

GNC Holdings, Inc. (GNC)

\$0.86 (As of 06/11/20)

Price Target (6-12 Months): **\$1.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: A

Growth: C

Momentum: D

Summary

GNC Holdings exited the first-quarter of 2020 with dismal results mainly due to significant sales disruption caused by the pandemic. All operating segments recording significant year-over-year sales declines are concerning. Due to significant COVID-19-led restrictions being imposed during March 2020, many U.S. and Canada company-owned and franchise retail stores were closed, including permanent closures. Nevertheless, the company's e-commerce revenues increased owing to higher conversion rates, international expansion and partnerships, which instills optimism. Yet, gross margin contraction and adjusted operating loss are headwinds. Stiff competition, outbreak-led business disruptions and the company's inability to keep up with changing consumer preferences are other concerns. It has underperformed the industry in the past six months.

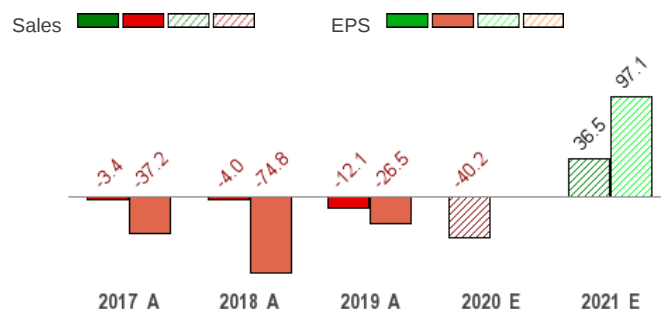
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$3.42 - \$0.38
20 Day Average Volume (sh)	8,586,659
Market Cap	\$73.1 M
YTD Price Change	-68.0%
Beta	2.21
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Pharmacies and Drug Stores
Zacks Industry Rank	Bottom 10% (228 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-416.7%
Last Sales Surprise	-0.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/27/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	464 E	427 E	411 E	386 E	1,689 E
2020	473 A	139 E	276 E	350 E	1,237 E
2019	565 A	534 A	499 A	470 A	2,068 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.00 E	-\$0.02 E	-\$0.02 E	-\$0.04 E	-\$0.08 E
2020	-\$0.19 A	-\$0.15 E	-\$0.09 E	-\$0.06 E	-\$2.76 E
2019	\$0.15 A	\$0.13 A	-\$0.02 A	-\$0.07 A	\$0.25 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 06/11/2020. The reports text is as of 06/12/2020.

Overview

Pittsburgh, PA-headquartered GNC Holdings, Inc. is a leading global specialty retailer of products for health and wellness, including vitamins, minerals, and herbal supplement, sports nutrition and diet. The company's broad and deep product mix, which is focused on high-margin, premium, value-added nutritional products, is sold under its GNC proprietary brands, including Mega Men, Ultra Mega, Total Lean, Pro Performance and Pro Performance AMP, Beyond Raw, GNC Puredge, GNC GenetixHD, Herbal Plus and under nationally recognized third-party brands.

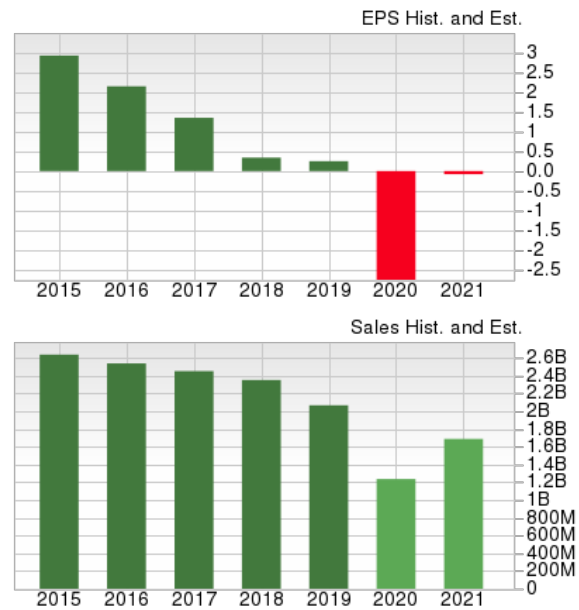
GNC Holding generates revenues from three segments:

U.S. & Canada: This segment (87.9% of revenues in 2019) includes company-owned stores in the United States, Puerto Rico and Canada, franchise stores in the United States and e-commerce. In 2019, the segment registered decline of 6.6% from 2018. As of Dec 31, 2019, the company operated 2,902 company-owned stores across all 50 states and the District of Columbia in the United States, in Canada and Puerto Rico. Most of the company-owned stores in the United States are located primarily in strip shopping centers and shopping malls.

As of Dec 31, 2019, there were 956 domestic franchise stores operated by 408 franchisees. Approximately 90% of the company's domestic franchise stores are located in strip shopping centers.

International: This segment (7.2% in 2019) includes franchise locations in approximately 50 countries, The Health Store and China operations. In 2019, the segment registered decline of 21.1% from 2018. As of Dec 31, 2019, there were 1,904 international franchise locations operating in those 50 countries (including distribution centers where retail sales are made). The international franchise locations are located in malls, strip shopping centers, streets or store-within-a-store locations per the country and cultural preferences. Further, some international franchisees sell on the internet and distribute to other retail outlets in their respective countries.

Manufacturing / Wholesale: This segment includes manufactured product sold to other segments, third-party contract manufacturing and sales to wholesale partners.



Reasons To Buy:

▲ **New Partnerships Look Strategic:** GNC Holdings' strategic joint (JV) with a vitamins and nutritional supplement manufacturer — International Vitamin Corporation (IVC) continues to hold potential. This JV enables GNC's quality and R&D teams to continue to support product development and increase focus on product innovation, while IVC manages manufacturing and integrate with GNC's supply chain, thus driving more optimal capital usage.

This apart, GNC Holdings has been progressing well in terms of its joint venture with Harbin Pharmaceutical Group. This JV has been strengthening the company's presence in China's huge supplements market. The company has also launched two joint ventures with Harbin—Hong Kong-based China joint venture and China joint venture. Per management, these joint ventures will make a wide distribution network accessible to GNC and enhance the company's manufacturing ability in China. Notably, the Hong Kong-based China joint venture, operating the existing cross-border e-commerce business was formed along with the closing of the Harbin investment. The joint venture is expected to deliver \$200 million in revenues over the next three years.

Other notable partnerships and collaborations of GNC include the ones with BFG Brasil Comercial de Vitaminas LTDA to expand its customer base in Latin America and Proship Inc (a Wisconsin-based shipping software company) to offer ship-from-store service at more than 400 locations.

▲ **Expansion in International Market:** GNC Holdings' international business has been a key driver of growth at the company in recent years. Management expects to continue capitalizing on international revenue growth opportunities through the addition of franchise stores in existing markets, expansion into new high-growth markets and the growth of product distribution in both existing and new markets.

Hong Kong remains a crucial market for GNC in Asia and the company is actively exploring alternative options to capture market share in the region. Despite the company's international partners in Saudi Arabia and South Korea also facing headwinds during the third quarter, management expects these challenges to be more short term in nature and anticipates better results for 2020. Despite decline in revenues in the Asian markets due to the pandemic, the company holds potential to continue its international expansion through its e-commerce channels and its franchise partners. The company has delivered initial product shipments to its Japanese and Australian partners. The company has also inked a partnership agreement, which should establish its foothold in the \$3-billion Brazilian market.

As a major development on the innovation front, the company has converted an existing location in Shanghai, China to its first global showroom store. As the company is beginning to leverage Harbin's distribution network and regulatory, operational and manufacturing experience through the JV, GNC Holdings expect to generate additional momentum in this business. The company expects its Chinese business to grow to \$200 million in revenue over the next three years.

