

Helen of Troy

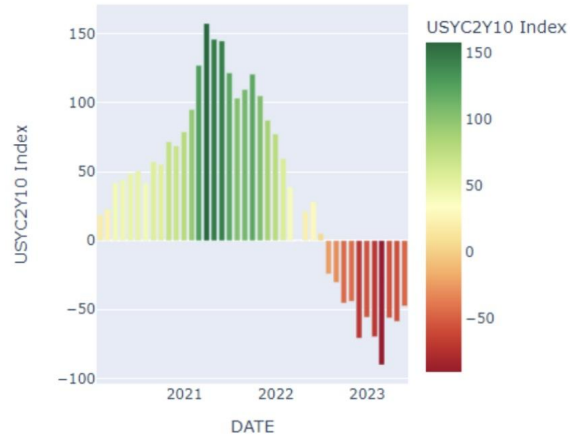
HELE US Equity
Ryan Finegan

Best Idea:

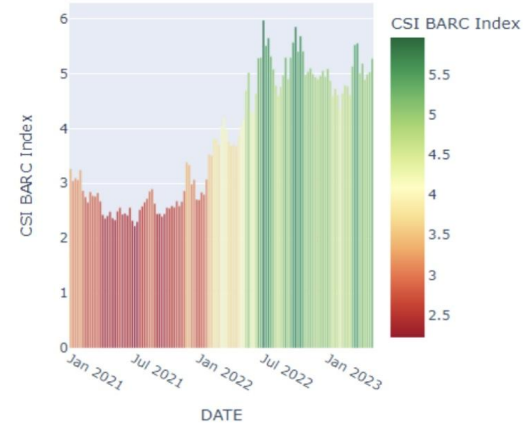
Sell HELE US Equity @ \$99.08

10s 2s and HY YTW vs 10yr

10s 2s Yield Curve



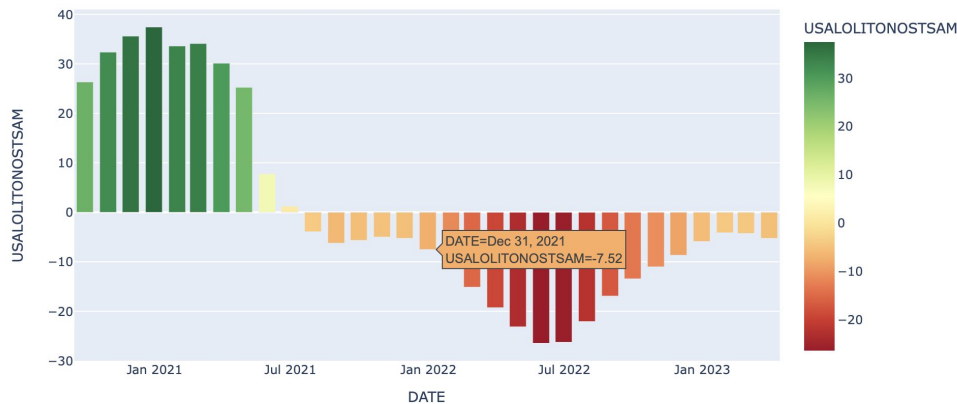
HY YTW Minus 10yr



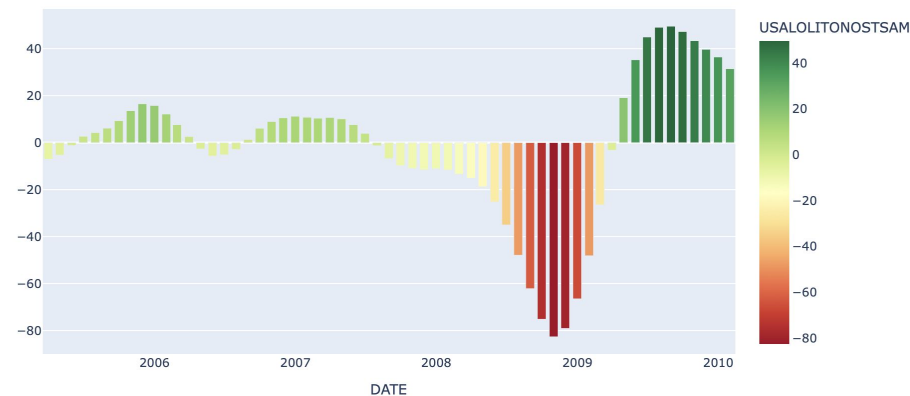
- The last 10 months have had an inverted yield curve
- HY Spreads widening

