126,370)

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

5. Weighted-Average Shares

The following table sets forth the reconciliation of basic and diluted weighted-average shares (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Weighted-average basic shares	106,940	112,739	109,238	112,605
Dilutive securities:				
Stock option and stock award programs	1,586	2,188	1,669	1,669
Weighted-average diluted shares	108,526	114,927	110,907	114,274
Anti-dilutive options excluded from our computation of diluted shares	2,406	2,188	2,385	1,670

6. Goodwill and Intangible Assets

During our second fiscal quarter, we completed our annual assessment for impairment of goodwill and indefinite-lived intangible assets. For goodwill, we used a qualitative analysis and our actual and forecasted results are exceeding the estimates from the last quantitative test. Additionally, we considered potential triggering events and determined there were none for the three months ended June 30, 2022. No material impairment losses were recognized in the current or prior periods presented in connection with our goodwill and other intangible assets.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in thousands)	2022	2021	2022	2021
Intangible assets amortization expense	$ 977	$ 1,648	$ 3,047	$ 4,956

Additionally, during the nine months ended June 30, 2022, the decreases in goodwill and other intangibles were primarily from the effects of foreign currency exchange rates of $8.3 million and $2.2 million, respectively.

7. Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 2022	September 30, 2021
Compensation and benefits	$ 67,664	$ 73,344
Deferred revenue	16,216	18,543
Rental obligations	11,187	10,501
Insurance reserves	6,098	5,934
Interest payable	3,722	24,101
Property and other taxes	2,497	3,853
Operating accruals and other	58,612	69,879
Total accrued liabilities	$ 165,996	$ 206,155

8. Short-term Borrowings and Long-term Debt

During the three months ended June 30, 2022, we issued a notice of redemption (the "Redemption Notice"), to redeem on May 31, 2022, the entire $300 million aggregate outstanding principal amount of the 8.75% Senior Secured Second Lien Notes due 2025 ("8.75% Senior Notes"). The redemption was made pursuant to the terms of the Indenture dated April 24, 2020, at a redemption price equal to 104.375% of the principal amount of the 8.75% Senior Notes plus accrued but unpaid interest to, but not including, the redemption date. On May 31, 2022, we redeemed these 8.75% Senior Notes with excess cash on hand and $150.0 million in borrowings from our ABL facility. In connection with the redemption, we recognized a loss on the extinguishment of debt of $16.4 million within interest expense, which included a redemption premium of $13.1 million and the write-off of unamortized deferred financing costs of $3.3 million.

At June 30, 2022, our ABL facility had $167.0 million in outstanding borrowings and $314.2 million available for borrowing, including the Canadian sub-facility, subject to the conditions contained therein.

9. Derivative Instruments and Hedging Activities

During the nine months ended June 30, 2022, we did not purchase or hold any derivative instruments for trading or speculative purposes. See Note 3, *Fair Value Measurements*, for the classification and fair value of our derivative instruments.

Designated Cash Flow Hedges

Foreign Currency Forwards

We regularly enter into foreign currency forwards to mitigate our exposure to exchange rate changes on inventory purchases in U.S. dollars by our foreign subsidiaries. At June 30, 2022, we held forwards, which expire ratably through September 30, 2022, with a notional amount, based upon exchange rates at June 30, 2022, as follows (in thousands):

Notional Currency	Notional Amount
Mexican Peso	$ 6,478
Euro	4,084
Canadian Dollar	2,619
Total	$ 13,181

Quarterly, the changes in fair value related to the foreign currency forwards are recorded into AOCL. As the forwards are exercised, the realized value is recognized into cost of goods sold, based on inventory turns, in our condensed consolidated statements of earnings. For the nine months ended June 30, 2022 and 2021, we recognized a loss of $0.2 million and a gain of $0.1 million, respectively. The effects of our foreign currency forwards were not material for the three months ended June 30, 2022 and 2021. Based on June 30, 2022, valuations and exchange rates, we expect to reclassify gains of approximately $1.6 million into cost of goods sold over the next 12 months.

Interest Rate Caps

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

For the nine months ended June 30, 2022 and 2021, we recognized expense of $1.3 million and $0.8 million, respectively, into interest expense on our condensed consolidated statements of earnings. The effects of our interest rate caps on our condensed consolidated statements of earnings were not material for the three months ended June 30, 2022 and 2021. Over the next 12 months, we expect to reclassify approximately $0.7 million into interest expense, which represents the original value of the expiring caplets.

10. Segment Reporting

Segment data for the three and nine months ended June 30, 2022 and 2021, is as follows (in thousands):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2022	2021	2022	2021
Net sales:				
Sally Beauty Supply ("SBS")	$ 551,725	$ 602,681	$ 1,639,040	$ 1,693,015
Beauty Systems Group ("BSG")	409,742	419,706	1,214,065	1,191,722
Total	$ 961,467	$ 1,022,387	$ 2,853,105	$ 2,884,737
Earnings before provision for income taxes:				
Segment operating earnings:				
SBS	$ 88,792	$ 116,784	$ 270,355	$ 311,975
BSG	56,067	55,265	160,621	151,680
Segment operating earnings	144,859	172,049	430,976	463,655
Unallocated expenses	45,612	44,124	131,389	155,034
Restructuring	44	508	1,143	1,371
Consolidated operating earnings	99,203	127,417	298,444	307,250
Interest expense	35,977	23,452	76,113	73,313
Earnings before provision for income taxes	$ 63,226	$ 103,965	$ 222,331	$ 233,937

Sales between segments, which are eliminated in consolidation, were not material during the three and nine months ended June 30, 2022 and 2021.

