Risk Factors Comparison 2023-11-16 to 2022-11-17 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Operational, Strategic and General Business Risks The beauty products distribution industry is highly competitive and is consolidating. ~~The beauty products distribution industry is highly fragmented and competitive, with few significant barriers to entry into the marketplaces for most of the types of products we sell.~~ We face significant competition from other beauty stores and outlets, salons, mass merchandisers, online retailers, drug stores and supermarkets. The primary competitive factors in the beauty products distribution industry are price, quality, perceived value, consumer brand name recognition, packaging and variety and availability, customer service, desirable store locations, in- stock inventory and, with respect to e- commerce, look and feel of website and delivery times and costs. Competitive conditions may limit our ability to maintain prices or may require us to reduce prices in efforts to retain business or channel share, particularly because customers are able to quickly and conveniently comparison shop and determine ~~- 8-~~ real- time product availability using digital tools, which can lead to decisions driven solely by price, the functionality of the digital tools, or a combination of these and other factors. Some of our competitors have greater financial and other resources than we do and are less leveraged than our business and may therefore be able to spend more aggressively on advertising and promotional activities and respond more effectively to changing business and economic conditions **. Furthermore, there are few significant barriers to entry into the marketplace for most of the products we sell making it easy for new market entrants to compete with us** . We expect existing competitors, business partners and new entrants to the beauty products distribution industry to constantly revise or improve their business models in response to challenges from competing businesses, including ours. If these competitors introduce changes or developments that we cannot address in a timely or cost- effective manner, our business may be adversely affected. In addition, our industry is consolidating, which may give our suppliers and our competitors increased negotiating leverage and greater marketing resources. For instance, we may lose customers if those competitors which have broad geographic reach attract additional salons (individual and chain) that are currently BSG customers, or if professional beauty supply manufacturers align themselves with our competitors or begin selling direct to customers. Not only does consolidation in distribution pose risks from competing distributors, but it may also place more leverage in the hands of certain manufacturers, resulting in smaller margins on products sold through our network. If we are unable to compete effectively in our marketplace or if competitors divert our customers away from our networks, it would adversely impact our business, financial condition and results of operations. We may be unable to anticipate and effectively respond to changes in consumer preferences and buying trends in a timely manner. Our success depends in part on our ability **, and our distributed third- party brands' ability,** to anticipate, gauge and react in a timely manner to changes in consumer spending patterns and preferences for specific beauty products. If we **or the brands we distribute** do not timely identify and properly respond to evolving trends and changing consumer demands for beauty products in the geographies in which we compete, our sales may decline significantly. Furthermore, we may accumulate additional inventory and be required to mark down unsold inventory to prices that are significantly lower than normal prices, which would adversely impact our margins and could further adversely impact our business, financial condition and results of operations. Additionally, a large percentage of our SBS product sales come from our owned and exclusive- label brand products. The development and promotion of these owned and exclusive- label brand products often occur well before these products are sold in our stores. As a result, the success of these owned and exclusive- label brand products is largely dependent on our ability to develop products that meet future consumer preferences at prices that are acceptable to our customers. Furthermore, we may have to spend a significant amount on the advertising and marketing of our owned and exclusive- label brands to drive customer awareness of these brands. There can be no assurance that any new owned and exclusive- label brand will meet consumer preferences, gain acceptance among our customer base or generate sales to become profitable or to cover the costs of its development and promotion. **- 10-** We expect continuously changing fashion- related trends and consumer tastes to influence future demand for beauty products. Changes in consumer tastes ~~and~~ **,** fashion trends **and brand reputation** can have an impact on our financial performance. If we **or third- party brands we distribute** are unable to anticipate and respond to trends in the marketplace for beauty products and changing consumer demands **and / or maintain a strong brand reputation** , our business could suffer. Our future success depends in part on our ability to successfully implement our strategic initiatives to improve the customer experience, attract new customers and improve the sales productivity of our stores. We are continuing the implementation of a significant number of strategic initiatives designed to ~~' play to win' by focusing on our key product categories, improving our retail fundamentals, enhancing~~ **enhance** our ~~digital~~ **customer centricity, increase our owned brand sales penetration, improve operational efficiency and optimize our** capabilities, ~~balancing our cost structure,~~ including **through** closure of underperforming stores and consolidation of distribution centers. There can be no assurance that these or future strategic initiatives will be successful. Furthermore, we are investing significant resources in these initiatives and the costs of the initiatives may outweigh their benefits. If these strategic initiatives are not successful, our comparative sales will suffer and our growth prospects, financial results, profitability and cash flows will also be adversely impacted. Our restructuring plans may not be successful **,** or we may not fully realize the expected cost savings and / or operating efficiencies. Our ability to grow profitably depends in large part on our ability to successfully control or reduce our operating expenses. In furtherance of this strategy, we have engaged and continue to engage in activities to reduce or control ~~- 9-~~ costs, some of which are complicated and require us to expend significant resources to implement. Over the past several years, we have implemented, and plan to continue to implement, plans to transform the Company for the future and support long- term sales growth and profitability. These programs are intended to touch all aspects of the business, enhance operating capabilities and create greater efficiencies.

