



Energizer Holdings, Inc. (ENR - \$111.69 - NYSE)

Splitting Hares - Buy

<u>FYE: 9/30</u>	<u>EPS</u>	<u>P/E</u>	<u>PMV</u>		
2016P	\$8.30	13.5x	\$153	Dividend: \$2.00	Current Return: 1.8%
2015P	7.75	14.4	145	Shares O/S: 62.6 million	
2014E	7.10	15.7	135	52-Week Range: \$115.79 - \$90.59	
2013A	6.95	16.1	---		

COMPANY OVERVIEW

Energizer Holdings, Inc. based in St. Louis, Missouri is a leading global household and personal care manufacturer. It operates two segments: Household, which includes the global battery and lighting businesses and Personal Care, which includes wet shaving, skin, feminine and infant care. For the fiscal year ending September 30, 2014, we expect ENR to generate revenue of \$4.4 billion, EBITDA of \$883 million and earn \$7.10 per share.

Reason For Comment:

Announced its intention to split the company into two publicly traded firms through a tax-free spin-off.

- Spin-Off: Energizer will split the company between its two segments, Household and Personal Care. The transaction is expected to be completed in the second-half of fiscal 2015. Based on fiscal 2014 projections, we estimate:
 - o Household: Revenue \$1.8 billion and EBITDA \$401 million from its leading positions in household battery and lighting, of which 50% of sales are generated in North America.
 - o Personal Care: Revenue \$2.6 billion and EBITDA \$628 million. This segment is comprised of wet shaving, skin care, feminine care and infant care businesses.
- This may be the first step in realizing the full value of the two businesses, as both pieces may be more attractive acquisition candidates on a standalone basis. The valuation remains attractive and given the pending split, we are increasing our multiple on Personal Care to 11x, while the valuation of Household, as a strong cash generator, may benefit if it follows a similar model to KRFT and returns the majority of cash to shareholders by means of its dividend.
- 2Q Results ended March 2014: Revenue \$1.1 billion, declined 3.1%, which includes the negative impact of currency (2.4%) and contribution from the acquisition of the feminine care acquisition, +5.4%.
 - o Household: Revenue \$373 million, -16%, due to the impact of customer losses, as well as heightened competitive activity. Operating profit was \$62 vs. \$101 million.
 - o Personal Care: Revenue \$689 million, +5.6%, which includes \$59.7 million from the acquisition of the fem care business and unfavorable currency, -1.6%. Organic revenue -1.6%. Wet shave -1%, skin care -12%, feminine care +16% and infant care -10%. Operating profit of \$171 vs. \$136 million, as margins increased to 24.8%.
- Outlook: Management increased its estimate for gross restructuring savings this fiscal year to \$100-125 million. It also expects the feminine care acquisition to add \$0.30-0.35/share compared to the previous estimate of \$0.25. These factors will offset further weakness in the top and bottom line of the household business. Accordingly, management reaffirmed its outlook for low-single digit sales growth and earnings of \$7.00-7.25 per share. Current estimates do not include the potential for devaluation in Venezuela, which would reduce operating profit by \$12-15 million annually (SICAD I).

Investment Case

We continue to recommend Energizer as the valuation remains attractive particularly as the company prepares to split the company into two publicly traded firms through a tax-free spin-off. Energizer shares currently trade at approximately 9.5x 2014E EBITDA and 15.7x P/E. We calculate a PMV of \$145 based on estimates for the fiscal year ending September 2015.

Table 1

Energizer Holdings, Inc. Earnings Model

<i>Fiscal year end 9/30</i> <i>(\$ in millions, except per share)</i>	2012 - 2018P							CAGR '13-'18P
	2012	2013	2014E	2015P	2016P	2017P	2018P	
Revenue	\$ 4,567	\$ 4,466	\$ 4,368	\$ 4,437	\$ 4,506	\$ 4,575	\$ 4,646	0.8 %
% Growth		-2.2%	-2.2%	1.6%	1.5%	1.5%	1.6%	
EBITDA	859	898	883	902	919	937	956	1.3
Margin	18.8%	20.1%	20.2%	20.3%	20.4%	20.5%	20.6%	
EPS, cont ops	\$ 6.20	\$ 6.95	\$ 7.10	\$ 7.75	\$ 8.30	\$ 8.85	\$ 9.45	6.4
% Growth	19.4%	12.0%	2.4%	8.7%	7.2%	6.8%	6.9%	
TEV/EBITDA Multiple		9.4x	9.5x	9.3x	9.2x	9.0x	8.8x	
P/E Multiple		16.1	15.7	14.4	13.5	12.6	11.8	

