

Prestige Consumer (PBH)

\$41.47 (As of 05/20/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 05/19/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: F

Summary

Shares of Prestige Consumer have outperformed the industry in the past six months. The stock recently got a further boost when the company retained its impressive surprise trend in the fourth-quarter fiscal 2020 results, wherein both top and bottom lines rose year over year and beat the consensus mark. Results were backed by robust consumption trends at core brands in domestic regions as well as solid international unit's performance, thanks to consumers' stockpiling driven by coronavirus. However, management expects these trends to reverse in the first quarter of fiscal 2021, as consumers are likely to alter their shopping habits. This reduction is anticipated to be somewhat offset by increased retailer orders. Apart from this, volatile currency movements remain a concern.

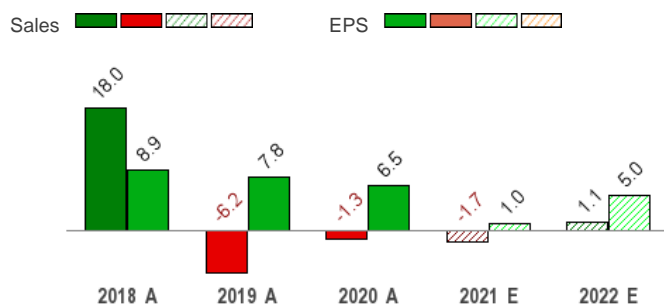
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.12 - \$27.40
20 Day Average Volume (sh)	479,569
Market Cap	\$2.1 B
YTD Price Change	2.4%
Beta	0.80
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consumer Products - Discretionary
Zacks Industry Rank	Top 7% (19 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.8%
Last Sales Surprise	4.5%
EPS F1 Est- 4 week change	-0.5%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	13.9
PEG F1	2.1
P/S TTM	2.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	228 E	239 E	245 E	246 E	957 E
2021	222 E	236 E	243 E	246 E	947 E
2020	232 A	238 A	242 A	251 A	963 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.74 E	\$0.73 E	\$0.85 E	\$0.84 E	\$3.14 E
2021	\$0.70 E	\$0.70 E	\$0.82 E	\$0.78 E	\$2.99 E
2020	\$0.65 A	\$0.68 A	\$0.81 A	\$0.82 A	\$2.96 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 05/20/2020. The reports text is as of 05/21/2020.

Overview

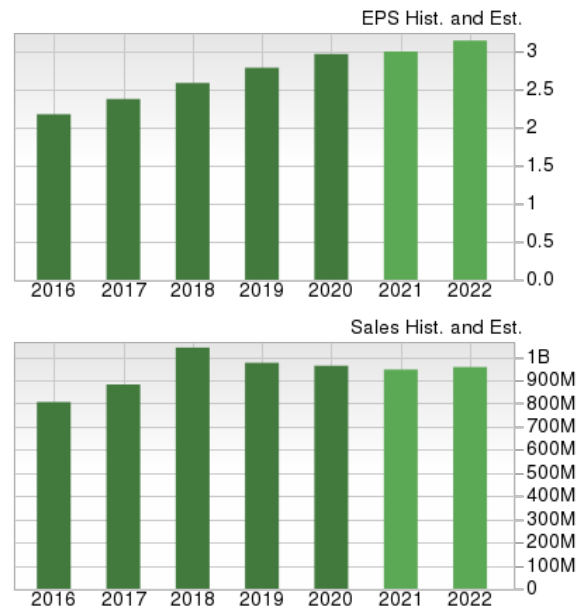
Based in New York, Prestige Consumer Healthcare Inc. and its subsidiaries develop, manufacture, market, sell and distributes over-the-counter ("OTC") healthcare and household cleaning products in United States, Canada, Australia and certain other international markets. The company provides its products 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:

▲ **Solid Q4 Results:** Shares of Prestige Consumer have gained 11.1% in the past six months compared the industry's growth of 7.1%. Notably, shares of the company have gained 6.4% in a month. The stock got a boost when the company retained its impressive surprise trend in the recently reported fourth-quarter fiscal 2020 results. During the quarter, both top and bottom lines improved year over year and beat the Zacks Consensus Estimate. This marked the company's fifth straight beat on a combined basis. Notably, adjusted earnings of 82 cents per share surpassed the Zacks Consensus Estimate of 74 cents. This marked its ninth consecutive quarter of earnings beat. Quarterly earnings also improved 13.9% year over year.

