

Sally Beauty (SBH)

\$12.15 (As of 08/04/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/04/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Although Sally Beauty's shares have lagged the industry in the past three months, the trend is likely to reverse in the near term. The company witnessed solid online sales growth in third-quarter fiscal 2020. The uptick can be attributed to higher demand on digital platforms, which provided it a cushion amid coronavirus-led store closures. With restrictions to check COVID-19 being lifted, the company reopened most of its stores. In fact, Sally Beauty is witnessing robust demand since its stores reopened. Also, it is on track with its Transformation Plan to improve customers' experience, strengthen e-commerce capacities, curtail costs and enhance retail fundamentals. However, the company's third-quarter earnings and sales fell year over year. The top line was majorly affected by temporary store closures due to the COVID-19 outbreak.

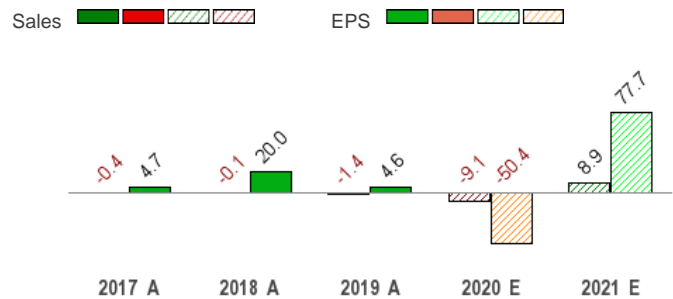
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.98 - \$6.28
20 Day Average Volume (sh)	1,580,544
Market Cap	\$1.4 B
YTD Price Change	-33.4%
Beta	1.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 18% (208 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-175.0%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	11/05/2020
Earnings ESP	-3.3%

P/E TTM	10.4
P/E F1	10.9
PEG F1	2.8
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	979 E	935 E	952 E	986 E	3,840 E
2020	980 A	871 A	705 A	959 E	3,524 E
2019	989 A	946 A	975 A	966 A	3,876 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.44 E	\$0.49 E	\$0.58 E	\$1.99 E
2020	\$0.47 A	\$0.23 A	-\$0.11 A	\$0.52 E	\$1.12 E
2019	\$0.57 A	\$0.51 A	\$0.60 A	\$0.58 A	\$2.26 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 08/04/2020. The reports text is as of 08/05/2020.

Overview

Headquartered in Denton, TX, Sally Beauty Holdings, Inc. is an international specialty retailer and distributor of professional beauty supplies. It is amongst one of the largest distributors of beauty products in the United States.

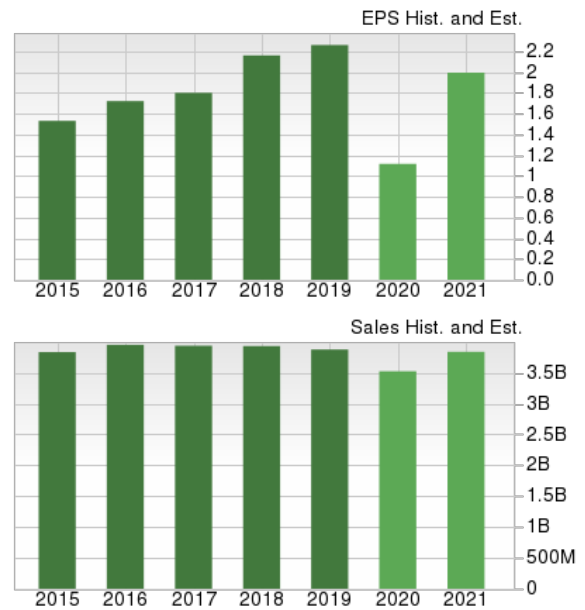
Products of the company include hair color and care products, styling tools, skin and nail care products and other beauty items. The company's stores offer a wide selection of beauty products at various price levels. Store personnel also provide beauty insights and solutions. In order to differentiate itself from competitors, Sally Beauty also offers a range of ethnic beauty products.

