

Fourth Quarter 2009

Salon/Spa Performance Index Rose 0.8 Percent in the Fourth Quarter as Sales and Customer Traffic Levels Improved

Driven by improving sales and customer traffic levels, the Professional Beauty Association's *Salon/Spa Performance Index* registered a solid gain in the fourth quarter of 2009. The *Salon/Spa Performance Index* – a quarterly composite index that tracks the health of and outlook for the U.S. salon/spa industry – stood at 102.6 in the fourth quarter, up a strong 0.8 percent from its third quarter level.

The *Salon/Spa Performance Index* is based on the responses to the Professional Beauty Association's Salon/Spa Tracking Survey, which is fielded quarterly among salon/spa owners nationwide.

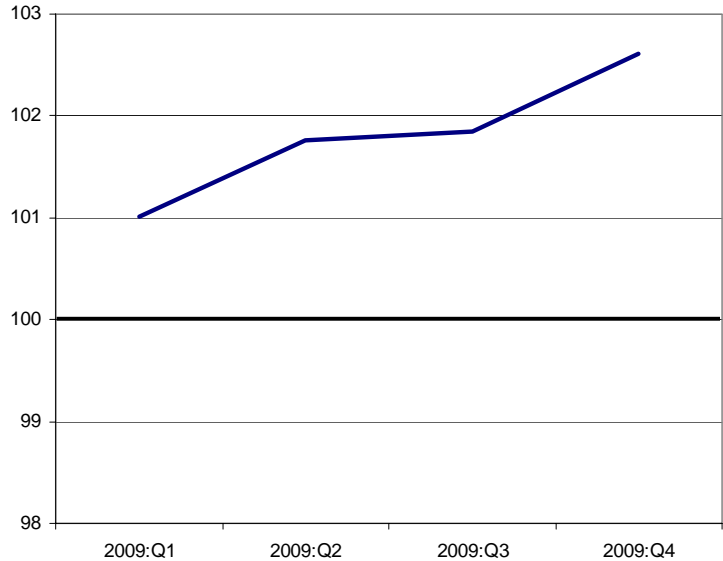
The *Salon/Spa Performance Index* is constructed so that the health of the salon/spa industry is measured in relation to a steady-state level of 100. Index values above 100 indicate that key industry indicators are in a period of expansion, while index values below 100 represent a period of contraction for key industry indicators. The index consists of two components – the Current Situation Index and the Expectations Index.

Current Situation Index Rose 0.8 Percent to Reach a Level of 99.9 in the Fourth Quarter; Expectations Index Hit a New Record High of 105.3

The Current Situation Index, which measures current trends in five industry indicators (service sales, retail sales, customer traffic, employees/hours and capital expenditures), stood at 99.9 in the fourth quarter – up 0.8 percent from its third quarter level. However, the Current Situation Index still remained below 100 for the fourth consecutive quarter, which represents contraction in the current situation indicators.

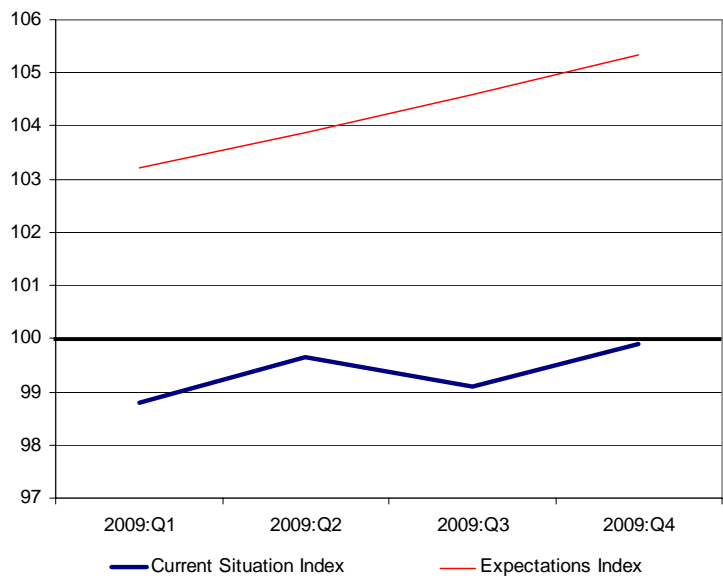
The Expectations Index, which measures salon/spa owners' six-month outlook for five industry indicators (service sales, retail sales, employees, capital expenditures and business conditions), rose 0.7 percent to a record high of 105.3 in the fourth quarter. The Expectations Index stands well above 100, which indicates that salon/spa owners are solidly optimistic about industry growth in the months ahead.

