Spectrum Brands (SPB)

$63.80 (As of 01/17/20)

Price Target (6-12 Months): **$54.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 12/17/19) Prior Recommendation: Neutral	**Underperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: B	

Summary

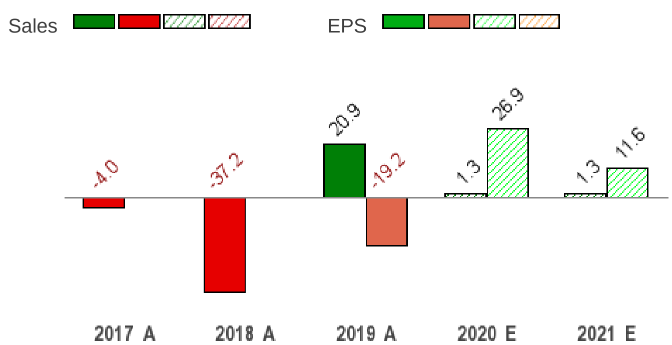
Although shares of Spectrum Brands have outperformed the industry in the past three months, concerns related to higher expenses and currency may hurt its performance in the near term. The company has been witnessing higher operating and tariff-related costs as well as input cost inflation, which hurt its margins in fourth-quarter fiscal 2019. In fiscal 2020, management expects incremental tariff costs of $80-$85 million. Also, adverse currency translations are likely to exert pressure on Spectrum Brands' top line in the current fiscal. Stiff competition in the industry is another hurdle. Nevertheless, the company's progress on its Global Productivity Improvement Plan, which is likely to generate more than $100 million of run-rate savings, bodes well. Moreover, Spectrum Brands has been strengthening its balance sheet by clearing debt.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$66.31 - $45.04**
20 Day Average Volume (sh)	**346,172**
Market Cap	**$3.1 B**
YTD Price Change	**-0.8%**
Beta	**1.82**
Dividend / Div Yld	**$1.68 / 2.6%**
Industry	**Consumer Products - Discretionary**
Zacks Industry Rank	**Bottom 4% (245 out of 254)**
Last EPS Surprise	**3.7%**
Last Sales Surprise	**-0.2%**
EPS F1 Est- 4 week change	**-0.8%**
Expected Report Date	**01/30/2020**
Earnings ESP	**0.0%**
P/E TTM	**25.1**
P/E F1	**17.6**
PEG F1	**2.2**
P/S TTM	**0.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	908 E	928 E	1,045 E	1,011 E	3,900 E
2020	896 E	914 E	1,037 E	1,003 E	3,850 E
2019	875 A	907 A	1,022 A	993 A	3,802 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.38 E	$0.49 E	$1.56 E	$1.40 E	$4.05 E
2020	$0.35 E	$0.44 E	$1.48 E	$1.33 E	$3.63 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 01/17/2020. The reports text is as of 01/20/2020.

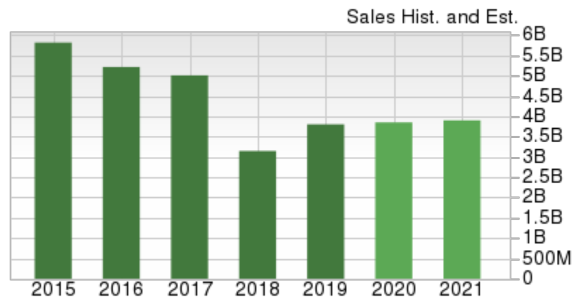
Overview

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 36.7% to the company's overall net sales in fourth-quarter fiscal 2019.

Home & Personal Care: This segment includes Personal Care and Small Appliances businesses. The segment contributed about 28.7% to the overall net sales in the fiscal fourth 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 23.1% to the overall net sales in the fiscal fourth quarter.

Home and Garden: This segment includes controls product category, household product category and repellents product category. The segment contributed about 11.5% to the overall net sales in the fiscal fourth quarter.

Reasons To Sell:

Input cost inflation as well as higher operating and tariff-related costs are hurting Spectrum Brands' margins. It expects incremental tariff costs of $80-$85 million in fiscal 2020.

