

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SBH.N - Q4 2024 Sally Beauty Holdings Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 14, 2024 / 2:30PM GMT

CORPORATE PARTICIPANTS

Jeff Harkins *Sally Beauty Holdings - Vice President of Investor Relations and Treasurer*

Denise Paulonis *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Marlo Cormier *Sally Beauty Holdings Inc - Chief Financial Officer, Senior Vice President*

CONFERENCE CALL PARTICIPANTS

Oliver Chen *TD Cowen - Analyst*

Ken Wolfmeyer *Piper Sandler - Analyst*

Olivia Tong *Raymond James - Analyst*

Linda Bolton Weiser *D A Davidson - Analyst*

Ashley Helgen *Jefferies - Analyst*

Simeon Gutman *Morgan Stanley - Analyst*

PRESENTATION

Operator

And good morning, everyone and welcome to Sally Beauty Holdings conference call to discuss the company's fourth quarter and full year fiscal 2024 results.

All participants have been placed in listen-only mode after management's prepared remarks, there will be a question and answer session, additional instructions will be given at that time. Now, I would like to turn the call over to Jeff Harkins, Vice President of Investor Relations and Treasurer for Sally Beauty Holdings.

Jeff Harkins - *Sally Beauty Holdings - Vice President of Investor Relations and Treasurer*

Thank you. Good morning, everyone and thank you for joining us with me on the call. Today are Denise Poloni, 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 1,995. 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 factor 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 full remarks.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Thank you, Jeff and.

Good morning everyone.

We're pleased to conclude our fiscal year with strong results in our fourth quarter which met our expectations on the top one and exceeded our expectations on the bottom line. The results reflect our fourth consecutive quarter of positive comp sales in our BS G segment and our second consecutive quarter of positive comp sales at Sally Beauty.

This is a testament to our team who have been navigating a dynamic environment with agility while meaningfully advancing our strategic pillars as we anticipated our business strengthened in the second half of the year as our initiatives continue to mature and gain traction, contributing more than 250 basis points to our comparable sales in the fourth quarter on top of a 250 basis point contribution in the third quarter.

In addition to this topline momentum, Q4 represented another quarter of strong gross margins, effective cost control and improved profitability with adjusted operating margin expansion of 80 basis points over the prior year to 9.4%.

It is clear that our actions around performance, marketing, product innovation, digital marketplaces, expanded distribution and new services are driving operating and financial improvements across the business.

Touching on the financial highlights of the fiscal year, we delivered consolidated net sales of \$3.7 billion.

Strong gross margins of 51% an adjusted operating income of \$315 million enabling us to generate \$247 million of cash flow from operations.

We significantly strengthened our balance sheet with the refinancing of our senior notes and the repayment of our outstanding a bl balance while also returning value to shareholders through \$60 million of share repurchases throughout the year.

There are also a number of operating successes to highlight we built new and lasting relationships with customers through effective engagement, education and marketing initiatives.

In fiscal year, 2024 s use in Canada generated 78% of sales from our 16 million loyalty customers.

We delivered product innovation in both segments across third party and owned brands, driving growth and customer engagement.

We successfully expanded our marketplace initiative that is fueling digital sales growth and attracting new customers to the Sally brand through our partnerships with high visibility platforms including Amazon doordash, Instacart, and Walmart.

And lastly in the fourth quarter, BS G completed the strategic acquisition of exclusive beauty supplies of Florida, a highly regarded professional beauty distributor.

The acquisition adds three store locations and seven direct sales consultants to our existing presence in this important market. We're also bringing several key brands such as Moroccan oil, Olaplex Rusk and verb to our 75 cost of prop locations throughout Florida.

It is evident that our commitment to our core pillars is working enabling us to enter fiscal 2025 with strong operating and financial momentum.

The business has returned to positive top line performance and we're continuing to drive increased efficiency through our fuel for growth program, which is helping us improve profitability.

By the end of fiscal 2025 we expect to capture cumulative gross margin and SGN a benefits of approximately \$70 million building on \$28 million in benefit in fiscal 2024 and positioning us to generate up to \$120 million of cumulative run rate benefits by the end of fiscal 2026 with a strengthened foundation in place. The business is on the path to our long term low double digit operating margin target as we enter a new fiscal year, our priorities are clear. We'll be focusing on several initiatives under our strategic pillars of enhancing our customer Centricity, growing our high margin owned brands and amplifying innovation and increasing the efficiency of our operations.

