

Inter Parfums, Inc. (IPAR)

\$70.40 (As of 02/03/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 01/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: F

Growth: B

Momentum: A

Summary

Inter Parfums' shares have declined in the last three months. The company has been battling higher SG&A expenses for a while now. During the third-quarter 2019, SG&A expenses rose 4.9% year on year caused by greater sales of licensed products. Also, Inter Parfums has significant currency risk exposure. In fact, foreign currency headwinds had an impact of \$0.1 million on the company's third-quarter performance. Moreover, stiff competition in the cosmetics and beauty segment remains a concern. Nevertheless, strength in the U.S. and European-based operations supported the top line, which grew year-over-year during the third quarter. Notably, the company has been focused on brand enhancement initiatives, and is on track with new product launches. Also, a strong cash position has been favoring Inter Parfums.

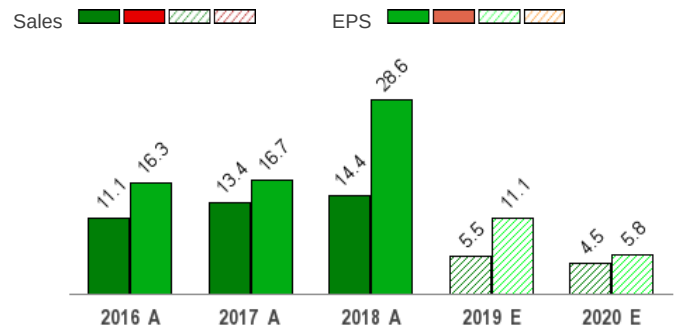
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.40 - \$62.38
20 Day Average Volume (sh)	84,207
Market Cap	\$2.2 B
YTD Price Change	-3.2%
Beta	0.84
Dividend / Div Yld	\$1.32 / 1.9%
Industry	<u>Cosmetics</u>
Zacks Industry Rank	Bottom 11% (225 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.5%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	03/02/2020
Earnings ESP	0.0%
P/E TTM	36.9
P/E F1	35.0
PEG F1	2.8
P/S TTM	3.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	185 E	168 E	204 E	188 E	745 E
2019	178 A	166 A	191 A	177 E	713 E
2018	172 A	149 A	177 A	177 A	676 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.63 E	\$0.40 E	\$0.70 E	\$0.29 E	\$2.01 E
2019	\$0.60 A	\$0.39 A	\$0.66 A	\$0.26 E	\$1.90 E
2018	\$0.51 A	\$0.35 A	\$0.60 A	\$0.26 A	\$1.71 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 02/03/2020. The reports text is as of 02/04/2020.

Overview

Inter Parfums, Inc. is engaged in the manufacturing, distribution and marketing of a wide range of fragrances and related products. Organized as per the laws of the State of Delaware in May 1985, the company was formerly known as Jean Philippe Fragrances, Inc. In July 1999, the company changed its name to Inter Parfums, Inc.

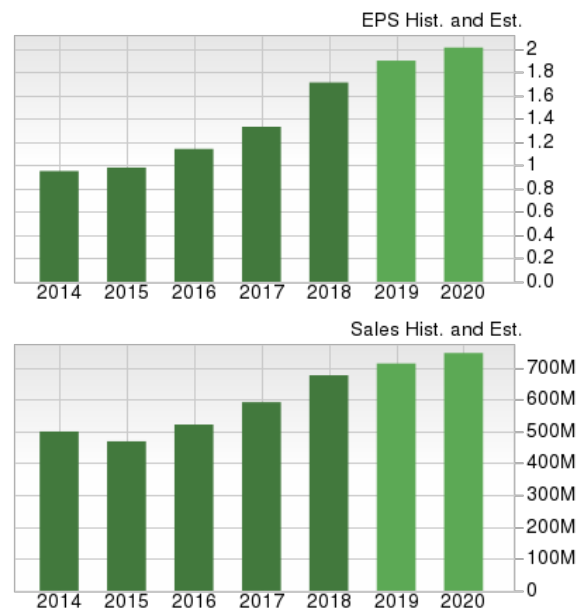
The company manages its business through two operational units — European-based operations and United States-based operations. In context with the European unit, the company produces and distributes products through license agreements with other brands. Certain prestige fragrance products of the company are marketed by its owned subsidiary in Paris, Interparfums SA.

Some of the well-known brands of the company in the European unit are Boucheron, Coach, Jimmy Choo, Karl Lagerfeld, Lanvin, Montblanc, Paul Smith, Repetto, Rochas, S.T. Dupont and Van Cleef & Arpels. Markedly, sales through European operations contributed nearly 80% to net sales in 2018.

