

Sally Beauty (SBH)

\$14.88 (As of 06/10/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/14/20)

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

Sally Beauty has outpaced the industry in the past three months. The company witnessed solid e-commerce sales growth in the second quarter of fiscal 2020. The uptick can be attributed to increased consumer demand on digital platforms, which provided it a cushion amid coronavirus-led store closures. Moreover, with restrictions to check COVID-19 being lifted management has been reopening stores gradually. Also, Sally Beauty 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 second-quarter earnings and sales fell year over year. The top line was majorly affected by temporary store closures due to the COVID-19 outbreak. Sluggish performance in SBS unit and unfavorable currency rates are headwinds.

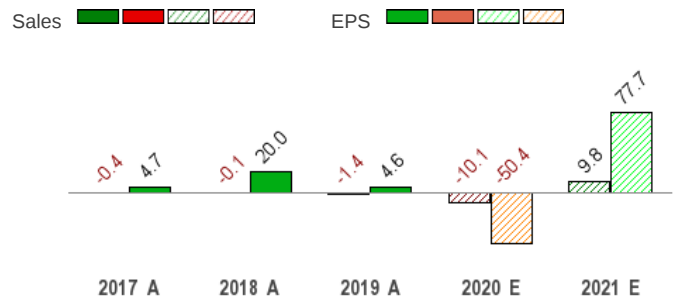
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.98 - \$6.28
20 Day Average Volume (sh)	1,759,874
Market Cap	\$1.7 B
YTD Price Change	-18.5%
Beta	1.25
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Top 36% (90 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.5%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	36.8%
Expected Report Date	07/29/2020
Earnings ESP	-43.1%
P/E TTM	7.9
P/E F1	13.3
PEG F1	3.5
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	976 E	929 E	960 E	971 E	3,826 E
2020	980 A	871 A	672 E	966 E	3,485 E
2019	989 A	946 A	975 A	966 A	3,876 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.44 E	\$0.42 E	\$0.59 E	\$0.56 E	\$1.99 E
2020	\$0.47 A	\$0.23 A	-\$0.09 E	\$0.55 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 06/10/2020. The reports text is as of 06/11/2020.

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.

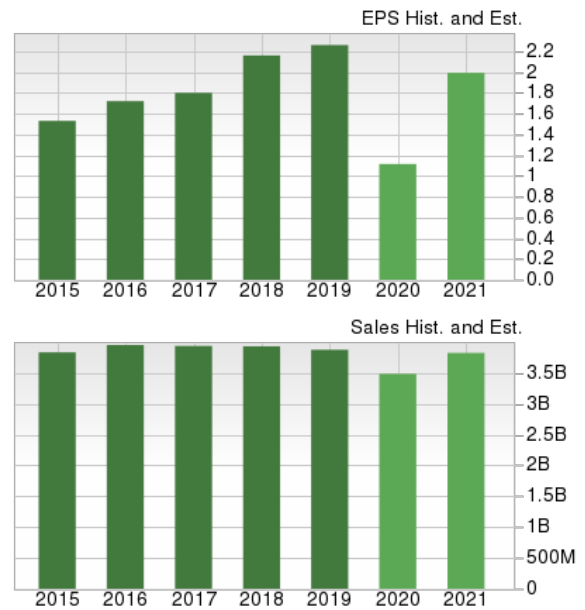
Products of the company include hair color and care products, styling tools, skin and nail care products and other beauty items. The company's stores offer a wide selection of beauty products at various price levels. Store personnel also provide beauty insights and solutions. In order to differentiate 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:** Sally Beauty's e-commerce sales increased 28% from the year-ago quarter in the second quarter of fiscal 2020. The uptick can be attributed to increased consumer demand on digital platforms, which provided it a cushion amid coronavirus-led store closures. In March, the company launched digital operations in Canada along with ship-from-store in 16 stores across the region. Following store closures amid COVID-19 outbreak, Sally Beauty increased its e-commerce capabilities significantly. The company 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. The company's continued focus on enhancing its digital capabilities bodes well. Notably, shares of Sally Beauty have increased 54.% in the past three months, compared with the industry's growth of 41.1%.

