

Prestige Consumer (PBH)

\$35.15 (As of 03/26/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Prestige Consumer outpaced the industry in the past year. The company has a splendid earnings surprise record. Notably, third-quarter fiscal 2020 marked its eighth straight earnings beat. Also, organic revenues inched up 0.5% at cc. The top line was backed by robust consumption trends at core brands in the domestic regions and solid international unit. Further, Prestige Consumer has a strong free cash flow record, which is facilitating debt reduction and buybacks. Based on the solid year-to-date results and efficient use of cash flows, management raised its earnings outlook for fiscal 2020. Also, it boasts a solid gross margin trend. However, the company witnessed soft sales in the North American OTC Healthcare unit due to retailer inventory reductions in the quarter. Also, currency volatility is a concern.

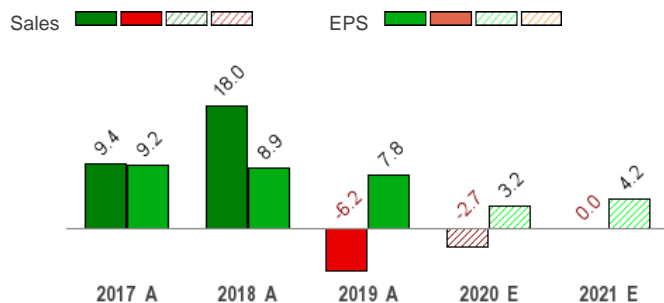
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.12 - \$27.40
20 Day Average Volume (sh)	910,667
Market Cap	\$1.8 B
YTD Price Change	-13.2%
Beta	0.89
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<u>Consumer Products - Discretionary</u>
Zacks Industry Rank	Bottom 35% (164 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	05/14/2020
Earnings ESP	-0.6%
P/E TTM	12.3
P/E F1	12.3
PEG F1	1.9
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	231 E	238 E	242 E	239 E	950 E
2020	232 A	238 A	242 A	238 E	950 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	\$0.82 E	\$0.78 E	\$2.99 E
2020	\$0.65 A	\$0.68 A	\$0.81 A	\$0.72 E	\$2.87 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 03/26/2020. The reports text is as of 03/27/2020.

Overview

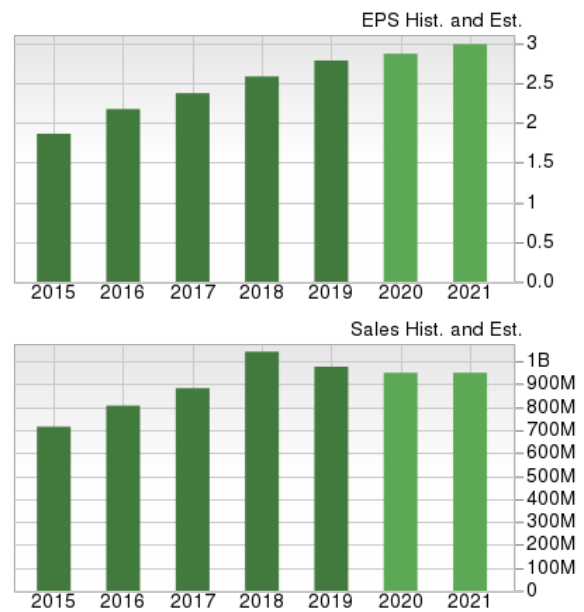
Based in New York, Prestige Consumer Healthcare Inc. and its subsidiaries develop, manufacture, market, sell and distributes over-the-counter ("OTC") healthcare and household cleaning products in United States, Canada, Australia and certain other international markets. The company provides its products 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 Q3 Results, Raised Earnings View:** The company retained its impressive surprise trend in third-quarter fiscal 2020. During the quarter, the top and the bottom line surpassed the Zacks Consensus Estimate for the fourth straight time on a combined basis. Also, earnings improved 11% year on year to 81 cents per share in fiscal third quarter.

Further, total revenues came in at \$241.6 million compared with the year-ago quarter's figure of \$241.4 million. Organic revenues inched up 0.5% (excluding currency effects). Top-line results were backed by robust consumption trends at core brands in the domestic regions and solid international unit performance. Based on its strong year-to-date results and efficient use of cash flows, management raised its earnings outlook for fiscal 2020. Adjusted earnings are now envisioned in the range of \$2.85-\$2.87 per share, up from the prior view of \$2.76-\$2.83. We believe that strong performance along with a positive outlook is boosting investors' sentiments. Shares of Prestige Consumer have gained 18% in the past year against the industry's decline of 39.3%.