The businesses distribute and sell professional beauty products through more than 5,061 stores. The outlets include 159 franchised units and have operations throughout the United States and Puerto Rico, the U.K., Chile, Belgium, Canada, Mexico, Spain, Germany, France, Ireland, the Netherlands, and Peru. Sally Beauty stores offer approximately 8,000 products for hair, skin and nails through professional lines.

The company reports under two operating segments, namely, Sally Beauty Supply ("SBS") and Beauty Systems Group ("BSG"). In fiscal 2019, SBS accounted for 59.2% of the company's revenues and BSG contributed 49.8% of revenue.

The BSG unit provides products mainly to salons and salon professionals. The unit comprises of networks of distributor sales consultants (DSC) providing professional beauty products in North America, with 820 sales consultants. These consultants sell products directly to salons and salon professionals. BSG stores offer an extensive range of third party branded beauty products.

The SBS unit mainly caters to retail consumer along with salons and salon professionals. Some of the well-known third-party brands offered by SBS stores and its website are OPI, China Glaze, Wella, Clairol, Conair and Hot Shot Tools. The unit also offers a range of owned and exclusive-label branded merchandise.



Reasons To Buy:

▲ **E-commerce Growth Amid COVID-19:** Although shares of Sally Beauty have lagged the industry in the past three months, the trend is likely to reverse in the near term. The stock has gained 16% in this period compared with the industry's growth of 21.4%. Sally Beauty's e-commerce sales increased significantly from the year-ago quarter in the third quarter of fiscal 2020. The uptick can be attributed to the company's quick efforts to augment its online business and increased consumer demand on digital platforms. Also, addition of increased number of new consumers online was a reason. We believe that, increased online sale provided it a cushion amid coronavirus-led store closures.

Strength in Sally Beauty's online business provides it a cushion amid coronavirus-led store closures.

Moreover, the company has been undertaking a number of efforts to augment its online space to keep pace with the evolving shopping trends. In March, it launched digital operations in Canada along with ship-from-store in 16 stores across the region. The company also expanded its ship-from-store as well as same-day delivery options in the United States. Sally Beauty also replatformed its French and German digital sites to aid business in the United Kingdom.

▲ **Efforts to Stay Afloat Amid Coronavirus:** Sally Beauty has undertaken a number of measures to improve its financial position amid the coronavirus outbreak. The company has moderated its near-term rent payments. Also, management has significantly reduced its marketing and promotional expenses. The company has also made certain adjustments to its working capital management plans. Moreover, Sally Beauty has reopened all its retail and wholesale stores across the United States, the U.K., Canada as well as the European Union as coronavirus-induced restrictions are being relaxed. In fact, it is witnessing robust consumer as well as professional demand since its stores reopened. The company has been selling gloves to salons, police departments, as well as medical clinics.

▲ **Transformation Plan:** Sally Beauty is on track with its efforts to get back on growth trajectory. In this regard, management is focused on its Transformation Plan, as part of which it is progressing well with its four key goals —improving customers' experience, strengthening e-commerce capacities, curtailing costs and enhancing retail fundamentals. Sally Beauty intends to be committed toward its transformation endeavors. In this regard, management is on track with enhancing key digital as well as supply chain initiatives amid the coronavirus outbreak. The company earlier said that it has delayed a number of plans, including re-launch of Sally Beauty brand and remodeling stores. However, we believe that the progress made under its transformational plans so far have been yielding results.

▲ **Enhancing Customer Shopping Experience:** Sally Beauty successfully implemented the first phase of a multi-year JDA supply-chain platform in first-quarter fiscal 2019. As part of this, the company has launched five elements. The modules launched until now include SKU setup, demand planning, space planning, EDI and perpetual inventory. Recently, the company rolled out point-of-sale systems to every Sally and BSG store in the United States and Canada. Also, management restarted its JDA and North Texas distribution center initiatives. Moreover, the company is on track to float a private label credit card plan at both BSG and Sally business.

