

Helen of Troy Limited (HELE)

\$194.50 (As of 02/19/20)

Price Target (6-12 Months): **\$205.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/18/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

Summary

Helen of Troy's shares have outperformed the industry in the past six months. The company is benefitting from strength in Leadership Brands, robust online sales and core business advancements. These factors drove its third-quarter fiscal 2020 results, with the top and the bottom line rising year over year. Also, management raised its sales and adjusted earnings guidance for fiscal 2020. In fact, investment in Leadership Brands and online business form part of the company's transformation plans. Toward this end, Helen of Troy recently inked a deal to buy Drybar Products, which is expected to generate additional sales and contribute to earnings in fiscal 2020. However, such investments, along with elevated freight and distribution costs are likely to limit growth. Also, the company continues to see softness in its Health & Home unit.

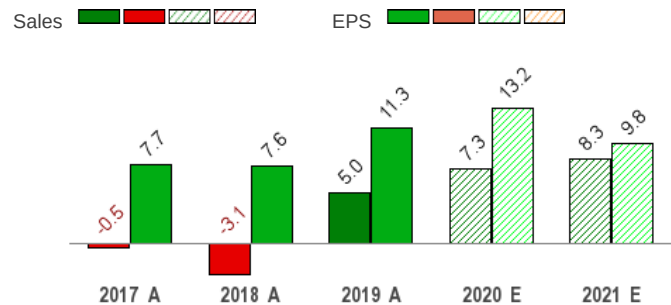
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$198.59 - \$108.31
20 Day Average Volume (sh)	115,829
Market Cap	\$4.9 B
YTD Price Change	8.2%
Beta	0.65
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Cosmetics
Zacks Industry Rank	Bottom 14% (220 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.3%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	04/24/2020
Earnings ESP	-0.2%
P/E TTM	21.1
P/E F1	21.3
PEG F1	3.0
P/S TTM	3.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	414 E	454 E	503 E	447 E	1,817 E
2020	376 A	414 A	475 A	413 E	1,678 E
2019	355 A	394 A	431 A	385 A	1,564 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.31 E	\$2.55 E	\$3.33 E	\$1.96 E	\$10.01 E
2020	\$2.06 A	\$2.24 A	\$3.12 A	\$1.70 E	\$9.12 E
2019	\$1.87 A	\$1.98 A	\$2.40 A	\$1.82 A	\$8.06 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 02/19/2020. The reports text is as of 02/20/2020.

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.

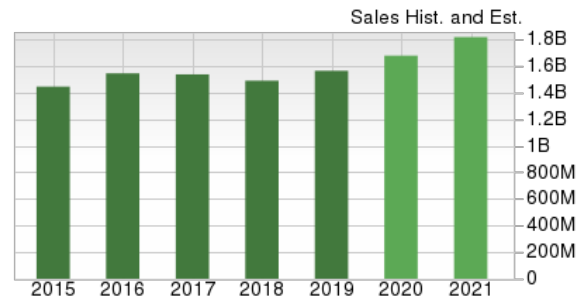
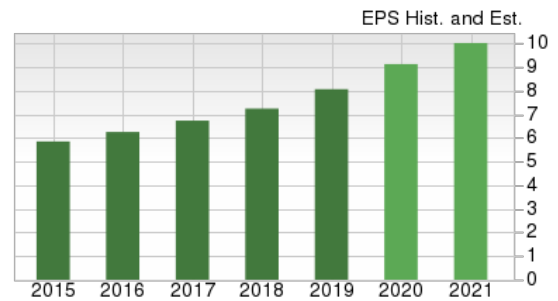
Health & Home segment offers products related to home environment and healthcare. Segment sales here are also mainly directed to retailers, alongside some direct-to-consumer distribution.

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:

- ▲ **Sturdy Q3 Results & Raised View:** Helen of Troy delivered a strong performance during third-quarter fiscal 2020, with the top and the bottom line increasing year over year. Given a robust year-to-date performance and solid expectations for the rest of fiscal 2020, management raised its sales and adjusted earnings guidance. Consolidated net sales are now projected in the range of \$1.650-\$1.675 billion, which indicates growth of 5.5-7.1% year over year. Previously, the company projected consolidated net sales growth in the range of 2.9-4.8%.

