

Helen of Troy Limited (HELE)

\$163.59 (As of 05/05/20)

Price Target (6-12 Months): **\$140.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 04/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **3-Hold**

Zacks Style Scores: VGM:B

Value: C | Growth: A | Momentum: C

Summary

Although Helen of Troy's shares have outpaced the industry year to date, it is likely to deteriorate in the near term. The company has been seeing the adverse impacts of brick and mortar store closures, reduced store traffic along with limited work hours amid the COVID-19 outbreak. Also, it has been witnessing supply chain disruptions. Consequently, management envisions net effect of COVID-19 to negatively impact its first quarter and fiscal 2021 sales. Apart from these, lower adjusted operating margin is a concern for the company. Notably, the metric contracted 170 bps in fourth-quarter fiscal 2020. Moreover, impacts from unfavorable currency rates cannot be ignored. Nevertheless, Helen of Troy reported impressive fourth-quarter results, with the top and the bottom line rising year over year. Also, focus on Leadership Brands bode well.

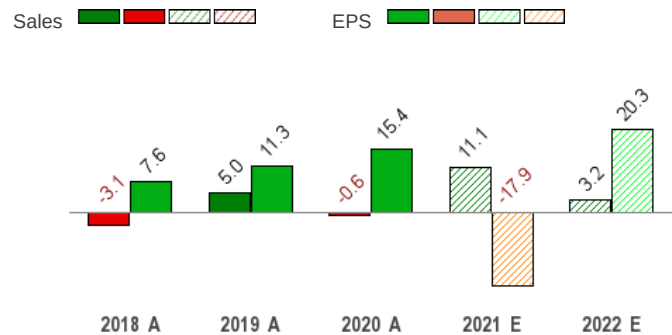
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$198.59 - \$104.02
20 Day Average Volume (sh)	213,029
Market Cap	\$4.1 B
YTD Price Change	-9.0%
Beta	0.87
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cosmetics
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.9%
Last Sales Surprise	8.9%
EPS F1 Est- 4 week change	-17.2%
Expected Report Date	07/14/2020
Earnings ESP	0.0%
P/E TTM	17.6
P/E F1	21.4
PEG F1	3.0
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,783 E
2021	356 E	416 E	507 E	448 E	1,727 E
2020	376 A	414 A	475 A	442 A	1,555 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$9.19 E
2021	\$1.05 E	\$1.05 E	\$3.04 E	\$1.66 E	\$7.64 E
2020	\$2.06 A	\$2.24 A	\$3.12 A	\$1.88 A	\$9.30 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 05/05/2020. The reports text is as of 05/06/2020.

Overview

Founded in Texas in 1968, Helen of Troy is a leading consumer products player that operates through a diversified portfolio of renowned brands. The company, which was reorganized in Bermuda in 1994, has created a robust market position through its focus on product innovation, quality and effective pricing.

Helen of Troy operates through the following segments:

Housewares segment offers products required in cooking, cleaning, beverage services and other activities to make consumers' daily life convenient. Housewares sales are mainly made to retailers, alongside some direct-to-consumer distribution.

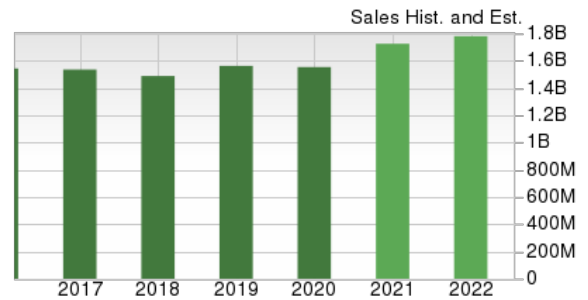
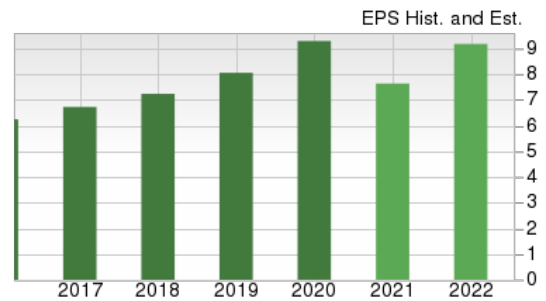
Health & Home segment offers products related to home environment and healthcare. Segment sales here are also mainly directed to retailers, alongside some direct-to-consumer distribution.