Apart from these, the company has been focusing on enhancing areas such as merchandising, BSG store operations, marketing, e-commerce, digital product as well as planning and allocation by adding new management and talent. In relation to digital strategies, the company implemented Order Management System across its network. It is reducing 'order to customer' timing and improving flexibility of shopping option.

▲ **Acquisitions:** The company has completed more than 35 acquisitions over the last 11 fiscals. In December 2017, Sally Beauty's BSG had acquired certain H. ChalutLée assets, enabling it to expand its business for the first time in Quebec province, giving BSG a footprint in Canada. This acquisition included 21 stores, 40 distributor sales consultants, one warehouse and distribution rights for certain professional brands in Quebec. Some other notable acquisitions of the past are wholesale distribution rights for Joico in the Boston area and Paul Mitchell in the Hawaiian market by the company's BSG.

Reasons To Sell:

- ▼ **Covid-19 Hurts Q3 Results:** Sally Beauty reported dismal third-quarter fiscal 2020 results, with the top and the bottom line deteriorating year over year. Also, the bottom line missed the Zacks Consensus Estimate. The company's adjusted loss came in at 11 cents per share, as opposed to adjusted earnings of 60 cents reported in the year-ago quarter. The downside was caused by adverse impacts of the coronavirus outbreak and strategic inventory clearance efforts. Consolidated net sales declined 27.7%. The top line was primarily affected by temporary store closures amid the pandemic coupled with lower store count compared with the year-ago quarter's numbers. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 30 basis points (bps). Also, consolidated same-store sales declined 26.6%.
- ▼ **Sluggish Performance in SBS Continues:** Sales in the SBS segment have been declining year over year in the past few quarters. During the third quarter of fiscal 2020, sales in the segment declined 27.7% due to lesser stores than the prior-year quarter's levels along with adverse impacts of COVID-19 outbreak. Foreign-currency translations adversely impacted sales by almost 40 bps. Further, segmental same-store sales declined 25.9%. Sales in the SBS segment had decreased 2% and 8.1% in the first and second quarter, respectively. We note that, persistence of the trend may continue to exert pressure on the company's top line.
- ▼ **Reduced Gross Margin:** In the third quarter of fiscal 2020, gross profit fell 33.3% to \$321.8 million due to lower sales volume amid the pandemic. Gross margin contracted 390 bps to 45.6%. The downside can be attributed to aggressive on-shelf inventory clearance efforts as well as non-cash write downs of inventory. Also, lower allowances from vendors were a drag. We note that, persistence of the trend is a threat to the company's performance in the near term.
- ▼ **High Costs a Concern:** Although, SG&A expenses fell \$45.6 million in the third quarter of fiscal 2020, as a percentage of sales the metric expanded 770 bps to 44.6%. The downside can be attributed to major deleveraging effect of lower sales stemming from the coronavirus outbreak. Moreover, adjusted operating earnings decreased 86.9%. Also, adjusted operating margin contracted significantly in the quarter. This headwind is likely to continue exerting pressure on the company's margins.
- ▼ **Change in Customer Preference:** One major concern with consumer-driven industries like cosmetics and apparel is rapidly changing trends. Hence, failure to stay up to date on product mix by continually searching for new products and anchoring new supplier agreements may result in becoming obsolete. Further, new trends like "all-natural" among women (who are the primary customers for the cosmetics industry) may reduce demand for makeup products, resulting in lower sales for these companies.

Sluggish performance in the SBS segment remains a drag for Sally Beauty. Also, increased SG&A costs is a concern.

Last Earnings Report

Sally Beauty Q3 Loss Wider Than Estimates, Sales Down

Sally Beauty reported dismal third-quarter fiscal 2020 results, with the top and the bottom line deteriorating year over year. Also, the bottom line missed the Zacks Consensus Estimate. Given uncertainties related to the coronavirus outbreak, management refrained from providing any update on guidance for fiscal 2020.

