

Sally Beauty (SBH)

\$13.44 (As of 02/20/20)

Price Target (6-12 Months): **\$15.00**

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:B

Value: A

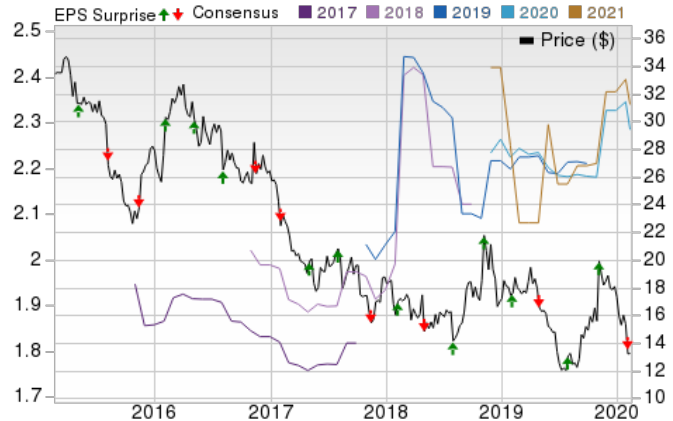
Growth: C

Momentum: C

Summary

Shares of Sally Beauty have lagged the industry in the past three months. The company has been battling with sluggish performance in the SBS segment for a while. In first-quarter fiscal 2020, sales in the unit declined 2% thanks to lesser stores compared with prior-year quarter's figure, shortened holiday period in the United States and Canada along with foreign-currency headwinds. Moreover, persistent rise in SG&A expenses is a concern. Nevertheless, the company is progressing well with its Transformation Plan that focuses on improving customers' experience, strengthening e-commerce capacities, curtailing costs and enhancing retail fundamentals. Also, Sally Beauty is undertaking supply-chain efforts to optimize inventory levels. Moreover, strength in the company's BGS segment has been aiding growth.

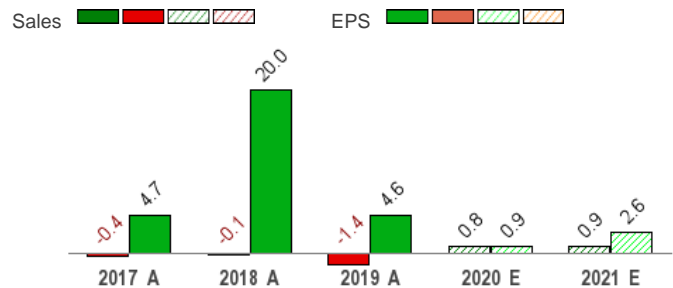
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$21.98 - \$11.46
20 Day Average Volume (sh)	2,297,455
Market Cap	\$1.6 B
YTD Price Change	-26.4%
Beta	0.55
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Miscellaneous
Zacks Industry Rank	Bottom 42% (147 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-16.1%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	05/06/2020
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	991 E	964 E	996 E	989 E	3,943 E
2020	980 A	955 E	988 E	978 E	3,906 E
2019	989 A	946 A	975 A	966 A	3,876 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.54 E	\$0.66 E	\$0.64 E	\$2.34 E
2020	\$0.47 A	\$0.53 E	\$0.65 E	\$0.61 E	\$2.28 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.

P/E TTM	6.2
P/E F1	5.9
PEG F1	1.5
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/20/2020. The reports text is as of 02/21/2020.

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.

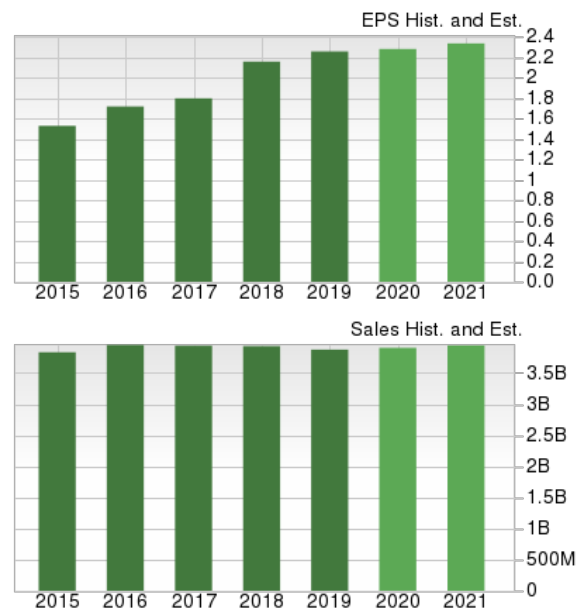
Products of the company include hair color and care products, styling tools, skin and nail care products and other beauty items. The company's stores offer a wide selection of beauty products at various price levels. Store personnel also provide beauty insights and solutions. In order to differentiate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