These strategic plans present potential risks that may impair our ability to achieve anticipated operating enhancements and efficiencies and / or cost reductions. We depend upon manufacturers who may be unable to provide products of adequate quality or who may be unwilling to continue to supply products to us. We do not manufacture any products we sell and instead purchase our products from recognized brand manufacturers and private label fillers. We depend on a limited number of manufacturers for a significant percentage of the products we sell. **Additionally,** ~~Since~~ **since** we purchase products from many manufacturers and fillers under at- will contracts and contracts which can be terminated without cause upon 90 days' notice or less, or which expire without express rights of renewal, manufacturers and fillers could discontinue sales to us immediately or upon short notice. Some of our contracts with manufacturers may be terminated if we fail to meet specified minimum purchase requirements. If minimum purchase requirements are not met, we do not have contractual assurances of continued supply. In lieu of termination, a manufacturer may also change the terms upon which it sells, for example, by raising prices or broadening distribution to third parties. For these and other reasons, we may not be able to acquire desired merchandise in sufficient quantities or on acceptable terms in the future. Changes in SBS' s and BSG' s relationships with suppliers occur often and could positively or negatively impact the net sales and operating earnings of both business segments. Some of our suppliers may seek to decrease their reliance on distribution intermediaries, including full- service / exclusive and open- line distributors like BSG and SBS, by promoting their own distribution channels. These suppliers may offer advantages, such as lower prices, when their products are purchased from distribution channels they control. If our access to supplier- provided products were to diminish relative to our competitors or we were not able to purchase products at the same prices as our competitors, our business could be materially and adversely affected. Also, consolidation among suppliers may increase their negotiating leverage, thereby providing them with competitive advantages that may increase our costs and reduce our revenues, adversely affecting our business, financial condition and results of operations. Therefore, there can be no assurance that the impact of these developments, if they were to occur, will not adversely impact revenue or margins or that our efforts to mitigate the impact of these developments will be successful. **Furthermore, from time to time, we receive shipments of product from our suppliers that fail to conform to our quality control standards. A failure in our quality control program may result in diminished inventory levels and product- 11- quality, which in turn may result in increased order cancellations and product returns, decreased consumer demand for our products, or product recalls, any of which may have a material adverse effect on our results of operations and financial condition.** Any significant interruption in the supply of products by manufacturers and fillers or disruptions in our supply chain infrastructure could disrupt our ability to deliver merchandise to our stores and customers in a timely manner, which could have a material adverse effect on our business, financial condition and results of operations. Manufacturers and owned and exclusive- label brand fillers of beauty supply products are subject to certain risks that could adversely impact their ability to provide us with their products on a timely basis, including inability to procure ingredients, industrial accidents, environmental events, strikes and other labor disputes, union organizing activity, disruptions in logistics or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, pandemics and other external factors over which neither they nor we have control. In addition, we directly source many of our owned and exclusive- label brand products, including, but not limited to, styling tools, salon equipment, sundries and other promotional products, from foreign third- party manufacturers and many of our vendors also use overseas sourcing to manufacture some or all of their products. Any event causing a sudden disruption of manufacturing or imports from such foreign countries, including the imposition of additional or increased import restrictions, duties or tariffs, political instability, local business practices, legal or economic restrictions on overseas suppliers' ability to produce and deliver products or acts of war or terrorism or pandemics, could materially harm our operations to the extent they affect the production, shipment or receipt of merchandise. Our operating results depend to some extent on the orderly operation of our receiving and distribution processes, which depend on manufacturers' adherence to shipping schedules and our effective management of our distribution facilities and capacity. ~~- 10-~~ Fluctuations in the price, availability and quality of inventory may result in higher cost of goods, which we may not be able to pass on to the customers. Our suppliers frequently attempt to pass on higher production costs, which **have generally increased as a result of inflation over the past few years, which** may impact our ability to maintain or grow our margins. The price and availability of raw materials may be impacted by **inflation,** demand, regulation, weather and other factors. Additionally, manufacturers have and may continue to have increases in other manufacturing costs, such as transportation, labor and benefit costs. These increases in production costs result in higher merchandise costs to us. We may not always be able to pass on those cost increases to our customers, which could have a material adverse effect on our business, financial condition and results of operations. Our e- commerce businesses may be unsuccessful or, if successful, may redirect sales from our stores. We offer many of our beauty products for sale through our e- commerce businesses in the U. S. (such as www. sallybeauty. com, www. cosmoprofbeauty. com, www. cosmoprofequipment. com and mobile commerce- based apps) and abroad. We have recently undertaken a number of initiatives ~~, including in response to changing shopping patterns accelerated by COVID- 19,~~ to significantly advance our digital commerce capabilities and grow our e- commerce businesses. As a result, we are more susceptible to risks and difficulties frequently experienced by internet- based businesses, including risks related to our ability to attract and retain customers on a cost- effective basis and our ability to operate, support, expand and develop our e- commerce operations, websites and software and other related operational systems. Furthermore, our e- commerce businesses face significant competition from larger retailers with more established e- commerce platforms as well as online retailers, including Amazon, and on- line store e- commerce platforms such as Shopify. Although we believe our participation in both e- commerce and physical store sales is a distinct advantage for us due to synergies and the potential for new customers, supporting product offerings through both of these channels could create issues that have the potential to adversely affect our results of operations. For example, growth in our e- commerce business relative to in- store sales may result in dilution of operating margin and profit due to higher delivery expenses incurred in our e- commerce sales. Furthermore, if our e- commerce businesses successfully grow, they may do so in part by attracting existing customers, rather than new customers, who choose to purchase products from us online rather than from our physical stores, thereby reducing the financial performance of our stores. In addition, offering different products through each channel could cause conflicts and cause some of our current or potential internet customers to consider competing distributors of beauty products. In addition, offering products through our **- 12-** e- commerce channels (particularly directly to consumers through our professional business) could cause some of our current or potential vendors to consider competing internet