

Hanesbrands Inc. (HBI)

\$8.25 (As of 05/13/20)

Price Target (6-12 Months): **\$7.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: C

Summary

Hanesbrands' shares have underperformed the industry in the past year. On account of the coronavirus outbreak, the company has closed nearly 1,200 brand stores across the United States, Europe and Australia. Further, it has temporarily furloughed retail store employees. The tension persisted in first-quarter 2020 with the top and the bottom line missing the consensus estimate and declining year over year. Also, management did not provide any view for the second quarter and 2020 due to the pandemic. Nevertheless, Hanesbrands has been producing cloth face coverings and medical gowns for the U.S. government. Incidentally, it expects revenues from this business to cross \$300 million in 2020. Also, the company expects to save nearly \$200 million in 2020 from cost-saving efforts amid the coronavirus crisis.

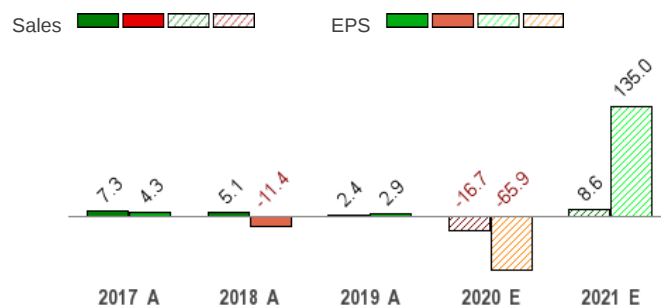
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$17.69 - \$6.96
20 Day Average Volume (sh)	8,122,475
Market Cap	\$2.9 B
YTD Price Change	-44.4%
Beta	1.52
Dividend / Div Yld	\$0.60 / 7.3%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 9% (231 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-54.6%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	-46.2%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	5.3
P/E F1	13.8
PEG F1	4.6
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,297 E
2020	1,316 A	1,190 E	1,641 E	1,654 E	5,801 E
2019	1,588 A	1,761 A	1,867 A	1,751 A	6,967 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.21 E	-\$0.07 E	\$0.49 E	\$0.48 E	\$1.41 E
2020	\$0.05 A	-\$0.19 E	\$0.32 E	\$0.41 E	\$0.60 E
2019	\$0.27 A	\$0.45 A	\$0.54 A	\$0.51 A	\$1.76 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 05/13/2020. The reports text is as of 05/14/2020.

Overview

Headquartered in Winston-Salem, NC, Hanesbrands Inc. engages in the design, manufacture, sourcing and sale of apparel essentials for men, women and children in the U.S. and internationally. The company offers products under well-established brands such as Hanes, Champion, Playtex, Bali, Just My Size, Barely There and Wonderbra.

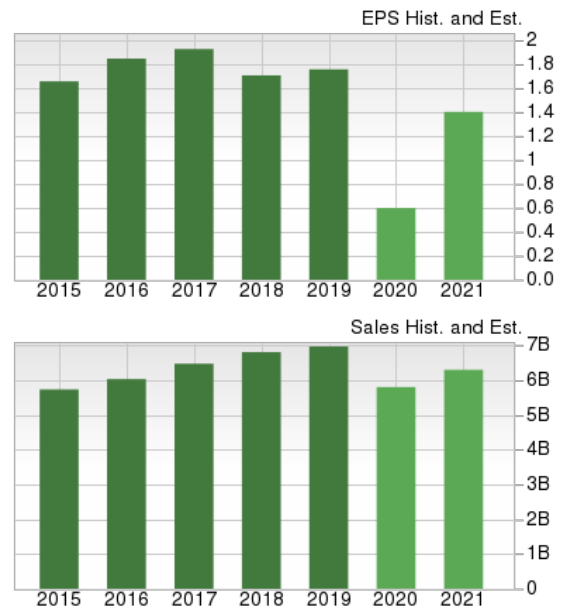
In the first-quarter 2017, management realigned its reporting segments. Now, Hanesbrands' U.S. retail Internet operations are reported in the respective Innerwear and Activewear divisions. Hanesbrands reports its operating results under the following segments:

Innerwear segment (33.1% of 2019 sales): This segment manufactures and sells core apparel products, such as women's intimate apparel, men's underwear, kids' underwear and socks, marketed under well-known brands like Hanes, Bali, Playtex, Barely There, Just My Size and Wonderbra. Innerwear segment also includes the Hosiery segment, which makes women's sheer hosiery in the United States.

