Energizer Holdings (ENR)

$48.43 (As of 01/24/20)

Price Target (6-12 Months): **$51.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 06/12/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: B | Momentum: D	**3-Hold** VGM:B

Summary

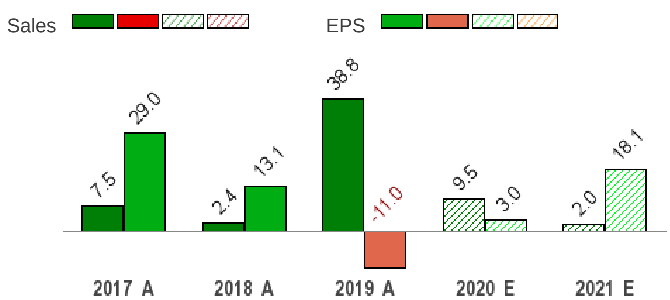
Shares of Energizer have risen and outpaced the industry in the past three months. The company has been gaining from positive trends in the battery business. Also, it remains on track with acquisitions to drive revenues and profitability. Management anticipates increased cost synergies to drive the bottom line in the near future. Notably, both the top and bottom lines surpassed the Zacks Consensus Estimate in fourth-quarter fiscal 2019, after missing the same in the preceding two quarters. Moreover, the company provided a decent fiscal 2020 view. However, the company has been witnessing dismal margin for a while now. Headwinds related to currency fluctuations remain a worry. Moreover, the company expects adverse currency fluctuations to hurt gross margins in fiscal 2020.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$53.03 - $32.54**
20 Day Average Volume (sh)	**646,274**
Market Cap	**$3.4 B**
YTD Price Change	**-3.6%**
Beta	**0.64**
Dividend / Div Yld	**$1.20 / 2.5%**
Industry	**Consumer Products - Staples**
Zacks Industry Rank	**Bottom 20% (204 out of 255)**
Last EPS Surprise	**14.8%**
Last Sales Surprise	**0.8%**
EPS F1 Est- 4 week change	**-0.5%**
Expected Report Date	**02/05/2020**
Earnings ESP	**-0.2%**
P/E TTM	**15.4**
P/E F1	**15.7**
PEG F1	**4.6**
P/S TTM	**1.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	751 E	609 E	679 E	736 E	2,789 E
2020	736 E	607 E	669 E	720 E	2,733 E
2019	572 A	556 A	647 A	719 A	2,495 A

EPS Estimates

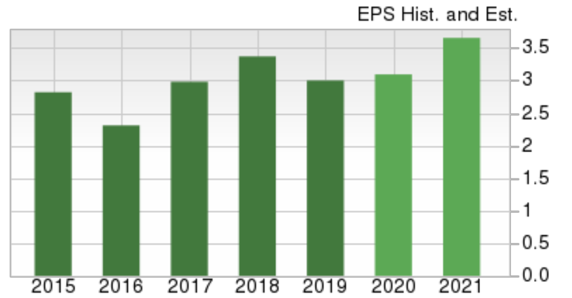
	Q1	Q2	Q3	Q4	Annual*
2021	$1.20 E	$0.49 E	$0.80 E	$1.20 E	$3.65 E
2020	$1.03 E	$0.38 E	$0.61 E	$1.06 E	$3.09 E
2019	$1.64 A	$0.20 A	$0.37 A	$0.93 A	$3.00 A

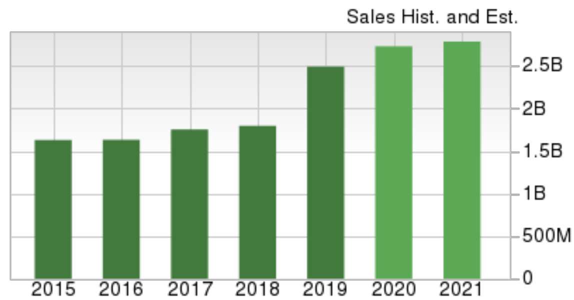
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/24/2020. The reports text is as of 01/27/2020.

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 is focused on driving productivity, optimizing costs and enhancing cash flow from operations. These apart, positive trends in the battery business act as a growth driver.

