

Prestige Consumer (PBH)

\$40.56 (As of 01/31/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: C

Momentum: C

Summary

Prestige Consumer, which has outpaced the industry in the past six months, has a splendid earnings surprise record. Notably, the second quarter of fiscal 2020 marked the company's seventh straight earnings beat. Results reflected solid International OTC Healthcare unit performance, robust consumption trends at core categories and enhanced gross margin. Markedly, the company boasts a solid gross margin trend. Also, Prestige Consumer has a strong free cash flow record, which is helping it reduce debt and facilitate buybacks. The company's business transformation efforts are also noteworthy. However, the company has been witnessing soft sales for a while now. Sales in the second quarter were weak due to retailer inventory reductions. Also, currency volatility led to a slashed revenue guidance.

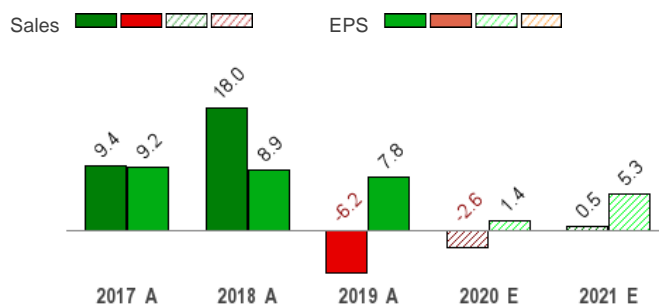
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.73 - \$26.49
20 Day Average Volume (sh)	321,446
Market Cap	\$2.0 B
YTD Price Change	0.2%
Beta	0.93
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Consumer Products - Discretionary</u>
Zacks Industry Rank	Bottom 20% (205 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.6%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	14.6
P/E F1	14.4
PEG F1	2.2
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	233 E	239 E	243 E	242 E	956 E
2020	232 A	238 A	241 E	240 E	951 E
2019	254 A	239 A	241 A	241 A	976 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.70 E	\$0.70 E	\$0.79 E	\$0.77 E	\$2.97 E
2020	\$0.65 A	\$0.68 A	\$0.75 E	\$0.74 E	\$2.82 E
2019	\$0.68 A	\$0.65 A	\$0.73 A	\$0.72 A	\$2.78 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 01/31/2020. The reports text is as of 02/03/2020.

Overview

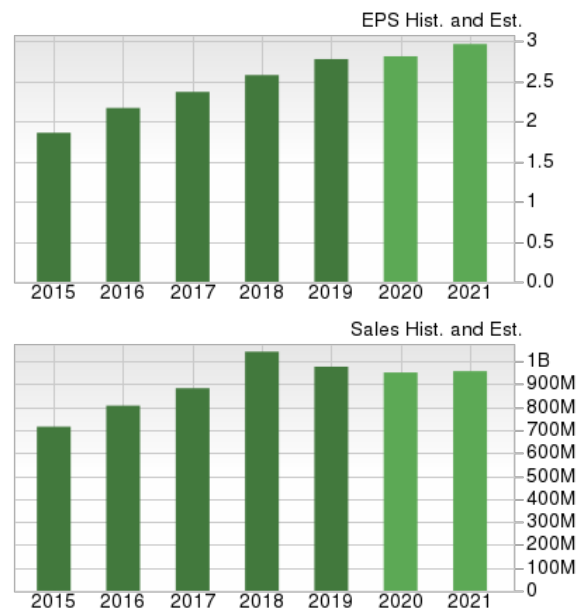
Based in New York, Prestige Consumer Healthcare Inc. and its subsidiaries develop, manufacture, market, sell and distributes over-the-counter ("OTC") healthcare and household cleaning products in United States, Canada, Australia and certain other international markets. The company provides its products to mass merchandisers as well as drug, food, dollar, convenience, and club stores. Also, Prestige Consumer Healthcare operates through the e-commerce channel.

Following the divestiture of Household Cleaning segment in July 2018, Prestige Consumer reports operating results through two segments: North American OTC Healthcare and International OTC Healthcare. As of fiscal 2019, revenues in these segments were \$862 million and \$93.5 million, respectively.

