

Inter Parfums, Inc. (IPAR)

\$49.95 (As of 06/08/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: B

Summary

Inter Parfums' shares have lagged the industry in the past three months. The company posted dismal first-quarter 2020 results, with sales and earnings falling year over year. Results were hampered by coronavirus-led hurdles for most parts of the quarter. Moreover, the company has been battling major supply-chain hiccups. In fact, management expects to see a sharp sequential as well as year-over-year decline in second-quarter sales. Moreover, it doesn't expect normal air travel to resume anytime soon, which is likely to continue hurting travel retail. Apart from this, the company has been battling strained gross margins. Nevertheless, Inter Parfums has undertaken several actions to revive sales and profits next year. These include, lower advertising expenses and bonuses along with curtailing several non-essential expenses.

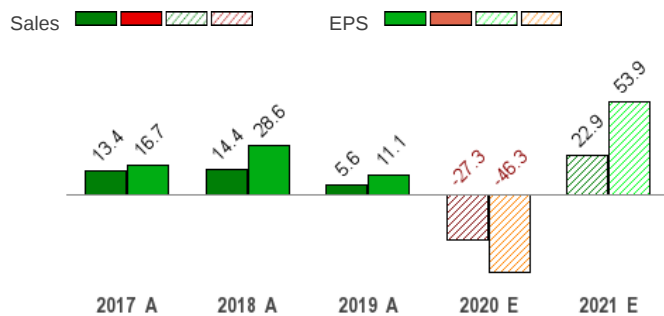
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$81.40 - \$34.20
20 Day Average Volume (sh)	180,627
Market Cap	\$1.6 B
YTD Price Change	-31.3%
Beta	0.89
Dividend / Div Yld	\$1.32 / 2.6%
Industry	Cosmetics
Zacks Industry Rank	Bottom 37% (159 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.3%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	114.2%
Expected Report Date	08/03/2020
Earnings ESP	0.0%
P/E TTM	30.6
P/E F1	49.0
PEG F1	3.9
P/S TTM	2.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	153 E	132 E	175 E	178 E	638 E
2020	145 A	86 E	139 E	150 E	519 E
2019	178 A	166 A	191 A	178 A	714 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.46 E	\$0.23 E	\$0.56 E	\$0.26 E	\$1.57 E
2020	\$0.32 A	-\$0.03 E	\$0.37 E	\$0.27 E	\$1.02 E
2019	\$0.60 A	\$0.39 A	\$0.66 A	\$0.26 A	\$1.90 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 06/08/2020. The reports text is as of 06/09/2020.

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.

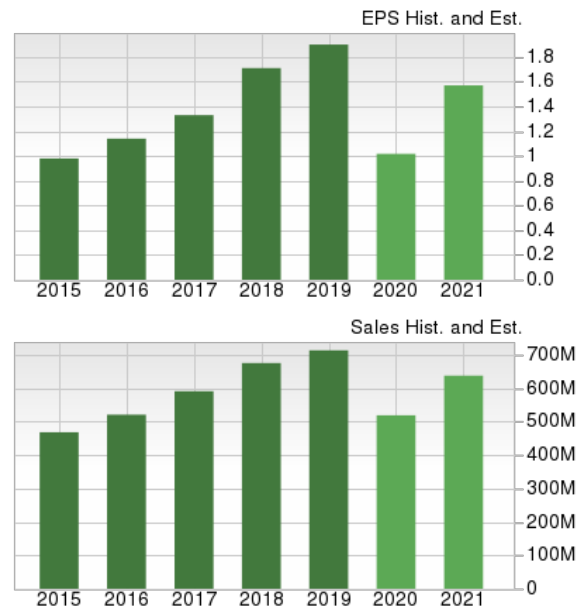
The company manages its business through two operational units — European-based operations and United States-based operations. In context with the European unit, the company produces and distributes products through license agreements with other brands. Certain prestige fragrance products of the company 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:

▼ **COVID-19 Hurts Q1 Results:** Inter Parfums' bottom line slumped 46.7% year over year in first-quarter 2020. Net sales in the quarter declined 18.7%. The metric fell across both U.S. and Europe-based operations during the first quarter. In U.S.-based operations, net sales decreased 10.9% while the metric declined 20.6% for Europe-based operations. First-quarter results were hampered by the coronavirus outbreak, as operations were hurt by the pandemic-led hurdles for most part of the quarter. Inter Parfums saw a short-term suspension at its distribution facilities for the safety of employees. Further, retail outlet closures in most parts of the world affected the company's sales. Moreover, the company has been battling major supply-chain hiccups.

Coronavirus-led store closures hurt the company's performance in first-quarter 2020.

