

Sally Beauty (SBH)

\$15.80 (As of 01/15/20)

Price Target (6-12 Months): **\$17.00**

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: B

Momentum: B

Summary

Shares of Sally Beauty have outpaced the industry in the past six months. The stock got a boost when it reported better-than-expected results for the fourth quarter of fiscal 2019. Results gained from improved product assortment, enhanced technology and supply-chain initiatives. Further, management issued an encouraging view for fiscal 2020. Further, the company is progressing well with its Transformation Plan, which focuses on improving customers' experience, strengthening e-commerce capacities, curtailing costs and enhancing retail fundamentals. Sally Beauty is also undertaking supply-chain efforts to optimize inventory levels. However, sluggish SBS segment remained a drag. Moreover, SG&A expenses are expected to rise in fiscal 2020 on high wage rates and increased investment in marketing.

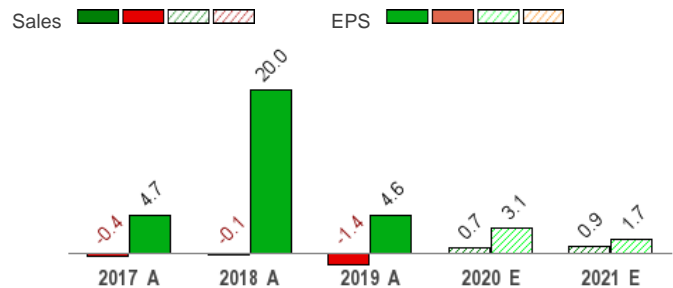
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.98 - \$11.46
20 Day Average Volume (sh)	1,206,317
Market Cap	\$1.8 B
YTD Price Change	-13.4%
Beta	0.50
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 35% (164 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.4%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/04/2020
Earnings ESP	0.0%
P/E TTM	7.0
P/E F1	6.8
PEG F1	1.8
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,004 E	963 E	999 E	990 E	3,937 E
2020	994 E	955 E	988 E	979 E	3,903 E
2019	989 A	946 A	975 A	966 A	3,876 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.58 E	\$0.55 E	\$0.65 E	\$0.62 E	\$2.37 E
2020	\$0.56 E	\$0.52 E	\$0.63 E	\$0.59 E	\$2.33 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 01/15/2020. The reports text is as of 01/16/2020.

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.

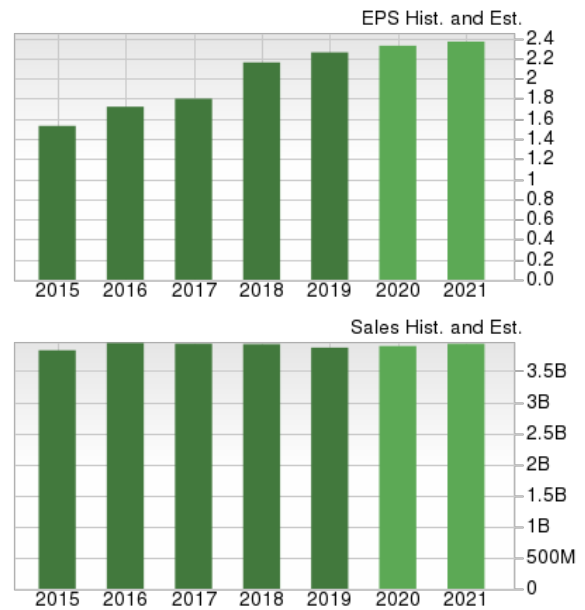
Products of the company include hair color and care products, styling tools, skin and nail care products and other beauty items. The company's stores offer a wide selection of beauty products at various price levels. Store personnel also provide beauty insights and solutions. In order to differentiate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

▲ **Q4 Robust & View Positive:** Sally Beauty posted better-than-expected results in fourth-quarter fiscal 2019. Results gained from improved product assortment, enhanced technology and supply-chain initiatives. Notably, adjusted earnings were 58 cents per share, which beat the Zacks Consensus Estimate of 53 cents and advanced 13.7% year over year. Meanwhile, sales of \$965.9 million beat the Zacks Consensus Estimate of \$957 million and remained flat year over year. Consolidated same-store sales grew 1.1%. Further, management issued encouraging guidance for fiscal 2020, wherein sales are anticipated to increase 1-2%. This reflects a recovery as the metric has been witnessing a downward trend since 2016.

Sally Beauty is progressing well with transformational plans, as well as efforts to enhance efficiency in supply chain.