Q3 in Detail

Sally Beauty reported adjusted loss of 11 cents per share, wider than the Zacks Consensus Estimate of a loss of 4 cents. The company had posted an adjusted earnings of 60 cents per share in the year-ago quarter. The downside was caused by adverse impacts of the coronavirus outbreak and strategic inventory clearance efforts.

Consolidated net sales of \$705.3 million were almost in line with the Zacks Consensus Estimate of \$705.1million. The metric declined 27.7% year over year. The top line was majorly affected by temporary store closures amid the pandemic coupled with lower store count compared with the year-ago quarter's numbers. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 30 basis points (bps).

Consolidated same-store sales declined 26.6%. E-commerce sales increased significantly from the year-ago quarter. The uptick can be attributed to increased consumer demand on digital platforms which provides it a cushion amid coronavirus-led store closures.

Gross profit fell 33.3% to \$321.8 million due to lower sales volume amid the pandemic as well as reduced gross margin. Notably, gross margin contracted 390 bps to 45.6%. The downside can be attributed to aggressive on-shelf inventory clearance efforts as well as non-cash write downs of inventory. Also, lower allowances from vendors were a drag.

SG&A expenses fell \$45.6 million in the quarter on the back of cost-saving efforts and store closures amid COVID-19. SG&A, as a percentage of sales, expanded 770 bps to 44.6%.

Adjusted operating earnings decreased 86.9% to \$16 million and adjusted operating margin contracted significantly to 2.3%.

Segment Details

Sally Beauty Supply: Net sales in the segment declined 27.7% to \$415.5 million in the quarter due to lesser stores than the prior-year quarter's levels along with adverse impacts of COVID-19 outbreak. Foreign-currency translations adversely impacted sales by almost 40 bps. Further, segmental same-store sales declined 25.9%.

Net store count at the end of the quarter was 3,691, down 14 from the year-ago quarter's level.

Beauty Systems Group: Net sales in the segment fell 27.6% to \$289.8 million. Foreign-currency translation had nearly 20 bps impact on the results. Moreover, net store count at the end of the quarter was 1,371, down 13 from the year-ago quarter's level. Same-store sales fell 27.9%. Total distributor sales consultants at the end of the quarter were 651 compared with 791 in the year-ago quarter.

Other Financial Aspects

The company ended the reported quarter with cash and cash equivalents of \$838.8 million, long-term debt, including capital leases of \$1,845.6 million, and total stockholders' deficit of \$0.7 million.

In the quarter, cash flow from operations was \$198.3 million, while capital expenditure amounted to \$17.7 million.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	0.03%
EPS Surprise	-175.00%
Quarterly EPS	-0.11
Annual EPS (TTM)	1.17

Valuation

Sally Beauty shares are down 33.4% in the year-to-date period and 11.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 4.4% and the Zacks Retail-Wholesale sector are up 26.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 5.8%, whereas the sector gained 40.4%.

The S&P 500 index is up 3.4% in the year-to-date period and 16.8% in the past year.

The stock is currently trading at 6.15X forward 12-month earnings, which compares to 21.93X for the Zacks sub-industry, 33.87X for the Zacks sector and 22.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.94X and as low as 3.1X, with a 5-year median of 8.8X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 6.55X forward 12-month earnings.

The table below shows summary valuation data for SBH

Valuation Multiples - SBH					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	6.15	21.93	33.87	22.58
	5-Year High	17.94	24.2	33.87	22.58
	5-Year Low	3.1	11.52	19.07	15.25
	5-Year Median	8.8	15.96	23.44	17.55
P/S F12M	Current	0.36	0.78	1.24	3.6
	5-Year High	1.19	1.11	1.24	3.6
	5-Year Low	0.21	0.51	0.82	2.53
	5-Year Median	0.57	0.9	0.97	3.04
EV/EBITDA F12M	Current	5.31	13.2	13.01	13.21
	5-Year High	10.36	13.81	13.29	14.2
	5-Year Low	4.43	5.29	9.07	9.15
	5-Year Median	6.93	6.72	10.77	11

