

Aarons, Inc. (AAN)

\$24.14 (As of 04/23/20)

Price Target (6-12 Months): **\$25.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

Summary

Shares of Aaron's have slid and lagged the industry in the past three months, despite earnings and sales beat in fourth-quarter fiscal 2019. The company witnessed robust top line in the fiscal fourth quarter driven by impressive holiday season sales and strength in the United States. Revenue also gained from rise in Progressive revenues and contributions from franchised stores acquired by Aaron's Business. Also, transformation initiatives, including store fleet optimization, omni-channel expansion and investment in loyalty program bode well. However, the stock remains under pressure due to the ongoing global COVID-19 situation, which has led to closure of all Aaron's stores with only online and curbside services available. Citing the unprecedented impacts from the outbreak, the company has withdrawn its guidance for 2020.

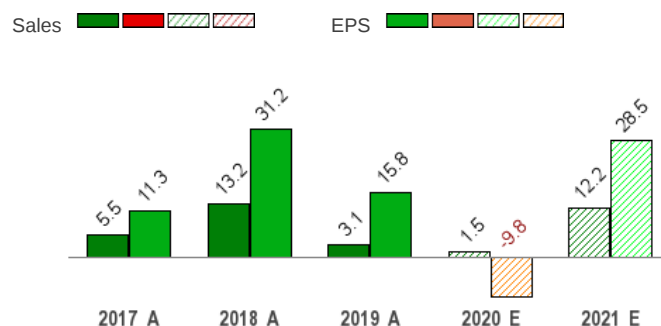
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$78.59 - \$13.01
20 Day Average Volume (sh)	1,006,860
Market Cap	\$1.6 B
YTD Price Change	-57.7%
Beta	1.28
Dividend / Div Yld	\$0.16 / 0.7%
Industry	Retail - Consumer Electronics
Zacks Industry Rank	Bottom 26% (188 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.5%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/07/2020
Earnings ESP	-3.9%
P/E TTM	6.2
P/E F1	6.9
PEG F1	0.4
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,161 E	1,137 E	1,146 E	1,186 E	4,497 E
2020	1,049 E	963 E	972 E	1,024 E	4,008 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	\$0.80 E	\$0.70 E	\$0.80 E	\$1.16 E	\$3.51 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 04/23/2020. The reports text is as of 04/24/2020.

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.

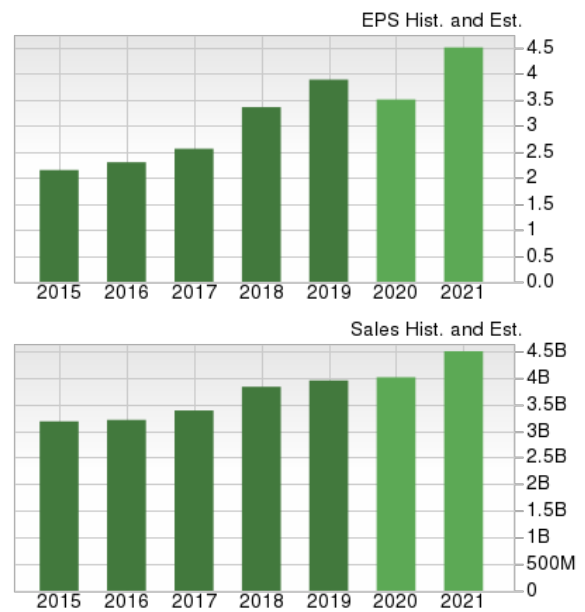
- **Progressive Leasing (accounting for 53.9% of total revenues in 2019):** This segment includes the virtual lease-to-own business. It partners with various retailers, mainly in the furniture and bedding; electronics and accessories; mobile; jewelry; consumer electronics; automobile; as well as appliance 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.



Reasons To Buy:

▲ **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.

Aaron's Progressive segment continues to generate growth, driven by higher invoice volume and a solid customer base. The segment's revenues grew 6.7% year over year in fourth-quarter 2019.

▲ **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.

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, the Aaron's Business segment has decided to operate only online with 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. Meanwhile, all Progressive employees will be working from home to support business. Citing unprecedented impacts from the outbreak, Aaron's withdrew its 2020 guidance. Further, management has drawn \$300 million from its revolving credit facility to add to its cash balance. Given this tough situation, shares of the company have lost 60.7% in the past three months, wider than the industry's 37.2% 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 in Franchisee Revenues:** 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:** 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.

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.

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 Offers Protective Equipment Amid Coronavirus Crisis – Apr 6, 2020

Aaron's informed that its Woodhaven Furniture manufacturing unit (located in Coolidge, Georgia) has converted the production capacity to manufacture personal protective equipment (PPE) to donate to the local medical centers. These include sheets, masks and gowns. In fact, Aaron's has collaborated with healthcare organization, PruittHealth, to offer protective cloth masks with the growing spread of coronavirus. The company is also making efforts to offer hospital gowns, mattresses and bedding for medical and humanitarian requirements.

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

Aaron's provided an update on the COVID-19 impact on its operations. 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 Progressive Leasing employees are working from home in a bid to support business and contain the pandemic spread. Moreover, the company will only operate online and curbside services for all its stores, with home delivery facility. Curbside services will include order processing, merchandise pickup, returns and payments. 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 57.7% in the year-to-date period and 59.1% for the trailing 12-month period. Stocks in the Zacks sub-industry are down 36.9% but the Zacks Retail-Wholesale sector is up 0.1% in the year-to-date period. Over the past year, the Zacks sub-industry is down 27.9% but the sector is up 5%.