Adjusted earnings from continuing operations are projected in the range of \$8.9-\$9.1 per share compared with the earlier view of \$8.5-\$8.75. We note that the company's impressive past performance, strength in Leadership Brands and growth in online business has been driving its stock. Shares of the company have increased 27.7% in the past six months against the industry's decline of 16.1%.

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

- ▲ **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 OXO, Honeywell, Braun, PUR, Hydro Flask, Vicks and Hot Tools, 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 nearly 8.9% year over year in fiscal 2019. Also, during the third quarter of fiscal 2020, sales from Leadership Brands improved 10.6%. 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 inked a deal to buy Drybar Products. This is likely to mark the company's eighth Leadership Brand. The transaction, which is likely to close on January 31, 2020, is expected to generate additional sales in the range of \$5-\$6 million as well as adjusted earnings of 2-3 cents per share in fiscal 2020.

- ▲ **Solid Digital Efforts:** The company is likely to keep gaining from its consistent online sales and digital marketing efforts. Notably, online sales advanced roughly 30% year over year in fiscal third quarter and contributed nearly 24% to the company's top line.

Management plans 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 Growth in Housewares Unit:** Helen of Troy's Houseware unit has been experiencing sturdy growth. Net sales in the segment advanced 28.2% in fiscal third quarter, following 22.1% rise during fiscal second quarter and 23.6% in the quarter preceding it. In fiscal third quarter, net sales in the Housewares segment were backed by growth in point of sale, increased distribution with brick and mortar customers, higher online sales, improved international sales and new product launches. In fact, improved brick-and-mortar business in Housewares drove the company's core business in the quarter. Encouragingly, sales in the Housewares unit are now expected to increase 19-21% compared with 13-15% growth projected earlier.

- ▲ **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 announced its plans to acquire 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.

Reasons To Sell:

- ▼ **Weak Health & Home Unit:** Net sales in the Health & Home segment dropped 1.1% to \$185.8 million in fiscal third quarter, mainly due to a decline in the core business stemming from change in net retail distribution network. Tough year-over-year comparisons and lower wildfire activities impacted results. Moreover, Health & Home net sales are now anticipated to decline 2-4% compared with the previous expectation of low-single digits decline for fiscal 2020.
- ▼ **Elevated Costs:** Helen of Troy is facing escalated costs. In fiscal third quarter, the company faced higher freight and distribution costs. In fact, management expects fiscal 2020 bottom line to be affected by increase in investments, higher incentive compensation expenses as well as elevated freight and distribution costs. Higher expenses are expected to stem from strong demand in the Housewares and the Beauty segments along with integration activity and increase in capacity.
- ▼ **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 third quarter of fiscal 2020, wherein the top line was hurt by unfavorable currency fluctuations to the tune of around \$2.3 million. Volatility in currency movements is a concern.
- ▼ **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. The cold/cough/flu season usually begins from October, with December to March marking its peak.

Sluggish Health & Home unit sales are a concern for Helen of Troy. Additionally, rising costs and adverse currency movements are worries.

Last Earnings Report

Helen of Troy Q3 Earnings & Sales Rise Y/Y

Helen of Troy Limited released third-quarter fiscal 2020 results, wherein the top and the bottom line increased year over year. Sturdy performance in the Housewares and Beauty segments boosted results. Moreover, management raised sales and adjusted earnings guidance for fiscal 2020.

Results in Detail

Adjusted earnings from continuing operations improved 30% year over year to \$3.12 per share. Higher operating income in the Housewares segment and lower advertising expenses were primary drivers.

Net sales rose 10.1% year over year to \$474.7 million. The upside was driven by a 10.7% rise in the core business, nearly 30% increase in online sales and 10.6% growth in Leadership brands.

Notably, core business growth was supported by improved brick and mortar sales in the Housewares unit, solid consolidated online sales and strong appliance sales in the Beauty division. These were offset by softness in Health & Home segment sales and sluggishness in the personal care business in the Beauty segment. Additionally, unfavorable currency movements were a hindrance to the tune of about \$2.3 million.

