

Sally Beauty Holdings, Inc.

STRENGTH

[IN BEAUTY]



As of September 2018

Sally Beauty Holdings is a leading international specialty retailer and distributor of professional beauty products and supplies

- ◆ Industry leading position
- ◆ Annual consolidated sales of approximately \$4 billion
- ◆ 5,156 stores located in 12 countries ⁽¹⁾
- ◆ Long track record of growth, underpinned by resilient beauty category
- ◆ Strong cash flow generation
- ◆ Disciplined capital allocation, with consistent investment in the business
- ◆ Proven resilience in recessionary cycles
- ◆ Two distinct business segments
- ◆ Diversified customer base: 60% salon professional; 40% specialty retail

(1) As of September 30, 2018

Net Sales
of **\$3.9b**

Gross Margin
of **49.4%**

Adj. EBITDA
of **\$587m** ⁽¹⁾

Free Cash Flow
of **\$287m** ⁽¹⁾

Segments

SALLY
BEAUTY

Beauty Systems Group.
AM **CP**
Armstrong McCall. Cosmo Prof.

Sales

59.3%

40.7%

**Segment
Operating
Earnings**

60.2%

39.8%

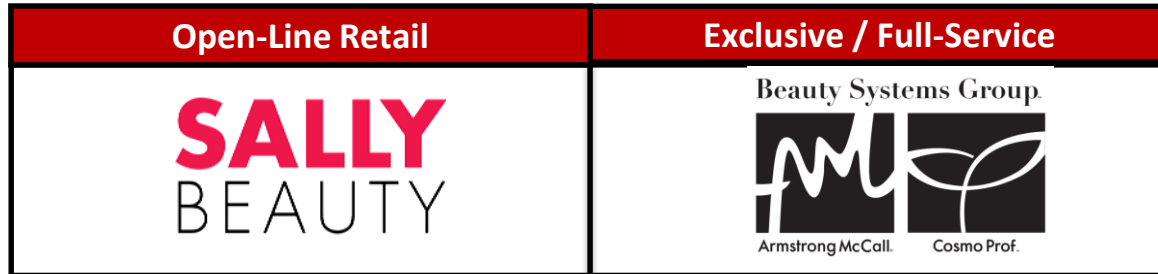
(1) See Addendum for a reconciliation of this non-GAAP financial measure.

Suppliers/
Vendors:

Third party and owned brands
not available in mass retail

Exclusive, third party
professional-only brands

Distributors:



Distribution
Channel (1)



Consumers:



(1) As of September 30, 2018

Segment

SALLY
BEAUTY

Distribution Channel

Retail stores and E-commerce

Customers

Retail consumers ~ 70% of sales

Professional stylists ~ 30% of sales

FY2018 Financials

Sales	\$2.3b
SSS growth	-1.5%
EBIT	\$363m
EBIT margin	15.5%

Segment

Beauty Systems Group.



Armstrong McCall.

Cosmo Prof.

Distribution Channel

Stores for licensed professionals
Direct sales consultants for salons

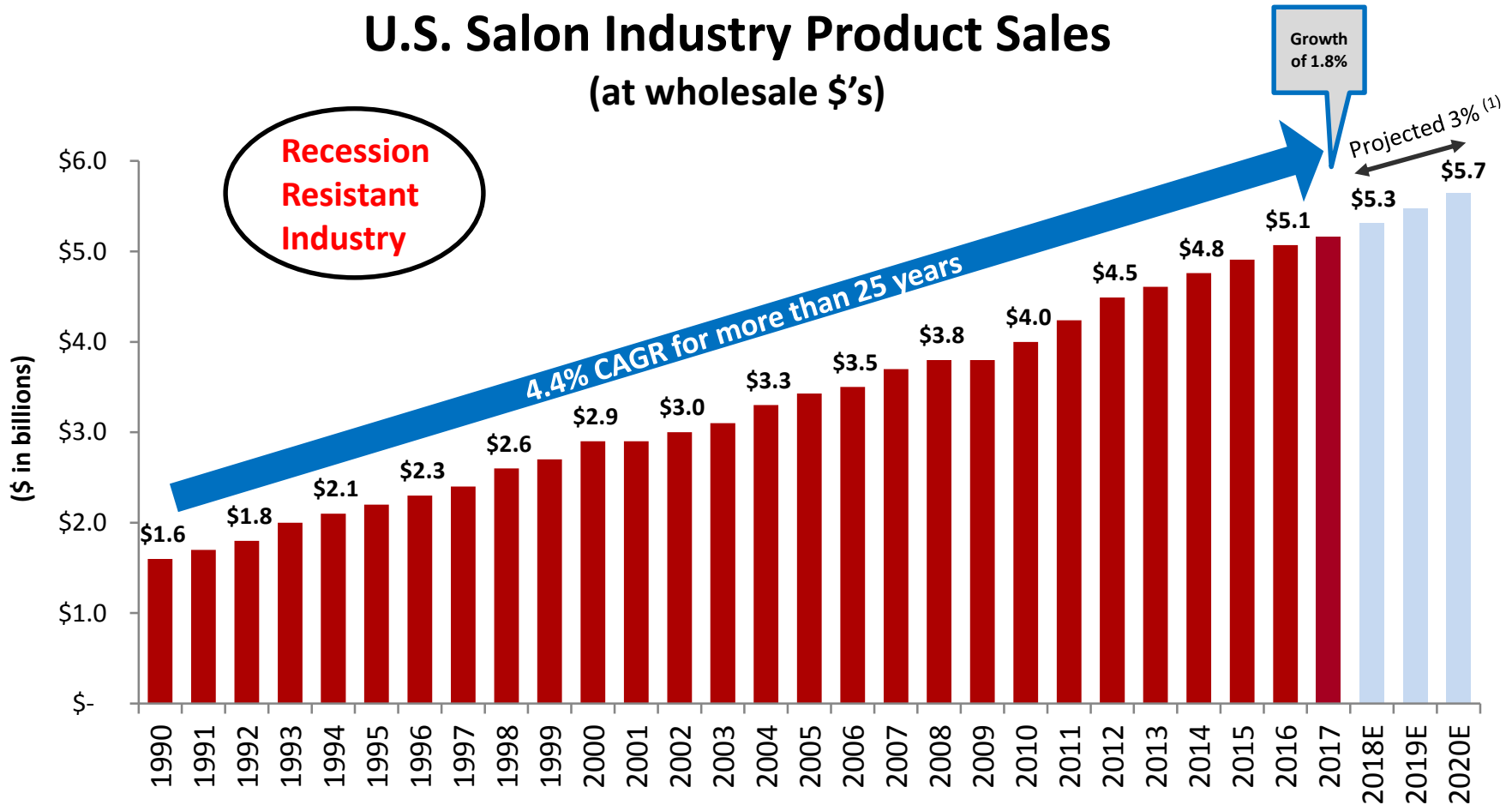
Customers

Professional stylists (chair/suite renters)
Salons (via BSG's direct sales consultants)