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

- ▲ **Robust Margin Trend Bodes Well:** The company has been witnessing improved gross margins for a while now. In fiscal third quarter, adjusted gross margin expanded 30 basis points (bps) to 58%. The metric expanded 60 bps in second-quarter fiscal 2020, preceded by growth of 230 bps in fiscal first quarter. Continuation of such trends bodes well for profitability in the long term.
 - ▲ **Solid Cash Flow Generation Reduces Debt & Facilitates Buybacks:** Prestige Consumer continued to witness robust free cash flow generation in third-quarter fiscal 2020. The company generated free cash flow of approximately \$56 million in the fiscal third quarter, which helped it reduce debt and repurchase shares. On a year-to-date basis, the company lowered debt by about \$100 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.
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Reasons To Sell:

- ▼ **Weakness in North American OTC Healthcare Unit:** Prestige Consumer continued to witness drab sales in North American OTC Healthcare segment. Revenues in the segment came in at \$214.9 million, down 0.9% year over year in third-quarter fiscal 2020. The decline is accountable to retailer inventory reductions and softness in sore throat incident levels impacting the company's cough cold portfolio. Also, changes at shelves in oral care and women's health were deterrents. Prior to this, sales in the North American OTC Healthcare segment were down nearly 1% year over year in fiscal second quarter.
- ▼ **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 third 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.

Revenue's in North American OTC Healthcare Unit fell year over year due to retailer inventory reductions the third quarter.

Last Earnings Report

Prestige Consumer Beats Q3 Earnings Estimate, View Raised

Prestige Consumer Healthcare Inc. reported third-quarter fiscal 2020 results, with both top and bottom lines surpassing the Zacks Consensus Estimate for the fourth straight time on a combined basis. Earnings also improved year on year. Based on its strong year-to-date results and efficient use of cash flows, management raised its earnings outlook for fiscal 2020.

Q3 Details

The company posted adjusted earnings of 81 cents per share, which surpassed the Zacks Consensus Estimate of 75 cents. This marked its eighth consecutive quarter of earnings beat. Quarterly earnings also improved almost 11% year over year.

Total revenues came in at \$241.6 million compared with the Zacks Consensus Estimate of \$241 million and the year-ago period's figure of \$241.4 million. Organic revenues inched up 0.5% (excluding currency effects). Top-line results were backed by robust consumption trends at core brands in the domestic regions and solid international unit performance. This was partly offset by persistent retailer inventory reductions.

Adjusted gross profit came in at \$140.1 million, which inched up 0.6% from the prior-year quarter's figure. Adjusted gross margin expanded slightly to 58%.

Adjusted EBITDA was \$86.9 million, up 2% year over year. Adjusted EBITDA margin expanded 70 bps to 36%.

Segment Performance

Revenues in the **North American OTC Healthcare** segment were \$214.9 million, down 0.9% year over year. The decline is accountable to retailer inventory reductions, compensated by increased consumption at core categories.

Revenues in the **International OTC Healthcare segment** totaled \$26.7 million, up about 8% from the year-ago quarter's figure. The upside can be attributed to increased consumption and shipments in the Asia Pacific and Australia, 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 \$28.6 million, long-term debt (net) of \$1,701.3 million and total shareholders' equity of \$1,156.5 million.

Net cash provided by operating activities in the reported quarter was \$58 million. Adjusted free cash flow for the quarter amounted to \$56.3 million.

As of Dec 31, 2019, the company's net debt position was about \$1.7 billion.

Outlook

For fiscal 2020, the company still anticipates revenues of \$947-\$957 million. Organic revenues are expected to stay flat.

Adjusted earnings are now envisioned in the range of \$2.85-\$2.87 per share, up from the prior view of \$2.76-\$2.83.

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

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.42%
EPS Surprise	8.00%
Quarterly EPS	0.81
Annual EPS (TTM)	2.86

Valuation

Prestige Consumer Healthcare shares are down 13.2% in the year-to-date period and up 18% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 38.2% and 29% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 39.3% while the sector declined 20.4%.

The S&P 500 index is down 23% in the year-to-date period and 12.9% in the past year.

