Energizer Holdings (ENR)

$46.12 (As of 06/03/20)

Price Target (6-12 Months): **$48.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 06/12/19)
Prior Recommendation: Underperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:C
Value: B | Growth: F | Momentum: B

Summary

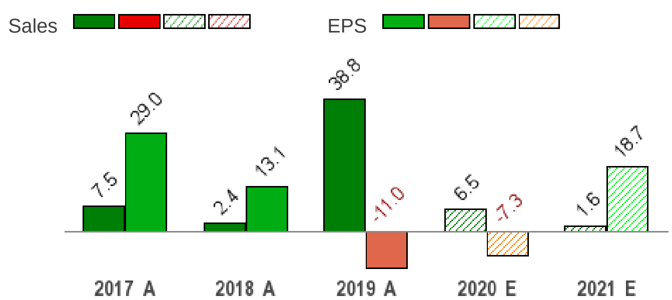
Shares of Energizer have lagged the industry in the past three months due to the effects of the coronavirus outbreak that has resulted in huge market sell-offs. The company has withdrawn its guidance for fiscal 2020, given the uncertain impacts of the COVID-19 outbreak. Moreover, its high debt level and unfavorable currency movement remain concerning. However, the company posted better-than-expected results for second-quarter fiscal 2020, wherein both top and bottom lines improved year over year. Results gained from elevated gross profit and decline in interest expenses and SG&A expenses. Also, it marked the third consecutive quarter of sales beat, backed by strength in acquired businesses and organic sales growth. Apart from these, gains from the Spectrum Brands' Global Auto Care buyout contributed to quarterly growth.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$53.84 - $26.60
20 Day Average Volume (sh)	759,495
Market Cap	$3.2 B
YTD Price Change	-8.2%
Beta	1.20
Dividend / Div Yld	$1.20 / 2.6%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 17% (43 out of 253)
Last EPS Surprise	2.8%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	1.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	18.3
P/E F1	16.6
PEG F1	4.8
P/S TTM	1.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	746 E	596 E	642 E	713 E	2,698 E
2020	737 A	587 A	632 E	691 E	2,656 E
2019	572 A	556 A	647 A	719 A	2,495 A

EPS Estimates

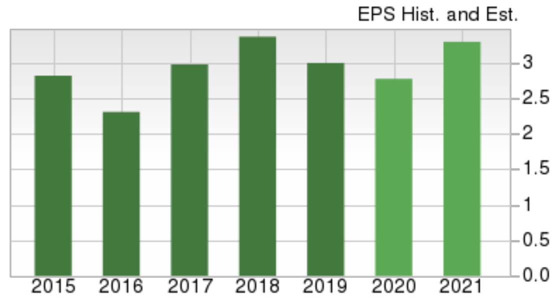
	Q1	Q2	Q3	Q4	Annual*
2021	$1.03 E	$0.50 E	$0.73 E	$1.12 E	$3.30 E
2020	$0.85 A	$0.37 A	$0.58 E	$0.97 E	$2.78 E
2019	$1.64 A	$0.20 A	$0.37 A	$0.93 A	$3.00 A

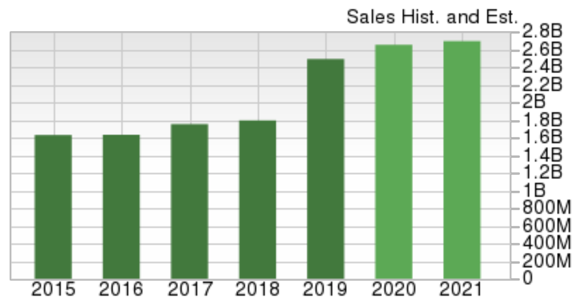
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/03/2020. The reports text is as of 06/04/2020.

Overview

Headquartered in St. Louis, MO, Energizer Holdings Inc. is one of the largest manufacturers and marketers of batteries, lighting and auto-care products. The company's products are marketed and sold globally in more than 170 countries through direct sales personnel, mass merchandisers, distributors and wholesalers. Energizer, which generated $2,494.5 million revenues in fiscal 2019, operates under three segments namely:





Batteries segment (78.6% of FY19 revenues): The company's battery business produces alkaline, lithium, carbon-zinc, nickel metal hydride, zinc air, silver oxide and rechargeable batteries. Energizer's lithium batteries are manufactured for non-consumer industrial applications and are used in cameras, camcorders, memory backup, CD players and portable computers.

