

Just wait'll we get our **Hanes** on you.

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# HANESBRANDS INC

## GOING COMMANDO

September 13, 2016

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PLEASE SUBMIT QUESTIONS\* TO

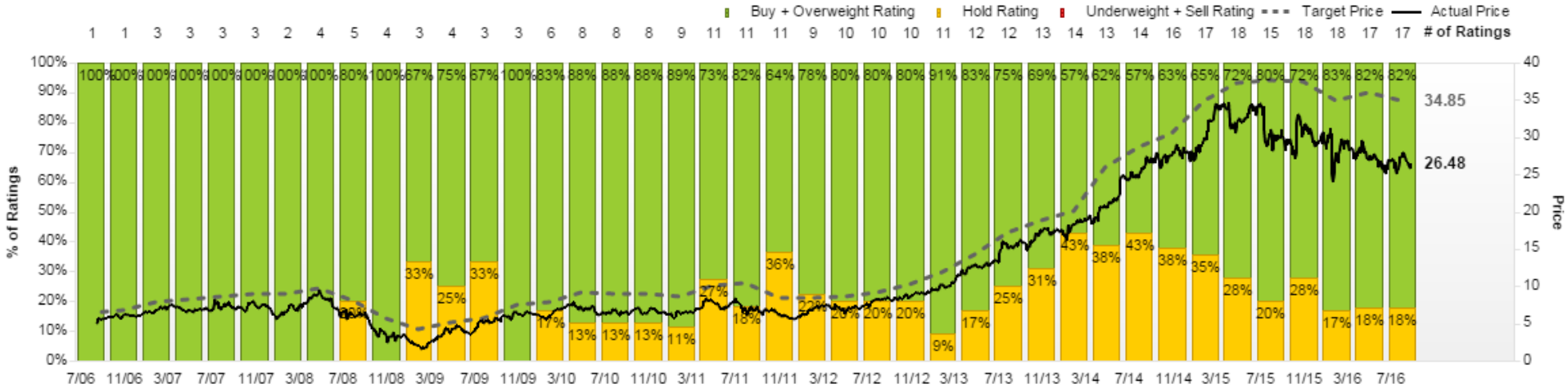
**QA@HEDGEYE.COM**

*\*ANSWERED AT THE END OF THE CALL*

# STILL CALLING IT LIKE WE SEE IT

- 1) Core business weakening. Barriers to entry falling.
- 2) Gildan pressuring low end, athletic giants and new boutiques pressuring high
- 3) Margins at Peak and **Headed 400bp Lower**
  - Utilization beyond peak (most retail analysts don't appreciate this leverage)
  - Input costs near trough and headed higher.
- 4) Tax rate unsustainably low
- 5) **Organic** EPS unlikely to grow again through the end of this decade
- 6) We're 19% below consensus next year, and  $\approx$  40% thereafter
- 7) HBI is the king of special charges, with GAAP EPS 30% below 'adjusted' EPS
- 8) 10 year CEO Rich Noll stepping down at what we think is the peak.
- 9) HBI is pretty good at Insider Selling too.
- 10) Accelerated deal activity: questionable brands, wrong time and wrong price
- 11) Balance sheet and valuation support is not what it used to be
- 12) Upside on a non-GAAP (i.e. fake) \$2.20 at 14 -15x is \$33. Downside on our \$1.50 is to about \$12 on 7.0x EBITDA. That's \$5 up, \$15 down.

# NEVER BEEN A SELL ON HBI



## HBI SELL SIDE RATINGS – NEVER A SELL

Though short interest has been rising (now 8.5% of the float), this is a very 'high-expectations' stock by the Sell-Side.

# FINANCIAL SUMMARY

HBI (Hanesbrands Inc.)

\$26.40

## Financial and Valuation Summary

*FY16 ends Dec 2016*

	3QE	2016E	2017E	2018E	2019E
<b>Hedgeye EPS (\$)</b>	<b>0.57</b>	<b>1.85</b>	<b>1.69</b>	<b>1.47</b>	<b>1.42</b>
Consensus (\$)	0.56	1.92	2.21	2.51	2.74
Variance %	0.9%	-3.5%	-23.4%	-41.3%	-48.1%
<b>Sales (\$MM)</b>		6,115	6,692	6,813	6,879
<b>EBIT Margin</b>		15.1%	13.5%	11.7%	11.2%
<b>EBITDA (\$MM)</b>		1,011	996	892	866
<b>FCF Per Share (\$)</b>		-1.77	0.84	1.05	1.06
<b>Book Value Per Share (\$)</b>		3.25	4.27	4.87	5.36
<b>Net Debt to Total Capital</b>		73.0%	64.9%	62.6%	61.3%
<b>P/E</b>		14.2 x	15.6 x	17.9 x	18.6 x
<b>EV/EBITDA</b>		12.6 x	13.7 x	15.2 x	15.4 x
<b>Price/Book</b>		8.1 x	6.2 x	5.4 x	4.9 x
<b>Cash Yield</b>		-6.7%	3.2%	4.0%	4.0%

## Targeted Valuation Range

	EPS %	P/E	Price	EV/EBITDA
2016E	11.8%	12.0 x	<b>22</b>	11.0 x
2017E	-8.6%	11.0 x	<b>19</b>	10.7 x
2018E	-13.0%	10.0 x	<b>15</b>	10.1 x
2019E	-3.6%	10.0 x	<b>14</b>	10.1 x

### Investment Thesis Snapshot:

1. Core business weakening at accelerated pace.
2. Utilization at peak, input costs at trough. Margins at all time highs.
3. Management incentivized to make mediocre acquisitions, and obfuscate real growth trend by taking 'special' charges.
4. Acquisitions are happening at dangerously high and very deceptive multiples. Australia is severely misunderstood = imminent risk.