FY2018 Financials

Sales	\$1.6b
SSS growth	-1.5%
EBIT	\$240m
EBIT margin	15.0%

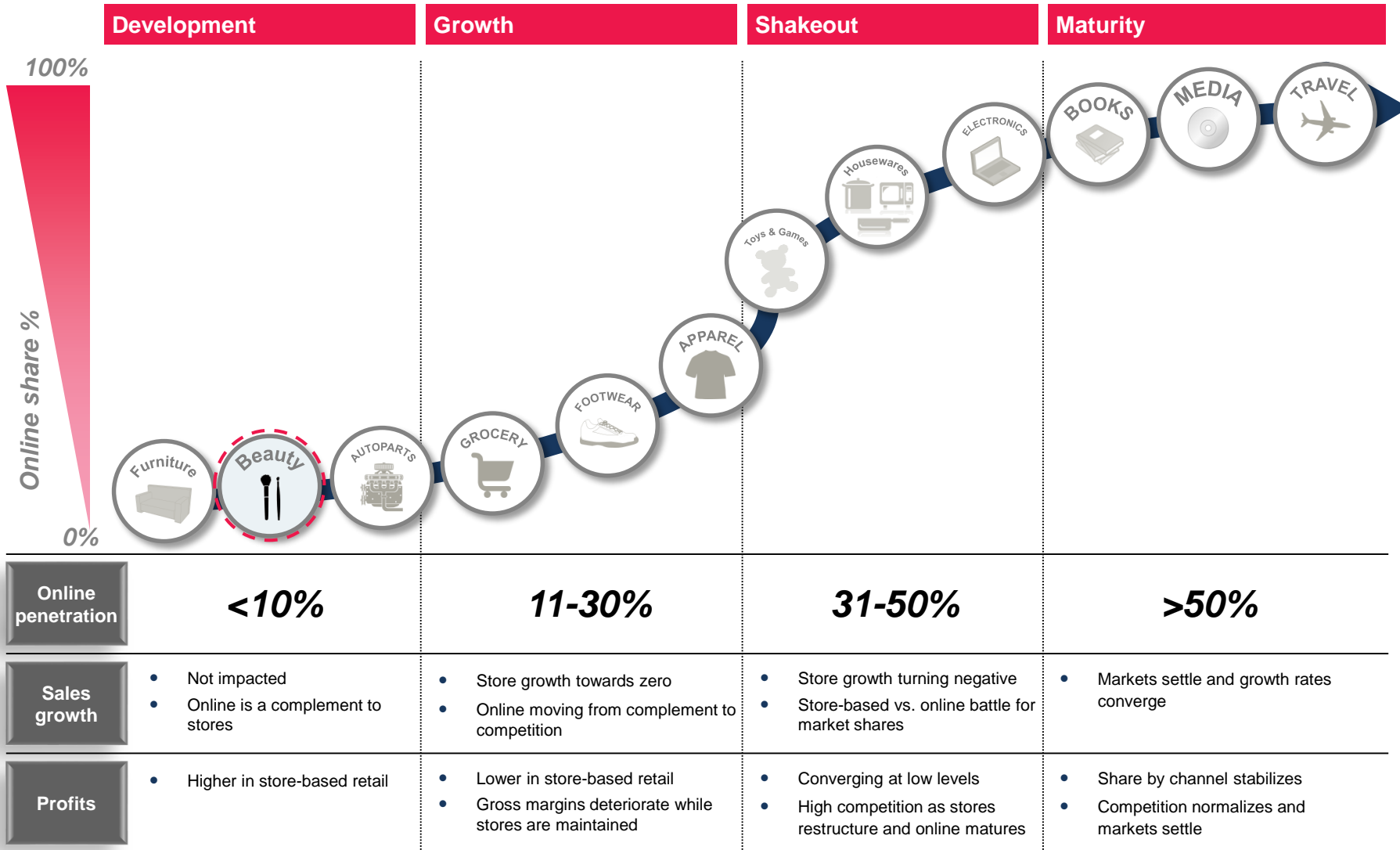
U.S. Salon Industry Product Sales (at wholesale \$'s)



Source: Professional Consultants & Resources, 2017 Study. Author: Cyrus Bulsara

(1) Professional beauty supply channel size based upon a 2017 study of manufacturer-level sales conducted by Professional Consultants & Resources.

Historically Low Exposure to Digital Disruptions



Source: Forrester Data Online Retail Forecast as per Evercore ISI Equity Research

