

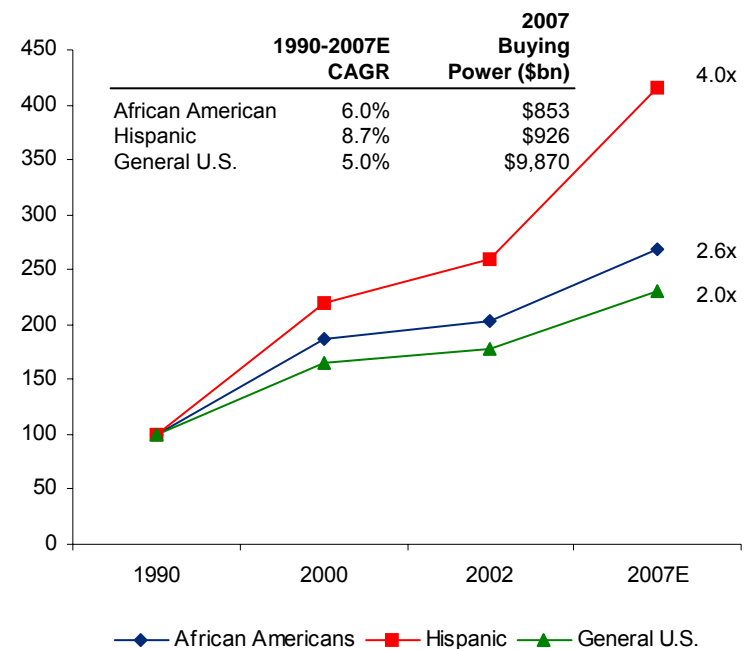
Unique Market Position

...and a unique customer base with positive demographic trends and purchasing habits

- ▶ 50% of Sally Beauty's customers are Hispanic or African American
- ▶ These ethnic segments are growing faster than the general population in both numbers and purchasing power
 - The number of African Americans and Hispanics grew 1.4% and 4.7% annually respectively between 1994-2004 vs. 1.2% for the total population
 - Disposable income for African Americans and Hispanics grew 6.1% and 8.3% annually from 1990-2002 vs. 4.9% annual growth for the general U.S. population
- Not only are these ethnic segments fast growing, they also consume a disproportionate amount of hair care products
- ▶ Due to structural differences in African American hair, hair maintenance often requires greater use of hair styling products and conditioners
 - While African Americans currently make up 12% of the U.S. population, they purchase 30% of all hair care products in the U.S.

Growth in U.S. Ethnic Buying Power

Indexed to 100 in 1990



Source: University of Georgia, Selig Center for Economic Growth

4. Business Model Overview

DMLT Customer Service ZZ 50.74.4.102 Apr 17 2013 5:24 PM

Overview

Sally Beauty is an extremely attractive retail concept...

- ▶ **Sally Beauty is a stable and growing business...**
 - 5 year average same-store sales growth of 4.2%; 10-year average of 4.3% with no down years
 - Positive price / mix... despite a relatively flat customer count
 - Steadily increasing margins and profitability
 - Great customer demographics

- ▶ **... with extraordinary cash flow and asset efficiency...**
 - Limited maintenance capex requirements... 7.5% of EBITDA
 - Attractive new store economics, with low capital investment
 - 30%+ after-tax cash-on-cash returns for mature stores

- ▶ **... resulting in one of the best retail concepts that we have seen**
 - One of the most consistent performers among specialty retailers
 - After-tax ROA nearly two times the next closest retail

