

Spectrum Brands (SPB)

\$60.14 (As of 02/03/20)

Price Target (6-12 Months): **\$63.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/31/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

Summary

Spectrum Brands have outperformed the industry in the past three months driven by smooth progress on its Global Productivity Improvement Plan, which is likely to generate \$100 million of run-rate savings. Moreover, the company witnessed robust sales growth in Global Pet Care and Home & Personal Care segments, which aided organic sales in first-quarter fiscal 2020. It is poised for growth in these segments backed by its innovations pipeline and investments. It also reaffirmed its view for fiscal 2020. However, it posted dismal first-quarter fiscal 2020 results, wherein top and bottom lines missed the Zacks Consensus Estimate and fell year over year. Earnings decline is attributed to high tariffs as well as rise in manufacturing and stranded costs. Top lines were hurt by soft sales in Hardware & Home Improvement and Home & Garden segments.

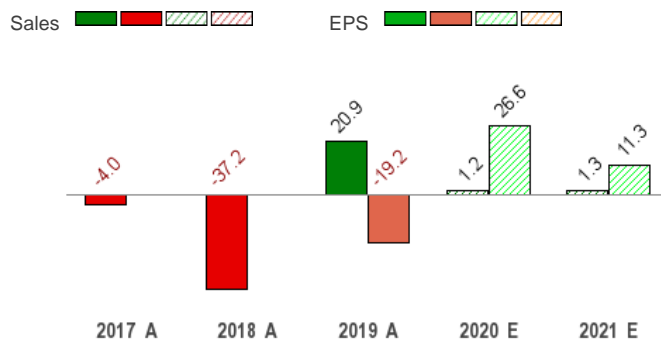
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.31 - \$45.04
20 Day Average Volume (sh)	448,523
Market Cap	\$2.8 B
YTD Price Change	-6.5%
Beta	1.80
Dividend / Div Yld	\$1.68 / 2.8%
Industry	Consumer Products - Discretionary
Zacks Industry Rank	Bottom 22% (197 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-42.9%
Last Sales Surprise	-2.8%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	20.5
P/E F1	16.6
PEG F1	2.1
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	881 E	919 E	1,068 E	1,023 E	3,896 E
2020	872 A	912 E	1,048 E	1,014 E	3,846 E
2019	875 A	907 A	1,022 A	993 A	3,802 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.20 E	\$0.53 E	\$1.66 E	\$1.59 E	\$4.03 E
2020	\$0.20 A	\$0.48 E	\$1.54 E	\$1.43 E	\$3.62 E
2019	-\$0.20 A	\$0.26 A	\$1.35 A	\$1.13 A	\$2.86 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 02/03/2020. The reports text is as of 02/04/2020.

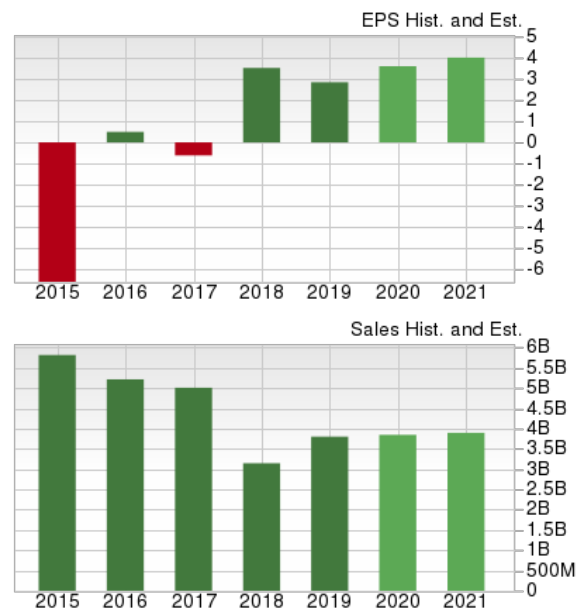
Overview

Spectrum Brands Holdings, Inc. is a global consumer products company. It offers a portfolio of leading brands in several product categories like residential locksets, plumbing, electric shaving and grooming products, personal care products, small household appliances, specialty pet supplies, lawn and garden and home pest control products and repellents.