▲ **Growing E-Commerce Business:** Of late, GNC Holdings has progressed significantly through its e-commerce business. The company successfully launched its entire product line on Amazon (sales from which are included in the GNC.com business unit) in January 2017. Per management, e-commerce business continues to grow higher than expected. Moreover, the company is upbeat about the shift of control of the website from a third party to a cloud-based, company-controlled platform.

During the first quarter, the company's e-commerce business registered 25% growth year over year. E-commerce sales were 10.6% of U.S. and Canada revenues in the reported quarter, up from 7.4% in the prior-year quarter. Management is optimistic about e-commerce continuing to be an important source of revenue generation in the long term.

The team at GNC continues working closely with its counterparts at Amazon to identify and implement sales-boosting initiatives. On the GNC.com front, the company implemented a profitable strategy, which has also enabled the online business to gain momentum. We are also encouraged about the company's contract with Walmart to use Amazon online marketplace.

The rollout of the mobile in-store POS in 2020 following the launch of an order management system by the company in January has enabled customers to buy products online and pick them up at the store.

The company also launched curbside pickup in many of its strip centers to provide customers with another convenient way of accessing products. With more than \$9 million active numbers in myGNC Rewards and now, more than one million customers enrolled in its PRO Access program, GNC is collecting rich data and insights that help it target customer-specific information, shape digital advertising strategies and personalize the company's offerings.

The company's digital team has launched mobile push communications, e-receipts and a native wallet. Customers are giving positive feedback to the company's Auto-Deliver & Save program, which makes products of daily regimen easily available through a subscription. This growing service has more than 300,000 active subscriptions.

GNC Holdings continues to witness strong expansion in its international business, with the retail segment as the key contributor. The company also holds a strong balance sheet position.

Reasons To Sell:

▼ **Share Price Movement:** GNC Holdings has underperformed the industry in the past six months. The stock has declined 69.5% compared with the 18.8% fall of the industry over the same time frame. GNC Holdings exited the first-quarter of 2020 with dismal results largely because of significant sales disruption caused by the pandemic. All the operating segments of the company registered significant year-over-year sales decline during this period. The company noted that during March 2020 significant COVID-19-led restrictions were imposed by the state governments. As of May 6, a respective 1300 and 40% of U.S. and Canada company-owned and franchise retail stores were closed. GNC fears that some of the stores temporarily closed now, may be closed down permanently in the future. Gross margin contraction and adjusted operating loss are discouraging.

GNC Holdings faces tough competition from varied companies both in the domestic and overseas market. Also, failure to comply with FTC regulations and changing consumer preferences may hamper the company's business.

Further, a stiff competitive landscape and the company's inability to keep pace with changing consumer preferences are other headwinds for the company.

▼ **Dull Segmental Revenues:** In the first quarter, GNC Holdings' revenues from the U.S. & Canada segment fell 13.3% year over year.

Company-owned net store closures, including e-commerce sales dropped 10.1% resulting in a \$35.8 million drop in revenues. Further, closure of company-owned stores per the store portfolio optimization strategy led to a \$20.7 million decline in revenue. Additionally, domestic franchise revenue fell by \$8.3 million primarily led by a decrease in same store sales of 10.2% and a fall in the number of franchise stores.

Revenues at the International segment declined 18% during the reported quarter. The downside chiefly resulted from the outbreak of COVID-19, causing widespread business disruption in the International segment since January 2020. Further, International franchisees revenues dropped \$6.4 million due to lower sales primarily in the Asian markets as a result of the pandemic.

The Manufacturing / Wholesale segment's revenues registered a 57.2% year-over-year plunge to \$14.9 million, excluding intersegment sales. This mainly resulted from the transfer of the Nutra manufacturing business to the manufacturing joint venture with International Vitamin Corporation, effective Mar 1, 2019.