Business Segment Review



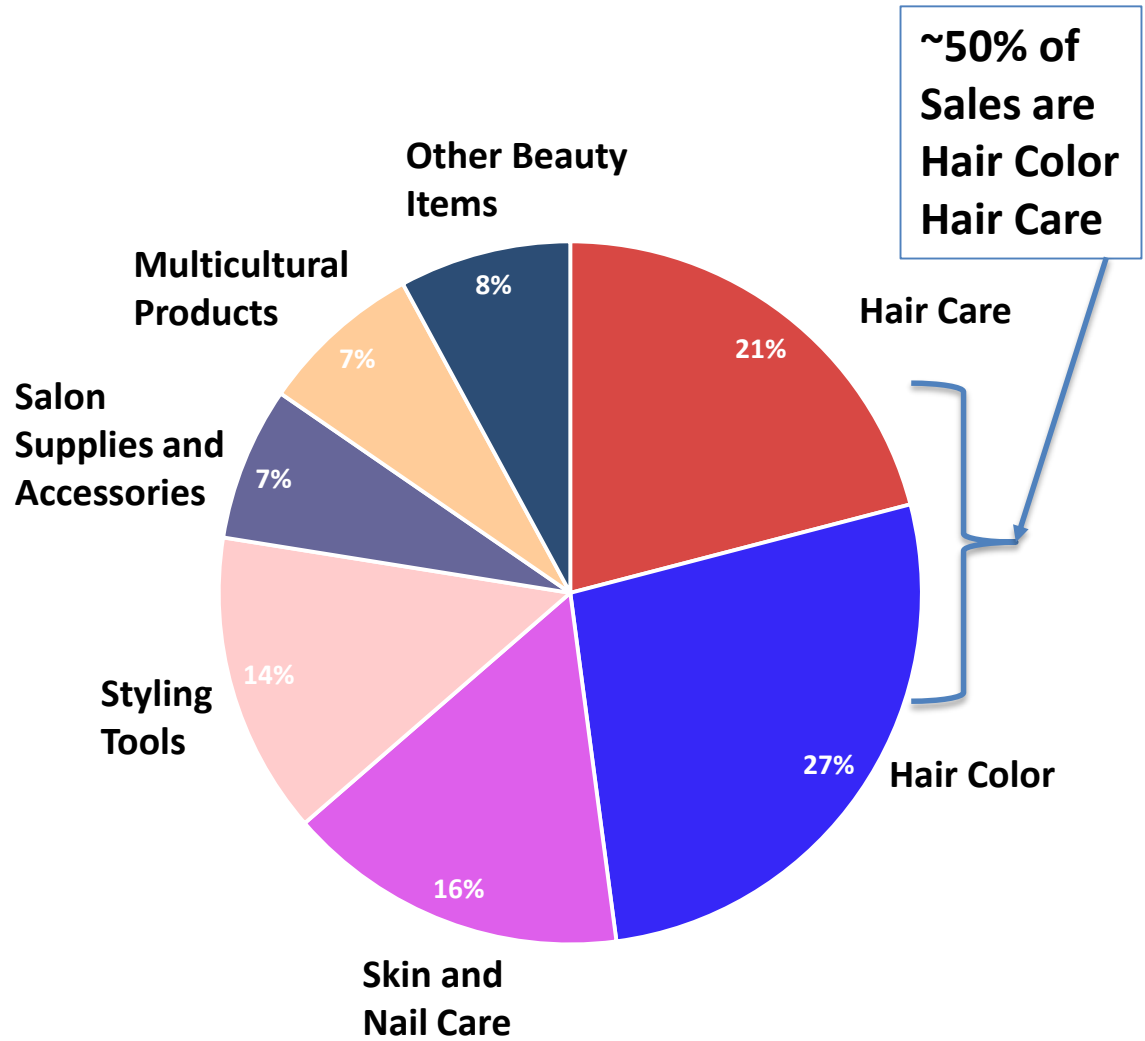
- Sally Beauty global footprint ⁽¹⁾
 - 3,761 stores worldwide
 - 2,849 stores in U.S. (including Puerto Rico)
 - 912 stores in Canada, Mexico, Chile, Peru, UK, Ireland, Belgium, Netherlands, France, Germany, and Spain
- Average store size 1,700 sq. ft., 90% selling space
- Professional open-line business - merchandise assortment not available through mass retailers
- 47% of U.S./Canada sales are exclusive and owned-brand products ⁽¹⁾
- Destination for professional quality hair care and solutions with a ***love it or return it guarantee***



Sally Beauty U.S. Store

(1) As of September 30, 2018

We offer a diversified mix of beauty products



*Fiscal year 2018

Existing International Platform

- 912 Sally stores located in 11 countries
 - Stores located in Canada, Mexico, Chile, Peru, UK, Ireland, Belgium, France, the Netherlands, Germany, and Spain
- ~26% of Sally sales from international
- Sales mix differs from U.S./Canada
 - UK/Europe
 - ~80-85% professional
 - ~15-20% retail
- Mexico and South America almost 100% retail

Store Count by Geography ⁽¹⁾



(UK / Ireland) 267



(Mexico) 237



(Belgium, France, Germany, Spain, Netherlands) 202



(Canada) 140



(Chile) 40

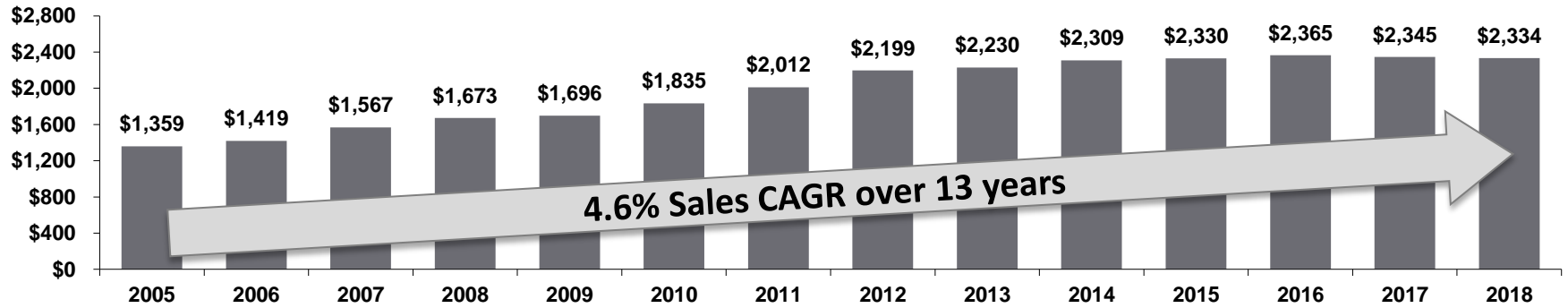


(Peru) 26

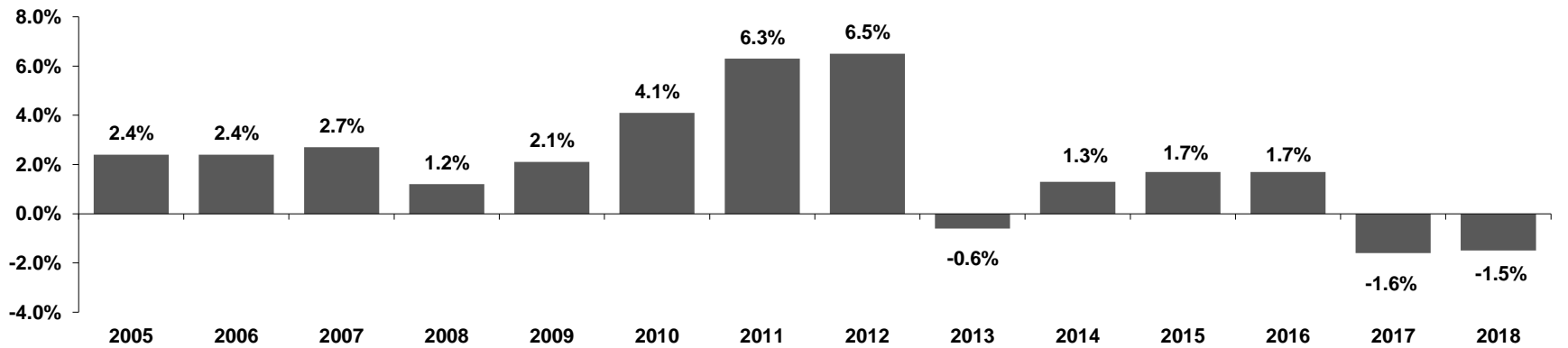
Total 912

(1) As of September 30, 2018

Sally Beauty Net Sales ⁽¹⁾



Sally Beauty Same Store Sales



(1) The favorable impact of foreign currency exchange on net sales for the fiscal year 2018 was \$30.1 million, or 1.3% of net sales