- ▲ **BGS Unit Sales Up:** Net sales in the BGS inched up 0.5% to \$411.1 million in first-quarter fiscal 2019. Further, same-store sales rose 1.2% in the quarter. The growth can be attributed to the company's consistent focus on product innovation along with enhanced execution in the full service channel. Also, Sally Beauty's efforts to enhance its retail fundamentals are yielding. During the quarter, the company launched Maria Kneelers expanded care and styling line in this segment. Also, it expanded the distribution of Olaplex No 6 and No 7, critical hair treatment lines along with its men's barbering assortment during the first quarter.

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

Moreover, the company is optimistic about the roll out of a new store concept model in Cincinnati, followed by Charlotte and then the remaining parts of Ohio. Also, Sally Beauty is on track with the launch of a new loyalty program at BDG. Further, management is looking for acquisition opportunities with an aim to expand its distribution rights and add new brands to its portfolio in this particular segment.

- ▲ **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 context, it launched new Sally Beauty brand campaign 'Unleash your PROtential' nationally. The company also launched CHI color and innovative CHI appliances at Sally Beauty outlets. Further, it launched professional brand hair care products at Sally Beauty in the United States and new brands like Olaplex in Europe.

- ▲ **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 had rolled out Oracle-based point-of-sale (POS) systems to nearly 2500 stores. For fiscal 2020, management is on track to rollout the new POS systems, at BSG and SBS. Apart from these, the company is focused 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. Moreover, as of the end of the fiscal first quarter, the company boasts 16.1 million active members in the Sally Beauty Rewards program.

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. The company reached the final development stages for the impending launch of sallybeauty.ca. Further, it continued to drive the Sally Beauty integrated mobile app.

- ▲ **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.

Earlier, Sally Beauty announced that it will upgrade its e-commerce capabilities at the distribution facility in Columbus, OH. Additionally, management is on track with its plan of leasing a 500,000-square-foot location in Texas for building the latest automated and concentrated distribution facility, and is anticipated to start operations by third-quarter fiscal 2020. This centre is likely to serve Sally Beauty Supply stores and e-commerce sales apart from Beauty Systems Group stores, full service and e-commerce sales. Further, the company expects to improve supply chain network in Europe.

- ▲ **Acquisitions:** The company has completed more than 35 acquisitions over the last 11 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.

In December 2017, the company's BSG had also 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.

Reasons To Sell:

▼ **Sluggish Performance in SBS:** Sales in the SBS segment have been declining year over year in the past few quarters. During the first quarter of fiscal 2020, sales in the segment decreased 2% to \$569.1 million thanks to lesser stores than the prior-year quarter, shortened holiday period in the United States and Canada along with foreign-currency headwinds. Foreign-currency translations adversely impacted sales by almost 20 bps in the first quarter. Persistence of the trend may exert pressure on the company's top line in the near term. We note that shares of the company have declined 26% in the past six months against the industry's growth of 7.2%.

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

▼ **High Costs:** SG&A expenses increased \$10.9 million in the first quarter of fiscal 2020 due to increased investments in store personnel and marketing. Further, adjusted operating earnings declined 14.8% to \$96.9 million and adjusted operating margin contracted 160 bps to 9.9% in the first quarter. Persistence of this headwind is likely to exert pressure on the company's performance in the 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 Misses on Q1 Earnings & Sales

Sally Beauty reported adjusted earnings of 47 cents per share, which lagged the Zacks Consensus Estimate of 56 cents and declined 17.5% year over year. Including one-time items, earnings decreased 16.7% to 45 cents per share, on account of lower sales, contraction in gross margin, higher wage and marketing expenses, partly offset by decline in interest expense.