Prestige Consumer gains from its strong earnings trend. Also, the company has been witnessing improved gross margins for a while now.

Total revenues advanced 4.2% to \$251.2 million and beat the Zacks Consensus Estimate of \$240 million. Organic revenues rose 4.6% (excluding currency effects). Top-line results were backed by robust consumption trends at core brands in domestic regions as well as solid international unit performance. The company saw a sharp increase in consumption trends toward late fourth-quarter fiscal 2020, thanks to consumers' stockpiling driven by coronavirus. Also, the company's e-commerce investments yielded results. Markedly, the e-commerce business improved more than 60%, given consumers' shift to online shopping.

▲ **Robust Margin Trend Bodes Well:** The company has been witnessing improved gross margins for a while now. In fiscal fourth quarter, adjusted gross profit came of \$149.1 million grew 7.9% year over year. Further, adjusted gross margin expanded 20 basis points (bps) to 59.4%. The metric expanded 30 bps, 60 bps and 230 bps in fiscal third, second and first quarters of fiscal 2020, respectively. Continuation of such trends bodes well for profitability in the long term.

▲ **Financial Profile:** Prestige Consumer generated adjusted free cash flow of approximately \$52.5 million in the fourth quarter, which took its adjusted free cash flow for fiscal 2020 to \$206.8 million. During the fiscal, the company lowered its net debt by \$135 million. Also it strengthened its liquidity position with cash balance of about \$95 million as of Mar 31, 2020. Given the current scenario, management remains focused on maintaining high cash in hand balance as precaution. The company considers itself well placed in terms of capital, given its consistent cash flows, efficient allocation and focus on debt reduction. Markedly, the company issued new senior notes in December 2019, with earliest maturity in January 2024. Also, Prestige Consumer said that it has adequate cushion to its debt covenants.

▲ **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.

▲ **Acquisitions Bode Well:** Prestige Consumer pursues mergers and acquisitions to boost growth. In 2012, Prestige Consumer acquired BC & Goody's that aided the company expand its distribution channel and gain better customer reach. Moreover, the acquisition of Fleet in January 2017 is one of its largest transactions. Such buyouts are expected to radically enhance the company's growth prospects. Moreover, Prestige Consumer is on track with augmenting brands and marketing capabilities of its acquired businesses. Other noteworthy acquisitions of the company include DenTek Holdings, Inc in 2016 and Hydralyte in 2015. Such efforts have expanded the company's portfolio and helped it gain greater market reach.

Risks

- **Conservative Q1 Revenue Outlook:** The company saw a sharp increase in consumption trends toward late fourth-quarter fiscal 2020, thanks to consumers' stockpiling driven by coronavirus. However, management expects the trend to reverse in the first quarter of fiscal 2021, as consumers are likely to alter their shopping habits. This reduction is anticipated to be somewhat offset by increased retailer orders. All said, the company expects revenues of roughly \$220 million or more in the first quarter of fiscal 2021, compared with \$232.2 million recorded in the year-ago period.
 - **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 fourth quarter. 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.
 - **Dependence on Few Customers:** The company faces the risk of a limited number of customers. Moreover, Prestige Consumer does not have any long-term sales agreements with any of these customers. Further, management expects top ten customers to continue to contribute a substantial amount to the sales of the company in the future. Consequently, the loss of any of these customers or reduction in transactions with them could have an adverse impact on the company's performance.
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Last Earnings Report

Prestige Consumer Q4 Earnings & Revenues Top Estimates

Prestige Consumer Healthcare reported fourth-quarter fiscal 2020 results, wherein both top and bottom lines improved year over year and beat the Zacks Consensus Estimate. This marked the company's fifth straight beat (on a combined basis).