Activewear segment (26.6% of 2019 sales): The segment consists of casual wear and active wear products. The casual product category provides comfortable clothing for men, women and children under the Hanes and Just My Size brands. The active wear products include T-shirts and fleece sold to both retailers and wholesalers. The company sells this segment's products to both retailers and wholesalers.

International segment (36.3% of 2019 sales): The International segment includes sales from Latin America, Asia, Canada, Australia, Japan, Mexico and Brazil. The company also has sales offices in India and China. The segment produces and sells products under brands such as Hanes, Champion, Wonderbra, Playtex, Stedman, Zorba, Rinbros, Kendall, Soly Oro, Ritmo and Track N Field.

Other (4% of 2019 sales): The Other category comprises the U.S. businesses for outlet stores, hosiery (earlier reported in the Innerwear division), along with legacy catalog business.



Reasons To Sell:

- ▼ **Dismal Q1 Performance:** Hanesbrands reported dismal first-quarter 2020 results, with the top and the bottom line missing the Zacks Consensus Estimate and declining year over year. The company posted adjusted earnings of 5 cents that plunged significantly from 27 cents earned in the year-ago quarter. Moreover, net sales fell 11.9% to \$1,316.5 million. Further, adjusted operating profit plunged 57.8% to \$63 million. Notably, quarterly performance was mainly hurt by the pandemic. Management stated that the late-quarter pandemic impacts hurt revenues by nearly \$181 million, operating profit by \$86 million and earnings per share by nearly 20 cents in the quarter. Significant declines in sales and profits were witnessed in the last two weeks of the quarter. We note that, shares of the company have lost 48.1% in the past year compared with the industry's decline of 29.8%.

Coronavirus-led woes hurt Hanesbrand's top line by roughly \$181 million in first-quarter 2020.
 - ▼ **Coronavirus-Led Woes:** The outbreak of the novel coronavirus has derailed economic activities worldwide. Given the unprecedented impacts of this ongoing pandemic, Hanesbrands has closed nearly 1,200 brand stores across the United States, Europe and Australia. Further, the company has decided to temporarily furlough retail store employees. During this time, all employees will be offered benefits. Apart from this, the company paid salaries for two-plus weeks since store closures to these employees. Along with these retail store employees, the company temporarily furloughed nearly 575 other U.S. employees. Also, in its last earnings call, the company did not provide guidance for the second quarter and 2020 owing to uncertainty related to the pandemic.
 - ▼ **Unimpressive Innerwear Unit:** Hanesbrands has been battling soft sales at its Innerwear segment for quite some time now. In first-quarter 2020, Innerwear sales dropped 9.4% to \$422.4 million, mainly due to the exit of C9 Champion mass retail program and the adverse impact of coronavirus pandemic. On a reported basis, the segment sales declined 11% during the first quarter. In the first, the second, the third and the fourth quarter, the unit witnessed sales declines of 3%, 2.3%, 3.5% and 4.1%, respectively.
 - ▼ **Currency Headwinds to Hit Sales:** Hanesbrands is exposed to unfavorable foreign currency translations, as a considerable portion of total sales come from international businesses. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside the country. We note that, management expects foreign currency translation to hurt sales and operating profit in 2020.
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Risks

- **Efforts to Stay Afloat Amid Coronavirus:** Hanesbrands has been producing cloth face coverings and medical gowns for the U.S. government amid the coronavirus pandemic. The company is also speeding up the launch of a cotton face mask business for consumers and expects to create a product line of basic personal protective garments. Incidentally, management expects revenues from this business to cross \$300 million in 2020.

Also, Hanesbrands has undertaken actions like preserving cash and strengthening liquidity to deal with the crisis. In this regard, the company has been curbing discretionary and capital spends, managing inventories as well as temporarily cutting salaries and furloughing certain employee groups. Such temporary pay cuts, furloughs and lower discretionary spending on media and marketing are likely to save nearly \$200 million in 2020.