The S&P 500 index is down 13.1% in the year-to-date period and 4.8% in the past year.

The stock is currently trading at 5.84X forward 12-month earnings, which compares to 16.27X for the Zacks sub-industry, 28.01X for the Zacks sector and 19.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.17X and as low as 4.49X, with a 5-year median of 13.05X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$25 price target reflects 6.05X 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	5.84	16.27	28.01	19.31
	5-Year High	18.17	16.47	28.01	19.34
	5-Year Low	4.49	8.32	19.06	15.19
	5-Year Median	13.05	11.52	23.16	17.45
P/S F12M	Current	0.37	0.32	1.01	3.14
	5-Year High	1.21	0.43	1.11	3.44
	5-Year Low	0.28	0.21	0.8	2.54
	5-Year Median	0.77	0.3	0.93	3.01
EV/EBITDA TTM	Current	0.78	4.09	15.37	10.23
	5-Year High	2.32	6.07	16.36	12.87
	5-Year Low	0.53	2.73	10.46	8.28
	5-Year Median	1.74	4.22	12.53	10.78

As of 04/23/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Best Buy Co., Inc. (BBY)	Neutral	3
Conns, Inc. (CONN)	Neutral	3
GameStop Corp. (GME)	Neutral	3
Rent-A-Center, Inc. (RCII)	Neutral	3
Sector 5, Inc. (SFIV)	Neutral	NA
Systemax Inc. (SYX)	Neutral	4
Walmart Inc. (WMT)	Neutral	3
RH (RH)	Underperform	5

Industry Comparison Industry: Retail - Consumer Electronics				Industry Peers		
	AAN	X Industry	S&P 500	CONN	GME	SYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	4
VGM Score	B	-	-	C	B	C
Market Cap	1.61 B	493.95 M	19.03 B	124.15 M	302.95 M	684.95 M
# of Analysts	8	4	14	5	5	1
Dividend Yield	0.66%	0.00%	2.23%	0.00%	0.00%	3.06%
Value Score	B	-	-	A	B	D
Cash/Price	0.04	0.26	0.05	0.65	1.59	0.13
EV/EBITDA	0.87	6.69	11.66	6.73	-2.58	9.21
PEG Ratio	0.43	1.21	2.20	NA	NA	NA
Price/Book (P/B)	0.93	1.06	2.56	0.20	0.51	3.91
Price/Cash Flow (P/CF)	0.69	5.03	10.31	0.92	2.69	12.68
P/E (F1)	7.18	13.23	17.77	NA	NA	19.24
Price/Sales (P/S)	0.41	0.41	1.97	0.08	0.05	0.72
Earnings Yield	14.54%	2.13%	5.48%	-0.93%	-12.34%	5.20%
Debt/Equity	0.20	0.27	0.72	2.16	1.55	0.33
Cash Flow (\$/share)	35.14	1.75	7.01	4.65	1.75	1.44
Growth Score	C	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	15.99%	22.26%	10.92%	27.76%	-24.13%	58.54%
Proj. EPS Growth (F1/F0)	-9.83%	-11.43%	-5.06%	-101.98%	-363.64%	-31.65%
Curr. Cash Flow Growth	13.84%	5.05%	5.92%	8.16%	-66.61%	5.05%
Hist. Cash Flow Growth (3-5 yrs)	15.48%	13.36%	8.55%	9.76%	-26.81%	49.91%
Current Ratio	2.12	2.01	1.23	6.53	1.32	1.90
Debt/Capital	16.41%	25.06%	43.90%	68.35%	60.82%	25.06%
Net Margin	0.80%	3.70%	11.32%	3.86%	-7.28%	5.12%
Return on Equity	14.70%	14.70%	16.60%	9.91%	2.29%	32.67%
Sales/Assets	1.22	1.64	0.55	0.72	2.05	2.45
Proj. Sales Growth (F1/F0)	1.52%	-4.69%	-0.78%	-12.42%	-8.10%	-8.97%
Momentum Score	A	-	-	F	D	B
Daily Price Chg	2.20%	0.00%	0.15%	5.68%	-3.89%	3.22%
1 Week Price Chg	-2.58%	2.63%	0.42%	2.63%	25.45%	11.30%
4 Week Price Chg	1.90%	0.00%	4.04%	-19.09%	6.58%	-3.08%
12 Week Price Chg	-61.56%	-31.25%	-21.19%	-52.55%	19.59%	-25.11%
52 Week Price Chg	-59.12%	-40.59%	-15.14%	-83.40%	-47.49%	-18.21%
20 Day Average Volume	1,006,860	59,657	2,802,273	1,068,264	4,608,050	76,694
(F1) EPS Est 1 week change	0.00%	0.00%	-0.10%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-16.74%	-6.64%	-101.89%	-573.47%	NA
(F1) EPS Est 12 week change	-21.18%	-29.38%	-11.78%	-101.68%	-615.56%	-37.59%
(Q1) EPS Est Mthly Chg	0.00%	-36.52%	-10.38%	-177.27%	-163.54%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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
Growth Score	C
Momentum Score	A
VGM Score	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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