

Sally Beauty Holdings, Inc.
Form 10-Q
February 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED: DECEMBER 31, 2017

-OR-

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
Commission File No. 1-33145

SALLY BEAUTY HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	36-2257936 (I.R.S. Employer Identification No.)
3001 Colorado Boulevard Denton, Texas (Address of principal executive offices)	76210 (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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a smaller reporting company)	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 2, 2018, there were 125,102,746 shares of the issuer’s common stock outstanding.

TABLE OF CONTENTS

	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	6
<u>Item 2. Management’s Discussion And Analysis Of Financial Condition And Results Of Operations</u>	26
<u>Item 3. Quantitative And Qualitative Disclosures About Market Risk</u>	33
<u>Item 4. Controls And Procedures</u>	33
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	34
<u>Item 1a. Risk Factors</u>	34
<u>Item 2. Unregistered Sales Of Equity Securities And Use Of Proceeds</u>	34
<u>Item 3. Defaults Upon Senior Securities</u>	34
<u>Item 4. Mine Safety Disclosures</u>	34
<u>Item 5. Other Information</u>	34
<u>Item 6. Exhibits</u>	35

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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, Inc. and its consolidated subsidiaries unless otherwise indicated or the context otherwise requires.

cautionary notice regarding forward-looking statements

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

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:

- anticipating and effectively responding to changes in consumer and professional stylist preferences and buying trends in a timely manner;
- the success of our strategic initiatives, including our store refresh program and increased marketing efforts, to enhance the customer experience, attract new customers, drive brand awareness and improve customer loyalty;
- our ability to efficiently manage and control our costs and the success of our cost control plans, including our recently implemented restructuring plans;
- our ability to implement our restructuring plans in various jurisdictions;
- our ability to manage the effects of our cost-reduction plans on our employees and other operations costs;
- charges related to the restructuring plans;
- possible changes in the size and components of the expected costs and charges associated with the restructuring plans;
- our ability to realize the anticipated cost savings from the restructuring plans within the anticipated time frame, if at all;
- the highly competitive nature of, and the increasing consolidation of, the beauty products distribution industry;
- the timing and acceptance of new product introductions;
- shifts in the mix of products sold during any period;
- 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;
- our dependence upon manufacturers who have developed or could develop their own distribution businesses which compete directly with ours;
- the possibility of material interruptions in the supply of products by our third party manufacturers or distributors or increases in the prices of the products we purchase from 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 e-commerce businesses;
- diversion of professional products sold by Beauty Systems Group to mass retailers or other unauthorized resellers;
- the operational and financial performance of our Armstrong McCall, L.P. franchise based business, which we refer to as Armstrong McCall;
- successfully identifying acquisition candidates and successfully completing desirable acquisitions;
- integrating acquired businesses;
- the success of our initiatives to expand into new geographies;
- the success of our existing stores, and our ability to increase sales at existing stores;
- opening and operating new stores profitably;

- the volume of traffic to our stores;
- the impact of the general economic conditions upon our business;
- the challenges of conducting business outside the United States;
- the impact of Britain's decision to leave the European Union and related or other disruptive events in the United Kingdom, the European Union or other geographies in which we conduct business;
- rising labor and rental costs;
- protecting our intellectual property rights, particularly our trademarks;

3

the risk that our products may infringe on the intellectual property rights of others;

- successfully updating and integrating our information technology systems;

disruption in our information technology systems;

a significant data security breach, including misappropriation of our customers', employees' or suppliers' 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 past or any future 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 our liquidity needs;

our ability to execute and implement our share repurchase program;

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 or refinancing our debt; and

the costs and effects of litigation.

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.

WHERE YOU CAN FIND MORE INFORMATION

Our quarterly financial results and other important information are available by calling our Investor Relations Department at (940) 297-3877.

