

# NYSE: HBI

**HANES** *Brands Inc*

## QUIC-RBC Stock Pitch Competition January 21, 2018

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Commerce 2020

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# Firm Overview

HANES Brands Inc

## Business Description

- Founded in 1901, now a leading marketer of basic innerwear & activewear apparel
- Own subsidiaries operating in the Americas, Europe, Australia, and Asia
- Vision: Operate a low-cost global supply chain with distinct competency
- >70% of garments are manufactured in company-owned plants




## Brand Portfolio



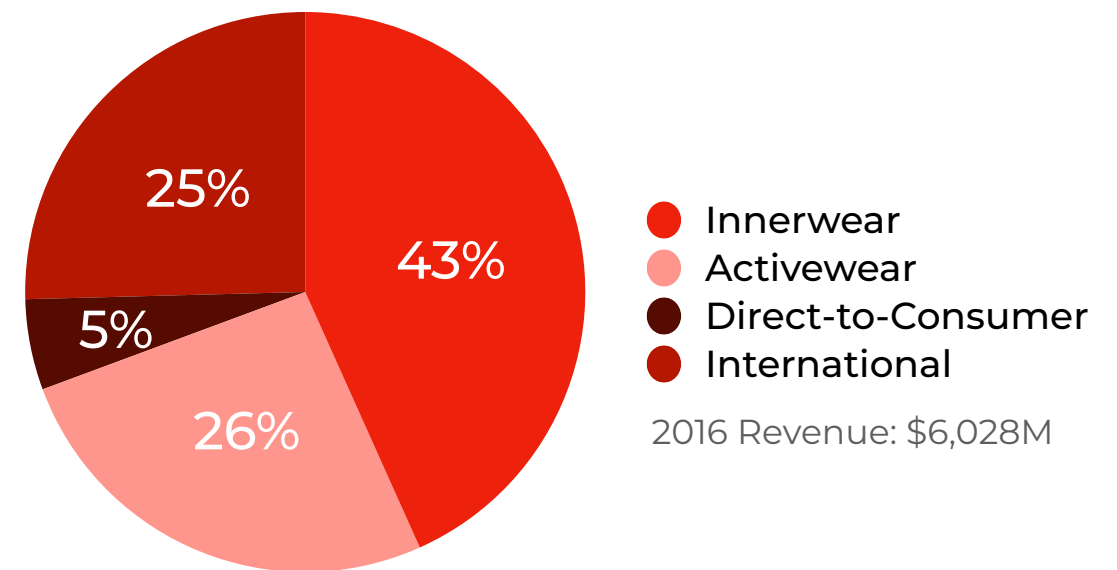
- Found in 80% of US households
- Value prop: Comfort, value, style



## Management Team

			
Name	Gerald Evans	Michael Faircloth	Barry Hytinen
Position	CEO since 2016	President, Global Supply Chain	CFO since 2017
Bio	Joined company in 1983. Marketed L'eggs hosiery, lead global supply chain, served as COO.	Joined company in 1997. 20+ years of supply chain mgmt. Seeks to improve emissions and energy usage.	Previously at General Electric, CFO at Tempur Sealy Int'l. Has 20+ years of experience and a Harvard MBA.

