

GNC Holdings, Inc. (GNC)

\$1.65 (As of 02/27/20)

Price Target (6-12 Months): **\$2.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: D

Momentum: A

Summary

GNC Holdings has underperformed the industry over the past six months. We are optimistic about the company's recent contract with Walmart to use the latter's online marketplace. The recently-formed partnership with BFG Brasil Comercial de Vitaminas LTDA to expand the company's customer base in Latin America and GNC Holdings' partnership with ProShip Inc (a Wisconsin-based shipping software company) to offer ship-from-store service at more than 400 locations also buoy optimism. However, GNC Holdings exhibited a sluggish performance in the third quarter of 2019. On the flip side, the company once again reported adjusted loss per share, which came in line with the consensus mark. All three operating segments reported year-over-year sales declines. Also, contraction of the operating margin is disappointing.

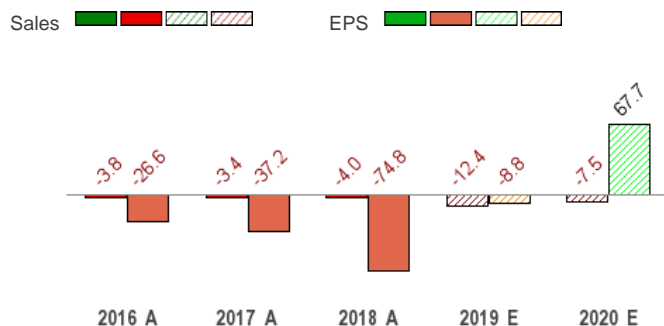
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$3.42 - \$1.32
20 Day Average Volume (sh)	818,342
Market Cap	\$139.5 M
YTD Price Change	-38.9%
Beta	1.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Pharmacies and Drug Stores
Zacks Industry Rank	Top 45% (114 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	03/03/2020
Earnings ESP	0.0%
P/E TTM	12.7
P/E F1	3.2
PEG F1	0.2
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	505 E	499 E	467 E	438 E	1,909 E
2019	565 A	534 A	499 A	465 E	2,063 E
2018	608 A	618 A	580 A	548 A	2,354 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$0.52 E
2019	\$0.15 A	\$0.13 A	-\$0.02 A		\$0.31 E
2018	\$0.24 A	\$0.20 A	\$0.02 A	-\$0.13 A	\$0.34 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 02/27/2020. The reports text is as of 02/28/2020.

Overview

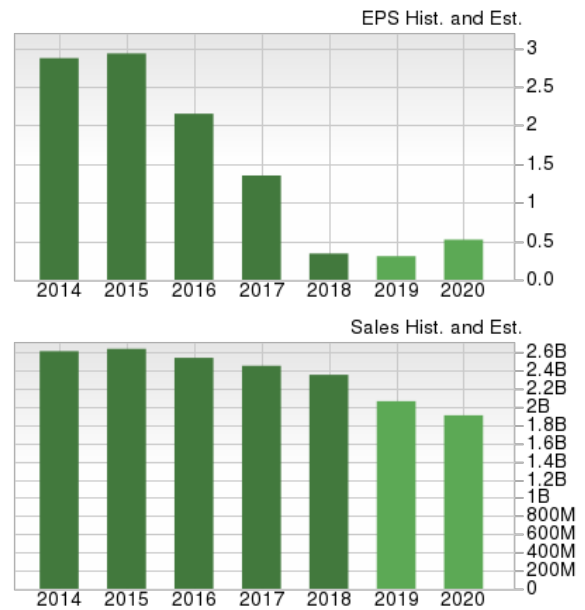
Headquartered in Pittsburgh, PA, GNC Holdings, Inc. is a leading global specialty retailer of products for health and wellness, including vitamins, minerals, and herbal supplement, sports nutrition and diet. The company's broad and deep product mix, which is focused on high-margin, premium, value-added 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 (82.9% of revenues in 2018) includes company-owned stores in the U.S., Puerto Rico and Canada, franchise stores in the U.S. and e-commerce. In 2018, the segment registered decline of 2.9% from 2017.