▼ **Coronavirus Impact Pronounced:** The coronavirus pandemic has been wreaking havoc on the economy and GNC Holdings is no exception. During the first quarter of 2020, the company's total revenues declined 16.3% year over year partly due to decline in sales during the second half of March due to the COVID-19 pandemic. Segmental revenues as well as international revenues were dismal.

As of May 6, a respective 1300 and 40% of U.S. and Canada company-owned and franchise retail stores were closed. GNC fears that some of the stores temporarily closed now, may be closed down permanently in the future.

▼ **Competitive Headwinds:** The U.S. nutritional supplements retail industry is large and highly fragmented. Participants in this industry include specialty retailers, supermarkets, drugstores, mass merchants, multi-level marketing organizations, on-line merchants, mail-order companies and a variety of other smaller participants. In the United States, GNC Holdings competes for sales with heavily advertised national brands manufactured by large pharmaceutical and food companies, as well as other retailers.

In addition, the company experiences increased price competition for them with more participants entering the market. GNC Holdings' international competitors include large international pharmacy chains, major international supermarket chains and other large U.S.-based companies with international operations.

Further, the company's wholesale and manufacturing operations compete with other wholesalers and manufacturers of third-party nutritional supplements. Management fears in the face of stiff competition, the company may fail to function effectively and its attempts to do so may require it to reduce its prices, which in turn may result in lower margins. Failure to effectively compete may also adversely affect GNC Holdings' market share, revenues and growth prospects.

▼ **Failure to Cope with Changing Consumer Preferences:** GNC Holdings' business is particularly subject to changing consumer trends and preferences. So, the company's continued success depends partly on its ability to anticipate and respond to these changes. The company's failure to respond in a timely or commercially appropriate manner to such changes may adversely affect its customer relationships and product sales.

Moreover, the nutritional supplements industry is characterized by rapid and frequent changes in demand for products and new product introductions. If GNC Holdings fails to accurately predict these changing demand trends and provide the stores with the latest products, it can harm customer relationships and hamper the company's market share. Risk also remains in the form of products becoming obsolete on account of customers' changing tastes and preferences. In such scenario, the company's revenues and operating results will tend to be affected.

▼ **Weak Solvency and Balance Sheet:** GNC Holdings exited the first quarter of 2020 with cash and cash equivalents of \$137 million compared with \$117 million at the end of the fourth quarter of 2019. Meanwhile, total debt came up to \$1 billion for the period, compared to \$975 million in the sequentially last reported quarter. This figure is much higher than the quarter-end cash and cash equivalent, indicating weak solvency. Moreover, if we go by the company's current-year debt level of \$1 billion, this comes pretty high compared to the cash in hand. This is bad news in terms of solvency position of the company, as during the year of economic downturn, the company is not holding sufficient cash for debt repayment.

The quarter's total debt-to-capital of 123.6% stands at a stupendously high level, indicating a highly leveraged balance sheet. Further, it represents a sequential increase from 99.6% at the end of the sequentially last reported quarter. This compares unfavorably with the total debt-to-capital of the industry, which stands at a much lower level of 58.7%.

The overall data concludes that the solvency as well as leverage position of GNC Holdings is pretty disappointing.

Last Earnings Report

GNC Holdings' Q1 Earnings and Sales Miss Estimates

GNC Holdings reported first-quarter 2020 adjusted loss per share of 19 cents (excluding the impact of certain one-time items like inventory and vendor allowance reserves relates expenses due to current and estimated adverse impacts from the COVID-19 pandemic), a significant decline from year-ago adjusted earnings per share of 15 cents. The bottom line significantly lagged the Zacks Consensus Estimate of earnings of 6 cents per share.