# STAGES OF HANESBRANDS

Sara Lee  
Step-Child



Underwear  
Company  
12x PE & 7x EBITDA



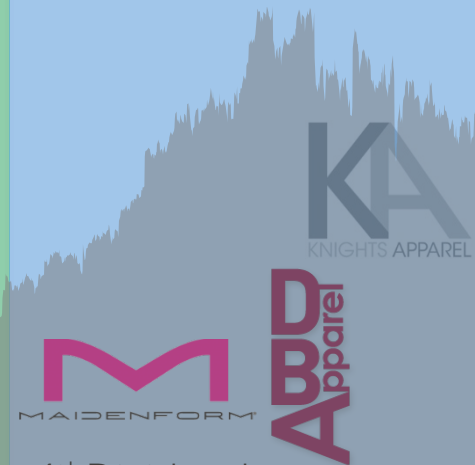
Spin-Off

Balance Sheet Fixer  
10x PE & 8.5x EBITDA



-Paid \$670mm in LT Debt-

Acquirer  
16x PE & 12x EBITDA



1st Dividend

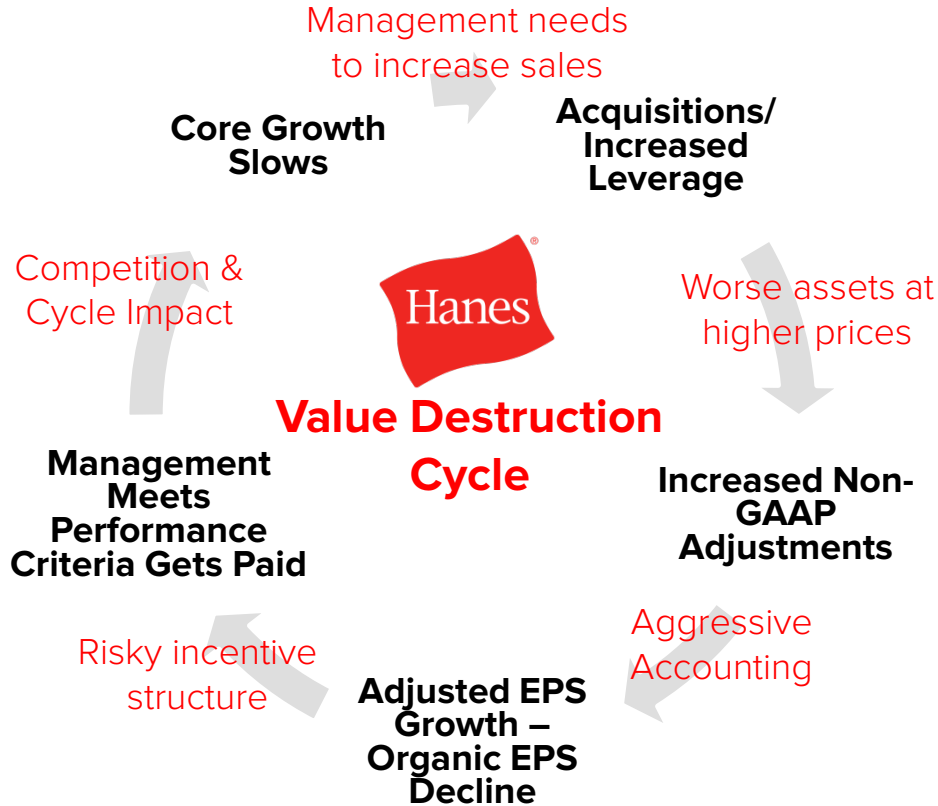
\$40  
\$35  
\$30  
\$25  
\$20  
\$15  
\$10  
\$5  
\$0

Sep-06 Nov-06 Jan-07 Mar-07 May-07 Jul-07 Sep-07 Nov-07 Jan-08 Mar-08 May-08 Jul-08 Sep-08 Nov-08 Jan-09 Mar-09 May-09 Jul-09 Sep-09 Nov-09 Jan-10 Mar-10 May-10 Jul-10 Sep-10 Nov-10 Jan-11 Mar-11 May-11 Jul-11 Sep-11 Nov-11 Jan-12 Mar-12 May-12 Jul-12 Sep-12 Nov-12 Jan-13 Mar-13 May-13 Jul-13 Sep-13 Nov-13 Jan-14 Mar-14 May-14 Jul-14 Sep-14 Nov-14 Jan-15 Mar-15 May-15 Jul-15 Sep-15 Nov-15 Jan-16 Mar-16 May-16 Jul-16 Sep-16

## HBI STAGES OVER TIME

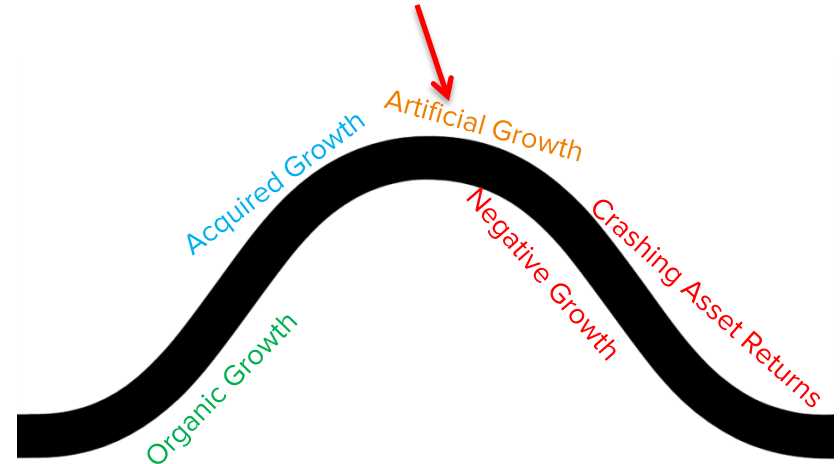
HBI has gone through several stages with showing a different MO, and getting very different valuation multiples.

# INTERNAL AND EXTERNAL CYCLE RISK



## Business Cycle: We Are Here...

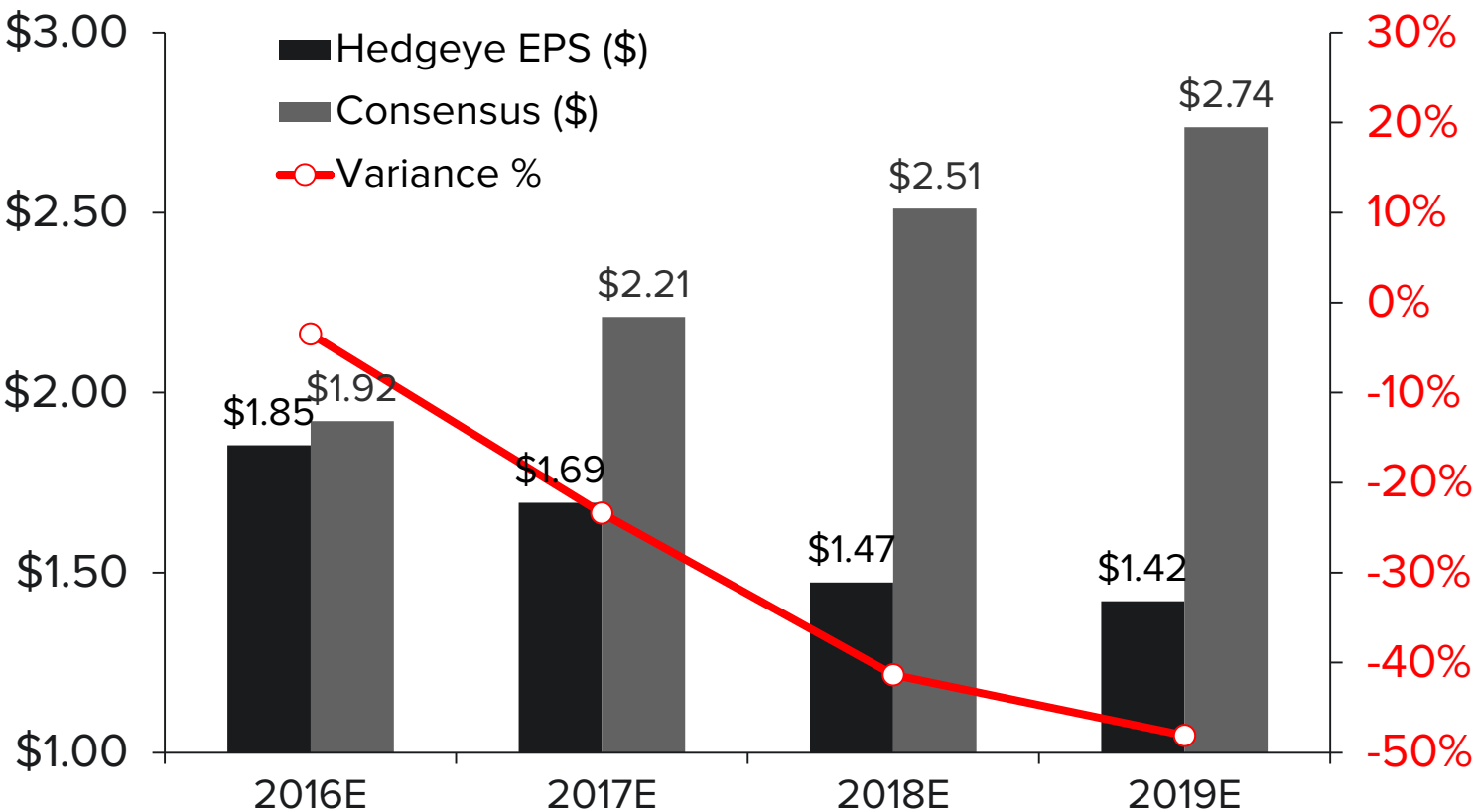
- Peak Margins
- Peak Utilization
- Trough Tax Rate
- Trough Cotton Price
- End of Economic Cycle
- Slowing Core Growth





