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SBH.N - Q3 2023 Sally Beauty Holdings Inc Earnings Call

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PRESENTATION

Operator

Good morning, everyone, and welcome to Sally Beauty Holdings' conference call to discuss the company's Fiscal 2023 third quarter results. (Operator Instructions)

Now I would like to turn the call over to Jeff Harkins, Vice President of Investor Relations and Treasurer for Sally Beauty Holdings. Please go ahead.

Jeff Harkins - *Sally Beauty Holdings, Inc. - VP of IR & Strategic Planning*

Thank you. Good morning, everyone, and thank you for joining us. With me on the call today are Denise Paulonis, President and Chief Executive Officer; and Marlo Cormier, Chief Financial Officer.

Before we begin, I would like to remind everyone that management's remarks on this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in the Risk Factors section of our most recent annual report on Form 10-K and other filings with the SEC. Any forward-looking statements made on this call represent our views only as of today, and we undertake no obligations to update them.

The company has provided a detailed explanation and reconciliations of its adjusting items and non-GAAP financial measures in its earnings press release and on its website.

Now I'd like to turn the call over to Denise to begin the formal remarks.

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

Thank you, Jeff, and good morning, everyone. 3 quarters into our fiscal year, we are on track with our operating plans and the financial guidance we laid out at the beginning of the year. Engagement from our Sally and BSG customers remains strong, and our core color category is growing in both segments.

In Q3, we delivered net sales of $931 million and strong gross margin performance of 51%.

Additionally, SG&A expenses were below prior year, supported by a continued focus on cost efficiencies and the realized benefit of our store and distribution center optimization efforts.

As a result, we delivered third quarter adjusted EBITDA of $119 million and free cash flow of $32 million.

On our last earnings call, we noted some softening of transactions and ticket at Sally beginning in late March and continuing into April. Trends picked up in May and remained relatively steady through quarter-end. While our low- to middle-income customers continue to spend in our core categories of color and care, they limited their basket adds and remained conservative on what they consider to be nonessential purchases.

In turn, at Sally, comparable sales increased by 3%, while comparable transactions were flat, with average ticket up 6%, driven by average unit retail prices up 7% and units per transaction down 1%. Total color sales increased 3%, and care was down 1%, which includes the impact of store closures. Color continues to see strong momentum at Sally, with [gray] coverage up 10%.

Turning now to BSG. Comparable sales decreased by 2%, reflecting a continuation of solid demand trends we've been seeing for several quarters now. Comparable transactions were up 1%, while average ticket was down 4%, driven by units per transaction down 10% and average unit retail prices up 7%. From a category perspective, total color sales increased 1%, while care was down 7% as we lapped some product launches in care in the prior year. We're pleased to see the resiliency in transactions and color sales, as both key performance indicators reflect a healthy ongoing engagement we have with our customer base.

At a time when macro dynamics are impacting spending on consumer goods, we remain focused on our strategies to support the long-term growth through our core strategic initiatives: enhancing customer centricity, driving innovation and increasing operating efficiency. We're seeing good traction in the early days of this work and feel confident that our strategies will continue to build upon our modern and dynamic retail platform that will take us well into the future.

Before I provide an update on several of the initiatives that we previously shared, I'm thrilled to tell you about our newest customer-centric growth initiative: the launch of our Happy Beauty Co. value concept. This concept grew out of our focus over the past 2 years to drive top line growth, best serve our customers and expand our reach. In our journey to build on our strategic initiatives to grow our core businesses, it became clear to us that there was also ample opportunity for an engaging beauty experience with a value price point offering.

Happy Beauty Co. was developed to provide quality beauty at great prices in an accessible, fun and expressive environment, leveraging our understanding of the industry and our extensive capabilities across product, operations, sourcing and supply chain. All of our merchandise is priced under $10, and product offerings encompass 4 key categories: cosmetics and facial care, bath and body, nail and hair.

