

Hanesbrands Inc. (HBI)

\$8.95 (As of 03/26/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/07/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: A

Summary

Hanesbrands' shares have lagged the industry in the past year. Due to the coronavirus outbreak and its impact on sales and costs, management has withdrawn first-quarter and 2020 guidance, which was issued along with fourth-quarter 2019 results. Also, it has been battling soft sales in the Innerwear segment for a while. The trend persisted in the fourth quarter, with unit sales declining 4.1% due to earlier-than-anticipated disruption from ongoing store resets and soft innerwear intimates unit. Nevertheless, it has been gaining from strong International unit and sturdy organic sales. Also, online business is faring well and supporting Global consumer-directed sales. At cc, organic sales were slightly up in the fourth quarter, marking Hanesbrands' tenth straight quarter of growth. Further, earnings grew 13% year over year in the quarter.

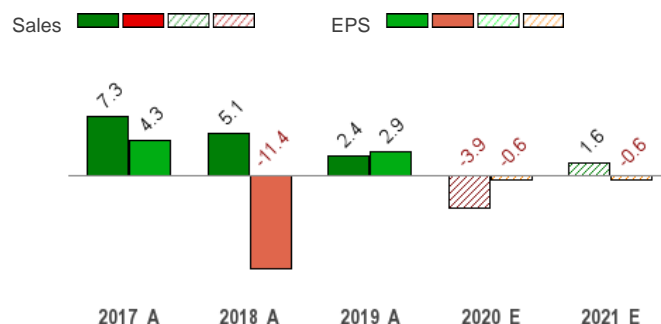
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.10 - \$7.70
20 Day Average Volume (sh)	11,421,698
Market Cap	\$3.2 B
YTD Price Change	-39.7%
Beta	0.99
Dividend / Div Yld	\$0.60 / 6.7%
Industry	Textile - Apparel
Zacks Industry Rank	Bottom 9% (231 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	5.1
P/E F1	5.1
PEG F1	1.7
P/S TTM	0.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					6,807 E
2020	1,486 E	1,649 E	1,808 E	1,755 E	6,698 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					\$1.74 E
2020	\$0.25 E	\$0.42 E	\$0.55 E	\$0.53 E	\$1.75 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 03/26/2020. The reports text is as of 03/27/2020.

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.

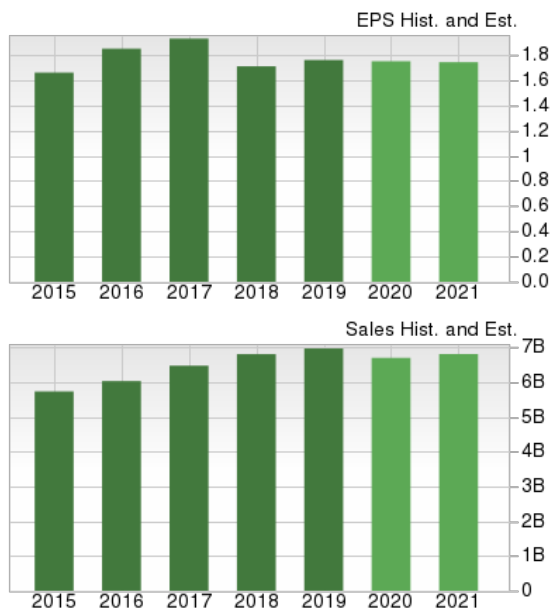
In the first-quarter 2017, management realigned its reporting segments. Now, Hanesbrands' U.S. retail Internet operations are reported in the respective Innerwear and Activewear divisions. Hanesbrands reports its operating results under the following segments:

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 Buy:

▲ **Robust Q4 Performance:** Hanesbrands posted fourth-quarter 2019 results, with the bottom line rising year over year and meeting the Zacks Consensus Estimate. Adjusted earnings of 51 cents a share rose 13% from the year-ago quarter's figure. Also, the metric increased 5% to \$1.76 for 2019. Moreover, net sales for 2019 moved up 2% driven by strong International and Activewear businesses.