Salon/Spa Performance Index



Source: PBA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Current Situation & Expectations Indices



Source: PBA; Values Greater than 100 = Expansion; Values Less than 100 = Contraction

Current Situation Indicators Registered Broad-Based Growth in the Fourth Quarter, with Service Sales and Customer Traffic Posting Solid Gains

The Current Situation Index registered a broad-based gain in the fourth quarter, as each of the five current situation indicators improved from their third quarter levels. The service sales and customer traffic indicators registered the strongest growth in the fourth quarter, with both indicators standing above 100 in the expansion range.

Salon/spa owners reported a solid improvement in service sales in the fourth quarter. Forty-eight percent of salon/spa owners reported an increase in same-store service sales between the fourth quarters of 2008 and 2009, while just 29 percent reported a sales decline. In the third quarter, 38 percent of salon/spa owners reported higher service sales, while 36 percent reported lower service sales.

Although salon/spa owners reported stronger service sales in the fourth quarter, they reported net negative retail sales for the fourth consecutive quarter. Thirty-seven percent of salon/spa owners reported higher retail sales between the fourth quarters of 2008 and 2009, roughly on par with 36 percent who reported a retail sales gain in the third quarter. Forty-three percent of salon/spa owners reported lower retail sales in the fourth quarter, down slightly from 47 percent who reported lower retail sales in the third quarter.

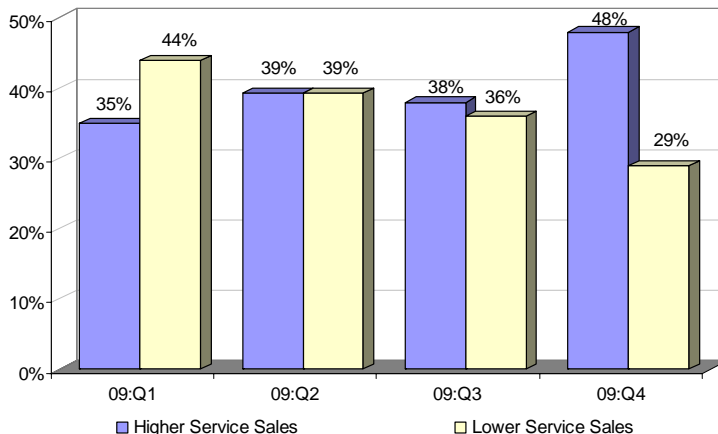
Along with a solid gain in service sales in the fourth quarter, salon/spa owners reported an improvement in customer traffic levels. Thirty-seven percent of salon/spa owners reported an increase in customer traffic between the fourth quarters of 2008 and 2009, while 32 percent reported a decline in customer traffic. In the third quarter, just 30 percent of salon/spa owners reported an increase in customer traffic, while 40 percent reported lower traffic levels.

On the whole, labor indicators were relatively stable in the fourth quarter, as equal proportions of salon/spa owners reported increases and decreases in both staffing levels and employee hours. Twenty-one percent of salon/spa owners said they added employees between the fourth quarters of 2008 and 2009, while 22 percent said they cut staffing levels.

Similarly, 19 percent of salon/spa owners said they increased employee hours between the fourth quarters of 2008 and 2009, while 19 percent said they cut employee hours.