## Revenue by Segment

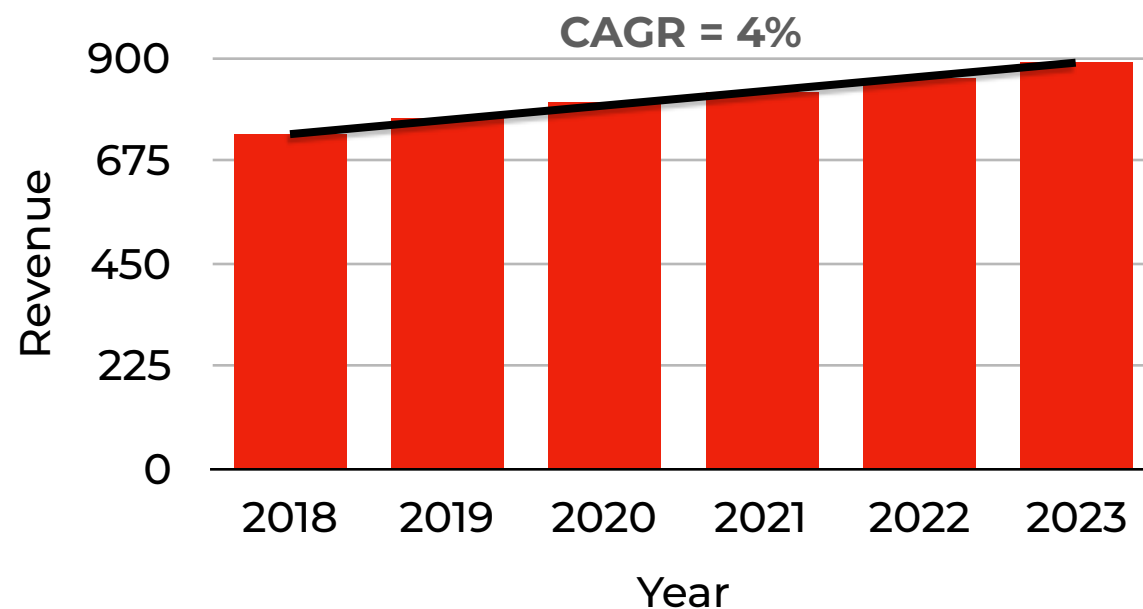


# Industry Overview

## Garment Manufacturing & Retail

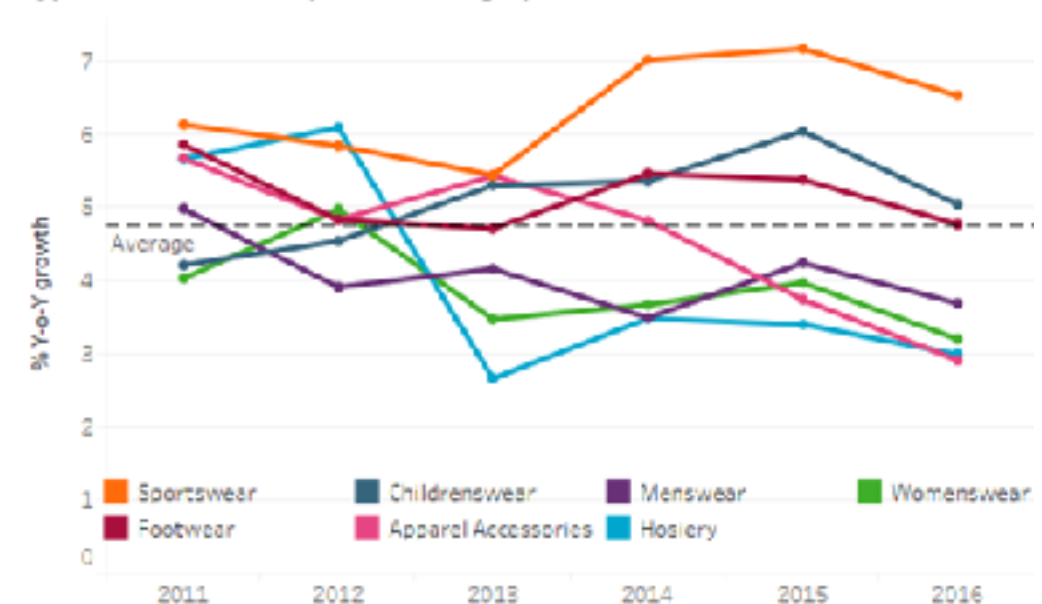
- Many firms in highly competitive industry, no individual pricing power
- Successful trends: Affordable luxury, value, and athleisure
- Key economic drivers:
  - Disposable income
  - Global population
  - World price of cotton
  - Geopolitical stability

## Global Apparel Sales Forecast



## Rise of Athleisure

Apparel and Footwear by Product Category: % Y-o-Y Growth 2011-2016



## Threats & Opportunities

- Online retailers: Attracting more customers, cannibalizing sales of brick and mortar retailers
- Globalization: International competitors enter market, driving low prices and product differentiation
- Supply chain innovation: Digitalization can bring increased efficiency and lower procurement/sourcing costs

# Investment Thesis I: Simple Business with Economic Moat

## Clear Business Model and Product

- Product is a low-cost, timeless necessity = Resistant to economic downturns or changing fashion trends
- Product cannot be returned/exchanged, and requires consistent replenishment
- Easy to understand profitability: Sell more units and cut costs