The stock is currently trading at 11.7X forward 12-month earnings, which compares to 11.76X for the Zacks sub-industry, 15.85X for the Zacks sector and 14.92X 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 18.08X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$38 price target reflects 12.65X 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	11.7	11.76	15.85	14.92
	5-Year High	24.6	26.7	23.23	19.34
	5-Year Low	9.25	10.31	15.85	14.92
	5-Year Median	18.08	19.7	19.89	17.42
P/S F12M	Current	1.86	0.45	1.66	2.68
	5-Year High	3.58	1.22	3.19	3.43
	5-Year Low	1.43	0.45	1.66	2.54
	5-Year Median	2.48	0.92	2.53	3
EV/EBITDA F12M	Current	10.59	10.66	10.46	12.28
	5-Year High	14.82	13.32	12.52	12.64
	5-Year Low	9.6	7.06	10.78	10.8
	5-Year Median	12.37	10.76	10.46	12.28

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 253)



Top Peers

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

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	PBH Neutral	X Industry	S&P 500	FNKO Underperform	SPB Neutral	TCS Neutral
VGM Score	C	-	-	A	F	D
Market Cap	1.77 B	115.41 M	18.50 B	223.55 M	1.76 B	164.89 M
# of Analysts	5	3	13	7	3	1
Dividend Yield	0.00%	0.00%	2.35%	0.00%	4.37%	0.00%
Value Score	C	-	-	B	C	B
Cash/Price	0.02	0.10	0.07	0.13	0.12	0.11
EV/EBITDA	33.07	7.66	11.16	5.01	10.65	9.00
PEG Ratio	1.88	1.85	1.74	0.33	1.13	NA
Price/Book (P/B)	1.53	1.02	2.44	0.73	1.20	0.61
Price/Cash Flow (P/CF)	9.92	3.85	9.87	2.60	3.85	2.88
P/E (F1)	12.25	13.00	15.29	5.25	11.70	8.35
Price/Sales (P/S)	1.85	0.47	1.93	0.28	0.47	0.18
Earnings Yield	8.17%	7.28%	6.47%	19.03%	8.56%	11.98%
Debt/Equity	1.50	0.60	0.70	0.87	1.58	2.31
Cash Flow (\$/share)	3.54	1.16	7.01	1.74	9.99	1.16
Growth Score	C	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	8.55%	6.80%	10.85%	NA	NA	16.53%
Proj. EPS Growth (F1/F0)	3.09%	2.17%	2.89%	-10.27%	14.92%	-4.76%
Curr. Cash Flow Growth	2.83%	1.74%	5.93%	13.56%	64.31%	10.13%
Hist. Cash Flow Growth (3-5 yrs)	12.05%	14.76%	8.55%	NA	16.24%	7.28%
Current Ratio	2.02	1.42	1.23	1.64	1.42	1.05
Debt/Capital	59.97%	44.13%	42.57%	46.43%	61.20%	69.78%
Net Margin	-3.57%	-0.39%	11.64%	1.47%	14.35%	1.92%
Return on Equity	13.17%	6.99%	16.74%	13.34%	8.25%	6.99%
Sales/Assets	0.28	1.16	0.54	1.06	0.72	0.89
Proj. Sales Growth (F1/F0)	-2.69%	0.74%	2.37%	6.24%	1.30%	3.29%
Momentum Score	D	-	-	C	F	C
Daily Price Chg	14.35%	0.00%	6.21%	9.18%	5.84%	3.73%
1 Week Price Chg	-11.63%	-5.59%	-16.96%	-19.32%	-42.12%	18.22%
4 Week Price Chg	-6.64%	-12.50%	-15.70%	-44.13%	-25.83%	-14.14%
12 Week Price Chg	-13.19%	-17.58%	-23.67%	-74.27%	-39.68%	-21.78%
52 Week Price Chg	18.03%	-47.01%	-13.99%	-79.05%	-29.76%	-60.47%
20 Day Average Volume	910,667	35,074	4,286,768	1,033,692	743,802	311,648
(F1) EPS Est 1 week change	0.03%	0.00%	-0.15%	-0.30%	-9.29%	0.00%
(F1) EPS Est 4 week change	0.03%	0.00%	-2.28%	-17.66%	-9.29%	0.00%
(F1) EPS Est 12 week change	1.81%	-4.53%	-3.22%	-45.47%	-9.54%	-4.76%
(Q1) EPS Est Mthly Chg	-0.14%	-0.07%	-1.60%	-1,880.00%	-20.71%	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	C
Growth Score	C
Momentum Score	D
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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