Strength in Sally Beauty's online business provides it a cushion amid coronavirus-led store closures.
- ▲ **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 and significantly reduced its marketing as well as back-office expenses. Management furloughed 60% of its corporate staff and lowered executive salaries. The company has also made certain adjustments to its capital investment plans. Sally Beauty is also on track with reopening stores and implementing curbside pickup options as coronavirus-induced restrictions are being relaxed in many states. Impressively, the company has been witnessing robust consumer as well as professional demand since its stores reopened. Sally Beauty expects enterprise-wide sales to come in at \$262 million for May in spite of a large number of its stores being shut during that time. Meanwhile, revenues for April came in at \$95 million. 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 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.

Further, it had rolled out Oracle-based point-of-sale (POS) systems to nearly 2500 stores. 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 Q2 Results:** Sally Beauty Holdings second-quarter fiscal 2020 earnings and revenues declined year over year. The company reported adjusted earnings of 23 cents per share, which fell 54.9% year over year. Consolidated net sales of \$871 million declined 7.9% year over year. The top line was majorly affected by temporary store closures amid the coronavirus outbreak and lower store count than the year-ago period. Unfavorable foreign-currency translations negatively impacted sales by roughly 30 basis points. Apart from these, gross profit decreased 8.2% from the year-ago period. Also, gross margin contracted 20 basis points (bps) to 49.3% due to decline in Beauty Systems Group.

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

▼ **Sluggish Performance in SBS Continues:** Sales in the SBS segment have been declining year over year in the past few quarters. During the second quarter of fiscal 2020, sales of the segment decreased 8.1% due to lesser stores than the prior-year quarter along with adverse impacts of COVID-19 outbreak. Foreign-currency translations adversely impacted sales by almost 50 bps. Global segmental same-store sales declined 7%. Sales in the SBS segment had decreased 2% in the first quarter. We note that, persistence of the trend may exert pressure on the company's top line in the near term.

▼ **High Costs:** SG&A expenses increased \$21.7 million in the second quarter of fiscal 2020 due to increased personnel expenses, higher marketing costs, and greater professional fees. Meanwhile, SG&A as a percentage of sales expanded 580 bps to 44%. Adjusted operating earnings decreased 42.6% while adjusted operating margin contracted 430 bps in the second quarter. This headwind is likely to continue exerting pressure on the company's margins.

▼ **Debt Analysis:** Although, Sally Beauty's long-term debt (including long-term lease liability) of \$1,550 million as of Mar 31, 2020, decreased from the preceding quarter its debt-to-capitalization ratio of 1.03 stands much higher than the industry's figure of 0.71. Moreover, the company's times interest earned ratio of 4.1 is below the industry's ratio of 5.3. The times-interest-earned ratio is very important for some companies, as it measures a company's ability to meet its debt obligations based on its current income. Further, Sally Beauty had cash and cash equivalents of \$364 million as of Mar 31, 2020 while its current debt stood at \$396 million.

▼ **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 primarily customers for the cosmetics industry) may reduce demand for makeup products, resulting in lower sales for these companies.

Last Earnings Report

Sally Beauty Beats on Q2 Earnings, Sales Down Y/Y

Sally Beauty Holdings reported second-quarter fiscal 2020 results, wherein earnings and revenues beat the Zacks Consensus Estimate. However, both metrics declined year over year. Given the uncertainty related to the coronavirus outbreak, management refrained from providing guidance for fiscal 2020.

Q2 in Detail

Sally Beauty reported adjusted earnings of 23 cents per share, beating the Zacks Consensus Estimate of 21 cents. However, the metric declined 54.9% year over year.

Consolidated net sales of \$871 million beat the Zacks Consensus Estimate of \$867 million. The metric declined 7.9% year over year. The top line was majorly affected by temporary store closures amid the pandemic, coupled with lower store count than the year-ago period. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 30 basis points (bps).

Consolidated same-store sales declined 7.1%. E-commerce sales increased 28% 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 decreased 8.2% to \$429.8 million. Gross margin contracted 20 bps to 49.3% due to decline in Beauty Systems Group ("BSG") segment, partly offset by a stable Sally Beauty Supply ("SBS") unit.

SG&A expenses increased \$21.7 million in the quarter due to increased personnel expenses, higher marketing costs and greater professional fees. Meanwhile, SG&A as a percentage of sales expanded 580 bps to 44%.