## Internalized Manufacturing

- Own 50 plants, >70% of garments manufactured within company
- Ability to optimize supply chain processes and realize cost advantages
- Control over vertical supply chain relieves pressure from external parties
- Helps achieve economies of scale in industry with high entry barriers

## Powerful Brands and Marketing

- Hanes is the #1 selling brand in its product category by units in America, present in >80% of US households
- Ensuring lasting brand value by targeting younger customers
  - Collaborating with “cooler” retailers
  - Exposure from high-profile people
- Licensing brand image allows widespread exposure



Kanye West wearing a Champion sweater



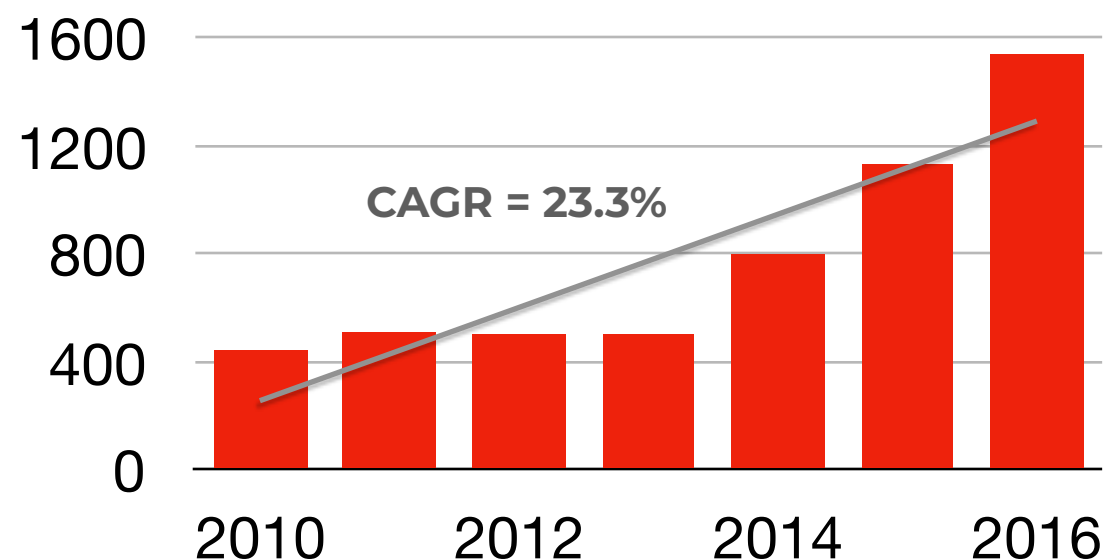
Collaboration with high end retailers improves image

# Investment Thesis II: Strategies for Global Expansion and Growth

## Global Acquisition Strategy

- In 2016, HBI acquired Champion Europe and Hanes Australasia
  - Synergies from taking advantage of global supply chain and existing product innovation
- In 2015, HBI acquired Knights Apparel
  - Dominant position in licensed collegiate logo apparel

## Growth of International Segment



## Innovate-to-Elevate Strategy

- 1. Leverage brand power to sell more**
  - Consumers will naturally gravitate toward a brand they trust
  - Consistently provide quality products to ensure continued sales
- 2. Develop product innovations for timeless styles**
  - Avoids trends that will quickly go out of style, ensuring constant demand revenue
  - Example: Hanes Tagless tees, ComfortBlend fabric platform
- 3. Optimize supply chain to cut costs**
  - Reducing costs will increase margins
  - Low-cost global supply chain will increase competitive advantage



# Investment Thesis III: Delayed Market Reaction to Global Strategy

HANES Brands Inc

## Cause of Mispricing

Company experienced lower than expected earnings for a few years and it took debt to finance acquisitions. Disappointed investors caused the share price to fall for 2 consecutive years while the business was expanding and market share intact.