Disaggregation of net sales by segment

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
SBS	2022	2021	2022	2021
Hair color	38.3%	36.4%	37.7%	36.1%
Hair care	23.5%	22.1%	23.8%	21.6%
Styling tools and supplies	18.8%	21.3%	19.4%	22.4%
Nail	11.3%	10.9%	10.8%	10.8%
Skin and cosmetics	7.6%	8.5%	7.6%	8.4%
Other beauty items	0.5%	0.8%	0.7%	0.7%
Total	100.0%	100.0%	100.0%	100.0%

BSG	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Hair color	42.3%	44.3%	42.4%	42.4%
Hair care	40.0%	37.2%	39.9%	38.4%
Styling tools and supplies	11.4%	11.6%	11.2%	11.7%
Skin and cosmetics	3.4%	3.7%	3.9%	4.1%
Nail	2.5%	2.7%	2.3%	2.9%
Other beauty items	0.4%	0.5%	0.3%	0.5%
Total	100.0%	100.0%	100.0%	100.0%

The following tables disaggregate our segment revenue by sales channels:

SBS	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Company-operated stores	94.0%	94.2%	94.0%	93.7%
E-commerce	6.0%	5.7%	6.0%	6.2%
Franchise stores	0.0%	0.1%	0.0%	0.1%
Total	100.0%	100.0%	100.0%	100.0%

BSG	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021
Company-operated stores	66.6%	69.2%	66.9%	69.7%
Distributor sales consultants	13.9%	14.1%	13.9%	14.0%
E-commerce	11.6%	8.8%	11.8%	8.8%
Franchise stores	7.9%	7.9%	7.4%	7.5%
Total	100.0%	100.0%	100.0%	100.0%

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section should be read in conjunction with the information contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

Executive Overview

In the third quarter of fiscal year 2022, we delivered solid gross margin growth in both segments compared to the same period last year. Additionally during the quarter, we repaid the entire $300 million dollar balance on our 8.75% Senior Notes and continued to invest for growth through many of our initiatives, despite volatile market conditions and its impact on our topline performance. With a healthy balance sheet, a strong operating infrastructure and the loyalty of our core customers, we believe we are well positioned to continue navigating the macro-environment and remain focused on our four strategic pillars: leveraging our digital platform, driving loyalty and personalization, delivering product innovation and optimizing our supply chain.

Financial Summary for the Three Months Ended June 30, 2022

- Consolidated net sales for the three months ended June 30, 2022, decreased $60.9 million, or 6.0%, to $961.5 million, compared to the three months ended June 30, 2021. Consolidated net sales included a negative impact from changes in foreign currency exchange rates of $13.0 million;
- Consolidated comparable sales decreased 3.6% for the three months ended June 30, 2022, compared to the three months ended June 30, 2021;
- Consolidated gross profit for the three months ended June 30, 2022, decreased $24.2 million, or 4.7%, to $490.2 million, compared to the three months ended June 30, 2021. Gross margin increased 70 basis points to 51.0% for the three months ended June 30, 2022, compared to the three months ended June 30, 2021;
- Consolidated operating earnings for the three months ended June 30, 2022, decreased $28.2 million, or 22.1%, to $99.2 million, compared to the three months ended June 30, 2021. Operating margin decreased 220 bps to 10.3% for the three months ended June 30, 2022, compared to the three months ended June 30, 2021;
- For the three months ended June 30, 2022, our consolidated net earnings decreased $29.6 million, or 38.9%, to $46.6 million, compared to the three months ended June 30, 2021;
- For the three months ended June 30, 2022, our diluted earnings per share was $0.43 compared to $0.66 for the three months ended June 30, 2021;
- Cash provided by operations was $52.0 million for the three months ended June 30, 2022, compared to $86.2 million for the three months ended June 30, 2021; and
- During the period, we redeemed the entire outstanding principal amount of our 8.75% Senior Notes at a redemption price equal to 104.375%. As a result, we recorded a loss on debt extinguishment of $16.4 million within interest expense on our condensed consolidated statements of earnings.

Trends Impacting Our Business

Global inflationary pressures continue to impact consumer spending behavior and the cost for products and services. Moreover, there is still volatility in the global supply chain, while freight carriers are faced with higher fuel prices. During the current quarter and fiscal year, these headwinds have resulted in lower traffic and conversion in our business and increases in certain operating costs, including inbound freight and delivery expenses. Additionally, due to general labor shortages in the U.S. during the year, especially among retail and hourly employees, we have experienced an increase in our compensation costs in order to attract and retain associates. We continue to monitor these challenges and implement measures to help mitigate their impacts, including managing our inventory levels to reduce out-of-stock items, adjusting our promotional activities, optimizing our store base and expanding our partnerships with delivery service providers. Although these initiatives have helped mitigate ongoing macro-headwinds we cannot reasonably predict the long-term effects of inflation and supply chain disruptions.

In a measure to curb inflation, the U.S. Federal Reserve has continued to increase the federal funds effective rate. In turn, these increases have raised the cost of debt borrowings. We currently have approximately $575.9 million in variable rate debt, with $408.9 million hedged with interest rate caps to help mitigate the impact of raising rates. Future increases in the federal funds effective rate could have a material adverse impact to our cost of debt, including any future changes in our debt structure.

Impact of COVID-19 on Our Business

During the fiscal year, we experienced disruptions to our business as a result of the COVID-19 pandemic and we continue to take certain actions in order to protect our customers and associates. In particular, our store operations continue to face challenges and disruptions related to COVID-19 surges and spikes in infection levels. While the situation has shown signs of stabilization, we cannot reasonably predict the effects of new variants or expect improving trends to continue. Therefore, our future performance may partially depend on impacts of COVID-19 such as decreased customer in-store traffic, temporary store closures, and continued labor and supply chain disruptions.

Refer to Item 1A. “Risk Factors” in our Form 10-K for the fiscal year ended September 30, 2021, for further discussion on the risks and uncertainties created by COVID-19.