One of the initiatives we're particularly excited about is a Sally Beauty brand refresh designed to move us from a trusted beauty supplier to a more dynamic beauty powerhouse.

It's clear to us we have significant opportunity to leverage our rich heritage brand, equity and loyal.

Customer base to evolve Sally Beauty into a go to destination for brand and product discovery.

Our work will include an updated brand expression that is modern, sophisticated and scalable that will begin rolling out across all our brand media touch points in store marketing and digital assets in the second half of fiscal 2025.

At the same time, we'll be piloting a store refresh that incorporates key takeaways from our studio by Sally initiative, which was our first foray into changing the perception of our stores.

We've made the decision not to move forward with the services component of studios, but rather take the highest and best learning to reimagine our Sally stores, creating a new shopping experience that inspires our customers to find joy in their beauty journey from discovery to results.

We'll be starting with the Orlando market, bringing our customers a significantly enhanced shopping experience that reflects our newly modernized branding, expanded assortments, new floor plans and fixtures and moments for discovery.

We will evaluate the results of our Orlando initiative with a view towards potentially refreshing up to two thirds of our Sally fleet in the US.

With this commitment to refreshing the Sally brand and experience. We are continuing to build for the long term making strategic investments that build on our core strengths.

Deepen Our Connection to.

Our customers and Extend our reach to new consumers.

Another important initiative that continues to gain momentum is licensed colors on demand, which provides our customers with high touch service and professional consultation, ensuring they're set up for success throughout their hair color journey.

We're incredibly pleased with how this offer is scaling with over 60 licensed colors on the platform. We're providing inspiration to our diy customers and attracting new customers to the Sally brand while driving higher average ticket value larger baskets, recurring color purchases and more frequent visits.

In Q4, the percentage of customers new to the brand eclipsed 45%.

The average order was 33% higher than non LCOD customers. And the number of consultations continued to build rapidly averaging more than 4,000 per week, up 20% from Q3.

Looking at our marketplace initiative, we're incredibly pleased with the level of success we've had in fiscal 2024 and look forward to accelerating growth in 2025 and beyond.

We are currently partnered with Amazon doordash, Instacart and Walmart.

This strategy is bringing new customers to s to sally while the ability to utilize instore fulfillment is driving more profitable sales growth.

Turning now to product innovation which has proven to be a significant driver of growth and provides a meaningful competitive advantage to both value and BS G.

In this 2024 we delivered a consistent pipeline of innovation across our own and third party brands and we have plans to further accelerate this in the new fiscal year at VSG. We're expanding our presence with major brands, for example, Amica, which was already fully rolled out to all COSR stores just recently expanded to all of our full service direct sales consultants in October.

Additionally, Moroccan Oil recently expanded into California and Nevada and KWE is now available in all of our stores in New York, New Jersey and Pennsylvania. As well as to our full service team in North and South Carolina Salli Beauty will also see innovation across color bonding, nails and appliances.

Some of the key highlights include an expanded partnership with soft beauty coming in Q2 and a new Ion eight in one Air styler that launched November 1st.

Looking at Happy Beauty Code, we are continuing to build this concept and we'll have our next tranche of 10 pilot stores open before Black Friday, strategically located in strip centers and mall locations. This next group of stores in the Dallas and Phoenix markets is expected to provide an expanded data set and key learnings related to the location format and demographics that we will integrate into future planning.

As we approach the holidays, we are prepared for a strong gifting season supported by creative marketing and traffic driving strategies including social media, grassroots initiatives and in store events.

From a high level perspective. We feel good about the results of the pilot program in its 1st year and we'll continue to take a test and learn approach as we consider a more broadbased longterm rollout.

We're pleased to be entering fiscal 2025 with a position of strength. Sally is regained momentum. Driving customer reactivations and new customer acquisition as performance, marketing, education, product innovation, and virtual services or scaling while also providing customers with an enhanced level of convenience. Through our marketplace offering at BS G, we have a strong foundation from which to continue growing, fueled by a robust pipeline of product innovation, expanded distribution and healthy underlying purchasing patterns. Among our professional stylist community, we have confidence that our industry leadership position, talented teams and strong cash flow will continue to drive with the flexibility to define our future and return value to shareholders over the long term.