- **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 25.1x, which is above the median level of 24x but below the high level of 46.9x, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 18.6x for the industry and 20.8x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

- **Soft Margins:** In fourth-quarter fiscal 2019, Spectrum Brands' gross profit dipped 3.5% year over year with margin contraction of 190 bps. The metric was mainly hurt by rise in input costs, tariffs and accelerated depreciation with respect to Latin America plant closures. However, the decline was partly offset by favorable pricing and productivity. Furthermore, the company incurred operating loss of $87.5 million against operating income of $34.6 million in the year-ago period. Management anticipates incurring incremental tariff costs of $80-$85 million in fiscal 2020. This coupled with higher spending on marketing, advertising, and product developments and innovations might continue to hurt the company's margins and, in turn, the bottom line.

- **Currency Headwinds:** Spectrum Brands is exposed to major foreign currency risks due to cross-border presence, which is weighing on the company's performance. Apparently, foreign currency headwinds hurt the company's net sales by $12.5 million in fourth-quarter fiscal 2019. Additionally, currency negatively impacted the Hardware & Home Improvement, the Home & Personal Care and the Global Pet Supplies segments' sales by $0.8 million, $8.9 million and $2.8 million, respectively. Depending on the existing rates, currency translations are expected to have a marginal adverse impact on sales in fiscal 2020.

- **Competitive Pressure May Result in Loss of Market Share:** Spectrum Brands faces intense competition from numerous well-established players and distributors of consumer and commercial products. In such a competitive environment, a pricing lag, non-availability of big consumer brands, lack of innovations with regard to product features and enhancements as well as inefficient customer service may restrict market share growth.

Risks

- **Robust Q4 Performance, Stock Outperforms:** Shares of Spectrum Brands have gained 27.8% in the past three months, outperforming the industry's 4.5% growth. The company reported robust fourth-quarter fiscal 2019 results, wherein both earnings and sales outpaced the Zacks Consensus Estimate and improved year over year. Adjusted earnings from continuing operations grew 10.9% owing to decline in interest expenses and shares outstanding. Moreover, the company's net sales rose 1.9% year over year. Organic sales also grew 3.2%, thanks to higher sales at Hardware & Home Improvement, Home & Personal Care, and Global Pet Care segments, somewhat offset by lower sales at Home & Garden. Additionally, its EBITDA increased 5.2%, with margin expansion of 50 basis points (bps) on favorable pricing, productivity and cost-containment efforts. In fiscal 2020, net sales are expected to grow in low-single digits. Further, the company envisions adjusted EBITDA of $570-$590 million.

- **Strategic Initiatives on Track:** Spectrum Brands has been smoothly progressing with its Global Productivity Improvement Plan. 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. This plan helped the company to deliver nearly $35 million of run-rate savings, and is likely to generate more than $100 million in the next 18-24 months. Notably, majority of these savings are expected to be reinvested in the company's core businesses to bolster growth and offset the additional tariff costs in fiscal 2020. This plan will also enable the company to deliver value creation and sustainable growth in the long term.

- **Strong Brand Portfolio:** Spectrum Brands is one of the leading suppliers of plumbing, shaving and grooming products, personal care products, small household appliances, lawn and garden and home pest control products, repellents, and pet supplies. Notably, the company's portfolio includes brands such as National Hardware, Black & Decker, Tetra, Marineland, Spectracide, Nature's Miracle and Dingo, among others. It also undertakes strategic measures via buyouts and divestitures to strengthen portfolio, thereby positioning it well for growth. Additionally, the company is set to concentrate on the development of its four key business segments.

Last Earnings Report

Spectrum Brands Q4 Earnings & Sales Beat Estimates

Quarter Ending	09/2019
Report Date	Nov 13, 2019
Sales Surprise	-0.19%
EPS Surprise	3.67%
Quarterly EPS	1.13
Annual EPS (TTM)	2.54

Spectrum Brands reported robust fourth-quarter fiscal 2019 results, wherein earnings and sales not only outpaced the Zacks Consensus Estimate but also improved year over year. Adjusted earnings from continuing operations were $1.13 per share, which outpaced the Zacks Consensus Estimate of $1.09. The bottom line also grew 10.9%, owing to fall in interest expenses and shares outstanding.