- Beauty Systems Group – 1,395⁽¹⁾ professional-only stores & professional distributor sales consultants
 - 1,228 company-operated / 167 franchised stores (Armstrong McCall)
 - 820 professional distributor sales consultants
- Average store size 2,600 sq. ft.
- Sells exclusively to salons and salon professionals
- Professional exclusive / full-service business – includes merchandise assortment of premium brands sold through salons and not available in mass retail or Sally Beauty stores
- In 2017, CosmoProf launched the mobile app for stylists

Beauty Systems Group.



Armstrong McCall.

Cosmo Prof.



LICENSE REQUIRED

PLEASE NOTE:
WE SERVICE LICENSED HAIRDRESSERS, SALON OWNERS,
STUDENTS, MANICURISTS, ESTHETICIANS, AND BARBERS ONLY.

CosmoProf™

MONDAY 8:00 AM - 8:00 PM

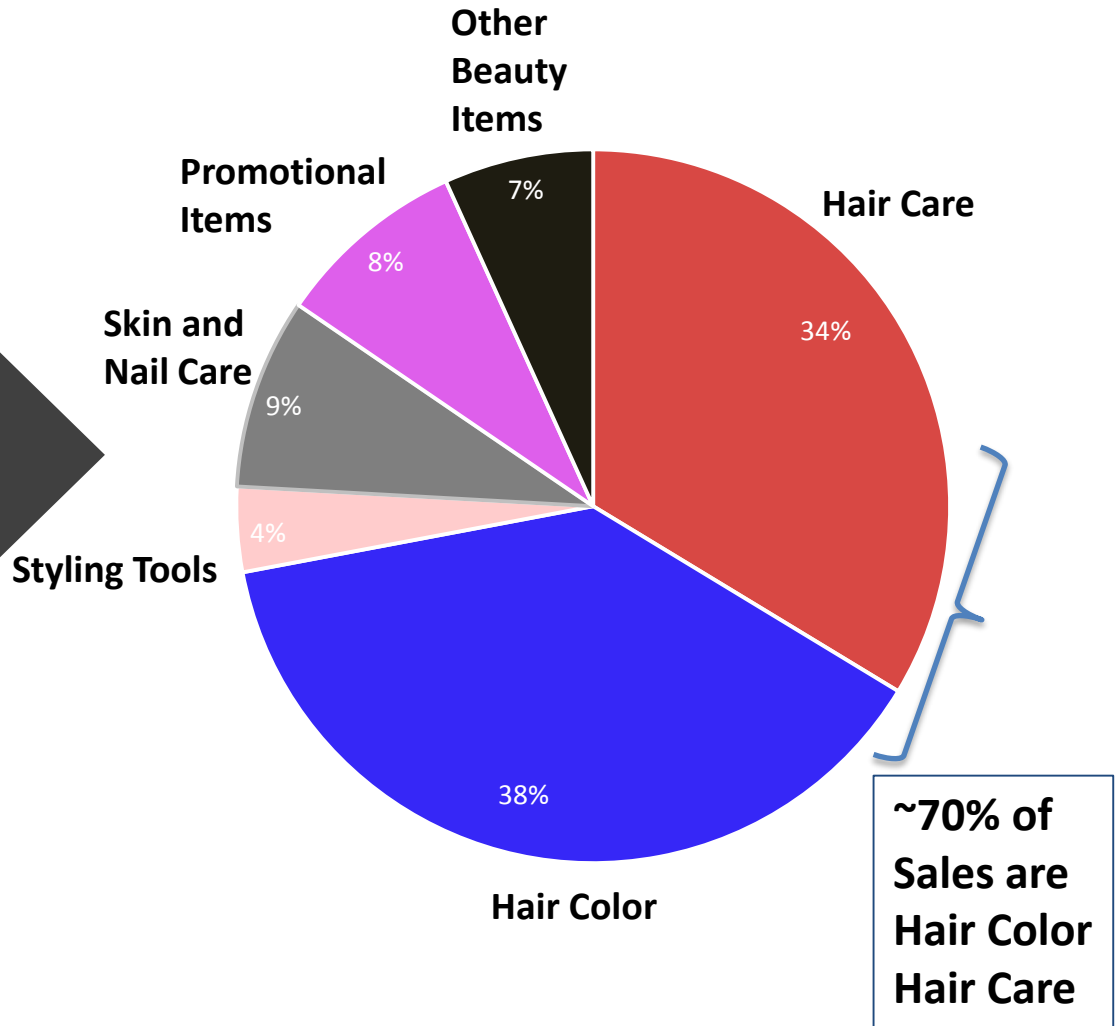
TUES-FRI 8:00 AM - 5:00 PM

SATURDAY 8:00 AM - 4:00 PM

SUNDAY CLOSED

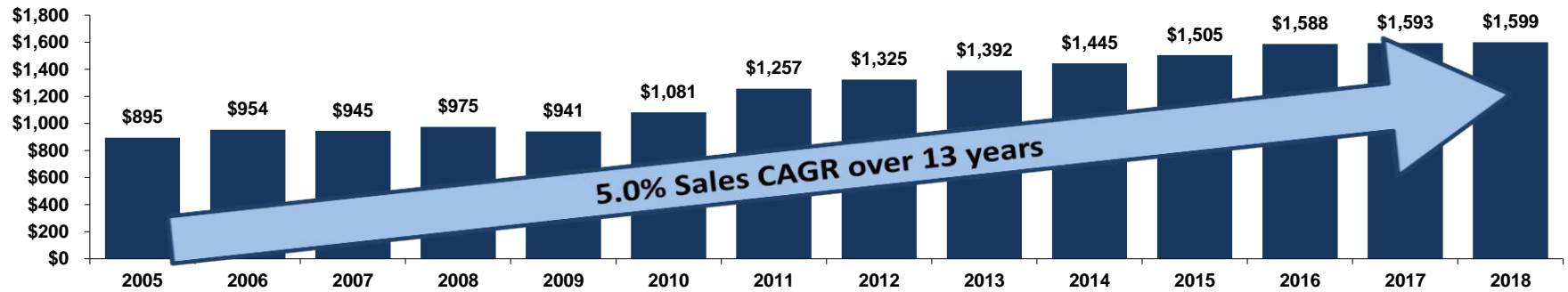
Beauty Systems Group Highlights

We offer a diversified mix of beauty products not carried in Sally stores or mass retail