Auto care segment (16.4% of FY19 revenues): The company offers auto care products in the appearance, fragrance, performance and air conditioning recharge product categories. The appearance and fragrance categories include protectants, wipes, tire and wheel care products, glass cleaners, leather care products, air fresheners and washes designed to clean, shine, refresh and protect interior and exterior automobile surfaces under the brand names such as Armor All, Nu Finish, Refresh Your Car!, LEXOL, Eagle One, California Scents, Driven and Bahama & Co.

Lights and Licensing segment (5% of FY19 revenues): The company manufactures, distributes, and markets lighting products including headlights, lanterns, children's lights and area lights. Apart from the Energizer, Eveready and Rayovac brands, the company markets flashlights under the Hard Case, Dolphin, and WeatherReady sub-brands. In addition to batteries and portable lights, Energizer licenses the Energizer and Eveready brands to companies developing consumer solutions in gaming, automotive batteries, portable power for critical devices, generators, power tools, household light bulbs and other lighting products.

Energizer generated 69.5% of its revenues from Americas in fiscal 2019, while it reported 30.5% from international operations. The company derives a significant amount of revenues from a relatively small number of retail customers. In fiscal 2019, Wal-Mart Stores and its subsidiaries accounted for approximately 13.8% of Energizer's sales.

Reasons To Buy:

Energizer's impressive Q2 results gained from robust organic sales growth, elevated gross profit and lower costs. Also, positive trends in the battery business act as a growth driver.

- **Robust Margins & Low Costs Aided Q2 Earnings**: Energizer posted better-than-expected results for second-quarter fiscal 2020, wherein both top and bottom lines improved year over year. Notably, adjusted earnings came in at 37 cents per share, which surpassed the Zacks Consensus Estimate by a penny and surged 85% from the year-ago quarter's 20 cents. This can be attributable to improved sales, elevated gross profit and a decline in interest expenses and SG&A expenses.

  In this context, adjusted gross margin expanded 100 basis points (bps) to 41.6% on gains from pricing and realized synergies' strong pricing efforts. Also, SG&A expenses, excluding acquisition and integration costs, amounted to $108 million, reflecting a decrease of $4.2 million from the year-ago quarter. This decline was led by gains from realized synergy owing to the exit of the transition service agreement (TSA) and a fall in spending in the back half of the quarter related to COVID-19 restrictions. Further, advertising and sales promotion expenses totaled $22.8 million, highlighting a decline of 7.7% from the year-ago quarter.

- **Higher Q2 Sales**: Energizer has been witnessing an impressive sales performance for a while now. The top line grew 5.5% on a year-over-year basis and outpaced the Zacks Consensus Estimate for the third consecutive time. Top-line performance was backed by strength in acquired businesses and organic sales growth. Notably, organic sales grew 2.7% during the quarter, driven by gains from the Spectrum Brands' Global Auto Care acquisition, partly offset by an unfavorable impact from Argentina operations and currency headwinds.

- **Focus on Productivity**: Energizer is making efforts to drive productivity via improvement initiatives, streamlining international organization and optimizing manufacturing footprint. The company distributes its products to consumers via various retail locations globally, comprising mass merchandisers and warehouse clubs, food, drug and convenience stores, electronics specialty stores and department stores, hardware and automotive centers, e-commerce and military stores. Further, the company has been focused on containing costs and enhancing cash flow from operations. Moreover, Energizer completed the sale of its Europe-based Varta consumer battery business to Germany-based VARTA Aktiengesellschaft (VARTA AG). The $2-billion battery business operates in Europe, the Middle East and Africa. The deal will help VARTA AG expand its product portfolio and strengthen position in the portable battery space. Proceeds are utilized to clear the company's downtime term loan debt.