Beauty segment sells a wide range of personal care and beauty appliances products mainly to retailers and supply wholesalers.

The company divested its Nutritional Supplements segment in December 2017, through the sale of Healthy Directions LLC and its subsidiaries.

The company sells its products through merchandisers, warehouse clubs, home improvement stores, grocery and specialty stores, drugstore chains, wholesalers and distributors. Products of the company are marketed under a number of trademarks, many of which the company owns and some which have been licensed. In fact, substantial portion of revenues in the company's Beauty and Health & Home segments depend on continued use of trademarks licensed under various agreements. Further, the company extensively collaborates with retailers to come up with new product versions with exclusive designs and packaging.

Helen of Troy's products are marketed in over 90 countries. Sales in the United States amounted to nearly 78%, 79% and 79% of total net sales revenue in fiscal 2019, 2018 and 2017, respectively.



Reasons To Sell:

- ▼ **Coronavirus-Led Store Closures:** The novel coronavirus has been wreaking havoc worldwide by killing thousands of people and disrupting the global economy. Helen of Troy has been seeing the adverse impacts of various brick and mortar store closures, reduced store traffic along with limited work hours in its stores. Moreover, the company has been witnessing supply chain disruptions with some primary manufacturers. Consequently, management envisions net effect of the coronavirus pandemic to affect its first quarter and fiscal 2021 sales. Although Helen of Troy's shares have outpaced the industry year to date, it is likely to derail in the near term. Shares of the company have dropped 9.1%, compared with the industry's decline of 39%.
- ▼ **Pressurized Operating Margin:** During fourth-quarter fiscal 2020, Helen of Troy's adjusted operating margin contracted 170 basis points (bps) to 12.2%. This downside mainly resulted from higher costs related to advertising and new product development along with a rise in royalty expenses and performance-based annual incentive compensation. Notably, the metric contracted 630 bps and 140 bps in the Housewares and Health & Home segments, respectively. Persistence to such a headwind remains a threat to the company's performance.
- ▼ **Currency Headwinds:** Helen of Troy's international presence exposes it to risks associated with adverse currency movements. The same was in fact noticed in the fourth quarter of fiscal 2020, wherein the top line was hurt by unfavorable currency fluctuations to the tune of around 0.1%. We believe that, volatility in currency movements remains a concern for the company.
- ▼ **Debt Analysis:** As of Feb 29, 2020, Helen of Troy's long-term debt of \$378 million increased 33.1% sequentially. Moreover, the company's total debt-to-capitalization ratio of 0.25 reflects a sequential increase from 0.20 at the end of the prior quarter. Further, the company's times interest earned ratio stands at 14.1 which compares unfavorably from the preceding quarter's figure of 17.9. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income.
- ▼ **Cough/Cold/Flu Variability:** Seasonality is a major concern for Helen of Troy's Health & Home segment, which is extremely correlated to the severity of winter and occurrence of cold/cough/flu. Notably, the company's thermometer sales are correlated to pediatric fever and Vicks humidifier sales are associated with congestion and cough.

Brick and mortar store closures amid coronavirus outbreak along with adverse currency movements is a concern for Helen of Troy.

Risks

- **Impressive Q4 Results:** Helen of Troy released impressive fourth-quarter fiscal 2020 results, wherein both top and bottom lines increased year over year. Adjusted earnings from continuing operations improved 3.3% year over year to \$1.88 per share. Moreover, net sales rose 14.9% year over year to \$442.4 million. The upside was driven by 13.4% organic sales growth and 1.6% gains from the acquisition of Drybar Products. Notably, organic sales growth was supported by improved brick and mortar appliance sales in the Beauty division, solid sales in core channels of the Housewares unit and strong demand in the Health & Home segment owing to increased sales of thermometers due to the ongoing COVID-19 situation.
- **Focus on Leadership Brands:** Helen of Troy has been focused on making solid investments in its “Leadership Brands,” which is a portfolio of market leading brands. Brands in this portfolio, including Braun, PUR and Vicksas well as parts of OXO and Honeywell, are positioned well to enhance market share. These brands account for a significant chunk of the company's sales, which generate solid margins and volumes. The company's constant investments in these brands that are considered most productive have been delivering robust results.