In fact, management stated that it expects to see a sharp sequential as well as a year-over-year decline in second-quarter sales. Moreover, the company doesn't expect normal air travel to resume anytime soon, which is likely to continue hurting the travel retail business in the near term. Also, in a recessionary environment, fragrance buying is likely to take a back seat compared to essentials. Shares of Inter Parfums have lost 9.2% in the past three months, against the industry's growth of 7.5%.

▼ **Strained Gross Margin:** Inter Parfums has been witnessing strained gross margin for a while now. In the first quarter of 2020, gross margin was 61.5%, down 10 basis points (bps) year over year. Further, gross profit amounted to roughly \$89 million, down 18.9% year on year during the first quarter. Prior to this, gross margin was 64.5%, down 160 bps in the fourth quarter. We believe that, persistence of this trend may continue to exert pressure on the company's performance in the future.

▼ **Currency headwinds:** Significant shares of Inter Parfums' revenues are sourced from international markets, thereby exposing the company to foreign currency risks. In fact, foreign currency headwinds had an adverse impact of \$1.1 million in the company's 2019 performance. We note that, volatility in currency movements remains a threat to the company's performance in the future.

▼ **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.

Risks

- **Measures to Stay Afloat Amid COVID-19:** The company has undertaken several actions to revive sales and profits next year. Incidentally, Inter Parfums informed last month that it has postponed the launch of various big programs for brands like Kate Spade, Jimmy Choo, Anna Sui and GUESS? until 2021. Also, advertising and promotion costs related to such events have been postponed to 2021. Going ahead, management believes that such stringent cost-containment efforts will reduce the impact of lower sales on the company's profits. Also, Inter Parfums has significantly lowered bonuses, ceased hiring and curtailed several non-essential expenses to preserve cash flow amid the coronavirus crisis.

Apart from these, the company is on track with reopening its stores as restrictions imposed to check the spread of coronavirus are being lifted. Toward the end of March and the beginning of April, many parts of Asia have re-opened, led by China. Various countries in Europe and the Middle East are also on track to reopen stores by this month.

- **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 first-quarter 2020 with working capital of \$386 million, including cash and cash equivalents and short term investments of nearly \$204 million. Moreover, it has a working capital ratio of more of 3.7:1. Such financial flexibility is likely to continue favoring the company.
 - **Debt Analysis:** Inter Parfums' long-term debt (including lease liabilities) of \$34 million as Mar 31, 2020 dipped 4.9% on a sequential basis. Further, the company's debt-to-capitalization ratio of 0.07 stood much lower than the industry's ratio of 0.7 at the end of first-quarter 2020. Moreover, the company's times interest earned ratio (as of the first-quarter end) stands at 36.5, which compares favorably against the industry's figure of a negative 5. Incidentally, the times-interest-earned ratio is very important for companies, as it measures a company's ability to meet its debt obligations based on its current income.
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Last Earnings Report

Inter Parfums Q1 Earnings Top Estimates, Sales Drop Y/Y

Inter Parfums delivered first-quarter 2020 results, wherein both top and bottom lines declined year over year. First-quarter results were hampered by the coronavirus outbreak, as operations were hurt by the pandemic-led hurdles for most parts of the quarter. Inter Parfums saw a short-term suspension at its distribution facilities for the safety of employees. Further, retail outlet closures in most parts of the world affected the company's sales. Moreover, the company has been battling major supply-chain hiccups. Management stated that it expects to see a sharp sequential as well as a year-over-year decline in second-quarter sales. Nonetheless, it expects improvements in the second half of the year.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	0.02%
EPS Surprise	10.34%
Quarterly EPS	0.32
Annual EPS (TTM)	1.63

Quarter in Detail

The company posted earnings per share of 32 cents, which beat the Zacks Consensus Estimate of 29 cents. However, the bottom line slumped 46.7% year over year.

Net sales for the quarter amounted to \$144.8 million, down 18.7% on a year-over-year basis. At comparable-currency exchange rates, net sales dropped 17.8%. Net sales declined across both U.S. and Europe-based operations. In U.S.-based operations, net sales decreased 10.9% to \$30.7 million. Net sales in the Europe-based operations amounted to \$114.1 million, down 20.6% year on year.

Notably, the company's two largest brands Coach and GUESS? (GES) witnessed solid sales growth during the quarter under review. Earlier this year, Inter Parfums launched Coach Dreams that drove the brands' sales by 35.9%. Further, the already existing products and brand extensions under GUESS? helped the brand record 28.9% sales growth in the first quarter.

However, growth in the above-mentioned brands was more than offset by declines in majority of the company's other brands. Incidentally, comparable sales declined for other major brands due to the closure of almost all points of sale worldwide due to the coronavirus pandemic. Moreover, the company reported robust growth in brands like Montblanc and Jimmy Choo in the year-ago period, which now serves as a high benchmark in 2020 for Inter Parfums.