We are grateful for the hard work of our associates throughout the organization to bring an enthusiastic customer centric mindset to work every day and we appreciate the support of our shareholders and look forward to updating you on our continued progress in fiscal 2025.

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

Marlo Cormier - Sally Beauty Holdings Inc - Chief Financial Officer, Senior Vice President

Thank you, Denise and good morning everyone. We are pleased to be wrapping up a strong second half of the year with continuing momentum across our key financial metrics.

Our Q4 results mark our second consecutive quarter of positive top line performance in both business segments.

Additionally, we delivered healthy growth margins well above our 50% target range adjusted operating margins ahead of our guidance and strong operating cash flow allowed us to reduce our debt levels and return value to shareholders.

Fourth quarter, consolidated net sales of \$935 million increased 1.5% while consolidated comparable sales grew 2% reflecting an improvement in new and reactivated customer trends at Sally Beauty as key strategic initiatives continued to mature and continued momentum at BS T driven by expanded brand and territory distribution.

Global e-commerce sales were \$91 million and represented 10% of total net sales.

Fourth quarter, gross margin expanded 60 basis points to 51.2% reflecting lower distribution and freight costs from supply chain efficiencies adjusted SG and A expenses in the quarter totaled \$391 million down slightly from the third quarter and up 1% versus a year ago, which was in line with our expectations.

The modest increase from the prior year primarily reflects higher labor and other compensation related expenses. As well as planned increases in advertising spend partially offset by \$5.5 million in savings from our fuel for growth program.

On a full year basis, we achieved \$28 million of pretax benefits to gross margins and seen in fiscal 2024 and expect to capture a cumulative \$70 million of savings in fiscal 2025.

Additionally, we expect to incur approximately \$10 million in charges related to our fuel for growth initiative in fiscal 2025 which are expected to be excluded from adjusted earnings.

As Denise mentioned, we remain on track to achieve up to \$120 million of cumulative run rate benefits by the end of fiscal 2026 from our fuel for growth program, the strength of our sales and margin performance in the quarter coupled with savings from our fuel for growth program enabled us to deliver an adjusted operating margin of 9.4% an adjusted ebita margin of 12.6% and adjusted diluted earnings per share of 50¢. All increases over the prior year.

Moving to segment results, sales growth at Sally Beauty accelerated from Q3 with comparable sales of 2.6% and net sales growth of 1.8% versus a year ago.

Comparable transactions were down 0.6% and average ticket was up 2.2% driven by growth in average unit retail at constant currency. Sally e-commerce sales were \$38 million and represented 7% of segment net sales for the quarter.

We are pleased to see ongoing traction from our marketing tactics, marketplace expansion and digital enhancements for the global Sally Beauty segment. Color and care both increased by 2% and nails were up 9% compared to the prior year.

In the US and Canada color increased. 3%. Care was up 2% and nails were up 12% gross margin in our Sally segment increased 120 basis points to 60.4%.

The year over year improvement reflects higher product margins and lower distribution and freight costs resulting from supply chain efficiency.

Second segment operating margin was strong coming in at 17.4% up 240 basis points to last year.

Looking at the BSG segment, we delivered 1/4 consecutive quarter of sales growth reflecting expanded distribution, product innovation and healthy underlying stylist demand trends, comparable sales increased 1.3%. While net sales were up 1% comparable transactions were up 4.6% and average ticket was down to 2.6% driven by a decrease in units per transaction on a constant currency basis. BSG e-commerce sales were \$53 million representing 13% of segment net sales for the quarter.

From a category perspective, color was up 4% and care was flat.

Gross margin at BSG was 39% down 30 basis points versus last year primarily reflecting lower product margin related to brand mix, partially offset by lower distribution and freight costs resulting from supply chain efficiencies.

Segment operating margin was 11% down 50 basis points to the prior year.

Turning to the balance sheet and cash flow.

We ended the year with \$108 million of cash and cash equivalents and no outstanding borrowings, borrowings under our asset based revolving line of credit as announced in today's earnings release during the fourth quarter, we utilized our strong cash flow to repay the \$45 million. ABL balance, bringing our net debt leverage ratio down to two times.

As we previously noted, we believe a leverage ratio in the range of 1.5 to 2 times is appropriate for our business year end inventory levels were slightly over a billion dollars up 6% to last year, which is in line with our expectations and reflects a healthy overall position.