- **Strong Online Business:** As consumers are increasingly resorting to online shopping, Hanesbrands remains focused on developing its online sales. In the first quarter of 2020, the company's total online sales increased 5% globally. Impressively, growth rates at online channels accelerated in the past two weeks of the quarter, which continued in April. Hanesbrands, which is global partner with Amazon, is focused on making incremental investments in its online business to keep pace with consumers' evolving shopping patterns especially as the coronavirus pandemic increases digital shopping penetration.
- **Financial Status, Dividend on Track:** Although Hanesbrands' long-term debt (including long-term lease liability) of \$4,596 million as of Mar 28, 2020, increased 27.1% sequentially, its debt-to-capitalization ratio of 0.85 stands better than the preceding quarter's figure of 0.76. Further, the company had cash and cash equivalents of \$1,084 million as of Mar 28, 2020 which is sufficient to fund its current portion of long-term debt of \$111.4 million. Notably, in an attempt to enhance its financial flexibility amid the coronavirus outbreak, Hanesbrands has drawn down \$630 million under its U.S. revolving loan facility in March.

In addition, management plans to secure around \$500 million debt financing, subject to market conditions, using proceeds to repay the company's revolver and reinforce liquidity. It also negotiated a 15-month covenant amendment to its senior secured credit facility, with suspension of leverage covenant till the end of second-quarter 2021. Apart from these, at a juncture where many companies have suspended dividends, Hanesbrands declared quarterly dividend of 15 cents per share, which is payable on Jun 9 to shareholders of record as of May 19. This reflects the company's commitment toward shareholders.

- **Project Booster Program:** Hanesbrands launched a multiyear program in the first-quarter 2017 to drive investment for growth, minimize costs as well as increase cash flow. This program, which is well-positioned for the next five years, aims to boost the company's 'Sell More, Spend Less, Generate Cash' strategy for additional gains, mainly from the global commercial and supply chain scale through acquisitions. Furthermore, the Project Booster cost savings, along with other cash flow drivers like synergies from buyouts and diversified revenues bode well. Apart from these, the company expects to save nearly \$200 million in 2020 from its cost saving efforts amid the coronavirus outbreak.
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Last Earnings Report

Hanesbrands Q1 Earnings Lag Estimates on Coronavirus Impact

Hanesbrands Inc. reported dismal first-quarter 2020 results, with the top and the bottom line missing the Zacks Consensus Estimate and declining year over year. Quarterly performance was mainly hurt by coronavirus. Management stated that the late-quarter pandemic impacts hurt revenues by roughly \$181 million, operating profit by \$86 million, and earnings per share by nearly 20 cents in the quarter. Significant declines in sales and profits were witnessed in the last two weeks of the quarter. Also, the company exited DKNY license for intimate apparel and C9 Champion mass program.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	-2.72%
EPS Surprise	-54.55%
Quarterly EPS	0.05
Annual EPS (TTM)	1.55

Before the impact of coronavirus was felt, the company saw robust revenue and profit trends on solid Champion performance and increased U.S. Innerwear business sales. Owing to uncertainty tied to the pandemic, management did not provide guidance for the year but expects foreign currency translation to hurt sales and operating profit in 2020.

Nevertheless, the company has taken actions like preserving cash and strengthening liquidity to deal with the tough times. Furthermore, the company has been producing cloth face coverings and medical gowns for the U.S. government. It is also speeding up the launch of a cotton face mask business for consumers and expects to create a product line of basic personal protective garments. In 2020, sales from this business are anticipated to cross \$300 million.

Q1 in Detail

The company posted adjusted earnings of 5 cents a share that lagged the Zacks Consensus Estimate of 11 cents. Also, the metric plunged significantly from 27 cents earned in the year-ago quarter.

Net sales fell 11.9% to \$1,316.5 million and also missed the Zacks Consensus Estimate of \$1,353 million. Excluding the exited programs, impact of pandemic and foreign exchange fluctuations, total constant-currency (cc) sales would have grown 1.6%. Moreover, the company's total online sales grew 5% globally in the quarter. Impressively, growth rates at online channels accelerated over the last two weeks of the quarter, which continued in April. Moving on, adjusted operating profit plunged 57.8% to \$63 million. Also, adjusted operating profit margin contracted 520 basis points (bps) to 4.8%.

Segment Details

Innerwear: Sales at the segment declined 9.4% to \$422.4 million, mainly due to the exit of C9 Champion mass retail program and the adverse impact of pandemic. On a reported basis, the segment sales declined 11%. However, prior to mid-March, the segment's sales and profits were better than expected owing to robust performance of basics and intimates. Moreover, operating profit declined 20.9% to \$81.6 million.