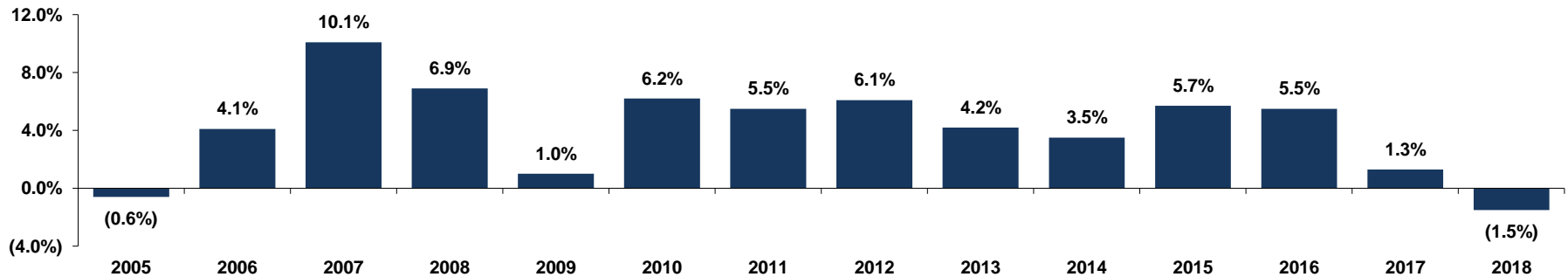


*Fiscal year 2018

BSG Net Sales (1)



BSG Same Store Sales Growth



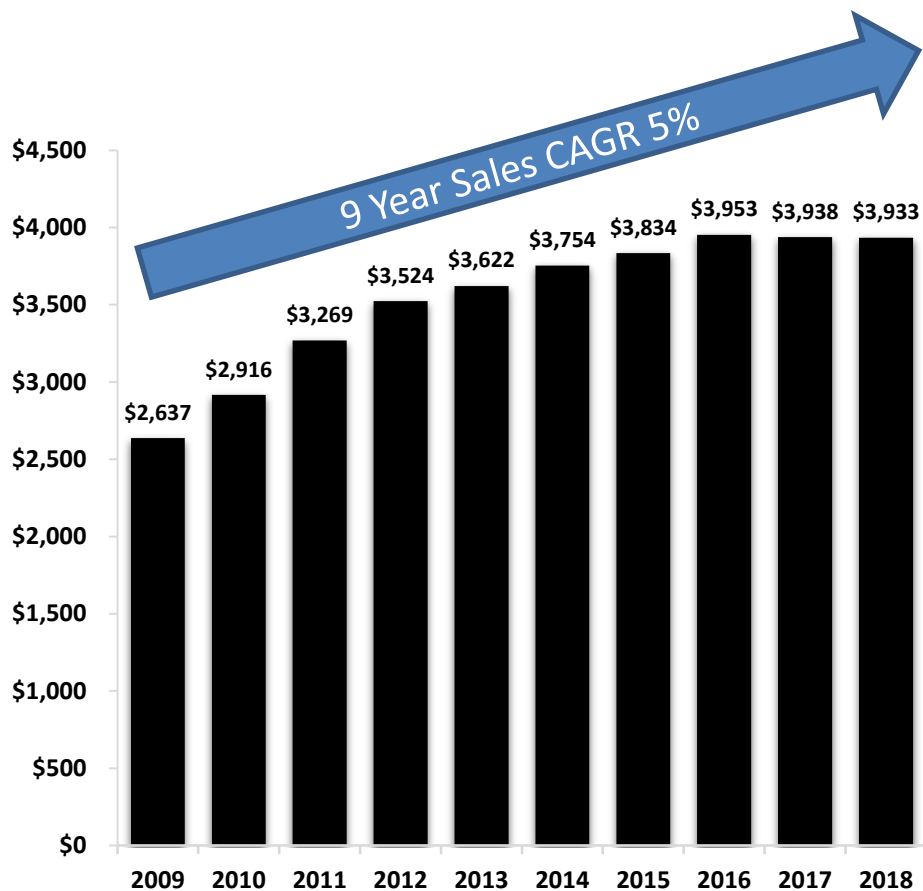
(1) The favorable impact of foreign currency exchange on net sales for the fiscal year 2018 was \$3.0 million, or 0.2% of net sales



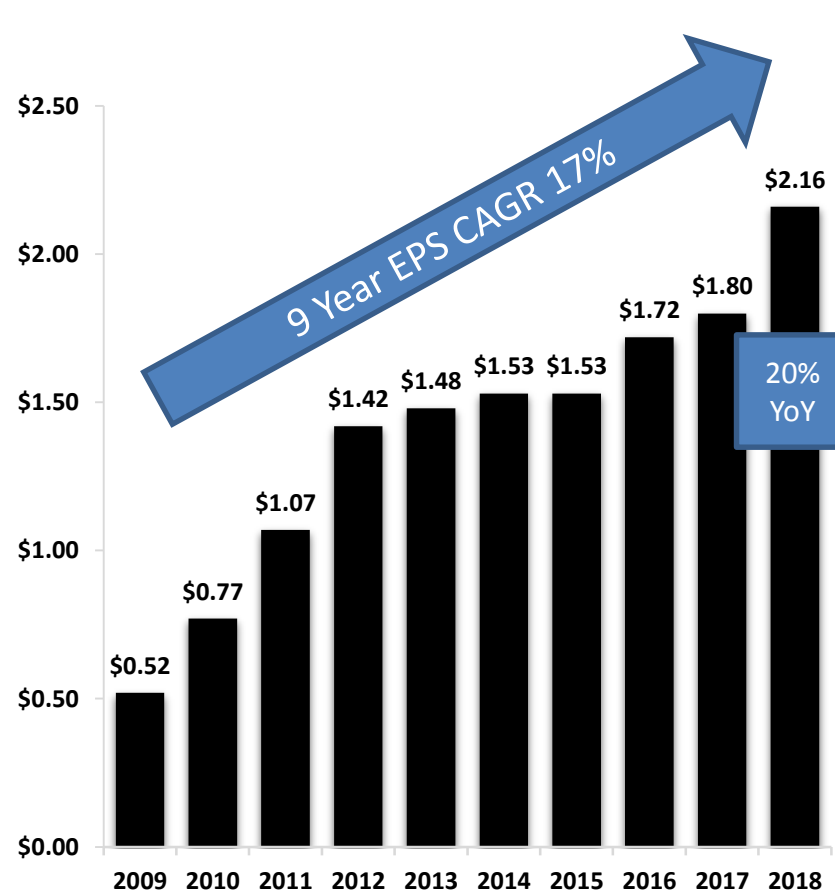
Consolidated Financials

Consolidated Sales and Adj. EPS

Sales (1)