# EARNINGS VARIANCE

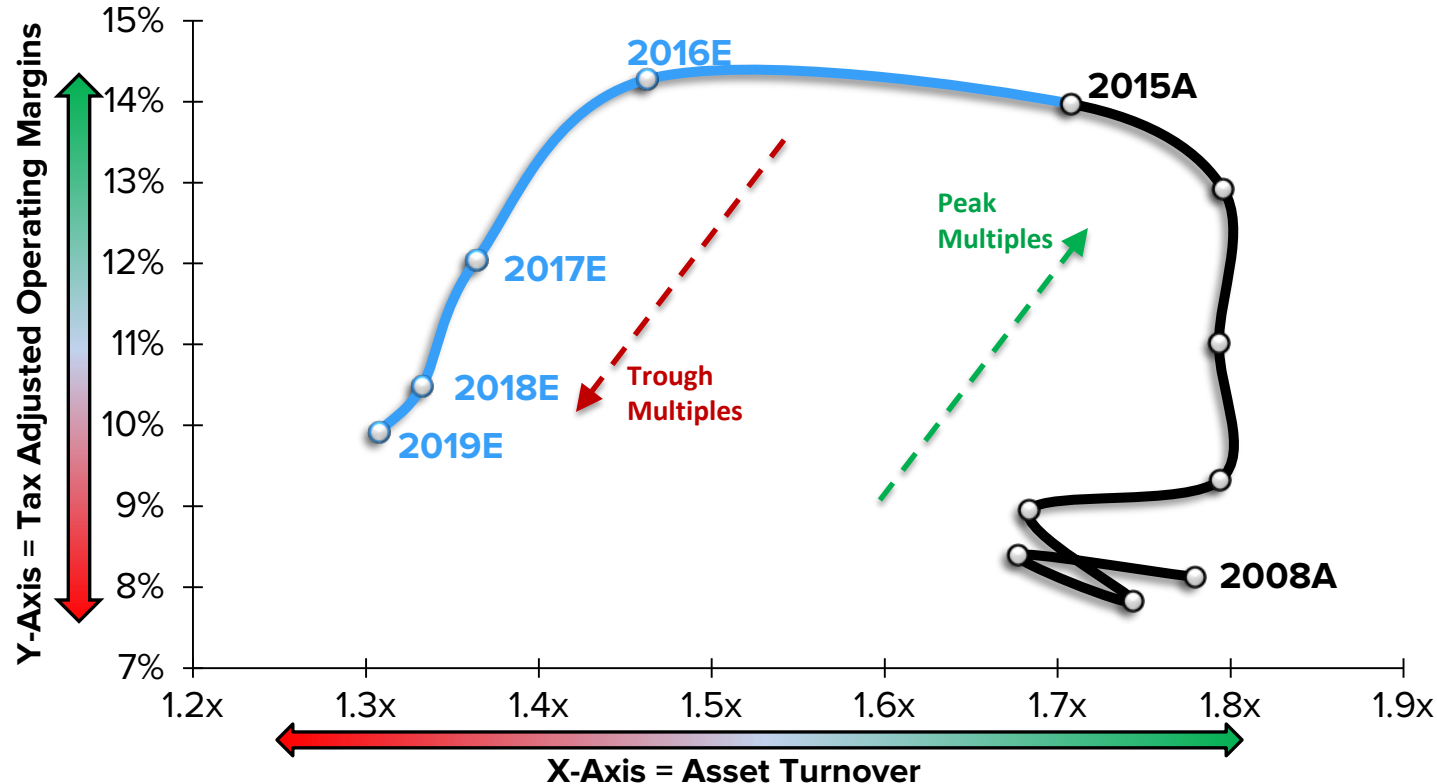
## HEDGEYE VS. CONSENSUS



44% below the street in out years.

# PROFITABILITY ROADMAP

## HBI: RNOA ANALYSIS



This analysis is absolutely critical for an acquisition-focused, asset-heavy company at peak margins.

Up and to the right = good, and down + to the left = bad.