Comparable Sales

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

Overview

Key Operating Metrics

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Increase (Decrease)		Nine Months Ended June 30, 2022	Nine Months Ended June 30, 2021	Increase (Decrease)	
Net sales:								
SBS	$ 551,725	$ 602,681	$ (50,956)	(8.5)%	$ 1,639,040	$ 1,693,015	$ (53,975)	(3.2)%
BSG	409,742	419,706	(9,964)	(2.4)%	1,214,065	1,191,722	22,343	1.9%
Consolidated	$ 961,467	$ 1,022,387	$ (60,920)	(6.0)%	$ 2,853,105	$ 2,884,737	$ (31,632)	(1.1)%
Gross profit:								
SBS	$ 322,815	$ 349,167	$ (26,352)	(7.5)%	$ 960,249	$ 982,139	$ (21,890)	(2.2)%
BSG	167,393	165,239	2,154	1.3%	495,420	470,220	25,200	5.4%
Consolidated	$ 490,208	$ 514,406	$ (24,198)	(4.7)%	$ 1,455,669	$ 1,452,359	$ 3,310	0.2%
Segment gross margin:								
SBS	58.5%	57.9%	60	bps	58.6%	58.0%	60	bps
BSG	40.9%	39.4%	150	bps	40.8%	39.5%	130	bps
Consolidated	51.0%	50.3%	70	bps	51.0%	50.3%	70	bps
Net earnings:								
Segment operating earnings:								
SBS	$ 88,792	$ 116,784	$ (27,992)	(24.0)%	$ 270,355	$ 311,975	$ (41,620)	(13.3)%
BSG	56,067	55,265	802	1.5%	160,621	151,680	8,941	5.9%
Segment operating earnings	144,859	172,049	(27,190)	(15.8)%	430,976	463,655	(32,679)	(7.0)%
Unallocated expenses and restructuring (a)	45,656	44,632	1,024	2.3%	132,532	156,405	(23,873)	(15.3)%
Consolidated operating earnings	99,203	127,417	(28,214)	(22.1)%	298,444	307,250	(8,806)	(2.9)%
Interest expense	35,977	23,452	12,525	53.4%	76,113	73,313	2,800	3.8%
Earnings before provision for income taxes	63,226	103,965	(40,739)	(39.2)%	222,331	233,937	(11,606)	(5.0)%
Provision for income taxes	16,659	27,759	(11,100)	(40.0)%	60,117	62,228	(2,111)	(3.4)%
Net earnings	$ 46,567	$ 76,206	$ (29,639)	(38.9)%	$ 162,214	$ 171,709	$ (9,495)	(5.5)%
Number of stores at end-of-period (including franchises):								
SBS					3,468	3,611	(143)	(4.0)%
BSG					1,361	1,367	(6)	(0.4)%
Consolidated					4,829	4,978	(149)	(3.0)%
Comparable sales growth (decline) (b):								
SBS	(5.0)%	43.1%	(4,810)	bps	(0.5)%	11.8%	(1,235)	bps
BSG	(1.6)%	43.0%	(4,460)	bps	2.6%	12.0%	(941)	bps
Consolidated	(3.6)%	43.1%	(4,670)	bps	0.8%	11.9%	(1,110)	bps

(a) Unallocated expenses consist of corporate and shared costs and are included in selling, general and administrative expenses in our condensed consolidated statements of earnings.

(b) Our comparable sales include sales from stores that have been operating for 14 months or longer as of the last day of a month and e-commerce revenue. Additionally, our comparable sales include sales to franchisees and full service sales. Our comparable sales excludes the effect of changes in foreign exchange rates and sales from stores relocated until 14 months after the relocation. Revenue from acquisitions are excluded from our comparable sales calculation until 14 months after the acquisition. Prior to fiscal year 2022, we reported Same Store Sales. For fiscal year 2022, we are reporting Comparable Sales, which includes sales to franchisees and full service sales. We have recast prior year amounts to conform to the change. See "Comparable Sales" discussion above for further information.

Results of Operations

The Three Months Ended June 30, 2022, compared to the Three Months Ended June 30, 2021

Net Sales

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

Comparable sales	$	(28,522)
Sales outside comparable sales (a)		(10,568)
Foreign currency exchange		(11,866)
Total	$	(50,956)

(a) Includes stores opened for less than 14 months, net of stores closures

The decrease in SBS's net sales was driven by lower comparable sales, the negative impact from foreign exchange rates and the impact of closed stores. SBS's comparable sales decrease was driven by fewer transactions as a result of lower store traffic, while the average ticket was relatively unchanged, resulting from lower average unit volume offset by higher average unit retail prices, led by our color and care categories.

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

Comparable sales	$	(6,597)
Sales outside comparable sales (a)		(2,185)
Foreign currency exchange		(1,182)
Total	$	(9,964)

(a) Includes stores opened for less than 14 months, net of stores closures

The decrease in BSG's net sales was primarily due to lower comparable sales, the impact of closed stores and the negative impact from the Canadian foreign exchange rate. BSG's comparable sales was driven by fewer transactions as a result of lower store traffic, partially offset by an increase in average ticket, resulting from higher average unit retail prices, led by color, care and styling tools categories, partially offset by lower unit volume.

Gross Profit

SBS. SBS's gross profit decreased for the three months ended June 30, 2022, as a result of a decrease in net sales, partially offset by a higher gross margin. SBS's gross margin increased primarily as a result of an improvement in pricing leverage, partially offset by higher distribution and freight costs.

BSG. BSG's gross profit increased for the three months ended June 30, 2022, driven by an improvement in pricing leverage, partially offset by higher distribution and freight costs.

Selling, General and Administrative Expenses

SBS. SBS's selling, general and administrative expenses increased $1.6 million, or 0.7%, for the three months ended June 30, 2022. The increase was driven by higher compensation and compensation-related expenses of $5.4 million, resulting from higher wages within general labor markets, and higher information technology expenses of $1.2 million, partially offset by the favorable impact of foreign exchange rates of $4.6 million.

BSG. BSG's selling, general and administrative expenses increased $1.4 million, or 1.2%, for the three months ended June 30, 2022. The increase was driven primarily by higher delivery expense of $1.3 million as a result of increased fuel prices

Unallocated. Unallocated selling, general and administrative expenses, which represent certain corporate costs that have not been charged to our reporting segments, increased $1.5 million, or 3.4%, for the three months ended June 30, 2022, primarily due to higher information technology expense.

Interest Expense

The increase in interest expense is primarily due to the repayment of our 8.75% Senior Notes, which resulted in a loss from debt extinguishment of $16.4 million from an early call premium of $13.1 million and the write-off of unamortized debt issuance costs of $3.3 million in the current quarter. This increase was partially offset by the interest savings of $2.3 million from the repayment of the 8.75% Senior Notes. See "Liquidity and Capital Resources" below for additional information.

Provision for Income Taxes

The effective tax rates were 26.3% and 26.7%, for the three months ended June 30, 2022, and 2021, respectively.

The Nine Months Ended June 30, 2022, compared to the Nine Months Ended June 30, 2021

Net Sales

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

Comparable sales	$	(7,818)
Sales outside comparable sales (a)		(29,027)
Foreign currency exchange		(17,130)
Total	$	(53,975)

(a) Includes stores opened for less than 14 months, net of stores closures

The decrease in SBS's net sales was driven by the impact of store closures, the negative impact of foreign exchange rates and lower comparable sales. SBS's comparable sales were lower due to fewer transactions, impacted by lower traffic, and a lower average ticket, resulting from lower average unit volume, partially offset by higher average unit retail prices, led by our color and care categories.