Activewear: Sales fell 10.2% to \$288 million due to a decline in C9 Champion sales in mass retail and coronavirus impact. Its sales plunged 29% on a reported basis. Prior to mid-March, the segment was seeing strong performance on consumer demand for Champion brand, increases in other brands in sports licensing business' mass and midtier channels, and online seasonal activewear. Also, operating profit tumbled 66.5% to \$8.1 million, thanks to an uptick in SG&A expenses.

International: Sales at this segment fell 14% to \$555.9 million (down 11% at cc) due to coronavirus-led store closures in March. Prior to the coronavirus impact the segment's sales at cc matched expectations. Operating profit for the segment declined 47.9% to \$52 million in the quarter.

Other: Sales dropped 17.2% to \$50.2 million. The segment posted an operating loss of \$6.1 million against operating profit of \$0.8 million reported in the same quarter a year ago.

Other Financial Details

Hanesbrands ended the quarter with cash and cash equivalents of \$1,083.8 million, long-term debt of \$4,237 million and stockholders' equity of \$873.6 million. At quarter-end, the company reported negative net cash from operating activities of \$83.2 million, and incurred capital expenditures of \$25.8 million in the first quarter. Moreover, it bought back nearly 14.5 million shares in the first quarter and put share repurchases on hold for rest of the year.

In light of the coronavirus pandemic, management has taken actions to stay firm and strengthen liquidity. The company has been curbing discretionary and capital spends, managing inventories as well as temporarily cutting salaries and furloughing certain employee groups. Its production and distribution facilities are functioning on a demand-adjusted basis. Such temporary pay cuts, furloughs and lower discretionary spending on media and marketing are likely to save nearly \$200 million in 2020.

In addition, Hanesbrands plans to secure around \$500 million debt financing, subject to market conditions, using proceeds to repay the company's revolver and reinforce liquidity. It also negotiated a 15-month covenant amendment to its senior secured credit facility, with suspension of leverage covenant till the end of second-quarter 2021.

Recent News

Hanesbrands Declares Dividend – May 5, 2020

Hanesbrands has declared quarterly cash dividend of 15 cents per share. This will be payable on Jun 9, 2020 to shareholders of record as on May 19.

Hanesbrands Offers Update on COVID-19 – Apr 8, 2020

Hanesbrands has been focused on protecting its financial position amid the coronavirus crisis. The company is curtailing discretionary expenditure, temporarily furloughing some workers and also cutting pay for certain employees. Further, Hanesbrands has shut down around 1,200 stores across United States, Europe and Australia due to the growing spread of COVID-19.

Hanesbrands Withdraws View, Draws From Credit Amid Coronavirus - Mar 26, 2020

The outbreak of the novel coronavirus has rattled most sectors, derailing economic activities worldwide. Recently, Hanesbrands has issued a business update, including the withdrawal of its guidance. Due to the outbreak and its impact on revenues and costs, management has withdrawn first-quarter and 2020 guidance, which was issued along with fourth-quarter results on Feb 7.

In its latest release, HanesBrands informed investors that in an attempt to enhance its financial flexibility amid the coronavirus outbreak, it is drawing down \$630 million under its U.S. revolving loan facility. Including the revolver drawdown, the company's cash in hand is expected to be nearly \$1 billion. Also, the company is on track with reducing expenditure and managing liquidity during the crisis.

Valuation

Hanesbrands shares are down 43.9% in the year-to-date period, and 48.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 36.9% and 20% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 29.8% while the sector declined 13.2%.

The S&P 500 index is down 10.3% in the year-to-date period and up 2.4% in the past year.

The stock is currently trading at 9.2X forward 12-month earnings, which compares to 19.39X for the Zacks sub-industry, 26.56X for the Zacks sector and 20.75X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.58X and as low as 4.75X, with a 5-year median of 10.56X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$7 price target reflects 7.41X forward 12-month earnings.