Our offerings will be comprised of a strong mix of entrepreneurial third-party brands and our own proprietary brands. With our strong track record of product and brand development, we'll be exercising this muscle to bring our customers compelling value alternatives to well-known premium price products. At the same time, we'll be partnering with smaller vendors who view this as a valuable opportunity to build visibility and drive growth for their brands.

Our target demographic includes savvy millennials, value seekers and discount beauty buyers with an average income under $100,000.

The concept tested well in our focus groups, and we're excited about the opportunity to pursue a new avenue to drive long-term profitable growth.

Over the last 6 weeks, we have opened 3 pilot stores: 2 in the Dallas-Fort Worth area and 1 in Phoenix. We plan to open an additional 7 stores over the next few months, to have a total of 10 pilot locations that will serve as a learning environment for us over the coming quarters and allow us to assess the long-term potential of the concept.

Now let me provide some additional updates on our ongoing strategic initiatives, starting with customer centricity. Our 17 million active loyalty members accounted for 78% of the sales at Sally U.S. and Canada in Q3. At BSG, rewards credit card purchases represented 9% of sales for the quarter.

We are pleased to be holding our Sally loyalty count steady after executing roughly 350 store closures, and our teams are deploying strategies to attract new members, going forward. Notably, sales transfer is in line with our expectations, with more than half of our customers impacted by a store closure spending more with us versus a year ago. In short, we are seeing a more engaged and valuable customer at Sally.

Our Virtual Color Expert program, which we're now calling Licensed Colorist On Demand, is currently in 75 stores and continues to perform well, with great customer response and feedback. Customers utilizing this service continue to have a higher average ticket and higher Net Promoter Scores than our already strong baseline.

Additionally, I'm excited to announce that this program will be launching on our Ecommerce platform later in August in the states of Texas and Ohio. We expect to have this rolled out to approximately 20 states by the end of this fiscal year.

We're pleased with the trajectory of our Studio by Sally concept as well, which is gaining momentum in its initial months as customers experiment with all aspects of the (inaudible), from tinsel extensions to simple chair rentals. Customer feedback has been positive, particularly around education, inspiration and the digital experience, and units per transaction are trending above the Sally [fleet].

We are on track with our expansion plans for the coming months and expect to open 5 additional locations prior to our fiscal year-end.

Moving to BSG. As our pilot of SalonHQ enters its next phase of maturation, we made the strategic decision to rebrand the platform as CosmoProf Direct. During the quarter, we expanded the platform to an additional 7 states, ending Q3 with 9 states and more than 1,700 storefronts. Our stylists are embracing this new tool and gaining a deeper understanding of how they can leverage this resource to profitably grow their business.

Moving on to our second strategic initiative: product innovation and owned-brand growth. Product innovation continues to be an important growth driver at both Sally and BSG. In Q3, we saw strong performance at BSG from new product launches, including amika, Wella's Ultimate Repair and (inaudible) as well as expanded distribution with Color Wow.

The pipeline at BSG continues to be robust. We have newness coming in color, care and nail across key brands. In color, this includes new bright hues from Paul Mitchell, grays and silver tones from Matrix and a continued focus on blonding, which is a consistent traffic driver. Additionally, this month BSG will be collaborating with Schwarzkopf on their exciting partnership with the iconic Barbie franchise, with a focus around lighteners, including Barbie Dream Salon kits and Home Spa kits. In the care category, we have (inaudible) from Olaplex, Paul Mitchell and Color Wow.

At Sally, we're bringing innovation across color, nail, tools and textured hair. This includes 2 of our highly successful owned brands: bondbar and Strawberry Leopard. On the heels of our initial success of bondbar, we'll be introducing a color line in September, which is among our biggest launches of the year and planned to be a sizable business for us over the long term. Of note, bondbar is resonating with our existing Sally shoppers while also bringing in new customers; 20% of our bondbar customers are new to Sally. In addition, next month our Strawberry Leopard brand will be rolling out new colors and sprays.

