

## Aarons, Inc. (AAN)

**\$15.00** (As of 03/20/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

**Zacks Recommendation: Underperform**

(Since: 02/24/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank: (1-5)**

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

## Summary

Shares of Aaron's have slid and lagged the industry in the past three months despite an earnings and sales beat in fourth-quarter fiscal 2019. The stock remains under pressure due to the ongoing global COVID-19 situation. It expects the coronavirus outbreak to significantly affect the results. Following the public health guidance, the company has closed all stores across North America and EMEA for 13 days and also withdrew its first-quarter fiscal 2020 guidance. Further, Hollister brand performance and disruptions in international markets remain a drag. However, it witnessed a robust top line, driven by impressive holiday season sales and strength in the United States. Also, transformation initiatives, including store fleet optimization, omnichannel expansion and investment in loyalty program bode well.

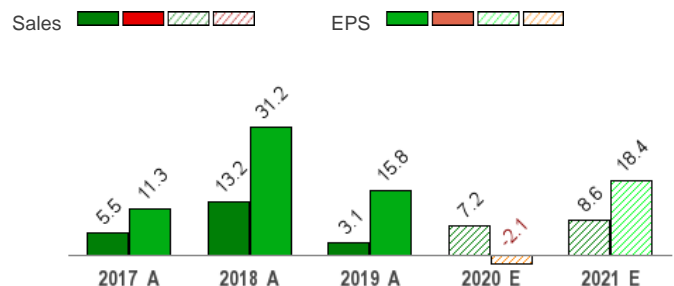
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$78.59 - \$13.01
20 Day Average Volume (sh)	1,566,279
Market Cap	\$1.0 B
YTD Price Change	-73.7%
Beta	0.83
Dividend / Div Yld	\$0.16 / 1.1%
Industry	<a href="#">Retail - Consumer Electronics</a>
Zacks Industry Rank	Bottom 30% (178 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.5%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	-16.1%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	3.9
P/E F1	3.9
PEG F1	0.2
P/S TTM	0.3

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,161 E	1,137 E	1,146 E	1,186 E	4,597 E
2020	1,057 E	1,045 E	1,052 E	1,079 E	4,233 E
2019	1,012 A	968 A	964 A	1,004 A	3,948 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.07 E	\$0.98 E	\$1.06 E	\$1.37 E	\$4.51 E
2020	\$0.81 E	\$0.88 E	\$0.94 E	\$1.25 E	\$3.81 E
2019	\$1.08 A	\$0.93 A	\$0.73 A	\$1.15 A	\$3.89 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/20/2020. The reports text is as of 03/23/2020.

## Overview

Based in Atlanta, GA, Aaron's, Inc. is a major omni-channel provider of lease-purchase solutions, mainly to underserved and credit-challenged customers. Through its various business segments, the company primarily deals in sales and lease ownership, apart from specialty retailing in furniture, home appliances, consumer electronics, as well as accessories.

Additionally, Aaron's stores offers products from popular brands like Philips, Samsung, Whirlpool, Hewlett-Packard, LG, Simmons, and Ashley, among others.

Furthermore, the company has three operating and reportable segments: Progressive Leasing, Aaron's Business, and DAMI.

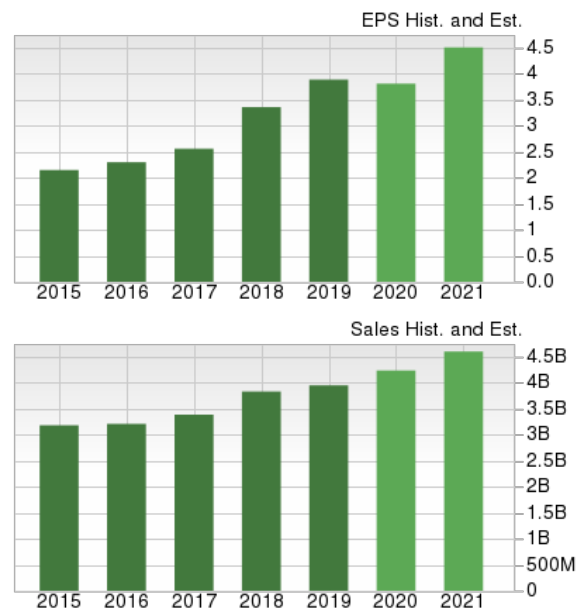
- **Progressive Leasing (accounting for 53.9% of total revenues in 2019):** This segment includes the virtual lease-to-own business. It partners with various retailers, mainly in the furniture and bedding; electronics and accessories; mobile; jewelry; consumer electronics; automobile; as well as appliance industries to provide a lease-purchase option for credit-challenged customers. Progressive Leasing had retail partners across 46 states and the District of Columbia.