## Analyst Opinions

"[Hanesbrands is] a great consumer franchise temporarily mispriced due to fixable factors"



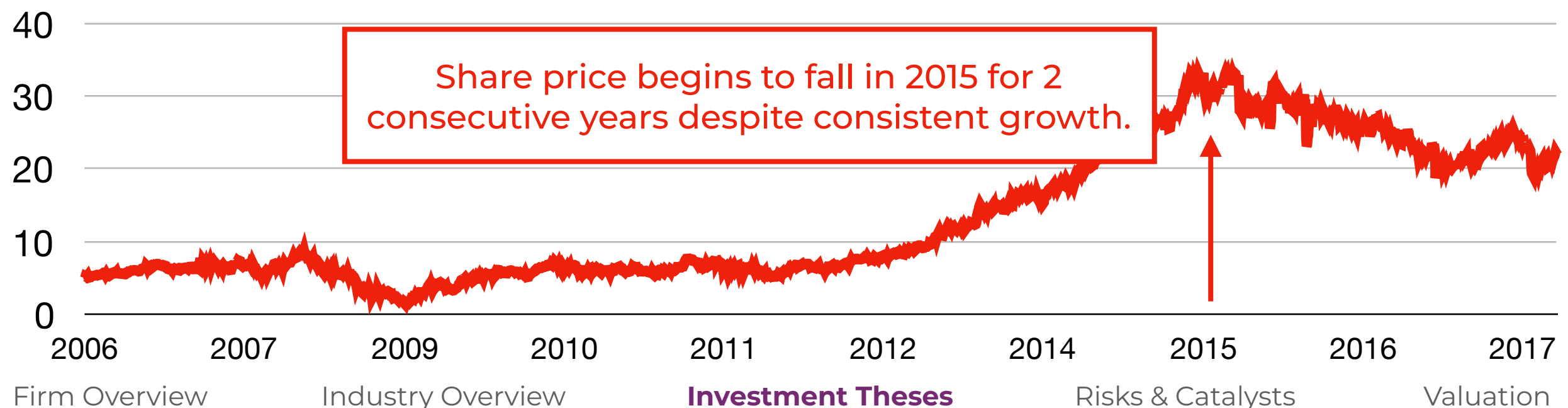
**Jonathan Boyar**  
Boyar Asset Mgmt

"We expect HBI to hit its cash flow targets after two tough years through a return to sustainable positive organic sales growth, the low cost supply chain, Project Booster and working capital improvements, and synergies."



**Tiffany Kanaga**  
Deutsche Bank

## Historical Share Price



## Risks

### Competition from online retail

#### Problem

- CAGR of online sales is 10%\*
- Only 5% of sales from online



#### Mitigation

Supply online retailers, engage in digital marketing

### Dependent on few retailers

#### Problem

- 10 customers are 52% of sales
- Pricing power, retail loss risk



#### Mitigation

Supply online retailers, engage in digital marketing

### Low growth in home market

#### Problem

Innerwear sales fell 2.7% in 2016 due to “soft retail environment”



#### Mitigation

Rejuvenate brands with marketing innovations

## Catalysts

### Synergies with new acquisitions



New acquisitions can leverage existing low-cost supply chain and product innovations to build brand presence and reach profitability.

### Popularity of athleisure



McKinsey&Co. identifies casual wear and athleisure as a strong global trend. HBI has an established brand in this space.

### Rising global population & income



Global apparel revenue expected to rise by 5%. With a stagnating US retail market, the company will focus on new customers.

# Comparable Companies Analysis

HANES Brands Inc

	Millions (\$USD)		P/E		EV/Revenue		EV/EBITDA		Revenue Growth	
	Equity Value	Enterprise Value	LTM	2018E	LTM	2018E	LTM	2018E	LTM	2018E
<b>Activewear</b>										
VF Corporation	30876	33714	25.8	22.4	2.9	2.5	21.8	16.3	(2.1%)	12.8%
Ralph Lauren	8619	7856	21.0	18.9	1.3	1.3	12.7	8.5	(16.1%)	(2.6%)
Gildan Activewear	7077	7735	18.7	17.0	2.9	2.7	13.8	12.5	3.9%	6.8%
Under Armour	5764	6574	72.4	60.9	1.3	1.3	16.5	18.9	1.9%	4.7%
Columbia Sportswear	5104	4703	25.7	23.5	2.0	1.8	15.0	13.4	1.3%	6.9%
G-III Apparel	1908	2567	32.7	25.8	0.7	0.9	13.2	13.0	1.8%	18.1%
<b>Underwear/Apparel</b>										
L Brands	13816	18868	16.2	15.7	1.6	1.5	8.2	8.3	3.5%	(0.3%)
PVH Corporation	10961	13742	14.1	18.2	1.2	1.6	8.6	12.0	2.3%	6.7%
Mean	10516	11970	28.3	25.3	1.7	1.7	13.7	12.9	(0.4%)	6.6%
High	30876	33714	72.4	60.9	2.9	2.7	21.8	18.9	3.9%	18.1%
Low	1908	2567	14.1	15.7	0.7	0.9	8.2	8.3	(16.1%)	(2.6%)
Median	7848	7796	23.4	20.7	1.5	1.6	13.5	12.8	1.9%	6.8%
Hanesbrands Inc.	7999	11595	11.2x	10.6x	1.8x	1.8x	12.5x	10.6x	6.2%	3.3%