In the nail category, we recently completed the launch of Sally Hansen's Miracle Gel and Nailboo's Gel Polish, where we have an exclusive through calendar year-end.

Lastly, we're continuing to prioritize textured hair and have a number of new brands hitting the shelves later this month, including [Kiss], Aussie, The Doux and Uncle Funky's Daughter.

In Q3, owned-brand penetration for Sally segment was 34%, up 150 basis points over the prior year. We expect this to continue to increase as we advance our goal to exceed 50% of sales over the next 4 to 5 years.

Turning now to our third strategic initiative: capturing efficiencies and optimizing our capabilities. The benefits from our store optimization efforts continue to track in line with our expectations. As a reminder, the bulk of the optimization efforts occurred in December 2022, and we expect SG&A savings to be approximately $50 million, with a $10 million benefit to operating earnings in Fiscal 2023.

Additionally, as we disclosed in our last earnings call, we've been testing a new shipment frequency to our stores that we believe will unlock more benefits to our transportation costs as well as better labor productivity in our stores and distribution centers, while maintaining healthy in-stock levels. I'm pleased to announce that this initiative tests well enough that we have expanded this process to approximately half of our Sally and BSG stores in the U.S. as of the end of July.

We're confident that the actions we are taking to fundamentally change the way we operate will enable us to capture efficiencies in the near to medium term, effectively fueling our future and setting us up to reap sustained benefits over the long term.

We appreciate the hard work of our teams across the organization and their commitment to serving and delighting our customers. While the macro environment remains dynamic, we remain agile and data-driven as we navigate the near term while advancing our long-term growth agenda. Our path is clear, and we have a relentless drive to deliver sustainable growth and value to our shareholders.

Now I'll turn the call over to Marlo to discuss the financials.

Marlo M. Cormier - *Sally Beauty Holdings, Inc. - Senior VP & CFO*

Thank you, Denise, and good morning, everyone.

Third quarter consolidated net sales declined 3% to $931 million, on 352 fewer stores and 20 basis points of favorable foreign currency impact. Consolidated comparable sales grew 1%, reflecting 3% growth at Sally and a 2% decline at BSG. This compares to a 4% decline in consolidated comparable sales in the prior year. For perspective, total sales in Q3 of Fiscal 2022 were $961 million, which reflects normalized top line performance.

Unpacking the negative Fiscal 2022 comparable sales decline a little further, it's worth noting that we were up against particularly strong performance in Q3 of Fiscal 2021, when sales topped $1 billion driven by the COVID reopening.

Third quarter global Ecommerce sales increased 3% on a constant currency basis to $83 million and represented 9% of total net sales.

Moving down the P&L. We maintained strong adjusted gross margin, which came in at 50.9%, down 10 basis points to the prior year. Increased product margin at Sally Beauty driven by pricing leverage and higher owned-brand penetration was offset by lower margins at BSG due to a channel mix shift between stores and our expanded Regis business as well as a shift in some North Texas distribution center costs from SG&A into gross margin.

Third quarter's SG&A expenses totaled $384 million, down $7 million to last year. The year-over-year decline primarily reflects the savings from our previously announced distribution center consolidation and store optimization plans, lower advertising costs and cost control, partially offset by higher labor and accrued bonus expense.

Looking at Q4, we anticipate that SG&A dollars will be down slightly versus the prior year. Importantly, we are on track to achieve the previously outlined expense savings under the DC consolidation and store optimization plan, totaling approximately $50 million for Fiscal 2023.

Prudent cost control and strong gross margin performance enabled us to deliver an adjusted operating margin of 9.6%, adjusted EBITDA margin of 12.8% and adjusted diluted earnings per share of $0.49.

Looking at segment results. Sally Beauty comparable sales were up 3%, while net sales declined 3%, reflecting 327 fewer stores in operation versus a year ago and 70 basis points of favorable foreign currency impact.