The company manufactures, markets and distributes products in roughly 160 countries of North America, Europe, Middle East & Africa (EMEA), Latin America and Asia-Pacific regions. It markets its products through various trade channels, which include retailers, wholesalers and distributors, original equipment manufacturers ("OEMs") and construction companies.

In July 2018, Spectrum Brands merged with its controlling shareholder HRG Group, Inc. The combined company is named Spectrum Brands Holdings, Inc. and is currently headquartered in Middleton, WI.

In January 2019, Spectrum Brands completed the divestitures of its Global Auto Care business as well as Global Battery and Lighting Businesses to Energizer. Further, the company has four reporting segments, namely, Hardware & Home Improvement (HHI), Home & Personal Care (HPC), Global Pet Care (GPC) and Home & Garden (H&G).



Hardware & Home Improvement: This segment includes security product category, plumbing product category and hardware product category. The segment contributed nearly 34.2% to the company's overall net sales in first-quarter fiscal 2020.

Home & Personal Care: This segment includes Personal Care and Small Appliances businesses. The segment contributed about 37% to the overall net sales in the fiscal first quarter.

Global Pet Care: This segment includes animal food, products and accessories; pet health and grooming products as well as aquatic supplies. The segment contributed about 23.6% to the overall net sales in the fiscal first quarter.

Home and Garden: This segment includes controls product category, household product category and repellents product category. The segment contributed about 5.2% to the overall net sales in the fiscal first quarter.



Reasons To Buy:

▲ **Strategic Initiatives on Track, Stock Outperforms:** Shares of Spectrum Brands have gained 14.4% in the past three months, against the industry's 3.1% decline. Most of this strength is attributed smooth progress with its Global Productivity Improvement Plan (GPIP), which is expected to help attain sustainable organic growth. This strategic initiative aims at improving the company's operating efficiency and effectiveness, while focusing on consumer insights, and growth-enabling functions including technology, marketing, and research and development. The plan is on track to generate more than \$100 million in the next 15-18 months. Notably, majority of these savings are expected to be reinvested into the growth initiatives and consumer insights, R&D and marketing across each of the businesses. This plan will also enable the company to deliver value creation and sustainable growth in the long term.

Spectrum Brands Global Productivity Improvement Plan is likely to generate more than \$100 million of run-rate savings. These savings will be reinvested in its core businesses to drive growth.

▲ **Strong Fiscal 2020 View:** Spectrum Brands provided reaffirmed its robust view for fiscal 2020. Looking ahead, the company expects to resume sales growth in the fiscal second quarter. Additionally, it anticipates savings from the Global Productivity Improvement Plan to offset the ongoing tariff headwinds. For fiscal 2020, the company foresees net sales, adjusted EBITDA and free cash flow growth. It anticipates net sales growth of low-single digits, with adjusted EBITDA of \$570-\$590 million. Further, adjusted free cash flow is expected to be \$240-\$260 million.

▲ **Global Pet Care Business Reflects Strength:** Spectrum Brands' nearly flat organic sales in first-quarter fiscal 2020 were due to sales growth in Global Pet Care and Home & Personal Care segments. Notably, sales for the Global Pet Care business improved 0.5%, with organic sales growth of 1.1% on robust growth in U.S. companion animal revenues as well as higher sales in Europe aquatics and companion animal. This marked the fifth consecutive quarter of top line growth for the segment. The segment's sales also benefited from continued growth in dog chews and treats category. Further, continued innovation and market share gains were drivers.

In sync with its Global Productivity Improvement Plan, the pet business is on track with exiting non-core assets and activities to focus on core brands. This is demonstrated by the segment exiting the rawhide manufacturing facilities in Latin America in first-quarter fiscal 2020 and recent agreement to divest the dog and cat food manufacturing operations in Coevorden, The Netherlands, for \$33 million. Further, the pet segment is poised for growth backed by its pipeline of robust innovations and growth strategy.

▲ **Home & Personal Care Segment:** Sales at the Home & Personal Care segment rose 1.5% in the fiscal first-quarter, while organic sales increased 3.2%. This marked the first quarterly growth for the segment in over a year. Growth was backed by strength in personal care and small appliances in Europe. However, the U.S. personal care and small appliances witnessed sales decline due to soft performance in department stores and specialty channels. Moreover, the segment's adjusted EBITDA improved 4% on productivity improvements and higher volumes. For 2020 and beyond, the company expects to witness continued growth in the segment driven by its consumer-driven mindset, which aided results in Europe in the reported quarter. Further, the segment is likely to reap benefits of increasing innovation and marketing investments behind its brands.

