Hain Celestial Group (HAIN)

$25.47 (As of 05/04/20)

Price Target (6-12 Months): **$29.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Outperform**
	(Since: 04/05/20)	
	Prior Recommendation: Neutral	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: B | Momentum: A	

Summary

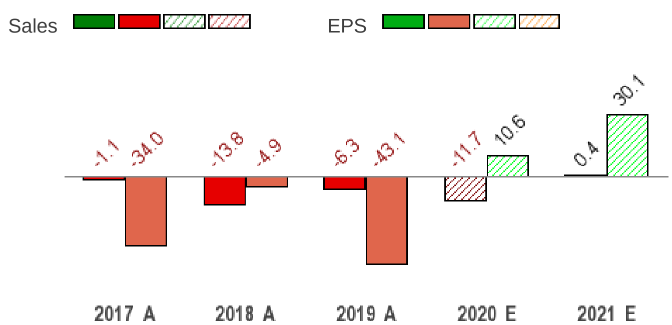
Hain Celestial's shares have outperformed the industry in the past six months. The company has been benefiting from its solid focus on transformation strategy. Notably, the strategy is aimed at simplifying portfolio, enhancing margins and improving cash flows. The company's Project Terra, which is aimed at identifying global cost savings, also bodes well. Impressively, it intends to reinvest the additional savings in developing brands and products. Moreover, both earnings and sales outshined the Zacks Consensus Estimate in second-quarter fiscal 2020. Bottom line also grew year over year, thanks to improved margins. Although year-over-year decrease in sales continued in the fiscal second quarter, management projects that the rate of sales decline in the second half of fiscal 2020 will improve in comparison with the first half.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$28.35 - $17.94
20 Day Average Volume (sh)	1,069,472
Market Cap	$2.7 B
YTD Price Change	-1.9%
Beta	0.72
Dividend / Div Yld	$0.00 / 0.0%
Industry	Food - Miscellaneous
Zacks Industry Rank	Top 11% (27 out of 253)
Last EPS Surprise	13.3%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	3.4%
Expected Report Date	05/07/2020
Earnings ESP	9.2%
P/E TTM	38.0
P/E F1	34.9
PEG F1	17.5
P/S TTM	1.2

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	471 E	508 E	536 E	503 E	2,042 E
2020	482 A	507 A	535 E	514 E	2,033 E
2019	561 A	584 A	600 A	558 A	2,302 A

EPS Estimates

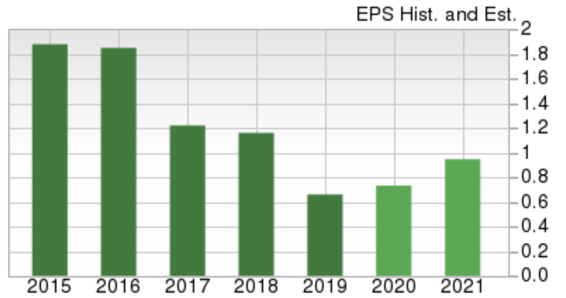
	Q1	Q2	Q3	Q4	Annual*
2021	$0.16 E	$0.22 E	$0.29 E	$0.28 E	$0.95 E
2020	$0.08 A	$0.17 A	$0.24 E	$0.24 E	$0.73 E
2019	$0.09 A	$0.14 A	$0.21 A	$0.21 A	$0.66 A

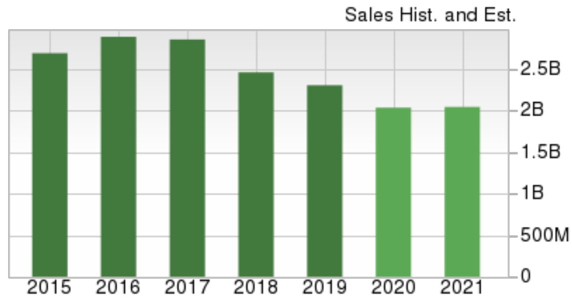
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/04/2020. The reports text is as of 05/05/2020.

Overview

Incorporated in 1993 and headquartered in Lake Success, New York, The Hain Celestial Group, Inc. (HAIN) produces, distributes, markets, and sells various natural and organic foods as well as personal care products with operations in North America and Europe. The company offers popular better-for-you groceries (non-dairy beverages and frozen desserts, flour and baking mixes, cereals, condiments, cooking oils, infant and toddler food, etc.), snacks (potato and vegetable chips, organic tortilla style chips, whole grain chips and popcorn, etc.), and tea (include herb teas such as Lemon Zinger, Peppermint, Mandarin Orange Spice, Cinnamon Apple Spice, Red Zinger, etc.). Earlier, Hain Celestial reports its results in three segments United States, United Kingdom and Rest of World.