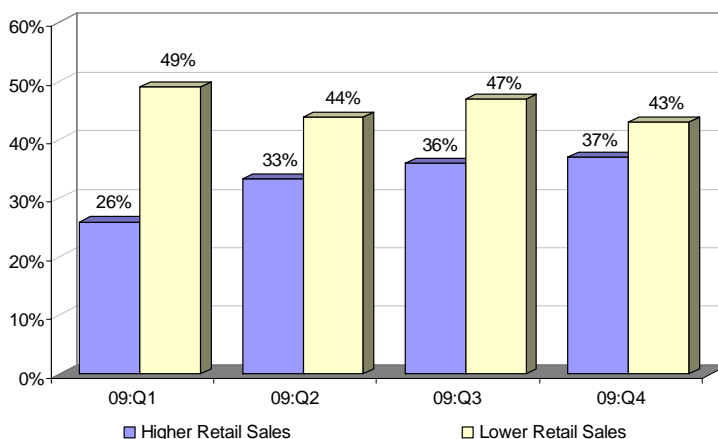
Capital spending activity held relatively steady in the fourth quarter of 2009. Twenty-nine percent of salon/spa owners said they made a capital expenditure for equipment, expansion or remodeling in the fourth quarter, roughly on par with 28 percent of salon/spa owners who reported making capital expenditures in the third quarter.

Salon/Spa Owners' Reporting of Same-Store Service Sales vs. Same Quarter in Previous Year



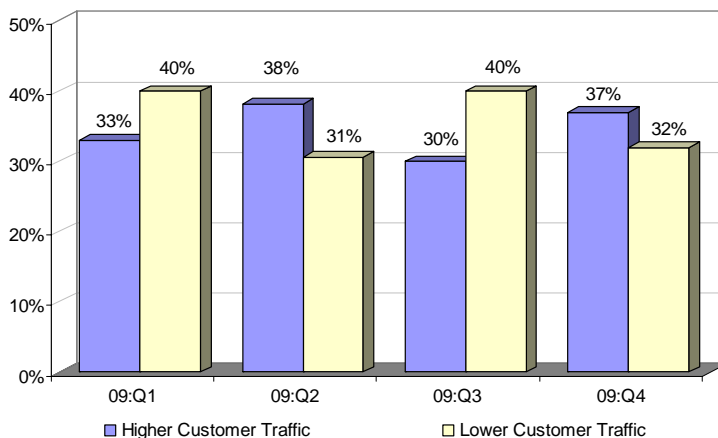
Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Reporting of Same-Store Retail Sales vs. Same Quarter in Previous Year



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Reporting of Customer Traffic Levels vs. Same Quarter in Previous Year



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Expectations Indicators Continued to Improve in the Fourth Quarter, as Salon/Spa Owners are More Optimistic about Industry and Economic Growth in the Months Ahead

The Expectations Index reached a new record high in the fourth quarter, as salon/spa owners grew increasingly optimistic about industry growth in the months ahead. Each of the five expectations indicators stood above 100 for the fourth consecutive quarter, which points toward broad-based industry growth in the months ahead.

A strong majority of salon/spa owners are optimistic that their service and retail sales will improve in the months ahead. Seventy-two percent of salon/spa owners said they expect to have higher service sales in six months (compared to the same period in the previous year), up from 70 percent who reported similarly last quarter. Only four percent of salon/spa owners expect their service sales volume in six months to be lower than it was during the same period in the previous year, down from eight percent who reported similarly last quarter.

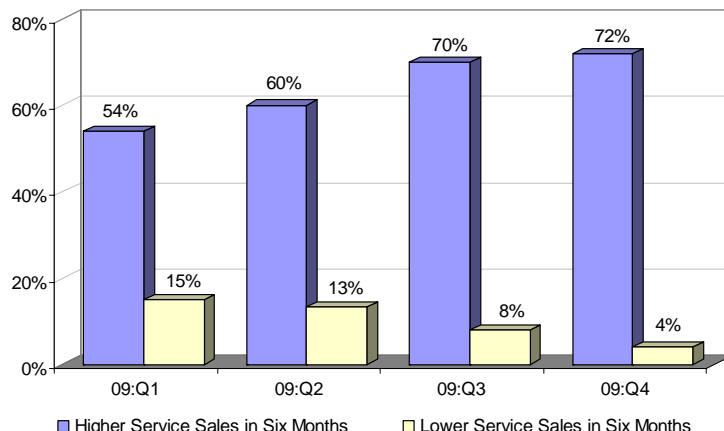
Although they reported net declines in retail sales during each of the four quarters of 2009, salon/spa owners expect to have stronger retail sales in the months ahead. Sixty-five percent of salon/spa owners said they expect to have higher retail sales in six months (compared to the same period in the previous year), up from 61 percent who reported similarly last quarter. In contrast, just seven percent expect their retail sales to decline in six months (compared to the same period in the previous year), down from nine percent who reported similarly last quarter.