At constant currency, Sally Ecommerce sales declined 5% to $32 million and represented 6% of segment net sales for the quarter. While our Ecommerce performance was below our expectations, industry data shows we are outperforming the rest of the mass beauty market in our core categories of color, care and nail.

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For the global Sally Beauty segment, color was up 3%, driven by [gray] coverage, and care decreased 1%.

At Sally U.S. and Canada, color increased by 3%, while care was down 6%, including the impact of store closures.

Gross margin at Sally expanded 30 basis points to 58.8%, reflecting strong product margins, driven primarily by pricing leverage and higher owned-brand penetration. Segment operating margin expanded by 50 basis points, coming in at 16.6%.

Moving to the BSG segment. Comparable sales declined 2%, while net sales were down 3% on 25 fewer stores and 40 basis points of unfavorable foreign currency impact.

On a constant currency basis, BSG Ecommerce sales increased 8% to $51 million, or 13% of segment net sales for the quarter.

The color category was up 1%, while care declined 7% at BSG on a total sales basis, as we lapped some new product launches from last year.

Gross margin at BSG decreased 40 basis points to 40.5%, primarily driven by lower margins due to the sales channel mix shift between stores and our expanded Regis partnership as well as a shift in some North Texas distribution center costs from SG&A into gross margin. Segment operating margin came in at 12.3%, versus 13.7% in the prior year.

We are pleased to see BSG's profitability profile begin to stabilize after making strategic investments in both labor and our North Texas distribution center over the last several quarters.

Moving to the balance sheet and cash flow. We ended the quarter with $74 million of cash and cash equivalents and $16 million outstanding under our asset-based revolving line of credit.

Our net debt leverage ratio stood at 2.2x. As we previously announced, during the third quarter we entered into a 3-year interest rate swap agreement which swaps a notional amount of $200 million of our new term loan from a floating-term SOFR rate to a fixed rate of 3.705%.

Moving to inventory. We ended the quarter at just under $1 billion. That's down 2% versus a year ago and reflects a healthy overall position, including strong in-stock levels.

Third quarter cash flow from operations was $53 million, and capital expenditures totaled $22 million.

For the full year, we expect free cash flow generation to be approximately $175 million, which includes approximately $35 million in onetime cash payments related to our DC and store optimization efforts. This provides us with the financial flexibility to invest in our new strategic initiatives to drive long-term growth, to continue optimizing our capital structure and to return value to shareholders.

Turning now to guidance. With our year-to-date performance, we are bringing up our adjusted operating margin to the higher end of our original guidance and maintaining all other components of our outlook for Fiscal 2023, as follows. Comparable sales are expected to increase by low-single digits compared to the prior year. Net sales are expected to decline by low-single digits compared to the prior year. At the end of Fiscal 2023, total store count is expected to be down 6% to 7% compared to the end of Fiscal 2022 due to our store optimization plan and a small number of new store openings. Gross margin is expected to remain above 50%, and adjusted operating margin is now expected to be in the range of 9% to 9.4%. This reflects increased investments in store labor, partially offset by an expected benefit to operating earnings of approximately $10 million related to our DC consolidation and store optimization plan. For added perspective, we expect total sales in the fourth quarter to be similar to our third quarter levels.

We appreciate your time this morning. Now I'll ask the operator to open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will come from Oliver Chen, from Cowen.

Jungwon Kim - *TD Cowen, Research Division - Associate*

This is Jonna on for Oliver. Just curious on the promotional front. We are hearing in the industry hair care saw higher promotions. What have you seen in terms of the promotional environment? And what is embedded in your guidance?

And also on Happy Beauty Co., that concept, just curious how that customer set might differ from existing Sally customers and how you think that will be incremental to Sally.