Following changes in the strategy that includes creating synergies among its businesses, Hain Celestial reassessed its segment reporting structure. Effective from Jul 1, the company's Canada and Hain Ventures operating units were moved from the Rest of World reporting segment to the United States reportable segment. The combined segment was renamed as "North America". Similarly, the Europe operating segment was combined with the United Kingdom reportable segment. Together, they are reported as the "International" segment.

The Hain Celestial Group is the largest manufacturer in the natural foods segment and has several leading brands. Some of the prominent brands are Celestial Seasonings, Earth's Best, Ella's Kitchen, Terra, Garden of Eatin', Sensible Portions, Health Valley, MaraNatha, DeBoles, Casbah, Rudi's Organic Bakery, Hain Pure Foods, Imagine, Almond Dream, Rice Dream, Soy Dream and Other notable brands include The Greek Gods, BluePrint, Yves Veggie Cuisine, Better Bean, Europe's Best, Cully & Sully, New Covent Garden Soup Co., Yorkshire Provender, Johnson's Juice Co., Farmhouse Fare, Hartley's, Sun-Pat, Gale's, Robertson's, Frank Cooper's, Linda McCartney, Lima, Danival, Joya, Natumi, GG UniqueFiber, JASON, Avalon Organics, Alba Botanica, Live Clean and Queen Helene.

Reasons To Buy:

Hain Celestial is focused on strategic goals and continues to make marketing investments in key brands. It is on track with Project Terra, which is aimed at cutting costs and complexity.

- **Robust Q2 Earnings & View:** We note that Hain Celestial reported better-than-expected sales and earnings in second-quarter fiscal 2020. Also, the bottom line increased year over year, thanks to improved margins. Further, Hain Celestial is on track with its saving initiatives as well and expects adjusted gross margin and adjusted EBITDA margin expansion in each quarter of fiscal 2020. As a result, management raised the lower end of adjusted EBITDA and adjusted earnings per share view for the current fiscal year. Adjusted EBITDA is now expected to grow 7-16% to $177-$192 million. At constant currency, adjusted EBITDA is likely to improve 8-18% to $179-$194 million. Additionally, Hain Celestial now envisions adjusted earnings per share of 62-72 cents, which suggest growth of 3-20% from fiscal 2019. Notably, shares of Hain Celestial have gained 5.1% in the past six months against the industry's 9.6% decline.

- **Strategic Endeavors:** Hain Celestial is focused on its global strategic goals and continues to make marketing investments in key brands. Further, it is progressing well with its transformation strategy to deliver sustainable profits. We expect such efforts to help Hain Celestial to continue delivering robust margin performance in the near term.

  The transformation strategy is aimed at simplifying portfolio,,identifying additional areas of productivity savings, enhancing margins, reviving top-line growth, and improving cash flows and ROIC. Hain Celestial is on track to simplify its business in a bid to focus on areas with higher growth potential such as core packaged-foods business. Also, Hain Celestial is well on track with Project Terra, which is aimed at cutting costs and complexity, alongside identifying global cost savings. Since the onset of the transformation strategy, the company has divested loss-making brands of almost $750 million in fiscal 2019. It sold two loss making brands — SunSpire and Arrowhead Mills — for $15 million in the second quarter of fiscal 2020. Earlier, Hain concluded the sale of Tilda to EBRO FOODS. Prior to this, the company sold a significant chunk of assets related to the Plainville Farms business and also divested WestSoy tofu, seitan and tempeh businesses. Moreover, the company concluded the sale of its entire equity stake in Hain Pure Protein Corporation, which incorporates the FreeBird and Empire Kosher businesses.

- **Project Terra on Track:** Hain Celestial, which began a strategic review under Project Terra in fiscal 2016, expects to generate worldwide cost savings worth $350 million through fiscal 2020 (comprises annual productivity) and remove complexity from business. To achieve these savings, the company intends to optimize plants, co-packers and procurement, along with rationalizing product portfolio. Consequently, it plans to reinvest the additional savings through brand development and household penetration. Earlier, the company had announced that in an attempt to augment sales and margin growth, it had created five strategic platforms across its U.S. segment, including Fresh Living, Better-for-You Baby, Better-for-You Snacking, Better-for-You Pantry and Pure Personal Care.