Additionally, products sold and marketed under the United States operations unit are either owned by the company or through licensing agreements. The unit contributed nearly 20% to the company's sales in 2018. Some of the established brands in this category are Abercrombie & Fitch, Agent Provocateur, Anna Sui, bebe, Dunhill, Hollister, French Connection, Graff, GUESS, Lily Aldridge and Oscar de la Renta.

It is important to note that the company does not own any manufacturing facilities. Inter Parfums acts as a general contractor by sourcing the required components from suppliers. The components are assembled at distribution centers, which are then sent to third-party fillers. The third-party fillers manufacture the finished products for Inter Parfums and deliver the same to distribution centers.

The company sells its products mainly through department stores, specialty stores, perfumeries, domestic and international wholesalers, and distributors.



Reasons To Sell:

- ▼ **Rising Expenses Are a Worry:** Shares of Inter Parfums have declined 10.15% in the last three months compared with the industry's decline of 18%. We expect the stock to derail in the future owing to rising selling, general and administrative expenses. During the third quarter of 2019, SG&A expenses rose 4.9% year on year. This was primarily caused by greater sales of licensed products. . Earlier, management stated that it expects expenses related to promotion and advertising programs to amount to \$150 million for 2019. Such factors may exert pressure on the company's bottom line.
- ▼ **Currency headwinds:** A significant share of Inter Parfums' revenues are sourced from international markets, thereby exposing the company to significant currency risks. In fact, foreign currency headwinds had an adverse impact of \$0.1 million in the company's third-quarter 2019 performance. Volatility in currency movements remains a threat to the company.
- ▼ **Stiff Competition:** The cosmetics and beauty segment is rife with competition, thanks to the existence of strong peers as well as abundant product alternatives. Cheaper alternatives may hinder customers' loyalty and impact sales.
- ▼ **Change in Customer Preference:** A major concern with consumer-driven industries, like cosmetics, is changing consumer trends. Hence, failure to stay up to date on product mix by consistently searching for new products and anchoring new supplier agreements may lead to obsolescence.

Continued rise of SG&A expenses and adverse impacts from currency fluctuations are a threat for the company.

Risks

- **Impressive Q3 Results:** The company has been benefitting from a solid earnings track record. Earnings have been rising year on year for a year now. During the third quarter, the company's earnings came in at 66 cents per share, up 10% year on year. Bottom-line performance in the quarter was backed by rise in sales. Third-quarter net sales rose 7.9%, driven by growth across the European and U.S. operations. Further, gross profit amounted to \$114.4 million, up nearly 5% year on year.
- **Growth in European Operations:** A major portion of Inter Parfums' net sales are generated from European-based operations unit. During the third quarter, the segment contributed nearly 75% to the top line. Strong brands such as Montblanc, Coach and Lanvin have been key catalysts. During the quarter, the region registered sales growth of nearly 4.2% year on year. Additionally, the segment partially benefited from year-over-year contraction in SG&A expenses, as a percentage of sales. Strong brands and effective launches are likely to keep boosting the segment in the forthcoming periods.
- **Strong Brands & Effective Product Launches:** Inter Parfums' strong brand portfolio is one of its primary growth drivers. The company's Prestige brands have been doing well and supported performance of the company during the third quarter of 2019. In fact, the GUESS? Brand has been gaining traction outside the United States in countries like India, Indonesia, Malaysia and Poland. Moreover, the company plans to launch GUESS? brand in China sometime in 2020.

Further, the company focused on making product launches under different brand banners. To this end, the company plans to launch a Jimmy Choo product in the second half of the year. Additionally, the company has two women's fragrance launches lined up for Montblanc and Coach brands for 2020.

- **Healthy Financial Status:** A strong cash position has been working in favor of Inter Parfums, helping it to further expand brand offerings and license agreements. The company ended third-quarter 2019 with working capital of \$375 million, including cash and cash equivalents of nearly \$192 million. Moreover, it has a working capital ratio of more of 3.2:1. Such financial flexibility is likely to continue favoring the company growth. Also, the financial flexibility has helped Inter Parfums to make regular dividend payments and thereby boost shareholders' returns. Notably, the company raised its quarterly dividend for the third-quarter from 27.5 cents to 33 cents.
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Last Earnings Report

Inter Parfums Misses on Q3 Earnings, Raises View

Inter Parfums, Inc. delivered lower than-expected earnings when it reported third-quarter 2019 results. Nevertheless, the top and the bottom line rose year on year. Sturdy brand performances across the European and U.S. operations fueled results. Further, the company raised its earnings view for 2019 and authorized a hike in quarterly dividend rate.

Consistent growth across the company's operational segments, backed by the presence of strong brands has been working in favor of stock.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.01%
EPS Surprise	-1.49%
Quarterly EPS	0.66
Annual EPS (TTM)	1.91

Quarter in Details

The company posted earnings per share of 66 cents, which fell short of the Zacks Consensus Estimate by a penny. The bottom line rose 10% year on year.