The business generated strong cash flow from operations of \$111 million in Q4 and \$247 million for the full year.

Capital expenditures totaled \$37 million in the fourth quarter and \$101 million for the full year.

Throughout the year, we deployed capital toward our core growth initiatives, strategic acquisitions and debt reduction while also returning value to shareholders through \$60 million of share repurchases.

Now I'll turn to a brief update on a subsequent event that occurred in our first quarter in October. We completed the sale of our home office in Denton, Texas and we have plans to move into a new building. Next summer, the new building will contain more of the modern amenities that are customary in today's corporate headquarters which allows for more flexibility and collaboration as well as central location in DFW for our employees and recruiting efforts.

The sale of the building included net proceeds of \$43 million and will include a net gain of approximately \$25 million in our first quarter reported GAAP earnings. However, the net gain of \$25 million will be excluded from our adjusted earnings before going into our outlet for fiscal 2025. I would like to reiterate our capital allocation priorities and provide some insights into how we intend to utilize our balance sheet.

The business continues to be a strong cash flow generator. In fiscal 2025 we expect a combination of operating cash flow and net proceeds from the sale of our building to provide us with \$300 million to \$325 million of cash to deploy towards capital expenditures including investing for growth, returning value to shareholders and strengthening our balance sheet.

Let me dimensionalize that for you full year. Capital expenditures are planned to be approximately \$120 million. This includes our historical annual spend of about \$90 million and approximately \$30 million to support the build out of our corporate office. Move in the first half, we anticipate having approximately \$60 million in cash to deploy. After we invest in capital expenditures in our new building location, we anticipate that share repurchases will comprise about third of this cash deployment. With the remaining two thirds going towards debt reduction in the second half of the year. We will evaluate the progress of our Happy Beauty co concept as well as our Sally brand refresh initiative and provide an update on the use of cash between our strategic investments as well as returning value to shareholders and any further debt reduction.

Turning now to our full year outlook for fiscal 2025. We are introducing the following guidance, consolidated net sales and comparable sales in the range of flat to up 2% and adjusted operating margin in the range of 8.5 to 9%.

As we consider the shape of fiscal 2025 we expect our strong top line momentum to continue in the first half followed by more difficult comparisons in the second half of the year. Looking further down the P&L benefits from our fuel for growth program are expected to drive modest gross margin expansion and enable us to hold S DNA as a percentage of sales relatively flat to the prior year.

Our guidance for the first quarter of fiscal 2025 includes net sales and comparable sales in the range of flat to up 2% and adjusted operating margin of 8% to 8.4% reflecting an improvement of 10 to 50 basis points versus the first quarter of fiscal 2024.

We are pleased to be entering fiscal 2025 with strong momentum and believe we are well positioned to maintain our industry leadership as we continue to advance our initiatives.

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, if you wish to ask a question, please press one and then zero on your telephone keypad. You may withdraw your question at any time by repeating the one then zero command. If using a speaker phone, please pick up the handset before pressing the numbers. Once again. If you have a question, please press one and then zero at this time and one moment please for our first question.

And our first question today comes from the line of Oliver Chen with TD Cowen. Please go ahead.

Oliver Chen - TD Cowen - Analyst

Hi, Denise and Marla. The brand refresh sounds really encouraging. Why, why is now the right time? And what are your thoughts on how that will manifest in comps and traffic and the timing of how we should think about that as you phase it in.

Also across the comp metrics as we think about the forecast at either in both divisions. Do you expect a year to continue to be positive and would love commentary on color nails and hair as we think about those forecasts at the divisions as well going forward? Really nice momentum and, and all of those categories. Thank you.

Denise Paulonis - Sally Beauty Holdings Inc - President, Chief Executive Officer, Director

Good morning Oliver. I appreciate the question. This is Denise, let me start with brand refresh on the Sally side. We are excited about the potential that we have here and you specifically asked about the the timing and why now is right? I think you've been on the journey with us, but we, we made the strategic decision.

To close a set of stores a few years ago to really reposition us.

Into all the markets that we needed to be in and wanted to be in. We returned to positive growth coming to the end of our fiscal '24 as, as we've just discussed and we've been doing a lot of test and learn whether that was through our studio by Sally initiative or other small.

Pilots. So.

We feel like we're well armed with the information now on what can move the needle and engage our existing customers as well as new customers. So what we're really working on is changing.

The way customers can experience the store as well as how they talk, we talk about.