offerings of their products either directly or through competing distributors. As we continue to grow our e- commerce businesses, the impact of attracting existing rather than new customers, of conflicts between product offerings online and through our stores, and of opening up our channels to increased internet competition could have a material adverse impact on our business, financial condition and results of operations, including operating margin, profit, future growth and comparative sales. Furthermore, our recent initiatives to upgrade our e-commerce platforms may not be successful in driving traffic to our websites and increasing our online sales in the long term, which could adversely impact our net sales. Diversion of professional products sold by BSG could have an adverse impact on our revenues. The majority of the products that BSG sells, including those sold by our Armstrong McCall franchisees, are meant to be used exclusively by salons and individual salon professionals or sold exclusively to their retail consumers. However, despite our efforts to prevent diversion, incidents of product diversion occur, whereby our products are sold by these purchasers (and possibly by other bulk purchasers such as franchisees) to wholesalers and ultimately to general merchandise retailers, among others. These retailers, in turn, sell such products to consumers. The diverted product may be old, tainted or damaged and sold through unapproved outlets, all of which could diminish the value of the particular brand. In addition, such diversion may result in lower net sales for BSG should consumers choose to purchase diverted products from retailers rather than purchasing from our customers ~~,~~ or choose other products altogether because of the perceived loss of brand prestige. Furthermore, in many instances, BSG is subject to certain anti- diversion obligations under these manufacturers' contracts, that if violated may result in the termination of such contracts. In addition, our investigation and enforcement of these anti- diversion obligations may require us to cease selling to customers suspected of diversion which could impact BSG' s net sales. ~~- 11-~~ The loss of exclusive distribution rights with key vendors could have a material adverse effect on our business, financial condition and results of operations. We have exclusive and non- exclusive distribution rights with several key vendors for well- known brands in certain geographies. If key vendors ceased granting us exclusive distribution rights, or decided to utilize other distribution channels for their products, therefore widening the availability of these products in other channels, the revenue we earn from the sale of such products could be negatively impacted, which could have a material adverse effect on our business, financial condition and results of operations. BSG' s financial results are affected by the financial results of BSG' s franchised- based business (Armstrong McCall). BSG receives revenue from its sale of products to Armstrong McCall franchisees. Accordingly, a portion of BSG' s financial results is dependent upon the operational and financial success of these franchisees, including their implementation of BSG' s strategic plans. If sales trends or economic conditions worsen for Armstrong McCall' s franchisees, their financial results may worsen. Additionally, the failure of Armstrong McCall franchisees to renew their franchise agreements, any requirement that Armstrong McCall restructure its franchise agreements in connection with such renewals, or any failure of Armstrong McCall to meet its obligations under its franchise agreements, could result in decreased revenues for BSG or create legal issues with our franchisees or with manufacturers. Furthermore, our franchisees may not run the stores and sales teams according to our standards, which could have a material adverse effect on our brand reputation and our business. ~~We may not be able to successfully identify acquisition candidates or successfully complete desirable acquisitions, and any acquisition could prove difficult to integrate, disrupt our business or have an adverse effect on our results of operations. In the past several years, we have completed multiple acquisitions and we intend to pursue additional acquisitions in the future. We actively review acquisition prospects we believe would complement our existing lines of business, increase the size and geographic scope of our operations or otherwise offer profitable growth and operating efficiency opportunities. There can be no assurance we will continue to identify suitable acquisition candidates. Furthermore, due to, among other things, increasing competition for suitable acquisition candidates, our ability to reach agreement with acquisition candidates or finance such acquisitions on favorable terms, we may not be able to consummate such acquisitions on favorable terms or at all. Any acquisitions we do make may be difficult to integrate profitably into our business and entail numerous risks. As a result, we may not realize the anticipated benefits of our acquisitions.~~ If we are unable to optimize our store base by profitably opening and operating new stores and closing less profitable stores, our business, financial condition and results of operations may be adversely affected. Our future growth strategy depends in part on our ability to optimize and profitably operate our stores in existing and additional geographic areas, including in international geographies, and to close underperforming stores. While the capital requirements to open an SBS or BSG store, excluding inventory, vary from geography to geography, such capital requirements have historically been relatively low in the U. S. and Canada. Despite these relatively low opening costs, we may not be able to open all the new stores we plan to open and we may be unable to optimize our store base by closing stores that are underperforming or open stores that are profitable, any of which could have a material **- 13-** adverse impact on our business, financial condition and results of operations. Furthermore, we may incur costs associated with the closure of underperforming stores and such store closures may adversely impact our revenues. In addition, as we continue to open new stores, our management – as well as our financial, distribution and information systems – and other resources will be subject to greater demands. If our personnel and systems are unable to successfully manage this increased burden, our business, financial condition and results of operations may be materially affected. ~~- 12-~~ **If our marketing, advertising and promotional programs are unsuccessful, our results of operations and financial condition could be adversely affected. If our marketing, advertising and promotional programs are unsuccessful, our results of operations and financial condition could be adversely affected. Customer traffic and demand for our merchandise are influenced by our advertising, marketing and promotional activities.** We ~~may not be successful in utilizing~~ **use marketing, advertising and promotional programs to attract customers through various media, including** social media ~~platforms as~~ **, websites, mobile applications,**