▲ **Organic Sales Growth Trend Continues in Q4:** In fourth-quarter 2019, Hanesbrands continued with sturdy organic sales growth. At cc, organic sales were slightly up, marking the company's 10th straight quarter of growth. Organic revenues in the quarter were driven by increased International unit sales, continued strength in Champion brand along with solid consumer-directed business.

Talking of the Champions brand, it has been performing strongly for a while and driving the company's growth on a global scale. During the fourth quarter, sales in both domestic and international Champion businesses surged 22%. In its international business, sales rose across all regions including Europe, Asia and Australia. The company is on track with augmenting its Champions product portfolio.

▲ **International Strength Remains a Growth Driver:** Hanesbrands has long been gaining from solid performance of its international segment, which contributed nearly 37% to the company's net sales in the fourth quarter. Sales in the segment rose 6.9% to \$650.8 million (up 10% at cc). The uptick was driven by sturdy sales in innerwear and activewear units.

▲ **Project Booster Program to Boost Cost Savings:** 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, is likely 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.

▲ **Strong Online Business:** As consumers are increasingly resorting to online shopping, Hanesbrands remains focused on developing its online sales. In the fourth quarter, the company's Global consumer-directed sales (including store and all online networks) grew 17% at cc and contributed 30% to total sales. Hanesbrands, which is global partner with Amazon, remains focused on making incremental investments in its online business, in order to keep pace with consumers' evolving shopping patterns.

Hanesbrands' impressive organic sales, backed by strength in Champion and International sales, has been aiding the top line. It is also on track with expanding offerings through innovation.

Reasons To Sell:

- ▼ **Withdraws View, Draws From Credit Amid Coronavirus:** 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. Moreover, 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. We note that, shares of the company have lost 49.5% in the past year compared with the industry's decline of 37.1%.
- ▼ **Unimpressive Innerwear Unit:** Hanesbrands has been battling soft sales at its Innerwear segment for quite some time now. In fourth-quarter 2019, Innerwear sales dropped 4.1% to \$569.6 million, thanks to earlier-than-anticipated disruption from ongoing store resets, which impacted innerwear basics. Also, sales of innerwear intimates were down during the quarter. In the first, second and third quarters, the unit witnessed sales declines of 3%, 2.3% and 3.5% 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, currency headwinds can weigh on the company's performance in the future.
- ▼ **Stiff Competition:** The Intimate Apparel/Innerwear industry is highly competitive and extremely price sensitive. The company's strategy to focus more on premium brands and increase prices in these categories come with the inherent risk of consumers shifting to more competitively-priced brands offered by competitors. Thus, failure to offer high-quality distinguished products at a competitive price may hamper Hanesbrands' market share, resulting in lower earnings and sales.
- ▼ **Seasonal preferences:** Consumer demand for certain products depends on changes in seasonal preferences. In this regard, the company witnesses higher sales during the back-to-school and holiday shopping seasons. Meanwhile, demand for product categories such as fleece remains high during cooler weather. Thus, any fluctuation in the weather has a direct bearing on the company's top line.

Hanesbrands has been struggling with weaknesses in its Innerwear category. Adverse impacts of currency rates and stiff competition are also worries.

Last Earnings Report

Hanesbrands Q4 Earnings Meet Estimates, Sales Down Y/Y

Hanesbrands Inc. reported its fourth-quarter 2019 results, with the bottom line improving year over year and meeting the Zacks Consensus Estimate. However, the company's net sales declined year over year.

Q4 in Details

The company posted adjusted earnings of 51 cents a share, in line with the Zacks Consensus Estimate. Notably, earnings improved 13% from the year-ago quarter's reported figure.

Net sales inched down around 1% to \$1,751 million. The Zacks Consensus Estimate was pegged at \$1,748 million. However, organic sales at constant currency (cc) were up slightly.

Sales in domestic Champion and international Champion surged 22% in the fourth quarter. In its international segment, sales rose across all regions including Europe, Asia and Australia.

Also, consumer-directed sales (including retail and online networks) rose 17% at cc and contributed 30% to total sales in the fourth quarter.