**HBI = Very Bad**



N°1 AUX  
USA

**TOP LINE IS SLOWING**

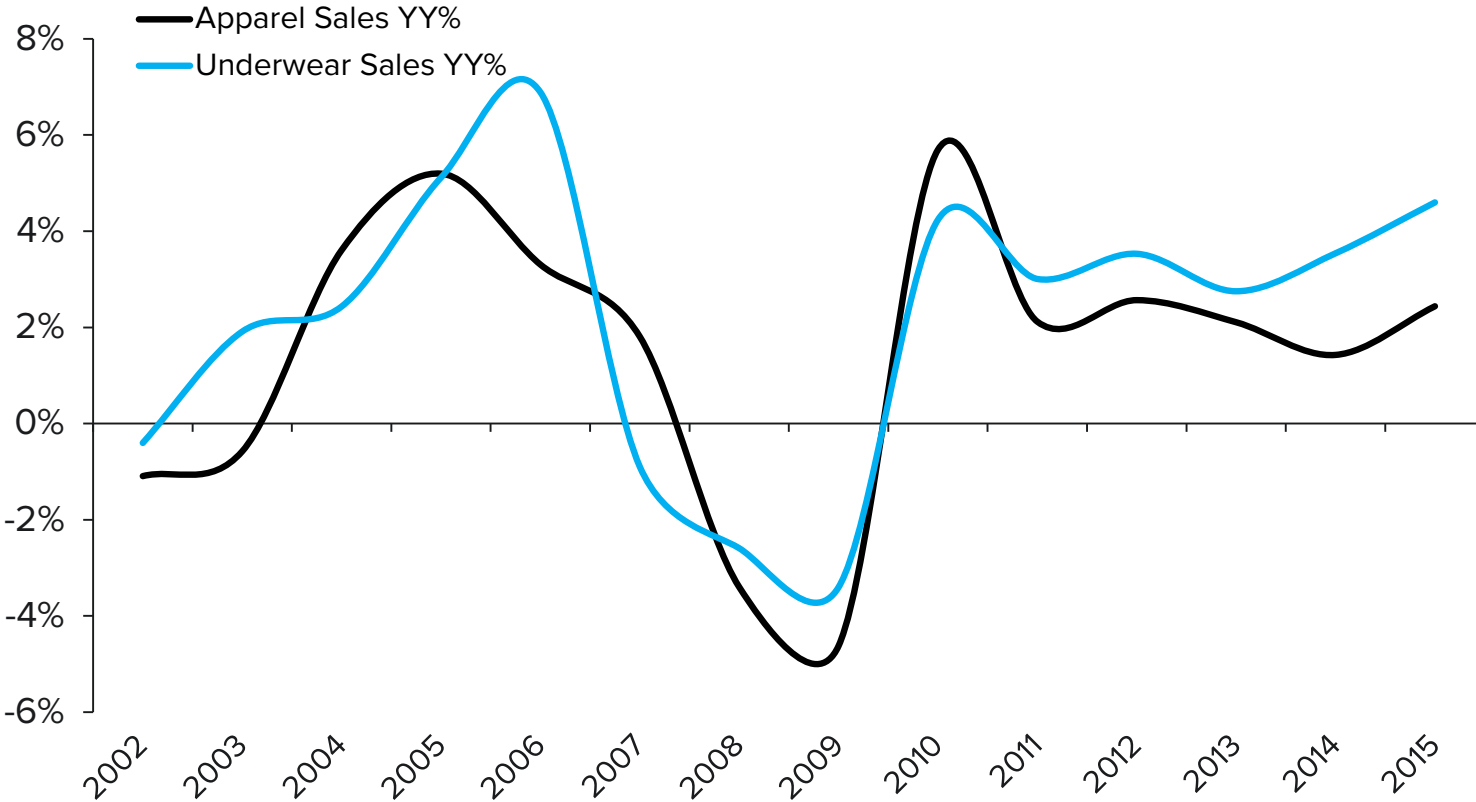


**GARANTI**  
*ou remboursé \**



# NOT A BAD INDUSTRY

## U.S. UNDERWEAR SALES VS APPAREL SALES

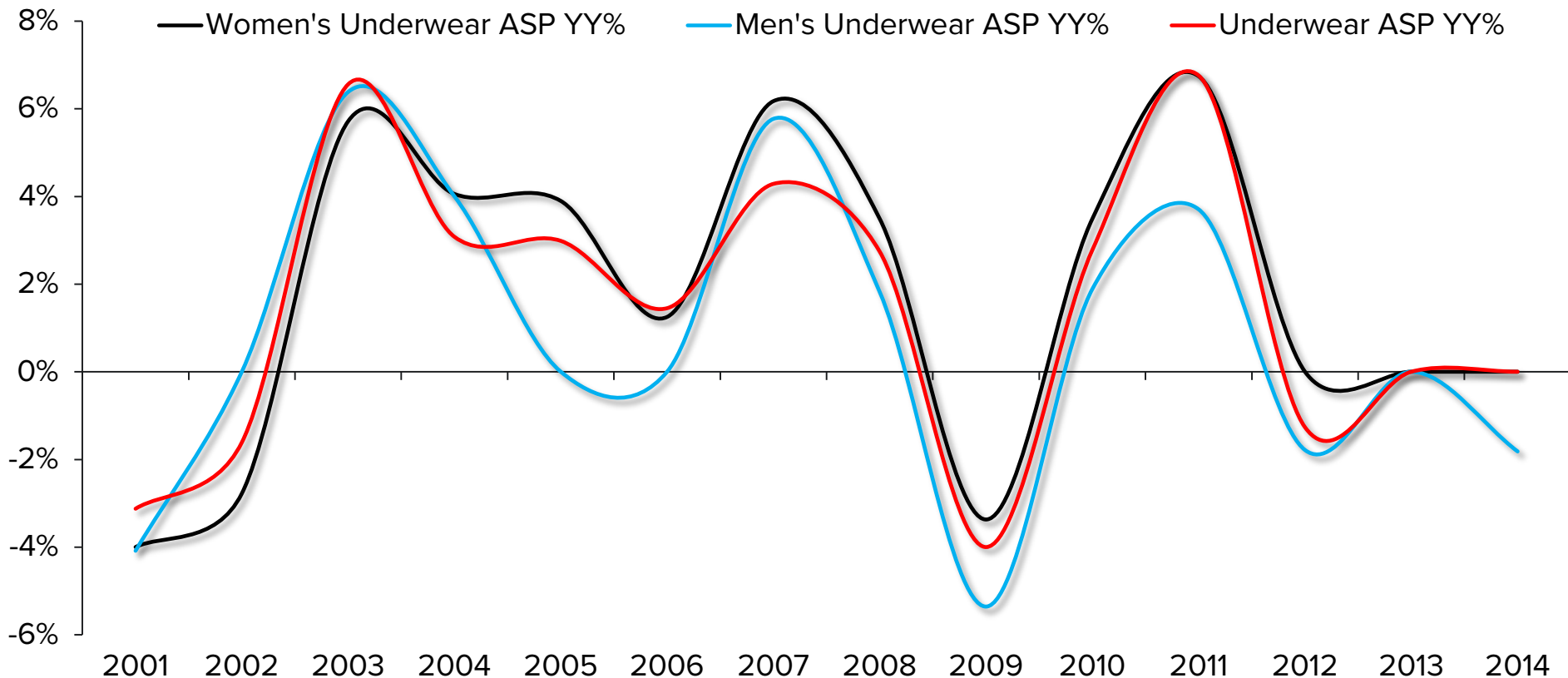


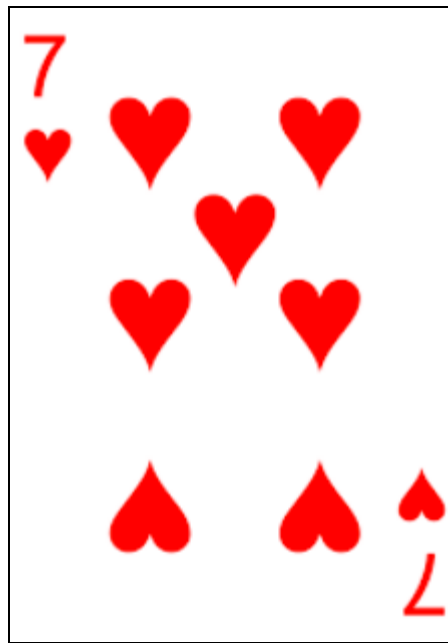
The U.S. has a \$16.9bn underwear market, only 6% of total US apparel sales.

Underwear sales growth has outpaced apparel for the last 5 yrs.