Deeper Insight

Spectrum Brands' net sales rose 1.9% year over year to $993 million, surpassing the Zacks Consensus Estimate of $992 million. Excluding the negative impacts of currency, organic net sales grew 3.2%, owing to higher sales at Hardware & Home Improvement, Home & Personal Care, and Global Pet Care segments, somewhat offset by lower sales at Home & Garden.

The company's gross profit dipped 3.5% year over year to $334.7 million. Moreover, gross margin contracted 190 bps to 33.7%, mainly driven by rise in input costs, tariffs and accelerated depreciation with respect to Latin America plant closures. However, the decline was partly offset by favorable pricing and productivity. Furthermore, the company reported operating loss of $87.5 million against operating income of $34.6 million in the year-ago period.

Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations increased 5.2% to $163.1 million in the fiscal fourth quarter. Further, adjusted EBITDA margin expanded 50 bps on favorable pricing, productivity and cost-containment efforts. This was partly mitigated with tariffs and input cost inflation.

Segmental Performance

Sales at the **Hardware & Home Improvement** segment inched up 1.1% to $364.9 million mainly due to improvement in residential security, somewhat offset by decreases in builders' hardware and plumbing. Excluding the adverse impacts of foreign currency, the segment's organic sales rose 1.3% year over year. Also, adjusted EBITDA at the segment grew 3.5% to $77.8 million.

Sales at the **Home & Personal Care** segment inched up 1% to $285.8 million, backed by growth at personal care and small appliances in Europe coupled with robust performance in Latin America. However, sales fell at the U.S. personal care business. Excluding the adverse impacts of foreign currency, organic net sales increased 4.2%. Moreover, the segment's adjusted EBITDA of $29.4 million fell 17.2%.

The **Global Pet Care** segment's sales grew 7.9% year over year to $228.9 million, primarily driven by robust growth in U.S. companion animal revenues. This was partly compensated with a modest decline in U.S. aquatics. Lower sales in Europe further marred the segment's top line. Excluding the adverse impacts of foreign currency, organic sales rose 9.2%. Further, the segment's adjusted EBITDA grew 30.3% to $41.7 million.

The **Home & Garden** segment's sales dropped 4.3% to $113.4 million mainly on adverse weather conditions coupled with lower sales in household insect controls. This was somewhat compensated with growth in repellents. Further, the segment's adjusted EBITDA dipped 1% to $19.6 million.

Other Financials

Spectrum Brands ended the quarter with cash and cash equivalents of $627.1 million, and more than $779 million available under its $800-million Cash Flow Revolver. As of Sep 30, 2019, the company's outstanding debt was nearly $2,385 million. In the reported quarter, capital expenditure was $18 million. In fiscal 2019, the company spent $60 million as cash tariffs, which were significantly offset by pricing and productivity.

Moreover, management cut the company's total debt by $2.4 billion in fiscal 2019, utilizing sale proceeds of the Global Battery & Lighting, and Global Auto Care operations. At the end of fiscal 2019, net leverage was roughly 3.1 times, considerably lower than 5.2 times at the end of last fiscal year. Further, it issued $300 million in 5% 10-Year notes as well as tendered most of $570 million of 6.625% notes due 2022.

In fiscal 2019, management returned more than $350 million, including share repurchases worth nearly $269 million and dividends of $86 million. Going forward, the company anticipates buying back shares for an additional $250 million, which includes $125 million from its Accelerated Share Repurchase program.

Fiscal 2020 Guidance

Spectrum Brands issued outlook 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.

Moreover, the company estimates gross annualized savings from sourcing and Global Productivity Improvement Program cost improvements of $100 million. In fiscal 2020, these gains are likely to offset anticipated incremental tariff costs of $80-$85 million. Further, the company envisions adjusted EBITDA of $570-$590 million. It anticipates adjusted free cash flow of $240-$260 million.