EPS (adjusted) (2)



(1) The impact from favorable foreign currency exchange in the 2018 fiscal year was \$33.1 million, or 0.8%

(2) See Addendum for a reconciliation of this non-GAAP financial measure.

Q4 FY18 Financial Results

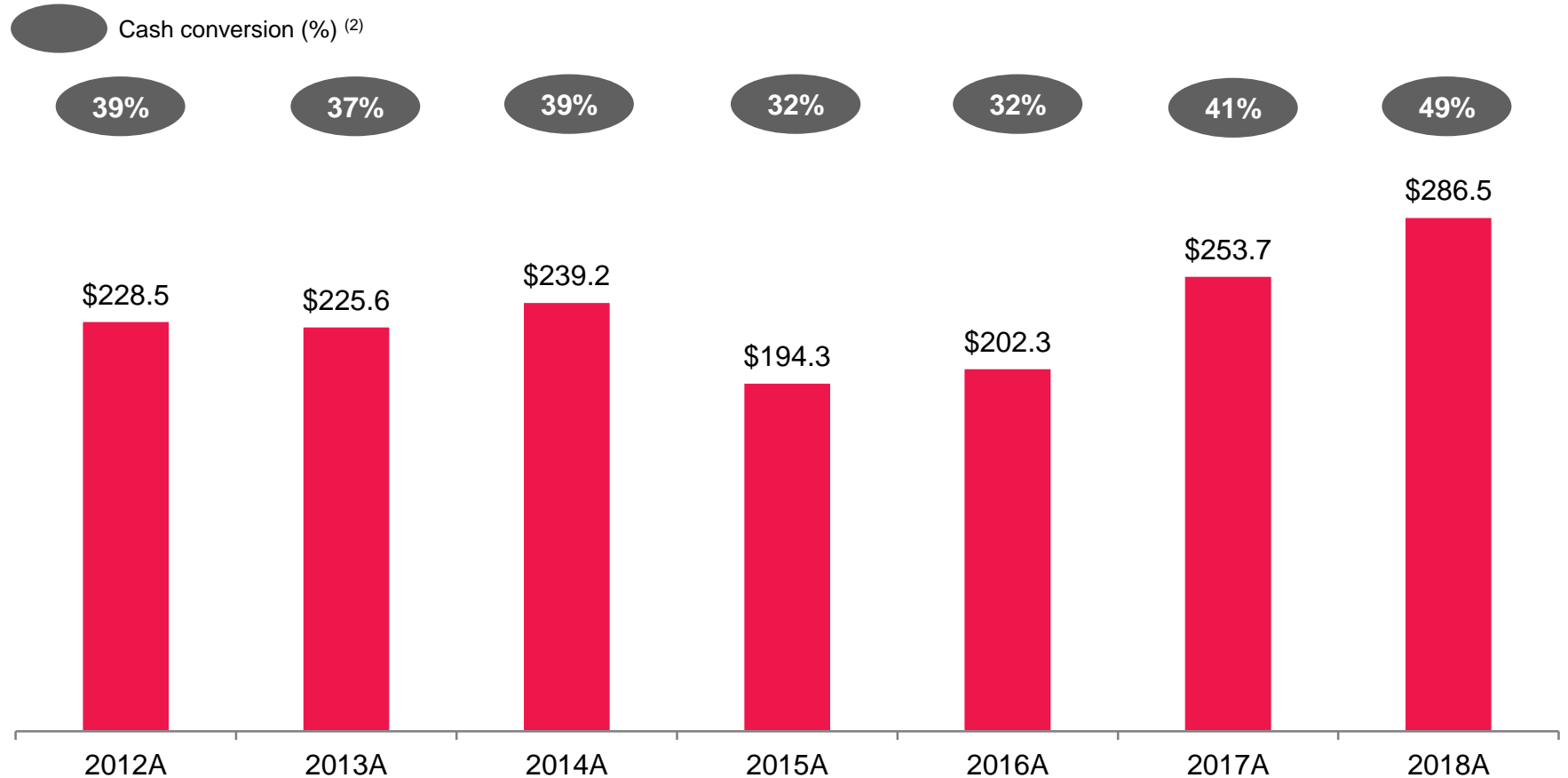
- **Reported EPS of \$0.46, growth of 70.4%**
 - Includes benefits of U.S. Tax Reform
- **Adjusted EPS of \$0.51, growth of 13.3%**
 - Includes benefits of U.S. Tax Reform
- **Net sales of \$966m, -0.8% vs. prior year**
 - Same store sales growth (0.2%)
 - Unfavorable foreign exchange (50 bps)
- **Operating Free Cash Flow \$66.8m, decrease of 31.4% vs. prior year**

Fiscal YTD Financial Results

- **Reported EPS of \$2.08, growth of 33.3%**
 - Includes benefits of U.S. Tax Reform
- **Adjusted EPS of \$2.16, growth of 20.0%**
 - Includes benefits of U.S. Tax reform due to the reduced federal statutory rate but excludes the one-time net benefits⁽¹⁾
- **Net sales of \$3,933m, -0.1% vs. prior year**
 - Same store sales growth (1.5%)
 - Favorable foreign exchange +80 bps
- **Operating Free Cash Flow \$286.5m, growth of 13.0% vs. prior year**

(1) Excludes the \$0.19 related to the net benefit of the revaluation of the deferred income tax accounts partially offset by the repatriation tax

SBH Free Cash Flow (\$m) ⁽¹⁾



(1) Free Cash Flow defined as cash flow from operations minus capital expenditures; See Addendum for reconciliation of this non-GAAP financial measure