The company posted adjusted earnings of 82 cents per share, which surpassed the Zacks Consensus Estimate of 74 cents. This marked its ninth consecutive quarter of earnings beat. Quarterly earnings also improved 13.9% year over year.

Total revenues advanced 4.2% to \$251.2 million and beat the Zacks Consensus Estimate of \$240 million. Organic revenues rose 4.6% (excluding currency effects). Top-line results were backed by robust consumption trends at core brands in the domestic regions and solid international unit performance.

Adjusted gross profit came in at \$149.1 million, which grew 7.9% from the prior-year quarter's figure. Adjusted gross margin expanded 20 basis points (bps) to 59.4%.

Adjusted EBITDA was \$85.9 million, up 2.6% year over year. However, adjusted EBITDA margin contracted 50 bps to 34.2%.

Segment Performance

Revenues in the **North American OTC Healthcare** segment were \$219.8 million, up 2.3% year over year. The upside is accountable to greater consumption at core brands.

Revenues in the **International OTC Healthcare** segment totaled \$31.4 million, up 20.3% from the year-ago quarter's figure. The upside can be attributed to solid consumption gains along with favorable distributor order and shipment timings. This was partly negated by currency headwinds to the tune of roughly \$1 million.

Financial Updates

The company exited the quarter with cash and cash equivalents of \$94.8 million, long-term debt (net) of \$1,730.3 million and total shareholders' equity of approximately \$1,171 million.

Net cash provided by operating activities in fiscal 2020 was \$217.1 million. Adjusted free cash flow for the fiscal amounted to \$206.8 million. As of Mar 31, the company's net debt position was about \$1.6 billion. In fiscal 2020, Prestige Consumer lowered debt by \$68 million, increased cash and cash equivalents by \$67 million and made share buybacks of around \$57 million.

Guidance

The company saw a sharp increase in consumption trends toward late fourth-quarter fiscal 2020, thanks to consumers' stockpiling driven by coronavirus. However, management expects the trend to reverse in the first quarter of fiscal 2021, as consumers are likely to alter their shopping habits. This reduction is anticipated to be somewhat offset by increased retailer orders. All said, the company expects revenues of roughly \$220 million or more in the first quarter of fiscal 2021, with earnings per share expected to be 70 cents or more.

However, the company did not offer any guidance for fiscal 2021 due to the uncertainty surrounding shutdowns and consumer spending led by the COVID-19 crisis. Nonetheless, the company said that it is well placed to navigate through these hurdles, given its robust brand portfolio, disciplined capital allocation and financial flexibility.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	4.48%
EPS Surprise	10.81%
Quarterly EPS	0.82
Annual EPS (TTM)	2.96

Recent News

Prestige Consumer Unveils New Buyback Plan - Mar 2, 2020

Prestige Consumer announced the authorization of share buybacks up to \$25 million.

Valuation

Prestige Consumer Healthcare shares are up 2.4% in the year-to-date period and 39.8% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 4.6%, whereas the Zacks Consumer Discretionary sector is down 16.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 4% while the sector declined 10.5%.

The S&P 500 index is down 9.1% in the year-to-date period and up 0.8% in the past year.

The stock is currently trading at 13.77X forward 12-month earnings, which compares to 17.1X for the Zacks sub-industry, 29.54X for the Zacks sector and 21.33X 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 16.35X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$48 price target reflects 15.94X 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	13.77	17.1	29.54	21.33
	5-Year High	24.6	26.7	29.54	21.33
	5-Year Low	9.25	10.31	16.21	15.23
	5-Year Median	16.35	18.8	19.92	17.49
P/S F12M	Current	2.19	0.99	2.05	3.3
	5-Year High	3.58	1.22	3.2	3.44
	5-Year Low	1.43	0.57	1.67	2.53
	5-Year Median	2.29	0.92	2.53	3.01
EV/EBITDA F12M	Current	10.96	10.66	10.53	12.3
	5-Year High	15.04	13.32	12.4	12.65
	5-Year Low	9.71	7.06	8.64	9.05
	5-Year Median	12.65	10.76	10.8	10.81