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**Valuation**



# Comparable Companies Analysis

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## Takeaways

1. The company's P/E ratio is half the mean of its competitors, hinting at a market mispricing
2. Hanesbrands grew during a year where many of its competitors struggled

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# Valuation: DCF Analysis

HANES Brands Inc

	Historical Period					Projected Period				
	2012A	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E	2021E
<b>Revenue</b>	<b>4526</b>	<b>4628</b>	<b>5325</b>	<b>5732</b>	<b>6028</b>	<b>6329</b>	<b>6614</b>	<b>6879</b>	<b>7120</b>	<b>7333</b>
YoY % Growth		2.2%	13.1%	7.1%	4.9%	5.0%	4.5%	4.0%	3.5%	3.0%
<b>Cost of Sales</b>	<b>3106</b>	<b>3016</b>	<b>3420</b>	<b>3595</b>	<b>3752</b>	<b>3940</b>	<b>4117</b>	<b>4282</b>	<b>4431</b>	<b>4564</b>
% of Revenue	68.6%	65.2%	64.2%	62.7%	62.2%	62.2%	62.2%	62.2%	62.2%	62.2%
<b>Gross Margin</b>	<b>1420</b>	<b>1612</b>	<b>1905</b>	<b>2137</b>	<b>2276</b>	<b>2390</b>	<b>2497</b>	<b>2597</b>	<b>2688</b>	<b>2769</b>
Margin % of Revenue	31.4%	34.8%	35.8%	37.3%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%
<b>SG&amp;A Expenses</b>	<b>932</b>	<b>1045</b>	<b>1278</b>	<b>1470</b>	<b>1418</b>	<b>1456</b>	<b>1505</b>	<b>1548</b>	<b>1584</b>	<b>1613</b>
% of Revenue	20.6%	22.6%	24.0%	25.6%	23.5%	23.0%	22.8%	22.5%	22.3%	22.0%
<b>EBITDA</b>	<b>488</b>	<b>567</b>	<b>627</b>	<b>667</b>	<b>858</b>	<b>934</b>	<b>993</b>	<b>1050</b>	<b>1104</b>	<b>1155</b>
% of Revenue	10.8%	12.3%	11.8%	11.6%	14.2%	14.8%	15.0%	15.3%	15.5%	15.8%
YoY % Growth		13.9%	9.6%	6.0%	22.3%	8.1%	5.9%	5.4%	4.9%	4.5%
<b>Less: D&amp;A</b>	<b>48</b>	<b>52</b>	<b>63</b>	<b>71</b>	<b>83</b>	<b>87</b>	<b>91</b>	<b>95</b>	<b>98</b>	<b>101</b>
% of Revenue	1.1%	1.1%	1.2%	1.2%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
<b>EBIT</b>	<b>440</b>	<b>515</b>	<b>564</b>	<b>596</b>	<b>775</b>	<b>847</b>	<b>902</b>	<b>955</b>	<b>1006</b>	<b>1055</b>
% of Revenue	9.7%	11.1%	10.6%	10.4%	12.9%	13.4%	13.6%	13.9%	14.1%	14.4%
YoY % Growth		17.0%	9.5%	5.7%	30.0%	9.3%	6.5%	5.9%	5.4%	4.8%
<b>Less: Income Taxes</b>	<b>31</b>	<b>65</b>	<b>60</b>	<b>45</b>	<b>34</b>	<b>85</b>	<b>90</b>	<b>95</b>	<b>101</b>	<b>105</b>
<b>NOPAT</b>	<b>409</b>	<b>450</b>	<b>504</b>	<b>551</b>	<b>741</b>	<b>762</b>	<b>811</b>	<b>859</b>	<b>905</b>	<b>949</b>
YoY % Growth		9.1%	10.7%	8.5%	30%	4.8%	6.1%	5.6%	5.1%	4.6%
<b>Plus: D&amp;A</b>	<b>48</b>	<b>52</b>	<b>63</b>	<b>71</b>	<b>83</b>	<b>87</b>	<b>91</b>	<b>95</b>	<b>98</b>	<b>101</b>
<b>Less: CapEx</b>	<b>40</b>	<b>44</b>	<b>64</b>	<b>99</b>	<b>83</b>	<b>78</b>	<b>81</b>	<b>84</b>	<b>87</b>	<b>90</b>
% of Revenue	0.9%	1.0%	1.2%	1.7%	1.4%	1.2%	1.2%	1.2%	1.2%	1.2%
<b>Less: Change in NWC</b>	<b>222</b>	<b>122</b>	<b>-20</b>	<b>-345</b>	<b>-104</b>	<b>-38</b>	<b>-39</b>	<b>-39</b>	<b>-40</b>	<b>-39</b>
<b>Unlevered FCF</b>	<b>195</b>	<b>336</b>	<b>523</b>	<b>868</b>	<b>845</b>	<b>809</b>	<b>860</b>	<b>910</b>	<b>958</b>	<b>1001</b>
Discount Period						0.5	1.5	2.5	3.5	4.5
<b>PV of Cash Flows</b>						<b>774</b>	<b>753</b>	<b>728</b>	<b>702</b>	<b>671</b>

