

Spectrum Brands (SPB)

\$52.18 (As of 07/29/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Shares of Spectrum Brands have lagged the industry in the past six months. Despite reporting earnings and sales beat in second-quarter fiscal 2020, the stock remains under pressure due to the ongoing global COVID-19 situation. Citing unprecedented impacts of the outbreak, management withdrew its fiscal 2020 view, suspended merit-based compensation and reduced capital spending. The pandemic already hurt sales and adjusted EBITDA in the fiscal second quarter. Further, sluggishness in the Hardware & Home Improvement segment and currency woes remain concerns. However, it is gaining from smooth progress on its Global Productivity Improvement Plan, which is likely to generate \$100 million of run-rate savings. It also witnessed robust sales growth in Global Pet Care and Home & Personal Care segments, which aided organic sales in the quarter.

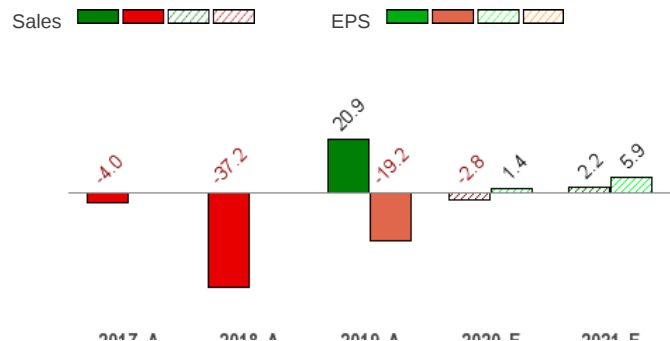
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.72 - \$19.59
20 Day Average Volume (sh)	304,920
Market Cap	\$2.2 B
YTD Price Change	-18.8%
Beta	1.91
Dividend / Div Yld	\$1.68 / 3.2%
Industry	Consumer Products - Discretionary
Zacks Industry Rank	Top 43% (108 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	175.8%
Last Sales Surprise	7.9%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	07/31/2020
Earnings ESP	4.8%
P/E TTM	14.5
P/E F1	18.0
PEG F1	2.2
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	854 E	964 E	1,023 E	1,007 E	3,778 E
2020	872 A	938 A	938 E	949 E	3,696 E
2019	875 A	907 A	1,022 A	993 A	3,802 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.05 E	\$0.76 E	\$1.27 E	\$1.29 E	\$3.07 E
2020	\$0.20 A	\$0.91 A	\$0.96 E	\$0.87 E	\$2.90 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 07/29/2020. The reports text is as of 07/30/2020.

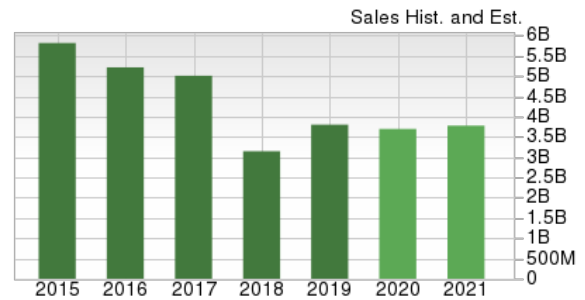
Overview

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 35.1% to the company's overall net sales in second-quarter fiscal 2020.

Home & Personal Care: This segment includes Personal Care and Small Appliances businesses. The segment contributed about 24.8% to overall net sales in the fiscal second 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 25.3% to overall net sales in the fiscal second quarter.

Home and Garden: This segment includes controls product category, household product category and repellents product category. The segment contributed about 14.8% to overall net sales in the fiscal second quarter.



Reasons To Buy:

▲ **Robust Q2 Results:** Spectrum Brands posted better-than-expected second-quarter fiscal 2020 results, wherein both top and bottom lines improved year over year. Results gained from the global productivity improvement plan coupled with lower expenses and growth in operating income. Further, the bottom line increased more than three folds year over year, driven by operating income growth and a decline in interest expenses and shares outstanding. Also, gross profit increased 7.7% year over year to \$328.9 million. Gross margin expanded 140 bps to 35.1%, mainly driven by cash benefit stemming from retrospective tariff exclusions and rise in volumes.

Spectrum Brands posted impressive second-quarter fiscal 2020 results driven by the global productivity improvement plan, lower expenses and operating income growth.

▲ **Strategic Initiatives on Track:** Spectrum Brands is progressing well with its Global Productivity Improvement Plan (GPIP), which is expected to generate at least \$100 million in run-rate savings annually. 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. Also, it expects achieving full run-rate savings 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.