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

Happy to answer both of those questions. On the promotional activity front, we're seeing a little bit different behavior on our Sally side of our business versus our BSG side of the business. On the Sally side of the business, promotional activity is fairly consistent with what we've seen in the first 2 quarters of the year. So that's moderate ongoing promotional activity, but nothing particularly outsize.

I think when we look at the BSG side of the business, we certainly have stylists that are seeking out deals. They are working to stretch their money. They are looking for those deals. And so we saw promotional activity tip, increase just a bit on that side of the business.

I think what's important on both sides of the business, and even more so at BSG, is we watch the trends in the industry right along with our vendor partners. And our vendor partners have been very supportive in leaning in where we can fund those promotions, drive some unit growth in the business but enable us to maintain our gross margin profile while getting those incremental sales.

So I'm anticipating that that promotional cadence is going to remain pretty consistent as we move through the next few quarters, and we'll continue to partner with our vendors to make the right choices to serve our customers well on that front.

On the Happy Beauty Co. front, we're just so excited about the opportunity we have here to reach a bit of a different customer base, in fact, and importantly, reach them with different categories than what we have in the baseline of our Sally business today. We think the concept really has great potential.

And when we think about the customer base, it's about millennial value seekers of all age, discount beauty buyers. And when we look at the market, there's about $30 billion of beauty and personal care that's spent from households making under $60,000 a year, and that's where we actually believe the Happy Beauty Co. concept should have the highest appeal.

2 of our stores are going to be directly targeting and going after that profile that I just described, but we're also going to test stores that have a very different profile, and we're going to get a good sense on how the concept resonates across a bunch of different economic and demographic groups as we go forward.

So we're really in the early innings there, but when you think about both the ability to serve that value customer but really expand and focus on cosmetics, skincare, bath and body, with some nails and some hair, we're really stretching into the other side of the category that we don't participate in as much today with the Sally brand.

Operator

The next question is from Ashley Helgans, from Jefferies.

Ashley Elizabeth Helgans - *Jefferies LLC, Research Division - Equity Analyst*

Anything you can share about the third-party brands you're going to have at Happy Beauty? And then also anything on kind of the real estate location strategy?

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

Sure. On the third-party brand front, it is all work in development. Right now, with the pilots we opened, it's some well-known brands, but also some more entrepreneurial brands that are coming in with some Korean beauty brands, some Australian beauty brands, things that really can bring great product efficacy at the value price point that's out there.

So that third-party brand piece is going to continue to deliver and develop over time as we think about that and look forward, and married up with our own Happy Beauty Co. brand in the stores as well. So a healthy mix across both of those that we're excited about.

When we think about the real estate strategy, when we just think geographically, we're starting our tests in the Dallas-Fort Worth area as well as Phoenix.

And then when you think about the centers that we're in, we're really going after with this 10 pilot stores a mix of a bunch of different types of centers that target different demographics and different economic profiles to really get a sense of where the concept will most resonate. That can span from a heavy Hispanic market that might skew a little bit lower income to a more middle income, closer to college university environment that would be out there. And literally, everything in between.

And that's why we're really excited about the planning that we've done to pull the pilot together to say 3 months, 6 months, 9 months from now we'll be so much smarter about where it resonates, what we would do to tweak the concept and where we would go. But most of these will all be in traditional types of strip mall centers, just different ones depending upon the notion of the demographic that we're going after.

Operator

(Operator Instructions) Our next question is from Olivia Tong, from Raymond James.

Olivia Tong Cheang - *Raymond James & Associates, Inc., Research Division - MD & Research Analyst*

I wanted to ask you about the comp which slowed after a promising performance in March quarter. You did talk about some weakness last quarter on last quarter's call in March and April. It sounds like May got a little bit better. So can you talk a little bit about where you stand relative to the guide? Is some of that a view on perhaps improving profitability as you narrow your margin target to the upper end? Just kind of a little bit more color in terms of the components of the comp.