CLI

Leading Indicators OECD: Leading indicators: CLI: Normalised



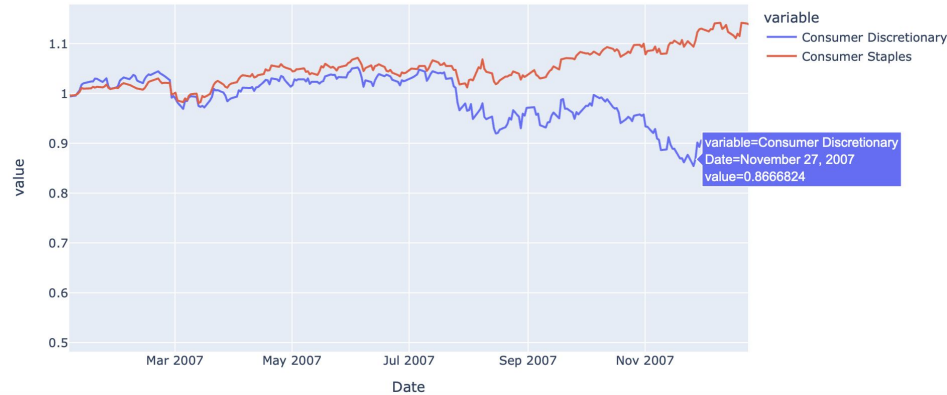
Leading Indicators OECD: Leading indicators: CLI: Normalised



- CLI during GFC compared to present day
- Derivative MoM is a leading indicator

Consumer Discretionary - Consumer Staples

Discretionary v. Staples



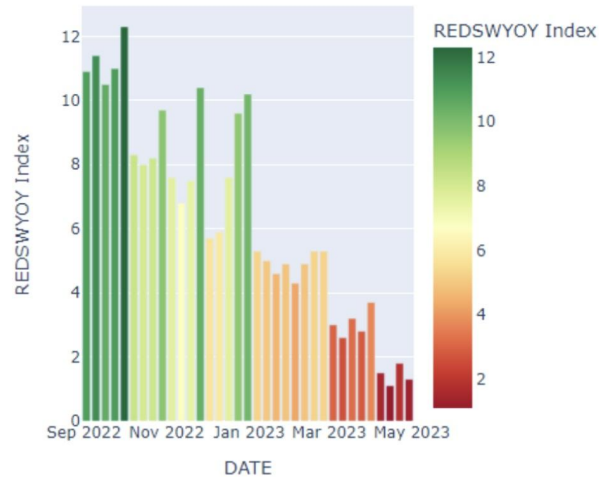
Discretionary v. Staples



- Very similar to Gold and Copper
- Consumer Discretionary equities diverge from Consumer Staples equities
- Discretionary spending slows down as the consumer starts to save