▲ **Global Pet Care Business Reflects Strength:** Spectrum Brands' organic sales improved 4.1% in second-quarter fiscal 2020, owing to higher sales at Home & Personal Care, Home & Garden and Global Pet Care. Notably, sales for the Global Pet Care business improved 10.2%, with organic sales growth of 10.6% on robust growth in companion animal and aquatic categories. This marked the sixth consecutive quarter of top-line growth for the segment.

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 Cambodia in second-quarter fiscal 2020. Also, it concluded the sale of the European dog and cat food manufacturing operations in a deal worth more than \$30 million. Apart from these, Spectrum Brands acquired Omega Sea, which is now part of its Global Pet Care portfolio of aquatic brands. Cumulatively, the pet segment remains poised for growth backed by its pipeline of robust innovation and growth strategy.

▲ **Home & Personal Care Segment:** Sales at the Home & Personal Care segment rose 5% in the fiscal second quarter, while organic sales increased 7.5%. This marked the second straight quarter of growth for the segment. Growth was backed by strength in personal care and small appliances unit, as well as in almost all regions. Although temporary store closures remained a drag, strong sales in mass and online channels contributed to growth. Moreover, the segment's adjusted EBITDA surged 77.8% on reduced operating costs, productivity improvements and higher volumes.

▲ **Financial Flexibility:** Spectrum Brands ended second-quarter fiscal 2020 with a total debt of \$2,999.1 million, up from \$2,324.3 million in the prior-quarter. However, interest expense declined significantly 62.3% on a sequential basis to \$35.5 million in the second quarter. Also, the company's times interest earned ratio of nearly 4 reflects a sequential improvement from 2.9 in the prior quarter. This shows that the company is well-positioned to meet its debt obligations.

Moreover, the company had a strong liquidity position with cash balance of \$457.8 million and nearly \$590 million available on its \$800 million Cash Flow Revolver as of Mar 29, 2020. Moreover, the company is committed to returning value to shareholders through dividends and share repurchases. In second-quarter fiscal 2020, it bought back 2.7 million shares for \$149.2 million. It is also on track with plans to reward shareholders through a \$125 million accelerated share repurchase program. Management also announced a quarterly dividend of 42 cents per share, payable Feb 18. Going ahead, the company is focused on strengthening balance sheet to overcome the hurdle caused by uncertain COVID-19 impacts. On Apr 3, it added \$90 million to its credit facility, which remains undrawn.

Reasons To Sell:

▼ **Impacts of COVID-19:** Spectrum Brands is not immune to the effects of the coronavirus outbreak. The company witnessed supply chain disruptions in China in the initial stages, when it was the epicenter of the outbreak. Owing to this, shipments were delayed, which in turn, weighed on fiscal second quarter sales. Notably, COVID-19 impacts hurt the top line and adjusted EBITDA to the tune of \$7.5 million and \$3.6 million in the quarter, respectively. Moreover, management withdrew its fiscal 2020 view, suspended merit-based compensation, reduced capital spending and lowered recruitments.

The company foresees significant impacts including supply-chain disruptions at its manufacturing facilities across the Philippines, Mexico, the United States and China; significant changes in consumer behavior; and macroeconomic headwinds. We note that shares of the company have declined 15% in the past six months underperforming the industry's loss of 4.8%.

Spectrum Brands has withdrawn fiscal 2020 view, suspended merit based compensation, reduced capital spending and lowered recruitment as a result of uncertain COVID-19 impacts.

▼ **Weakness in Hardware & Home Improvement and Home & Garden Segments:** Spectrum Brands' Hardware & Home Improvement segment reported a 0.6% decline in net sales and organic sales in second-quarter fiscal 2020. The segment's top line was hurt by a decline in residential security, somewhat offset by growth in builders' hardware. Also, adjusted EBITDA at the segment grew 31.9% to \$69.5 million. Meanwhile, sales for the Home & Garden segment dropped 0.1% to \$139.1 million. Transportation shortages stemming from the COVID-19 crisis and early season orders from robust POS in the quarter hurt the segment to some extent. This was somewhat compensated by a decline in private label and captive brand sales.

▼ **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 \$7.3 million in second-quarter fiscal 2020. Any further negative changes in foreign currency are expected to marginally hurt sales in the near term.

▼ **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.

Last Earnings Report

Spectrum Brands' Q2 Earnings & Sales Beat Estimates

Spectrum Brands posted better-than-expected second-quarter fiscal 2020 results, wherein both top and bottom lines improved year over year. Results gained from the global productivity improvement plan coupled with lower expenses and growth in operating income.