Some of the major brands under North American and International OTC Healthcare include products like BC/Goody's analgesic powders, Boudreaux's Butt Paste baby ointments, Chloraseptic sore throat treatments and mouth pain products, Clear Eyes eye care products, Compound W wart removers, Dramamine Non-Drowsy naturals, Pedia-Lax pediatric laxatives, Efferdent denture cleansers, Luden's throat drops, Debrox for ear wax removal, Hydralyte for oral rehydration, Fess nasal saline spray and Gaviscon for upset stomach remedies.

Prestige Consumer Healthcare remains focused on certain core strategies to achieve success. These include developing efficient sales, marketing and advertising plans; undertaking successful integration of acquired brands; launching innovative products; setting up third-party production and distributions; keeping pace with the advanced technology and competitive moves; and continuing with geographic expansions (both domestic and international).

Prestige Consumer Healthcare's well-known acquisitions include BC & Goody's in 2012, Hydralyte in 2015, DenTek Holdings, Inc in 2016 and Fleet in January 2017. Fleet is one of the largest transactions made by Healthcare. Such buyouts are expected to radically enhance the company's growth prospects.



Reasons To Buy:

▲ **Q2 Earnings Solid, Stock Outperforms:** Shares of Prestige Consumer have gained 24.4% in the past six months compared with the industry's gain of 15%. The company retained its impressive surprise trend in second-quarter fiscal 2020. During the quarter, both top and the bottom lines surpassed the Zacks Consensus Estimate for the third straight time. Also, earnings improved year on year. Results reflected solid International OTC Healthcare segment performance, robust consumption trends at core categories and enhanced gross margin.

Prestige Consumer gains from its strong margin trends as well as strategic acquisitions. Also, the company has been witnessing improved gross margins for a while now.

Prestige Consumer is optimistic regarding consumption trends across core brands.

Management stated that the invest-for-growth strategy has been yielding results. The company is also on track to transform into a new third-party logistics provider. Further, it is focusing on core strategies, efforts to maintain a strong financial profile and maximizing capital allocation. For fiscal 2020, adjusted earnings per share are still envisioned to be \$2.76-\$2.83 compared with \$2.78 reported in fiscal 2019.

▲ **Robust Margin Trend Bodes Well:** The company has been witnessing improved gross margins for a while now. In the second quarter, adjusted gross margin improved 60 basis points (bps) to 58%, primarily driven by product mix. The metric expanded 230 bps in first-quarter fiscal 2020, preceded by growth of 160 bps, 310 bps and 220 bps in the second, third and fourth quarters of fiscal 2019, respectively. Continuation of such trends bodes well for profitability.

▲ **Solid Cash Flow Generation Reduces Debt & Facilitates Buybacks:** Prestige Consumer continued to witness robust free cash flow generation in second-quarter fiscal 2020. The company generated free cash flow of approximately \$47 million in the fiscal second quarter, which helped it reduce debt and repurchase shares. On a year-to-date basis, the company lowered debt by about \$46 million and made share buybacks of \$50 million. Management expects adjusted free cash flow \$200 million or more in fiscal 2020. We hope that such a strong financial status will enable it to lower debt further and reward shareholders.

▲ **Transitioning to a Healthcare Focused Company:** Prestige Consumer is on-track with completely transforming its business and thereby focus solely on healthcare. Well, management already commenced initiatives to achieve the target by changing its corporate name to Prestige Consumer Healthcare, Inc during the second quarter of fiscal 2019. This move is an important milestone for the company that prides on having a strong portfolio of healthcare brands. Moreover, management stated that focusing on areas that have greater growth prospects, such as healthcare, will aid the company in utilizing resources efficiently.

Reasons To Sell:

▼ **Dismal Sales Trend:** Prestige Consumer's top line declined year over year for the sixth straight period in the second quarter of fiscal 2020. The 0.5% decline could be accountable to inventory reductions in the North American OTC Healthcare segment. The company's top line decreased 8.6% in the first quarter of fiscal 2020, preceded by 1%, 7.2%, 10.8% and 5.8% in the first, second, third and fourth quarters of fiscal 2019, respectively. Persistence of such a trend is a worry.

Moreover, the company lowered its revenue expectation for fiscal 2020, mainly due to anticipated currency movements. It now expects revenues of \$947-\$957 million compared with the earlier view of \$951-\$961 million.

▼ **Currency Volatility:** The company is exposed to volatile foreign currency translations, as it has a significant presence in international markets and undertakes business expansion efforts frequently. We note that currency headwinds marred the company's international sales by about \$1 million in the second quarter.