The table below shows summary valuation data for HBI

Valuation Multiples - HBI					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.2	19.39	26.56	20.75
	5-Year High	19.58	23.06	26.56	20.79
	5-Year Low	4.75	13.34	16.2	15.19
	5-Year Median	10.56	17.99	19.92	17.45
P/S F12M	Current	0.48	1.74	1.96	3.24
	5-Year High	2.29	2.58	3.2	3.44
	5-Year Low	0.39	1.42	1.67	2.54
	5-Year Median	1.17	2.04	2.53	3.02
EV/EBITDA F12M	Current	6.35	15.91	10.53	12.29
	5-Year High	14.81	19.11	12.4	12.65
	5-Year Low	6.35	11.66	8.63	9.09
	5-Year Median	9.33	14.39	10.81	10.82

As of 05/13/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (231 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
AbercrombieFitch Company (ANF)	Neutral	3
Guess Inc (GES)	Neutral	3
lululemon athletica inc (LULU)	Neutral	3
Ralph Lauren Corporation (RL)	Neutral	4
Under Armour Inc (UAA)	Neutral	3
Columbia Sportswear Company (COLM)	Underperform	5
GIII Apparel Group LTD (GIII)	Underperform	5
PVH Corp (PVH)	Underperform	4

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	HBI	X Industry	S&P 500	COLM	GIII	UAA
Zacks Recommendation (Long Term)	Underperform	-	-	Underperform	Underperform	Neutral
Zacks Rank (Short Term)	5	-	-	5	5	3
VGM Score	F	-	-	F	A	C
Market Cap	2.87 B	432.70 M	18.76 B	3.95 B	407.48 M	3.52 B
# of Analysts	6	4	14	7	7	16
Dividend Yield	7.27%	0.00%	2.23%	1.74%	0.00%	0.00%
Value Score	D	-	-	F	A	C
Cash/Price	0.33	0.18	0.06	0.16	0.39	0.17
EV/EBITDA	6.38	6.85	11.39	6.85	3.23	10.15
PEG Ratio	4.72	2.46	2.54	9.63	0.75	NA
Price/Book (P/B)	3.29	0.87	2.56	2.33	0.31	2.27
Price/Cash Flow (P/CF)	3.81	4.24	10.04	9.08	2.08	10.28
P/E (F1)	14.17	15.23	18.48	29.95	8.59	NA
Price/Sales (P/S)	0.43	0.38	1.91	1.34	0.13	0.70
Earnings Yield	7.27%	4.21%	5.09%	3.35%	11.67%	-5.13%
Debt/Equity	5.26	0.66	0.75	0.21	0.50	0.97
Cash Flow (\$/share)	2.17	2.16	7.01	6.59	4.08	0.76
Growth Score	D	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	0.90%	4.50%	10.82%	18.04%	6.78%	-17.32%
Proj. EPS Growth (F1/F0)	-65.91%	-58.87%	-10.51%	-58.68%	-69.06%	-218.01%
Curr. Cash Flow Growth	2.71%	9.47%	5.83%	30.70%	6.85%	12.74%
Hist. Cash Flow Growth (3-5 yrs)	2.82%	4.10%	8.52%	17.53%	9.97%	4.10%
Current Ratio	2.21	1.70	1.27	2.80	2.23	1.70
Debt/Capital	84.03%	41.50%	44.25%	17.68%	33.35%	49.29%
Net Margin	7.75%	3.58%	10.59%	8.68%	4.55%	-10.42%
Return on Equity	50.63%	12.14%	16.36%	14.34%	12.74%	-1.18%
Sales/Assets	0.87	1.10	0.54	1.07	1.19	1.05
Proj. Sales Growth (F1/F0)	-16.74%	-12.56%	-2.55%	-15.54%	-16.40%	-21.31%
Momentum Score	C	-	-	B	B	D
Daily Price Chg	-4.62%	-3.23%	-2.85%	-4.63%	-4.93%	-9.73%
1 Week Price Chg	-1.15%	0.81%	3.23%	0.99%	5.27%	1.84%
4 Week Price Chg	-7.20%	-5.61%	-0.28%	-15.67%	-13.03%	-18.85%
12 Week Price Chg	-42.27%	-36.74%	-23.80%	-33.70%	-67.28%	-52.99%
52 Week Price Chg	-49.70%	-52.19%	-13.31%	-36.98%	-73.45%	-63.53%
20 Day Average Volume	8,122,475	92,318	2,552,088	362,864	1,240,729	7,656,695
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-169.75%
(F1) EPS Est 4 week change	-46.19%	-16.52%	-6.15%	-30.34%	-0.58%	-664.29%
(F1) EPS Est 12 week change	-65.68%	-63.59%	-16.21%	-58.65%	-68.00%	-377.36%
(Q1) EPS Est Mthly Chg	-199.56%	-19.71%	-12.28%	-19.71%	0.00%	-158.67%

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	D
Growth Score	D
Momentum Score	C
VGM Score	F

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.

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