Despite impressive results, management withdrew its fiscal 2020 view in response to the unprecedented impacts of COVID-19. These impacts include supply-chain disruptions at its manufacturing facilities across the Philippines, Mexico, the United States and China; significant changes in consumer behavior; and macroeconomic headwinds.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	7.94%
EPS Surprise	175.76%
Quarterly EPS	0.91
Annual EPS (TTM)	3.59

Q2 in Detail

Adjusted earnings from continuing operations of 91 cents per share surpassed the Zacks Consensus Estimate of 33 cents. The bottom line also increased more than three folds year over year, driven by operating income growth and a decline in interest expenses and shares outstanding.

Spectrum Brands' net sales advanced 3.4% year over year to \$937.8 million, exceeding the Zacks Consensus Estimate of \$869 million. Excluding the negative impacts of currency and gains from acquisitions, organic net sales improved 4.1%, owing to higher sales at Home & Personal Care, Home & Garden and Global Pet Care. This was somewhat offset by sluggishness in the Hardware & Home Improvement segment. Also, impacts from COVID-19 hurt the top line to the tune of \$7.5 million. Moreover, supply-chain disruptions in China led to delay in shipments, which in turn weighed on second-quarter sales.

Gross profit increased 7.7% year over year to \$328.9 million. Moreover, gross margin expanded 140 bps to 35.1%, mainly driven by cash benefit stemming from retrospective tariff exclusions and rise in volumes. On the flip side, higher tariffs and currency headwinds acted as deterrents.

Furthermore, the company's operating income surged 62.7% to \$67.7 million from operating income of \$41.6 million in the year-ago period.

Adjusted EBITDA from continuing operations increased 21.5% to \$140.4 million in the fiscal second quarter. Further, adjusted EBITDA margin expanded 230 bps on robust gross profit and reduced operating costs.

Segmental Performance

Sales at the **Hardware & Home Improvement** segment edged down 0.6% to \$329.1 million, mainly due to a decline in residential security, somewhat offset by growth in builders' hardware. The segment's organic sales dipped 0.6% year over year. Also, adjusted EBITDA at the segment grew 31.9% to \$69.5 million.

Sales at the **Home & Personal Care** segment grew 5% to \$232.7 million, backed by growth in all regions and solid performance of personal care and small appliances unit. Although temporary store closures remained a drag, strong sales in mass and online channels contributed to growth. Excluding the adverse impacts of foreign currency, organic net sales for the segment increased 7.5%. Moreover, the segment's adjusted EBITDA of \$8 million surged 77.8% on reduced operating costs, productivity improvements and higher volumes. This was partly offset by currency headwinds and higher tariffs.

The **Global Pet Care** segment's sales advanced 10.2% year over year to \$236.9 million, primarily driven by robust growth in companion animal and aquatic categories. Excluding the adverse impacts of foreign currency and gains from acquisitions, organic sales rose 10.6%. Further, the segment's adjusted EBITDA grew 22% to \$40 million.

The **Home & Garden** segment's sales dropped 0.1% to \$139.1 million. Transportation shortages stemming from the COVID-19 crisis and early season orders from robust POS in the quarter hurt the segment to some extent. This was somewhat compensated by a decline in private label and captive brand sales. Further, the segment's adjusted EBITDA fell 4.1% to \$28.4 million in the reported quarter.

Other Financials

Spectrum Brands ended the quarter with cash and cash equivalents of \$457.8 million and roughly \$590 million available under its \$800-million Cash Flow Revolver. As of Mar 29, the company's outstanding debt was nearly \$3,042 million. In the reported quarter, capital expenditure was \$13 million.

It repurchased 2.7 million shares worth \$149.2 million during the quarter under review. Going ahead, management suspended its share repurchase program to strengthen the financial position. Keeping in these lines, the company withdrew its existing revolving credit facility of \$800 million as part of preventive measures in the wake of the COVID-19 outbreak. On Apr 3, it added \$90 million to its credit facility, which remains undrawn.

Business Development

The company concluded the sale of the European dog and cat food manufacturing operations in a deal worth more than \$30 million. Also, it closed its Cambodia rawhide manufacturing facility during the quarter. Apart from these, Spectrum Brands acquired Omega Sea, which is now a part of its Global Pet Care portfolio of aquatic brands.