# GLOBAL UNDERWEAR ASP GROWTH

## GLOBAL UNDERWEAR ASP YY%





# LOW END MEN'S UNDERWEAR



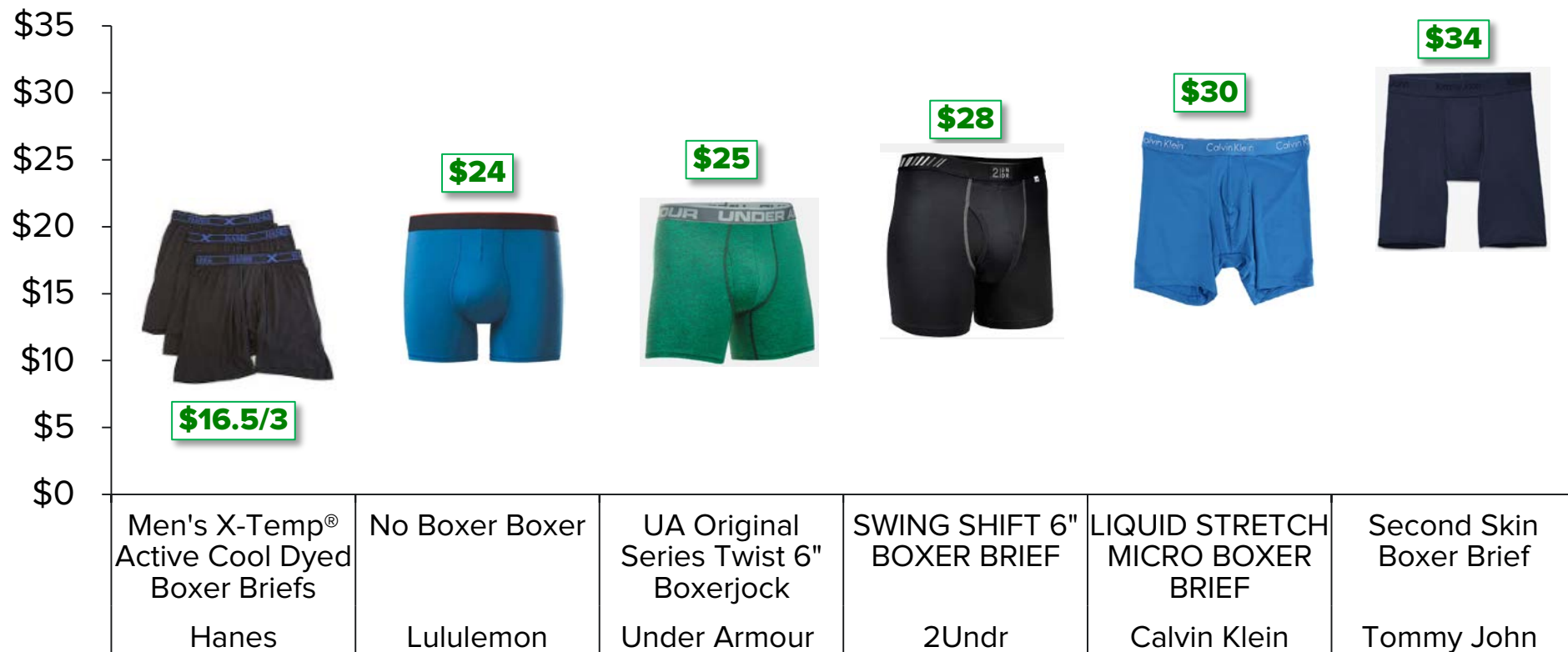
## COMPETITION GETTING TOUGHER

Several similar competitors at the low end.

Gildan launched branded underwear just 3 years ago, and is already at 9% unit share.

# HIGH END MEN'S UNDERWEAR

## MEN'S HIGH END BOXER BRIEF PRICES





# NEW PRODUCT, NEW CHANNEL

Suggested Post



**Mack Weldon**

Sponsored · 🌐



This is a picture of men's underwear.



There's a reason you're still looking at it...

[mackweldon.com](http://mackweldon.com)

[Learn More](#)



32 Comments 14 Shares



Like



Comment



Share

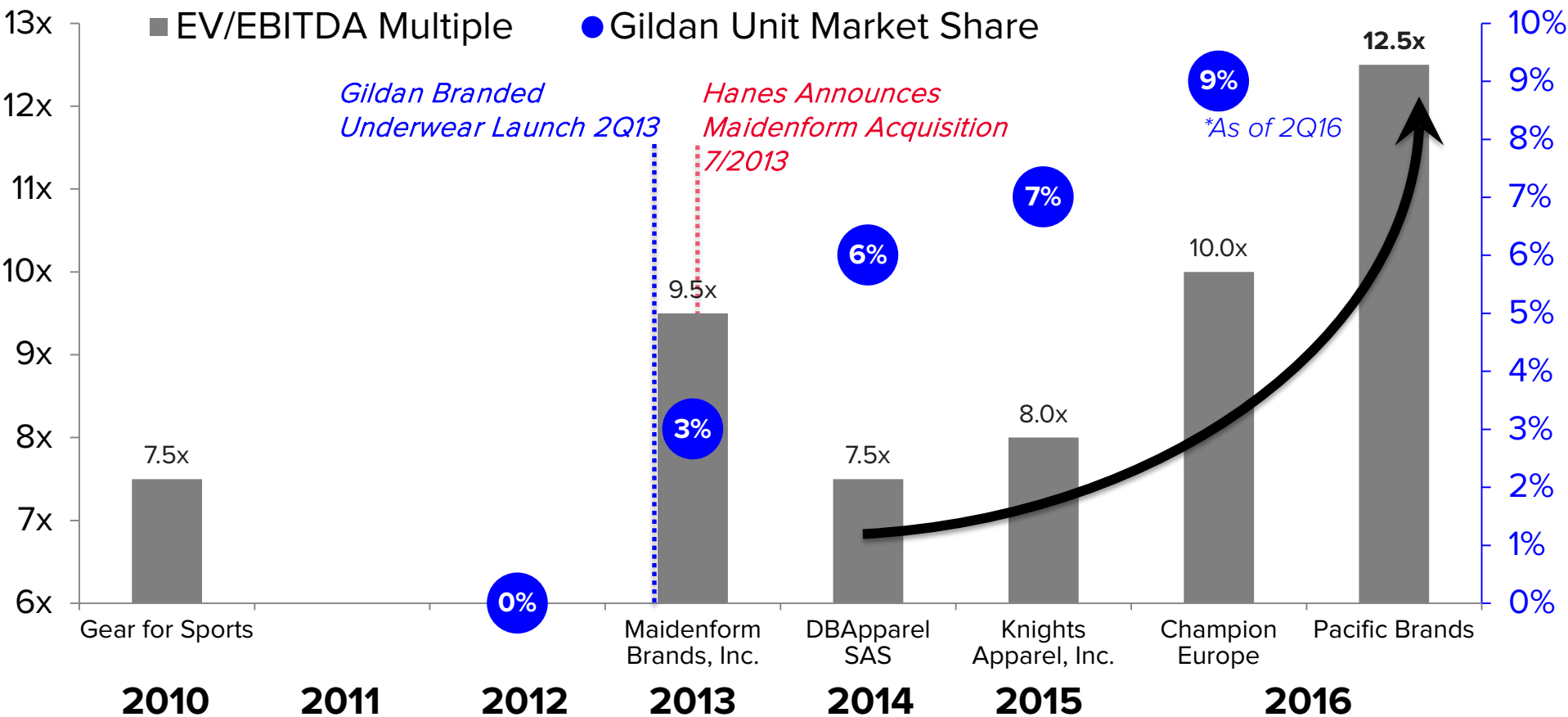


New media, de-facto marketing and sales channels are taking down the barriers to entry in this business.