Adjusted operating earnings decreased 42.6% to \$61.2 million and adjusted operating margin contracted 430 bps to 7%.

Segment Details

SBS: Net sales of the segment decreased 8.1% to \$519.5 million in the quarter due to lesser stores than the prior-year quarter along with adverse impacts of COVID-19 outbreak. Foreign-currency translations adversely impacted sales by almost 50 bps. Further, global segmental same-store sales declined 7%. Nevertheless, the segment's U.S. and Canada business registered e-commerce growth of 56% during the quarter.

Net store count at the end of the quarter was 3,701, reflecting a decrease of 17 from the year-ago period.

BSG: Net sales at the segment decreased 7.6% to \$351.5 million. Foreign-currency translation had no impact on the results. Moreover, net store count at the end of the quarter was 1,374, representing a decline of 14 from the year-ago period. Same-store sales fell 7.4%. Total distributor sales consultants at the end of the quarter were 660 compared with 798 in the year-ago period.

Other Financial Aspects

The company ended the reported quarter with cash and cash equivalents of \$364.4 million, long-term debt, including capital leases of \$1,550.2 million, and total stockholders' deficit of \$0.5 million.

In the quarter, cash flow from operations was \$13.8 million, while capital expenditure amounted to \$31.1 million.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	0.16%
EPS Surprise	9.52%
Quarterly EPS	0.23
Annual EPS (TTM)	1.88

Recent News

Sally Beauty Reopens Stores, Brings Back Certain Employees- Jun 2, 2020

With restrictions to check the coronavirus outbreak being lifted Sally Beauty announced that Sally Beauty Supply U.S. and Canada have reopened 84% stores by the end of May. Further, Beauty Systems Group had 82% of stores operational at the end of May.

Also, the company's continental European stores are now operational. Apart from these, Sally Beauty expects its stores in Ireland and United Kingdom to reopen by Jun 15. Additionally, management is on track with reopening stores in Latin America as well.

Impressively, Sally Beauty has been witnessing robust consumer as well as professional demand since its stores reopened. The company expects enterprise-wide sales to come in at \$262 million for May in spite of a large number of its stores being shut during that time. Meanwhile, revenues for April came in at \$95 million.

Notably, Sally Beauty will bring back all its previously furloughed associates working in the field and headquarter across the United States and Canada, effective Jun 8. However, associates who work in all those stores that continue to remain closed will not be called back. Also, the company expects to bring back its Europe and Latin America store associates in fourth-quarter fiscal 2020.

Sally Beauty Shuts Stores, Withdraws Guidance Amid Coronavirus - March 24, 2020

Sally Beauty Holdings temporarily shut down all stores in the United States and Canada, till at least Apr 9. Also, the company is reprioritizing its transformation plans to speed up digital programs, delaying non-capital expenditures and improving cost structure. Consequently, management withdrew its guidance for fiscal 2020, given the business uncertainty stemming from the pandemic.

Sally Beauty had already closed many namesake and Cosmo Prof stores over the past week, though it continued operating through a contactless pickup model wherever permissible. However, the growing spread of the virus and the intensity of the situation caused the company to close all retail and wholesale stores. Nonetheless, some stores will transform into the curbside model, per government regulations. This will help customers place orders and arrange for a seamless contactless pick up from stores.

Also, all shoppers can keep purchasing online through the company's app as well as sallybeauty.com, and sallybeauty.ca. Cosmo Prof and Armstrong McCall customers can also shop through cosmoprofbeauty.com. Apart from this, management announced measures to protect employees and improve the company's financial flexibility. As part of these measures, it has drawn \$395 million under its \$500-million credit facility, which expires in July 2022.

Valuation

Sally Beauty shares are down 18.5% in the year-to-date period and up 0.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.8% and the Zacks Retail-Wholesale sector are up 13.3% in the year-to-date period. Over the past year, the Zacks sub-industry is down 10%, whereas the sector gained 24.2%.

The S&P 500 index is up 0.3% in the year-to-date period and 13.4% in the past year.