As of 05/20/2020

Industry Analysis Zacks Industry Rank: Top 7% (19 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Central GardenPet Company (CENT)	Outperform	2
The Clorox Company (CLX)	Outperform	1
ChurchDwight Co., Inc. (CHD)	Neutral	2
Funko, Inc. (FNKO)	Neutral	4
ProcterGamble Company The (PG)	Neutral	3
Rite Aid Corporation (RAD)	Neutral	4
Spectrum Brands Holdings Inc. (SPB)	Neutral	3
Container Store The (TCS)	Neutral	2

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	PBH	X Industry	S&P 500	FNKO	SPB	TCS
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	4	3	2
VGM Score	B	-	-	A	B	C
Market Cap	2.08 B	103.18 M	20.26 B	241.00 M	1.83 B	103.18 M
# of Analysts	5	3	14	6	3	1
Dividend Yield	0.00%	0.00%	2.09%	0.00%	3.94%	0.00%
Value Score	B	-	-	A	C	A
Cash/Price	0.05	0.13	0.07	0.27	0.27	0.14
EV/EBITDA	11.67	7.74	12.22	4.79	11.81	8.28
PEG Ratio	2.13	2.31	2.72	0.96	1.09	NA
Price/Book (P/B)	1.78	1.54	2.79	0.81	1.60	0.38
Price/Cash Flow (P/CF)	11.32	6.18	10.87	2.80	4.26	1.80
P/E (F1)	13.87	16.48	20.21	14.39	14.46	4.86
Price/Sales (P/S)	2.16	0.74	2.07	0.32	0.48	0.11
Earnings Yield	7.21%	5.56%	4.73%	6.98%	6.92%	20.57%
Debt/Equity	1.50	0.69	0.76	0.86	2.45	2.31
Cash Flow (\$/share)	3.66	1.09	7.01	1.74	9.99	1.16
Growth Score	B	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	8.06%	6.56%	10.87%	NA	NA	16.53%
Proj. EPS Growth (F1/F0)	1.08%	0.65%	-10.31%	-64.76%	3.03%	7.50%
Curr. Cash Flow Growth	0.35%	0.35%	5.51%	13.56%	64.31%	10.13%
Hist. Cash Flow Growth (3-5 yrs)	8.12%	14.36%	8.55%	NA	16.24%	7.28%
Current Ratio	2.44	1.60	1.29	1.69	2.39	1.05
Debt/Capital	60.05%	44.93%	44.54%	46.38%	71.05%	69.78%
Net Margin	14.77%	-2.29%	10.54%	0.71%	-6.31%	1.92%
Return on Equity	13.33%	2.84%	16.27%	9.89%	10.92%	6.99%
Sales/Assets	0.28	1.00	0.54	0.99	0.74	0.89
Proj. Sales Growth (F1/F0)	-1.70%	0.00%	-2.49%	-17.50%	-3.95%	-1.78%
Momentum Score	F	-	-	F	D	C
Daily Price Chg	-0.46%	0.00%	1.89%	1.46%	1.16%	0.97%
1 Week Price Chg	-0.55%	-0.50%	-4.56%	-10.78%	-11.31%	-11.40%
4 Week Price Chg	6.39%	10.40%	6.22%	42.40%	20.33%	5.03%
12 Week Price Chg	6.74%	-0.57%	-11.76%	-40.61%	-21.49%	-47.36%
52 Week Price Chg	39.87%	-44.75%	-6.30%	-77.24%	-33.94%	-73.31%
20 Day Average Volume	479,569	37,171	2,611,239	1,030,843	404,225	338,494
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.53%	-0.15%	-4.10%	-50.00%	-0.67%	0.00%
(F1) EPS Est 12 week change	-0.43%	-0.56%	-16.63%	-67.66%	-18.68%	0.00%
(Q1) EPS Est Mthly Chg	-1.87%	-2.80%	-9.35%	-2,366.67%	-22.05%	NA

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	B
Growth Score	B
Momentum Score	F
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.

Disclosures

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