▲ **Robust Q4 Performance, Stock Up:** Shares of Energizer have increased 13.7% compared with the industry's growth of 7.8% in the past three months. Notably, the company delivered robust results during the fourth quarter of fiscal 2019. Both the top line and the bottom lines surpassed the Zacks Consensus Estimate, after missing the same in the preceding two quarters. Earnings and sales improved on a year-over-year basis. Moreover, the company provided a decent fiscal 2020 view.

For fiscal 2020, management expects net sales on a reported basis to increase in the range of 9-10%. This comprises an incremental three months of acquired battery and four months of acquired auto care. Organic net sales are projected to be up low single digits. Combined auto care business is anticipated to increase 3.5%. The company expects earnings per share in the band of $3.00-$3.20. The company had reported earnings per share of $3.00 in fiscal 2019.

▲ **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. In fact, adjusted EBITDA is expected to be $610-$640 million for fiscal 2020. Adjusted free cash flow is anticipated to be $310-$340 million.

Also, the company is planning to accelerate its integration efforts to drive performance across businesses. It remains on track to deliver synergies of $100 million. Also, the company 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. In fiscal 2020, the company projects incremental synergies in the band of $45-$50 million. 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. 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. Energizer has completed 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.

▲ **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. Additionally, 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 acquired battery and auto care businesses are progressing well. In the fourth quarter, the company's combined battery business (which accounts for 78.1% of total revenues) increased 37.7% year over year to $561.4 million. The company expects battery business up in the range of 1-2% in fiscal 2020. Also, revenues at the Auto Care segment grew significantly from $26.5 million to $119.4 million. The company projects revenues from combined auto care business to increase 3.5%.

▲ **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 fiscal 2019, Energizer bought back approximately 1,036,000 shares for $45 million and paid out dividends worth $83 million.

Reasons To Sell:

- **Strained Margins:** Energizer's adjusted gross margin contracted 340 basis points (bps) to 42.1% in fourth-quarter fiscal 2019. This decline was due to the buyout of lower-margin profile businesses and adverse impact of foreign currency and tariffs. This was partly offset by gains from pricing and recognition of synergies. The company's SG&A expenses, excluding acquisition and integration costs, amounted to $123 million, reflecting an increase of $34.9 million from the year-ago quarter. Prior to this, the company's gross margin contracted 480 bps, 440 bps and 30 bps in the third, second and first quarters, respectively. Nevertheless, the company expects gross margin, excluding acquisition and integration costs, to improve 10-40 bps in fiscal 2020.

Energizer is witnessing dismal margin for a while now. Also, headwinds related to currency woes remain a worry. In fiscal 2020, Energizer expects adverse currency fluctuations to hurt gross margin.

- **Currency Headwinds:** Energizer remains exposed to unfavorable foreign currency translations as it has a considerable international presence. In fact, in the fourth quarter, unfavorable currency movements weighed on net sales by $5.8 million. Further, unfavorable currency translations negatively impacted gross margins by 120 bps in the said period. In fiscal 2020, the company expects adverse currency fluctuations of $15-$20 million to hurt gross margins.

- **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, specially 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 Beats Q4 Earnings & Sales Estimates

Quarter Ending	09/2019
Report Date	Nov 13, 2019
Sales Surprise	0.84%
EPS Surprise	14.81%
Quarterly EPS	0.93
Annual EPS (TTM)	3.14

Energizer Holdings reported robust fourth-quarter fiscal 2019 results, wherein both the top line and the bottom line surpassed the Zacks Consensus Estimate. Also, earnings and sales improved on a year-over-year basis. Moreover, the company provided guidance for fiscal 2020.

Q4 in Detail

Adjusted earnings came in at 93 cents per share, which surpassed the Zacks Consensus Estimate of 81 cents and improved 12% from the year-ago quarter's figure of 83 cents. This was driven by higher revenues and lower interest expenses.

The company reported net sales of $719 million, which outpaced the Zacks Consensus Estimate of $713 million. Also, the same soared 57.3% on a year-over-year basis. This increase was driven by contribution from acquired business and robust global organic revenues.

Meanwhile, organic sales grew 9.2% during the quarter. This marked the fourth consecutive year of organic growth. The improvement was buoyed by strength in acquired businesses in the fourth quarter, partially offset by 120 basis points (bps) due to adverse currency fluctuations and $0.2 million due to negative impacts from Argentina operation.