As of Dec 31, 2019, the division had 1,072,000 customers, reflecting 22.4% year-over-year growth.

- **Aaron's Business (45.2%):** This segment centers on around Aaron's branded company-owned and franchised lease-to-own stores, Aarons.com and Woodhaven, the company's furniture manufacturing facilities. Additionally, this operating unit supports franchisees of its Aaron's stores.

As of Dec 31, 2019, the Aaron's Business segment had 1,167 company-operated stores and 335 franchised stores.

- **Dent-A-Med, Inc. — DAMI (0.9%):** Acquired in 2015, the DAMI segment mainly serves customers that are not eligible for traditional prime lending. It operates as a wholly-owned subsidiary of Progressive Leasing and provides customized programs including revolving loans, private label cards and access to the processing platform.



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## Reasons To Sell:

▼ **COVID-19 Compels to Withdraw Outlook, Stock Underperforms:** The crippling effect of the coronavirus outbreak has been leading to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. In the view of implementation of safety measures and a drop in store footfall, companies are temporarily shutting down their brick-and-mortar stores, curtailing work hours and operating in shifts, or permitting employees to work remotely. In response to the continued spread of COVID-19 and following the public health guidance, Aaron's withdrew its 2020 guidance in response to the ongoing COVID-19 outbreak and its unpredictable impacts. Further, management has drawn \$300 million from its revolving credit facility to add to its cash balance.

Although Aaron's business is progressing well with its transformational initiatives, it continues to grapple with soft trends. Revenues for the segment declined 5.4% in the fourth quarter.

Further, the Aaron's Business segment has decided to operate only online and curbside services including order processing, merchandise pickup, returns and payments, until further notice. Moreover, the company will continue to operate online with home delivery facility. However, all in-home installation services will not be available until further notice. Given this tough situation, shares of the company have lost 74.2% in the past three months, wider than the industry's 51.9% decline.

▼ **Soft Aaron's Business:** The Aaron's Business segment has been grappling with soft conditions for a while now. This segment's total revenues fell 5.4% in the fourth quarter on lack of revenues from net closure of 145 stores in 2019, and revenue attrition from prior-year store mergers and lower collections. This was partly offset by gains from contributions from the buyout of 152 franchised locations. Customer count declined 4.8% year over year. Non-retail sales tumbled 30.8% on a year-over-year basis. Also, lease revenues and fees in the fourth quarter decreased 1.2% from the year-ago quarter. At the quarter-end, company-operated Aaron's stores had 946,000 customers, reflecting an 8.9% year-over-year decrease. Persistent decline in this segment may be a threat to the company's top line.

▼ **Decline Franchised Stores:** Aaron's franchisee revenues declined 13.5% from the prior-year quarter to \$101.2 million. Also, same-store revenues for franchised stores decreased 1.2% year over year and same-store customer counts dipped 4.9% in the reported quarter. Notably, the company's franchisees had a customer base of 239,000 at the end of the quarter.

▼ **Intense Competition to Weigh on Results:** Aaron's faces stiff competition from a diverse group of competitors including national, regional and local providers of lease-to-own stores, virtual lease-to-own operators, traditional and e-commerce players, as well as consumer finance companies. In addition, the company competes with retail stores for customers purchasing merchandise for cash or on credit. A challenging retail landscape, aggressive promotional strategies and waning store traffic might hurt Aaron's performance. This may adversely affect both top and bottom-line performances.