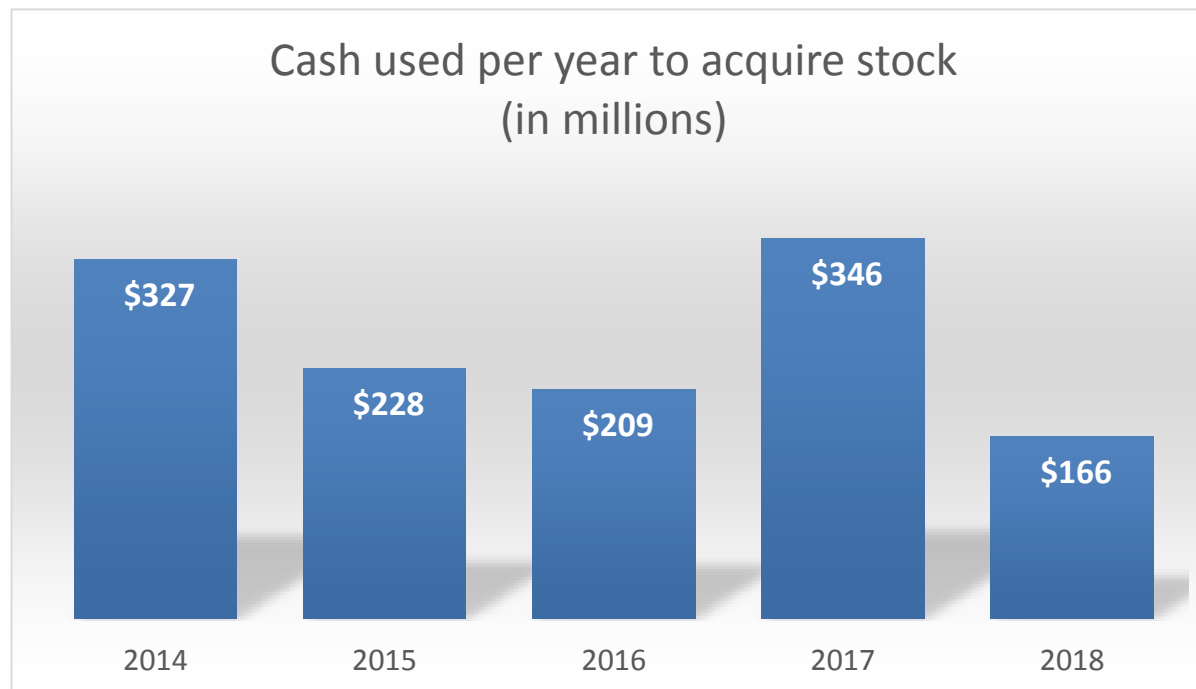
(2) Cash conversion defined as FCF/Adjusted EBITDA

Note: Free Cash Flow for 2015 and 2016 reflects increased capital expenditures primarily related to store openings and ongoing information technology upgrades in both business segments, store remodels and upgrades to certain distribution centers

Over past five years, \$1.2 billion of capital allocated to stock repurchases

In August 2017, launched a new share repurchase program to repurchase up to \$1.0 billion, at the discretion of the Board of Directors, of common stock through the end of fiscal year 2021

Going forward, capital allocation will be in the order of priority to invest in the business, pay down debt and return cash to shareholders



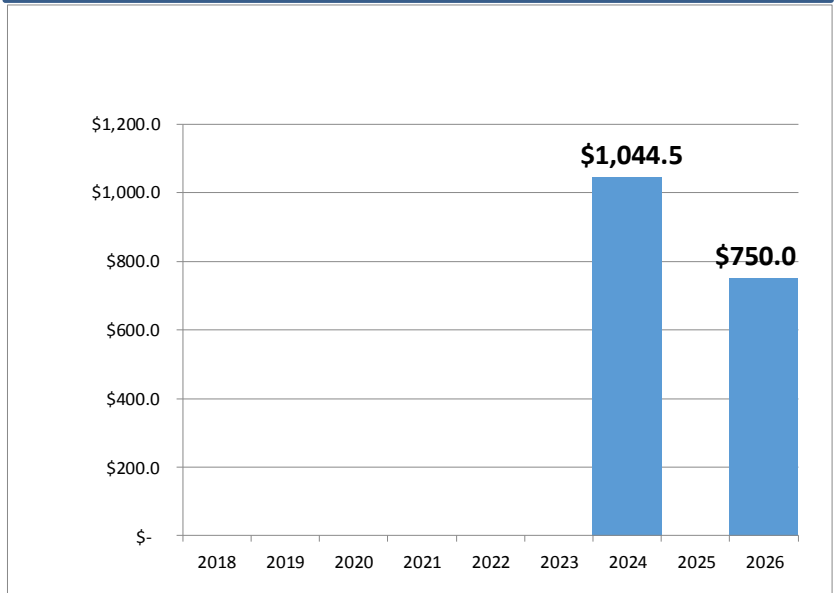
- No near-term maturities
- July 2017, successfully refinanced \$850m high yield debt with lower-rate term loan B
 - \$545m floating (L+225 bps)⁽¹⁾
 - \$300m fixed (4.50%)
- Targeted consolidated leverage ratio (Net Debt/EBITDA) of 2.5x to 3.0x
- Ample liquidity
 - Strong cash flow
 - \$500 million asset-based revolving credit facility

(1) Repriced in March 2018. Lowered interest rate spread by 25 bps.

Long-term capital structure

	AMOUNT (\$MM)	% OF TOTAL DEBT
TERM LOAN B (FY2024)	\$844.5	47.1%
5.500% SENIOR NOTES (FY2024)	\$200.0	11.1%
5.625% SENIOR NOTES (FY2026)	\$750.0	41.8%
TOTAL DEBT	\$1,794.5	100.0%

Long-term debt maturities (\$ millions)



RE•COLOR

— our future —

FREE UP RESOURCES



- Indirect procurement
- Private label sourcing
- Reducing overhead costs and low-value added work
- Store labor hour optimization
- Supply chain improvements

INVEST IN THE CUSTOMER EXPERIENCE



- Better training and pay for our store teams
- Faster, seamless checkout
- Inspiring eCommerce and in-store experiences
- Availability of the right products in the right place
- Compelling brand messaging

OUR MISSION

Empower our customers to express themselves through hair.

OUR STRATEGY

Be the undisputed expert and market leader in hair color and care (for the consumer and the professional).