  Also, the company is planning to accelerate its integration efforts to drive performance across businesses. It expects to achieve incremental synergies beyond the $100 million, which will be reinvested to improve top line through innovation and brand building activities, mainly for Auto Care brands. For fiscal 2020, the company projects incremental synergies in the band of $45-$50 million. Out of this, it has already generated $13 million synergies in the second-quarter fiscal 2020.Going forward, management anticipates these synergies to drive the bottom line in the near future.

- **Acquisitions – A Key to Growth**: Acquisitions have been an integral part of Energizer's growth strategy. The company has completed the acquisition of Spectrum Brands' Global Battery and Portable Lighting Business (announced in January 2018) as well as Global auto care business. Apart from this, the company expanded its manufacturing footprint with the acquisition of a new dedicated manufacturing facility (specially built for auto care manufacturing) in Dayton OH. This facility will provide flexibility and scale to serve the needs of customers in a highly efficient manner. In 2017, Energizer acquired Utah-based HandStands for $340 million, which occupies a premier position in the automotive fragrance and appearance markets. This acquisition has allowed Energizer to strategically diversify its product range, which now includes Refresh Your Car!, California Scents, Driven, Bahama & Co., LEXOL and Eagle One. In a bid to expand the auto appearance portfolio, Energizer acquired Reed-Union Corporation's automotive appearance business, including the Nu Finish Car Polish and Nu Finish Scratch Doctor brands. The strength of these brands along with the company's existing Lexol and Eagle One products is likely to aid in building its auto care business, both organically and through acquisitions.

- **Acquired Battery Business, a Brighter Prospect**: Energizer's acquisition of Spectrum Brands' Global Battery and Portable Lighting Business (announced in January 2018) as well as the auto care business is touted to serve as one of the main drivers for EBITDA growth in the next few years. The acquisition will not only help in enhancing international footprint and broadening manufacturing capabilities, but also bring synergies of accelerated innovation and wider product range, alongside cost efficiencies to compete in the category. The acquired battery business will help it to boost efficiencies, contain cost and improve relationship with the retail customers. This new expanded portfolio of brands and products puts the company in a leadership position in the Battery and auto care categories.

  Notably, the company's integration of the acquired battery and auto care businesses are progressing well. In the second quarter, the company's combined battery business (which accounts for 72.9% of total revenues) increased 2% year over year to $427.7 million. Also, revenues at the Auto Care segment grew 19% to $130.2 million.

- **Shareholder Friendly Moves**: Energizer has been actively managing its capital and returning much of its free cash via share repurchases and dividends. The company has been making regular quarterly dividend payouts. Also, the company is on track with share repurchases. In the second quarter, Energizer bought back approximately 980,000 shares for $45 million. Moreover, during the second quarter of fiscal 2020, the company paid out dividends of $21 million for its common stock and $4.1 million for mandatory preferred convertible stocks. Also, it declared quarterly dividend of 30 cents per share, to be paid out on Jun 10, 2020, to shareholders of record as on May 20. Notably, Energizer has a dividend payout of 47.6%, dividend yield of 2.8% and free cash flow yield of 5.7%.

Reasons To Sell:

Energizer withdrew fiscal 2020 view citing unprecedented impacts of COVID-19 on the global economy and consumer demand. Also, its high debt and unfavorable currency movements remain woes.

- **COVID-19 Disruptions Compel to Withdraw FY20 View**: The coronavirus outbreak across the world has resulted in unprecedented impacts on the global economy and consumer demand. Driven by the uncertainty of COVID-19 over the rest of the year, Energizer withdrew its guidance for fiscal 2020. Further, the company has fully drawn upon its revolving credit facility to enhance liquidity and protect working capital needs amid the pandemic. Driven by the effects of the pandemic on global markets, shares of Energizer have decreased 2.5% in the past three months compared with the industry's 12.7% increase .

- **Debt Analysis**: Although Energizer's long-term debt of $3,010.6 million declined 11% sequentially at the end of the first quarter of fiscal 2020 (Mar 31, 2020), its debt-to-capitalization ratio is quite high when compared with the industry. Incidentally, the company's debt-to-capitalization ratio of 0.89 stands higher than the industry's ratio of 0.75. Also, the company's debt-to-capitalization ratio reflects a sequential increase from 0.86 at the end of the preceding quarter. Moreover, the company's cash and cash equivalents of $277.9 million as of Mar 31, 2020, appears just enough to meet current debt of $275 million.