The Middle East and Asia were most affected, wherein net sales tumbled a respective 44% and 37%. North America and Western Europe saw declines of 1% and 11%, respectively, as staying indoors and store closure trends were executed very late in the quarter. We note that toward the end of March and the beginning of April, many parts of Asia have re-opened, led by China. Various European countries and the Middle East are also on track to reopen stores by later this month. However, the reopening process has been very limited in the United States.

Costs & Margins

Gross profit amounted to roughly \$89 million, down 18.9% year on year. Further, gross margin was 61.5%, down 10 basis points (bps).

SG&A expenses amounted to \$71.3 million, down 6.4% year on year. Also, as a percentage of net sales, SG&A expenses were 49.2%. The metric declined from 42.9% in the prior-year quarter. However, operating income came in at \$17.8 million, down 46.6% year on year. Further, operating margin was 12.3%, down 640 bps.

Other Financial Aspects

The company ended the quarter with cash and cash equivalents of \$142.6 million, long-term debt (excluding current portion) of \$9.8 million and shareholder's equity (excluding non-controlling interest) of \$462 million. Further, the company had \$47 million available under its unused credit facility.

Outlook

Management expects to see a sharp sequential as well as a year-over-year decline in second-quarter sales. Nonetheless, it expects improvements in the second half of the year. Stay-at-home as well as store closure restrictions are being lifted in many parts of the world where the impact of the pandemic is reducing. However, management doesn't expect normal air travel to resume anytime soon, which is likely to continue hurting the travel retail business in the near term. Also, in a recessionary environment, fragrance buying is likely to take a back seat compared to essentials.

The company has undertaken several actions to revive sales and profits next year. Incidentally, the company informed last month that it has postponed the launch of various big programs for brands like Kate Spade, Jimmy Choo, Anna Sui and GUESS? until 2021. Also, advertising and promotion costs related to such events have been postponed to 2021. Going ahead, management believes that such stringent cost-containment efforts will reduce the impact of lower sales on the company's profits. Also, Inter Parfums has significantly lowered bonuses, ceased hiring and curtailed several non-essential expenses to preserve cash flow amid the coronavirus crisis. The company also announced a temporary suspension of its quarterly cash dividend to maintain a sound financial position amid this crisis. The company doesn't anticipate facing any liquidity issues in the near term.

Recent News

Inter Parfums Q1 Sales Soft, Launches Delayed Amid Coronavirus – Apr 22, 2020

Inter Parfums released sales numbers for first-quarter 2020. For the three months ended Mar 31, 2020, net sales amounted to \$144.8 million, down 18.7% (down 17.8% at constant currency) from \$178.2 million reported in the year-ago quarter.

The company's Europe-based operations registered net sales of \$114.1 million in the first quarter, which declined 20.6% year over year. In U.S.-based operations, net sales dropped 10.9% to \$30.7 million during the first quarter.

The company's two largest brands Coach and GUESS? witnessed solid sales growth during the quarter under review. Earlier this year, Inter Parfums launched Coach Dreams that drove the brands sales by 35.9%. Further, the already existing products and brand extensions under GUESS? helped the brand to register a 28.9% sales growth in the first quarter.

However, growth in the above mentioned brands were more than offset by declines in majority of the company's other brands. Incidentally, comparable sales declined for other major brands due to closures of almost all points of sale worldwide due to the coronavirus pandemic. Moreover, the company reported robust growth in brands like Montblanc and Jimmy Choo in the year-ago quarter, which now serves as a high benchmark in 2020 for Inter Parfums.

Apart from this, Inter Parfums has been undertaking several cost-control measures to preserve its cash flow amid the coronavirus crisis. Keeping in these lines, the company postponed various plans including product launches under brands like Kate Spade New York, Jimmy Choo, Anna Sui and GUESS? until 2021. Also, advertising and promotion costs related to such events have been postponed to 2021. Going ahead, management believes that such stringent cost-containment efforts will reduce the impact of lower sales on the company's profits.

Due to the unpredictable impact of the coronavirus outbreak, the company has decided to temporarily suspend its quarterly cash dividend to maintain a sound financial position amid this crisis. Nevertheless, Inter Parfums is seeing some rebound in its Asia business.

Valuation

Inter Parfums shares are down 30.9% in the year-to-date period and 25.6% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 28.2% and the Zacks Consumer Staples sector is down 8.7% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are down 20.3% and 3.7%, respectively.

The S&P 500 index is down 0.2% in the year-to-date period and up 12.7% in the past year.

The stock is currently trading at 39.65X forward 12-month earnings, which compares to 39.9X for the Zacks sub-industry, 20.3X for the Zacks sector and 23.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.19X and as low as 18.3X, with a 5-year median of 29.78X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$42 price target reflects 33.34X forward 12-month earnings.