The company expects same-store sales growth of 0.5-1.5% in fiscal 2020. Further, it expects adjusted earnings growth in low-to-mid single digits. It expects gross margin expansion for both segments, driven by cost-saving endeavors. We note that shares of the company have increased 28.6% in the past six months compared with the industry's decline of 9.2%.

▲ **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 — include 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 context, it launched brands — including My Black Is Beautiful, All About Curls, the exclusive lines of Mo Knows Hair and Vernon Francois, and Kuul color line. Moreover, Arctic Fox, Good Dye Young and Iroiro have been instrumental in driving traffic. These apart, its efforts to modernize supply chain; speeding up the rollout of its new Oracle-based point-of-sale systems; and revitalizing BSG's e-commerce site also bode well.

Additionally, the company plans to launch concept stores in certain regions and introduce the sixth module of its JDA merchandising and supply-chain platform in the BSG segment (on a test basis). The company implemented the store fulfillment module of JDA and started full testing within a small subset of Beauty Systems Group stores in the West. Further, the company expects to gradually roll it out to other territories in the near term.

▲ **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 and plans to launch the sixth module. The modules launched until now include SKU setup, demand planning, space planning, EDI and perpetual inventory.

Further, it is on track to complete the rollout of POS systems at 4,200 stores in the United States and Canada by March 2020. Additionally, the company is upgrading its websites along with e-commerce and mobile capabilities for both the segments and remains on track to launch apps for the same. Keeping in these lines, the company's BSG segment revamped its e-commerce site to enhance online shopping experience. Apart from creating awareness in relation to product launches, the company is likely to enhance the distribution rights for present and new brands in the Beauty Systems Group.

▲ **Supply Chain Initiatives:** Sally Beauty has announced modernization plans across its supply chain in order to optimize inventory levels and minimize costs as well as bring latest replenishment and fulfillment centers. Also, by then it anticipates to start cross-banner store replacements and e-commerce fulfillment operations.

Further, it will upgrade its e-commerce capabilities at the distribution facility in Columbus, OH. Management also announced the lease for a 500,000-square-foot location in Texas for building the latest automated and concentrated distribution facility, and is anticipated to start operations by second-quarter fiscal 2020. This center is likely to serve Sally Beauty Supply stores and e-commerce sales apart from Beauty Systems Group stores, full service and e-commerce sales.

▲ **Acquisitions:** The company has completed more than 35 acquisitions over the last 10 fiscals. The latest being the acquisition of wholesale distribution rights for Joico in the Boston area and Paul Mitchell in the Hawaiian market by the company's BSG.

Earlier, the company's BSG had also acquired certain H. Chalut Ltée 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.

Reasons To Sell:

▼ **Sluggish Performance in SBS:** Sales in the SBS segment declined in the last few quarters. During the fourth quarter of fiscal 2019, sales in the segment dipped 0.8% to \$571.9 million, thanks to lesser stores than the prior-year quarter, continued hurdles in Europe and foreign-currency headwinds. Foreign-currency translations adversely impacted sales by almost 110 bps. Prior to this, sales in SBS fell 0.8%, 2.5% and 2.8% in the first, second and third quarters, respectively. Persistence of the trend may weigh upon the company's top line in the near term.

Sluggish performance in the SBS segment remains a drag for Sally Beauty. Also, it expects SG&A costs to remain concerning.

▼ **High Costs:** Although SG&A costs decreased \$10.5 million and \$1.9 million in the third and fourth quarters of fiscal 2019, respectively, management expects the metric to grow in fiscal 2020 on increase in wages in key markets, and higher investment in marketing and technology. This may weigh upon the company's bottom line in the near future.

▼ **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.

▼ **Wide Range of Substitutes:** The cosmetics industry is highly competitive owing to the existence of a number of peers and alternative products. Therefore, it is difficult to advertise a product and convert into sales as cheaper variants flood the market. The presence of affordable alternatives affects customer loyalty toward a brand and in turn sales.

Last Earnings Report

Sally Beauty Earnings & Sales Surpass Q4 Estimates

Sally Beauty posted better-than-expected results in fourth-quarter fiscal 2019. The company reported adjusted earnings of 58 cents per share, which beat the Zacks Consensus Estimate of 53 cents and advanced 13.7% year over year. Including one-time items, earnings increased 26.1% to 58 cents per share, courtesy of lower SG&A costs, reduced restructuring charges and a decline in interest expense.