Retails for \$24-\$28

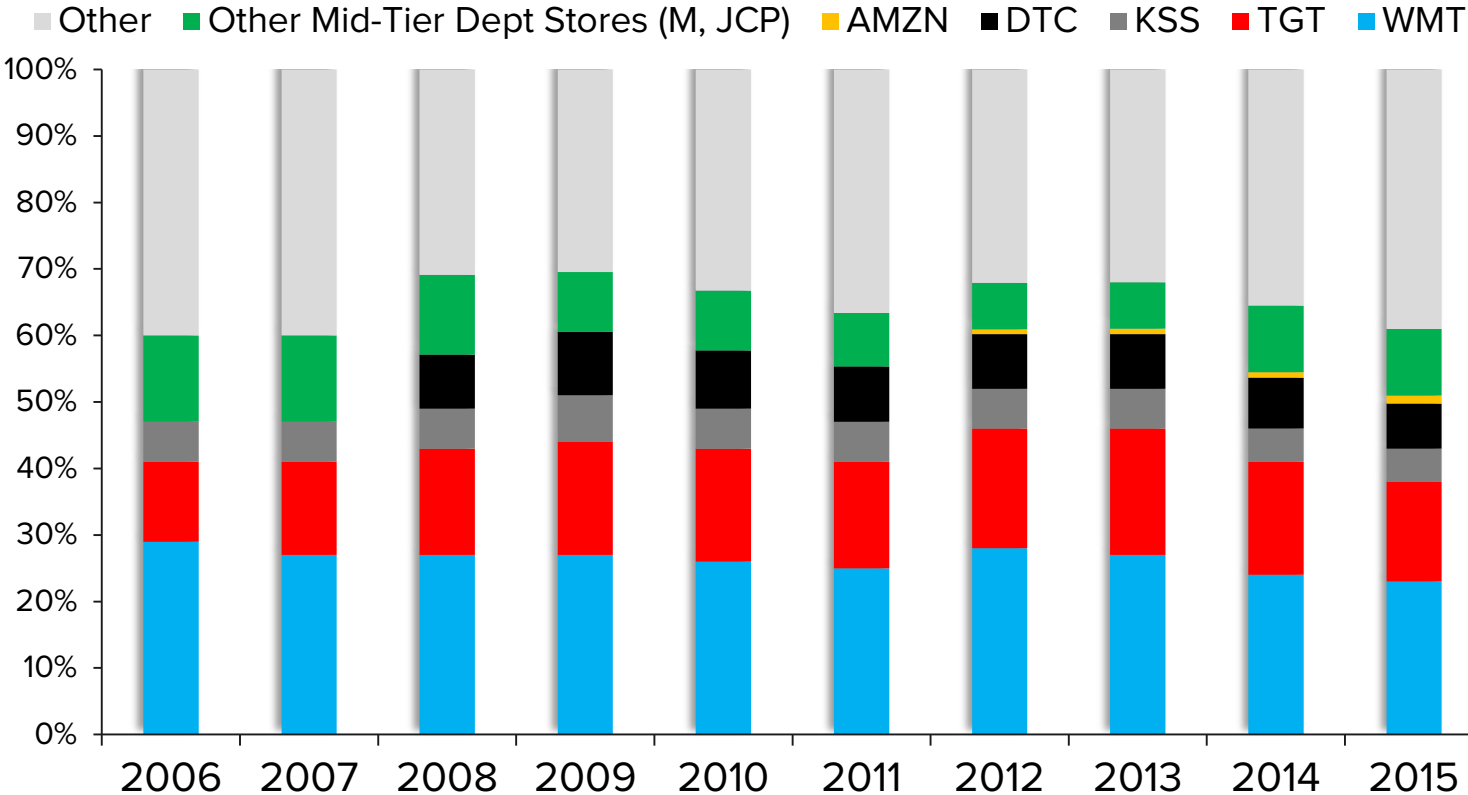
If this was an add for Hanes, people probably would not click. Why? Bc it's Hanes.

# HBI DEAL MULTIPLES VS GIL UNDERWEAR SHARE



# CUSTOMER/CHANNEL BREAKOUT

## HBI CHANNELS - % OF TOTAL SALES

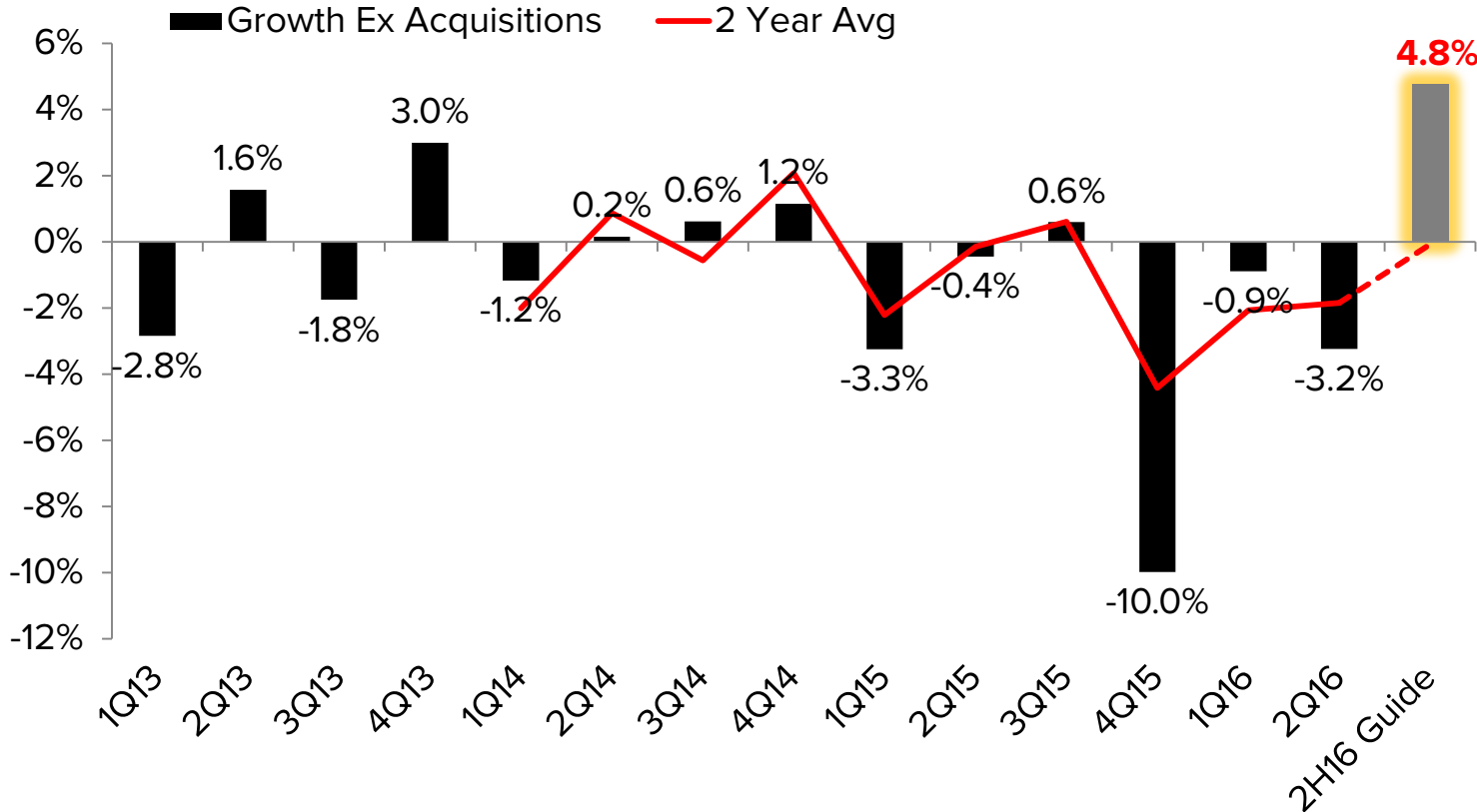


Traditional  
wholesale  
channels shrinking  
as sales go online.