  Moreover, the company is on track to consolidate Canada and the United States into a single North American operating unit. This is likely to generate additional cost savings of $5-$8 million in the next 12-18 months. Additionally, Hain Celestial created Cultivate Ventures or "Cultivate", which is a unit focused on three main ideas – investing in the company's small yet high potential brands, making small acquisitions, and investing in products, concepts and technology, committed to health and wellness.

- **SKU Rationalization Program:** Hain Celestial has undertaken a number of initiatives to improve performance and to put itself on the growth trajectory. The company's Stock Keeping Unit ("SKU") rationalization program has helped eliminate SKUs based on lower sales volume or weak margins, and identified 700 SKUs, which are already phased out of portfolio. The company initiated a more aggressive program called the 2018 Project Terra SKU rationalization. In fiscal 2019, the Company initiated a SKU rationalization, which included the elimination of approximately 350 low velocity SKUs. Moreover, the company has discontinued roughly 500 SKUs in order to expand margins and cash flows.

- **Acquisitions Playing a Key Role:** Acquisitions have been a key part of the company's strategy to build market share. Buyouts have not only expanded the company's geographical presence but have also provided opportunities to cross-sell products in the United States, Canadian, and European markets. A healthy balance sheet enables it to target strategic acquisition opportunities, which is likely to result in incremental sales along with providing the company a strong foothold in the packaged food and grocery market.

  Hain Celestial revealed that one of its wholly-owned subsidiaries acquired Clarks UK Ltd. (The Natural Sweeteners Company), the leading maple syrup brand, and a natural sweetener brand, in the United Kingdom. Earlier, the company purchased leading packaged grocery brands – Hartley's, Gale's Robertson's, Frank Cooper's and Sun-Pat – from Premier Foods plc. The company also acquired Ella's Kitchen Group Limited that offers organic baby food products under approximately 80 brands and provides them in easy to carry pouches.

- **Debt Analysis:** Although Hain Celestial's long-term debt (including operating lease liabilities) of $401.6 million as of Dec 31, 2019, increased 1% sequentially, its debt-to-capitalization ratio of 0.21 stands lower than the industry's ratio of 0.43. Moreover, the company's times interest earned ratio of 1.2, portrays a sequential increase from 0.4. Again, the company's cash & cash equivalents of $37 million as of Dec 31, 2019, shows an increase of roughly 80% on a quarter-on-quarter basis. Notably, the company's cash position remains sufficient to meet current portion of long-term debt of about $1.4 million.

Risks

- **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Hain Celestial looks overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 38.02, which is above its median level of 34.87 but below the high level of 41.49 scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 16.34 and 18.07, respectively.

- **Y/Y Decline in Top Line Continues:** Hain Celestial's top-line has been declining year over year since the last few quarters. The trend continued in second-quarter fiscal 2020, wherein net sales declined 5% on both reported and constant-currency basis. Decline in sales at both the North America and International segments led to the decrease. On adjusting currency fluctuations, buyouts, divestitures and various other items like SKU rationalization, net sales edged down 1%. Although management projects that the rate of sales decline in the second half of fiscal 2020 will improve in comparison to the first half, the metric will continue to fall.

- **Adverse Currency Fluctuation May Weigh Upon Sales:** Hain Celestial has operations in international markets and is consequently highly exposed to fluctuation in exchange rates. Year-over-year currency fluctuations in the British pound, euro, and Canadian dollar, which when denominated in strong U.S. dollars, may negatively affect sales. In fact, we note that currency fluctuations had a negative impact on Hain Celestial's top line in the second quarter fiscal 2020 .

- **Stiff Competition:** Hain Celestial operates in a highly competitive food industry, wherein it faces competition from conventional packaged goods companies as well as natural and organic packaged foods companies. The company competes on grounds of lower cost advantage, pricing, packaging, product quality, taste, geographic reach and responsiveness to changing consumer needs among others. Further, significant consolidation in the grocery and foodservice industry and consumers evolving preferences has intensified competition of late.

Last Earnings Report

Hain Celestial Beats Q2 Earnings, Revises View

Quarter Ending	12/2019
Report Date	Feb 06, 2020
Sales Surprise	1.49%
EPS Surprise	13.33%
Quarterly EPS	0.17
Annual EPS (TTM)	0.67

Hain Celestial reported better-than-expected earnings and sales for second-quarter fiscal 2020. Also, the bottom line improved year over year, thanks to improved margins. Further, Hain Celestial is on track with its saving initiatives and expects adjusted gross margin and adjusted EBITDA margin expansion in each quarter of fiscal 2020. As a result, management raised the low end of adjusted EBITDA and adjusted earnings per share view for the current fiscal year.