Redbook Retail

Redbook Index Same Store Sales Weekly YoY



Redbook Index Same Store Sales Weekly YoY

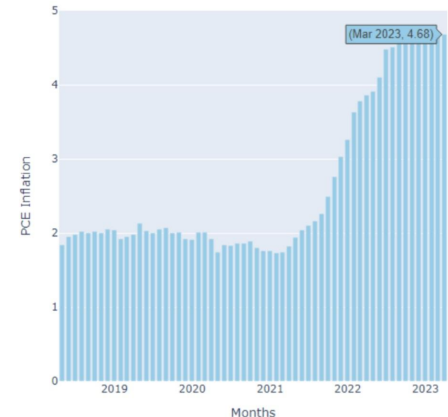


- The consumer is hurting
- Redbook retail sales trending down

HELEN OF TROY - The Macro

- Bank Failures - 2nd, 3rd, and 4th largest bank failures
 - Who's JPM buying next? PACWEST, WAL
- Elevated Inflation - Dallas Fed's Trimmed Mean
 - Inflation remains elevated and FOMC remains attentive to solving this issue
 - Will have to leave rates high (HELE floater 2026 debt wall)
 - If something breaks (probably will) - everything will fall with the market anyway
 - Will limit cash investments to grow brands
- 10 straight months of inverted yield curve (10-2)
- Redbook Trending down - Bad for Retail
- Tighter credit standards
 - Leading recession indicator
- AMZN fires 27k
 - One of the best led companies with the best data

Dallas Fed's Trimmed Mean from April 2018 to April 2023



Main Points - HELE

- CFO Left... CEO following shortly after
 - Accounting gimmicks?
- Rollup strategy
 - Elevated rates (free money era is over) [inflation chart in previous slide]
 - Bought businesses at peak margins while using special charges consistently to disagree with GAAP more than any other mid cap retail company - 64 comps (created BQuant differential screener for fundamentals) [Appendix G]
- Management is pretty delusional
 - “Our forecasts do not assume a recession”
- Revenue down over 30% Q/Q ... earnings down over 13% Q/Q
 - Not even sure how much of that is organic

Industry Dynamics

- Rollups will not do as well in this higher rate environment
 - Fed's persistence on inflation means rates will stay elevated until something breaks (regional banks and CRE)
- WMT and TGT are in their top 3 distributors
 - Need to fix inventory glut and have been working on their own labels -> destocking
- Consumer is hurting as personal savings rates are trending up
 - Bad for discretionary
- Student Loan payments are coming back 60 days after June 30th

Brands

- Osprey - probably the best brand they have
 - Just acquired in 2021... CFO announced he was leaving shortly after
 - CEO is retiring in 2024
- Hydro Flask
 - Yeti and new Stanley Cup are stealing market share
 - Stanley Cups are everywhere
- Vicks, Honeywell, Revlon, OXO (others)
 - There are little synergies with these acquisitions



Distribution Risk

- Majority of sales are from WMT, TGT, and AMZN
 - All three are shifting to premium brands
 - Working on and offering their own private labels (amazonbasics)
- BBY was a small distributor
 - But that's also gone



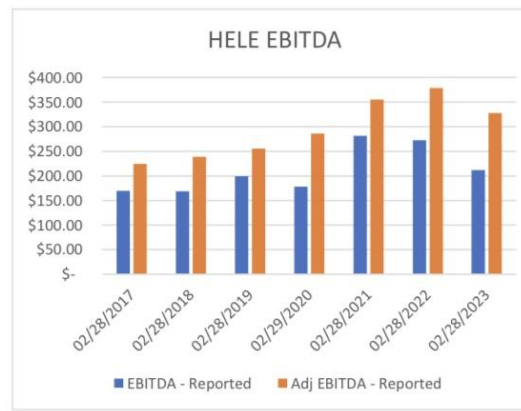
Credit Fundamentals - BQNT (not adjusted)

- Large goodwill number (buying brands at the worst time)
- Interest expense is trending up (accelerating)
 - Deteriorating fixed coverage charge
- Very few signs of synergy
 - Synergy is what you need for rollups
 - Huge Cash Flow problem (Even with CFFO gimmicks in acquisitions)
 - Shift to investing cash outflow
 - Free Cash Flow to the floor
- Rollup strategy is toast given rates quick rate of change
 - Especially for a company with a billion dollars due in 2026
- CFFO relative to CAPEX trend one of the worst in the industry (2021 FY to 2023 FY)