- **Currency Headwinds**: Energizer remains exposed to unfavorable foreign currency translations as it has a considerable international presence. In fact, in the fiscal second quarter, unfavorable currency movements impacted net sales by $7.4 million. Further, unfavorable currency translations negatively impacted gross margin in the reported quarter. Any further movement in foreign currency may hurt the company's profitability in the near term.

- **Stiff Competition**: The company is exposed to stiff competition from its peers on the grounds of product quality and price, innovation, promotion strategies and customer service. Further, the consumer staples industry is exposed to intense competition of late, particularly in the U.S. market.

- **Risk related to Global Economic Conditions**: Any sluggishness in the economy may lower the demand for products. A slowdown in the economy compels consumers to either curtail discretionary spending or shift purchasing patterns to lower cost options. This shift has the potential to drive the market toward lower margin products or force the company to reduce prices for their products in order to be more competitive. This is likely to show on the company's top and bottom lines. In addition, disruptions in financial markets also reduce access to debt and equity capital markets, negatively affecting its ability to implement business strategy.

Last Earnings Report

Energizer Holdings' Q2 Earnings & Sales Beat Estimates

Quarter Ending	03/2020
Report Date	**May 07, 2020**
Sales Surprise	**0.00%**
EPS Surprise	**2.78%**
Quarterly EPS	**0.37**
Annual EPS (TTM)	**2.52**

Energizer Holdings posted better-than-expected results for second-quarter fiscal 2020, wherein both top and bottom lines improved year over year. However, management withdrew its fiscal 2020 view, given the uncertain impacts of COVID-19 on consumer demand and the global economy.

Q2 in Detail

Adjusted earnings came in at 37 cents per share, which surpassed the Zacks Consensus Estimate by a penny and surged 85% from the year-ago quarter's 20 cents. This can be attributable to improved sales, elevated gross profit and a decline in interest expenses and SG&A expenses.

The company reported net sales of $587 million, which beat the Zacks Consensus Estimate of $579 million. Also, sales rose 5.5% on a year-over-year basis, buoyed by strength in acquired businesses and organic sales growth.

Meanwhile, organic sales grew 2.7% during the quarter, driven by gains from the Spectrum Brands' Global Auto Care acquisition, partly offset by an unfavorable impact from Argentina operations and currency headwinds.

Segments in Detail

Batteries revenues increased 2% year over year to $427.7 million, while revenues at the Auto Care segment grew 19% to $130.2 million. Revenues at Lights and Licensing segment improved 2.5% to $29.1 million.

In the Americas, the company recorded revenues of $409.9 million, up 7.4% from the year-ago quarter. Revenues at the International segment amounted to $177.1 million, reflecting an increase of 1.3% from the year-ago quarter.

Margins

Energizer's adjusted gross margin expanded 100 basis points (bps) to 41.6% on gains from pricing and realized synergies' strong pricing efforts. This was partly offset by the adverse impact of foreign currency, unfavorable product mix and elevated costs related to the COVID-19 crisis.

SG&A expenses, excluding acquisition and integration costs, amounted to $108 million, reflecting a decrease of $4.2 million from the year-ago quarter. This decline was driven by gains from realized synergy owing to the exit of transition service agreement (TSA) and a fall in spending in the back half of the quarter related to COVID-19 restrictions. Further, advertising and sales promotion expenses totaled $22.8 million, highlighting a decline of 7.7% from the year-ago quarter.

Additionally, the company reported earnings before income taxes of $21.9 million in the quarter against a loss of $74 million in the year-ago quarter.

Other Financial Details

Energizer ended the quarter with cash and cash equivalents of $277.9 million, long-term debt of $3,010.6 million and shareholders' equity of $373.7 million.