4. Business Model Overview

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(\$ millions)	Fiscal Year Ended September 30,							'00 - '05 CAGR
	2000	2001	2002	2003	2004	2005	LTM 04/06	
Total Net Sales	\$984.7	\$1,047.4	\$1,132.3	\$1,207.9	\$1,296.1	\$1,358.9	\$1,387.5	6.7%
% Growth	NM	6.4%	8.1%	6.7%	7.3%	4.8%	NA	
NA Same-Store Sales Growth		5.6%	2.7%	3.6%	3.3%	2.5%	NA	
Cost of Goods Sold	512.8	537.3	569.4	591.2	612.4	629.4	635.6	4.2%
% of Revenue	52.1%	51.3%	50.3%	48.9%	47.3%	46.3%	45.8%	
Gross Profit	\$471.8	\$510.1	\$563.0	\$616.7	\$683.6	\$729.5	\$751.8	9.1%
% Margin	47.9%	48.7%	49.7%	51.1%	52.7%	53.7%	54.2%	
Rent	46.2	48.5	52.4	58.2	67.3	72.6	74.4	
% of Revenue	4.7%	4.6%	4.6%	4.8%	5.2%	5.3%	5.4%	
Selling & Admin	292.5	316.1	350.8	382.3	421.5	449.5	460.5	
% of Revenue	29.7%	30.2%	31.0%	31.7%	32.5%	33.1%	33.2%	
Advertising & Promotional Expense	17.1	16.0	13.3	23.0	29.0	25.1	25.2	8.1%
% of Revenue	1.7%	1.5%	1.2%	1.9%	2.2%	1.9%	1.8%	
Other (Income)/Expense	0.3	1.7	1.7	0.1	0.7	2.6	0.6	55.2%
% of Revenue	0.0%	0.2%	0.1%	0.0%	0.1%	0.2%	0.0%	
Total Operating Expenses	356.1	382.4	418.2	463.6	518.5	549.8	560.7	9.1%
% of Revenue	36.2%	36.5%	36.9%	38.4%	40.0%	40.5%	40.4%	
EBIT (Before Corp. Charges)	\$115.7	\$127.7	\$144.8	\$153.1	\$165.1	\$179.7	\$191.1	9.2%
% Margin	11.8%	12.2%	12.8%	12.7%	12.7%	13.2%	13.8%	
Depreciation & Amortization	15.0	15.4	16.6	15.6	16.3	20.6	23.0	6.6%
% of Revenue	1.5%	1.5%	1.5%	1.3%	1.3%	1.5%	1.7%	
EBITDA (Before Corp. Charges)	\$130.7	\$143.1	\$161.4	\$168.7	\$181.4	\$200.3	\$214.2	8.9%
% Margin	13.3%	13.7%	14.3%	14.0%	14.0%	14.7%	15.4%	
Maintenance (IT, Warehousing, Stores)	(8.7)	(8.8)	(6.7)	(17.1)	(12.5)	(15.1)	(15.1)	11.7%
New Store	(3.3)	(3.2)	(5.7)	(5.7)	(9.4)	(8.7)	(8.7)	21.3%
Capital Expenditures	(12.0)	(12.0)	(12.4)	(22.9)	(21.9)	(23.9)	(23.9)	14.7%
% of Sales	1.2%	1.1%	1.1%	1.9%	1.7%	1.8%	1.7%	
EBITDA - Maintenance CapEx	\$122.0	\$134.4	\$154.6	\$151.5	\$168.9	\$185.2	\$199.1	8.7%
% Margin	12.4%	12.8%	13.7%	12.5%	13.0%	13.6%	14.3%	
Memo:								
End of Period Stores	2,060	2,112	2,177	2,272	2,355	2,419	2,474	3.3%
Revenue / Average Store	\$478	\$496	\$520	\$532	\$550	\$562	\$561	3.3%
EBITDA / Average Store	\$63	\$68	\$74	\$74	\$77	\$83	\$87	5.5%
% Private Label	20.2%	20.8%	21.9%	24.6%	29.8%	32.1%	35.7%	