The brand externally.

The store will be.

About new floor plans.

And fixtures, more opportunity for discovery, really.

Moving away from a supply house to a beauty experience. You know, we're going to have the opportunity to test some new assortment, which we're excited about when we think about what we're testing in Orlando right now on the storefront. You know, we're testing a range of options at different levels of investment. That average investment is about 150,000 a store.

But.

Testing a range around that, we'll see.

How that works through. We'll see how those different.

Tests come out, but we're optimistic that we'll be able to expand on what we're doing as we would look into fiscal '26 on that front. And importantly, we're going to complement that with marketing, really coming online in a different way in the second half of fiscal '25. So really bringing that modern persona that we want tied to Sally, the experiences that you can get a community bent in and how that's going to come to life. So, a good progress that we're excited about there. And when we look to the comp forecast, we see continued strength across all the three categories that you mentioned on color care and nails. And when we're, when we're looking at both businesses, you know, on the Sally side, really nice momentum with nails with some new assortment of the breadth of that assortment and brings in a customer and, and we do see.

Some customers come shop first with us for nails, which is quite an encouraging.

Trend that we're seeing. Color is our bread and butter and with care, we.

Have some new products coming.

In And some new assortment changes there that we are.

We're moving along with and I'd be remiss not to mention that Bobar has actually become our fifth largest owned brand over the course of the year. So a nice piece to build on there. And when we look to the pro side of the business and Bs G, you know, color and care both remain good sources of strength. Color continues to outperform and we're really happy to see the results there with the brands that we have in our cadre and with care with all the expansion into the new brands that we've had, whether that's Amica color. Wow, Moroccan Oil, you know, we're seeing good traction with our customers. We're seeing transactions increase, which is really encouraging. We saw a little bit of softness in care in the fourth quarter as we came out of that, there were really two drivers for that one and we did see a little bit more slowdown in Olaplex. But we also intentionally pushed the timing of some of our holiday packs to go to market shifting that from the end of September into early October. So planned timing change there for some sell through is as we look to holiday. So all in all really pleased where we're headed and we do expect a UR will remain modestly positive as we go through the year as well.

Oliver Chen - TD Cowen - Analyst

Okay. One follow up, You've competed really strongly in a promotional environment and the middle and lower. Definitely continues to have pressure in volatility and confidence, consumer confidence. What are your thoughts on the promo environment and Marla the compares get tougher as you mentioned in the back half. Does that imply that comp will likely be negative on, on the back half? I know you embed a lot of conservative in the guidance as well generally. Thank you.

Denise Paulonis - Sally Beauty Holdings Inc - President, Chief Executive Officer, Director

Sure. So on, on the promo front. We're really seeing a consistency.

Over the last couple quarters.

Value continues to be important on both sides of the house. In the quarter.

Was actually down a bit in terms of promotional frequency compared to the prior year. And, you know, it just reflects some.

Of the strategic choices we made on how to navigate a promotional penetration. BSG was pretty consistent. You know, we're looking, we're looking.

For that to continue into the new year. I think we feel like we have the right levers to be able to pivot as we need to not materially change our promotional cadence.

But still give customers that value that they want.

Yeah, and thanks for the the question on the quarterly cadence of the, the top line comp from a top line perspective, we don't see necessarily going negative, but you know, certainly lower than the front half where those compares get a bit harder. But we do see the momentum coming out of 2024 into 2025. Continuing strong. So stronger first half than we see back half, but that's only from a, a compare point of view from a dollars point of view. We still see the volumes are very strong.

Oliver Chen - TD Cowen - Analyst

Thank you. Bench regards.

Operator

And our next question comes to the line of Ken Wolfmeyer with Piper Sandler. Please go ahead.

Ken Wolfmeyer - Piper Sandler - Analyst

Hi, good morning. This is Sarah on just one on transaction versus ticket at the beginning and end of the quarter and how that has trended for BSG and then for the Happy Beauty Stores, what you're seeing in terms of transaction versus ticket trends there.

