

Helen of Troy Limited (HELE)

\$200.23 (As of 07/13/20)

Price Target (6-12 Months): **\$231.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/08/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: A

Summary

Helen of Troy has outpaced the industry in the past three months. The stock got a further boost when the company reported robust first-quarter fiscal 2021 results, wherein top and bottom lines rose year over year and beat the consensus mark. Results gained from strength in the Health and Home unit, thanks to higher demand amid the pandemic. Also, solid online sales and contributions from Drybar Products' buyout were drivers. However, the company's Housewares and Beauty units were partly hurt by customer store closures due to COVID-19. Nonetheless, management expects trends in these units to improve as stores are gradually reopening. Apart from this, the company has been benefiting from focus on its Leadership Brands, which saw sales growth of 15.7% in the quarter. Also, the company is on track with Phase 2 of its Transformation Plan.

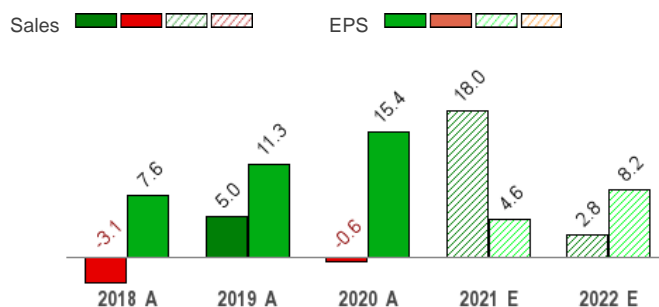
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$209.99 - \$104.02
20 Day Average Volume (sh)	228,829
Market Cap	\$5.1 B
YTD Price Change	11.4%
Beta	0.93
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cosmetics
Zacks Industry Rank	Top 20% (49 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	61.2%
Last Sales Surprise	14.0%
EPS F1 Est- 4 week change	12.5%
Expected Report Date	10/13/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	20.6
PEG F1	2.9
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					1,886 E
2021	421 A	451 E	505 E	457 E	1,835 E
2020	376 A	414 A	475 A	442 A	1,555 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$10.53 E
2021	\$2.53 A	\$2.25 E	\$3.23 E	\$1.83 E	\$9.73 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 07/13/2020. The reports text is as of 07/14/2020.

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.

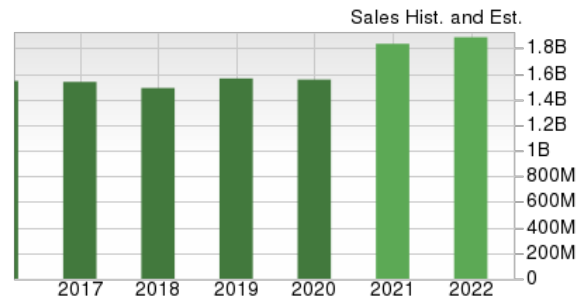
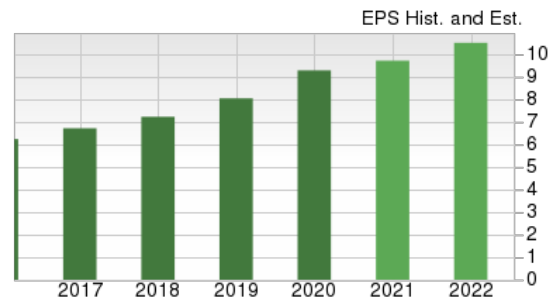
Health & Home segment offers products related to home environment and healthcare. Segment sales here are also mainly directed to retailers, alongside some direct-to-consumer distribution.

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 Buy:

▲ **Impressive Q1 Results, Stock Outperforms:** Shares of the company have rallied 50.2% in the past three months compared with the industry's growth of 20.7%. The stock got a further boost when Helen of Troy released robust first-quarter fiscal 2021 results, wherein both top and bottom lines increased year over year and beat the Zacks Consensus Estimate. Results largely gained from strength in the Health and Home unit, thanks to higher demand amid the pandemic. Also, solid online sales and contributions from Drybar Products' acquisition were drivers. Adjusted earnings jumped 22.8% year over year to \$2.53 per share, easily surpassing the Zacks Consensus Estimate of \$1.57. Higher operating income in the Health and Home segment was the key driver.