International: This segment (8.13% in 2018) includes franchise locations in approximately 50 countries, The Health Store and China operations. In 2018, the segment registered growth of 7.6% from 2017.

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' recent strategic joint venture with a vitamins and nutritional supplement manufacturer — International Vitamin Corporation looks promising at this moment. International Vitamin Corporation's consistent supply of raw materials at reasonable prices, strong manufacturing processes and the buying power of both organizations will help GNC achieve increased cost savings.

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.

During the third quarter, GNC inked a strategic partnership with BFG Brasil Comercial de Vitaminas LTDA to expand its customer base in Latin America. The company has also collaborated with 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. The company continued to gain traction in international markets such as India, the Philippines and Guatemala during the quarter. The company has delivered initial product shipments to its Japanese and Australian partners. The company has also inked a new 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.

▲ **Strong Balance Sheet:** GNC Holdings exited the third quarter with cash and cash equivalents of \$121.9 million compared with \$95.9 million at the end of the second quarter. Long-term debt was \$705.7 million in the quarter, down from \$854.7 million at the end of the previous quarter. Year-to-date net cash flow from operating activities totaled \$97.6 million compared with the \$55.7 million recorded in the year-ago period. Further, the company generated year-to-date free cash flow of \$86.7 million compared with \$42.3 million in the prior-year quarter.

▲ **Growing E-Commerce Business:** Of late, GNC Holdings has progressed significantly through its e-commerce business. Notably, the company made major changes in e-commerce pricing and promotion strategy in August 2016. This eliminated channel conflict as well as bulk sales. These changes allowed GNC to successfully launch 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. This offers the company more flexibility and control for new features and enhancements, including advanced personalization capability, improved merchandising and opportunity for omnichannel expansion.

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 recent contract with Walmart to use Amazon online marketplace.

The company is currently on track for an early 2020 launch of an order management system that will help it transform how customers interact with GNC. The system will support the roll-out of mobile in-store POS in 2020, and enable customers to buy products online and pick them up in the store.

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 over the past six months. The stock has declined 16.2% against the 2.4% rise of the industry over the same time frame. The company's dull segmental revenues are a major concern for it at present. In the last-reported quarter, revenues from the U.S. & Canada segment fell 8% year over year. Notably, e-commerce sales accounted for 8.1% of U.S. and Canada revenues, down from 8.3% in the prior-year quarter. Revenues in the International segment also declined 18.9% for the quarter under review mainly due to the transfer of the China business to the newly-formed joint venture. A stiff competitive landscape and the company's inability to keep pace with changing consumer preferences are other headwinds trailing the company.

▼ **Dull Segmental Revenues:** During the reported quarter, GNC Holdings' revenues from the U.S. & Canada segment fell 8% year over year to \$476.1 million. Notably, e-commerce sales accounted for 8.1% of U.S. and Canada revenues, down from 8.3% in the prior-year quarter.

Company-owned net store closures negatively impacted revenues by \$14.9 million. Further, a decline of 4.6% in same-store sales led to a fall of \$17.5 million in revenues at this segment. Moreover, in domestic franchise locations, same-store sales fell 1.8% from the year-ago period.

Revenues in the International segment declined 18.9% for the quarter under review. This downside can be primarily attributed to transfer of the China business to the newly-formed joint venture, effective Feb 13, 2019.

▼ **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 U.S., 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.

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.

Last Earnings Report

GNC Holdings Q3 Loss Meets Estimates

GNC Holdings reported third-quarter 2019 adjusted loss per share of 2 cents, down from adjusted earnings per share of 2 cents from the year-ago quarter. The bottom line was in line with the Zacks Consensus Estimate.

On a GAAP basis, loss per share for the quarter was 9 cents, narrower than loss of 10 cents reported a year ago.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	-1.76%
EPS Surprise	0.00%
Quarterly EPS	-0.02
Annual EPS (TTM)	0.13

Revenues

Revenues for the third quarter were \$499.1 million, down 13.9% year over year. The top line missed the Zacks Consensus Estimate by 1.8%.