Denise Paulonis - Sally Beauty Holdings Inc - President, Chief Executive Officer, Director

Sure, I'm happy to talk about that. So on the BSG front, transactions were quite strong in the quarter. We definitely saw a frequency increase in terms of stylists coming to shop up up low single digits, which we felt really good about that. We saw a little lighter upt but not unexpected given that we saw the frequency build. So net net coming out to be that that positive one comp which we felt nice, nice about and complements the rest of the year that we had there, you know, on the Happy Beauty front, you know, we continue to see great strength in our average unit retail, which is a testament to the upt of what people are putting in their basket and seeing and shopping across the stores they come into the store. We continue to see transaction trends improve and we are excited as we launch our next 10 stores that will be open before Black Friday to continue to test into locations where we believe that transaction strength can come through, which includes some strip mall locations, but also includes testing in traditional mall environments that have a built in traffic with them. So I'm seeing nice progress, but we'd like to see more there. And that's what we're working through in the next phase of the test.

Operator

And our next question comes from the line of Olivia Tong with Raymond James. Please go ahead.

Olivia Tong - *Raymond James - Analyst*

Great, thanks. Good morning. I was wondering if you could talk about the building blocks to margin improvement and whether you think the 50 basis point expansion that you're seeing this this year for fiscal '25 excuse me is the right way to think about long term.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Sure. So it's probably one for both Marlow and I, you know, I think that the starting point of that is really the sales growth and the sales growth.

Trajectory. You know, we're, we're definitely on that path to delivering low single digit top line growth. We exhibited that in the third quarter and the fourth quarter of this past year and with that continuity that we get there, we certainly can get some leverage. What's behind that is behind all the things that we've talked about with Sally around product innovation, marketplaces, license colors on demand personalization, you know, and what we hope we'll be building into with the brand refresh and the marketing side of that that will come in the second half of the year. And then Bs G, we continue to show strength as a leader in the distribution space. The brands that we're bringing in the distribution expansion and the M&A that we have in front of us, get us into that low single digit range, which as I said is the foundation to getting us to margin improvement. Marlo, do you want to talk a little bit about fuel for growth?

Marlo Cormier - *Sally Beauty Holdings Inc - Chief Financial Officer, Senior Vice President*

In addition to the the low single digit range that we're working over the long term that contributes to sen a leverage in the near term we're working towards is our field for growth program, which in 2025 we have slated to deliver over 40 million on our way to a cumulative run rate of 70 million over the program life. In 2025 it'll come mainly, well, not 60% of that will come through gross margin, 40% in S DNA. So as we look to the near term, we see leverage building through operating our gross margin expansion with sales or selling SS DNA expenses. Basically at the same percentage last year over the long term, we see further leverage in S DNA. So as we look into our field for growth program, we're expecting about \$100 million and \$20 million of run rate by 2026. So that will create leverage both through growth margin expansion as well as SG&A leverage over time.

And I think when we wrap all that up, you know, the, the trends that we're on right now, we look at our long range horizon which is about a three year planning cycle to be well within our algorithm of a low double digit operating margin as we get to the end of that cycle.

Olivia Tong - *Raymond James - Analyst*

Thank you. That's very helpful. And then just to follow up first, given the challenging macros that we're seeing, are you seeing any benefit from consumers who haven't historically shopped your store coming in to find value, whether switching to diy color or any other initiatives like that. And then in terms of the digital side, the e-commerce side, could you talk a little bit more about some of the initiatives that you have? We talked a lot about the store less so on e-comm. We're just wondering what what additions you're planning for Cisco 25 there. Thanks so much.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Yeah, sure.

I'm happy to do that. When we think about our customer base on the Sally side, the trajectory changes that we've seen in the last.

Two quarters Come both come from both new and reactivated customers. Certainly some of those new customers are coming and getting introduced to us through licensed colorists on demand, which is our online platform to be able to give education and coaching to customers about coloring their hair and the journey they can be on. We do think some of those are.

First time colors of their hair.

So to the point of bringing in that new customer, we're seeing some nice traction there and then reactivated customers. I think the messaging about the assortment that we have that customer service of what we can deliver to customers new and things like nails. It's nice to see the reengagement of, of customers happening there as well.

So we always have that great.

Loyal base, but those other two populations are, are exciting for us to see and we think that that's going to continue and we have the momentum with our initiatives to make that happen, you know, on the digital e-comm front, I certainly didn't mean to not do justice there compared to what we're doing in the stores, we have a lot going on. And so when you think about different component parts of that over the last couple of months, you know, the biggest.

Launch has been the expansion of our marketplace program into doordash and Instacart.

Which uses our SO.

Stores as the.

Point of distribution. But we do think also.