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

Comparable sales	$	29,797
Sales outside comparable sales (a)		(7,468)
Foreign currency exchange		14
Total	$	22,343

(a) Includes stores opened or acquired for less than 14 months, net of stores closures

The increase in BSG's net sales was driven by higher comparable sales, partially offset by the impact of closed stores. BSG's comparable sales increase was driven by a higher average ticket, resulting from higher average unit retail prices, led by color, care and styling tools categories, partially offset by lower average unit volume.

Gross Profit

SBS. SBS's gross profit decreased for the nine months ended June 30, 2022, driven by a decrease in sales, partially offset by a higher gross margin. SBS's gross margin increase was driven by improvement of pricing leverage and fewer write-downs of obsolete personal-protective equipment, partially offset by higher distribution and freight costs and an unfavorable sales mix shift between the U.S. and international markets, resulting from the closing of certain international operations in the prior year due to COVID-19.

BSG. BSG's gross profit increased for the nine months ended June 30, 2022, driven by an increase in sales and a higher gross margin. BSG's gross margin increase was driven by improvement of pricing leverage and fewer write-downs of personal-protective equipment during the current year, partially offset by higher distribution and freight costs.

Selling, General and Administrative Expenses

SBS. SBS's selling, general and administrative expenses increased $19.7 million, or 2.9%, for the nine months ended June 30, 2022. The increase was driven by higher compensation and compensation-related expenses of $17.5 million, as a result of higher wages within general labor markets and store re-openings in certain international markets, and the unfavorable impact from foreign exchange rates of $7.1 million. These headwinds were partially offset by lower delivery expenses of $2.9 million, as a result of lower e-commerce sales, and lower facility costs of $2.2 million, as a result of operating fewer stores.

BSG. BSG's selling, general and administrative expenses increased $16.3 million, or 5.1%, for the nine months ended June 30, 2022. The increase was driven by higher delivery expense of $3.8 million, depreciation and amortization of $3.5 million, advertising expense of $2.1 million, credit card fees of $1.4 million, utility expenses of $1.0 million and compensation and compensation-related expenses of $0.9 million.

Unallocated. Unallocated selling, general and administrative expenses, which represent certain corporate costs that have not been charged to our reporting segments, decreased $23.6 million, or 15.3%, for the nine months ended June 30, 2022, as a result of lower COVID-19 expenses of $26.4 million, including the impact of $31.2 million in donation expense in the prior year, partially offset by higher information technology expense of $3.4 million.

Interest Expense

The increase in interest expense is primarily due to the repayment of our 8.75% Senior Notes, which resulted in a loss from debt extinguishment of $16.4 million during the nine months ended June 30, 2022, compared to loss from debt extinguishment of $4.3 million related to our repayment of our senior notes due 2023 and our term loan B fixed tranche during the prior period. This was partially offset by the interest savings in connection with these repayments for $10.2 million during the fiscal year. See "Liquidity and Capital Resources" below for additional information.

Provision for Income Taxes

The effective tax rates were 27.0% and 26.6%, for the nine months ended June 30, 2022 and 2021, respectively.

Liquidity and Capital Resources

Overview

Our capital structure contains a mix of debt and equity, and a substantial portion of our liquidity needs arise from our outstanding indebtedness and from funding the costs of our operations, working capital, capital expenditures, debt repayment and share repurchases. Working capital (current assets less current liabilities) decreased $250.5 million, to $468.2 million at June 30, 2022, compared to $718.7 million at September 30, 2021. This decrease was driven by the repayment of our 8.75% Senior Notes through the use of excess cash and additional borrowing on our ABL facility. Additionally, cash was further reduced by stock repurchases during the fiscal year. The decrease to working capital was partially offset by higher inventory as a result of the inflationary cost increases on our purchases and additional inventory relating to BSG's distribution partnership with Regis to service their salons account.

At June 30, 2022, cash and cash equivalents were $101.3 million. We anticipate that existing cash balances (excluding certain amounts permanently invested in connection with foreign operations), cash expected to be generated by operations, and funds available under our ABL facility will be sufficient to fund working capital requirements, potential acquisitions, anticipated capital expenditures, including information technology upgrades and store remodels, and debt repayments over the next twelve months. We have continued to focus on reducing our debt levels and shares outstanding through repurchases, while also being proactive in maintaining our financial flexibility.

We utilize our ABL facility for the issuance of letters of credit, certain working capital and liquidity needs, and to manage normal fluctuations in our operational cash flow. In that regard, we may from time to time draw funds under the ABL facility for general corporate purposes including funding of capital expenditures, acquisitions, interest payments due on our indebtedness, paying down other debt and share repurchases. During the nine months ended June 30, 2022, the weighted average interest rate on our borrowings under the ABL facility was 2.9%. As of June 30, 2022, we had $167.0 million outstanding and $314.2 million available for borrowings under our ABL facility, subject to borrowing base limitations, as reduced by outstanding letters of credit. Amounts drawn on our ABL facility are generally paid down with cash provided by our operating activities.

Share Repurchase Programs

During the nine months ended June 30, 2022, we repurchased 6.8 million shares of our common stock for $130.3 million with existing cash balances. As of June 30, 2022, we had authorization of approximately $595.8 million of additional potential share repurchases remaining under our share repurchase program.

Cash Flows

Historically, our primary source of cash has been net funds provided by operating activities and, when necessary, borrowings under our ABL facility. Historically, the primary uses of cash have been for share repurchases, capital expenditures, repayments and servicing of long-term debt and acquisitions.

Net Cash Provided by Operating Activities

Net cash provided by operating activities during the nine months ended June 30, 2022, decreased $168.5 million to $49.2 million, compared to the nine months ended June 30, 2021. This decrease was driven by the reduction in our accrued liabilities, primarily due to the timing of personal-protective equipment donations and a lower bonus accrual, as well as higher inventory purchases compared to the nine months ended June 30, 2021.

Net Cash Used by Investing Activities

Net cash used by investing activities during the nine months ended June 30, 2022, increased $20.7 million to $67.9 million, compared to the nine months ended June 30, 2021. This was driven by additional investments in technology and store leasehold improvements.