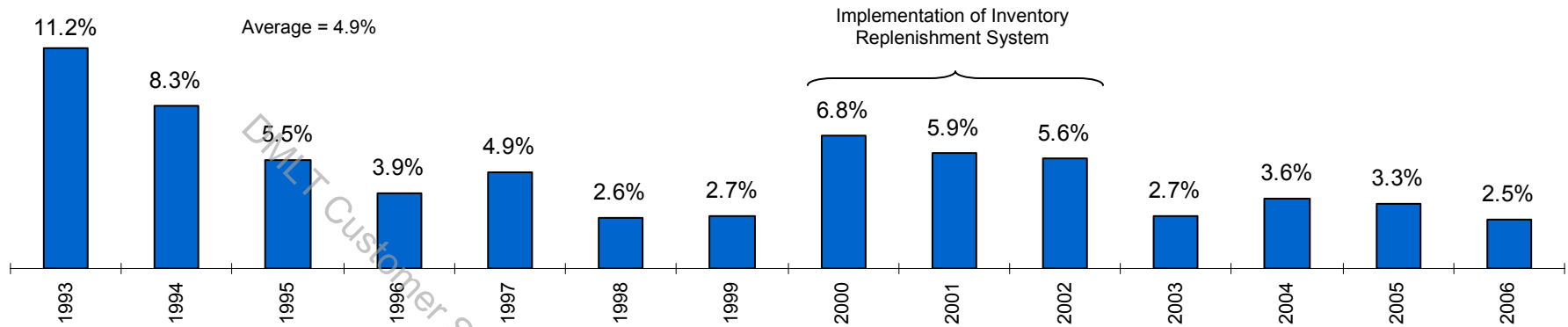
Note: LTM capital expenditures assumed to be equal to FY2005 figure

4. Business Model Overview

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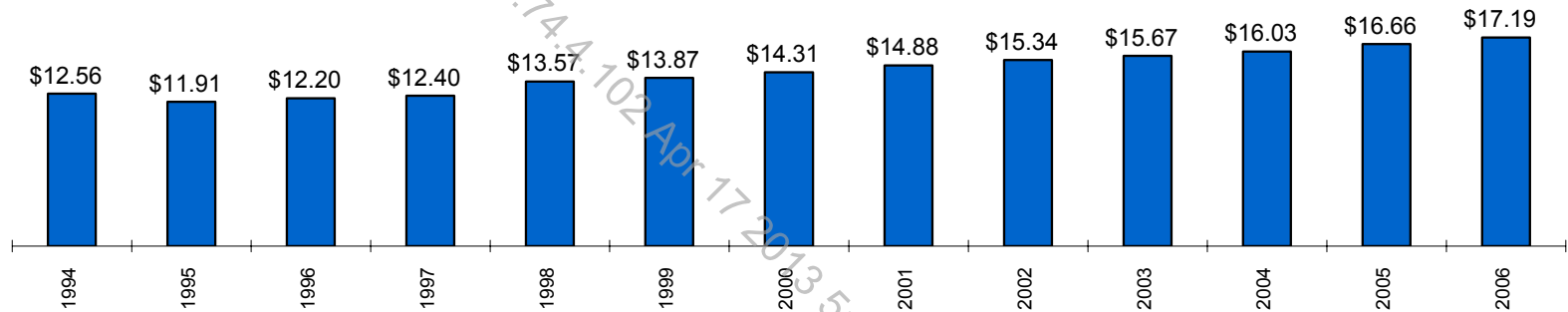
Sally Beauty's positive long-term performance is underpinned by consistent growth in same store sales and sales per customer

Sally NA Same Store Sales Growth



Weighted Average Transaction Size

CAGR = 2.6%



Retail	\$8.93	\$8.12	\$8.50	\$8.46	\$9.44	\$9.65	\$10.05	\$10.58	\$11.07	\$11.47	\$12.04	\$12.77	\$13.43
Wholesale	\$16.70	\$16.61	\$17.11	\$17.98	\$19.63	\$20.33	\$21.70	\$23.19	\$23.92	\$24.24	\$24.50	\$25.14	\$25.68
% Retail	53.3%	55.4%	57.1%	58.6%	59.5%	60.5%	63.4%	65.9%	66.8%	67.1%	67.9%	68.5%	69.3%