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

Sure. So if we break it up, we have both the BSG and Sally businesses performing a little differently this quarter. But if I backed up one step, I think when you think about the performance this quarter, we also have to look at the historical comparison. Marlo mentioned that a bit in our prepared remarks.

But the comparison that we were going up against in third quarter Fiscal '22 was comparing against an incredibly high base in Fiscal '21 coming off of the COVID reopening, where we had a quarter that was over $1 billion in sales. So we posted a modestly negative comp last year kind of coming off that high, and Q3 last year was really a good normalized baseline to kind of compare the business, go forward.

So on the Sally business this quarter, what we saw was continued strength in the recaptured sales from the store optimization. That contributed almost all of the 3% comps that we put out there in the market.

And to your point about the cadence of the quarters, we did see the softness in April. And interestingly, it looks like many retailers out there experienced that similar level of softness in April. But we did see it improve moving into May and kind of stabilize as we continued to move through June. So glad that we saw that resurgence of activity from where we were in that March-April time frame, but that April time frame did factor into the performance in the quarter.

And then I think the only other important part that I'd mentioned on the Sally side is if we thought about what happened in Q2, where we posted a 9% comp, remember that that had a different comparison in the prior year, which was really the year when we still had the COVID outbreak situation in the January-February time frame. And so a portion of that was simply lapping the prior year.

So overall, Sally on track with where we thought that it would be as we move through the year.

And then with BSG, I think the thing that I'm personally most pleased about is we continue to see transaction growth and we continue to see strength in color, with growth in color. Offsetting that a bit, we did see stylist demand trends remaining consistent with what we've seen in the last few quarters, where there is a frugality and really buying what is needed.

And I think the other part for us that we saw coming into the quarter was that in hair care this year, in Q3, we launched a lot of new innovation. The reality, though, while much of that innovation was quite successful, it wasn't enough to offset what was a very big innovation quarter last year, which included the launch of Olaplex No. 9. So a little moderation on that care side just as we were in a different innovation cycle last year versus what we were in this year.

So all in all, the quarter came in, when we think about versus a year ago, very similar to what we thought. Cadence for the balance of the year, I think performance that we saw in Q3 gives us confidence to deliver on our full year guidance, which was comp sales up low-single digits and total sales down low-single digits. And the strength of our efficiency programs, the solid performance of our continued gross margin above 50% is really what gives us great confidence to go to the upper end of our guide when we think about that operating income. I think we're now guiding between 9% and 9.4% from an operating margin rate.

So all in all, quarter and year are playing out very much as we expected. I think we remain quite agile and data-driven in making our decisions as we work through a pretty interesting macro environment that we're all seeing, but looking to finish the year strong.

Olivia Tong Cheang - *Raymond James & Associates, Inc., Research Division - MD & Research Analyst*

Got it. And then just zeroing in a little bit more on the margin, nice to see the narrowing towards the high end, could you just talk a little bit more about the current promotional environment? Any trends that you're seeing, whether towards the upper end of the market versus the more value-oriented consumer products? Any particular trends that you're seeing, whether it's in color or other hair care-related categories?

And then just lastly, your views on why you think that Ecomm was lagging, whether it's just a particular point in time or something more systemic there?

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

Great. A lot to unpack there. So let me start off a little bit just reiterating a bit of the thoughts that we have around the promotional environment. We saw a little bit of an uptick in BSG, remained very consistent within Sally, but our margin strength really comes in our partnerships with our vendors and really being able to leverage investment from their perspective to maintain our gross margin rate, but be able to see the increases in unit that we get when we do lean into promotion.

We don't anticipate promotion going to any outsize levels, but I would expect that Sally will maintain where we sit today and BSG will maintain the bit of uptick that we saw in this last quarter.

But before getting to the Ecomm question, I think it might be helpful if Marlo just provides a little bit more color around what else is driving the strength in the operating margin and kind of taking us to the high end of the guide.