Net Cash Used by Financing Activities

Net cash used by financing activities for the nine months ended June 30, 2022, decreased $142.7 million to $273.8 million, as a result of lower net debt repayments during the fiscal year, compared to prior fiscal year, partially offset by share repurchases during the nine months ended June 30, 2022.

Debt and Guarantor Financial Information

At June 30, 2022, we had $1,255.8 million in debt, not including capital leases, unamortized debt issuance costs and debt discounts, in the aggregate, of $4.7 million. Our debt consisted of $680.0 million in senior notes outstanding, $408.9 million remaining on our term loan and $167.0 million in outstanding borrowings under our ABL facility. During the fiscal year, we called and redeemed our 8.75%

Senior Notes, at a redemption price equal to 104.375% of the principal amount, through a combination of excess cash and borrowings under our ABL facility.

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

Guarantor Financial Information

We currently have 5.625% Senior Notes due 2025 outstanding. These notes were issued by our wholly-owned subsidiaries, Sally Holdings LLC and Sally Capital Inc. (the "Issuers"), and registered with the Securities and Exchange Commission 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 June 30, 2022, and September 30, 2021 (in thousands):

	June 30, 2022	September 30, 2021
Inventory	$ 790,561	$ 662,802
Intercompany receivable	$ —	$ 67,337
Current assets	$ 920,021	$ 1,069,266
Total assets	$ 2,061,778	$ 2,198,990
Intercompany payable	$ 15,168	$ —
Current liabilities	$ 653,989	$ 422,137
Total liabilities	$ 2,178,657	$ 2,343,946

The following table presents the summarized statement of income information for nine months ended June 30, 2022 (in thousands):

Net sales	$ 2,317,150
Gross profit	$ 1,193,543
Earnings before provision for income taxes	$ 184,505
Net Earnings	$ 137,808

Contractual Obligations

There have been no material changes outside the ordinary course of our business in any of our contractual obligations since September 30, 2021, except for the repayment of our 8.75% Senior Notes and the additional ABL borrowings. In connection with these events, our contractual obligations contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, should be adjusted as follows (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	$ 122,186	$ (20,540)	$ (339,375)	$ —	$ (237,729)

Off-Balance Sheet Financing Arrangements

At June 30, 2022, and September 30, 2021, we had no off-balance sheet financing arrangements other than outstanding letters of credit related to inventory purchases and self-insurance programs.

Critical Accounting Estimates

There have been no material changes to our critical accounting estimates or assumptions since September 30, 2021.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a multinational corporation, we are subject to certain market risks including foreign currency fluctuations, interest rates and government actions. There have been no material changes to our market risks from September 30, 2021. See our disclosures about market risks contained in Item 7A. "Quantitative and Qualitative Disclosures about Market Risk" in Part II of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

Item 4. Controls and Procedures

Controls Evaluation and Related CEO and CFO Certifications. Our management, with the participation of our principal executive officer ("CEO") and principal financial officer ("CFO"), conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2022. 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 Quarterly 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 that 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 Quarterly 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 that appropriate corrective action, including process improvements, was being undertaken if needed. This type of evaluation is performed on a quarterly basis so that 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 June 30, 2022, 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 that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During our most recent 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.

PART II — OTHER INFORMATION

Item 1. 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 that may or may not cover any or all of our liabilities in respect of these matters. We do not believe that 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 that we are in material compliance with such laws and regulations, although no assurance can be provided that this will remain true going forward.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors contained in Item 1A. "Risk Factors" in Part I of our Annual Report on Form 10-K for the fiscal year ended September 30, 2021, which could materially affect our business, financial condition or future results. There have been no material changes from the risk factors disclosed in such Annual Report. The risks described in such Annual Report and herein are not the only risks facing our company.

Item 6. Exhibits

Exhibit No.	Description
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
10.1	Separation agreement between Pamela Kohn and the Company effective as of May 31, 2022*
22	List of Subsidiary Guarantors*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Denise Paulonis*
31.2	Rule 13a-14(a)/15d-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 Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2022, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Earnings; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Stockholders' Equity; (v) the Condensed Consolidated Statements of Cash Flows; and (vi) the Notes to Condensed Consolidated Financial Statements.
104	The cover page from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2022, formatted in Inline XBRL (contained in Exhibit 101).

* Included herewith

SIGNATURES

Pursuant to the requirements 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.

SALLY BEAUTY HOLDINGS, INC.
(Registrant)

Date: August 4, 2022

By: /s/ Marlo M. Cormier
Marlo M. Cormier
Senior Vice President, Chief Financial Officer
For the Registrant and as its Principal Financial Officer

SEPARATION AGREEMENT

This Separation Agreement **("Agreement")** is entered into by and between **Pamela Kohn ("Employee") and Sally Beauty Supply LLC ("Employer").**

1. **Separation of Employment.** Employee separated from employment with Employer on May 31, 2022 (the **"Separation Date").**

2. **Consideration.** In consideration of the release of all claims by Employee as provided for in this Agreement, and for the other agreements by Employee herein, Employer will provide Employee the following as consideration (the **"Release Consideration")** after this Agreement's Effective Date (as defined below), provided that Employee remains in compliance with this Agreement:

a. Payment of the gross amount of **$618,000.00** (less any withholdings required by law or deductions authorized by the parties' previous agreement or as otherwise agreed to in this Agreement), payable monthly in 6 equal installments of **$103,000.00** beginning on the first day of the month following the Effective Date of this Agreement.

b. Payment of the net amount of **$29,619.60** (with the gross amount paid being subject to withholdings required by law or deductions authorized by the parties' previous agreement or as otherwise agreed to in this Agreement), with the after-tax amount representing the cost to Employer for 12 months of health insurance continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA).

c. Payment of a prorated annual bonus for fiscal year 2022, equal to (1) the bonus, if any, that would have been earned by Employee for fiscal year 2022 if she had remained employed on the normal payment date for such bonus under Employer's Annual Incentive Plan, based on actual performance under applicable financial metrics, (2) multiplied by a fraction, the numerator of which is the number of days worked by Employee during fiscal year 2022 and the denominator of which is 365 (the "Prorated Final Year Bonus"). This Prorated Final Year Bonus will be paid at the same time that the fiscal year 2022 annual bonuses are paid under Employer's Annual Incentive Plan to active participants.

d. Provision of 12 months of outplacement services at the Elite Level through RiseSmart or an equivalent provider approved by Employer.