Salon/spa owners are also optimistic that economic conditions will improve in the months ahead. Sixty-nine percent of salon/spa owners said they expect economic conditions to improve in six months, while just five percent expect economic conditions to worsen in six months.

For the fourth consecutive quarter, roughly half of salon/spa owners reported that they are planning to expand staffing levels in the coming months. Fifty-two percent of salon/spa owners said they plan to have higher staffing levels in six months (compared to the same period in the previous year), compared to 49 percent who responded similarly last quarter. In contrast, only three percent of salon/spa owners expect to reduce staffing levels in six months, compared to two percent who responded similarly last quarter.

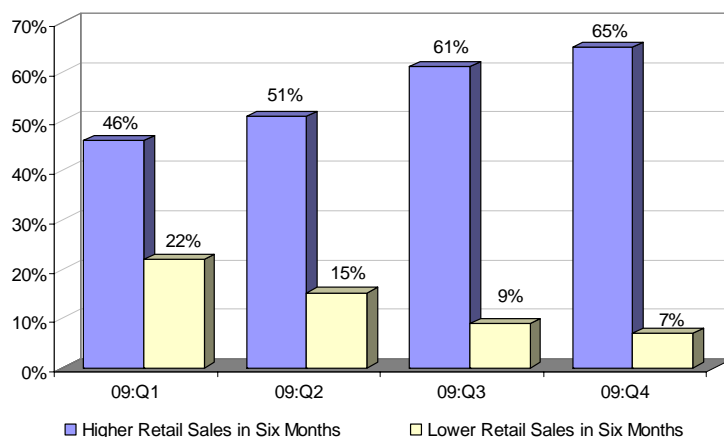
Along with a positive sales and economic outlook, salon/spa owners are also ramping up plans for capital expenditures in the months ahead. Fifty-six percent of salon/spa owners plan to make a capital expenditure for equipment, expansion or remodeling in the next six months, up from 46 percent who reported similarly last quarter.

Salon/Spa Owners' Outlook for Service Sales Volume in Six Months vs. Same Period in Previous Year



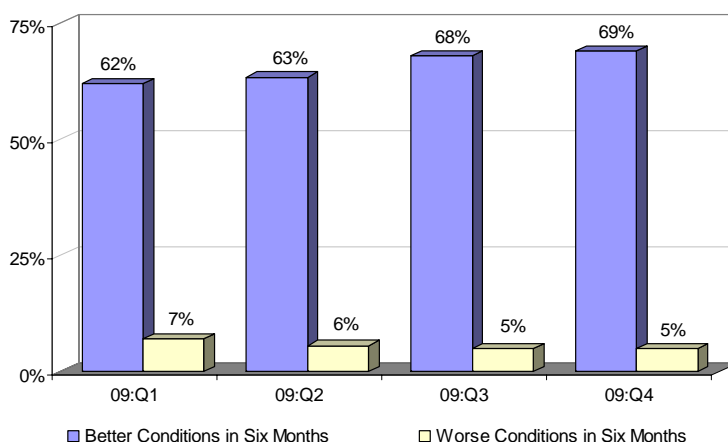
Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Outlook for Retail Sales Volume in Six Months vs. Same Period in Previous Year



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Salon/Spa Owners' Outlook for General Economic Conditions in Six Months