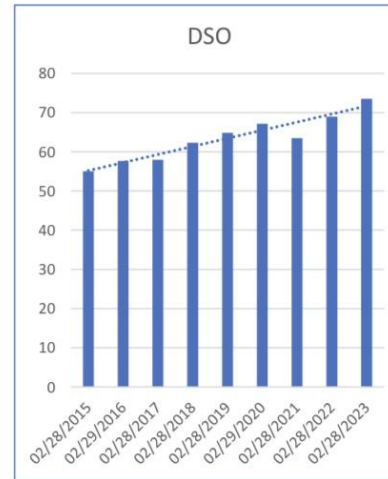
| ID | altman diff | altman rank | fcf diff | fcf rank | fcf yield diff | fcf yield rank | profit margin diff | profit margin rank | fcf to debt diff | fcf to debt rank | fixed charge coverage | fixed charge coverage rank | days sales outstanding diff | days sales outstanding rank | CFO to CAPEX diff | CFO to CAPEX rank |
|----------------|-------------|-------------|--------------|----------|----------------|----------------|--------------------|--------------------|------------------|------------------|-----------------------|----------------------------|-----------------------------|-----------------------------|-------------------|-------------------|
| GNTX UW Equity | -7.33 | 1.0 | -221017824.0 | 29.0 | -1.83 | 40.0 | -3.98 | 8.0 | NaN | NaN | NaN | NaN | -6.20 | 37.0 | -6.67 | 12.0 |
| YETI UN Equity | -4.89 | 2.0 | -295896000.0 | 26.0 | -3.99 | 29.0 | -8.65 | 4.0 | -1.61 | 1.0 | 4.89 | 53.0 | -3.14 | 48.0 | -21.34 | 1.0 |
| HELE UW Equity | -3.50 | 4.0 | -190750000.0 | 32.0 | -2.18 | 35.0 | 1.14 | 27.0 | -0.59 | 5.0 | 7.19 | 67.0 | 1.80 | 96.0 | -13.47 | 4.0 |
| CROX UW Equity | -2.87 | 5.0 | 274083000.0 | 80.0 | 2.12 | 69.0 | -7.38 | 7.0 | -0.55 | 7.0 | -25.51 | 1.0 | -9.43 | 31.0 | -0.56 | 53.0 |
| OLLI UQ Equity | -2.22 | 7.0 | -268050000.0 | 27.0 | -4.06 | 27.0 | -7.79 | 5.0 | -0.68 | 4.0 | NaN | NaN | 0.02 | 85.0 | -9.62 | 7.0 |
| MODG UN Equity | -2.21 | 8.0 | -756376000.0 | 10.0 | -18.00 | 7.0 | 11.94 | 74.0 | -0.40 | 15.0 | 4.02 | 50.0 | -19.58 | 10.0 | -5.88 | 15.0 |
| RH UN Equity | -2.12 | 10.0 | -159599000.0 | 34.0 | 1.17 | 62.0 | 5.18 | 61.0 | -0.20 | 33.0 | -1.51 | 4.0 | -0.97 | 66.0 | -2.18 | 42.0 |
| GME UN Equity | -1.82 | 12.0 | -11400000.0 | 51.0 | 0.27 | 56.0 | -1.05 | 13.0 | -0.22 | 30.0 | NaN | NaN | 0.22 | 88.0 | -0.13 | 59.0 |
| CHDN UQ Equity | -1.28 | 13.0 | 205600000.0 | 78.0 | 2.23 | 70.0 | 32.05 | 97.0 | 0.08 | 81.0 | 1.43 | 30.0 | -0.29 | 74.0 | 0.66 | 74.0 |
| BC UN Equity | -1.21 | 15.0 | -418100000.0 | 20.0 | -4.90 | 24.0 | 1.37 | 29.0 | -0.53 | 9.0 | 1.65 | 32.0 | -0.55 | 69.0 | -2.87 | 37.0 |