Markedly, Leadership Brands' sales improved 9.4% year over year in fiscal 2020 and contributed nearly 80% to overall sales. During the fourth quarter of fiscal 2020, sales from Leadership Brands improved 15.7%. Notably, management remains on track with investments in product launches, marketing efforts and e-commerce strategies for Leadership Brands. In fact, the company made another move in this direction, when it acquired Drybar Products in January 2020. Moreover, Drybar which marks the company's eighth Leadership Brand is already yielding results.

- **Solid Digital Efforts:** The company is likely to keep gaining from its consistent online sales and digital marketing efforts. Notably, online sales advanced nearly 39% year over year in the fiscal fourth quarter and contributed around 24% to the company's top line. Management remains on track to make continued investments in this arena, in an attempt to keep pace with the evolving consumer environment. In fact, the company is persistently augmenting its digital presence through sophisticated marketing plans and improved content.
- **Sturdy Sales in Housewares Unit:** Helen of Troy's Houseware unit has been experiencing sturdy growth. Net sales in the segment rose 15% year over year, courtesy of growth in point-of-sale for brick and mortar customers, higher online revenues and gains from new product launches. Prior to this, net sales in the segment advanced 28.2% in the fiscal third quarter, following 22.1% rise during the second quarter and 23.6% in the quarter preceding it. We believe that persistence of such trends in the future will drive Helen of Troy's prospects.
- **Transformation Plan on Track:** Helen of Troy concluded Phase I of its multi-year transformation plan and is on track with Phase II, which is expected to drive growth for the next five years. Moreover, fiscal fourth quarter marked the successful completion of the first year of Phase II of its Transformation plan which contributed positively to the company's results. Phase II of the plan includes continued investments in Leadership Brands, with plans to grow the same through customer-friendly innovations, international expansion and acquisitions. In this context, the company recently completed the acquisition of Drybar Products LLC, which is expected to strengthen the Beauty segment.

Also, the company aims to enhance its operating efficiency and shared service facility. Long-term goals of Helen of Troy's transformation plan include better organic sales growth, continued margin expansion and efficient capital allocation.

Last Earnings Report

Helen of Troy Q4 Earnings & Sales Rise Y/Y

Helen of Troy Limited released impressive fourth-quarter fiscal 2020 results, wherein both top and bottom lines increased year over year. Results gained from double-digit growth in all three business segments. Further, continued strength in the flywheel program in fiscal 2020 and the successful completion of the first year of Phase II of Helen of Troy's Transformation plan contributed to results. Moreover, the company witnessed a robust trend in sales of key Helen of Troy brands, such as Braun, Vicks, PUR, Honeywell and OXO, after the implementation of lockdown in March. Additionally, an increase in demand for thermometers, humidifiers, air purifiers, water purifiers as well as OXO kitchen, cleaning and storage products have aided sales.

Also, it is looking forward to investing in Phase II of its transformation initiative, once the COVID-19 situation resumes to normalcy.

Quarter Ending 02/2020

Report Date	Apr 28, 2020
Sales Surprise	8.89%
EPS Surprise	13.94%
Quarterly EPS	1.88
Annual EPS (TTM)	9.30

Results in Detail

Adjusted earnings from continuing operations improved 3.3% year over year to \$1.88 per share. Higher adjusted operating income and the favorable impact of lower weighted average diluted shares outstanding were primary drivers. On the flip side, elevated interest costs remained a drag.

Net sales rose 14.9% year over year to \$442.4 million. The upside was driven by 13.4% organic sales growth and 1.6% gains from the acquisition of Drybar Products. Notably, organic sales growth was supported by improved brick and mortar appliance sales in the Beauty division, solid sales in core channels of the Housewares unit and strong demand in the Health & Home segment owing to increased sales of thermometers due to the ongoing COVID-19 situation. These were offset by sluggishness in the personal care business under the Beauty segment.

Consolidated gross margin expanded 260 percentage points to 43.5%, courtesy of a higher mix of Housewares sales, favorable product mix in all three segments and smaller mix of shipments on a direct import basis. This was partly countered by a reduced mix of personal care sales in the Beauty segment. Adjusted operating income inched up 0.8% to \$53.9 million, while adjusted operating margin contracted 170 percentage points to 12.2%. This downside mainly resulted from higher costs related to advertising and new product development along with a rise in royalty expenses and performance-based annual incentive compensation.