Consolidated net sales of \$980.2 million missed the Zacks Consensus Estimate of \$994 million and dipped 0.9% year over year. The top line was majorly affected by reduced same-store sales, issues related to technology implementation and lower store count than the year-ago period. Also, unfavorable foreign-currency translations negatively impacted sales by roughly 10 basis points (bps). Consolidated same-store sales dipped 0.3%. However, e-commerce sales increased 27.6% from the year-ago quarter.

Gross profit decreased 1.2% to \$474.8 million. Gross margin contracted 20 bps to 48.4% due to decline in the United States and Canada businesses of Sally Beauty Supply ("SBS") segment partly offset by growth in Beauty System Group ("BSG") segment.

SG&A expenses increased \$10.9 million in the quarter due to investments in store personnel and marketing. Meanwhile, SG&A as a percentage of sales decreased 150 bps to 38.6%. Adjusted operating earnings decreased 14.8% to \$96.9 million and adjusted operating margin contracted 160 bps to 9.9%.

Segment Details

SBS: Net sales of the segment decreased 2% to \$569.1 million in the quarter, due to lesser stores than the prior-year quarter, shortened holiday period in the United States and Canada, and foreign-currency headwinds. Foreign-currency translations adversely impacted sales by almost 20 bps. However, global segmental same-store sales declined 1.1%, whereas the same in Canada and the United States decreased 1.4%. Net store count at the end of the quarter was 3,703, reflecting a decrease of 36 from the year-ago period.

BSG: Net sales at the segment improved 0.5% to \$411.1 million. Foreign-currency translation had no impact on the results. Moreover, the net store count at the end of the quarter was 1,369, representing a decrease of 21 from the year-ago period. Same-store sales rose 1.2%. Total distributor sales consultants at the end of the quarter were 740 compared with 822 in the year-ago period.

Other Financial Aspects

The company ended the reported quarter with cash and cash equivalents of \$67.3 million, long-term debt, including capital leases of \$1,578.4 million, and total stockholders' equity of \$2.2 million. In the quarter, cash flow from operations was \$62.3 million, while capital expenditure amounted to \$40.9 million. The company's operating free cash flow totaled \$21.4 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 new Sally Beauty brand campaign "Unleash your PROtential" nationally. The company also launched CHI color and innovative CHI appliances at Sally Beauty outlets. Further, it launched professional brand hair care products at Sally Beauty in the United States and new brands like Olaplex in Europe.

The company is focused on enhancing areas such as merchandising, BSG store operations, marketing, e-commerce, digital product and planning & allocation by adding new management and talent. As of the end of the fiscal first quarter, the company boasts 16.1 million active members in the Sally Beauty Rewards program. Further, it had rolled out Oracle-based point-of-sale (POS) systems to nearly 2500 stores.

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. The company reached the final development stages for the impending launch of sallybeauty.ca. Further, it continued to drive the Sally Beauty integrated mobile app.

For fiscal 2020, management is on track to rollout the new POS systems, at BSG and SBS. Also, it intends to rollout sallybeauty.ca and advance merchandising transformation efforts. Moreover, the company anticipates to improve digital capabilities, which include Order Management System skills, increasing Same-Day Delivery test and introducing fulfillment options. Additionally, the company plans to continue the testing of its JDA merchandising and supply-chain platform. Also, it intends to expand concept stores for SBS and BSG in other territories. Further, the company expects to improve supply chain network.

Outlook

For fiscal 2020, management still anticipates sales to increase 1-2%. Same-store sales are still expected to grow 0.5-1.5%. The company revised its adjusted operating earnings guidance due to implementation challenges faced in the first quarter, along with steps taken to recover and investments required to complete in Transformation Plan. Taking these into account, it now anticipates adjusted operating earnings to remain flat year over year compared with previous view of low single-digit growth. However, thanks to gains from debt reduction and share buybacks, the company still expects adjusted earnings growth of low-to-mid single digits, though at the lower end of the guided range.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-1.42%
EPS Surprise	-16.07%
Quarterly EPS	0.47
Annual EPS (TTM)	2.16

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 26.4% in the year-to-date period and 25.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 0.6% and 6.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 2%, whereas the sector gained 20.1%.

The S&P 500 index is up 5.4% in the year-to-date period and 23.1% in the past year.