Management remains on track with investments in Leadership Brands, which has been supporting top-line growth. Also, the company's online business is yielding well.

Further, net sales advanced 11.8% year over year to \$420.8 million, beating the consensus mark of \$369.3 million. The year-over-year upside was driven by 11.1% organic sales growth and gains from the acquisition of Drybar Products. Notably, organic sales growth was backed by brick and mortar strength in domestic as well as international sales in the Health and Home unit along with solid online sales. Encouragingly, management noted that growth at OXO continued in the second quarter of fiscal 2021. Also, sales at Hydro Flask improved strongly since early May — via robust online growth and gradual customer store reopenings.

▲ **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. The company made another move in this direction, when it acquired Drybar Products in January 2020. Drybar Products, which marks the company's eighth Leadership Brand, has been yielding results and was a major contributor to the top line in the first quarter of fiscal 2021.

During the first quarter of fiscal 2021, sales from the company's eight Leadership Brands grew 15.7%, largely driven by double-digit improvements in all Health & Home leadership brands. Leadership Brands' sales improved 9.4% year over year in fiscal 2020 and contributed nearly 80% to overall sales. Notably, as part of its strategy of maintaining focus on Leadership Brands, the company had decided to divest some assets in its mass-market personal care business (Personal Care) during the fourth quarter of fiscal 2020. The company expects the divestiture to close in fiscal 2021.

▲ **Solid Digital Efforts:** The company is likely to keep gaining from its consistent online sales and digital marketing efforts. Notably, online sales advanced 33% year over year in the first quarter of fiscal 2021 and contributed 28% to the company's top line, up from around 24% in the preceding quarter. 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. The company stated that online development has been a key area of focus for its transformation plan — both Phase 1 and 2.

▲ **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. 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 strengthening 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.

▲ **Debt Analysis:** As of May 31, 2020, Helen of Troy's long-term debt (including lease liabilities) of approximately \$364 million dipped 3.7% sequentially. Further, the company's times interest earned ratio stands at 14.2, slightly better than the preceding quarter's figure of 14.1. 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. Apart from this, the company's leverage ratio was 1.1 times as of the end of the first quarter compared with 1.3 times in the same period last year. Also, Helen of Troy had \$930 million available under its credit facility.

Risks

- **COVID-19 Related Hurdles Hit Housewares & Beauty Unit:** In first-quarter fiscal 2021, Helen of Troy's results were partly countered by store closures by key customers due to COVID-19, which affected the Housewares and Beauty segments. Net sales in the Housewares segment dropped 3% due to temporary closure of key customer stores stemming from coronavirus, soft international sales and currency headwinds. The company's Beauty segment was also partially affected by softness in the Organic business due to customer store closures, weak personal care business, lower discretionary demand, supply hurdles for a key product as well as currency-related challenges. This was, however, made up by contributions from the buyout of Drybar Products, online strength and product introductions. Management expects trends in these segments to improve, as stores are gradually reopening.
 - **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 first quarter of fiscal 2021, wherein unfavorable currency fluctuations affected the company's top line as well as the gross margin. We believe that, volatility in currency movements remains a concern for the company.
 - **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.
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Last Earnings Report

Helen of Troy's Q1 Earnings & Sales Beat Estimates

Helen of Troy Limited reported robust first-quarter fiscal 2021 results. During the quarter, both top and bottom lines increased year over year and beat the Zacks Consensus Estimate. Results largely gained from strength in the Health and Home unit, thanks to higher demand amid the pandemic. Also, solid online sales and contributions from Drybar Products' acquisition were drivers. However, store closures by key customers due to COVID-19 affected the Housewares and Beauty segments.

Quarter Ending **05/2020**

Report Date	Jul 09, 2020
Sales Surprise	13.96%
EPS Surprise	61.15%
Quarterly EPS	2.53
Annual EPS (TTM)	9.77

Given the unprecedented impacts of COVID-19, management did not provide any guidance for fiscal 2021. While the company has been undertaking measures to preserve cash flow and curtail costs, given a solid first-quarter show, management said that it is relaxing some of these measures and making certain investments in its Phase II Transformation efforts. Apart from this, as part of its strategy of keeping focus on Leadership Brands, the company had decided to divest some assets in its mass-market personal care business (Personal Care) during the fourth quarter of fiscal 2020. The company expects the divestiture to close in fiscal 2021.

