

Sally Beauty Holdings, Inc.  
Form 10-Q  
August 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2015**

**-OR-**

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

Commission File No. 1-33145

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**SALLY BEAUTY HOLDINGS, INC.**

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(Exact name of registrant as specified in its charter)

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**Delaware**

**36-2257936**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

**3001 Colorado Boulevard**

**Denton, Texas**

**76210**

(Address of principal executive  
offices)

(Zip Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting company

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

As of July 31, 2015, there were 157,273,777 shares of the issuer's common stock outstanding.



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In this Quarterly Report, references to the Company, Sally Beauty, our company, we, our, ours and us refer to Sally Beauty Holdings, its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

Cautionary Notice Regarding Forward-Looking Statements

Statements in this Quarterly Report on Form 10-Q and in the documents incorporated by reference herein which are not purely historical facts or which depend upon future events may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act. Words such as anticipate, believe, estimate, expect, intend, plan, project, target, can, could, may, should, will, would or similar words are used to identify such forward-looking statements.

Readers are cautioned not to place undue reliance on forward-looking statements as such statements speak only as of the date they were made. Any forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including, but not limited to, risks and uncertainties related to:

- the highly competitive nature of, and the increasing consolidation of, the beauty products distribution industry;
- anticipating and effectively responding to changes in consumer preferences and buying trends in a timely manner;
- potential fluctuation in our same store sales and quarterly financial performance;
- our dependence upon manufacturers who may be unwilling or unable to continue to supply products to us;
- the possibility of material interruptions in the supply of products by our third-party manufacturers or distributors;
- products sold by us being found to be defective in labeling or content;
- compliance with current laws and regulations or becoming subject to additional or more stringent laws and regulations;
- the success of our strategic initiatives, including our store refresh program and increased marketing efforts, to enhance the customer experience, drive brand awareness and improve customer loyalty;
- the success of our e-commerce businesses;
- product diversion to mass retailers or other unauthorized resellers;
- the operational and financial performance of our Armstrong McCall, L.P., which we refer to as Armstrong McCall, franchise-based business;

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- successfully identifying acquisition candidates and successfully completing desirable acquisitions;
- integrating acquired businesses;
- opening and operating new stores profitably;
- the impact of the health of the economy upon our business;
- the success of our cost control plans;
- protecting our intellectual property rights, particularly our trademarks;
- the risk that our products may infringe on the intellectual property rights of others or that we may be required to defend our intellectual property rights;
- conducting business outside the United States;
- disruption in our information technology systems;
- a significant data security breach, including misappropriation of our customers' or employees' confidential information, and the potential costs related thereto;
- the negative impact on our reputation and loss of confidence of our customers, suppliers and others arising from a significant data security breach;
- the costs and diversion of management's attention required to investigate and remediate a data security breach and to continuously upgrade our information technology security systems to address evolving cyber security threats;
- the ultimate determination of the extent or scope of the potential liabilities relating to our data security incidents;
- our ability to attract and retain highly skilled management and other personnel;
- severe weather, natural disasters or acts of violence or terrorism;
- the preparedness of our accounting and other management systems to meet financial reporting and other requirements and the upgrade of our existing financial reporting system;
- being a holding company, with no operations of our own, and depending on our subsidiaries for cash;
- our ability to execute and implement our share repurchase program;

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- our substantial indebtedness;
- the possibility that we may incur substantial additional debt, including secured debt, in the future;
- restrictions and limitations in the agreements and instruments governing our debt;
- generating the significant amount of cash needed to service all of our debt and refinancing all or a portion of our indebtedness or obtaining additional financing;
- changes in interest rates increasing the cost of servicing our debt;
- the potential impact on us if the financial institutions we deal with become impaired; and
- the costs and effects of litigation.

Additional factors that could cause actual events or results to differ materially from the events or results described in the forward-looking statements can be found in Item 1A. Risk Factors contained in Part I of our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, as filed with the Securities and Exchange Commission, or SEC, and the other periodic reports that we file with the SEC. The events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. As a result, our actual results may differ materially from the results contemplated by these forward-looking statements. We assume no obligation to publicly update or revise any forward-looking statements.

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**WHERE YOU CAN FIND MORE INFORMATION**

Sally Beauty's quarterly financial results and other important information are available by calling the Investor Relations Department at (940) 297-3877.

Sally Beauty maintains a website at [www.sallybeautyholdings.com](http://www.sallybeautyholdings.com) where investors and other interested parties may obtain, free of charge, press releases and other information as well as gain access to our periodic filings with the SEC. The information contained on this website should not be considered to be a part of this or any other report filed with or furnished to the SEC.

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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

The following consolidated balance sheets as of June 30, 2015 and September 30, 2014, the consolidated statements of earnings and consolidated statements of comprehensive income for the three and nine months ended June 30, 2015 and 2014 and the consolidated statements of cash flows for the nine months ended June 30, 2015 and 2014 are those of Sally Beauty Holdings, Inc. and its consolidated subsidiaries.