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## Risks

- **Solid Q4 Results:** Aaron's reported robust fourth-quarter 2019 results, wherein both the top and bottom lines improved year over year. The company's earnings surpassed the Zacks Consensus Estimate, after missing the same in the preceding quarter. Also, the top line registered growth, when calculated on the basis of the 2019 adoption of ASC 842 associated with lease accounting. Revenue growth was backed by an increase in Progressive revenues and contributions from franchised stores acquired by the Aaron's Business segment. Moreover, the company's adjusted EBITDA rose 11.1% year over year, owing to robust growth at the Progressive segment. Adjusted EBITDA margin was up 30 basis points (bps) to 12.5%, when calculated on the basis of the 2019 adoption of ASC 842.
  - **Robust Progressive Business Performance:** Aaron's has been experiencing continued strength in its Progressive segment, which covers the virtual lease-to-own business. The segment has been performing exceedingly well for quite some time now, backed by robust growth in invoice volume and a solid customer base. In fourth-quarter 2019, the segment's revenues increased 6.7% year over year. Invoice volume rose 34.4%, owing to a 23.3% rise in invoice volume per active door and 9% increase in active doors to roughly 22,000. As of Dec 31, 2019, the division had 1,072,000 customers, reflecting 22.4% year-over-year growth. Further, the segment's EBITDA grew 17.6% in the reported quarter.
  - **Solid Cash Position & Shareholder-Friendly Moves:** Aaron's boasts a healthy balance sheet, which enables it to invest in the business and reward shareholders. As of Dec 31, 2019, the company had cash and cash equivalents of \$57.8 million compared with \$15.3 million in the corresponding period of 2018. As of Dec 31, 2019, it generated cash from operations of \$317.2 million. In 2019, the company returned \$78.7 million related to the purchase of 1,156,000 common shares at \$59.90 per share and \$9.4 million in dividends. It ended fourth-quarter 2019 with available liquidity of \$444 million and net debt to adjusted EBITDA ratio of 0.65. In 2019, Aaron's repurchased 513,900 shares for \$29.8 million.
  - **Aaron's Business Transformation on Track:** The Aaron's business is progressing well with its transformational initiatives over the past few years. These initiatives are likely to bring the segment back to sustainable long-term growth in revenue and earnings, through investments in activities to improve customer experience, operating efficiencies, compliance and employee engagement. Additionally, the company's e-commerce site (Aarons.com) has witnessed significant growth in the past few years and is attracting new and younger customers.
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## Last Earnings Report

### Aaron's Q4 Earnings & Sales Beat, Muted View

Aaron's reported robust fourth-quarter 2019 results. Aaron's reported adjusted earnings of \$1.15 per share, which surpassed the Zacks Consensus Estimate of \$1.06. Moreover, the metric rose 12.7% from the prior-year quarter.

Including one-time items, the company reported loss per share of \$1.60 on a GAAP basis against earnings of 89 cents reported in the year-ago quarter.

Consolidated revenues inched up 1% year over year to \$1003.6 million but missed the Zacks Consensus Estimate of \$1008 million. The top line grew 8.4% when calculated on the basis of the 2019 adoption of ASC 842 associated with lease accounting. The revenue growth was backed by an increase in Progressive revenues and contributions from franchised stores acquired by the Aaron's Business segment. This was partly offset by the company's store closures in 2019.

Aaron's franchisee revenues declined 13.5% from the year-ago quarter to \$101.2 million. However, same-store revenues for franchised stores decreased 1.2% and same-store customer counts dipped 4.9% in the reported quarter. Notably, the company's franchisees had a customer base of 239,000 at the end of the quarter.

Adjusted EBITDA rose 11.1% year over year to \$125.2 million, owing to robust growth at the Progressive segment. Adjusted EBITDA margin was up 30 bps to 12.5%, when calculated on the basis of the 2019 adoption of ASC 842.

### Segment Details

#### Progressive Leasing

Revenues at the segment grew 6.7% year over year to \$559.5 million in the reported quarter. Invoice volume rose 34.4% from the prior-year period, owing to a 23.3% rise in invoice volume per active door and a 9% increase in active doors to roughly 22,000. As of Dec 31, 2019, the division had 1,072,000 customers, reflecting 22.4% year-over-year growth. The segment's EBITDA was \$77.1 million, up 17.6% from the year-ago quarter. Further, EBITDA margin contracted 50 bps to 13.8%.