e- mail, and print. Our future growth and profitability will depend in part **upon the effectiveness and efficiency** of our advertising ~~campaign~~ and ~~social~~ **marketing programs. Further, disruption to certain** media **channels** could **have a material** ~~adversely~~ -- **adverse** ~~impact~~ **effect on** our ~~reputation~~ **results of operations and financial condition** . **In particular,** ~~There~~ **there** has been a substantial increase in the use of social media platforms – including blogs, social media websites and other forms of digital communications – and the influence of social medial influencers in the beauty products industry. Furthermore, social media advertising and marketing continues to increase in importance as consumers are paying less attention to more traditional media. As a result, ~~we have agreements with a variety~~ **the success of our marketing and advertising programs are increasingly dependent on the effectiveness** of industry influencers **that** ~~, and~~ we **engage to promote** ~~feature industry influencers in our advertising and marketing efforts and may include them in some of our branding. Further, many industry influencers use~~ our products ~~and feature our products through their own platforms~~ . **Furthermore,** ~~Actions~~ **actions** taken by these individuals could harm our brand image ~~, net revenues and profitability~~ . Our marketing efforts through social media platforms and influencers may not be successful and the availability of these platforms may make it easier for smaller competitors to compete with us ~~. We also use social media platforms as marketing tools. For example, we maintain Facebook, Twitter, Instagram and Pinterest accounts. As laws and regulations rapidly evolve to govern the use of these platforms and devices, the failure by us, our employees, or third parties acting at our direction to abide by applicable laws and regulations in the use of these platforms and devices could adversely impact our business, financial condition, profitability and cash flows~~ . Negative commentary regarding us or the products we sell may be also posted on social media platforms or other electronic means at any time and may be adverse to our reputation or business. Customers value readily available information and often act on such information without further investigation and without regard to its accuracy. Any harm to us or the products we sell may be immediate without allowing us an opportunity for redress or correction. If we fail to attract and retain highly skilled management and other personnel at all levels of the Company, our business, financial condition and results of operations may be harmed. Our success has depended, and will continue to depend, in large part on our ability to attract and retain senior executives who possess extensive knowledge, experience and managerial skill applicable to our business. Significant leadership changes or executive management transitions involve inherent risk and any failure to ensure the effective transfer of knowledge and a smooth transition could hinder our strategic planning, execution and future performance. In addition, from time to time, key executive personnel leave our Company **,** and we may not be successful in attracting, integrating and retaining the personnel required to grow and operate our business profitably. While we strive to mitigate the negative impact associated with the loss of a key executive employee, an unsuccessful transition or loss could significantly disrupt our operations and could have a material adverse effect on our business, financial condition and results of operations. We are also dependent on recruiting, training, motivating, managing and retaining our store employees that interact with our customers on a daily basis. Many team members are in entry- level or part- time positions with historically high turnover rates. Competition for these types of qualified employees, especially in light of recent labor shortages among entry- level workers, is intense and the failure to attract, retain and properly train qualified and motivated employees could result in decreased customer satisfaction, loss of customers and lower sales. In addition, our ability to meet our labor needs while controlling labor costs is subject to numerous external factors, including market pressures with respect to prevailing wage rates, unemployment levels, and health and other insurance costs; the impact of legislation or regulations governing labor relations, immigration, minimum wage and healthcare benefits; changing demographics; and our reputation within the labor market. Our inability to control our labor costs could affect our results of operations and result in lower margins in our two segments. **- 14- We may not be successful in introducing additional store concepts. We may, from time to time, seek to develop and introduce new store concepts. Our ability to succeed in the early stages of new concepts could require significant capital expenditures and management attention. Additionally, any new concept is subject to certain risks, including customer acceptance, competition, product differentiation, challenges relating to economies of scale in merchandise sourcing and the ability to attract and retain qualified personnel, including management and designers. There can be no assurance that we will be able to develop and grow these or any other new concepts to a point where they will become profitable, or generate positive cash flow. If we cannot successfully develop and grow these new concepts, our financial condition and results of operations may be adversely impacted.** General Economic, Market and Foreign Risks The political, social and economic conditions in the geographies we serve may affect consumer purchases of discretionary items such as beauty products and salon services, which could have a material adverse effect on our business, financial condition and results of operations. Our results of operations may be materially affected by conditions in the global capital markets and the economy and regulatory environment generally, both in the U. S. and internationally. Concerns over inflation, rising interest rates, labor shortages, energy costs, geopolitical issues, ~~including the war in Ukraine,~~ uncertainty with respect to elections, terrorism, civil unrest, the availability and cost of credit, the mortgage market, and the real estate and other financial markets in the U. S. and Europe have contributed to increased volatility and diminished expectations for the ~~- 13-~~ U. S. and certain foreign economies. We appeal to a wide demographic consumer profile and offer an extensive selection of beauty products sold directly to retail consumers and salons and salon professionals. Continued uncertainty in the economy could adversely impact consumer purchases of discretionary items such as beauty products as well as adversely impact the frequency of salon services performed by professionals using products purchased from us. Factors that could affect consumers' willingness to make such discretionary purchases include: inflation, general business conditions, levels of employment, interest rates, tax rates, the availability of consumer credit and consumer confidence in future economic conditions. A prolonged economic downturn or acute recession can adversely affect consumer spending habits and result in lower than expected net sales. The economic climate could also adversely affect our vendors. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations. In addition, the disruption to the global economy and to our business, along with any sustained decline in our stock price, could lead to triggering events that may indicate that the carrying value of certain assets – including inventories, accounts receivables, longlived assets, intangibles and goodwill – may not be recoverable, which could lead to impairment or other asset write- downs in the future. Price inflation for labor, materials and services, ~~further exacerbated by volatility in energy and commodity markets by the COVID- 19 pandemic and war in Ukraine,~~ could adversely affect our business, results of operations and financial condition. We experienced considerable price inflation in costs for labor, materials and services during ~~fiscal 2022~~ **the past two years** . ~~We~~ **While inflation is stabilizing, we** may not be able to continue to pass through inflationary cost increases and, if inflationary pressures are sustained, we may only be able to recoup a portion of our increased costs in future periods. Our ability to raise prices to reflect increased costs may also be limited by competitive conditions in the market for our products. The ~~contributory effects of the COVID- 19 pandemic, the war in Ukraine and prolonged geopolitical conflict globally may continue to result in increased inflation – including in labor costs – escalating energy and commodity prices and increasing costs of materials and services (together with shortages or inconsistent availability of materials and services), which may also have the effect of heightening many of our other risks, such as those relating to cyber security, supply chain disruption, store optimization, volatility in prices and market conditions, our ability to forecast demand and our ability to successfully implement our global business strategies, any of which could negatively affect our business, results of operations and financial condition. The~~ occurrence of natural disasters or acts of violence or terrorism could adversely affect our operations and financial performance. The occurrence of natural disasters **(the severity and frequency of which may be exacerbated by climate change)** or acts of violence, terrorism or civil unrest could result in physical damage to our properties, the temporary closure of stores or distribution centers, the temporary lack of an adequate work force, the temporary or long- term disruption in the supply of products (or a substantial increase in the cost of those products) from domestic or foreign suppliers, the temporary disruption in the delivery of goods to our distribution centers (or a substantial increase in the cost of those deliveries), the temporary reduction in the availability of products in our stores and / or the temporary reduction in visits to stores by customers. If one or more natural disasters or acts of violence or terrorism were to impact our business, we could, among other things, incur significantly higher costs and longer lead times associated with distributing products. Furthermore, insurance costs associated with our business may rise significantly in the event of a large scale natural disaster or act of violence or terrorism. **- 15-** Currency exchange rate fluctuations could result in higher costs and decreased margins and earnings. Many of our products are sold outside of the United States. As a result, we conduct transactions in various currencies, which increase our exposure to fluctuations in foreign currency exchange rates relative to the U. S. dollar and recently these foreign currencies have in general weakened significantly against the U. S. dollar. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be affected by currency fluctuations, including amounts recorded in foreign currencies and translated into U. S. dollars for consolidated financial reporting. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials as well as transportation and freight, more expensive and more difficult to finance. Foreign currency fluctuations could have an adverse effect on our results of operations and financial condition. ~~- 14-~~ We are subject to risks related to our international operations. We operate on a global basis, and approximately **10** ~~9. 7~~ % of our net revenues from continuing operations in fiscal **year** ~~2022~~ **2023** , were generated outside North America. Non- U. S. operations are subject to many risks and uncertainties, including ongoing instability or changes in a country' s or region' s economic, regulatory or political conditions, including inflation, recession, interest rate fluctuations, sovereign default risk and actual or anticipated military or political conflicts, labor market disruptions, sanctions, boycotts, new or increased tariffs, quotas, exchange or price controls, trade barriers or other restrictions on foreign businesses, our failure to effectively and timely implement processes and policies across our diverse operations and employee base and difficulties and costs associated with complying with a wide variety of complex and potentially conflicting regulations across multiple jurisdictions. Non- U. S. operations also increase the risk of non- compliance with U. S. laws and regulations applicable to such non- U. S. operations, such as those relating to sanctions, boycotts and improper payments. In addition, sudden disruptions in business conditions as a consequence of events such as terrorist attacks, war or other military action or the threat of further attacks, including the ~~war~~ **wars** in Ukraine **and in the Middle East** , pandemics or other crises or vulnerabilities or as a result of adverse weather conditions or climate changes, may have an impact on consumer spending, which could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows as well as the trading price of our securities ~~. The COVID- 19 pandemic has had and may continue to have an adverse effect on our business and results of operations. The COVID- 19 pandemic has had a material impact on our business and results of operations. For part of fiscal year 2020 we temporarily closed all U. S. and Canadian retail and wholesale store fronts to customers and temporarily idled a number of our distribution centers. In addition, COVID- 19 significantly changed consumer shopping patterns with consumers increasing on- line purchases and decreasing consumer traffic in our stores. We also took and continue to take actions to help protect employees, customers and others in the communities we serve in response to the impact of COVID- 19. Furthermore, we also experienced worker shortages from time to time throughout the pandemic due to COVID- 19 illnesses among our team members. While the COVID- 19 pandemic did not have a material impact on our supply chain, future pandemics or a material worsening of COVID- 19 could impact our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages. We may also see disruptions or delays in shipments and negative impacts to pricing of certain products as a result of such disruptions~~ . A reduction in traffic to, or the closing of, other retailers in shopping areas where our SBS stores are located could significantly reduce our sales and leave us with excess inventory, which could have a material adverse effect on our business, financial condition, profitability and cash flows. As a result of our real estate strategy, most of our SBS stores are located in strip shopping centers. These strip shopping centers are occupied by other high traffic retailers such as grocery stores, mass merchants and home improvement centers. As a consequence of most of our SBS stores being located in strip shopping centers, our sales are derived, in part, from the volume of traffic generated by the other high traffic retailers where our stores are located. Customer traffic to these strip shopping centers may be adversely affected by the closing of stores in the strip shopping center, or by a reduction in traffic to such stores resulting from a regional or global economic downturn, an outbreak of flu or other viruses (such as COVID- 19), a general downturn in the local area where our SBS store is located, or a decline in the desirability of the shopping environment of a particular strip shopping center. Such a reduction in customer traffic could reduce our sales and leave us with excess inventory, which could have a material adverse effect on our business, financial condition, profitability and cash flows. ~~- 15-~~ Regulatory, Legal and Cybersecurity Risks If products sold by us are found to be defective in labeling or content, our