Consolidated gross margin improved 2 percentage points to 44.2%, courtesy of higher mix of Housewares sales as well as favorable product and channel mix in the Housewares segment. This was partly countered by a smaller mix of personal care sales in the Beauty segment.

Adjusted operating income improved 27.8% to \$90.3 million and adjusted operating margin rose 2.6 percentage points to 19%.

Segment Performance

Net sales in the **Housewares** segment rallied 28.2% to \$183.2 million, courtesy of growth in point of sale, increased distribution with brick and mortar customers, higher online sales, improved international sales and new product launches. These positives were somewhat offset by currency headwinds of about 0.3%. Adjusted operating income in the unit rallied 36.8% and the adjusted operating margin improved 150 basis points (bps) to 24.3%.

Net sales in the **Health & Home** segment dropped 1.1% to \$185.8 million mainly due to a decline in the core business. These factors were partially offset by sales from new product launches and improved international sales. The segment was affected by net foreign currency fluctuations of roughly 0.6%. Adjusted operating income improved 17.7%, while adjusted operating margin expanded 250 bps to 15.5%.

Sales in the **Beauty** segment improved 5.4% to \$105.7 million, owing to solid demand and new products in the appliance business along with strong online and international sales. The upside was countered by softness in the personal care business and adverse foreign currency impact to the tune of roughly 0.8%. Adjusted operating income rose 24.7% and adjusted operating margin expanded 250 bps to 16%.

Other Financial Details

The company ended the quarter with cash and cash equivalents of \$19.6 million and total debt of \$244.2 million.

Net cash from operating activities during the first nine months of fiscal 2020 came in at \$101.4 million.

Fiscal 2020 Outlook

Management is impressed with the company's third-quarter performance, marked by core sales growth, solid adjusted earnings per share increase and enhanced operating margin. This indicates that the company's growth investments and digital efforts are yielding. Further, Helen of Troy is on track with Phase II of its Transformation plan. To this end, the company recently announced its plans to acquire Drybar Products LLC, which is expected to strengthen the Beauty segment.

Given a robust year-to-date performance and solid expectations for the rest of fiscal 2020, management raised sales and adjusted earnings guidance. Consolidated net sales are now projected in the range of \$1.650-\$1.675 billion, indicating growth of 5.5-7.1% year over year. Earlier, the company expected consolidated net sales growth in the range of 2.9-4.8%.

Sales in the Housewares unit are expected to increase 19-21% compared with 13-15% growth projected earlier. Health & Home net sales are now anticipated to decline 2-4% compared with the previous expectation of low-single digits decline. Beauty segment net sales are likely to improve 3-5% compared with a low-single digit growth projected earlier.

Finally, adjusted earnings from continuing operations are projected to be \$8.9-\$9.1 per share compared with the earlier view of \$8.5-\$8.75. However, to some extent earnings are expected to be hurt by increase in investments, higher incentive compensation expenses as well as elevated freight and distribution costs. Higher expenses are expected to stem from strong demand in Housewares and Beauty segments along with integration activity and increase in capacity.

Quarter Ending **11/2019**

Report Date	Jan 08, 2020
Sales Surprise	NA
EPS Surprise	24.30%
Quarterly EPS	3.12
Annual EPS (TTM)	9.24

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 up 8.2% in the year-to-date period and 66.2% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 19.5% and the Zacks Consumer Staples sector are up 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 0.4% and 12.7%, respectively.

The S&P 500 index is up 4.9% in the year-to-date period and 23.3% in the past year.