Consolidated net sales of \$965.9 million beat the Zacks Consensus Estimate of \$957 million and remained flat year over year. The top line was majorly affected by reduced store count than the year-ago period. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 70 basis points (bps). However, rise in same-store sales aided the top line to some extent. Consolidated same-store sales grew 1.1%. Further, e-commerce sales increased 27.4% from the year-ago quarter.

The gross margin expanded 10 bps to 49.6% as improvements of SBS and BSG segments in the United States and Canada more than offset continued difficulties in Europe. Also, cost-cutting efforts contributed to margin expansion in the quarter under review. SG&A expenses declined \$1.9 million in the quarter. Meanwhile, SG&A as a percentage of sales decreased 20 bps to 37.7%. Adjusted operating earnings grew 2.8% to \$115.3 million and adjusted operating margin expanded 30 bps to 11.9%.

Segment Details

SBS: Net sales of the segment dipped 0.8% to \$571.9 million in the quarter, thanks to lesser stores than the prior-year quarter, continued hurdles in Europe and foreign-currency headwinds. Foreign-currency translations adversely impacted sales by almost 110 bps. However, global segmental same-store sales rose 1.3%, whereas the same in Canada and the United States increased 2%.

BSG: Net sales of the segment improved 1.2% to \$394.1 million. Also, foreign-currency translation hurt sales by roughly 10 bps. Moreover, the net store count at the end of the quarter was 1,366, representing a decrease of 29 from the year-ago period. Same-store sales rose 0.8%. Total distributor sales consultants at the end of the quarter were 748 compared with 820 in the year-ago period.

Other Financial Aspects

The company ended the reported quarter with cash and cash equivalents of \$71.5 million, long-term debt — including capital leases of \$1,594.5 million, and total stockholders' deficit of \$60.3 million. In the quarter, cash flow from operations was \$116.6 million, while capital expenditure amounted to \$37.7 million. The company's operating free cash flow totaled \$78.9 million, which was utilized to reduce debt load.

Transformation Plan

Management is on track with its Transformation Plan. As part of the plan, it launched additional brands and introduced exclusive product lines within the SBS and BSG segments. Moving on, Sally Beauty is focused on brand awareness in both segments.

As of the end of the fiscal fourth quarter, the company boasts 16 million active members in the Sally Beauty Rewards program. Further, it rolled out Oracle-based point-of-sale (POS) systems to nearly 2000 stores. It is on track to complete the rollout of POS systems at 4,200 stores in the United States and Canada by March 2020.

Further, Sally Beauty inked a deal with Alliance Data's card services business to launch a private-label credit card program for both its segments.

In relation to digital strategies, the company revamped the e-commerce site of the BSG segment and launched "ColorView/Color Before You Commit" hair color technology at kiosks in roughly 500 Sally Beauty stores and the mobile app.

Going into fiscal 2020, management remains on track to expand its brand assortment by adding new and third-party brands to the product portfolio along with increasing awareness of its previously launched brands. It also intends to launch a Sally Beauty brand campaign in the fiscal year. Moreover, the company anticipates launching concept stores for both SBS and BSG in certain areas by the fiscal year. Additionally, it is focused on optimizing the supply-chain network as well as testing and expanding buy online/same-day delivery.

Outlook

Management issued fiscal 2020 guidance, wherein sales are anticipated to increase 1-2%. This is encouraging as the metric has been witnessing a downward trend since 2016. Same-store sales are expected to grow 0.5-1.5%.

Further, the company expects adjusted earnings growth of low-to-mid single digits. It anticipates adjusted operating earnings growth of low-single digits. It expects gross margin expansion for both segments, driven by cost-saving endeavors. Meanwhile, the company anticipates rise in SG&A expenses, owing to increase in wages in key markets, and higher investment in marketing and technology.

Additionally, the company anticipates the store fleet to increase 30-50. It expects cash flow from operations of \$340-\$360 million. It projects free cash flow of \$220-\$240 million. For fiscal 2020, the company anticipates capital expenditure of \$120 million.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	0.90%
EPS Surprise	9.43%
Quarterly EPS	0.58
Annual EPS (TTM)	2.26

Recent News

Sally Beauty, Alliance Data to Launch Credit Card Program – Sep 17, 2019

Sally Beauty collaborated with Alliance Data to launch a private label credit card program in a multi-year deal. With the credit card, customers will get several benefits — including earning reward points from the purchase of Sally Beauty products.