Employee agrees that this Release Consideration is in addition to anything of value to which Employee already is entitled.

3. **Release.** In consideration of the Release Consideration, Employee hereby fully, finally, and completely releases Employer and its predecessors, successors, parents, subsidiaries, affiliates, shareholders, partners, current and former officers, directors, employees, agents, attorneys and representatives (collectively, the **"SBH Related Entities"),** from any and all claims, actions, demands, and/or causes of action, of whatever kind or character, whether now known or unknown, arising from, relating to, or in any way connected with, facts or events occurring on or before the date on which Employee executes this Agreement. **Employee agrees that this Agreement includes without limitation a release of any and all employment claims, negligence claims, contractual claims, wrongful discharge claims, and claims of discrimination or retaliation of every possible kind,** including but not limited to, claims on the basis of race, color, sex, sexual orientation, gender identity, national origin, religion, disability, age, whistleblower status, and claims under local, state or federal law, including, but not limited to the Americans with Disabilities Act, the Age Discrimination in Employment Act ***("ADEA"),*** the National Labor Relations Act ***("NLRA"),*** Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1866, the Family Medical Leave Act of 1993, the Worker Adjustment and Retraining Notification Act and similar state laws, and other federal, state or local laws relating to employment or termination of employment, any personal injury or other tort claims, and any related attorneys' fees and costs claims, if any, that Employee may have against Employer or any of the SBH Related Entities. Employee waives and releases Employer and the SBH Related Entities from any claims that this Agreement was procured by fraud or signed under duress or coercion so as to make any of the terms or provisions of this Agreement not binding. Employee also waives the right to become a member of any class in a case in which claims are asserted against any of the SBH Related Entities based on acts or events occurring on or before the date on which Employee executes this Agreement. The general release in this Agreement specifically includes a release of any claims under state and local laws based on acts or events occurring on or before the date on which Employee executes this Agreement, including to the extent applicable claims under Texas Labor Code Chapters 21 and 45, the Minnesota Human Rights Act, the West Virginia Human Rights Act, the Massachusetts Wage Payment Act, the California Fair Employment & Housing Act, the California Labor Code, the California Family Rights Act, the California Constitution, the California Industrial Welfare Commission Wage Orders, and the California Government Code. If Employee resides or works in West Virginia, Employee may contact the West Virginia Bar Association at 866-989-8227 to find an attorney.

Employee specifically agrees that she was informed of Employer's decision and intent to separate her employment and, by signing this Agreement, Employee waives any claims regarding the separation of her employment with Employer and all issues and actions that preceded or related to that decision.

Employee understands that (a) this Agreement specifically includes a release of claims for age discrimination under the ADEA, and (b) nothing in this Agreement is intended to interfere with or deter Employee's right to challenge the waiver of an ADEA claim or state law age discrimination claim or the filing of an ADEA charge or ADEA complaint or state law age discrimination complaint or charge with the Equal Employment Opportunity Commission ***("EEOC')*** or any state discrimination agency or commission or to participate in any investigation or proceeding conducted by those agencies. Further, Employee understands that nothing in this Agreement would require Employee to tender back the money received under this Agreement if Employee seeks to challenge the validity of the ADEA or state law age discrimination waiver, nor does the Employee agree to ratify any ADEA or state law age discrimination waiver that fails to comply with the Older Workers' Benefit Protection Act by retaining the money received under the Agreement. Further, nothing in this Agreement is intended to require the payment of damages, attorneys' fees, or costs to Employer should Employee challenge the waiver of an ADEA or state law age discrimination claim or file an ADEA or state law age discrimination suit except as authorized by federal or state law.

Notwithstanding the above paragraph, Employee agrees to waive any right to recover monetary damages in any charge, complaint, or lawsuit against Employer filed by Employee or by anyone else on Employee's behalf, with the exception of complaints or claims made to/with the United States Securities and Exchange Commission ***("SEC').*** Nothing in this Agreement shall prevent Employee from filing a complaint or claim or communicating in any way with the SEC and obtaining any and all SEC monetary benefits/award.

Employee also acknowledges (i) receipt of all compensation and benefits due through the date Employee signs this Agreement as a result of services performed for Employer with the receipt of a final paycheck except as provided in this Agreement; (ii) Employee has reported to Employer in writing any and all work-related injuries incurred during employment with Employer; (iii) Employer properly provided any leave of absence because of Employee's or a family member's health condition and Employee has not been subjected to any improper treatment, conduct or actions due to a request for or taking such leave; and (iv) Employee has provided Employer with written notice of any and all concerns regarding suspected ethical and compliance issues or violations on the part of Employer or any released person or entity.

4. **Release of Unknown Claims.** For the purpose of implementing a full and complete release, Employee expressly acknowledges and agrees that this Agreement resolves all legal claims she may have against SBH Related Entities as of the date of this Agreement, including but not limited to claims that she did not know or suspect to exist in her favor at the time of the effective date of this Agreement.

5. **Confidentialityand Non-disparagement.** Employee agrees to keep the terms and conditions of this Agreement confidential to the extent allowed by law, except Employee may supply a copy to Employee's accountant or other financial advisor solely in connection with preparing Employee's income tax return, and Employee may disclose this Agreement to members of Employee's immediate family and to Employee's attorney on a confidential basis. Employee may also provide a copy of this Agreement to a potential future employer, after receipt of a job offer, to confirm any ongoing obligations owed to Employer under the terms of the Agreement.

Employee also agrees to keep confidential any and all discussions, communications, and documents relating to the issues and negotiations that led to this Agreement and the underlying facts, allegations, documents, and communications related to any claims of discrimination Employee made during Employee's employment with Employer. Employee further agrees not to talk about or otherwise communicate to any third parties in a malicious, disparaging, or defamatory manner regarding Employer or any of the SBH Related Entities. Employee also agrees that Employee shall not make or authorize to be made any written or oral statement that may disparage or damage the reputation of Employer.