WMT	23%
TGT	15%
KSS	5%
JCP	5%
M	4%
\$ Stores	10%
AMZN	1.2%
DTC	6.7%
Int'l	25%
Other	5%

# ORGANIC GROWTH SLOWING

## HBI GROWTH EXCLUDING ACQUISITION \$



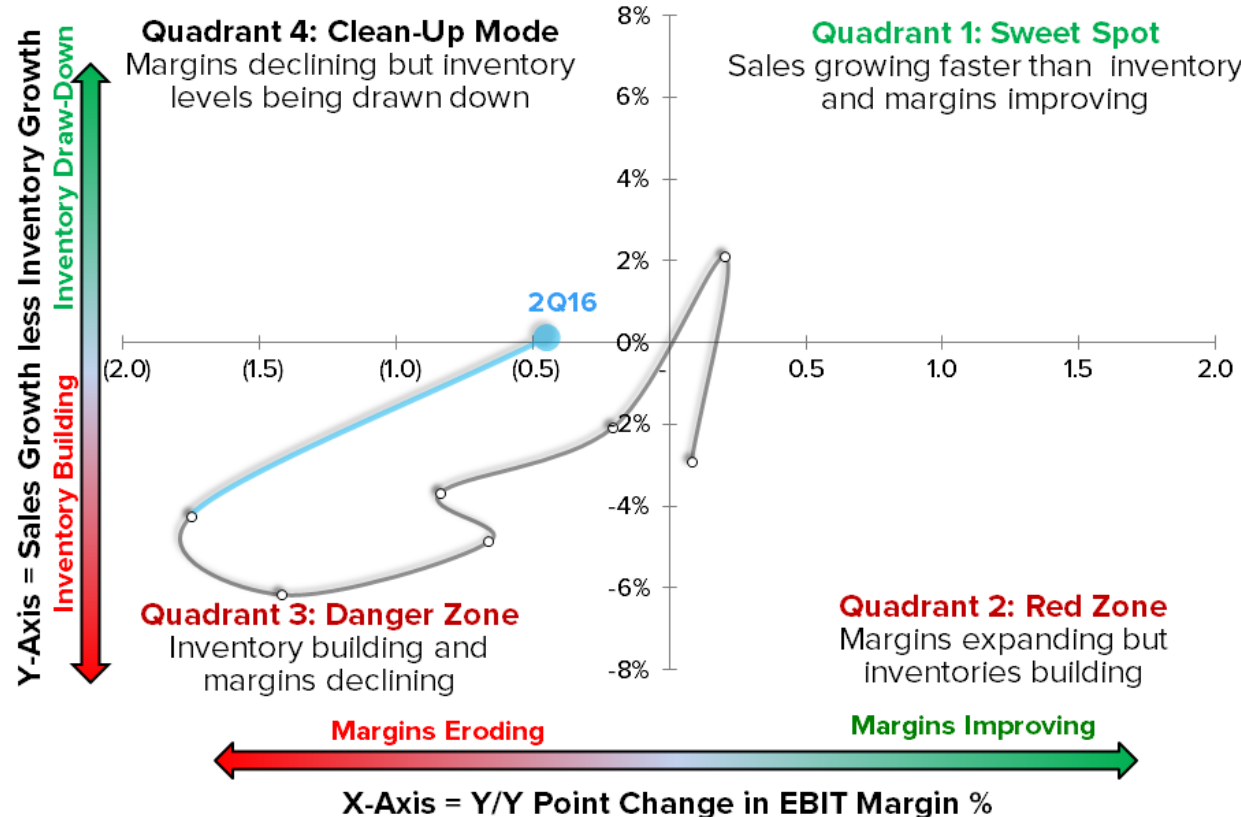
We're seeing lower peaks and lower valleys in the core business... And this has not been in a recessionary period.

2H expectations are high. We think management may be downplaying acquisition benefit as a cushion.

WMT BETTER be restocking

# CORE CUSTOMERS ARE/WERE IN BAD SHAPE

## SOFTLINE RETAIL INDUSTRY SIGMA



Inventory position is improving, and there is a call out there that WMT is restocking. That's only half right.

Import growth is near 0% with the usual July pickup absent this year.

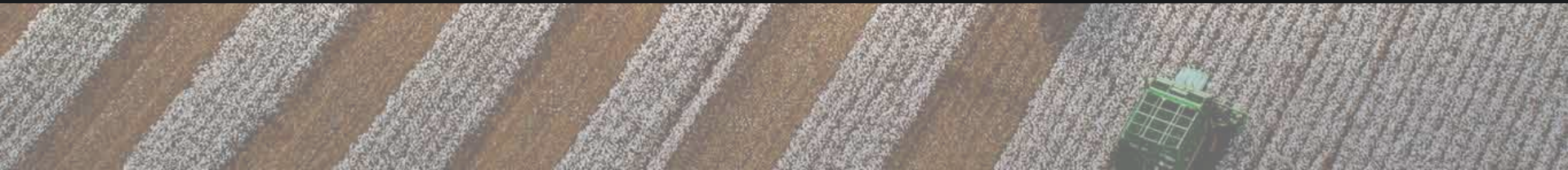
GIII noted weak seasonal ordering hurting revenue.

Profitability is still down... Should HBI be at Peak margins???