The stock is currently trading at 8.62X forward 12-month earnings, which compares to 25.11X for the Zacks sub-industry, 33.42X for the Zacks sector and 23.17X 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 9.1X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$16 price target reflects 9.27X 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	8.62	25.11	33.42	23.17
	5-Year High	17.94	25.11	33.42	23.17
	5-Year Low	3.1	11.59	19.07	15.23
	5-Year Median	9.1	16.08	23.38	17.49
P/S F12M	Current	0.45	1.11	1.13	3.6
	5-Year High	1.27	1.37	1.13	3.6
	5-Year Low	0.21	0.74	0.81	2.53
	5-Year Median	0.59	1.13	0.94	3.02
EV/EBITDA TTM	Current	4.97	17.41	11.62	12.28
	5-Year High	10.59	18.29	13.06	12.62
	5-Year Low	4.97	10.4	9.64	9.03
	5-Year Median	7.11	13.53	10.71	10.79

As of 06/10/2020

Industry Analysis Zacks Industry Rank: Top 36% (90 out of 252)



Top Peers

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	SBH	X Industry	S&P 500	FIVE	RGS	ULTA
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	C	D	F
Market Cap	1.68 B	1.21 B	22.63 B	6.34 B	395.14 M	13.43 B
# of Analysts	8	7	14	8	1	7
Dividend Yield	0.00%	0.12%	1.87%	0.00%	0.00%	0.00%
Value Score	A	-	-	C	B	D
Cash/Price	0.21	0.20	0.06	0.04	0.12	0.08
EV/EBITDA	5.03	8.79	12.91	25.14	74.79	12.33
PEG Ratio	3.20	4.10	3.07	3.24	NA	3.76
Price/Book (P/B)	NA	1.18	3.09	9.18	1.44	7.65
Price/Cash Flow (P/CF)	4.68	5.15	12.15	28.48	4.70	13.81
P/E (F1)	12.29	15.75	22.10	60.66	11.00	53.87
Price/Sales (P/S)	0.44	0.35	2.40	3.76	0.41	1.97
Earnings Yield	7.53%	5.39%	4.30%	1.65%	9.09%	1.86%
Debt/Equity	-29.14	1.07	0.76	1.27	3.11	1.45
Cash Flow (\$/share)	3.18	3.12	7.01	3.99	2.36	17.27
Growth Score	C	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	8.20%	7.24%	10.87%	31.64%	161.22%	22.48%
Proj. EPS Growth (F1/F0)	-50.66%	-43.23%	-10.71%	-39.94%	-26.81%	-62.84%
Curr. Cash Flow Growth	0.84%	6.68%	5.46%	19.42%	23.56%	5.84%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	2.72%	8.55%	27.57%	-2.98%	20.48%
Current Ratio	1.58	1.50	1.29	1.58	0.66	2.49
Debt/Capital	99.86%	58.47%	44.75%	55.99%	75.68%	59.23%
Net Margin	5.45%	3.06%	10.54%	5.87%	-4.49%	6.37%
Return on Equity	-491.27%	8.63%	16.08%	14.23%	18.48%	24.36%
Sales/Assets	1.55	1.36	0.55	0.91	0.86	1.36
Proj. Sales Growth (F1/F0)	-10.09%	-5.06%	-2.59%	-8.78%	-33.84%	-12.09%
Momentum Score	A	-	-	F	F	F
Daily Price Chg	-3.56%	-2.56%	-1.68%	9.40%	-4.72%	-2.56%
1 Week Price Chg	19.94%	8.81%	7.51%	5.16%	11.79%	3.31%
4 Week Price Chg	53.40%	35.05%	16.99%	35.05%	34.99%	20.65%
12 Week Price Chg	68.71%	67.27%	37.11%	112.11%	47.54%	85.50%
52 Week Price Chg	0.81%	-3.81%	0.02%	-13.16%	-42.08%	-30.46%
20 Day Average Volume	1,759,874	670,439	2,620,901	1,421,805	670,439	1,291,351
(F1) EPS Est 1 week change	11.36%	0.00%	0.00%	-3.62%	0.00%	0.00%
(F1) EPS Est 4 week change	36.81%	0.00%	0.00%	-10.18%	-29.86%	-42.39%
(F1) EPS Est 12 week change	-51.19%	-52.43%	-15.86%	-42.57%	-53.67%	-62.14%
(Q1) EPS Est Mthly Chg	75.71%	0.00%	0.00%	-44.55%	-153.85%	-74.68%

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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