Marlo M. Cormier - *Sally Beauty Holdings, Inc. - Senior VP & CFO*

I think what gives us confidence in the high end of the guide is our strength of our gross margins being able to maintain above that 50%. And where we are year-to-date, it's pretty much what we see for our full year.

On the Sally side, the strength is coming from our increasing owned-brand penetration, and we did call out pricing leverage. We have been able to overcome vendor cost increases with our pricing actions in recent quarters. We don't see further outsize vendor cost increases, going forward. We believe that moderates, but we will continue to monitor that.

On the BSG side, gross margins have stabilized. They do reflect the structural shifts that we've been talking about with our expanded Regis business as well as the relocation of the North Texas DC costs that are now at the margin, that have moved up from SG&A.

So really good performance on our gross margin front, and we believe we have stability there, going forward.

When we look at SG&A, we're really pleased to see SG&A dollars down from last year. And looking at it as we finish the year, we expect that to be the case for Q4 as well. Getting really good benefits out of really strict cost controls as well as the planned benefits that we're getting out of our DC consolidation and store optimization efforts. And those things are offsetting some really important investments that we made in wages as well as our continued investments in our strategic initiatives.

So with our optimization efforts delivering the $50 million that we expected in SG&A savings this year and the lift on operating earnings of $10 million to this fiscal year, and then building off the strength of the gross margins, we believe we have -- we're in a great position to deliver on the higher end of our operating margin guidance range.

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

And then I guess coming back to your comment on Ecommerce and what we think about the Ecommerce business today at Sally, what I would say is I think we see a bit of a channel shift underway. The industry Ecommerce data that we have shows softness overall in our key categories, and that same data suggests that we're outperforming what the total kind of mass beauty market is doing in color, care and nails from an Ecomm perspective.

But when we see the same idea that we have customers and consumers who are trending back to experiences, they're trending to travel, they're trending to restaurants, you see that a bit in people trending back to an in-store shopping behavior as well, and we feel like that's what we saw in the quarter more so than anything.

But to be clear, our performance is below our expectations in this space, and we're working very hard to turn that dial. And when the customer is ready to be shopping Ecommerce, we're going to be ready for them as well.

We're really focused on the offering that we have with the expansion of marketplaces underway, the launch of our Licensed Colorist On Demand coming online later in this month. But we round it out with a really healthy Ecommerce business in the spirit that the profitability of our Ecommerce channel is quite strong, which is largely fueled by the fact that our stores actually support the fulfillment of about 50% of sales in this past quarter, which could both be Buy Online/Pickup In-Store as well as our 2-hour delivery from our stores.

So right now, it feels like it's a little bit more market, but we're not satisfied with our performance and lots more that we can do there to continue to accelerate growth.

Operator

Thank you. And at this time, there are no further questions in queue. Please continue.

Denise A. Paulonis - *Sally Beauty Holdings, Inc. - President, CEO & Director*

Wonderful. Well, we thank you all for your participation today. When we think about being 3 quarters into the year, we're on track with our operating plans, we're on track with our financial expectations that we laid out at the beginning of the year.

And I'd like to close by saying I'm extremely excited about where we're headed. We have spent the last 18 months charting our strategy, preparing initiatives that we have that we are going to launch and, to some extent, starting to test. But we're really turning the corner this quarter that we're now fully in pilot stage on many significant projects, from our CosmoProf Direct site to Studio by Sally, Licensed Colorist On Demand and now recently discussed Happy Beauty Co. And that really gives us a great opportunity to continue to build those pilots, continue to test and learn. And we're doing all of this with the path leading towards 2025-plus, really being able to see the fruits of these labors start to gain traction and get an expansion. So excited about where the future is taking us.

And as a final reminder, I'd just say thank you again to all of our associates around the world. You are the ones that make our customers happy every day, and we appreciate all you do.

And with that, we will talk to you again next quarter.

Operator

Thank you. And ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T TeleConference. You may now disconnect.