credibility and that of the brands we sell may be harmed, marketplace acceptance of our products may decrease **,** and we may be exposed to liability in excess of our products liability insurance coverage and manufacturer indemnities. We do not control the production process for the products we sell. We may not be able to identify a defect in a product we purchase from a manufacturer or owned and exclusive- label brand filler before we offer such product for resale. In many cases, we rely on representations of manufacturers and fillers about the products we purchase for resale regarding the composition, manufacture and safety of the products as well as the compliance of our product labels with government regulations. Our sale of certain products exposes us to potential product liability claims, recalls or other regulatory or enforcement actions initiated by federal, state or foreign regulatory authorities or through private **- 16-** causes of action. Such claims, recalls or actions could be based on allegations that, among other things, the products sold by us are misbranded, contain contaminants or impermissible ingredients, provide inadequate instructions regarding their use or misuse, ~~or~~ include inadequate warnings concerning flammability or interactions with other substances **or that we knew or should have known of an alleged defect. For example, recently numerous cases have been filed against beauty product manufacturers and distributors alleging harm from chemical hair straighteners and hair relaxer products, which could have a material adverse effect on the Company' s business, financial condition, and results of operations** . Claims against us could also arise as a result of the misuse by purchasers of such products or as a result of their use in a manner different than the intended use. We may be required to pay for losses or injuries actually or allegedly caused by the products we sell and to recall any product we sell that is alleged to be or is found to be defective. Furthermore, such claims could have an adverse impact on our reputation. Any actual defects or allegations of defects in products sold by us could result in adverse publicity and harm our credibility or the credibility of the manufacturer, which could adversely affect our business, financial condition and results of operations. Although we may have indemnification rights against the manufacturers of many of the products we distribute and rights as an " additional insured " under the manufacturers' insurance policies, it is not certain that any manufacturer or insurer will be financially solvent and capable of making payment to any party suffering loss or injury caused by products sold by us or if all losses would be covered by such indemnification rights or insurance policies. If we are forced to expend significant resources and time to resolve such claims or to pay material amounts to satisfy such claims, it could have an adverse effect on our business, financial condition and results of operations. We could be adversely affected if we do not comply with current laws and regulations or if we become subject to additional or more stringent laws and regulations. We are subject to a number of federal, state and local laws and regulations in the U. S. as well as applicable laws and regulations in each foreign marketplace in which we do business. These laws and regulations govern the composition, packaging, labeling and safety of the products we sell as well as the methods we use to sell and import these products and other aspects of our business. Non- compliance with applicable laws and regulations of governmental authorities, including the FDA and similar authorities in other jurisdictions – by us or the manufacturers and fillers of the products sold by us – could result in fines, product recalls and enforcement actions and otherwise restrict our ability to market certain products, which could adversely affect our business, financial condition and results of operations. In addition, the laws and regulations applicable to us or manufacturers of the products sold by us may become more stringent. Failure to comply with these new and existing regulations could result in significant fines or damages, in addition to costs and expenses to defend claims related thereto. Legal compliance could also lead to considerably higher internal regulatory costs. Manufacturers may try to recover some or all of any increased costs of compliance by increasing the prices at which we purchase products, and we may not be able to recover some or all of such increased cost in our own prices to our customers. We are also subject to state and local laws and regulations that affect our franchisor- franchisee relationships. Increased compliance costs and the loss of sales of certain products due to more stringent or new laws and regulations could adversely affect our business, financial condition and results of operations. The risks associated with climate change and other environmental impacts and increased focus by stakeholders on environmental issues, including those associated with climate change, could adversely affect our business, financial condition and operating results. Climatologists predict the long- term effects of climate change and global warming will result in the increased frequency, intensity and duration of weather events, which could significantly disrupt supply chains, potentially ~~- 16-~~ impacting our vendors' raw material costs and the production of products we sell. These weather events could also lead to an increased rate of temporary store closures and reduced customer traffic at our stores. In addition, concern over climate change may result in new or increased regional, federal or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. These requirements may lead to an increase in tax, transportation and utility expenses. Lastly, there is increased focus, including by governmental and non- governmental organizations, investors, customers and consumers on these and other environmental sustainability matters, including deforestation, land use, climate impact and recyclability or recoverability of packaging, including plastic. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to our impact on the environment. **- 17-** Failure to meet evolving expectations for reporting on **environmental, social, and governance ("** ESG **")** matters could adversely affect our sales and results of operations. Expectations from investors, customers, team members **, government agencies** and other third parties concerning ESG reporting have increased, and our ability to meet those expectations is dependent on a variety of factors, including cooperation from sourcing vendors and other third parties and having access to consistent and reliable data. Negative customer perceptions regarding the safety and sourcing of the products we sell and the sufficiency and transparency of our reporting on ESG matters and events that give rise to actual, potential, or perceived compliance and social responsibility concerns could hurt our reputation, result in lost sales, cause our customers to seek alternative sources for their needs and make it difficult and costly for us to regain the confidence of our customers. Furthermore, costs associated with ESG initiatives may have an adverse impact on our business, financial condition and operating results. If we fail to protect our intellectual property rights or if our products are found to infringe on the intellectual property rights of others, it could materially and negatively impact our business. We rely upon trade secrets and know- how to develop and maintain our competitive position. Our trademarks, certain of which are material to our business, are registered or legally protected in the U. S., Canada