Net sales for the quarter amounted to \$191.23 million, up 7.9% on a year-over-year basis. At comparable currency exchange rates, net sales improved 9.7%. Growth across the European and U.S. operations boosted sales in the reported quarter.

In U.S. based operations, net sales increased 20.7% to \$47.6 million. The GUESS?brand continues to be one of the key growth catalysts in this unit. Other brand banners depicting growth include The Oscar de La Renta, Abercrombie & Fitch, Hollister and Anna Sui.

Net sales in the European-based operations amounted to \$143.6, up 4.2% year on year. Strong growth across brands such as Montblanc, Coach and Jimmy Choo have been supporting the unit's growth.

Gross profit amounted to \$114.4 million, up nearly 5% year on year. However, gross margin was 59.8%, down 180 bps.

SG&A expenses amounted to \$77.8 million, up 4.9% year on year. As a percentage of net sales, SG&A expenses were 40.7%. The metric declined from 41.9% in the prior-year quarter.

Operating income came in at \$36.6 million, up 4.8% year on year. Operating margin was 19.2%, down 50 bps.

Dividend Raise

The company raised its quarterly dividend from 27.5 cents to 33 cents. The dividend will be paid out on Jan 15, 2020 to shareholders on record as on Dec 31, 2019.

Other Financial Aspects

The company ended the quarter with cash and cash equivalents of \$138.4 million, long-term debt (excluding current portion) of \$10.6 million and total shareholder equity of \$ 593.4 million. Inter Parfums closed the quarter with working capital of \$375 million and working capital ratio of more than 3.2 to 1.

Guidance

The company continues to expect net sales for 2019 at \$712 million. Additionally, the company raised its bottom-line expectations. It now projects earnings to be \$1.90 compared with \$1.88 anticipated earlier.

Management plans to release the initial guidance for 2020 on Nov 20, 2019.

Recent News

Inter Parfums Posts Sales Numbers for Q4 & 2019 – Jan 28, 2020

Inter Parfums, released sales numbers for the fourth quarter and 2019. For the three months ended Dec 31, 2019, net sales amounted to \$177.8 million, up 0.3% (1.5% at constant currency) from \$177.2 million reported in the year-ago quarter. This indicates a slowdown from the third quarter, wherein net sales increased 7.9%.

Sales in 2019 came in at \$713.5 million, up 5.6% (or 7.8% at cc) from \$675.6 million reported in 2018. Notably, the company reported record high sales in 2019 amid strong dollar and relatively fewer launches compared with prior years.

Further, management was encouraged about the addition of Kate Spade New York and MCM in its brand portfolio. Also, Inter Parfums was issued an extended license for the Oscar de la Renta brand.

The company's European-based operations registered net sales of 542.1 million in 2019, which inched up 0.8% year over year. During fourth-quarter 2019, sales in the segment declined 4.2% to \$129.1 million. Growth across brands such as Montblanc, Karl Lagerfeld and Van Cleef & Arpels has been supporting growth in the European-based operations through the year. On the contrary, brands like Coach and Jimmy Choo witnessed some softness.

In U.S.-based operations, net sales rallied 24.3% to \$171.4 million in 2019. During the fourth quarter, sales in the segment increased 14.7% to \$48.7 million. The GUESS? (GES) brand continues to be one of the key growth catalysts in the segment. Other brand banners depicting growth are The Oscar de La Renta, Abercrombie & Fitch and Hollister.

Inter Parfums continues to envision 2019 earnings per share (EPS) to be approximately \$1.9. Further, the company reaffirmed its guidance for 2020, which was first issued in November 2019. Net sales are expected to be roughly \$742 million. For 2020, EPS are expected to be nearly \$2.00 per share.

Management expects sales growth to be buoyed by fragrance launches at key brands. The company plans to launch new fragrance under the GUESS, Hollister and Montblanc brands sometime this spring. Additionally, it has fragrance launches lined up for Jimmy Choo and Coach brands in 2020. Moreover, Inter Parfums is optimistic about the debut of a number scents from brands like Anna Sui, Graff and Kate Spade New York.

Valuation

Inter Parfums shares are down 3.2% in the year-to-date period and up 7.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 25.1% and 1.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 0.6% and the sector are up 12.8%.

The S&P 500 index is up 0.2% in the year-to-date period and 19.4% in the past year.

The stock is currently trading at 34.92X forward 12-month earnings, which compares to 21.69X for the Zacks sub-industry, 19.32X for the Zacks sector and 18.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.19X and as low as 18.58X, with a 5-year median of 30.03X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$60 price target reflects 29.76X forward 12-month sales.