Reaches some new customers who.

Might not be thinking Sally first or might not have a Sally in their backyard but need or want that product in a, in a timely fashion. So we've seen nice growth there. And in fact.

For the full fiscal year, this past year, we saw about 13 million in total growth coming from marketplaces, which feels.

Like a good number to us. But we're also growing going and focusing on growing against our own platforms as well. Our app is getting some really nice engagement. We complement that with our S MS and CRM activities becoming more personalized and the journey we're on to continue to deliver on that personalized communication is there. And then we're going to be working on the digital side with our own platforms as well to roll out that brand refresh and kind of updated.

Sally persona still Sally to the core, but maybe.

A Little bit More modern, a little bit more.

Sophisticated view of how customers will see us and enact, enact with.

Us online. So when we combine personalization and CRM with continued expansion of marketplaces and, and the improvements against our own sites, you know, it's certainly an important area of growth for us.

Operator

And our next question comes from the line of Linda Bolton Weiser from D A Davidson. Please go ahead.

Linda Bolton Weiser - D A Davidson - Analyst

Yes, hi. So it, it sounds from your tone that you're really, you're, you've made these changes in the business and you're finding success in many areas that you're and you're talking about the consecutive quarters of positive comp growth. So I'm wondering if that's like, like your goal? I mean,

I don't mean to put you on the spot, but are you kind of saying that you want to have like more consistency where you actually produce a positive comp overall, you know, every quarter, I mean, is that kind of like a goal of yours? Thanks.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

I think our.

We, I just go back to our guidance and how we think about our guidance our guidance really is a low single digit comp comp growth, expanding our margin underneath that. So, delivering operating growth, you know, a little bit faster than that sales growth and getting back to a double digit operating margin, we are building towards and expect that we will drive comp growth in both of our segments contributing to the to the entire portfolio and, and see us on a good path to do that as we've talked about all of our initiatives. So absolutely, the path we're on have a lot of conviction about how we're managing through that and, and the plans we have in place.

Linda Bolton Weiser - *DA Davidson - Analyst*

And can I can I just follow up to about on the sale side, I know long term strategy does involve increasing the percentage from owned or private label type brands. But you didn't really mention that on the call in terms of any percentages. How do you marry that idea of having your own private label brands with trying to modernize the concept a little bit and have a more test and learn kind of thing. It seems to me that that might mean having a reorientation toward more popular outside non owned brands. Can you, can you talk about that?

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

We think the marriage of own brands and national brands and up and coming brands is a great one. And when we think about the, the business that we're building in Sally, it's, it's about giving people brands they recognize. It's also about giving them great high quality brands that at good price points that are things we can generate in our own brands, business, our own brands business in penetration grew modestly in fiscal '20 four in line with our expectations. And we felt great that as an example of bond of modernizing with own brands like Bond Bar is a great example of how we're actually utilizing own brands. As part of that modernization, Bobar grew to be our number five owned brand in the store. And you know, only 18 to 24 months since we originally launched that.

Very.

First skew and so.

A nice trajectory there. But, you know, deep partnerships.

With other brands out in the industry, we talked about launching more products with Sft Beauty. We have a great partnership with Soapbox to name just a few as well as some of our largest partnerships with, with folks like WELLA. And all of those really build a robust engine behind what we can offer our customers. And we think marrying the both together is, is a great outcome for a specialty beauty play.

Linda Bolton Weiser - *DA Davidson - Analyst*

Great. And then my final, my final question, if I could fit it in is, is on the drug store closures that we're seeing in that channel. And I know that in some ways you view yourself as competing with drug stores, at least on the diy color area are the Drugto Closures benefiting your business in any way.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

You know, we don't really look at the.

Data specifically in that way. I, I think we look at saying here's the customer.

Base, we serve.

78% of our sales come from 16 million customers that we know and are part of our loyalty program. You know, the more that we can continue to build that customer base. And as I mentioned, we're seeing new and reactivated customers trending well in our portfolio, you know, we'll we'll take advantage of all of those opportunities where they exist, but we're really running our own play to be winning in these categories. A little more so than trying to think about, you know, specific closures that we might go target to pick up any volume. But you feel great about the customer trends that we're seeing.

Linda Bolton Weiser - *D A Davidson - Analyst*

Thank you.

Operator

And our next question goes to the line of Ashley Helgen with Jeffries. Please go ahead.