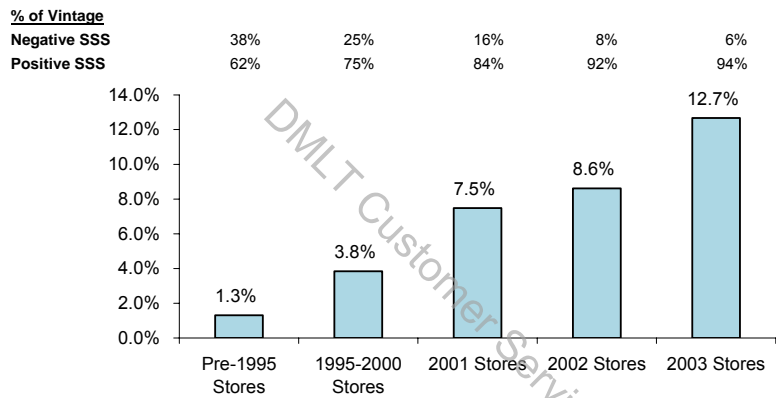
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4. Business Model Overview

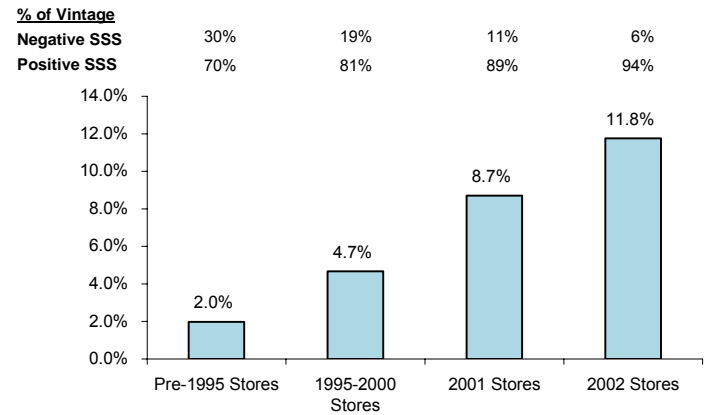
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While newer stores provide high SSS growth, older vintages continue to contribute positively

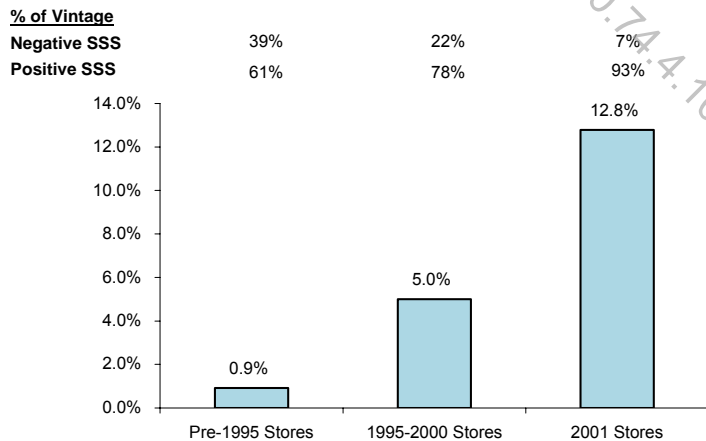
2005 SSS Growth = 2.5%



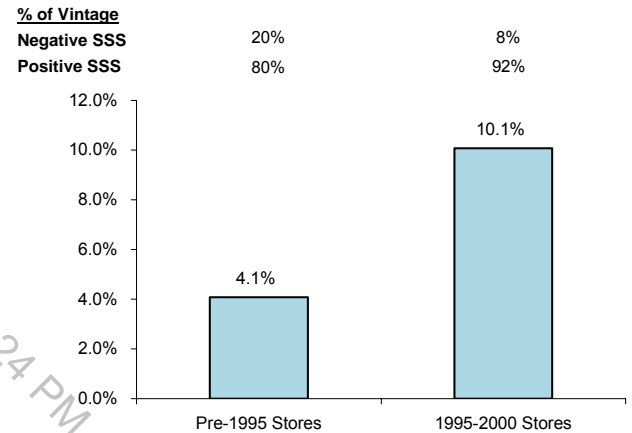
2004 SSS Growth = 3.3%



2003 SSS Growth = 3.6%



2002 SSS Growth = 2.7%



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We believe Sally's consistent same store sales growth, combined with its exceptional store economics, allows for a robust store opening program...