and other countries in which we operate. The success of our business depends to a certain extent upon the value associated with our intellectual property rights. We protect our intellectual property rights through a variety of methods, including, but not limited to, applying for and obtaining trademark protection in the U. S., Canada and other countries throughout the world in which our business operates. We also rely on trade secret laws, in addition to confidentiality agreements with vendors, employees, consultants and others who have access to our proprietary information. While we intend to vigorously protect our trademarks against infringement, we may not be successful. In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the U. S. The costs required to protect our intellectual property rights and trademarks are expected to continue to be substantial. Furthermore, the industry in which we operate is characterized by the need for a large number of copyrights, trade secrets and trademarks and by frequent litigation based on allegations of infringement or other violations of intellectual property rights. A third- party may at any time assert our products violate such party' s intellectual property rights. Successful intellectual property claims against us could result in significant financial liabilities and / or prevent us from selling certain of our products. In addition, the resolution of infringement claims may require us to redesign our products, to obtain licenses to use intellectual property belonging to third parties, which may not be attainable on reasonable terms, or to cease using the intellectual property altogether. ~~- 17-~~ We may be adversely affected by any disruption in our information technology systems. Our operations are dependent upon our information technology systems, which encompass all of our major business functions. A substantial disruption in our information technology systems for any prolonged time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages or delays in our service) could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including, without limitation, fire, natural disasters, power outages, systems disruptions, system conversions, security breaches, cyberattacks, phishing attacks, viruses and / or human error. In any such event, we could be required to make a significant investment to fix or replace our information technology systems, and we could experience interruptions in our ability to service customers. Such delays, problems or costs may have a material adverse effect on our business, financial condition and results of operations. We continuously need to improve and upgrade our systems and infrastructure while maintaining their reliability and integrity. The expansion of our systems and infrastructure will require us to commit substantial financial, operational and technical resources before the volume of our business increases, with no assurance the volume of business will increase. The development and implementation of new systems and any other future upgrades to our systems and information technology may require significant costs and divert our management' s attention and other resources from our core business. There are also no assurances these new systems and upgrades will provide us with the anticipated benefits and efficiencies. Many of our systems are proprietary and, as a result, our options are limited in seeking third- party help with the operation and upgrade of those systems. There can be no assurance the time and resources our management will need to devote to operations and upgrades, any delays due to the installation of any upgrade (and customer issues therewith), any resulting service outages, or the impact on the reliability of our data from any upgrade **- 18-** or any legacy system, will not have a material adverse effect on our business, financial condition, control environment or results of operations. Unauthorized access to confidential information and data on our information technology systems, security and data breaches and / or failure to comply with rapidly evolving data privacy laws could materially adversely affect our business, financial condition and operating results. As part of our operations, we **, together with third parties acting on our behalf,** receive **, process** and maintain **sensitive and confidential** information about our customers, employees and other third parties **. Processing, maintenance and transmission of information is a critical part of our business operations** . We have physical, technical and procedural safeguards in place that are designed to protect information and protect against security and data breaches as well as fraudulent transactions and other activities. **We believe that our security safeguards follow appropriate practices in the prevention of security and data breaches and the mitigation of cybersecurity risks.** Despite these safeguards and our other security processes and protections, ~~we cannot~~ **our systems and processes may** be ~~assured that all of our systems and processes are free from vulnerability~~ - **vulnerable** to security breaches **and** ~~(through~~ cyber- attacks, which are evolving and ~~becoming~~ increasingly sophisticated **(such as denial- of- service** , **ransomware, phishing, supply chain and social engineering attacks), as well as to** physical breach **, vandalism, sabotage, user malfeasance, viruses, misplaced** or **lost data and** ~~other means) or~~ inadvertent data disclosure by third parties or us. A significant data security breach, including misappropriation of our customers' or employees' confidential information, could result in significant costs to us, which may include, among others, potential liabilities to payment card networks for reimbursements of credit card fraud and card reissuance costs, including fines and penalties, potential liabilities from governmental or third- party investigations, proceedings or litigation, legal, forensic and consulting fees and expenses, costs and diversion of management attention required for investigation and remediation actions, and the negative impact on our reputation and loss of confidence of our customers, suppliers and others, any of which could have a material adverse impact on our business, financial condition and operating results **. If our third- party suppliers of vendors are subject to cyber- attacks, data breaches, other security incidents, or disruption of information technology systems or software, such events could expose us to liability, damage our reputation, and have a material adverse effect on our business. While we carry insurance that would mitigate losses in connection with security breaches and cyber incidents, insurance may be insufficient to compensate us fully for potentially significant losses** . There can be no assurance that our security upgrades and other measures will be effective, we will not suffer a criminal attack in the future, unauthorized parties will not gain access to confidential information, or any such incident will be discovered promptly. In particular, we understand that the techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognized until launched against a target; accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. The failure to promptly detect, determine the extent of and appropriately respond to a significant data security breach could have a material adverse impact on our business, financial condition and operating results. We are also subject to an evolving body of federal, state and non- U. S. laws, rules, regulations, guidelines and principles regarding data privacy and security, the scope and impact of which are uncertain. Several governments, as well as the EU, have regulations dealing with the collection and use of personal