#### Aaron's Business

Total revenues at the Aaron's Business segment fell 5.4% from the year-ago period to \$435 million, thanks to lack of revenues from net closure of 145 stores in 2019, and revenue attrition from prior-year store mergers and lower collections. This was partly offset by gains from contributions from the buyout of 152 franchised locations. Moreover, same-store revenues inched up 0.4%, while customer count declined 4.8% from the prior-year level.

Non-retail sales tumbled 30.8% on a year-over-year basis. Lease revenues and fees for the three months ended Dec 31, 2019 decreased 1.2% from the comparable year-ago period. At the quarter-end, company-operated Aaron's stores had 946,000 customers, reflecting an 8.9% year-over-year decrease. The segment's adjusted EBITDA was \$49.3 million, up 3.6% year over year, driven by recovery in collections performance, expense management and gains from real estate sales. Also, adjusted EBITDA margin expanded 90 bps to 11.3%.

As of Dec 31, 2019, the Aaron's Business segment had 1,167 company-operated stores and 335 franchised stores.

#### Vive

Sales at the Vive segment, formerly known as Dent-A-Med, Inc. (DAMI), amounted to \$9.1 million, in line with the year-ago period.

### Financial Position

The company ended the quarter with cash and cash equivalents of \$57.8 million, debt of \$341 million, and shareholders' equity of \$1,737.3 million. As of Dec 31, 2019, the company generated cash from operations of \$317.2 million. Moreover, it repurchased 513,900 shares for \$29.8 million in 2019. The company expects capital expenditure within \$90-\$100 million for 2020.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	-0.44%
EPS Surprise	8.49%
Quarterly EPS	1.15
Annual EPS (TTM)	3.89

## Recent News

### Aaron's Withdraws Guidance on COVID-19 Impacts - Mar 23, 2020

Aaron's provided an update on the COVID-19 impact on its operations. Despite top and bottom lines being ahead of expectations, the company withdrew its 2020 guidance in response to the ongoing COVID-19 outbreak and its unpredictable impacts. Further, management has drawn \$300 million from its revolving credit facility to add to its cash balance. This brings the current revolving credit facility to \$185 million. Also, the company now has a cash balance of \$550 million as of Mar 15.

Moving on, all its employees are working from home in a bid to contain the pandemic spread. Moreover, the company will continue to operate online with home delivery facility. However, all in-home installation services will not be available until further notice.

### Aaron's Approves Dividend – Feb 25, 2020

Aaron's board has approved its quarterly cash dividend of 4 cents per share, to be payable Apr 7, 2020 to shareholders of record as on Mar 20.

## Valuation

Aaron's shares are down 73.7% in the year-to-date period and 70.4% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 43.2% and 18.8%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 40.3% and 10.8%, respectively.

The S&P 500 index is down 28.1% in the year-to-date period and 18.2% in the past year.

The stock is currently trading at 3.78X forward 12-month earnings, which compares to 9.47X for the Zacks sub-industry, 20.41X for the Zacks sector and 13.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.17X and as low as 3.78X, with a 5-year median of 13.07X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$13 price target reflects 3.28X forward 12-month earnings.

The table below shows summary valuation data for AAN

Valuation Multiples - AAN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.78	9.47	20.41	13.75
	5-Year High	18.17	21.78	26.2	19.34
	5-Year Low	3.78	8.32	19.06	13.75
	5-Year Median	13.07	11.44	23	17.42
P/S F12M	Current	0.23	0.22	0.83	2.5
	5-Year High	1.21	0.5	1.11	3.43
	5-Year Low	0.23	0.21	0.8	2.5
	5-Year Median	0.77	0.3	0.92	3
EV/EBITDA TTM	Current	0.53	3.28	12.71	8.52
	5-Year High	2.32	6.7	16.22	12.88
	5-Year Low	0.53	2.73	10.83	8.31
	5-Year Median	1.75	4.24	12.5	10.78