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Helen of Troy Limited (HELE)	Outperform	2
Nu Skin Enterprises, Inc. (NUS)	Outperform	1
Regis Corporation (RGS)	Outperform	2
Coty Inc. (COTY)	Neutral	3
The Estee Lauder Companies Inc. (EL)	Neutral	4
Five Below, Inc. (FIVE)	Neutral	3
Inter Parfums, Inc. (IPAR)	Neutral	3
Ulta Beauty Inc. (ULTA)	Underperform	5

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	SBH	X Industry	S&P 500	FIVE	RGS	ULTA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Outperform	Underperform
Zacks Rank (Short Term)	3	-	-	3	2	5
VGM Score	A	-	-	D	F	C
Market Cap	1.37 B	1.24 B	22.75 B	6.02 B	284.99 M	11.18 B
# of Analysts	8	6	14	9	1	7
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	A	-	-	D	B	C
Cash/Price	0.64	0.24	0.07	0.02	0.88	0.11
EV/EBITDA	4.17	8.47	13.09	24.44	66.76	10.46
PEG Ratio	2.85	3.64	2.95	3.53	NA	4.05
Price/Book (P/B)	NA	1.31	3.16	8.73	1.44	6.37
Price/Cash Flow (P/CF)	3.82	5.64	12.32	27.07	3.39	11.49
P/E (F1)	10.96	13.64	21.81	68.81	16.33	51.25
Price/Sales (P/S)	0.39	0.39	2.46	3.58	0.33	1.64
Earnings Yield	9.22%	6.34%	4.40%	1.45%	6.13%	1.95%
Debt/Equity	-26.70	0.98	0.76	1.27	5.21	1.45
Cash Flow (\$/share)	3.18	3.12	6.94	3.99	2.36	17.27
Growth Score	C	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	4.11%	6.28%	10.46%	27.67%	141.04%	22.48%
Proj. EPS Growth (F1/F0)	-50.61%	-48.34%	-7.16%	-49.68%	-58.47%	-67.48%
Curr. Cash Flow Growth	0.84%	6.68%	5.47%	19.42%	23.56%	5.84%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	2.61%	8.55%	27.57%	-2.98%	20.48%
Current Ratio	1.88	1.39	1.32	1.58	1.51	2.49
Debt/Capital	99.86%	57.66%	44.36%	55.99%	83.89%	59.23%
Net Margin	3.18%	3.18%	10.25%	5.87%	-12.08%	6.37%
Return on Equity	-305.73%	9.84%	14.67%	14.23%	14.17%	24.36%
Sales/Assets	1.29	1.26	0.51	0.91	0.65	1.36
Proj. Sales Growth (F1/F0)	-9.09%	-4.57%	-1.71%	-1.16%	-21.42%	-12.02%
Momentum Score	A	-	-	A	F	A
Daily Price Chg	5.19%	2.58%	0.42%	0.06%	7.96%	3.76%
1 Week Price Chg	-10.42%	0.50%	0.14%	-1.15%	-1.66%	-5.26%
4 Week Price Chg	-6.90%	9.13%	4.97%	9.68%	4.03%	-2.19%
12 Week Price Chg	25.91%	35.12%	15.30%	22.77%	-12.95%	-6.33%
52 Week Price Chg	-11.77%	12.22%	2.34%	1.44%	-53.54%	-41.67%
20 Day Average Volume	1,580,544	474,835	2,082,836	761,290	474,835	1,047,621
(F1) EPS Est 1 week change	-3.46%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.11%	0.06%	0.93%	0.00%	0.00%	-4.29%
(F1) EPS Est 12 week change	37.17%	-8.78%	0.78%	-31.84%	-39.51%	-45.21%
(Q1) EPS Est Mthly Chg	-5.57%	0.00%	0.17%	0.00%	0.00%	-3.61%

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	A
Growth Score	C
Momentum Score	A
VGM Score	A

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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