The table below shows summary valuation data for IPAR

Valuation Multiples - IPAR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	39.65	39.9	20.3	23.06
	5-Year High	42.19	39.9	22.37	23.06
	5-Year Low	18.3	19.65	16.65	15.23
	5-Year Median	29.78	24.51	19.66	17.49
P/S F12M	Current	2.76	4.6	9.78	3.58
	5-Year High	3.45	4.6	11.16	3.58
	5-Year Low	1.29	1.53	8.1	2.53
	5-Year Median	2.16	2.85	9.89	3.02
EV/EBITDA F12M	Current	11.65	27.52	34.16	12.28
	5-Year High	18.74	28.05	37.75	12.62
	5-Year Low	5.74	10.93	29.77	9.03
	5-Year Median	11.75	21.06	34.09	10.79

As of 06/08/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
L'Oréal SA (LRLCY)	Outperform	2
Coty Inc. (COTY)	Neutral	4
The Estée Lauder Companies Inc. (EL)	Neutral	3
e.l.f. Beauty Inc. (ELF)	Neutral	3
Helen of Troy Limited (HELE)	Neutral	1
Nu Skin Enterprises, Inc. (NUS)	Neutral	2
Revlon, Inc. (REV)	Neutral	3
MANDOM CORP (MDOMF)	Underperform	5

Industry Comparison Industry: Cosmetics				Industry Peers		
	IPAR	X Industry	S&P 500	EL	HELE	NUS
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	1	2
VGM Score	F	-	-	D	B	A
Market Cap	1.58 B	1.58 B	23.56 B	73.74 B	4.58 B	2.11 B
# of Analysts	4	2	14	12	3	4
Dividend Yield	2.64%	0.00%	1.8%	0.94%	0.00%	3.69%
Value Score	F	-	-	D	B	B
Cash/Price	0.13	0.08	0.06	0.07	0.01	0.18
EV/EBITDA	12.11	14.02	13.19	25.30	22.68	6.58
PEG Ratio	3.83	4.66	3.18	4.70	2.97	10.78
Price/Book (P/B)	2.62	2.66	3.19	16.92	3.93	2.70
Price/Cash Flow (P/CF)	22.78	18.02	12.52	29.19	18.02	9.03
P/E (F1)	47.92	36.57	23.31	45.25	23.75	18.22
Price/Sales (P/S)	2.32	2.15	2.51	4.77	2.68	0.91
Earnings Yield	2.04%	2.62%	4.15%	2.21%	4.21%	5.49%
Debt/Equity	0.06	0.33	0.76	1.60	0.33	0.54
Cash Flow (\$/share)	2.19	1.62	7.01	7.02	10.07	4.50
Growth Score	F	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	17.78%	4.11%	10.87%	16.69%	8.00%	4.11%
Proj. EPS Growth (F1/F0)	-46.45%	-25.96%	-10.76%	-15.23%	-17.81%	-28.06%
Curr. Cash Flow Growth	6.41%	5.03%	5.48%	13.88%	13.99%	-11.19%
Hist. Cash Flow Growth (3-5 yrs)	11.74%	8.81%	8.55%	9.29%	4.22%	-3.17%
Current Ratio	3.66	1.69	1.29	1.63	2.01	1.74
Debt/Capital	5.29%	35.23%	44.75%	61.50%	24.56%	35.23%
Net Margin	7.56%	3.79%	10.59%	8.43%	8.92%	6.49%
Return on Equity	8.57%	10.89%	16.26%	43.18%	19.29%	17.91%
Sales/Assets	0.84	0.95	0.55	0.95	0.95	1.31
Proj. Sales Growth (F1/F0)	-27.23%	-5.36%	-2.62%	-3.64%	1.13%	-8.56%
Momentum Score	B	-	-	F	C	B
Daily Price Chg	-1.07%	0.00%	1.55%	-0.16%	-0.43%	2.76%
1 Week Price Chg	8.79%	0.10%	7.51%	3.90%	0.20%	6.35%
4 Week Price Chg	12.63%	8.72%	15.61%	20.53%	8.72%	19.01%
12 Week Price Chg	17.67%	17.67%	38.10%	37.49%	59.40%	127.75%
52 Week Price Chg	-27.12%	0.00%	3.66%	15.07%	35.62%	-17.64%
20 Day Average Volume	180,627	50,618	2,648,536	1,692,488	167,487	699,021
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	114.21%	0.00%	0.00%	-0.98%	0.00%	0.72%
(F1) EPS Est 12 week change	-46.02%	-25.55%	-15.97%	-20.52%	-17.19%	3.35%
(Q1) EPS Est Mthly Chg	-126.35%	-21.92%	0.00%	-23.84%	0.00%	0.41%

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	F
Growth Score	F
Momentum Score	B
VGM Score	F

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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