The stock is currently trading at 5.83X forward 12-month earnings, which compares to 15.77X for the Zacks sub-industry, 26.26X for the Zacks sector and 19.39X 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 10.02X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 6.51X 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	5.83	15.77	26.26	19.39
	5-Year High	19.71	20.29	26.26	19.39
	5-Year Low	5.37	13.74	19.07	15.18
	5-Year Median	10.02	16.08	22.99	17.47
P/S F12M	Current	0.4	1.14	1.1	3.59
	5-Year High	1.4	1.36	1.11	3.59
	5-Year Low	0.37	0.95	0.8	2.54
	5-Year Median	0.64	1.15	0.92	3
EV/EBITDA TTM	Current	5.52	15.32	15.89	12.31
	5-Year High	12.02	17.58	15.89	12.85
	5-Year Low	5.32	12.03	10.79	8.47
	5-Year Median	7.39	15.07	12.41	10.72

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 255)



Top Peers

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

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	SBH Neutral	X Industry	S&P 500	FIVE Neutral	RGS Neutral	ULTA Neutral
VGM Score	B	-	-	F	D	C
Market Cap	1.57 B	1.46 B	24.34 B	6.58 B	485.48 M	17.23 B
# of Analysts	7	4	13	7	1	12
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	A	-	-	F	C	C
Cash/Price	0.04	0.10	0.04	0.02	0.10	0.01
EV/EBITDA	5.41	7.15	14.18	31.03	80.42	16.44
PEG Ratio	1.50	1.62	2.09	1.35	2.46	1.44
Price/Book (P/B)	713.40	1.24	3.30	10.20	1.76	9.60
Price/Cash Flow (P/CF)	4.23	6.41	13.49	35.43	5.78	19.17
P/E (F1)	5.76	16.36	19.28	32.67	18.45	23.02
Price/Sales (P/S)	0.41	0.36	2.68	3.73	0.50	2.39
Earnings Yield	16.96%	6.11%	5.17%	3.06%	5.42%	4.34%
Debt/Equity	717.80	0.92	0.70	1.22	3.11	0.92
Cash Flow (\$/share)	3.18	3.34	7.03	3.34	2.36	15.72
Growth Score	C	-	-	F	D	B
Hist. EPS Growth (3-5 yrs)	9.23%	11.59%	10.84%	30.70%	161.22%	27.52%
Proj. EPS Growth (F1/F0)	1.08%	8.75%	7.09%	17.01%	-46.38%	9.29%
Curr. Cash Flow Growth	0.84%	7.18%	6.72%	39.97%	23.56%	22.98%
Hist. Cash Flow Growth (3-5 yrs)	2.83%	8.72%	8.25%	30.11%	-2.98%	24.61%
Current Ratio	2.00	1.41	1.22	1.57	0.66	1.67
Debt/Capital	99.86%	55.02%	42.37%	55.02%	75.68%	48.03%
Net Margin	6.70%	3.82%	11.56%	8.74%	-4.49%	9.67%
Return on Equity	-376.67%	11.33%	16.80%	23.01%	18.48%	36.91%
Sales/Assets	1.73	1.54	0.55	1.17	0.86	1.64
Proj. Sales Growth (F1/F0)	0.77%	0.42%	3.90%	20.49%	-25.45%	8.43%
Momentum Score	C	-	-	D	B	D
Daily Price Chg	-0.37%	0.29%	0.01%	1.28%	-4.21%	1.51%
1 Week Price Chg	0.23%	-0.15%	1.65%	1.47%	-5.58%	-0.47%
4 Week Price Chg	-16.31%	-3.49%	0.36%	2.25%	-22.05%	10.70%
12 Week Price Chg	-27.74%	2.95%	4.39%	-4.40%	-14.79%	28.79%
52 Week Price Chg	-24.79%	-16.26%	15.29%	-8.82%	-24.67%	-2.17%
20 Day Average Volume	2,297,455	296,074	1,992,841	841,070	315,032	729,644
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.46%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.12%	-0.16%	-0.02%	-0.88%	68.18%	-0.31%
(F1) EPS Est 12 week change	-1.33%	-2.92%	-0.17%	-3.61%	-15.91%	-2.23%
(Q1) EPS Est Mthly Chg	0.62%	0.00%	-0.48%	-3.03%	140.00%	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	A
Growth Score	C
Momentum Score	C
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.

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