Nothing in this paragraph or Agreement is to be construed to preclude Employee or any individual from communicating with any government agency, including the EEOC, the National Labor Relations Board ***("NLRB"),*** and the Securities and Exchange Commission (***"SEC'),*** and/or otherwise participating in any investigation or proceeding that may be conducted by any government agencies in connection with any charge or complaint, whether filed by Employee, on Employee's behalf, or by any other individual.

6. **Confidential Information and Trade Secrets.** Employee acknowledges Employee's ongoing legal and fiduciary obligations to maintain, and hereby contractually agrees to maintain, the confidentiality of Employer's confidential business-related information and trade secrets, including, but not limited to, Employer's strategy, future plans, merchandising, marketing and sales initiatives, and proprietary business methods and processes.

7. **Agreement Not to Solicit Employees or Business.** In accordance with Employee's Performance Unit Award Agreement, Employee further confirms that for a period of one year following the Separation Date, Employee will not interfere with the business relationships between the SBH Related Entities and any customer, supplier, or vendor by soliciting, inducing, or otherwise encouraging the customer, supplier, or vendor to reduce or stop doing business with an SBH Related Entity.

Additionally, for a period of one year after the Separation Date, Employee shall not, nor will Employee assist any third party to, directly or indirectly, recruit, raid, solicit, hire, retain, or attempt to persuade any employee of Employer or an SBH Related Entity with whom Employee had contact in the course of such employee's employment with Employer or an SBH Related Entity to terminate such employee's employment with Employer or an SBH Related Entity. Employee further agrees not to communicate, by any means whatsoever, with any such employee of Employer or an SBH Related Entity regarding the termination of such individual's employment, during the time period set forth above. Should any such employee of Employer or an SBH Related Entity initiate any such communication with Employee, Employee shall immediately change the subject and take reasonable measures to prevent any further communication related to the issue.

8. __**Covenant Not to Compete.**__ Employee agrees that for a period of one year after the Separation Date, Employee shall not, either directly or indirectly, engage in ***"competition"*** (as defined below) within the ***"geographic region"*** (as defined below).

a. ***"Competition"*** is defined as: (i) engaging in the business of distributing beauty products; (ii) engaging in other types of business performed by Employer or an SBH Related Entity or in which Employer or an SBH Related Entity has plans to engage or has engaged in the one year period immediately preceding the Separation Date if Employee has knowledge or information about such activities; and (iii) rendering advice or services to, or otherwise assisting, any other person or entity in the business of (i) or (ii) above.

b. ***"Geographic region"*** means any and all counties, states, and countries in which Employee has worked for Employer or an SBH Related Entity, performed services for Employer or an SBH Related Entity, or been engaged in Employer or an SBH Related Entity's business, whether in person or through any other means whatsoever, during the one-year period immediately preceding the Separation Date. "Geographic region" includes but is not limited to the region encompassed by a 50-mile radius from each office or location of Employer or an SBH Related Entity from or for which Employee has worked or performed services for Employer or an SBH Related Entity.

Employee acknowledges that the foregoing restrictions limit Employee's ability to engage in certain activities in the "geographic region" and during the period provided for above. Employee expressly warrants and represents that these restrictions with respect to time, geographic territory, and scope of activity are reasonable and necessary. Employee also warrants and represents that employment opportunities outside the scope of the restrictions exist and remain available to Employee, Employee's skill sets are transferable to other industries and businesses not in competition with Employer, and Employee shall forfeit and immediately repay the Release Consideration should Employee violate this Agreement.

9. __**Breach of Paragraphs 5-8**__**.** Employee agrees that if she breaches any provision contained in paragraphs 5-8 above, Employer is discharged from making any further payments under Paragraph 2 and that Employee is obligated to reimburse Employer any monies paid pursuant to Paragraph 2 prior to the breach, in addition to any other remedies available to Employer.

10. __**Tax Indemnification**__**.** Employee acknowledges and agrees that Employer has not made any representations to Employee regarding the tax consequences of any amounts received by Employee pursuant to this Agreement. The parties further agree that if any local, state, or federal authority determines that the tax treatment for payments made under this Agreement is improper or impermissible, Employee shall be solely responsible for payment of all such taxes due, including interest and penalties, and Employee shall indemnify Employer for all such tax payments, including interest and penalties. To the extent Employer is penalized for any failure to withhold or pay taxes, Employee agrees that Employee will indemnify Employer for its costs, expenses, fees (including reasonable and necessary attorneys' fees) and/or penalties with respect to taxes or the failure to withhold.

11. __Cooperation.__ Employee agrees that she will assist and cooperate with Employer regarding any legal matters, including litigation matters that arise or continue beyond the separation of Employee's employment. Employee will not receive additional compensation for such assistance and cooperation; however, Employer will reimburse Employee for all reasonable expenses incurred in fulfilling this obligation.

12. __Employee's Attorneys' Fees and Costs__**.** Employee acknowledges and represents that all claims for attorneys' fees, costs, or other recoverable expenses that Employee's attorneys may hold against Employer as Employee's attorneys will be satisfied solely by Employee.

13. __Employment Reference and Verification.__ Employee agrees that for any employment verification or reference purposes, Employee will refer prospective employers to the third party service entitled "The Work Number" 1-800-367-5690 or www.theworknumber.com. This online employment verification service can provide confirmation of employment and dates of employment. The relevant employer code to use is 11140. Should this service change, Employee agrees to use the third party service then used by Employer. Employee agrees not to contact, or direct others to contact, any active employee or representative of Employer for a reference or information relating to Employee's employment with Employer.

14. __Advice of Counsel, Consideration and Revocation Periods, Other Information.__ Employer advises Employee to consult with an attorney prior to signing this Agreement. Employee has **21 days** to consider whether to sign this Agreement from the date Employee receives this Agreement (the ***"Consideration Period").*** Employee must return this signed Agreement to Employer's representative set forth below within the Consideration Period. If Employee signs and returns this Agreement before the end of the Consideration Period, it is because Employee freely chose to do so after carefully considering its terms. Additionally, Employee shall have seven days from the date Employee signs this Agreement to revoke this Agreement by delivering a written notice of revocation within the seven-day revocation period to the same person as Employee returned this Agreement. If the revocation period expires on a weekend or holiday, Employee will have until the end of the next business day to revoke. Employee agrees with Employer that changes, whether material or immaterial, do not restart the running of the Consideration Period.