Segmental Performance

Net sales in the **Housewares** segment rose 15% to \$144.9 million, courtesy of growth in point-of-sale for brick and mortar customers, higher online sales and gains from new product launches. These positives were somewhat offset by lower international, club channel and closeout channel sales. Adjusted operating income in the unit declined 24.8% and the adjusted operating margin contracted 630 basis points (bps) to 11.8%.

Net sales in the **Health & Home** segment advanced 10.5% to \$185.9 million, driven by new product launches and improved demand in products related to higher pediatric fever and COVID-19. These factors were partially offset by an unfavorable currency movement of nearly 0.3% as well as a decline in sales from distribution changes. Adjusted operating income fell 2.3%, while adjusted operating margin contracted 140 bps to 11.2%.

Sales in the **Beauty** segment improved 23.1% to \$111.6 million, owing to solid organic sales growth and contributions from the buyout of Drybar Products. The upside was countered by softness in the personal care business. Adjusted operating income surged 69.5% and adjusted operating margin expanded 400 bps to 14.4%.

Other Financial Details

The company ended fiscal 2020 with cash and cash equivalents of \$24.5 million and total debt of \$339.3 million. Net cash from operating activities came in at \$271.3 million.

Measures in the Wake of COVID-19

Given the unprecedented impacts of COVID-19, management has decided to withhold its fiscal 2021 guidance. Also, the company has undertaken several efforts, including cutting costs and strengthening cash balance amid the pandemic. Alongside these, some other notable preventive measures have been implemented and will remain valid until retail stores reopen and consumer spending resumes. Notably, all associates and executive leadership team members will take a salary cut while board members will have to forgo their cash compensation. Further, merit-based hikes, promotions and new recruitments have been suspended until further notice. It is also furloughing associates in specific areas, lowering working hours and reducing external temporary labor. Management is cutting down on marketing expenses and investments in key categories and new product launches to focus on products, which are currently in high demand.

Moving on, the company is focused on divesting certain assets within its personal care business by fiscal 2021. From now on, these assets will be referred to as Non-Core while its ongoing operations will be called Core. Further, the company's debt load appears too high when compared with cash and cash equivalents of \$1,000.3 million as of Feb 29, 2020.

Recent News

Helen of Troy Acquires Drybar Products – Jan 24, 2020

Helen of Troy completed the previously announced buyout of Drybar Products LLC for roughly \$255 million in cash. Notably, Drybar Products will mark Helen of Troy's eighth Leadership Brand.

Earlier, Helen of Troy had stated that the acquisition includes the Drybar trademark along with other intellectual property assets related to Drybar's products. As part of the agreement, Helen of Troy will allow Drybar Holdings LLC to continue using the Drybar trademark in the Drybar salons worldwide. Drybar is an innovative and fast-growing hair care and styling brand, which will strengthen Helen of Troy's Beauty segment. Notably, Drybar products include superior and on-trend hair appliances, accessories and liquids.

We note that apart from its salons, Drybar products has been gaining traction across major retailers. Clearly, Drybar Products is likely to be a solid fit for Helen of Troy. Encouragingly, the Drybar Products acquisition is expected to be immediately accretive to Helen of Troy's results. In an earlier press release, management stated that the acquisition is anticipated to augment Helen of Troy's rate of consolidated sales growth, gross margin, adjusted EBITDA margin, the bottom line and cash flow from operations. Further, the buyout is expected to boost the Beauty segment's comparable operating metrics in particular.

Valuation

Helen of Troy shares are down 9.1% in the year-to-date period and up 16.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 39% and the Zacks Consumer Staples sector are down 16.3% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 28.4% and 10%, respectively.

The S&P 500 index is down 11.2% in the year-to-date period and up 0.4% in the past year.

The stock is currently trading at 20.64X forward 12-month earnings, which compares to 32.27X for the Zacks sub-industry, 18.55X for the Zacks sector and 20.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.31X and as low as 11.72X, with a 5-year median of 15.82X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$140 price target reflects 17.66X forward 12-month earnings.