Source: Company data and Gabelli & Company estimates

-Please Refer To Important Disclosures On The Last Page Of This Report-

Table 2

**Energizer Holdings, Inc.
Private Market Value Analysis
2013 - 2018P**

FYE 9/30	2013	2014E	2015P	2016P	2017P	2018P
<i>(\$ in millions, except per share)</i>						
<u>Household</u>						
Revenue	\$ 2,020	\$ 1,798	\$ 1,784	\$ 1,778	\$ 1,771	\$ 1,763
EBITDA	494	401	408	407	405	404
Valuation Multiple	7x	7x	7x	7x	7x	7x
Segment Value	\$ 3,457	\$ 2,810	\$ 2,857	\$ 2,848	\$ 2,838	\$ 2,827
<u>Personal Care</u>						
Revenue	\$ 2,449	\$ 2,570	\$ 2,653	\$ 2,727	\$ 2,804	\$ 2,883
EBITDA	548	628	647	667	688	710
Valuation Multiple	9x	11x	11x	11x	11x	11x
Segment Value	\$ 4,931	\$ 6,911	\$ 7,120	\$ 7,341	\$ 7,571	\$ 7,809
Corporate	(142)	(147)	(153)	(155)	(156)	(158)
Total Private Market Value	\$ 8,388	\$ 9,721	\$ 9,977	\$ 10,190	\$ 10,409	\$ 10,636
Less: Net Debt	(1,470)	(1,147)	(956)	(777)	(615)	(495)
Less: Options Payments ^(a)	(115)	(144)	(155)	(164)	(174)	(184)
Equity Private Market Value	\$ 6,803	\$ 8,431	\$ 8,866	\$ 9,248	\$ 9,620	\$ 9,957
Shares Outstanding	62.3	62.3	61.3	60.3	59.3	58.3
PMV per share	\$109	\$135	\$145	\$153	\$162	\$171
Current Market - Discount to PMV	-2%	17%	23%	27%	31%	35%

(a) After-tax payments to buy out options holders at Private Market Value.

Source: Company data and Gabelli & Company estimates.

Energizer - Price Performance



Source: Public data. As of May 1, 2011 ENR was rated BUY.

Other Companies Mentioned:

Kraft Foods Group (KRFT – NASDAQ)

I, **Sarah Donnelly**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

Sarah Donnelly (914) 921-5197

©Gabelli & Company 2014

Important Disclosures

ONE CORPORATE CENTER RYE, NY 10580

GABELLI & COMPANY

TEL (914) 921-5130

FAX (914) 921-5098

Gabelli & Company is the marketing name for the registered broker dealer G.research, Inc., which was formerly known as Gabelli & Company, Inc. Gabelli & Company ("we" or "us") attempts to provide timely, value-added insights into companies or industry dynamics for institutional investors. Our research reports generally contain a recommendation of "buy," "hold," "sell" or "non-rated." We do not undertake to "upgrade" or "downgrade" ratings after publishing a report. We currently have reports on 577 companies, of which 46%, 37%, 3% and 13% have a recommendation of buy, hold, sell or non-rated, respectively. The percentage of companies so rated for which we provided investment banking services within the past 12 months is 0%, 0%, 0% and less than 1%.

Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

We prepared this report as a matter of general information. We do not intend for this report to be a complete description of any security or company and it is not an offer or solicitation to buy or sell any security. All facts and statistics are from sources we believe to be reliable, but we do not guarantee their accuracy. We do not undertake to advise you of changes in our opinion or information. Unless otherwise noted, all stock prices reflect the closing price on the business day immediately prior to the date of this report. We do not use "price targets" predicting future stock performance. We do refer to "private market value" or PMV, which is the price that we believe an informed buyer would pay to acquire 100% of a company. There is no assurance that there are any willing buyers of a company at this price and we do not intend to suggest that any acquisition is likely. Additional information is available on request.

As of March 31, 2014 our affiliates beneficially own on behalf of their investment advisory clients or otherwise approximately 2.52% of Energizer Holdings and less than 1% of Kraft Foods Group. One of our affiliates serves as an investment advisor to Energizer Holdings or an affiliated entity and has received compensation within the past twelve months for these non-investment banking securities related services. Because the portfolio managers at our affiliates make individual investment decisions with respect to the client accounts they manage, these accounts may have transactions inconsistent with the recommendations in this report. These portfolio managers may know the substance of our research reports prior to their publication as a result of joint participation in research meetings or otherwise. The analyst who wrote this report may receive commissions from our customers' transactions in the securities mentioned in this report. Our affiliates may receive compensation from the companies referred to in this report for non-investment banking securities-related services, or may be soliciting these companies as clients for non-investment banking securities-related services. The analyst that wrote this report, or members of her household, owns no shares of ENR.