Adjusted earnings rallied 22.8% year over year to \$2.53 per share, easily surpassing the Zacks Consensus Estimate of \$1.57. Higher operating income in the Health and Home segment was the key driver, partly offset by softness in the Housewares segment, elevated interest costs and an increase in the number of shares outstanding.

Net sales advanced 11.8% year over year to \$420.8 million, beating the consensus mark of \$369.3 million. The year-over-year upside was driven by 11.1% organic sales growth and gains from the acquisition of Drybar Products. Notably, organic sales growth was backed by brick and mortar strength in domestic as well as international sales in the Health and Home unit along with solid online sales. This was somewhat negated by soft organic sales in the Beauty and Housewares segment due to the pandemic-led store closures by key customers, reduced discretionary demand and currency headwinds.

Consolidated gross margin expanded 1.8 percentage points to 42.6%, courtesy of favorable product mix in the Organic Beauty business as well as the Health and Home segment, positive impact from Drybar Products' buyout, improved channel mix in the Housewares unit and reduced air freight charges. This was partly countered by an adverse mix of Housewares sales in the overall top line, an adverse mix within the Housewares unit, increased direct import sales and currency woes.

Adjusted operating income rose 19.8% to \$71.1 million and the adjusted operating margin expanded 1.1 percentage points to 16.9%. The upside in operating margin can be attributable to improved sales, factors aiding the gross margin and cost-containment efforts. Adjusted EBITDA grew 20% to \$76 million.

Segmental Performance

Net sales in the **Housewares** segment dropped 3% due to temporary closure of key customer stores stemming from coronavirus, soft international sales and currency headwinds. This was partly compensated by strong online sales for OXO and Hydro Flask, increased club sales and product introductions. Adjusted operating income in the unit declined 20.3% to \$27.4 million.

Net sales in the **Health & Home** segment advanced 29.1%, thanks to Organic business growth of 30.2%. Organic sales were backed by burgeoning demand for healthy living and healthcare products across domestic and international markets, both in stores and online. The store closure impact was lesser in this segment as core retail giants like Walmart, Target and Amazon, to name a few, and the drug store channel remained operational and saw high traffic. These factors were partially offset by an unfavorable currency movement as well as the impact from net distribution changes. Adjusted operating income soared 75.7% to \$37.3 million.

Sales in the **Beauty** segment improved 5%, mainly owing to contributions from the buyout of Drybar Products, online strength and product introductions. The upside was countered by softness in the Organic business due to customer store closures, weak personal care business, lower discretionary demand, supply hurdles for a key product as well as currency-related challenges. Adjusted operating income surged 72.7% to \$6.4 million.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$88.5 million and total debt (short and long-term) of \$324.9 million. Net cash from operating activities for the period came in at \$92.8 million.

Valuation

Helen of Troy shares are up 11.4% in the year-to-date period and 34.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 33.2% and the Zacks Consumer Staples sector are down 12.4% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 27.5% and 10.8%, respectively.

The S&P 500 index is down 0.8% in the year-to-date period and up 6.5% in the past year.

The stock is currently trading at 22.34X forward 12-month earnings, which compares to 36.21X for the Zacks sub-industry, 19.41X for the Zacks sector and 22.69X 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 15.83X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$231 price target reflects 25.77X 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	22.34	36.21	19.41	22.69
	5-Year High	27.31	38.37	22.37	22.69
	5-Year Low	11.72	19.65	16.63	15.25
	5-Year Median	15.83	24.84	19.57	17.52
P/S F12M	Current	2.85	4.19	9.32	3.51
	5-Year High	2.91	4.39	11.15	3.51
	5-Year Low	1.37	1.53	8.1	2.53
	5-Year Median	1.74	2.86	9.89	3.02
EV/EBITDA F12M	Current	16.69	31	32.76	13.2
	5-Year High	17.52	34.06	37.49	14.24
	5-Year Low	9.62	8.72	25.81	9.05
	5-Year Median	12.74	17.81	33.81	11