The table below shows summary valuation data for HELE

Valuation Multiples - HELE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.64	32.27	18.55	20.36
	5-Year High	27.31	37.27	22.37	20.36
	5-Year Low	11.72	19.65	16.5	15.19
	5-Year Median	15.82	24.39	19.68	17.44
P/S F12M	Current	2.38	3.63	8.7	3.2
	5-Year High	2.91	4.02	11.16	3.44
	5-Year Low	1.37	1.53	8.1	2.54
	5-Year Median	1.72	2.76	9.89	3.01
EV/EBITDA F12M	Current	11.84	27.52	34.16	12.29
	5-Year High	16.57	28.06	37.75	12.64
	5-Year Low	9.62	10.93	29.77	9.09
	5-Year Median	12.63	20.9	34.08	10.82

As of 05/05/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Coty Inc. (COTY)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	4
e.l.f. Beauty Inc. (ELF)	Neutral	3
L'Oreal SA (LRLCY)	Neutral	3
Nu Skin Enterprises, Inc. (NUS)	Neutral	3
Revlon, Inc. (REV)	Neutral	3
Tupperware Brands Corporation (TUP)	Neutral	3
Inter Parfums, Inc. (IPAR)	Underperform	4

Industry Comparison Industry: Cosmetics				Industry Peers		
	HELE	X Industry	S&P 500	COTY	EL	IPAR
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	4	4
VGM Score	B	-	-	A	D	B
Market Cap	4.13 B	1.27 B	19.65 B	3.98 B	61.10 B	1.35 B
# of Analysts	3	3	14	7	12	4
Dividend Yield	0.00%	0.00%	2.18%	9.56%	1.13%	3.07%
Value Score	C	-	-	B	F	D
Cash/Price	0.01	0.10	0.06	0.09	0.08	0.19
EV/EBITDA	20.60	15.73	11.77	-4.09	21.08	9.79
PEG Ratio	3.04	4.25	2.49	1.83	3.89	NA
Price/Book (P/B)	3.54	2.34	2.64	0.89	14.02	2.22
Price/Cash Flow (P/CF)	16.24	16.24	10.48	3.22	24.22	19.58
P/E (F1)	21.45	31.95	19.10	14.70	37.74	37.09
Price/Sales (P/S)	2.42	1.97	2.00	0.47	3.95	1.90
Earnings Yield	4.67%	3.10%	4.99%	6.88%	2.65%	2.70%
Debt/Equity	0.33	0.33	0.74	1.72	1.60	0.06
Cash Flow (\$/share)	10.07	1.62	7.01	1.62	7.02	2.19
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	8.00%	4.39%	10.87%	-13.69%	16.69%	18.47%
Proj. EPS Growth (F1/F0)	-17.81%	-10.50%	-9.07%	-45.28%	-15.68%	-39.08%
Curr. Cash Flow Growth	13.99%	0.64%	5.88%	-2.37%	13.88%	6.41%
Hist. Cash Flow Growth (3-5 yrs)	4.22%	8.48%	8.55%	17.39%	9.29%	11.74%
Current Ratio	2.01	1.82	1.24	0.86	1.63	3.11
Debt/Capital	24.56%	33.46%	44.07%	63.47%	61.50%	5.49%
Net Margin	8.92%	1.07%	11.00%	-33.12%	8.43%	8.44%
Return on Equity	19.29%	11.64%	16.39%	9.14%	43.18%	10.07%
Sales/Assets	0.95	0.95	0.55	0.46	0.95	0.87
Proj. Sales Growth (F1/F0)	1.13%	-3.95%	-2.17%	-15.75%	-3.92%	-11.58%
Momentum Score	C	-	-	D	D	C
Daily Price Chg	-1.26%	0.00%	0.74%	-1.88%	-2.55%	-3.16%
1 Week Price Chg	16.29%	0.00%	0.53%	-17.38%	3.75%	-2.12%
4 Week Price Chg	19.92%	3.06%	6.47%	-5.94%	4.15%	-5.96%
12 Week Price Chg	-17.20%	-18.11%	-20.68%	-56.23%	-19.01%	-37.80%
52 Week Price Chg	16.43%	-24.23%	-10.95%	-57.31%	1.58%	-38.05%
20 Day Average Volume	213,029	28,496	2,492,530	8,537,861	2,097,382	162,544
(F1) EPS Est 1 week change	17.95%	0.00%	0.00%	0.00%	0.09%	0.00%
(F1) EPS Est 4 week change	-17.19%	-6.34%	-7.39%	-24.77%	-10.93%	-36.75%
(F1) EPS Est 12 week change	-17.19%	-26.15%	-14.21%	-47.88%	-24.00%	-42.41%
(Q1) EPS Est Mthly Chg	NA%	-24.19%	-13.52%	-26.03%	-158.28%	-60.20%

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	C
Growth Score	A
Momentum Score	C
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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