15. __Exceptions.__ **Nothing in this Agreement is intended to waive claims** (i) **for unemployment or workers' compensation benefits,** (ii) **for vested rights under ERISA-covered employee benefit plans as applicable on the date Employee signs this Agreement,** (iii) **that may arise after Employee signs this Agreement, or (iv) which cannot be released by private agreement. In addition, nothing in this Agreement including but not limited to the acknowledgements, release, confidentiality, non disparagement, tax indemnification, employee's attorneys' fees and costs, and employment verification provisions, prevent Employee from filing a charge or complaint with or from participating in an investigation or proceeding conducted by the EEOC, NLRB, SEC, or any other any federal, state or local agency charged with the enforcement of any laws, or from exercising rights under Section 7 of the NLRA to engage in joint activity with other employees, although by signing this release Employee is waiving rights to individual relief based on claims asserted in such a charge or complaint, or asserted by any third-party on Employee's behalf, except where such a waiver of individual relief is prohibited and**

except for a benefit or remedy pursuant to Section 922 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

16. Miscellaneous.

a. The **"Effective Date"** of this Agreement is the eighth (8th) day after Employee signs this Agreement, provided Employee does not revoke the Agreement during the applicable revocation period set forth above.

b. **Entire Agreement/No Assignment.** This instrument sets forth the entire agreement between the parties and no representation, promise, or condition not contained herein will modify these terms except any prior agreements related to arbitration, inventions, business ideas, confidentiality of corporate information, and/or non-competition, non-solicitation, and/or non-disclosure obligations, all of which remain intact and are hereby reaffirmed by Employee as consideration for this Agreement. The rights under this Agreement may not be assigned by Employee, unless Employer consents in writing to said assignment. Employee represents that Employee has not assigned any of the claims related to the matters set forth herein.

c. **No Admission of Liability.** Nothing in this Agreement constitutes the admission of any liability by Employer, the SBH Related Entities, or Employee.

d. **Read Agreement/Advice of Attorney.** Employee acknowledges that Employee has read and understood this Agreement, has been advised to and has had the opportunity to discuss it with an attorney of Employee's own choice, agrees to its terms, acknowledges receipt of a copy of same and the sufficiency of the payment recited herein, and signs this Agreement voluntarily.

e. **Applicable Law and Severability.** The parties agree that the terms of this Agreement are contractual in nature and not merely recitals and will be governed and construed in accordance with the laws of the State of Texas. The parties further agree that should any part of this Agreement be declared or determined by a court of competent jurisdiction to be illegal, invalid, or unenforceable, the parties intend the legality, validity and enforceability of the remaining parts will not be affected thereby, and said illegal, invalid, or unenforceable part will be deemed not to be a part of the Agreement.

f. **Notice.** Any notice to be given to Employer hereunder will be deemed sufficient if addressed to Employer in writing and hand-delivered or mailed by certified mail to General Counsel, Sally Beauty Holdings, Inc., 3001 Colorado Boulevard, Denton, Texas 76210. Any notice to be given to Employee hereunder will be deemed sufficient if addressed to Employee in writing and hand-delivered or mailed by certified mail to Employee at Employee's last known address as shown on Employer's records. Either party may designate a different address or addresses by giving notice according to this Section.

17. Code Section 409A. This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder. Nevertheless, the tax treatment of the benefits provided under the Agreement is not warranted or guaranteed to Employee, who is responsible for all taxes assessed on any payments made pursuant to this Agreement, whether under Section 409A of the Code or otherwise. Neither Employer nor its directors, officers, employees, or advisors shall be held liable for any taxes, interest, penalties, or other monetary amounts owed by Employee as a result of the application of Section 409A of the Code. Any installment payment hereunder shall be deemed to be a separate payment, as described in Treas. Reg. Section **l** .409A- 2(b)(2), for purposes of Section 409A of the Code.

The parties have signed this Agreement on the dates written by the signatures below. Notwithstanding any other provision in this Agreement, if Employee does not sign and deliver this Agreement to Employer at the address shown in **section 14(f)** above prior to the end of the Consideration Period or if Employee revokes this Agreement during the applicable revocation period set forth above, then this Agreement will be **null** and **void** and Employee will **not** be entitled to the Consideration described above.

[Signatures follow below.]

EMPLOYEE: **EMPLOYER:**

/s/ Pamela Kohn

PAMELA KOHN
4908 KINGSWOOD DRIVE FLOWER MOUND, TEXAS 75028

/s/ Denise Paulonis

SALLY BEAUTY SUPPLY LLC

BY: Denise Paulonis
Chief Executive Officer

Date: 6/2/2022 Date: 6/3/2022

Exhibit 22

LIST OF SUBSIDIARY GUARANTORS

As of June 30, 2022, each of the following subsidiaries of Sally Beauty Holdings, Inc. is a guarantor of our unsecured 5.625% Senior Notes due 2025. The guarantees are joint and several, and full and unconditional. Sally Beauty Holdings, Inc. owns, directly or indirectly, 100% of each guarantor subsidiary.

Exact Name of Registrant as Specified in Its Charter	State of Incorporation or Organization
Arcadia Beauty Labs LLC	Delaware
Armstrong McCall Holdings, Inc.	Texas
Armstrong McCall Holdings, L.L.C.	Delaware
Armstrong McCall, L.P.	Texas
Armstrong McCall Management, L.C.	Texas
Beauty Holding LLC	Delaware
Beauty Systems Group LLC	Virginia
Diorama Services Company, LLC	Delaware
Innovations-Successful Salon Services	California
Loxa Beauty LLC	Indiana
Neka Salon Supply, Inc.	New Hampshire
Procare Laboratories, Inc.	Delaware
Sally Beauty Holdings, Inc.	Delaware
Sally Beauty International Finance LLC	Delaware
Sally Beauty Military Supply LLC	Delaware
Sally Beauty Supply LLC	Virginia
Sally Investment Holdings LLC	Delaware
Salon Success International, LLC	Florida

Exhibit 31.1

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 Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022 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: August 4, 2022

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

Exhibit 31.2

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 Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022 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: August 4, 2022

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

Exhibit 32.1

**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 Quarterly Report of Sally Beauty Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2022 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 results of operations of the Company.

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

Date: August 4, 2022

Exhibit 32.2

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 Quarterly Report of Sally Beauty Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marlo M. Cormier, Senior Vice President and 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 results of operations of the Company.

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

Date: August 4, 2022