Segments in Detail

Batteries revenues (78.1% of total revenues) increased 37.7% year over year to $561.4 million, while revenues at the **Auto Care** segment grew significantly from $26.5 million to $119.4 million. Revenues at **Lights and Licensing** segment improved about 67% to $38.2 million.

In the **Americas**, the company recorded revenues of $514.6 million, up significantly from 297.1 million in the year-ago quarter. Revenues at the **International** segment amounted to $204.4 million, mirroring an increase of 27.7% from the year-ago quarter.

Margins

Energizer's adjusted gross margin contracted 340 bps to 42.1% due to the buyout of lower-margin profile businesses and adverse impact of foreign currency and tariffs. This was partly offset by gains from pricing and recognition of synergies.

The company's SG&A expenses, excluding acquisition and integration costs, amounted to $123 million, reflecting an increase of $34.9 million from the year-ago quarter.

Other Financial Details

Energizer ended the quarter with cash and cash equivalents of $258.5 million, long-term debt of $3,461.6 million and shareholders' equity of $543.8 million.

Cash flow generated from operations was $149.5 million during the fiscal 2019, while capital expenditures incurred during the period were $55.1 million. Adjusted free cash flow summed $256.2 million for fiscal 2019. The company bought back approximately 1,036,000 shares for $45 million.

For fiscal 2020, the company expects capital spending (excluding integration) in the band of $40-$45 million. Adjusted free cash flow is anticipated in the range of $310-$340 million.

Guidance

Management expects fiscal 2020 net sales on a reported basis to increase in the range of 9-10%. This comprises an incremental three months of acquired battery and four months of acquired auto care. Organic net sales are projected to be up low single digits with battery business up in the range of 1-2%. Combined auto care business is anticipated to increase 3.5%.

The company expects earnings per share in the band of $3.00-$3.20.

Gross margin, excluding acquisition and integration costs, is expected to improve 10-40 bps. Management highlighted that benefits of synergies and improved operating efficiencies will be partly offset by adverse currency fluctuations of $15-$20 million and approximately $10-$15 million incremental tariffs and Brexit costs.

SG&A, excluding acquisition and integration costs, is projected 16.5-17% of net sales.

Adjusted EBITDA is expected to be $610-$640 million.

By the end of fiscal year 2020, the company expects net leverage in the range of 4.2-4.4 times (on a credit defined basis).

Recent News

Energizer Concludes Sale of European Varta Battery Business – Jan 2, 2020

Energizer has 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.

Energizer Holdings Declares Dividends – Nov 11, 2019

Energizer Holdings' board of directors declared a quarterly dividend of 30 cents per share on common stock to be paid out on Dec 17, 2019 to shareholders of record as of the close of business on Nov 26, 2019. It declared a quarterly dividend of $1.875 per share on 7.50% Series A mandatory convertible preferred stock. The dividend was paid on Jan 15, 2020 to shareholders of record as of the close of business on Jan 1, 2020.

Valuation

Energizer shares are up 9.2% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.9%, while the Zacks Consumer Staples sector is up 19.8% in the past year.

The S&P 500 index is up 26.6% in the past year.

The stock is currently trading at 14.79X forward 12-month earnings, which compares to 21.83X for the Zacks sub-industry, 19.69X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.83X and as low as 10.31X, with a 5-year median of 16.26X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $51 price target reflects 15.57X 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	14.79	21.83	19.69	18.94
	5-Year High	21.83	21.93	22.38	19.34
	5-Year Low	10.31	13.74	16.66	15.18
	5-Year Median	16.26	17.97	19.71	17.45
P/S F12M	Current	1.22	2	10.06	3.52
	5-Year High	2.15	2.12	11.13	3.52
	5-Year Low	0.85	1.57	8.09	2.54
	5-Year Median	1.64	1.93	9.87	3
EV/EBITDA TTM	Current	12.36	9.54	40.11	12.25
	5-Year High	16.78	19.99	44.94	12.86
	5-Year Low	5.83	3.68	31.54	8.48
	5-Year Median	11.69	12.82	38.34	10.67

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (204 out of 255)