S4COND Index 2yr Comps

- Used BBG fundamental data [Appendix E-H]
- Days Sales Outstanding increased 2nd most out of 64 equities
 - More lenient credit standards?
 - Customer is struggling but this is relative to others in the sector
 - Might be a signal that they have to write off inventory
- Altman score and FCF-to-Debt Rank decreased close to the top percentile as well (probably won't go bankrupt but financials are clearly declining into really bad downturn)



| DATE | DSO | Delta |
|------------|-----|--------|
| 02/28/2015 | 55 | -- |
| 02/29/2016 | 58 | 4.84% |
| 02/28/2017 | 58 | 0.55% |
| 02/28/2018 | 62 | 7.47% |
| 02/28/2019 | 65 | 4.07% |
| 02/29/2020 | 67 | 3.55% |
| 02/28/2021 | 64 | -5.42% |
| 02/28/2022 | 69 | 8.56% |
| 02/28/2023 | 74 | 6.65% |



Special Charges

- Consistently does special charges
 - Shown ranking highest among other mid-cap discretionary names (S4COND Index)
- Highest difference between Adj EBITDA and GAAP EBITDA 2 years ago and ranked 2nd highest difference in their most recent 10-K (Code in Appendix)
- CEO and CFO left recently
- Why are they adding back shared based compensation (EPS)

| Core Business: | Fiscal Years Ended Last Day of February, | | | | | | | | | |
|---|--|-------|------|--------|------|------|------|------|------|------|
| | 2022 | | 2021 | | 2020 | | 2019 | | 2018 | |
| Diluted EPS, as reported | \$ | 9.00 | \$ | 9.76 | \$ | 7.16 | \$ | 5.89 | \$ | 4.72 |
| Acquisition-related expenses, net of tax | | 0.10 | | — | | 0.10 | | — | | — |
| EPA compliance costs, net of tax | | 1.31 | | — | | — | | — | | — |
| Patent litigation charge, net of tax | | — | | — | | — | | — | | 0.05 |
| Restructuring charges, net of tax | | 0.02 | | 0.01 | | 0.11 | | 0.11 | | 0.04 |
| Tax Reform | | — | | (0.37) | | — | | — | | 0.66 |
| Toys "R" Us bankruptcy charge, net of tax | | — | | — | | — | | — | | 0.12 |
| Subtotal | | 10.41 | | 9.40 | | 7.37 | | 6.00 | | 5.54 |
| Amortization of intangible assets, net of tax | | 0.48 | | 0.67 | | 0.53 | | 0.49 | | 0.49 |
| Non-cash share-based compensation, net of tax | | 1.29 | | 0.97 | | 0.82 | | 0.78 | | 0.48 |
| Adjusted Diluted EPS (non-GAAP) | \$ | 12.18 | \$ | 11.03 | \$ | 8.72 | \$ | 7.27 | \$ | 6.51 |

| ID | ebitda_report-Past |
|----------------|--------------------|
| HELE UW Equity | 1.60 |
| HRB UN Equity | 1.40 |
| WING UW Equity | 1.40 |
| RH UN Equity | 1.37 |
| CRI UN Equity | 1.32 |
| KSS UN Equity | 1.15 |
| LEG UN Equity | 1.08 |
| TPX UN Equity | 1.06 |
| LOPE UW Equity | 1.05 |
| OLLI UQ Equity | 1.02 |

| ID | ebitda_report-Now |
|----------------|-------------------|
| RH UN Equity | 1.41 |
| HELE UW Equity | 1.39 |
| HGV UN Equity | 1.23 |
| VAC UN Equity | 1.16 |
| LOPE UW Equity | 1.08 |
| WING UW Equity | 1.07 |
| CRI UN Equity | 1.07 |
| THO UN Equity | 1.07 |
| OLLI UQ Equity | 1.06 |
| TMHC UN Equity | 1.05 |