▲ **Capital Allocation:** Spectrum Brands remains committed to boost shareholders' value by efficient capital allocation. As of December 29, 2019, the company had a strong liquidity position with cash balance of \$142.2 million and nearly \$678 million available on its \$800 million Cash Flow Revolver. In addition, the company is focused on strengthening balance sheet by paying down debt. At the end of first-quarter fiscal 2020, the company had \$2,369 million of outstanding debt, reflecting a decline of 50% from the year-ago quarter. Moreover, the company is committed to returning value to shareholders through dividends and share repurchases. In first-quarter fiscal 2020, it bought back 1.3 million shares for \$81 million. It is also on track with plans to reward shareholders through a \$125 million accelerated share repurchase program. Management also announced the quarterly dividend of 42 cents per share, payable Feb 18.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Spectrum Brands looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 20.5x, which is below the median level of 23.4x and the high level of 46.6x, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 17.5x for the industry and 20.2x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Dismal Q1 Results:** Spectrum Brands reported dismal first-quarter fiscal 2020 results, wherein both earnings and sales missed the Zacks Consensus Estimate and declined year over year. Moreover, organic sales dipped 0.3% in the reported quarter. Earnings decline is attributed to high tariffs as well as rise in manufacturing and stranded costs. Meanwhile, organic and net sales were affected by lower sales in Home & Garden, and Hardware & Home Improvement segments. This more than offset the gains witnessed in the Home & Personal Care, and Global Pet Care segments.
- ▼ **Weakness in Hardware & Home Improvement and Home & Garden Segments:** Spectrum Brands' Hardware & Home Improvement segment reported 2.4% decline in net sales in first-quarter fiscal 2020, while organic sales dipped 2.5%. The segment's top line was hurt by soft sales for residential security category on lower builder volume and builder's hardware category driven by timing of orders from two large customers. Also, adjusted EBITDA at the segment grew 23% to \$42.8 million. Meanwhile, sales for the Home & Garden segment declined 13.9% on lower sales in household insect controls and repellents. The segment reported adjusted EBITDA loss of \$3.3 million against \$3.1 million gain reported in the prior-year quarter.
- ▼ **Soft Margins:** Spectrum Brands' soft margins trend persisted in first-quarter fiscal 2020. The softness mainly related to higher tariffs and restructuring costs, despite gains from pricing and productivity. Gross margin contracted 380 basis points (bps) on rise in tariffs and restructuring costs related to Global Productivity Improvement Plan, accelerated depreciation, and unfavorable timing of capitalized manufacturing variances. It reported operating loss of \$45.9 million against operating income of \$25.2 million in the year-ago period. Additionally, adjusted EBITDA declined 11.4%, with adjusted EBITDA margin contracting 140 bps. Sluggishness in adjusted EBITDA was due to additional tariffs, along with rise in manufacturing and stranded costs.
- ▼ **Currency Headwinds:** Spectrum Brands is exposed to major foreign currency risks due to cross-border presence, which is weighing on the company's performance. Foreign currency headwinds hurt the company's net sales by \$6.3 million in first-quarter fiscal 2020. On the existing rates, currency translations are expected to marginally hurt sales in fiscal 2020.

Spectrum Brands witnesses soft margins mainly on higher tariffs and restructuring costs. Gross margin contracted 380 bps and EBITDA margin dropped 140 bps in first-quarter fiscal 2020.

Last Earnings Report

Spectrum Brands Q1 Earnings & Sales Miss Estimates

Quarter Ending **12/2019**

Spectrum Brands Holdings posted lower-than-expected top and bottom-line results for first-quarter fiscal 2020. Moreover, both metrics declined year over year.

Adjusted earnings from continuing operations of 20 cents per share lagged the Zacks Consensus Estimate of 35 cents. The bottom line also declined 4.4%, owing to high tariffs as well as rise in manufacturing and stranded costs, partly offset by fall in interest expenses and shares outstanding.