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**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Earnings**

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net sales	\$ 967,890	\$ 949,275	\$ 2,870,112	\$ 2,809,210
Cost of products sold and distribution expenses	486,571	473,564	1,447,572	1,416,578
Gross profit	481,319	475,711	1,422,540	1,392,632
Selling, general and administrative expenses	327,870	320,726	982,279	953,016
Depreciation and amortization	22,600	19,989	64,168	58,739
Operating earnings	130,849	134,996	376,093	380,877
Interest expense	29,221	29,308	87,690	87,055
Earnings before provision for income taxes	101,628	105,688	288,403	293,822
Provision for income taxes	39,165	37,932	109,496	109,579
Net earnings	\$ 62,463	\$ 67,756	\$ 178,907	\$ 184,243
Earnings per share:				
Basic	\$ 0.40	\$ 0.43	\$ 1.14	\$ 1.14
Diluted	\$ 0.39	\$ 0.42	\$ 1.13	\$ 1.11
Weighted average shares:				
Basic	157,110	158,950	156,901	161,700
Diluted	159,120	162,524	158,875	165,389

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.

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**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Income**

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Net earnings	\$ 62,463	\$ 67,756	\$ 178,907	\$ 184,243
Other comprehensive income (loss):				
Foreign currency translation adjustments	11,815	6,282	(35,344)	6,134
Total other comprehensive income (loss), before tax	11,815	6,282	(35,344)	6,134
Income taxes related to other comprehensive income		578		578
Other comprehensive income (loss), net of tax	11,815	6,860	(35,344)	6,712
Total comprehensive income	\$ 74,278	\$ 74,616	\$ 143,563	\$ 190,955

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.

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**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

(In thousands, except par value data)

	June 30, 2015 (Unaudited)	September 30, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 239,145	\$ 106,575
Trade accounts receivable, less allowance for doubtful accounts of \$1,354 at June 30, 2015 and \$1,752 at September 30, 2014	50,401	51,797
Accounts receivable, other	36,847	46,703
Inventory	874,526	828,429
Other current assets	46,131	38,995
Deferred income tax assets, net	31,678	31,650
Total current assets	1,278,728	1,104,149
Property and equipment, net of accumulated depreciation and amortization of \$442,189 at June 30, 2015 and \$413,208 at September 30, 2014	249,733	238,111
Goodwill	525,852	536,341
Intangible assets, excluding goodwill, net of accumulated amortization of \$94,578 at June 30, 2015 and \$86,320 at September 30, 2014	102,961	114,744
Other assets	32,321	36,628
Total assets	\$ 2,189,595	\$ 2,029,973
<b>Liabilities and Stockholders Deficit</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 759	\$ 974
Accounts payable	285,390	259,463
Accrued liabilities	169,301	198,769
Income taxes payable	3,691	4,331
Total current liabilities	459,141	463,537
Long-term debt	1,809,043	1,810,667
Other liabilities	29,447	27,848
Deferred income tax liabilities, net	82,128	74,974
Total liabilities	2,379,759	2,377,026
Stockholders deficit:		
Common stock, \$0.01 par value. Authorized 500,000 shares; 157,495 and 155,104 shares issued and 156,992 and 154,668 shares outstanding at June 30, 2015 and September 30, 2014, respectively	1,570	1,547
Preferred stock, \$0.01 par value. Authorized 50,000 shares; none issued		
Additional paid-in capital		
Accumulated deficit	(126,948)	(320,052)
Treasury Stock, 29 shares, at cost	(894)	
Accumulated other comprehensive loss, net of tax	(63,892)	(28,548)
Total stockholders deficit	(190,164)	(347,053)
Total liabilities and stockholders deficit	\$ 2,189,595	\$ 2,029,973

The accompanying condensed notes, together with the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014, are an integral part of these financial statements.



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**SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Net earnings	\$ 178,907	\$ 184,243
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	64,168	58,739
Share-based compensation expense	13,466	18,297
Amortization of deferred financing costs	2,843	2,813
Excess tax benefit from share-based compensation	(23,209)	(12,211)
Deferred income taxes	7,067	(824)
Changes in (exclusive of effects of acquisitions):		
Trade accounts receivable	(564)	3,129
Accounts receivable, other	9,412	(1,817)
Inventory	(61,833)	(27,913)
Other current assets	15,651	(1,386)
Other assets	6	201
Accounts payable and accrued liabilities	(189)	(45,915)
Income taxes payable	(551)	11,952
Other liabilities	1,737	4,155
Net cash provided by operating activities	206,911	193,463
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(70,649)	(49,776)
Acquisitions, net of cash acquired	(2,765)	(4,765)
Net cash used by investing activities	(73,414)	(54,541)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of long-term debt	983	310,219
Repayments of long-term debt	(1,619)	(178,582)
Repurchases of common stock	(74,284)	(301,727)
Debt issuance costs		(3,896)
Proceeds from exercises of stock options	52,627	21,854
Excess tax benefit from share-based compensation	23,209	12,211
Net cash provided (used) by financing activities	916	(139,921)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,843)	213
Net increase (decrease) in cash and cash equivalents	132,570	(786)
Cash and cash equivalents, beginning of period	106,575	47,115
Cash and cash equivalents, end of period	\$ 239,145	\$ 46,329
<b>Supplemental Cash Flow Information:</b>		
Interest paid	\$ 112,647	\$ 107,410
Income taxes paid	\$ 83,074	\$