

Mossberg's Investor Digest

Best Idea Profile:

Helen of Troy (NASDAQ:HELE)

DESCRIPTION:

Helen of Troy Limited develops and markets consumer products under three segments. Personal care products include curling and straightening irons, hot air brushes, hair dryers, hair clippers, mirrors, hair brushes, decorative hair accessories, shampoos, fragrances and deodorants. Brands in this segment include Revlon, Hot Tools, Dr. Scholl's, Sure and Brut. The housewares segment provides food preparation tools and storage containers, cutlery, tea and coffee, bathroom accessories, storage products and baby care products. Brands in this segment include OXO, Good Grips, and Soft Works. The healthcare/home environment segment includes thermometers, blood pressure monitors, heating pads, humidifiers, and water filtration systems. Its brands include Vicks, Braun, PUR, Febreze and Honeywell. Helen of Troy is based in El Paso, Texas, and was founded in 1968.

KEY INVESTMENT CONSIDERATIONS:

Capitalizing on Wellness and Aging – At the end of June, Helen of Troy paid \$195 million in cash for Healthy Directions. This accretive acquisition helps the company capitalize on the aging population's desire for vitamins, minerals and supplements that help with heart, skin and vision. Healthy Directions targets U.S. consumers aged 55 and older, as over 70% of these take vitamin supplements. Experts believe the vitamin, mineral and supplements market will continue to grow close to 9% annually through 2020. The business had over 8% year-over-year revenue growth and gross margin of 70%, which was approximately 30 percentage points higher than Helen of Troy's consolidated 2014 results. Management has done very well with its acquisitions in 2010 and 2011 of Kaz and PUR, both of which also follow the health and wellness trend. Acquisitions have contributed to tripling of company revenues in the past ten years.

Licensing Relationships– Some of the brands it markets are owned by Helen of Troy and some are licensed. The company has very long and deep licensing relationships, many 30 years or more, with Proctor and Gamble, Revlon, Honeywell and Unilever. Helen of Troy is Proctor and Gamble's oldest, largest and most global licensee. These relationships offer considerable opportunity to leverage the scale of its business.

Personal Care Weakness – A weak retail environment and sluggish growth in the personal care segment were the factors in management's determination to guide fiscal

2015 sales estimates downward by approximately 5%. Management lowered by about \$0.60 its earnings per share guidance to a range of \$4.55 to \$4.65, excluding Healthy Directions. The company has a history of growth, with a six-year compound annual growth rate of 16% in sales as the company doubled in size. Its EBITDA grew 18% annually over that period. Personal care was 100% of revenues in 2004, but is now just a third. Health care/home environment was created through acquisitions and now represents 43% of the company's revenues. This is a testament to the company's ability to grow organically and from acquisitions.

Interest From Outside – HELE shares have been of interest to potential suitors for much of 2014. The stock's pullback following management's most recent downward guidance fuels this speculation further.

VALUATION:

HELE took off in early 2014, primarily because of the Dutch tender offer of 3.69 million shares. The share buyback was the first in the history of the company and management indicates a shift in its focus on shareholder value. After reaching a high of \$70 in April, the price retreated, especially following the recent downward guidance issued in early September. The stock has had several precipitous drops that have landed it in a much more attractive range for purchases.

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Investment Data (as of 9/12/14)

Recent Price	\$53.80
52-Week Range	\$40.91 - \$70.23
Fiscal Year End	Feb 28
Dividend	NA
Yield	NA
Shares Outstanding	28.4 M
Average Trading Volume (3 mos)	230k
Market Capitalization	\$1.5 B
Cash	\$29.2 M
Long-term Debt	\$426.0 M
Enterprise Value (EV)	\$1.9 B
Book Value	\$27.50
TTM Revenue	\$1.3 B
P/ Revenue	1.2x
TTM EPS	\$2.66
P/ EPS	20.2x
TTM EBITDA	\$181 M
EV/ EBITDA	10.7x

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