The table below shows summary valuation data for IPAR

Valuation Multiples - IPAR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.92	21.69	19.32	18.5
	5-Year High	42.19	29.47	22.38	19.34
	5-Year Low	18.58	19.65	16.66	15.18
	5-Year Median	30.03	23.87	19.74	17.46
P/S F12M	Current	2.97	3.09	9.88	3.43
	5-Year High	3.45	3.88	11.13	3.43
	5-Year Low	1.29	1.53	8.09	2.54
	5-Year Median	2.11	2.69	9.88	3
EV/EBITDA F12M	Current	16.3	22.53	34.39	12.66
	5-Year High	18.74	22.67	37.23	12.66
	5-Year Low	5.74	8.68	29.38	9.08
	5-Year Median	11.03	16.96	33.56	10.78

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (225 out of 254)



Top Peers

Helen of Troy Limited (HELE)	Outperform
Coty Inc. (COTY)	Neutral
The Estee Lauder Companies Inc. (EL)	Neutral
e.l.f. Beauty Inc. (ELF)	Neutral
Nu Skin Enterprises, Inc. (NUS)	Neutral
Revlon, Inc. (REV)	Neutral
MANDOM CORP (MDOMF)	Underperform

Industry Comparison Industry: Cosmetics				Industry Peers		
	IPAR Underperform	X Industry	S&P 500	EL Neutral	HELE Outperform	NUS Neutral
VGM Score	B	-	-	F	C	A
Market Cap	2.22 B	1.54 B	23.66 B	70.60 B	4.68 B	1.87 B
# of Analysts	4	3	13	10	2	5
Dividend Yield	1.88%	0.00%	1.82%	0.98%	0.00%	4.39%
Value Score	F	-	-	D	D	A
Cash/Price	0.09	0.05	0.04	0.03	0.00	0.18
EV/EBITDA	18.81	20.13	13.87	24.55	21.45	6.50
PEG Ratio	2.84	2.69	1.97	2.58	2.20	1.10
Price/Book (P/B)	3.73	3.27	3.24	15.53	4.03	2.22
Price/Cash Flow (P/CF)	34.03	26.08	13.40	27.96	21.42	6.63
P/E (F1)	35.44	29.36	18.48	33.04	20.39	10.21
Price/Sales (P/S)	3.11	2.09	2.60	4.63	2.84	0.74
Earnings Yield	2.86%	3.39%	5.40%	3.03%	4.91%	9.79%
Debt/Equity	0.06	0.24	0.72	1.15	0.24	0.50
Cash Flow (\$/share)	2.07	1.62	6.92	7.02	8.69	5.09
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	17.82%	5.49%	10.80%	15.21%	7.74%	3.24%
Proj. EPS Growth (F1/F0)	5.93%	7.10%	7.46%	11.22%	13.21%	6.31%
Curr. Cash Flow Growth	21.15%	-0.29%	10.59%	13.88%	1.79%	13.27%
Hist. Cash Flow Growth (3-5 yrs)	5.20%	8.22%	8.55%	9.29%	8.28%	-6.76%
Current Ratio	3.24	1.77	1.21	1.53	2.29	2.01
Debt/Capital	5.69%	33.32%	42.91%	53.43%	19.65%	33.32%
Net Margin	8.43%	4.59%	11.76%	12.34%	11.68%	4.59%
Return on Equity	10.15%	10.22%	17.24%	46.14%	19.84%	23.52%
Sales/Assets	0.88	0.95	0.55	1.12	0.95	1.44
Proj. Sales Growth (F1/F0)	4.61%	3.73%	4.22%	8.28%	0.00%	2.53%
Momentum Score	A	-	-	F	C	B
Daily Price Chg	1.87%	0.00%	0.67%	0.53%	-1.57%	3.41%
1 Week Price Chg	-3.91%	0.00%	-2.60%	-4.96%	3.02%	-10.49%
4 Week Price Chg	-1.58%	0.00%	-0.76%	-5.38%	2.11%	-15.90%
12 Week Price Chg	-7.59%	-0.33%	2.84%	4.77%	19.22%	-15.28%
52 Week Price Chg	6.22%	1.88%	13.93%	44.08%	58.68%	-48.97%
20 Day Average Volume	84,207	22,740	1,915,782	1,760,446	167,411	519,439
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.44%	0.00%	0.00%
(F1) EPS Est 4 week change	0.33%	0.00%	0.00%	-0.41%	0.42%	0.24%
(F1) EPS Est 12 week change	-7.91%	-2.00%	-0.13%	-0.30%	6.16%	-2.71%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-3.49%	NA	0.87%

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	F
Growth Score	B
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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