OUR PLAN

Focus on hair color and care

- Strategic product assortment
- Market leading experiences in color

- Compelling in-store and digital experiences
- Best people and advice
- Partner of choice for brands and influencers

Play to win with our customers

Re-focusing marketing and merchandising efforts in our differentiated core of the business – hair color and hair care

- Entering a multi-billion dollar category and launching box color across our Sally Beauty Supply network
- Expand our distribution rights of important hair color and hair care brands, and continue to pursue additional new and exclusive brands, which bring new customers to our professional distribution business

Improving our retail fundamentals

Targeted investment in people, processes, technology and our stores

- Launch of our new Sally Beauty Loyalty Program
- New point-of-sale system for both Sally Beauty and Beauty Systems Group
- Launching the first phase of a multi-year JDA supply chain platform implementation, which will dramatically improve our merchandising capabilities and our ability to position inventory across our nodes

Advancing our digital commerce capabilities

- Sally stores testing “endless aisle” during the fourth quarter, a process where a store will be able to order out-of-stock product through a store iPad and have it shipped directly to the customer
- Sally e-commerce site redesign to improve the site speed and overall online customer experience
- Enhancing customers’ shopping experience through the convenience of “click and collect at store” and “click and delivery”

Continuing to drive costs out of the business

- Through our continuous improvement efforts seeking to achieve additional selling, general and administrative expense savings as a result of negotiations around benefits and third-party services
- Anticipated closing of approximately 1-2% of stores in the U.S and abroad in the coming year

1

Attractive beauty retail sector underpinned by growing and resilient beauty category

2

Greater resilience to online disruption vis-a-vis most other retail verticals

3

Track record of strong profitable growth coupled with attractive business model and economics

4

Strong cash flow generation, despite meaningful investment in the business

5

Maintain appropriate capital structure

APPENDIX

EBITDA and EPS Reconciliation

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
Adjusted EBITDA												
Net Earnings (GAAP)	\$ 44.5	\$ 77.7	\$ 99.1	\$ 143.8	\$ 213.7	\$ 233.1	\$ 261.2	\$ 246.0	\$ 235.1	\$ 222.9	\$ 215.1	\$ 258.0
Interest expense, net of interest income	146.0	159.1	132.0	113.0	112.5	138.4	107.7	116.3	116.8	144.2	132.9	98.2
Provision for income taxes	38.0	46.2	65.7	84.1	122.2	127.9	151.5	144.7	143.4	131.1	130.6	70.4
Depreciation and amortization	42.6	48.5	47.1	51.1	59.7	64.7	72.2	79.7	89.4	99.7	112.3	108.8
Share-based compensation	13.1	10.2	8.6	12.8	15.6	16.9	19.2	22.1	16.8	12.6	10.5	10.5
Transaction expenses ⁽¹⁾	21.5	-	-	-	-	-	-	-	-	-	-	-
Sales-based service fee charged by Alberto-Culver	3.8	-	-	-	-	-	-	-	-	-	-	-
Expenses from data security incidents	-	-	-	-	-	-	-	2.5	5.6	14.6	-	7.9
Restructuring charges	-	-	-	-	-	-	-	-	5.3	-	22.7	33.6
Litigation settlement and non-recurring items, net ⁽²⁾	-	-	-	-	(21.3)	10.2	-	-	-	2.6	-	-
Adjusted EBITDA	\$ 309.5	\$ 341.7	\$ 352.5	\$ 404.8	\$ 502.5	\$ 591.1	\$ 611.8	\$ 611.3	\$ 612.4	\$ 627.7	\$ 624.1	\$ 587.4
Adjusted net earnings and adjusted diluted earnings per share												
Net Earnings (GAAP)	\$ 44.5	\$ 77.7	\$ 99.1	\$ 143.8	\$ 213.7	\$ 233.1	\$ 261.2	\$ 246.0	\$ 235.1	\$ 222.9	\$ 215.1	\$ 258.0
Marked-to-market adjustment for certain interest rate swaps	3.0	4.6	-	(2.4)	-	-	-	-	-	-	-	-
Expenses associated with the spin-off from Alverto Culver	13.4	-	-	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	-	-	(5.3)	-	-	37.8	-	-	-	33.3	28.0	0.9
Interest expense on redeemed debt	-	-	-	-	-	5.1	-	-	-	2.1	-	-
Amortization of deferred financing costs	-	-	-	-	-	0.2	-	-	-	-	-	-
Litigation settlement and non-recurring items, net ⁽²⁾	-	-	-	-	(21.3)	10.2	-	-	-	-	-	-
Loss from security breach incidents	-	-	-	-	-	-	-	2.5	5.6	14.7	-	7.9
Management transition costs	-	-	-	-	-	-	-	3.5	-	2.0	-	-
Restructuring charges	-	-	-	-	-	-	-	-	5.3	-	22.7	33.6
One-time benefits from U.S. tax reform	-	-	-	-	-	-	-	-	-	-	-	(23.2)
Other	-	-	-	-	-	-	-	-	-	0.6	-	-
Tax provision for the adjustments to net earnings	(1.4)	(1.7)	2.1	0.9	7.9	(19.2)	-	(2.3)	(4.0)	(20.1)	(17.6)	(10.1)
Adjusted net earnings	\$ 59.5	\$ 80.6	\$ 95.9	\$ 142.3	\$ 200.3	\$ 267.2	\$ 261.2	\$ 249.7	\$ 241.9	\$ 255.6	\$ 248.2	\$ 267.1
Diluted adjusted net earnings per share (non-GAAP):	\$ 0.33	\$ 0.44	\$ 0.52	\$ 0.77	\$ 1.07	\$ 1.42	\$ 1.48	\$ 1.53	\$ 1.15	\$ 1.72	\$ 1.80	\$ 2.16
Diluted GAAP net earnings per share:	\$ 0.24	\$ 0.42	\$ 0.54	\$ 0.78	\$ 1.14	\$ 1.24	\$ 1.48	\$ 1.51	\$ 1.13	\$ 1.50	\$ 1.56	\$ 2.08

(1) Transaction expenses of \$21.5 for separation of the Company from Alberto-Culver in November 2006.

(2) Results for fiscal year 2011, reflect a \$27.0 million benefit of a litigation settlement and non-recurring charges of \$5.7 million.



Free Cash Flow

	2013		2014		2015		2016		2017		2018	
Cash Flow from Operations	\$	310.5	\$	316.0	\$	300.8	\$	351.0	\$	343.3	\$	372.7
Less: Capital Expenditures	\$	84.9	\$	76.8	\$	106.5	\$	148.7	\$	89.6	\$	86.1
Free Cash Flow	\$	225.6	\$	239.2	\$	194.3	\$	202.3	\$	253.7	\$	286.5