Spectrum Brands' net sales decreased 1% year over year to \$872 million, missing the Zacks Consensus Estimate of \$896 million. Excluding the negative impacts of currency; organic net sales edged down 0.3%, owing to lower sales in Home & Garden, and Hardware & Home Improvement segments. This was somewhat offset by higher sales at Home & Personal Care, and Global Pet Care.

Gross profit dipped 12% year over year to \$269.1 million. Moreover, gross margin contracted 380 bps to 30.9%, mainly driven by rise in tariffs and restructuring costs related to Global Productivity Improvement Plan, accelerated depreciation, and unfavorable timing of capitalized manufacturing variances. However, the decline was partly offset by favorable pricing and productivity.

Furthermore, the company reported operating loss of \$45.9 million against operating income of \$25.2 million in the year-ago period.

Adjusted EBITDA from continuing operations declined 11.4% to \$102.2 million in the fiscal first quarter. Further, adjusted EBITDA margin contracted 140 bps on high tariffs along with rise in manufacturing and stranded costs. This was partly mitigated by favorable pricing and productivity.

Segmental Performance

Sales at the **Hardware & Home Improvement** segment fell 2.4% to \$297.7 million mainly due to a decline in residential security and builders' hardware, offset by an increase in plumbing. The segment's organic sales dipped 2.5% year over year. Also, adjusted EBITDA at the segment grew 23% to \$42.8 million.

Sales at the **Home & Personal Care** segment inched up 1.5% to \$322.1 million, backed by growth at personal care and small appliances in Europe. However, fell at the U.S. personal care and small appliances witnessed sales decline along with decreases in department store and specialty channels. Excluding the adverse impacts of foreign currency, organic net sales for the segment increased 3.2%. Moreover, the segment's adjusted EBITDA of \$36.4 million improved 4% on productivity improvements and higher volumes.

The **Global Pet Care** segment's sales grew 0.5% year over year to \$205.8 million, primarily driven by robust growth in U.S. companion animal revenues as well as higher sales in Europe aquatics and companion animal. This was partly compensated with a decline in U.S. aquatics. Excluding the adverse impacts of foreign currency, organic sales rose 1.1%. Further, the segment's adjusted EBITDA grew 8.2% to \$31.5 million.

The **Home & Garden** segment's sales dropped 13.9% to \$45.9 million mainly on lower sales in household insect controls and repellents. This was somewhat compensated with growth in outdoor controls. Further, the segment's adjusted EBITDA fell to a loss of \$3.3 million against \$3.1 million gain reported in the prior-year quarter.

Other Financials

Spectrum Brands ended the quarter with cash and cash equivalents of \$142.2 million, and roughly \$678 million available under its \$800-million Cash Flow Revolver. As of Dec 29, 2019, the company's outstanding debt was nearly \$2,369 million. It repurchased 1.3 million shares worth \$81.4 million as part of its \$125-million accelerated share repurchase program. In the reported quarter, capital expenditure was \$18.7 million.

Business Development

The company entered an agreement to divest its dog and cat food manufacturing operations in Coevorden, The Netherlands. The move is part of Spectrum Brand's plans to exit its underperforming businesses to focus on core brands. Apart from this, the company is progressing well with its Global Productivity Improvement Plan, which will lead to savings of more than \$100 million in the next 15-18 months.

Fiscal 2020 Guidance

Spectrum Brands reiterated its outlook for fiscal 2020. The company foresees net sales; adjusted EBITDA; and free cash flow growth for fiscal 2020. It projects reported net sales growth in low-single digits. Depending on existing rates, foreign currency translations are expected to hurt the top line marginally. Further, the company continues to expect adjusted EBITDA of \$570-\$590 million. It anticipates adjusted free cash flow of \$240-\$260 million. Also, capital expenditure is envisioned to be \$90-\$100 million.

Report Date	Jan 30, 2020
Sales Surprise	-2.78%
EPS Surprise	-42.86%
Quarterly EPS	0.20
Annual EPS (TTM)	2.94

Recent News

Spectrum Brands Announces Dividend – Jan 29, 2020

Spectrum Brands declared a quarterly cash dividend of 42 cents per share, payable Mar 10, to stockholders of record as of Feb 18.