Ashley Helgen - *Jeffries - Analyst*

Hi, this is Sydney. I'm for Ashley. Thank you for taking our question. You mentioned studio by Sally informing this new brand refresh. I was just wondering if you can give a bit more color on what some of those key takeaways or findings have been that you'll be carrying over.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Absolutely. You know, studio by Sally was a wonderful test for us to understand how a customer could engage differently with both the thought of diy kind of hands on education as well as some changes in the store format, you know, starting with the store format piece, you know, some of the things that we were doing in studio, we lowered the height of the gondolas and fixtures so you could see across the entire end of the store. And we.

We actually reduced our skew count and.

Put More.

Education, navigation and information in the store as customers were shopping to understand brands, to understand how to get great results.

We increased a bit the impulse.

Fixture in space.

In the stores.

And we oriented nail in a little bit better.

Way for the customer to really fully experience the.

Category.

All of those are things that we're.

Carrying through into, into the new experience that we're looking at and excited about that, you know, and.

What we learned from the service side of the studio store has really come to life and license.

Color is on demand. So our ability to offer that consultation about how to get the right results.

We have our store associate.

And our beauty advisor.

Who can do some of that in store real time. But taking the.

Opportunity to actually have a colorist, licensed colorist on staff.

Who We Can engage, who customers can engage with online. Really grew out.

A lot of how the services.

Component of studio evolved as well. So, so fantastic learnings out of that that we are carrying forward.

Ashley Helgen - *Jeffries - Analyst*

Thank you. That's really Helpful.

Operator

And our next question comes from the line of Simeon Gutman with Morgan Stanley. Please go ahead.

Simeon Gutman - *Morgan Stanley - Analyst*

Hi, this is Zach on for Simeon. Thanks for taking your questions. Apologies if this was asked already. But with respect to pricing, can you give us a little color on what's happening at retail?

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Yeah, overall for us.

We're seeing modest increases.

In a ur on both Sides of our business and you know, at this point, we do some tactical pricing activity. But we are not we're not seeing a significant price increases.

From our vendors and things like that. So pricing overall can stay at a moderate pace.

And given we are growing a you are in that environment.

We're doing a Great job.

Containing promotions and making sure that the promotions we're offering are really value.

Added to both our retail customer and our, our stylist community. So.

Good healthy place to be. I.

Expect that that will continue in fiscal '25 as we continue to grow the business.

That's helpful. Thank you. And then just as a quick follow up, Can you also talk about what's happening with, with product costs and and some puts and takes there as well?

Yeah, product costs are really quite.

In control. I think that we've seen inflation broadly start to moderate and.

That's happening with our product costs coming through.

As well. We do not see product cost.

Decreases coming through in any meaningful way.

Right?

We watch commodities and work against that. And so we're in a, we're in a pretty good environment and, you know, I know there's one question out.

There that what could happen with tariffs, you.

Know, I think what I'd point out.

Is less than 10% of our product comes from China. So our exposure is.

Pretty Limited.

And we think it's within the same set of, of of actions that were taken a few years ago to manage if that.

Comes through which we can look at our vendor choices. We can look at sites where we source from.

Could take some modest pricing if it came to bear. But I think the most important part, there is really limited exposure for us.

Operator

Got it. Thank you.

And once again, if there are any additional questions at this time, please press one followed by the zero on your touchtone phone.

And at this time, it does appear there are no further questions from the phone lines.

Denise Paulonis - *Sally Beauty Holdings Inc - President, Chief Executive Officer, Director*

Well, to wrap up today, a thank you to all of our associates across the globe.

Thank you to our.

Shareholders. You know.

The fourth quarter for us.

Really capped a successful year where.

We delivered financial results within our expectations, strengthened the balance.

Sheet returned value to shareholders.

And meaningfully advanced our strategic initiatives. And we think we have great momentum entering fiscal '25 to continue on on this track. So once again, thank you to everyone and we'll talk to you next. Quarter.

Operator

And ladies and gentlemen, this conference will be available for replay after 930 central today through November 28th. You may access the AT&T replay system at any time by dialing 18,662,071,041. Entering the access code 1,471,652. International participants may dial 4,029,700,847. And those numbers again are 18,662,071,041 and 4,029,700,847. Again, entering the access code 1,471,652. That does conclude your conference for today. Thank you for your participation and for using AT&T teleconference. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.