Also, currency headwinds expectation was a reason behind management's curtailed revenue guidance for fiscal 2020. Thus, we believe that volatility in exchange rates remains a considerable threat to the company's performance.

▼ **Intense Competition:** The company faces stiff competition in OTC Healthcare from its peers, on the grounds of brand recognition, product quality, performance, value to customers, price and product availability. Its private label products, introduced by major supply chains, are highly competitive due to unpredictable consumer trends.

Prestige Consumer's top line fell year over year for the sixth straight time in the second quarter. Further, management curtailed revenue guidance.

Last Earnings Report

Prestige Consumer Q2 Earnings Top, Revenues Down Y/Y

Prestige Consumer Healthcare delivered second-quarter fiscal 2020 results, wherein adjusted earnings of 68 cents per share outpaced the Zacks Consensus Estimate of 65 cents. Quarterly earnings also improved 4.6% year over year.

Total revenues of \$238.1 million exceeded the Zacks Consensus Estimate of \$237.2 million. However, the top line inched down 0.5% year over year, while organic revenues (excluding currency effects) remained flat. Top-line results were affected by retailer inventory reductions, which were largely mitigated by robust consumption trends at core categories and solid international unit.

Gross profit came in at \$136.8 million, which inched down 0.5% from the prior-year quarter's figure. Gross margin remained flat year on year at 57.4%. Nevertheless, adjusted gross margin improved 60 basis points (bps) to 58%, primarily driven by product mix.

Adjusted EBITDA was \$77.1 million, down 3.7% year over year. Adjusted EBITDA margin contracted 110 bps to 32.4%.

Segment Performance

Revenues in the **North American OTC Healthcare** segment were \$213.9 million, down nearly 1% year over year. The decline is accountable to inventory reductions, compensated by increased consumption at core categories.

Revenues in the **International OTC Healthcare** segment totaled \$24.2 million, up 3.4% from the year-ago quarter's figure. The upside can be attributed to increased consumption as well as timing of shipments and distributor orders, which were partly negated by currency headwinds to the tune of \$1 million.

Financial Updates

The company exited the quarter under review with cash and cash equivalents of \$27.9 million, long-term debt (net) of \$1,754.1 million and total shareholders' equity of \$1,112.7 million.

During the second quarter, the company lowered its debt by \$46 million in the second quarter and repurchased shares worth roughly \$50 million. Net cash provided by operating activities in the reported quarter was \$50.2 million. Accordingly, cash flow from operations in the first six months of 2020 amounted to \$103 million.

As of Sep 30, 2019, the company's net debt position was about \$1.7 billion.

Outlook

Prestige Consumer is optimistic regarding consumption trends across core brands. Management stated that the invest-for-growth strategy has been yielding well. The company is also on track to transition to a new third-party logistics provider. Further the company is on track with its core strategies, efforts to maintain a strong financial profile and maximize capital allocation.

For fiscal 2020, the company lowered its revenue expectation, mainly due to anticipated impacts from currency movements. It now anticipates revenues in the range of \$947-\$957 million compared with the earlier view of \$951-\$961 million. Nevertheless, it reiterated organic revenue expectations and expects it to stay flat.

Further, adjusted earnings per share are still envisioned in the range of \$2.76-\$2.83. In this regard, it had earlier highlighted that adjusted earnings will be more weighted in the second half of fiscal 2020 due to increased A&P and G&A spending in the first half.

Free cash flow is forecasted to be \$200 million or more in fiscal 2020.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.39%
EPS Surprise	4.62%
Quarterly EPS	0.68
Annual EPS (TTM)	2.78

Valuation

Prestige Consumer Healthcare shares are up 43.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 18.3% and those in the Zacks Consumer Discretionary sector gained 13.1% in the past year.

The S&P 500 index is up 20% in the past year.

The stock is currently trading at 13.78X forward 12-month earnings, which compares to 15.12X for the Zacks sub-industry, 19.65X 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 24.6X and as low as 9.25X, with a 5-year median of 18.79X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$44 price target reflects 14.61X forward 12-month earnings.