The stock is currently trading at 21.13X forward 12-month earnings, which compares to 23.96X for the Zacks sub-industry, 19.7X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.13X and as low as 11.8X, with a 5-year median of 15.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$205 price target reflects 22.27X 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	21.13	23.96	19.7	19.3
	5-Year High	21.13	29.46	22.38	19.34
	5-Year Low	11.8	19.65	16.66	15.18
	5-Year Median	15.72	23.88	19.71	17.47
P/S F12M	Current	2.7	3.4	10.04	3.57
	5-Year High	2.91	4.01	11.13	3.57
	5-Year Low	1.37	1.53	8.09	2.54
	5-Year Median	1.7	2.69	9.88	3
EV/EBITDA F12M	Current	16.47	22.53	34.39	12.66
	5-Year High	16.57	22.76	37.23	12.66
	5-Year Low	9.62	8.68	29.38	9.08
	5-Year Median	12.57	16.98	33.58	10.79

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Bottom 14% (220 out of 255)



Top Peers

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

Industry Comparison Industry: Cosmetics				Industry Peers		
	HELE Neutral	X Industry	S&P 500	COTY Neutral	EL Neutral	IPAR Neutral
VGM Score	C	-	-	A	C	C
Market Cap	4.90 B	1.41 B	24.59 B	8.74 B	76.62 B	2.18 B
# of Analysts	3	3.5	13	7	11	4
Dividend Yield	0.00%	0.00%	1.78%	4.35%	0.90%	1.91%
Value Score	D	-	-	B	D	D
Cash/Price	0.00	0.05	0.04	0.04	0.05	0.09
EV/EBITDA	22.37	20.43	14.21	-5.82	26.70	18.48
PEG Ratio	3.00	2.84	2.09	2.47	2.92	2.76
Price/Book (P/B)	4.21	3.16	3.28	1.95	16.65	3.67
Price/Cash Flow (P/CF)	22.39	27.32	13.59	7.08	30.37	33.47
P/E (F1)	21.16	29.97	19.17	16.93	37.34	34.45
Price/Sales (P/S)	2.97	2.11	2.68	1.04	4.83	3.06
Earnings Yield	4.69%	3.25%	5.18%	5.92%	2.68%	2.90%
Debt/Equity	0.24	0.24	0.70	1.72	1.52	0.06
Cash Flow (\$/share)	8.69	1.62	6.93	1.62	7.02	2.07
Growth Score	B	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	7.74%	4.39%	10.84%	-13.69%	16.51%	17.82%
Proj. EPS Growth (F1/F0)	13.19%	6.20%	7.00%	4.40%	6.88%	5.93%
Curr. Cash Flow Growth	1.79%	-6.78%	7.81%	-2.37%	13.88%	21.15%
Hist. Cash Flow Growth (3-5 yrs)	8.28%	8.22%	8.25%	17.39%	9.29%	5.20%
Current Ratio	2.29	1.88	1.24	0.86	1.69	3.24
Debt/Capital	19.65%	33.46%	42.37%	63.47%	60.27%	5.69%
Net Margin	11.68%	4.92%	11.69%	-33.12%	11.76%	8.43%
Return on Equity	19.84%	10.22%	16.86%	9.14%	48.28%	10.15%
Sales/Assets	0.95	0.95	0.55	0.46	1.07	0.88
Proj. Sales Growth (F1/F0)	7.28%	4.30%	4.05%	-4.80%	6.91%	4.61%
Momentum Score	F	-	-	C	F	D
Daily Price Chg	0.75%	0.00%	0.38%	-0.43%	0.79%	-0.29%
1 Week Price Chg	-0.38%	0.00%	1.65%	-5.15%	2.90%	1.19%
4 Week Price Chg	6.26%	0.00%	0.86%	6.69%	0.23%	-5.21%
12 Week Price Chg	19.18%	0.12%	4.56%	-0.52%	8.76%	-3.11%
52 Week Price Chg	69.10%	-1.56%	14.15%	3.05%	36.03%	-4.92%
20 Day Average Volume	115,829	30,727	1,989,235	5,192,524	2,129,414	62,516
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.06%	-0.03%	-0.03%	2.15%	-4.63%	0.33%
(F1) EPS Est 12 week change	6.09%	-1.29%	-0.21%	0.53%	-4.28%	0.83%
(Q1) EPS Est Mthly Chg	-0.11%	-0.11%	-0.40%	-14.46%	-29.01%	0.00%

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	B
Momentum Score	F
VGM Score	C

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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