Average New Store Performance

(\$ thousands)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	--	\$310	\$405	\$454	\$490	\$529
% Growth			31.0%	11.9%	8.0%	8.0%
Gross Profit	--	\$149	\$195	\$218	\$235	\$254
% of Sales		48.0%	48.0%	48.0%	48.0%	48.0%
Payroll	--	(70)	(72)	(74)	(76)	(79)
% of Sales	NM	22.6%	17.8%	16.4%	15.6%	14.9%
Rent	--	(33)	(34)	(35)	(36)	(37)
% of Sales	NM	10.7%	8.4%	7.8%	7.4%	7.1%
Utilities	--	(6)	(6)	(6)	(6)	(6)
% of Sales	NM	1.8%	1.4%	1.3%	1.2%	1.2%
Advertising	--	(3)	(3)	(3)	(4)	(4)
% of Sales	NM	1.1%	0.8%	0.8%	0.7%	0.7%
Other	--	(16)	(18)	(20)	(20)	(20)
% of Sales	NM	5.2%	4.4%	4.4%	4.1%	3.8%
Store-Level Expenses	--	(\$128)	(\$133)	(\$139)	(\$142)	(\$146)
% of Sales	NM	41.3%	32.9%	30.6%	29.1%	27.6%
Pre-Opening Costs	(24)	0	0	0	0	0
Store Contribution	(\$24)	\$21	\$61	\$79	\$93	\$108
% of Sales	NM	6.7%	15.1%	17.4%	19.0%	20.4%

Cash on Cash Returns

Contribution (ex-D&A)		21	61	79	93	108
Less: Maintenance Capex		(2)	(2)	(2)	(2)	(2)
Change in Working Capital		0	0	0	0	0
Pre-Tax Cash Flow		\$19	\$59	\$77	\$91	\$106
Less: Taxes		(6)	(21)	(28)	(35)	(41)
After-Tax Cash Flow		\$13	\$38	\$49	\$56	\$66

Returns (incl. Inventory investment)

P/T Cash on Cash Returns (a)	9.6%	30.6%	39.8%	46.9%	54.8%
A/T Cash on Cash Returns (a)	6.6%	19.7%	25.4%	29.0%	33.8%

Capital Investment

(\$ thousands)

Construction

Finish Out	28.0
Store Signs	11.6
Fixtures	15.0
Graphics	2.3
Construction	\$57.0

IT: POS System 6.7

Total Capital \$63.6

Inventory

Store Level	90.0
Warehouse	40.0
Inventory	\$130.0

Capital Including Inventory \$193.6

... break-even after 3 months and 20% after-tax cash-on-cash returns within 24 months

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On most measures, Sally Beauty ranks among the best performing specialty retailers...with the notable exception of inventory management