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**Valuation**

# Valuation II: DCF Analysis Con't

HANES Brands Inc

## WACC

Cost of Equity	11.8%
Weight of Equity	69.2%
Cost of Debt	3.8%
Weight of Debt	30.8%
<b>WACC</b>	<b>9.3%</b>

## Gordon Growth Model

Terminal Growth Rate	2%
Terminal Value	14993
PV of Terminal Value	10049
Sum of PV Cash Flows	3628
<b>Enterprise Value</b>	<b>13677</b>
Plus: Cash & Equiv.	400
Less: Preferred & Other	0
Less: Total Debt	3996
<b>Implied Equity Value</b>	<b>10081</b>
Diluted Shares	384.6
<b>Implied Share Price</b>	<b>26.21</b>

## Terminal EBITDA Multiple

Terminal Multiple	10.6x
Terminal Value	12248
PV of Terminal Value	7852
Sum of PV Cash Flows	3628
<b>Enterprise Value</b>	<b>11480</b>
Plus: Cash & Equiv.	400
Less: Preferred & Other	0
Less: Total Debt	3996
<b>Implied Equity Value</b>	<b>7884</b>
Diluted Shares	384.6
<b>Implied Share Price</b>	<b>20.50</b>

## Terminal Rate Sensitivity

	9.3%	9.8%	10.3%	10.8%	11.3%
0%	\$20.59	\$19.13	\$17.81	\$16.62	\$15.52
1%	\$23.06	\$21.31	\$19.74	\$18.33	\$17.06
2%	\$26.21	\$24.05	\$22.14	\$20.44	\$18.93
3%	\$30.36	\$27.59	\$25.19	\$23.09	\$21.25
4%	\$36.07	\$32.34	\$29.20	\$26.52	\$24.20

## Terminal Rate Sensitivity

	9.3%	9.8%	10.3%	10.8%	11.3%
9.6x	\$18.57	\$18.05	\$17.54	\$17.05	\$16.57
10.1x	\$19.54	\$18.99	\$18.46	\$17.95	\$17.45
10.6x	\$20.50	\$19.94	\$19.38	\$18.85	\$18.33
11.1x	\$21.46	\$20.88	\$20.31	\$19.75	\$19.21
11.6x	\$22.43	\$21.82	\$21.23	\$20.65	\$20.09

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**Valuation**

# Recommendation: Buy

HANES Brands Inc

## Investment Theses



Dominant market share in innerwear product categories from brand power



Low-cost supply chain and stable position in home market allows for global expansion



Lack of investor confidence has caused shares to drop below intrinsic value



Warren Buffet buys underwear company for its strong brand and management

## Valuation Summary

Analysis	Target Price
Gordon Growth	\$26.21
Terminal Multiple	\$20.50
Street Consensus	\$25.87
Average	\$24.19
Current Price	\$21.99
Implied Return	10.0%

**Given the company's established brand, supply chain competitive advantages, low P/E ratio and promising growth strategy, HBI's fair market value is \$24.19. This share should provide a minimum 10% return.**

# Thank you.

**HANES** *Brands Inc*

## Questions?

**Elaine Gao**

Commerce 2020

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