Reported loss per share for the quarter was \$2.45, marking a huge decline from loss of 23 cents reported in the prior year.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	-0.61%
EPS Surprise	-416.67%
Quarterly EPS	-0.19
Annual EPS (TTM)	-0.15

Revenues

Revenues for the first quarter came in at \$472.6 million, down 16.3% year over year. The top line lagged the Zacks Consensus Estimate by 0.6%. The year-over-year decline in revenues was the result of a number of factors including the closure of company-owned stores under its store portfolio optimization strategy, sales declines during the second half of March due to the COVID-19 pandemic, the transfer of the company's Nutra manufacturing to the Manufacturing joint venture (under its agreement with IVC), a 13.8% drop in domestic company-owned same store sales and lower domestic and international franchise revenues.

Quarterly Segmental Details

GNC Holdings operates under three segments — U.S. & Canada (including company-owned stores in the United States, Puerto Rico and Canada, franchise stores in the United States, and e-commerce), International (inclusive of franchise locations in approximately 50 countries, The Health Store and China operations), and Manufacturing/Wholesale (comprising manufactured products sold to other segments, third-party contract manufacturing and sales to wholesale partners).

In the reported quarter, GNC Holdings' revenues from the **U.S. & Canada** segment fell 13.3% year over year to \$424.2 million. Notably, e-commerce sales accounted for 10.6% of U.S. and Canada revenues, up from the prior-year quarter's 7.4%.

Company-owned net store closures, including e-commerce sales dropped 10.1% resulting in a \$35.8 million decline in revenues. Out of this, approximately \$20 million was attributed to the impact of COVID-19 in the second half of March.

International segment revenues declined 18% to \$7.4 million during the reported quarter. This downside chiefly resulted from the outbreak of COVID-19, which caused business disruption in the International segment from January 2020. International franchisees revenues declined \$6.4 million due to lower sales primarily in the Asian markets as a result of the pandemic.

The **Manufacturing / Wholesale** segment's revenues registered 57.2% year-over-year plunge to \$14.9 million. This mainly resulted from the transfer of the Nutra manufacturing business to the manufacturing joint venture with International Vitamin Corporation. Further, sales to wholesale partners decreased 21.4% to \$14.9 million largely due to the closures of Rite Aid store-within-a-store as a result of Walgreens' acquisition of certain Rite Aid locations.

Margins

Gross profit declined 32.7% year over year to \$136.7 million. Gross margin contracted 703 basis points (bps) to 28.9% in the first quarter.

Selling, general and administrative expenses declined 2.5% to \$144.5 million. The company registered adjusted operating loss of \$7.8 million in the quarter against \$54.8 million of adjusted operating profit in the year-ago period.

Financial Position

GNC Holdings exited first-quarter 2020 with cash and cash equivalents of \$137.4 million compared with \$117 million at the end of 2019. Total debt was \$895 million at the end of the quarter, compared with \$862.6 million at the end of 2019.

First-quarter net cash outflow from operating activities totaled \$12.1 million compared with \$68.7 million of net cash inflow recorded in the year-ago period.

Valuation

GNC Holdings' shares are down 68% in the year-to-date period and down 43.9% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 20.2% and up 8.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.3% and 17.6%, respectively.

The S&P 500 index is down 6.7% in the year-to-date period and up 3.9% in the past year.

The stock is currently trading at 0.1X Forward 12-months earnings, which compares to 0.3X for the Zacks sub-industry, 1.1X for the Zacks sector and 3.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.6X and as low as 0.02X, with a 5-year median of 0.2X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$1 price target reflects 0.1X forward 12-months earnings.

The table below shows summary valuation data for GNC.