Top Peers

Procter & Gamble Company (The) **(PG)**	Outperform
Colgate-Palmolive Company **(CL)**	Neutral
The Clorox Company **(CLX)**	Neutral
The Estee Lauder Companies Inc. **(EL)**	Neutral
Kimberly-Clark Corporation **(KMB)**	Neutral
Prestige Consumer Healthcare Inc. **(PBH)**	Neutral
Edgewell Personal Care Company **(EPC)**	Underperform
Spectrum Brands Holdings Inc. **(SPB)**	Underperform

Industry Comparison Industry: Consumer Products - Staples

Industry Peers

	ENR Neutral	X Industry	S&P 500	CL Neutral	KMB Neutral	PBH Neutral
VGM Score	B	-	-	C	B	C
Market Cap	3.35 B	3.35 B	24.13 B	60.25 B	49.17 B	2.05 B
# of Analysts	6	3	13	8	6	4
Dividend Yield	2.48%	0.00%	1.78%	2.45%	2.87%	0.00%
Value Score	B	-	-	C	C	B
Cash/Price	0.08	0.05	0.04	0.02	0.01	0.01
EV/EBITDA	16.73	17.65	14.02	16.26	18.58	36.28
PEG Ratio	4.45	2.17	2.03	5.43	3.62	2.23
Price/Book (P/B)	6.14	3.68	3.30	346.27	558.68	1.85
Price/Cash Flow (P/CF)	10.80	11.96	13.52	19.56	15.56	11.54
P/E (F1)	15.32	19.58	18.92	23.58	19.86	14.52
Price/Sales (P/S)	1.34	1.78	2.65	3.89	2.66	2.16
Earnings Yield	6.38%	4.93%	5.28%	4.24%	5.03%	6.90%
Debt/Equity	6.37	0.68	0.72	43.94	70.43	1.60
Cash Flow ($/share)	4.48	4.48	6.94	3.59	9.22	3.54
Growth Score	B	-	-	C	C	C
Hist. EPS Growth (3-5 yrs)	2.97%	3.50%	10.60%	0.50%	3.50%	9.38%
Proj. EPS Growth (F1/F0)	3.11%	6.07%	7.59%	5.34%	4.79%	1.26%
Curr. Cash Flow Growth	22.48%	8.53%	13.90%	2.68%	8.53%	2.83%
Hist. Cash Flow Growth (3-5 yrs)	4.31%	4.69%	9.00%	-0.02%	0.61%	12.05%
Current Ratio	1.91	1.58	1.22	1.03	0.75	2.08
Debt/Capital	86.42%	45.72%	42.99%	97.78%	98.60%	61.55%
Net Margin	2.05%	2.66%	11.35%	15.04%	11.69%	-3.56%
Return on Equity	47.23%	12.80%	17.10%	6,492.71%	12,755.36%	12.68%
Sales/Assets	0.47	0.97	0.55	1.16	1.21	0.27
Proj. Sales Growth (F1/F0)	9.57%	3.15%	4.03%	3.88%	0.71%	-2.58%
Momentum Score	D	-	-	B	A	B
Daily Price Chg	-0.14%	-0.19%	-1.01%	-0.44%	-0.85%	-1.78%
1 Week Price Chg	1.71%	3.78%	2.29%	1.47%	3.05%	9.87%
4 Week Price Chg	-4.82%	-2.42%	1.02%	2.51%	4.51%	1.01%
12 Week Price Chg	13.98%	0.70%	6.85%	2.48%	7.93%	15.29%
52 Week Price Chg	6.86%	-1.03%	20.39%	13.02%	28.70%	49.09%
20 Day Average Volume	646,274	404,761	1,536,379	3,327,245	1,412,929	309,361
(F1) EPS Est 1 week change	-0.43%	0.00%	0.00%	0.29%	0.37%	0.00%
(F1) EPS Est 4 week change	-0.48%	-0.12%	0.00%	0.29%	0.37%	0.00%
(F1) EPS Est 12 week change	-4.11%	-0.50%	-0.23%	-0.87%	0.47%	-0.18%
(Q1) EPS Est Mthly Chg	5.00%	0.14%	0.00%	1.04%	0.28%	0.00%

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	B
Momentum Score	D
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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