Recent News

Spectrum Brands Announces Dividend – Nov 11, 2019

Spectrum Brands announced a quarterly cash dividend of 42 cents per share, paid on Dec 17, 2019, to stockholders of record as of Nov 25.

Valuation

Spectrum Brands shares are up 15.5% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 11.9% while the Zacks Consumer Discretionary sector is up 20.9% over the past year.

The S&P 500 index is up 23.8% in the past year.

Our Underperform recommendation indicates that the stock will perform worse than the market. Our $54 price target reflects 14.36X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Bottom 4% (245 out of 254)

Top Peers

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

Industry Comparison Industry: Consumer Products - Discretionary

Industry Peers

	SPB Underperform	X Industry	S&P 500	ENR Neutral	HEGIY Neutral	NWL Neutral
VGM Score	A	-	-	A	C	A
Market Cap	3.11 B	175.02 M	24.65 B	3.41 B	9.37 B	8.58 B
# of Analysts	3	3	13	6	1	6
Dividend Yield	2.63%	0.00%	1.73%	2.43%	3.40%	4.54%
Value Score	A	-	-	B	C	B
Cash/Price	0.20	0.09	0.04	0.08	NA	0.06
EV/EBITDA	12.70	8.43	14.11	16.89	NA	5.98
PEG Ratio	2.16	2.03	2.08	1.50	1.75	2.15
Price/Book (P/B)	1.82	1.48	3.39	6.25	NA	2.06
Price/Cash Flow (P/CF)	6.39	6.39	13.81	11.00	13.65	0.87
P/E (F1)	17.58	17.56	19.19	15.90	19.82	12.88
Price/Sales (P/S)	0.82	0.57	2.69	1.37	NA	1.00
Earnings Yield	5.69%	5.45%	5.21%	6.29%	5.05%	7.75%
Debt/Equity	1.30	0.31	0.72	6.37	NA	1.50
Cash Flow ($/share)	9.99	1.29	6.94	4.48	2.85	23.20
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	NA%	4.24%	10.56%	2.97%	NA	-0.65%
Proj. EPS Growth (F1/F0)	27.04%	3.61%	7.57%	3.39%	-4.85%	-5.91%
Curr. Cash Flow Growth	64.31%	-4.06%	14.73%	22.48%	3.83%	425.31%
Hist. Cash Flow Growth (3-5 yrs)	16.24%	12.05%	9.00%	4.31%	NA	73.31%
Current Ratio	1.45	1.53	1.24	1.91	NA	1.48
Debt/Capital	56.48%	41.03%	42.99%	86.42%	NA	59.98%
Net Margin	12.32%	-0.13%	11.14%	2.05%	NA	-5.56%
Return on Equity	7.17%	8.40%	17.16%	47.23%	NA	15.93%
Sales/Assets	0.64	1.16	0.55	0.47	NA	0.50
Proj. Sales Growth (F1/F0)	1.42%	1.42%	4.16%	9.58%	1.97%	0.39%
Momentum Score	B	-	-	B	C	C
Daily Price Chg	0.19%	0.00%	0.27%	0.26%	-2.19%	0.25%
1 Week Price Chg	-0.58%	0.00%	0.39%	-0.23%	11.63%	3.11%
4 Week Price Chg	2.33%	-2.08%	2.95%	-1.64%	6.06%	6.91%
12 Week Price Chg	27.14%	-7.33%	7.76%	14.81%	18.95%	4.16%
52 Week Price Chg	18.74%	-30.68%	22.29%	5.30%	4.04%	-2.27%
20 Day Average Volume	346,172	31,644	1,536,375	571,076	24,103	3,056,332
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.05%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.82%	0.00%	0.00%	-0.05%	0.00%	-0.63%
(F1) EPS Est 12 week change	-6.12%	-4.94%	-0.40%	-3.70%	0.00%	4.87%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	9.09%	NA	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	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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