Valuation Multiples - GNC					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.05	0.26	1.08	3.37
	5-Year High	1.61	0.79	1.12	3.44
	5-Year Low	0.02	0.24	0.81	2.53
	5-Year Median	0.16	0.44	0.94	3.02
EV/EBITDA TTM	Current	6.36	8.01	17.01	11.09
	5-Year High	33.14	13.66	17.61	12.85
	5-Year Low	4.22	5.85	10.97	8.25
	5-Year Median	7.63	8.34	12.69	10.82

As of 06/11/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (228 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Central GardenPet Company (CENT)	Neutral	3
CVS Health Corporation (CVS)	Neutral	3
Herbalife LTD. (HLF)	Neutral	4
The Kroger Co. (KR)	Neutral	2
Rite Aid Corporation (RAD)	Neutral	4
Tillys, Inc. (TLYS)	Neutral	3
Walgreens Boots Alliance, Inc. (WBA)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Retail - Pharmacies And Drug Stores				Industry Peers		
	GNC	X Industry	S&P 500	CENT	TLYS	WBA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	B	-	-	B	B	A
Market Cap	73.09 M	711.69 M	21.32 B	1.87 B	174.80 M	35.75 B
# of Analysts	1	2	14	4	3	9
Dividend Yield	0.00%	0.00%	1.99%	0.00%	0.00%	4.49%
Value Score	A	-	-	B	B	A
Cash/Price	2.26	0.14	0.06	0.17	0.74	0.02
EV/EBITDA	0.88	9.41	12.31	10.69	5.27	9.29
PEG Ratio	NA	1.66	2.88	3.58	NA	1.90
Price/Book (P/B)	NA	1.37	2.92	1.89	1.09	1.48
Price/Cash Flow (P/CF)	0.76	5.45	11.24	13.28	3.97	4.86
P/E (F1)	NA	8.96	20.84	21.15	NA	7.43
Price/Sales (P/S)	0.04	0.32	2.24	0.77	0.31	0.26
Earnings Yield	-320.93%	6.92%	4.64%	4.73%	-5.10%	13.45%
Debt/Equity	0.00	0.21	0.76	0.77	1.51	1.34
Cash Flow (\$/share)	1.14	3.36	7.01	2.58	1.48	8.38
Growth Score	C	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-51.63%	6.53%	10.87%	18.21%	15.48%	11.21%
Proj. EPS Growth (F1/F0)	-1,204.00%	-8.15%	-10.81%	1.25%	-138.89%	-8.44%
Curr. Cash Flow Growth	-3.21%	-5.12%	5.46%	-4.06%	-4.99%	-2.42%
Hist. Cash Flow Growth (3-5 yrs)	-21.34%	-4.76%	8.55%	21.71%	4.53%	11.05%
Current Ratio	0.50	0.99	1.29	3.81	1.44	0.66
Debt/Capital	99.40%	57.25%	44.75%	43.49%	60.09%	57.25%
Net Margin	-11.13%	0.45%	10.54%	3.57%	0.80%	2.52%
Return on Equity	-4.17%	1.64%	16.08%	8.69%	2.92%	21.26%
Sales/Assets	1.23	1.75	0.55	1.16	1.04	1.75
Proj. Sales Growth (F1/F0)	-40.20%	0.59%	-2.60%	3.05%	-17.86%	1.17%
Momentum Score	D	-	-	B	F	C
Daily Price Chg	-10.94%	-7.97%	-6.44%	-5.04%	-6.37%	-7.97%
1 Week Price Chg	-4.56%	4.24%	7.51%	-0.74%	25.00%	5.61%
4 Week Price Chg	105.06%	2.20%	8.40%	-0.98%	44.12%	4.89%
12 Week Price Chg	63.00%	14.05%	25.04%	11.56%	41.69%	-16.07%
52 Week Price Chg	-43.90%	-5.36%	-6.33%	21.97%	-25.10%	-22.95%
20 Day Average Volume	8,586,659	5,512,332	2,634,935	107,384	341,674	6,379,830
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	22.22%	-0.86%
(F1) EPS Est 12 week change	-223.46%	-6.14%	-15.86%	-0.15%	-144.39%	-6.14%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-65.22%	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	A
Growth Score	C
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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