	Sally Beauty Supply (a)	Michaels	Dick's	Game Stop	Children's Place	Guitar Center	Rent-A-Center	Regis	Tuesday Morning	Yankee Candle	Dollar General	Family Dollar	Average excl. Sally	Sally Beauty Rank
Income Statement														
Revenue	\$1,359	\$3,676	\$2,625	\$3,092	\$1,669	\$1,782	\$2,339	\$2,194	\$932	\$601	\$8,582	\$5,825		
Avg. Historical Growth ('03-'05)	6.1%	9.1%	33.6%	NM	44.6%	18.2%	2.5%	14.1%	6.4%	8.7%	11.8%	10.7%	16.0%	10
Average Historical SSS ('03-'05)	3.1%	3.6%	2.4%	0.4%	9.7%	7.5%	-1.0%	1.6%	-0.8%	-3.3%	3.1%	2.7%	2.3%	4
EBITDAR	\$294	\$755	\$427	\$408	\$315	\$213	\$521	\$579	\$178	\$192	\$1,061	\$748		
% of Sales	21.6%	20.5%	16.3%	13.2%	18.9%	11.9%	22.3%	26.4%	19.1%	31.9%	12.4%	12.8%	18.7%	4
EBITDA	\$200	\$492	\$231	\$273	\$157	\$167	\$327	\$268	\$115	\$165	\$749	\$469		
% of Sales	14.7%	13.4%	8.8%	8.8%	9.4%	9.4%	14.0%	12.2%	12.3%	27.5%	8.7%	8.1%	12.0%	2
EBIT	\$180	\$391	\$181	\$206	\$104	\$138	\$257	\$176	\$100	\$140	\$562	\$354		
% of Sales	13.2%	10.6%	6.9%	6.7%	6.2%	7.7%	11.0%	8.0%	10.8%	23.3%	6.5%	6.1%	9.5%	2
Capex % of EBITDA	11.9%	24.1%	48.4%	40.5%	56.9%	45.2%	18.4%	37.7%	14.0%	21.4%	37.9%	48.8%	35.8%	1
After-Tax ROA	25.1%	12.3%	10.0%	6.6%	9.5%	12.7%	8.2%	7.3%	17.5%	25.0%	12.0%	9.6%	11.9%	1
Inventory Turns	2.2x	2.9x	3.5x	3.7x	4.7x	2.8x	0.8x	1.8x	2.5x	4.6x	4.1x	3.6x	3.2x	10
Store Information														
No. Stores	2,419	1,066	255	4,490	1,119	161	2,760	6,977	732	390	7,929	5,898		
Avg. Square Feet / Store	1,689	16,290	57,453	1,500	4,562	36,000	4,600	1,200	9,200	1,661	6,905	8,460		
Avg. Sales / Square Foot	\$337	\$216	\$188	\$652	\$329	\$599	\$180	\$277	\$145	\$422	\$164	\$121	\$300	4
EBITDAR / Square Foot	\$73	\$44	\$31	\$86	\$62	\$71	\$40	\$73	\$28	\$135	\$20	\$16	\$55	4
Valuation														
Equity Value	NA	\$5,314	\$2,339	\$3,617	\$1,801	\$1,349	\$1,747	\$1,665	\$675	\$1,159	\$4,973	\$3,835		
Enterprise Value	NA	\$4,872	\$2,537	\$4,369	\$1,626	\$1,469	\$2,369	\$2,146	\$698	\$1,358	\$5,224	\$3,754		
x LTM EBITDA	NA	10.0x	11.1x	14.4x	9.7x	8.6x	7.3x	7.4x	6.0x	8.2x	7.2x	7.7x	8.9x	
x Forward P/E	NA	19.7x	21.9x	21.8x	21.0x	17.0x	11.9x	16.5x	11.4x	13.8x	14.5x	16.2x	16.9x	
PEG	NA	1.1x	1.1x	1.3x	1.0x	0.9x	1.0x	1.2x	0.9x	1.1x	1.0x	1.4x	1.1x	
5-Year Avg. EBITDA Multiple	NA	7.8x	7.8x	8.8x	6.7x	8.5x	6.2x	8.0x	9.8x	9.0x	9.8x	11.3x	8.5x	
IBES 5-Year EPS Growth	NA	17.6%	19.3%	17.3%	21.3%	19.7%	12.3%	13.3%	13.4%	13.0%	14.0%	11.5%	15.7%	

(a) Excludes corporate add-backs

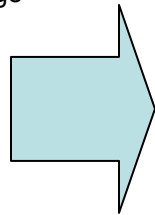
4. Business Model Overview

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BSG is an attractive distribution / cash and carry business, with its own set of opportunities and issues

BSG Characteristics

- ▶ 30% share of professional products that go through distribution
- ▶ Extremely fragmented customer base with 135,000+ customers
 - 1,227 direct salespeople
 - \$250 average order size in direct sales / \$50 average order size in stores
- ▶ Near national coverage
 - 41 states
- ▶ Exclusive territories for many brands
 - Southwest region has L'Oreal contract in perpetuity
- ▶ Unparalleled 825 store network (cash and carry) as of May 2006
 - Emerging competitive advantage with shift towards booth renters
- ▶ 80% of product sold is used in the salon
 - Protection against diversion
- ▶ High gross margins for distribution (43%)