We maintain a website at 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 Securities and Exchange Commission (“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.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

The following consolidated balance sheets as of December 31, 2017 and September 30, 2017, and the consolidated statements of earnings, consolidated statements of comprehensive income and consolidated statements of cash flows for the three months ended December 31, 2017 and 2016 are those of Sally Beauty Holdings, Inc. and its subsidiaries.

6

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except par value data)

	December 31, 2017 (Unaudited)	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 79,312	\$ 63,759
Trade accounts receivable, net	49,580	46,986
Accounts receivable, other	47,378	45,255
Inventory	941,146	930,855
Other current assets	46,259	55,223
Total current assets	1,163,675	1,142,078
Property and equipment, net of accumulated depreciation of \$563,001 at December 31, 2017 and \$546,061 at September 30, 2017	306,421	313,717
Goodwill	544,418	537,791
Intangible assets, excluding goodwill, net of accumulated amortization of \$124,818 at December 31, 2017 and \$121,550 at September 30, 2017	77,740	80,305
Other assets	21,067	25,116
Total assets	\$ 2,113,321	\$ 2,099,007
Liabilities and Stockholders' Deficit		
Current liabilities:		
Current maturities of long-term debt	\$ 104,900	\$ 96,082
Accounts payable	306,270	307,752
Accrued liabilities	166,501	166,527
Income taxes payable	12,331	2,233
Total current liabilities	590,002	572,594
Long-term debt	1,771,299	1,771,853
Other liabilities	31,147	20,140
Deferred income tax liabilities, net	63,508	98,036
Total liabilities	2,455,956	2,462,623
Stockholders' deficit:		
Common stock, \$0.01 par value. Authorized 500,000 shares; 126,166 and 129,710 shares issued and 125,799 and 129,585 shares outstanding at December 31, 2017 and September 30, 2017, respectively	1,258	1,296
Preferred stock, \$0.01 par value. Authorized 50,000 shares; none issued	—	—
Additional paid-in capital	—	—
Accumulated deficit	(260,999)	(283,076)
Accumulated other comprehensive loss, net of tax	(82,894)	(81,836)

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Total stockholders' deficit	(342,635)	(363,616)
Total liabilities and stockholders' deficit	\$2,113,321	\$2,099,007

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

(In thousands, except per share data)

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Net sales	\$994,964	\$999,609
Cost of goods sold	508,335	507,901
Gross profit	486,629	491,708
Selling, general and administrative expenses	371,286	374,251
Restructuring charges	5,210	—
Operating earnings	110,133	117,457
Interest expense	24,016	26,799
Earnings before provision for income taxes	86,117	90,658
Provision for income taxes	2,853	34,832
Net earnings	\$83,264	\$55,826
Earnings per share:		
Basic	\$0.65	\$0.39
Diluted	\$0.65	\$0.39
Weighted average shares:		
Basic	127,784	143,631
Diluted	128,645	144,860

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Net earnings	\$83,264	\$55,826
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	(255)	(18,668)
Interest rate caps:		
Changes in fair value	(1,130)	—
Income taxes related to changes in fair value	327	—
Other comprehensive income (loss), net of tax	(1,058)	(18,668)
Total comprehensive income	\$82,206	\$37,158

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

SALLY BEAUTY HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three Months Ended December 31,	
	2017	2016
Cash Flows from Operating Activities:		
Net earnings	\$83,264	\$55,826
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	27,090	26,839
Share-based compensation expense	3,111	3,814
Amortization of deferred financing costs	921	789
Deferred income taxes	(31,350)	3,000
Changes in (exclusive of effects of acquisitions):		
Trade accounts receivable	(2,427)	2,181
Accounts receivable, other	(2,008)	1,727
Inventory	(8,055)	(9,358)
Other current assets	9,105	12,255
Other assets	(290)	(592)
Accounts payable and accrued liabilities	3,764	(19,375)
Income taxes payable	10,069	13,151
Other liabilities	11,010	(463)
Net cash provided by operating activities	104,204	89,794
Cash Flows from Investing Activities:		