Quarter in Detail

The company posted adjusted earnings of 17 cents a share that surpassed the Zacks Consensus Estimate by a couple of cents and increased 41.7% year over year. This marked the company's second consecutive beat.

Net sales were $506.8 million, which outshined the Zacks Consensus Estimate of $499 million. The metric declined 5% on both reported and constant-currency basis. The top line was hurt by soft performance by the company's North America and the International segments. On adjusting for currency fluctuations, buyouts, divestitures and various other items like SKU rationalization, net sales edged down 1%.

Net sales at the North America segment fell 8% year over year to $280.7 million. On adjusting for divestitures and SKU rationalization, net sales declined 2%. Segment adjusted operating income rose a solid 51% to $25 million.

International net sales inched down 1% to $226.1 million, while the metric remained flat at constant currency. On adjusting for currency fluctuations, divestitures and SKU rationalization, net sales edged up 1%. Segment adjusted operating income fell 12% to $16.5 million.

Costs & Margins

Adjusted gross margin expanded 220 basis points (bps) to 22%, courtesy of trade efficiencies, lower supply-chain expenses in the United States and productivity savings. However, foreign currency fluctuations impacted gross profit slightly in the quarter.

Adjusted operating income was $29.5 million in the quarter, up 20.9% from $24.4 million in the year-ago period. Adjusted operating margin rose 120 bps to 5.8%. Adjusted EBITDA grew 18.7% to $45 million, while adjusted EBITDA margin expanded 180 bps to 8.9%. The expansion was fueled by improved profitability in North America and supply-chain efficiencies.

Other Financials

The company ended the quarter with cash and cash equivalents of $37 million, long-term debt (excluding current portion) of $324.9 million and total shareholders' equity of $1,521.1 million. Cash used in operating activities from continuing operations totaled $17.1 million during the first six months of fiscal. The company's operating free cash flow from continuing operations was negative $12.2 million during the first six months.

Capital expenditures were around $16 million in the fiscal second quarter.

For fiscal 2020, cash flow from operations is now anticipated at the low end of $110-$140 million or about $110 million. Further, capital expenditures are expected between $60 million and $70 million.

Other Developments & Guidance

Hain Celestial concluded the sale of Arrowhead Mills and SunSpire brands in the fiscal second quarter. Moreover, the company is on track to consolidate Canada and the United States into a single North American operating unit. This is likely to generate additional cost savings of $5-$8 million in the next 12-18 months.

Furthermore, management projects that the rate of sales decline in the back half of fiscal 2020 will improve in comparison to the first half. The improvement will be mainly backed by strength in Get Bigger brands from assortment optimization, promotional activity and innovation.

All said, Hain Celestial updated its outlook for fiscal 2020. Adjusted EBITDA is now expected to grow 7-16% to $177-$192 million. Earlier, it expected the same to grow 2-16% to $168-$192 million. At constant currency, adjusted EBITDA is likely to improve 8-18% to $179-$194 million.

Additionally, Hain Celestial now envisions adjusted earnings per share of 62-72 cents, which suggests growth of 3-20% from fiscal 2019. Previously, management projected earnings per share of 59-72 cents, which suggested a decline of 2% to an increase of 20%.

Recent News

Hain Celestial Divests Casbah & Europe's Best Brands – Mar 18, 2020

Hain Celestial recently concluded the sale of Casbah and Europe's Best brands to the U.S. Durum and Nature's Touch Frozen Foods, respectively. However, financial details of the deal remained under covers. Notably, these divestitures are in sync with the company's transformation efforts.

Valuation

Hain Celestial shares are down 1.9% in the year-to-date period but up 10.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Consumer Staples sector are down 13.3% and 16.6%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 6.1% and 13%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 27.89X forward 12-month earnings, which compares to 17.25X for the Zacks sub-industry, 18.5X for the Zacks sector and 20.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 35.79X and as low as 12.55X, with a 5-year median of 21.96X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $29 price target reflects 32.07X forward 12-month earnings.