Moving on, adjusted operating profit inched up 1.6% to \$263 million. Also, adjusted operating profit margin increased 40 basis points (bps) to 15%.

Segment Details

Innerwear: Sales in the segment declined 4.1% to \$569.6 million due to earlier-than-anticipated disruption from ongoing store resets, which impacted innerwear basics. Also, sales of innerwear intimates were down during the quarter. Nevertheless, operating profit increased 4.7% to \$140.4 million.

Activewear: Sales fell 6.7% to \$453 million due to decline in C9 Champion program. Operating profit fell 8.2% to \$71.6 million, thanks to increased SG&A expenses.

International: Sales in this segment rose 6.9% to \$650.8 million (up 10% at cc). The uptick was driven by sturdy sales in innerwear and activewear units. Operating profit in the International segment declined 1.8% to \$96.8 million in the quarter.

Other: Sales dropped 2.7% to \$77.6 million. The segment posted an operating profit of \$8.4 million, up 17.3% year over year.

Other Financial Details

Hanesbrands ended the quarter with cash and cash equivalents of \$328.9 million, long-term debt of \$3,256.9 million and stockholders' equity of \$1,236.6 million.

During the quarter, the company generated net cash from operations of \$558.7 million and incurred capital expenditures of \$21.1 million.

Guidance

Management issued guidance for the first quarter of 2020. For the quarter, it anticipates the top line in the range of \$1.466-\$1.496 billion. The midpoint of guidance suggests a decline of 7% from the year-ago quarter's figure. Adverse currency fluctuations are expected to hurt net sales by approximately \$14 million compared with first-quarter 2019. Adjusted operating profit is expected in the band of \$145-\$155 million. The midpoint suggests a decline of 12% compared with the prior-year quarter's figure. Moreover, the company projects adjusted earnings in the range of 23-26 cents per share, a midpoint decline of nearly 7% from 2019.

For 2020, net sales are expected in the range of \$6.675-\$6.775 billion. Adverse currency fluctuations are expected to lower net sales by about \$25 million for the full year. Adjusted operating profit is forecasted in the band of \$900-\$930 million. Further, the company envisions adjusted earnings in the range of \$1.72-\$1.80 for the year.

At the mid-point, the current guidance for 2020 indicates year-over-year growth of 3% in net sales, 7% in adjusted operating profit. Further, the guidance represents mid-point growth of 15% for adjusted earnings.

Quarter Ending **12/2019**

Report Date	Feb 07, 2020
Sales Surprise	0.19%
EPS Surprise	0.00%
Quarterly EPS	0.51
Annual EPS (TTM)	1.77

Recent News

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 39.8% in the year-to-date period, and 49.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 40.9% and 29.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 37.1% while the sector declined 20.3%.

The S&P 500 index is down 23.1% in the year-to-date period and 12.8% in the past year.

The stock is currently trading at 5.07X forward 12-month earnings, which compares to 12.02X for the Zacks sub-industry, 15.85X for the Zacks sector and 14.92X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.49X and as low as 4.75X, with a 5-year median of 10.68X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$11 price target reflects 6.23X 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	5.07	12.02	15.85	14.92
	5-Year High	20.49	23.06	23.23	19.34
	5-Year Low	4.75	12.02	15.85	14.92
	5-Year Median	10.68	17.99	19.89	17.42
P/S F12M	Current	0.48	1.46	1.66	2.68
	5-Year High	2.32	2.58	3.19	3.43
	5-Year Low	0.45	1.46	1.66	2.54
	5-Year Median	1.19	2.05	2.53	3
EV/EBITDA F12M	Current	6.61	15.91	10.46	12.28
	5-Year High	15.8	19.11	12.52	12.64
	5-Year Low	6.61	11.66	8.58	9.09
	5-Year Median	10.35	14.49	10.78	10.8