Looking Ahead

Although management withdrew the fiscal 2020 guidance, it expects supply shortages in the third quarter. However, the company's strong financial position makes it well positioned to overcome the ongoing hurdle by the end of the third quarter. Going ahead, it remains focused on its global productivity improvement plan, which is likely to generate at least \$100 million in run-rate savings.

Valuation

Spectrum Brands shares are down 18.8% in the year-to-date period but up nearly 4.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 9.2% and 7.7%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are down 14.6% and 2%, respectively.

The S&P 500 index is up 1.3% in the year-to-date period and 9.7% in the past year.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$54 price target reflects 17.95X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Top 43% (108 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Vista Outdoor Inc. (VSTO)	Outperform	2
BM European Value Retail SA Un-sponsored ADR (BMRRY)	Neutral	3
Central GardenPet Company (CENT)	Neutral	3
Central GardenPet Company (CENTA)	Neutral	3
Energizer Holdings, Inc. (ENR)	Neutral	3
Hengan International Group Co., Ltd. Un-sponsored ADR (HEGIY)	Neutral	3
Newell Brands Inc. (NWL)	Neutral	3
Party City Holdco Inc. (PRTY)	Underperform	5

Industry Comparison Industry: Consumer Products - Discretionary				Industry Peers		
	SPB	X Industry	S&P 500	ENR	HEGIY	NWL
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	A	B
Market Cap	2.25 B	182.82 M	22.69 B	3.47 B	10.13 B	7.46 B
# of Analysts	3	3	14	6	1	7
Dividend Yield	3.22%	0.00%	1.8%	2.37%	3.92%	5.23%
Value Score	B	-	-	C	B	C
Cash/Price	0.22	0.09	0.07	0.08	0.29	0.07
EV/EBITDA	12.93	9.05	13.11	15.82	7.68	10.44
PEG Ratio	2.19	1.60	3.05	2.22	NA	8.81
Price/Book (P/B)	1.96	1.90	3.15	9.41	3.91	2.15
Price/Cash Flow (P/CF)	5.22	9.15	12.28	11.30	15.15	2.98
P/E (F1)	17.79	18.23	22.27	18.17	16.50	15.25
Price/Sales (P/S)	0.59	0.77	2.46	1.29	NA	0.82
Earnings Yield	5.56%	5.43%	4.25%	5.51%	6.06%	6.53%
Debt/Equity	2.45	0.53	0.75	8.06	0.07	1.69
Cash Flow (\$/share)	9.99	0.72	6.94	4.48	2.81	5.91
Growth Score	B	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	NA%	0.86%	10.85%	1.11%	NA	-5.50%
Proj. EPS Growth (F1/F0)	1.51%	2.63%	-7.70%	-7.06%	8.40%	-32.10%
Curr. Cash Flow Growth	64.31%	-4.06%	5.31%	22.48%	-1.27%	-76.91%
Hist. Cash Flow Growth (3-5 yrs)	16.24%	13.95%	8.55%	4.31%	NA	28.55%
Current Ratio	2.39	1.66	1.31	1.42	1.27	1.33
Debt/Capital	71.05%	43.49%	44.23%	88.96%	6.45%	62.82%
Net Margin	-6.31%	-0.96%	10.45%	-0.67%	NA	-11.25%
Return on Equity	10.92%	2.09%	14.99%	37.13%	NA	16.26%
Sales/Assets	0.74	0.99	0.53	0.50	NA	0.57
Proj. Sales Growth (F1/F0)	-2.65%	0.00%	-1.97%	6.94%	2.79%	-0.24%
Momentum Score	C	-	-	A	A	A
Daily Price Chg	4.78%	0.00%	1.52%	3.09%	0.91%	1.97%
1 Week Price Chg	-1.59%	-1.67%	0.37%	-4.63%	0.69%	4.77%
4 Week Price Chg	12.53%	3.26%	5.44%	8.20%	8.47%	11.53%
12 Week Price Chg	28.78%	13.41%	15.38%	34.56%	1.73%	50.56%
52 Week Price Chg	4.13%	-23.87%	-1.61%	20.39%	13.53%	24.03%
20 Day Average Volume	304,920	34,354	1,846,377	470,929	7,271	2,933,447
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.48%	6.39%	6.46%
(F1) EPS Est 4 week change	0.35%	0.00%	0.27%	0.42%	6.39%	9.67%
(F1) EPS Est 12 week change	6.09%	0.00%	-0.85%	1.39%	6.39%	-15.51%
(Q1) EPS Est Mthly Chg	10.83%	0.00%	0.13%	-0.21%	NA	14.01%

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	B
Growth Score	B
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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