Adjusted free cash flow from continuing operations was $107.3 million year to date. During the quarter, the company paid out dividends of 30 cents per share, which totaled $21 million. It also paid out dividends of $4.1 million for mandatory preferred convertible stock. Further, Energizer repurchased about 980,000 shares for $45 million.

Recent News

Energizer Holdings Declares Dividends – Apr 27, 2020

Energizer Holdings' board of directors declared a quarterly dividend of 30 cents per share on common stock to be paid out on Jun 10, 2020 to shareholders of record as on May 20. It also declared a quarterly dividend of $1.875 per share on 7.50% Series A mandatory convertible preferred stock. The dividend will be payable Jul 15, 2020 to shareholders of record as on Jul 1.

Energizer Q2 Prelims Strong, Rolls Back FY20 View – Apr 15, 2020

Energizer released preliminary financial results for second-quarter fiscal 2020. The company's fiscal second-quarter net sales are expected to be $587 million, reflecting a growth of 5.6% from the year-ago quarter. The robust sales results are attributed to robust organic sales, which improved 2.7%. Also, the company expects to report adjusted EBITDA of $120-$125 million compared with $101 million in the year-ago quarter. The company is scheduled to report second-quarter fiscal 2020 results on May 7.

The company's fiscal second quarter performance is likely to have benefited from strong growth in the battery category in March, mostly due to the increased COVID-19 outbreak-related consumer demand.

The company stated that its business has been operational so far and the integration of its recently acquired battery and auto care businesses remain on track. It expects to deliver synergies from the integration on the targeted timeline.

Further, the company has fully drawn upon its revolving credit facility to enhance liquidity and protect working capital needs amid the pandemic. This has resulted in boosting its current cash position with $484 million of cash and cash equivalents on hand.

However, it cites that the unprecedented effects of the coronavirus outbreak continue to hurt the global economy and consumer demand. Driven by the uncertainty of COVID-19 over the rest of the year, it withdrew the guidance for fiscal 2020.

Valuation

Energizer shares are down 8.2% in the year-to-date period but up 7.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 9.3% but those in the Zacks Consumer Staples sector are down 11.1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 11.5% and 6.2%, respectively.

The S&P 500 index is down 7% in the year-to-date period but up 6.6% in the past year.

The stock is currently trading at 14.74X forward 12-month earnings, which compares to 23.9X for the Zacks sub-industry, 20.01X for the Zacks sector and 22.29X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.83X and as low as 8.59X, with a 5-year median of 15.97X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $48 price target reflects 15.34X forward 12-month earnings.

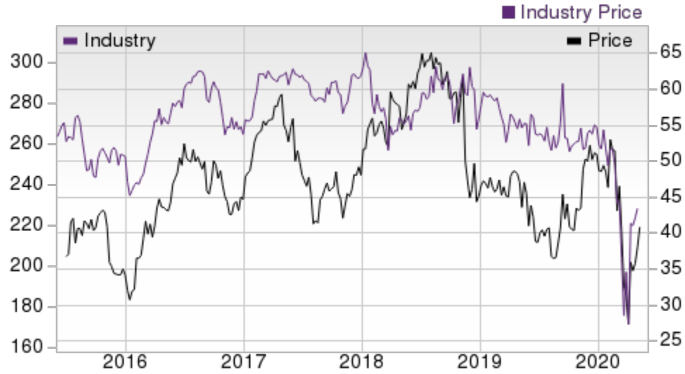
The table below shows summary valuation data for ENR

Valuation Multiples - ENR

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.74	23.9	20.01	22.29
	5-Year High	21.83	23.9	22.37	22.29
	5-Year Low	8.59	13.74	16.65	15.23
	5-Year Median	15.97	17.95	19.7	17.49
P/S F12M	Current	1.18	2.04	9.63	3.47
	5-Year High	2.15	2.12	11.16	3.47
	5-Year Low	0.7	1.57	8.1	2.53
	5-Year Median	1.61	1.92	9.89	3.02
EV/EBITDA TTM	Current	11.45	11.7	33.98	11.4
	5-Year High	14.69	19.73	45.11	12.86
	5-Year Low	7.21	3.65	27.19	8.26
	5-Year Median	11.18	12.64	38.37	10.81