As of 03/26/2020

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



Top Peers

G-III Apparel Group, LTD. (GIII)	Neutral
lululemon athletica inc. (LULU)	Neutral
Ralph Lauren Corporation (RL)	Neutral
Under Armour, Inc. (UA)	Neutral
Under Armour, Inc. (UAA)	Neutral
Columbia Sportswear Company (COLM)	Underperform
Guess?, Inc. (GES)	Underperform
PVH Corp. (PVH)	Underperform

Industry Comparison Industry: Textile - Apparel				Industry Peers		
	HBI Neutral	X Industry	S&P 500	COLM Underperform	GIII Neutral	UAA Neutral
VGM Score	A	-	-	B	D	B
Market Cap	3.20 B	452.73 M	18.50 B	4.75 B	381.01 M	4.47 B
# of Analysts	4	4	13	5	7	15
Dividend Yield	6.70%	0.00%	2.35%	1.48%	0.00%	0.00%
Value Score	A	-	-	C	B	C
Cash/Price	0.10	0.19	0.07	0.17	0.19	0.21
EV/EBITDA	6.49	7.66	11.16	8.41	4.73	11.62
PEG Ratio	1.50	1.30	1.74	3.74	0.43	5.56
Price/Book (P/B)	2.62	0.83	2.44	2.57	0.30	2.08
Price/Cash Flow (P/CF)	4.13	4.53	9.87	10.70	1.95	13.05
P/E (F1)	4.49	8.90	15.29	15.13	4.92	134.86
Price/Sales (P/S)	0.46	0.46	1.93	1.56	0.12	0.85
Earnings Yield	19.55%	11.23%	6.47%	6.61%	20.30%	0.71%
Debt/Equity	2.92	0.65	0.70	0.20	0.74	0.55
Cash Flow (\$/share)	2.17	2.16	7.01	6.59	4.08	0.76
Growth Score	B	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	2.88%	3.50%	10.85%	19.86%	6.78%	-17.32%
Proj. EPS Growth (F1/F0)	-0.57%	-9.60%	2.89%	-3.52%	-49.13%	-78.43%
Curr. Cash Flow Growth	2.71%	9.47%	5.93%	30.70%	6.85%	12.74%
Hist. Cash Flow Growth (3-5 yrs)	2.82%	4.12%	8.55%	17.53%	9.97%	4.10%
Current Ratio	1.82	1.75	1.23	2.97	2.36	1.90
Debt/Capital	74.51%	39.71%	42.57%	16.73%	42.58%	35.31%
Net Margin	8.70%	3.58%	11.64%	10.86%	4.55%	1.75%
Return on Equity	55.80%	11.95%	16.74%	18.53%	12.97%	7.18%
Sales/Assets	0.90	1.13	0.54	1.11	1.17	1.13
Proj. Sales Growth (F1/F0)	-3.86%	0.00%	2.37%	3.61%	-16.40%	-3.94%
Momentum Score	A	-	-	B	F	F
Daily Price Chg	0.34%	3.56%	6.21%	9.32%	5.42%	6.46%
1 Week Price Chg	-7.23%	-19.20%	-16.96%	-14.07%	-60.08%	-24.42%
4 Week Price Chg	-30.40%	-30.40%	-15.70%	-15.76%	-63.73%	-29.31%
12 Week Price Chg	-38.57%	-44.83%	-23.67%	-30.14%	-76.26%	-54.59%
52 Week Price Chg	-49.49%	-57.14%	-13.99%	-32.73%	-79.79%	-53.55%
20 Day Average Volume	11,421,698	128,566	4,286,768	612,009	1,602,205	7,591,385
(F1) EPS Est 1 week change	0.00%	-0.85%	-0.15%	-0.85%	-14.52%	-34.91%
(F1) EPS Est 4 week change	0.11%	-7.77%	-2.28%	-3.45%	-47.40%	-41.49%
(F1) EPS Est 12 week change	-1.69%	-16.01%	-3.22%	-9.24%	-47.21%	-84.72%
(Q1) EPS Est Mthly Chg	0.81%	-36.75%	-1.60%	-7.03%	-323.44%	-7.88%

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	A
Growth Score	B
Momentum Score	A
VGM Score	A

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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