information obtained from their citizens, and regulators globally are also imposing greater monetary fines for privacy violations, and there is an increase in allowing private rights of action. In 2023, changes to the California Consumer Privacy Act **occurred** ~~are coming~~ in the form of the California Privacy Rights Act (" CPRA "), which ~~will expand~~ **expanded** consumer privacy rights and extend ~~- 18-~~ application to our California employees. In addition, a number of U. S. states have enacted consumer privacy laws that are expected to take effect in ~~2023~~ **2024 and beyond** , or have revived existing state laws with new meaning, potentially subjecting retailers to privacy- based class action lawsuits. We also expect to see rapid changes and corresponding regulator action and private rights of action related to the use of text messaging to communicate with customers, the collection and use of biometric data and dark patterns. We continue to monitor our compliance with the European privacy regulation, General Data Protection Regulation (" GDPR "), which applies to how organizations are required to handle the personal data of EU citizens and individuals residing in the EU as well as the UK GDPR post- Brexit. Data privacy is, and may continue to be, a rapidly evolving area of law. Any potential inability to comply with such laws, rules, regulations, guidelines and principles or to quickly adapt our practices to reflect them as they develop, could potentially subject us to significant fines, damages, liabilities and reputational harm, which could have a material adverse effect on our business, prospects, results of operations, financial condition and cash flows. **- 19-** Financial Risks Our comparable sales and quarterly financial performance may fluctuate for a variety of reasons. Our comparable sales and quarterly results of operations have fluctuated in the past and we expect them to continue to fluctuate in the future. A variety of factors affect our comparable sales and quarterly financial performance, including: • changes in our merchandising strategy or mix; • a portion of a typical new store' s sales coming from customers who previously shopped at other existing stores; • the timing and effectiveness of our marketing and promotional activities and those of our competitors; • the effects of severe weather events or other natural disasters; • the number of shopping days in a quarter; • fluctuations in the cost to purchase products we sell; • store closures in response to state or local regulations due to health concerns; and • worldwide economic conditions and, in particular, the retail sales environment in the North America and Europe Fluctuations in foreign currency exchange rates may also affect our quarterly financial performance. Accordingly, our results, including comparable sales, for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, and may even decrease, which could have a material adverse effect on our business, financial condition and results of operations. A portion of our indebtedness is subject to floating interest rates. Outstanding borrowings under our ABL facility **, if any,** and our term loan B are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness referred to above would increase even if the principal amount borrowed remained the same, and our net ~~income~~ **earnings** and cash flows will correspondingly decrease. We are currently party to, and in the future, we may enter into additional, derivative instruments, such as interest rate caps **and swaps** , to reduce our exposure to changes in interest rates on our term loan B. However, we may not maintain derivative instruments with respect to all of our variable rate indebtedness, and any instruments we enter into may not fully mitigate our interest rate risk. We have substantial debt and may incur substantial additional debt, which could adversely affect our financial health, our ability to obtain financing in the future and our ability to react to changes in our business. As of September 30, ~~2022~~ **2023** , certain of our subsidiaries, including Sally Holdings LLC, which we refer to as Sally Holdings, had an aggregate principal amount of approximately $ 1. ~~2~~ **1** billion of outstanding debt. Our substantial debt could have significant consequences. For example, it could: • make it more difficult for us to satisfy our obligations to our lenders, resulting in possible defaults on and acceleration of such indebtedness; ~~- 19-~~ • limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes; • require us to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of such cash flows to fund working capital, capital expenditures, share repurchases and other general corporate purposes; • restrict the ability of our subsidiaries to pay dividends or otherwise transfer assets to us, which could limit our ability to conduct repurchases of our own equity securities or pay dividends to our stockholders, thereby limiting our ability to enhance stockholder value through such transactions; **- 20-** • increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations (because a portion of our borrowings are at variable rates of interest), including borrowings under our $ 500 million asset- based senior secured loan facility, which we refer to as the " ABL facility " and our term loan B; • place us at a competitive disadvantage compared to our competitors with proportionately less debt or comparable debt at more favorable interest rates and that, as a result, may be better positioned to withstand economic downturns; • require us to comply with restrictive covenants that may restrict our ability to, among other things, pay dividends, conduct share repurchases, make acquisitions, dispose of assets or prepay debt; • limit our ability to refinance indebtedness or cause the associated costs of such refinancing to increase; and • limit our flexibility to adjust to changing market conditions and ability to withstand competitive pressures, or prevent us from carrying out capital spending that is necessary or important to our growth strategy and efforts to improve operating margins or our business. Any of the foregoing impacts of our substantial indebtedness could have a material adverse effect on our business, financial condition and results of operations. Each of our ABL facility, institutional term loan and senior notes contain certain covenants and restrictions that we are required to comply with. Our ability to comply with these covenants and restrictions may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants and restrictions could result in a default under either the ABL facility, the institutional term loan or the indentures that would permit the applicable lenders or senior note holders, as the case may be, to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest. If we are unable to repay debt, lenders having secured obligations, such as the lenders under the ABL facility, could proceed against the collateral securing the debt. In any such case, our subsidiaries may be unable to borrow under the ABL facility and may not be able to repay the amounts due under the senior notes and the institutional term loan. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent. In addition, we and our subsidiaries may incur substantial additional indebtedness in the future. As of September 30, ~~2022~~ **2023** , our ABL facility provided us commitments for additional borrowings of up to approximately $ ~~412~~ **482** . ~~9~~ **6** million, subject to borrowing base limitations, outstanding letters of credit and limitations on cash hoarding above certain balances, once utilized. If new debt is added to our current debt levels, the related risks we face would increase, and we may not be able to meet all our debt obligations.