The table below shows summary valuation data for PBH

Valuation Multiples - PBH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.78	15.12	19.65	18.5
	5-Year High	24.6	26.92	23.35	19.34
	5-Year Low	9.25	10.4	16.16	15.18
	5-Year Median	18.79	20.3	20.06	17.46
P/S F12M	Current	2.13	0.62	2.25	3.43
	5-Year High	3.58	1.17	3.19	3.43
	5-Year Low	1.43	0.54	1.81	2.54
	5-Year Median	2.54	0.91	2.54	3
EV/EBITDA F12M	Current	11.93	10.52	10.74	12.66
	5-Year High	15.04	12.37	12.76	12.66
	5-Year Low	9.71	6.66	8.18	9.08
	5-Year Median	12.66	10.08	10.77	10.78

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (205 out of 255)



Top Peers

Procter & Gamble Company (The) (PG)	Outperform
Rite Aid Corporation (RAD)	Outperform
Central Garden & Pet Company (CENT)	Neutral
Church & Dwight Co., Inc. (CHD)	Neutral
The Clorox Company (CLX)	Neutral
Container Store (The) (TCS)	Neutral
Funko, Inc. (FNKO)	Underperform
Spectrum Brands Holdings Inc. (SPB)	Underperform

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	PBH Neutral	X Industry	S&P 500	FNKO Underperform	SPB Underperform	TCS Neutral
VGM Score	C	-	-	A	A	A
Market Cap	2.04 B	166.15 M	23.55 B	742.72 M	2.83 B	198.90 M
# of Analysts	4	2.5	13	7	3	1
Dividend Yield	0.00%	0.00%	1.81%	0.00%	2.74%	0.00%
Value Score	B	-	-	B	A	A
Cash/Price	0.01	0.08	0.04	0.02	0.21	0.04
EV/EBITDA	36.12	7.86	13.97	10.39	11.92	9.25
PEG Ratio	2.23	1.93	1.97	0.58	0.90	NA
Price/Book (P/B)	1.83	1.46	3.21	2.41	1.76	0.77
Price/Cash Flow (P/CF)	11.45	6.15	13.36	9.65	6.15	3.48
P/E (F1)	14.47	16.90	18.42	10.74	16.90	9.62
Price/Sales (P/S)	2.14	0.47	2.60	0.91	0.75	0.22
Earnings Yield	6.95%	5.65%	5.43%	9.31%	5.91%	10.40%
Debt/Equity	1.60	0.31	0.72	0.88	1.30	2.32
Cash Flow (\$/share)	3.54	1.29	6.92	1.56	9.99	1.16
Growth Score	C	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	9.38%	4.24%	10.68%	NA	NA	12.48%
Proj. EPS Growth (F1/F0)	1.26%	4.17%	7.59%	15.98%	27.04%	0.00%
Curr. Cash Flow Growth	2.83%	-4.06%	10.81%	46.75%	64.31%	10.13%
Hist. Cash Flow Growth (3-5 yrs)	12.05%	12.05%	8.78%	NA	16.24%	7.28%
Current Ratio	2.08	1.53	1.22	1.72	1.45	0.88
Debt/Capital	61.55%	41.03%	42.99%	46.79%	56.48%	69.88%
Net Margin	-3.56%	-0.13%	11.69%	2.69%	14.35%	2.69%
Return on Equity	12.68%	8.55%	17.33%	17.93%	7.84%	7.54%
Sales/Assets	0.27	1.16	0.55	1.13	0.71	0.97
Proj. Sales Growth (F1/F0)	-2.58%	1.42%	4.12%	11.34%	1.42%	3.79%
Momentum Score	C	-	-	C	B	B
Daily Price Chg	-2.34%	0.00%	-1.98%	-3.78%	1.47%	-0.25%
1 Week Price Chg	-3.13%	-0.29%	-1.09%	-0.64%	-4.48%	-7.25%
4 Week Price Chg	0.17%	-2.76%	-2.11%	-14.46%	-3.64%	-5.39%
12 Week Price Chg	6.57%	0.00%	2.15%	0.40%	14.64%	2.02%
52 Week Price Chg	45.27%	-26.09%	14.15%	-13.37%	9.90%	-43.58%
20 Day Average Volume	321,446	27,201	1,808,632	802,523	432,636	211,886
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	-3.01%	-0.09%	-2.25%	-6.12%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	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	B
Growth Score	C
Momentum Score	C
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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