| ID | Cash From Operations | FCF | Working Capital | Cash Ops - Interest | EBITDA Margin | Total Debt to Ebitda | Net Debt to Ebitda | Debt to OIBDA | Net Debt to OIBDA | FCF to Debt | EV to EBITDA | Asset Protection - Leverage to Eq Mkt EV |
|----------------|----------------------|--------|-----------------|---------------------|---------------|----------------------|--------------------|---------------|-------------------|-------------|--------------|--|
| HELE US Equity | 208.24 | 33.38 | 479.88 | 167.49 | 0.12 | 3.64 | 3.53 | 3.64 | 3.53 | 0.04 | 12.85 | 0.28 |
| CHD US Equity | 1005.50 | 817.30 | 208.00 | 903.70 | 0.16 | 3.01 | 2.78 | 3.12 | 2.88 | 0.32 | 30.32 | 0.10 |
| NX US Equity | 122.75 | 89.42 | 146.62 | 118.46 | 0.12 | 1.39 | 1.09 | 1.41 | 1.11 | 0.45 | 5.55 | 0.25 |
| REYN US Equity | 219.00 | 91.00 | 675.00 | 143.00 | 0.14 | 4.06 | 3.99 | 4.06 | 3.99 | 0.04 | 15.17 | 0.27 |

| Year | CFO | CAPEX | FCF | Sh Out | FCF/Share | Price / Share | FCF Yield |
|---------|-----------|-------------|-----------|--------|-----------|---------------|-----------|
| FY 2017 | \$ 228.50 | \$ (15.51) | \$ 212.99 | 26.99 | \$ 7.89 | \$ 97.70 | 8.08% |
| FY 2018 | \$ 224.21 | \$ (13.61) | \$ 210.60 | 26.97 | \$ 7.81 | \$ 90.05 | 8.67% |
| FY 2019 | \$ 195.30 | \$ (26.39) | \$ 168.92 | 25.60 | \$ 6.60 | \$ 112.11 | 5.89% |
| FY 2020 | \$ 271.29 | \$ (17.76) | \$ 253.53 | 25.17 | \$ 10.07 | \$ 164.60 | 6.12% |
| FY 2021 | \$ 314.11 | \$ (98.67) | \$ 215.44 | 24.40 | \$ 8.83 | \$ 216.80 | 4.07% |
| FY 2022 | \$ 140.82 | \$ (78.04) | \$ 62.78 | 24.14 | \$ 2.60 | \$ 205.67 | 1.26% |
| FY 2023 | \$ 208.24 | \$ (174.86) | \$ 33.38 | 24.04 | \$ 1.39 | \$ 93.70 | 1.48% |

| Year | Revenue | EBITDA | EBITDA Growth | Debt | Excess Cash | Mkt Cap | EV | EV / EBITDA | Net Debt / EBITDA |
|---------|-------------|-----------|---------------|------------|-------------|-------------|------------|-------------|-------------------|
| FY 2017 | \$ 1,406.68 | \$ 202.63 | -- | \$ 490.92 | \$ 23.85 | \$ 2,640.70 | \$3,107.77 | 15.34x | 2.31x |
| FY 2018 | \$ 1,478.85 | \$ 118.68 | -41.43% | \$ 295.37 | \$ 20.74 | \$ 2,393.14 | \$2,667.77 | 22.48x | 2.31x |
| FY 2019 | \$ 1,564.15 | \$ 223.97 | 88.71% | \$ 328.68 | \$ 11.87 | \$ 2,796.70 | \$3,113.51 | 13.90x | 1.41x |
| FY 2020 | \$ 1,707.43 | \$ 216.05 | -3.53% | \$ 391.61 | \$ 24.47 | \$ 4,146.89 | \$4,514.03 | 20.89x | 1.70x |
| FY 2021 | \$ 2,098.80 | \$ 319.77 | 48.00% | \$ 397.45 | \$ 45.12 | \$ 5,291.20 | \$5,643.54 | 17.65x | 1.10x |
| FY 2022 | \$ 2,223.36 | \$ 308.64 | -3.48% | \$ 876.02 | \$ 33.38 | \$ 5,019.57 | \$5,862.20 | 18.99x | 2.73x |
| FY 2023 | \$ 2,072.67 | \$ 256.72 | -16.82% | \$1,000.50 | \$ 29.07 | \$ 2,252.41 | \$3,223.84 | 12.56x | 3.78x |

Added in rental expense to debt