Valuation

Sally Beauty shares are down 10.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 2.5% and 20.4% over the past year, respectively.

The S&P 500 index is up 26.2% in the past year.

The stock is currently trading at 6.76X forward 12-month earnings, which compares to 14.42X for the Zacks sub-industry, 25.54X for the Zacks sector and 18.95X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.71X and as low as 5.37X, with a 5-year median of 10.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$17 price target reflects 7.27X 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	6.76	14.42	25.54	18.95
	5-Year High	19.71	20.29	26.23	19.34
	5-Year Low	5.37	13.74	19.07	15.17
	5-Year Median	10.37	16.09	22.95	17.44
P/S F12M	Current	0.47	1.14	1.08	3.52
	5-Year High	1.4	1.35	1.11	3.52
	5-Year Low	0.37	0.95	0.8	2.54
	5-Year Median	0.66	1.15	0.91	3
EV/EBITDA TTM	Current	5.94	15.23	15.47	12.12
	5-Year High	12.02	18.54	15.47	12.86
	5-Year Low	5.32	11.73	10.32	8.48
	5-Year Median	7.46	15.22	12.38	10.67

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 254)



Top Peers

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	SBH Neutral	X Industry	S&P 500	FIVE Neutral	RGS Neutral	ULTA Neutral
VGM Score	A	-	-	F	F	B
Market Cap	1.84 B	1.34 B	24.22 B	6.30 B	596.85 M	15.79 B
# of Analysts	8	4	13	7	1	12
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.00%	0.00%
Value Score	A	-	-	D	D	C
Cash/Price	0.04	0.11	0.04	0.02	0.10	0.01
EV/EBITDA	5.91	7.17	14.11	29.81	89.50	15.18
PEG Ratio	1.77	1.54	2.06	1.56	5.09	1.44
Price/Book (P/B)	NA	1.35	3.34	9.76	2.10	8.80
Price/Cash Flow (P/CF)	4.97	6.60	13.57	33.90	7.11	17.57
P/E (F1)	6.78	13.35	18.90	36.45	38.16	23.06
Price/Sales (P/S)	0.48	0.39	2.65	3.57	0.58	2.19
Earnings Yield	14.75%	7.48%	5.29%	2.74%	2.62%	4.34%
Debt/Equity	-26.43	0.86	0.72	1.22	3.17	0.92
Cash Flow (\$/share)	3.18	3.35	6.94	3.34	2.36	15.72
Growth Score	B	-	-	F	F	B
Hist. EPS Growth (3-5 yrs)	9.31%	11.48%	10.56%	30.70%	170.18%	27.52%
Proj. EPS Growth (F1/F0)	2.93%	10.15%	7.59%	16.65%	-68.12%	10.41%
Curr. Cash Flow Growth	0.84%	10.02%	14.73%	39.97%	23.56%	22.98%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	8.72%	9.00%	30.11%	-2.98%	24.61%
Current Ratio	2.55	1.41	1.24	1.57	0.70	1.67
Debt/Capital	NA%	51.52%	42.99%	55.02%	76.03%	48.03%
Net Margin	7.01%	3.82%	11.14%	8.74%	-2.66%	9.67%
Return on Equity	-221.38%	10.84%	17.16%	23.01%	17.49%	36.91%
Sales/Assets	1.84	1.54	0.55	1.17	1.09	1.64
Proj. Sales Growth (F1/F0)	0.68%	0.68%	4.23%	18.81%	-27.81%	9.92%
Momentum Score	B	-	-	D	F	C
Daily Price Chg	-3.01%	-0.16%	0.27%	-1.02%	1.76%	-2.27%
1 Week Price Chg	-7.92%	-2.15%	0.39%	-5.04%	1.31%	6.84%
4 Week Price Chg	-11.73%	-0.05%	2.17%	-7.64%	-2.44%	10.45%
12 Week Price Chg	-3.66%	-2.35%	6.65%	-10.54%	-25.74%	16.11%
52 Week Price Chg	-9.25%	-9.81%	22.43%	-3.94%	-11.63%	-2.06%
20 Day Average Volume	1,206,317	355,500	1,545,017	2,004,572	306,494	1,035,769
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.14%	-50.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-1.71%	-50.00%	0.00%
(F1) EPS Est 12 week change	6.71%	-0.33%	-0.41%	-1.63%	-38.03%	0.19%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-3.88%	-135.71%	0.00%

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	B
Momentum Score	B
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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