Source: Professional Beauty Association, Salon/Spa Tracking Survey

Professional Beauty Association Salon/Spa Performance Index Data

| | First Quarter 2009 | Second Quarter 2009 | Third Quarter 2009 | Fourth Quarter 2009 | 09:Q4 over 09:Q3 |
|--------------------------------------|-----------------------|------------------------|-----------------------|------------------------|------------------------|
| Salon/Spa Performance Index | 101.0 | 101.8 | 101.9 | 102.6 | 0.8% |
| Current Situation Index | 98.8 | 99.7 | 99.1 | 99.9 | 0.8% |
| <i>Current Situation Indicators:</i> | | | | | |
| Same-Store Service Sales | 99.1 | 100.0 | 100.2 | 101.9 | 1.7% |
| Same-Store Retail Sales | 97.7 | 99.0 | 98.9 | 99.4 | 0.5% |
| Customer Traffic | 99.3 | 100.8 | 99.0 | 100.5 | 1.5% |
| Labor | 99.3 | 99.8 | 99.8 | 100.0 | 0.2% |
| Capital Expenditures | 98.6 | 98.8 | 97.6 | 97.8 | 0.2% |
| Expectations Index | 103.2 | 103.9 | 104.6 | 105.3 | 0.7% |
| <i>Expectations Indicators:</i> | | | | | |
| Same-Store Service Sales | 103.9 | 104.7 | 106.2 | 106.8 | 0.6% |
| Same-Store Retail Sales | 102.4 | 103.6 | 105.2 | 105.8 | 0.6% |
| Staffing | 104.1 | 104.6 | 104.7 | 104.9 | 0.2% |
| Capital Expenditures | 100.2 | 100.4 | 101.2 | 103.2 | 2.0% |
| Business Conditions | 105.5 | 105.8 | 106.3 | 106.4 | 0.1% |

Note: For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction.

Methodology

The Professional Beauty Association's *Salon/Spa Performance Index* is a statistical barometer that measures the overall health of the U.S. Salon/Spa Industry. This quarterly composite index is based on the responses to the Professional Beauty Association's quarterly Salon/Spa Tracking Survey, which is fielded among salon/spa owners nationwide on a variety of indicators including service sales, retail sales, customer traffic, employees and hours, and capital expenditures. The *Salon/Spa Performance Index* is composed of two equally-weighted components: the Current Situation Index and the Expectations Index. For each of the Indices and Indicators, a value above 100 signals a period of expansion while a value below 100 signals a period of contraction, and the distance from 100 signifies the magnitude of the expansion or contraction.

The Current Situation Index is a composite index based on five 'recent-period' salon/spa industry indicators:

Same-Store Service Sales: Compares same-store service sales volume in the reference quarter versus the same quarter in the previous year

Same-Store Retail Sales: Compares same-store retail sales volume in the reference quarter versus the same quarter in the previous year

Customer Traffic: Compares customer traffic in the reference quarter versus the same quarter in the previous year

Labor: Compares the number of employees and the average employee hours in the reference quarter versus the same quarter in the previous year

Capital Expenditures: Measures capital expenditure activity during the reference quarter

The Expectations Index is a composite index based on five 'forward-looking' salon/spa industry indicators:

Same-Store Service Sales: Salon/Spa owners' outlook for same-store service sales in six months, compared to the same period in the previous year

Same-Store Retail Sales: Salon/Spa owners' outlook for same-store retail sales in six months, compared to the same period in the previous year

Staffing: Salon/Spa owners' expectations for their number of employees in six months, compared to the same period in the previous year

Capital Expenditures: Salon/Spa owners' capital expenditure plans during the next six months

Business Conditions: Salon/Spa owners' outlook for general business conditions during the next six months



Beauty is our business

The Professional Beauty Association's (PBA) purpose is to advance the professional beauty industry by providing its members with business tools, government advocacy, education, networking, events and more to ensure business and career success with integrity. PBA is the largest organization of salon professionals with members representing salons and spas, distributors, manufacturers and beginning in 2010, licensed professionals with the addition of the National Cosmetology Association (NCA). Visit probeauty.org or call 800.468.2274 (480.281.0424) to learn more.

PBA Board of Directors

Bruce Selan
Chair

Josh Hafetz
Vice Chair

Max Wexler
Secretary-Treasurer

Sydney Berry
Distributor Council

Marlene Bridge
NCA Council

Scott J. Buchanan
Salon/Spa Council

John Galietti
Salon/Spa Council

Mark Goodman
NCA Council

Brian Graham
Manufacturer Council

John Heffner
Manufacturer Council

Cary O'Brien
Salon/Spa Council

Grace Santiler-Nowik
NCA Council

Lee Rizzuto, Jr
Ex-Officio

Steve Sleeper
PBA Executive Director

PBA Staff Contact

Sam Leyvas
Associate Executive Director
800.468.2274, Ext. 3437
480.455.3437
sam@probeauty.org