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 6.7% year over year to \$444.7 million. Notably, e-commerce sales accounted for 8.6% of U.S. and Canada revenues, declining from 7.2% in the prior-year quarter.

Company-owned net store closures negatively impacted revenues by \$14.8 million. Further, a decline of 2.8% in same-store sales led to a fall of \$9.7 million in the segment's revenues. Moreover, in domestic franchise locations, same-store sales declined 0.8% from the year-ago period.

Revenues in the International segment dipped 28.1% to \$36.9 million for the quarter under review. The downside can be primarily attributed to lower sales in Hong Kong, and other temporary challenges faced in Saudi Arabia and South Korea. Also, revenues from China fell \$5.1 million in the third quarter due to the transfer of the China business to the newly formed joint venture (with Harbin Pharmaceutical Group Co., Ltd. or Hayao), effective February 13, 2019.

The Manufacturing / Wholesale segment's revenues registered 66.7% year-over-year plunge to \$17.4 million, excluding intersegment sales. This mainly resulted from the transfer of the Nutra manufacturing business to the newly formed manufacturing joint venture with International Vitamin Corporation, effective Mar 1, 2019.

Margins

Gross profit declined 11.9% year over year to \$162.6 million. However, gross margin expanded 75 bps to 32.6% in the third quarter.

Selling, general and administrative expenses declined 9.4% to \$135.8 million. Despite that, adjusted operating profit fell 22.9% to \$26.8 million. Adjusted operating margin contracted 62 bps to 5.4%.

Financial Position

GNC Holdings exited the third quarter with cash and cash equivalents of \$121.9 million compared with \$95.9 million at the end of the second quarter. Long-term debt was \$705.7 million in the quarter under review, down from \$854.7 million at the end of the previous quarter.

Year-to-date net cash flow from operating activities totaled \$97.6 million compared with \$55.7 million recorded in the year-ago period.

Further, the company generated year-to-date free cash flow of \$86.7 million compared with \$42.3 million in the prior-year quarter.

Recent News

On **Jan 28, 2020**, GNC Holdings entered into a partnership with Jay Glazer, who is a NFL insider and analyst for Fox Sports, MMA coach/trainer and owner of Unbreakable Performance Center. Through the partnership, they will inspire people to find their inner champion and achieve personal success to get well, stay well and live well.

On **Dec 20, 2019**, GNC Holdings announced the launch of MAD PONY ENERGY, which is an energy drink prepared from nature-based ingredients like NeuroFactor and caffeine. The flavored sugar-free drink is exclusively available at the retailer and on the company website.

Valuation

GNC Holdings' shares are down 38.9% in the year-to-date period and down 46.1% in the trailing 12-month periods. Stocks in the Zacks sub-industry and Zacks Medical sector are down 16.9% and 0.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.7% and up 10.9%, respectively.

The S&P 500 index is down 3% in the year-to-date period and up 12.6% in the past year.

The stock is currently trading at 3.3X Forward 12-months earnings, which compares to 8.5X for the Zacks sub-industry, 24.4X for the Zacks sector and 17.8X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.6X and as low as 2.4X, with a 5-year median of 6.8X.

Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$2 price target reflects 3.9X forward 12-months earnings.

The table below shows summary valuation data for GNC.

Valuation Multiples - GNC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.26	8.46	24.43	17.81
	5-Year High	15.62	20.48	26.20	19.34
	5-Year Low	2.44	7.66	19.07	15.18
	5-Year Median	6.83	13.49	23.08	17.46
P/S F12M	Current	0.07	0.27	1.02	3.28
	5-Year High	1.61	0.79	1.11	3.43
	5-Year Low	0.05	0.24	0.80	2.54
	5-Year Median	0.20	0.47	0.92	3.00
EV/EBITDA TTM	Current	6.98	8.84	15.10	12.00
	5-Year High	32.77	13.45	15.28	12.87
	5-Year Low	5.20	6.01	10.79	8.48
	5-Year Median	8.07	8.56	12.42	10.78