As of 03/20/2020

## Industry Analysis Zacks Industry Rank: Bottom 30% (178 out of 254)



## Top Peers

Best Buy Co., Inc. (BBY)	Neutral
GameStop Corp. (GME)	Neutral
Rent-A-Center, Inc. (RCII)	Neutral
RH (RH)	Neutral
Systemax Inc. (SYX)	Neutral
Walmart Inc. (WMT)	Neutral
Big Lots, Inc. (BIG)	Underperform
Conn's, Inc. (CONN)	Underperform

Industry Comparison Industry: Retail - Consumer Electronics				Industry Peers		
	AAN Underperform	X Industry	S&P 500	CONN Underperform	RH Neutral	SYX Neutral
<b>VGM Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	-
Market Cap	1.00 B	431.43 M	15.82 B	120.81 M	1.56 B	615.00 M
# of Analysts	8	4	13	5	9	0
Dividend Yield	1.07%	0.00%	2.79%	0.00%	0.00%	3.44%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	-
Cash/Price	0.03	0.24	0.06	0.32	0.02	0.16
EV/EBITDA	0.59	5.18	9.77	6.71	7.45	8.55
PEG Ratio	0.22	0.39	1.42	0.09	0.46	NA
Price/Book (P/B)	0.58	1.00	2.07	0.19	NA	3.69
Price/Cash Flow (P/CF)	0.43	3.96	8.39	1.08	4.68	11.30
P/E (F1)	3.65	6.05	12.42	2.09	6.23	NA
Price/Sales (P/S)	0.25	0.28	1.68	0.08	0.59	0.65
Earnings Yield	25.40%	12.24%	7.97%	47.74%	16.04%	NA%
Debt/Equity	0.20	0.27	0.70	2.04	-23.61	0.33
Cash Flow (\$/share)	35.14	3.39	7.01	3.89	17.53	1.44
<b>Growth Score</b>	<b>C</b>	-	-	<b>C</b>	<b>B</b>	<b>NA</b>
Hist. EPS Growth (3-5 yrs)	15.99%	20.38%	10.85%	20.38%	41.69%	58.54%
Proj. EPS Growth (F1/F0)	-1.99%	3.31%	4.90%	-7.37%	13.97%	NA
Curr. Cash Flow Growth	13.84%	7.58%	6.03%	58.97%	66.37%	5.05%
Hist. Cash Flow Growth (3-5 yrs)	15.48%	13.36%	8.55%	2.04%	61.75%	61.41%
Current Ratio	2.12	2.01	1.23	4.92	0.62	1.90
Debt/Capital	16.41%	25.06%	42.57%	67.13%	NA	25.06%
Net Margin	0.80%	4.33%	11.57%	5.37%	7.09%	5.12%
Return on Equity	14.70%	14.70%	16.74%	13.89%	-201.81%	32.67%
Sales/Assets	1.22	1.67	0.54	0.76	1.17	2.45
Proj. Sales Growth (F1/F0)	7.22%	4.67%	3.13%	4.57%	7.74%	4.76%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>B</b>	<b>C</b>	-
Daily Price Chg	-17.76%	-2.32%	-4.39%	-2.32%	-10.56%	-3.50%
1 Week Price Chg	-13.34%	-13.34%	-11.01%	-15.90%	-26.37%	-10.68%
4 Week Price Chg	-67.00%	-29.72%	-36.57%	-54.44%	-66.58%	-29.72%
12 Week Price Chg	-73.66%	-38.85%	-34.28%	-66.02%	-63.94%	-36.49%
52 Week Price Chg	-70.66%	-45.58%	-27.95%	-82.72%	-39.34%	-24.37%
20 Day Average Volume	1,566,279	117,269	3,981,936	1,306,604	1,581,832	80,270
(F1) EPS Est 1 week change	-2.40%	0.00%	-0.01%	0.00%	-3.61%	NA
(F1) EPS Est 4 week change	-16.14%	1.12%	-0.85%	-11.05%	-3.83%	NA
(F1) EPS Est 12 week change	-14.52%	-19.26%	-1.70%	-19.26%	-3.83%	NA
(Q1) EPS Est Mthly Chg	-29.07%	-11.46%	-0.88%	-24.79%	-1.11%	NA

## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>C</b>
Momentum Score	<b>C</b>
VGM Score	<b>B</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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