As of 07/13/2020

Industry Analysis Zacks Industry Rank: Top 20% (49 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
L'Oreal SA (LRLCY)	Outperform	2
Coty Inc. (COTY)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	2
e.l.f. Beauty Inc. (ELF)	Neutral	3
Inter Parfums, Inc. (IPAR)	Neutral	4
Nu Skin Enterprises, Inc. (NUS)	Neutral	1
Revlon, Inc. (REV)	Neutral	4
Shiseido Co. (SSDOY)	Underperform	4

Industry Comparison Industry: Cosmetics				Industry Peers		
	HELE	X Industry	S&P 500	COTY	EL	IPAR
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	2	4
VGM Score	B	-	-	C	D	F
Market Cap	5.07 B	1.29 B	21.41 B	3.26 B	68.31 B	1.40 B
# of Analysts	3	3	14	7	11	4
Dividend Yield	0.00%	0.00%	1.92%	0.00%	1.01%	2.98%
Value Score	D	-	-	C	C	F
Cash/Price	0.02	0.06	0.07	0.41	0.07	0.15
EV/EBITDA	24.67	14.80	12.70	-4.17	23.49	10.57
PEG Ratio	2.92	3.46	2.87	1.54	3.76	NA
Price/Book (P/B)	4.15	2.65	3.02	0.82	15.67	2.32
Price/Cash Flow (P/CF)	19.88	19.88	11.61	2.63	27.04	20.20
P/E (F1)	20.58	39.96	21.07	12.40	36.17	70.85
Price/Sales (P/S)	2.89	2.05	2.23	0.41	4.42	2.05
Earnings Yield	4.86%	2.49%	4.47%	7.96%	2.76%	1.42%
Debt/Equity	0.32	0.32	0.76	2.42	1.60	0.06
Cash Flow (\$/share)	10.07	1.62	6.94	1.62	7.02	2.19
Growth Score	A	-	-	D	C	F
Hist. EPS Growth (3-5 yrs)	8.72%	6.41%	10.85%	-15.60%	16.69%	17.78%
Proj. EPS Growth (F1/F0)	4.66%	-17.81%	-9.37%	52.54%	17.87%	-67.11%
Curr. Cash Flow Growth	13.99%	10.15%	5.51%	-2.37%	13.88%	6.41%
Hist. Cash Flow Growth (3-5 yrs)	4.22%	8.81%	8.55%	17.39%	9.29%	11.74%
Current Ratio	2.07	1.48	1.30	1.19	1.63	3.66
Debt/Capital	24.10%	29.76%	44.46%	71.00%	61.50%	5.29%
Net Margin	9.81%	5.07%	10.59%	-38.33%	8.43%	7.56%
Return on Equity	20.17%	8.50%	15.75%	7.26%	43.18%	8.57%
Sales/Assets	0.94	0.94	0.55	0.45	0.95	0.84
Proj. Sales Growth (F1/F0)	7.44%	-4.30%	-2.54%	-4.30%	7.68%	-41.32%
Momentum Score	A	-	-	A	D	D
Daily Price Chg	-1.15%	0.00%	-0.19%	1.18%	0.03%	1.17%
1 Week Price Chg	8.99%	0.00%	-0.41%	-5.17%	-1.00%	-8.68%
4 Week Price Chg	12.93%	0.00%	-0.91%	-10.48%	-0.89%	-4.59%
12 Week Price Chg	46.10%	11.32%	10.22%	-24.82%	13.08%	-5.71%
52 Week Price Chg	34.75%	0.00%	-7.40%	-61.57%	1.31%	-32.23%
20 Day Average Volume	228,829	26,024	2,267,087	13,758,330	1,236,149	142,790
(F1) EPS Est 1 week change	12.25%	0.00%	0.00%	1.26%	0.00%	-12.28%
(F1) EPS Est 4 week change	12.47%	0.00%	0.00%	0.84%	0.00%	-38.58%
(F1) EPS Est 12 week change	71.94%	-24.68%	-6.60%	-36.91%	-6.85%	-60.06%
(Q1) EPS Est Mthly Chg	4.50%	0.00%	0.00%	13.33%	0.11%	-62.50%

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	D
Growth Score	A
Momentum Score	A
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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