As of 02/27/2020

Industry Analysis Zacks Industry Rank: Top 45% (114 out of 254)



Top Peers

Rite Aid Corporation (RAD)	Outperform
Central Garden & Pet Company (CENT)	Neutral
CVS Health Corporation (CVS)	Neutral
Herbalife LTD. (HLF)	Neutral
The Kroger Co. (KR)	Neutral
Walgreens Boots Alliance, Inc. (WBA)	Neutral
Walmart Inc. (WMT)	Neutral
Tillys, Inc. (TLYS)	Underperform

Industry Comparison Industry: Retail - Pharmacies And Drug Stores				Industry Peers		
	GNC Neutral	X Industry	S&P 500	CENT Neutral	TLYS Underperform	WBA Neutral
VGM Score	A	-	-	D	A	A
Market Cap	139.53 M	740.60 M	21.35 B	1.46 B	190.24 M	40.96 B
# of Analysts	2	5.5	13	4	3	10
Dividend Yield	0.00%	0.00%	2.02%	0.00%	0.00%	3.96%
Value Score	A	-	-	C	A	B
Cash/Price	0.65	0.15	0.04	0.28	0.61	0.02
EV/EBITDA	2.84	9.32	12.70	8.26	5.24	10.00
PEG Ratio	0.17	1.16	1.84	2.75	0.79	1.20
Price/Book (P/B)	NA	1.45	2.92	1.50	1.05	1.69
Price/Cash Flow (P/CF)	1.39	5.59	11.89	10.22	4.08	5.52
P/E (F1)	3.27	8.31	16.90	16.25	7.86	7.89
Price/Sales (P/S)	0.07	0.30	2.39	0.61	0.31	0.30
Earnings Yield	31.52%	12.03%	5.90%	6.14%	12.64%	12.67%
Debt/Equity	-4.02	0.21	0.70	0.79	1.29	1.34
Cash Flow (\$/share)	1.18	3.36	6.94	2.58	1.57	8.38
Growth Score	D	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	-46.69%	6.03%	10.85%	24.06%	22.09%	12.45%
Proj. EPS Growth (F1/F0)	83.53%	7.55%	6.79%	1.41%	3.60%	-2.15%
Curr. Cash Flow Growth	-38.97%	-16.33%	5.92%	-4.06%	10.14%	-2.42%
Hist. Cash Flow Growth (3-5 yrs)	-21.45%	-0.39%	8.38%	21.71%	4.34%	11.05%
Current Ratio	1.21	1.21	1.23	3.84	1.69	0.66
Debt/Capital	NA%	56.90%	42.53%	44.13%	56.40%	57.22%
Net Margin	2.67%	2.58%	11.57%	3.60%	4.05%	2.69%
Return on Equity	-18.62%	1.90%	16.80%	8.60%	14.54%	21.76%
Sales/Assets	1.29	1.73	0.54	1.16	1.32	1.85
Proj. Sales Growth (F1/F0)	-7.92%	0.50%	4.07%	2.36%	4.21%	2.21%
Momentum Score	A	-	-	A	A	A
Daily Price Chg	-8.33%	-3.16%	-3.99%	-6.56%	-1.23%	-3.00%
1 Week Price Chg	-0.90%	-0.90%	-0.94%	-1.26%	-3.78%	-2.65%
4 Week Price Chg	-23.61%	-14.89%	-9.83%	-19.26%	-25.72%	-10.99%
12 Week Price Chg	-41.49%	-20.34%	-6.79%	-4.77%	-45.21%	-21.76%
52 Week Price Chg	-44.63%	-34.41%	2.79%	-15.70%	-47.16%	-35.05%
20 Day Average Volume	818,342	1,510,924	2,169,477	69,814	374,478	4,983,789
(F1) EPS Est 1 week change	0.65%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.65%	-0.15%	-0.09%	1.09%	0.62%	-0.15%
(F1) EPS Est 12 week change	-16.80%	-1.23%	-0.24%	1.09%	-7.03%	-1.23%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.72%	3.17%	50.00%	-0.06%

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	D
Momentum Score	A
VGM Score	A

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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