As of 06/03/2020

Industry Analysis **Zacks Industry Rank:** Top 17% (43 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Clorox Company **(CLX)**	Outperform	1
Prestige Consumer Healthcare Inc. **(PBH)**	Outperform	3
ColgatePalmolive Company **(CL)**	Neutral	3
The Estee Lauder Companies Inc. **(EL)**	Neutral	3
Edgewell Personal Care Company **(EPC)**	Neutral	3
KimberlyClark Corporation **(KMB)**	Neutral	2
ProcterGamble Company The **(PG)**	Neutral	3
Spectrum Brands Holdings Inc. **(SPB)**	Neutral	3

Industry Comparison Industry: Consumer Products - Staples

Industry Peers

	ENR	X Industry	S&P 500	CL	KMB	PBH
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	C	-	-	B	B	A
Market Cap	3.16 B	3.23 B	22.50 B	61.37 B	48.24 B	2.03 B
# of Analysts	6	5	14	9	6	5
Dividend Yield	2.60%	0.00%	1.88%	2.46%	3.02%	0.00%
Value Score	B	-	-	D	C	B
Cash/Price	0.09	0.05	0.06	0.01	0.02	0.04
EV/EBITDA	15.03	11.88	12.98	17.11	14.23	11.54
PEG Ratio	4.82	2.79	3.05	4.71	3.70	3.39
Price/Book (P/B)	8.57	4.18	3.11	179.97	1,048.74	1.74
Price/Cash Flow (P/CF)	10.29	14.28	12.18	20.75	14.73	11.08
P/E (F1)	16.59	20.51	22.19	24.99	18.71	13.57
Price/Sales (P/S)	1.17	1.70	2.40	3.86	2.56	2.11
Earnings Yield	6.03%	4.47%	4.31%	4.01%	5.34%	7.37%
Debt/Equity	8.06	0.82	0.76	21.51	156.74	1.50
Cash Flow ($/share)	4.48	2.31	7.01	3.45	9.62	3.66
Growth Score	F	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	1.11%	3.15%	10.87%	0.72%	4.54%	8.06%
Proj. EPS Growth (F1/F0)	-7.44%	4.99%	-10.74%	1.30%	9.89%	1.08%
Curr. Cash Flow Growth	22.48%	5.95%	5.48%	-4.58%	3.32%	0.35%
Hist. Cash Flow Growth (3-5 yrs)	4.31%	4.69%	8.55%	-1.27%	2.19%	8.12%
Current Ratio	1.42	1.44	1.29	0.96	0.87	2.44
Debt/Capital	88.96%	62.82%	44.75%	95.56%	99.37%	60.05%
Net Margin	-0.67%	0.98%	10.59%	15.86%	12.55%	14.77%
Return on Equity	37.13%	14.00%	16.29%	942.99%	2,686.77%	13.33%
Sales/Assets	0.50	1.24	0.55	1.09	1.23	0.28
Proj. Sales Growth (F1/F0)	6.49%	3.77%	-2.65%	0.40%	0.58%	-1.70%
Momentum Score	B	-	-	A	D	A
Daily Price Chg	2.33%	0.69%	2.42%	-1.09%	-0.27%	0.35%
1 Week Price Chg	-0.36%	2.90%	4.60%	2.23%	1.22%	0.05%
4 Week Price Chg	22.50%	17.61%	13.40%	5.62%	5.11%	2.63%
12 Week Price Chg	5.37%	10.97%	12.78%	3.99%	5.59%	13.03%
52 Week Price Chg	7.21%	1.52%	0.89%	-0.38%	6.11%	32.69%
20 Day Average Volume	759,495	701,818	2,528,787	4,201,663	1,454,411	470,930
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.97%	0.00%	-0.14%	0.04%	0.00%	-0.53%
(F1) EPS Est 12 week change	-9.80%	-3.68%	-16.00%	-3.88%	4.22%	-0.43%
(Q1) EPS Est Mthly Chg	8.61%	0.00%	-0.02%	-0.41%	0.00%	-1.87%

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	F
Momentum Score	B
VGM Score	C

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.

Disclosures

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