Valuation

Spectrum Brands shares are down 6.5% in the year-to-date period but up nearly 4.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Consumer Discretionary sector are down 5.4% and 1.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is down 19.9% but the sector is up 11.8%.

The S&P 500 index is up 0.6% in the year-to-date period and 17.8% in the past year.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$63 price target reflects 16.6X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Bottom 22% (197 out of 254)



Top Peers

Vista Outdoor Inc. (VSTO)	Outperform
B&M European Value Retail SA Unsponsored ADR (BMRRY)	Neutral
Central Garden & Pet Company (CENT)	Neutral
Central Garden & Pet Company (CENTA)	Neutral
Energizer Holdings, Inc. (ENR)	Neutral
Hengan International Group Co., Ltd. Unsponsored ADR (HEGIY)	Neutral
Newell Brands Inc. (NWL)	Neutral
Party City Holdco Inc. (PRTY)	Underperform

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	SPB Neutral	X Industry	S&P 500	ENR Neutral	HEGIY Neutral	NWL Neutral
VGM Score	A	-	-	B	C	A
Market Cap	2.77 B	161.80 M	23.66 B	3.35 B	9.13 B	8.35 B
# of Analysts	3	3	13	6	1	6
Dividend Yield	2.79%	0.00%	1.82%	2.48%	3.49%	4.67%
Value Score	A	-	-	B	C	A
Cash/Price	0.22	0.08	0.04	0.08	NA	0.06
EV/EBITDA	11.76	7.43	13.87	16.71	NA	5.88
PEG Ratio	2.06	1.96	1.97	1.44	1.71	2.09
Price/Book (P/B)	1.72	1.50	3.24	6.12	3.55	2.00
Price/Cash Flow (P/CF)	6.02	6.02	13.40	10.78	13.30	0.85
P/E (F1)	16.69	16.60	18.48	15.63	19.31	12.55
Price/Sales (P/S)	0.73	0.47	2.60	1.34	NA	0.97
Earnings Yield	6.02%	5.76%	5.40%	6.39%	5.18%	7.97%
Debt/Equity	1.30	0.39	0.72	6.37	NA	1.50
Cash Flow (\$/share)	9.99	1.29	6.92	4.48	2.85	23.20
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	NA%	9.38%	10.80%	2.97%	NA	-0.65%
Proj. EPS Growth (F1/F0)	26.69%	4.17%	7.46%	3.11%	-4.85%	-6.08%
Curr. Cash Flow Growth	64.31%	-4.06%	10.59%	22.48%	3.83%	425.31%
Hist. Cash Flow Growth (3-5 yrs)	16.24%	12.05%	8.55%	4.31%	NA	73.31%
Current Ratio	1.45	1.53	1.21	1.91	NA	1.48
Debt/Capital	56.48%	42.28%	42.91%	86.42%	NA	59.98%
Net Margin	14.35%	-0.13%	11.76%	2.05%	NA	-5.56%
Return on Equity	7.84%	8.55%	17.24%	47.23%	NA	15.93%
Sales/Assets	0.71	1.16	0.55	0.47	NA	0.50
Proj. Sales Growth (F1/F0)	1.30%	1.62%	4.22%	9.57%	1.97%	0.39%
Momentum Score	B	-	-	F	C	D
Daily Price Chg	-2.07%	0.00%	0.67%	4.50%	3.98%	0.92%
1 Week Price Chg	0.77%	-0.78%	-2.60%	-4.48%	-8.08%	-1.81%
4 Week Price Chg	-6.18%	-1.74%	-0.76%	-1.51%	9.65%	4.29%
12 Week Price Chg	15.70%	0.00%	2.84%	12.16%	12.82%	0.95%
52 Week Price Chg	3.96%	-26.09%	13.93%	1.24%	-4.49%	-9.38%
20 Day Average Volume	448,523	19,973	1,915,782	712,101	19,479	2,783,793
(F1) EPS Est 1 week change	-0.28%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.28%	0.00%	0.00%	-0.48%	0.00%	-0.36%
(F1) EPS Est 12 week change	-6.37%	-3.16%	-0.13%	-4.11%	0.00%	-0.63%
(Q1) EPS Est Mthly Chg	8.33%	0.00%	0.00%	5.00%	NA	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	A
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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