The table below shows summary valuation data for HAIN

Valuation Multiples - HAIN

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	27.89	17.25	18.5	20.16
	5-Year High	35.79	22.9	22.37	20.16
	5-Year Low	12.55	14.82	16.5	15.19
	5-Year Median	21.96	18.87	19.68	17.44
P/S F12M	Current	1.3	1.56	8.85	3.19
	5-Year High	2.55	2.05	11.16	3.44
	5-Year Low	0.65	1.41	8.1	2.54
	5-Year Median	1.26	1.81	9.89	3.01
EV/EBITDA TTM	Current	17.94	13.61	32.43	10.37
	5-Year High	24.61	23.67	45.12	12.86
	5-Year Low	12.24	11.51	27.24	8.28
	5-Year Median	17.32	15.37	38.4	10.78

As of 05/04/2020

Industry Analysis **Zacks Industry Rank:** Top 11% (27 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
B&G Foods, Inc. **(BGS)**	Outperform	1
Campbell Soup Company **(CPB)**	Outperform	2
Flowers Foods, Inc. **(FLO)**	Outperform	2
General Mills, Inc. **(GIS)**	Neutral	2
Mondelez International, Inc. **(MDLZ)**	Neutral	3
Sysco Corporation **(SYY)**	Neutral	4
United Natural Foods, Inc. **(UNFI)**	Neutral	2
Lamb Weston Holdings Inc. **(LW)**	Underperform	5

Industry Comparison Industry: Food - Miscellaneous

	HAIN	X Industry	S&P 500	BGS	CPB	LW
				Industry Peers		
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Underperform
Zacks Rank (Short Term)	1	-	-	1	2	5
VGM Score	B	-	-	B	A	D
Market Cap	2.66 B	3.27 B	19.65 B	1.26 B	15.32 B	8.43 B
# of Analysts	5	3	14	3	7	4
Dividend Yield	0.00%	0.00%	2.19%	9.63%	2.76%	1.59%
Value Score	C	-	-	A	A	F
Cash/Price	0.01	0.05	0.06	0.01	0.00	0.00
EV/EBITDA	73.73	12.48	11.76	11.38	14.14	12.75
PEG Ratio	17.45	3.35	2.48	NA	2.54	6.50
Price/Book (P/B)	1.75	2.01	2.63	1.55	6.13	31.16
Price/Cash Flow (P/CF)	21.12	11.84	10.38	7.01	13.39	13.24
P/E (F1)	34.89	17.67	18.81	11.78	18.18	22.09
Price/Sales (P/S)	1.24	1.10	2.02	0.76	1.85	2.13
Earnings Yield	2.87%	5.09%	5.07%	8.47%	5.49%	4.52%
Debt/Equity	0.26	0.62	0.73	2.35	1.97	8.12
Cash Flow ($/share)	1.21	2.68	7.01	2.81	3.79	4.36
Growth Score	B	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	-21.52%	5.03%	10.87%	2.38%	-1.52%	18.82%
Proj. EPS Growth (F1/F0)	10.91%	-0.31%	-8.14%	2.03%	21.43%	-18.87%
Curr. Cash Flow Growth	-31.03%	5.12%	5.88%	-0.56%	-12.42%	18.57%
Hist. Cash Flow Growth (3-5 yrs)	-9.49%	5.35%	8.55%	4.81%	0.50%	12.76%
Current Ratio	1.85	1.59	1.25	3.05	0.61	1.85
Debt/Capital	20.89%	38.29%	44.07%	70.11%	66.31%	89.03%
Net Margin	-8.73%	4.20%	11.00%	4.60%	17.46%	12.12%
Return on Equity	4.62%	10.33%	16.43%	12.50%	50.69%	342.27%
Sales/Assets	0.87	1.14	0.55	0.51	0.64	1.20
Proj. Sales Growth (F1/F0)	-11.69%	0.00%	-1.76%	1.02%	-8.43%	-1.01%
Momentum Score	A	-	-	D	B	D
Daily Price Chg	-0.62%	-0.29%	-0.01%	0.41%	0.73%	-1.11%
1 Week Price Chg	-6.94%	0.00%	0.53%	3.64%	-0.67%	0.99%
4 Week Price Chg	-2.53%	5.62%	6.66%	13.86%	6.66%	11.35%
12 Week Price Chg	-3.96%	-12.95%	-20.38%	42.59%	4.27%	-38.99%
52 Week Price Chg	10.79%	-12.90%	-13.44%	-11.77%	32.90%	-14.52%
20 Day Average Volume	1,069,472	230,091	2,567,149	1,336,687	2,395,172	1,459,442
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.26%	-1.69%
(F1) EPS Est 4 week change	3.39%	0.00%	-6.96%	0.00%	3.38%	-1.69%
(F1) EPS Est 12 week change	8.93%	-7.00%	-13.90%	-1.57%	10.24%	-25.68%
(Q1) EPS Est Mthly Chg	8.04%	0.00%	-13.62%	0.00%	1.60%	-30.51%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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