



Sally Beauty Large Put Buy into Rebound

Ticker/Price: SBH (\$14.80)

Analysis:

Sally Beauty (SBH) buyer yesterday of 5,000 November \$15 puts for \$1.15 to \$1.25 and still has 7,500 December \$12.50 puts in OI from buyers in early July. SBH traded near 100X average volume yesterday with IV30 up 21.8%. The \$1.81B company trades 6.89X earnings, 0.47X sales, and 8.87X FCF. They see EPS contracting in FY20 by 90 bps with FY21 flat vs the current year and revenues continuing to decline. SBH has been working on a multi-year restructuring / transformation with supply chain improvements and a greater emphasis on digital. E-commerce sales were up 25% last quarter. The overall cosmetics industry is likely soft into YE as well with Ulta Beauty (ULTA) comments recently. SBH also faces headwinds from Amazon (AMZN) which announced a B2B platform for stylists in June. Jefferies was out cautious noting that SBH's "The Beauty Systems Group" business accounts for 40% of Sally's total sales and more than half of SBH's sales come from professionals. DA Davidson lowering their TP to \$12.50 on 9-4. The firm highlighted potential impact from Hurricane Dorian with around 5% of stores in Florida. When Harvey and Irma hit, SBH lost around 70 bps of SSS growth. Jefferies upgrading to Neutral on 7-12 with a \$12 PT, fair value although they see little conviction in the long-term fundamentals. Analysts have an average target for shares of \$14.50 with 4 hold ratings and 2 sell. Short interest is high and rising, 23.2%, and near the 2018 peak. Hedge fund ownership rose 3.7% in Q2. Arrowmark Capital a buyer of 2.7M shares. On 9-3, a director bought near \$500K in stock at \$12.21.

Hawk Vision:



Hawk's Perspective: SBH remains a viable short as the business is weak and under \$14.30 would trigger a breakdown.

Confidence Ranking: \$\$