Opportunities and Issues

Opportunities

- ▶ Private label / low cost country sourcing
 - Currently no private label (36% at Sally)
- ▶ Centralized procurement
 - Product currently sourced at regional level
- ▶ Potentially significant integration and operating cost opportunity (result of roll-up)
 - 43% gross margin... 9% EBITDA margin

Issues

- ▶ Supplier concentration
 - L'Oreal (37% of purchases)
 - P&G (9% of purchases)
- ▶ Diversion
- ▶ Supply chain battle for power in the channel

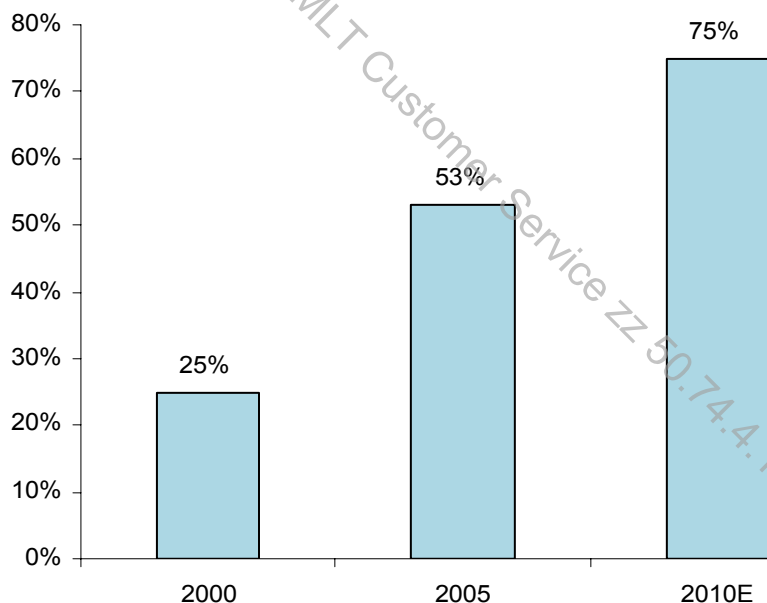
4. Business Model Overview

B

BSG is well positioned to benefit from a purchasing shift towards the store base, which is being driven by an increasing amount of booth renters...

BSG Sales Through Store Base

- ▶ The trend towards booth renters is driving more sales to BSG stores...



New BSG Store Economics

- ▶ ... which have very attractive economics (albeit not as good as Sally Beauty's)

	Year 0	Year 1	Year 2	Year 3
Revenue	--	\$326,902	\$437,441	\$459,313
% Growth			33.8%	5.0%
Gross Profit	--	\$145,803	\$195,105	\$204,860
% of Sales		44.6%	44.6%	44.6%
Contribution (ex-D&A)	(\$23,993)	\$13,825	\$57,647	\$61,818
% of Sales	NM	4.2%	13.2%	13.5%
Cash on Cash Returns				
Contribution (ex-D&A)		13,825	57,647	61,818
Less: Maintenance Capex		(2,000)	(2,000)	(2,000)
Change in Working Capital		0	0	0
Pre-Tax Cash Flow		\$11,825	\$55,647	\$59,818
Less: Taxes		(2,034)	(18,467)	(20,032)
After-Tax Cash Flow		\$9,791	\$37,180	\$39,787
Capital Invested	70,592			
Inventory	178,000			
Total Investment	\$248,592			
Returns (excluding Inventory)				
P/T Cash on Cash Returns		16.8%	78.8%	84.7%
A/T Cash on Cash Returns		13.9%	52.7%	56.4%
Returns (including Inventory)				
P/T Cash on Cash Returns		4.8%	22.4%	24.1%
A/T Cash on Cash Returns		3.9%	15.0%	16.0%

...strengthening BSG's competitive advantage and creating a higher barrier to direct distribution