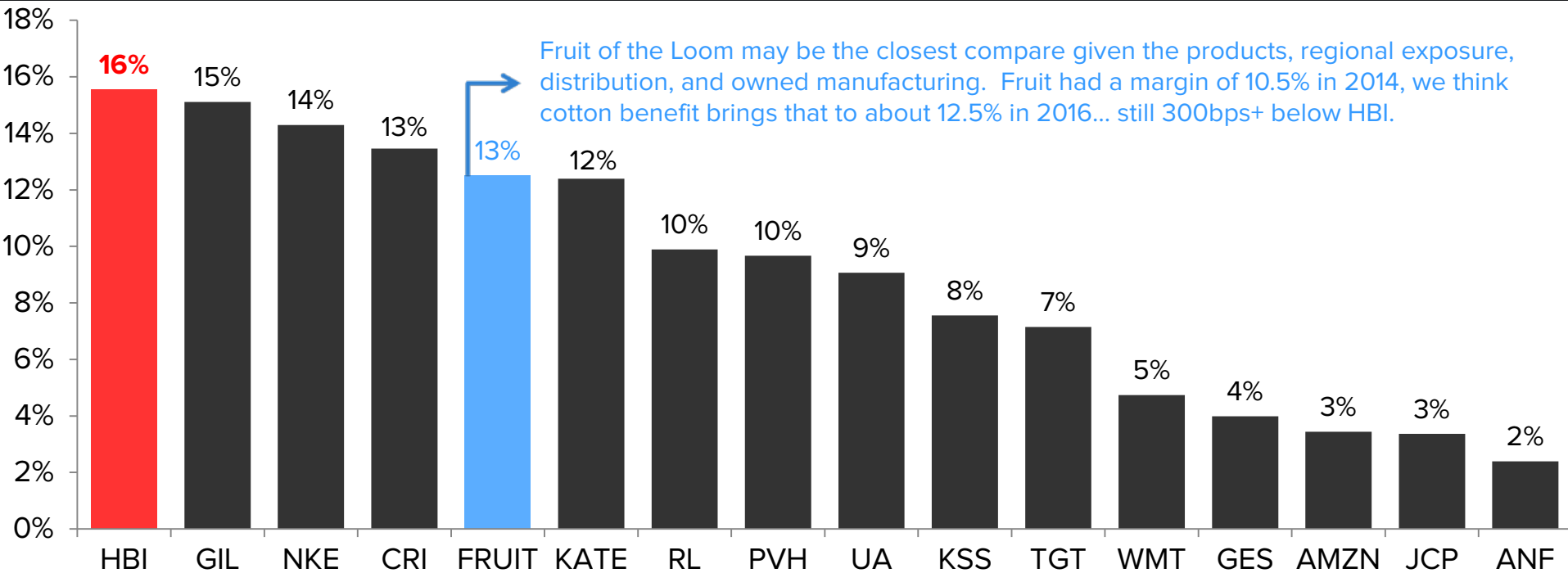




**MARGINS HEADED LOWER**



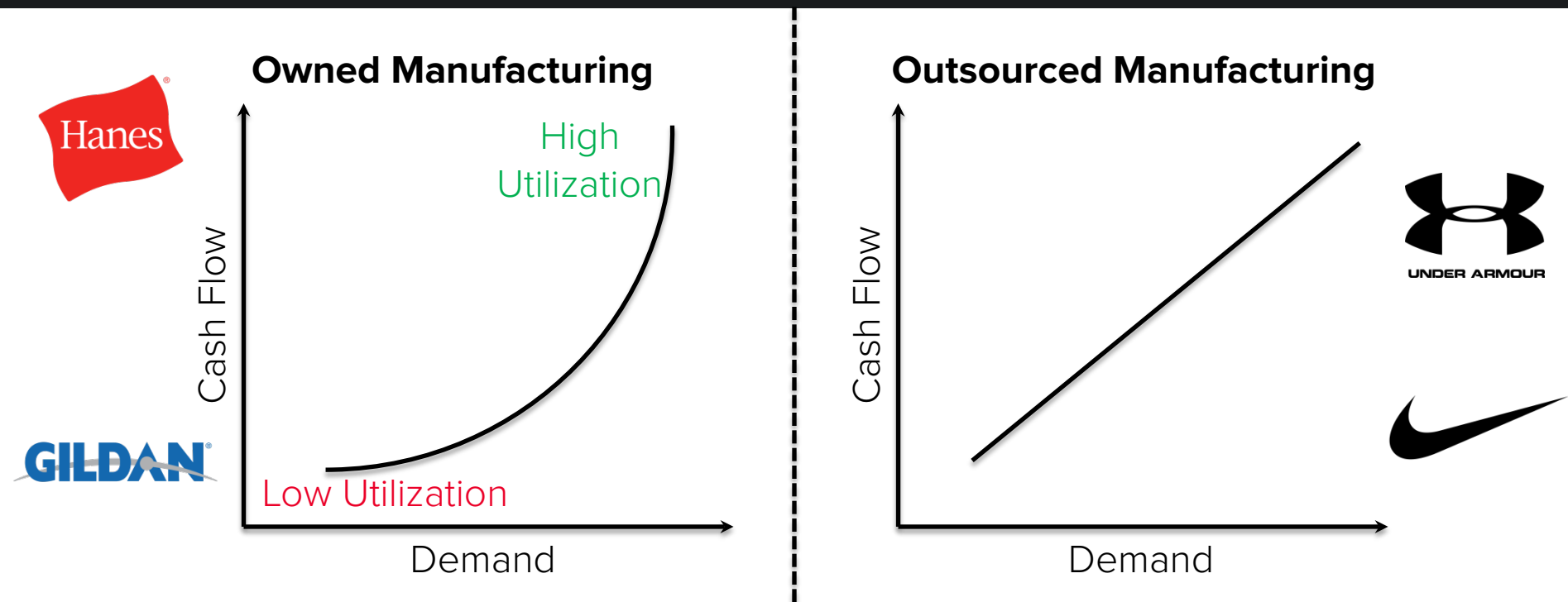
# UNPRECEDENTED MARGINS



## NTM EBIT MARGIN

HBI has a demonstrably higher than the following companies – UA, RL, PVH, GES, CRI, ANF, KATE, and yes – even NKE.

# HIGH CASHFLOW RISK AT PEAK UTILIZATION



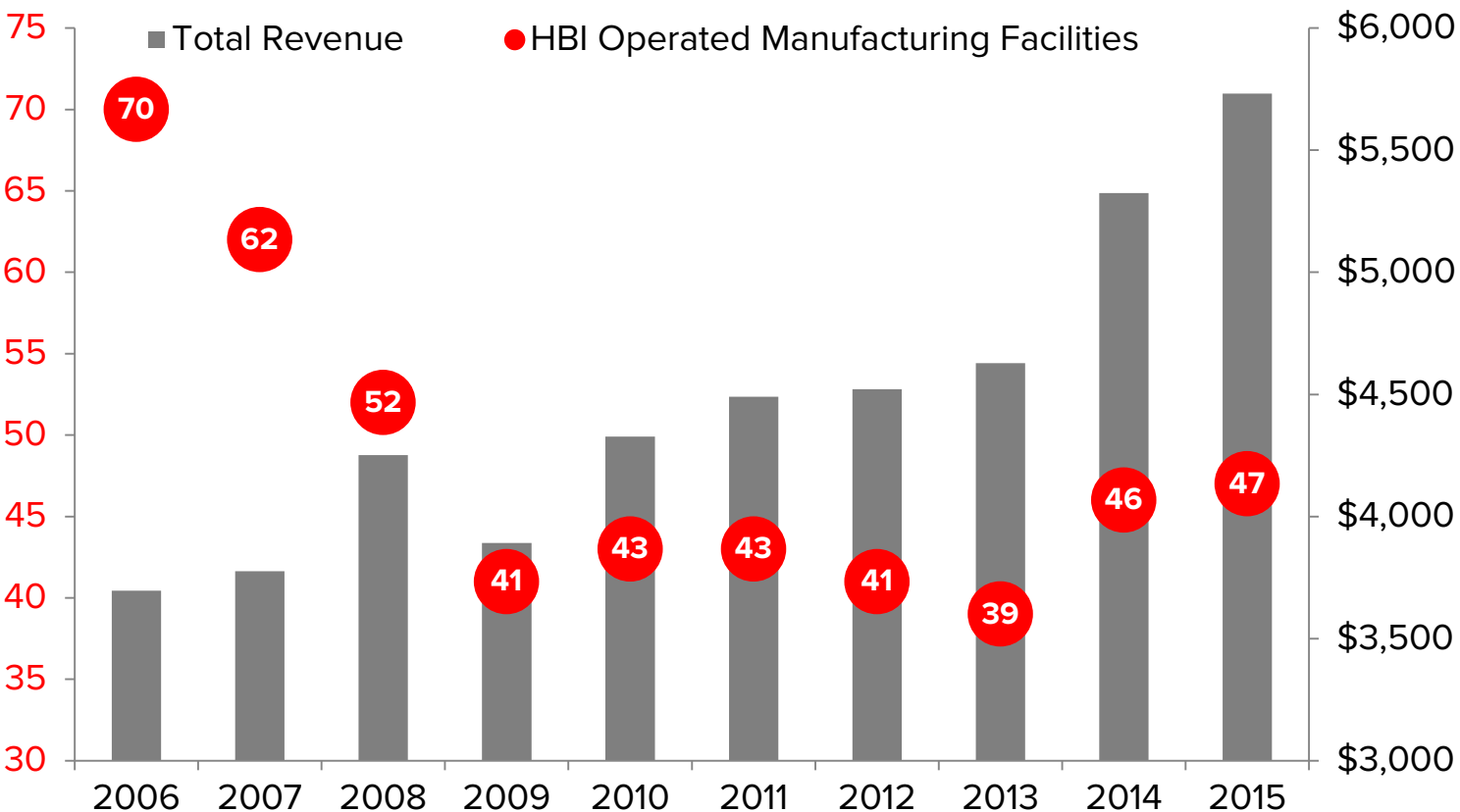
## DEMAND AND CASH FLOW OF MANUFACTURING MODELS

We need to think of the asset base as a cross between a Consumer Non-durable and an Industrial hypercyclical like CAT.



# FACTORY COUNT DOWN, REV UP

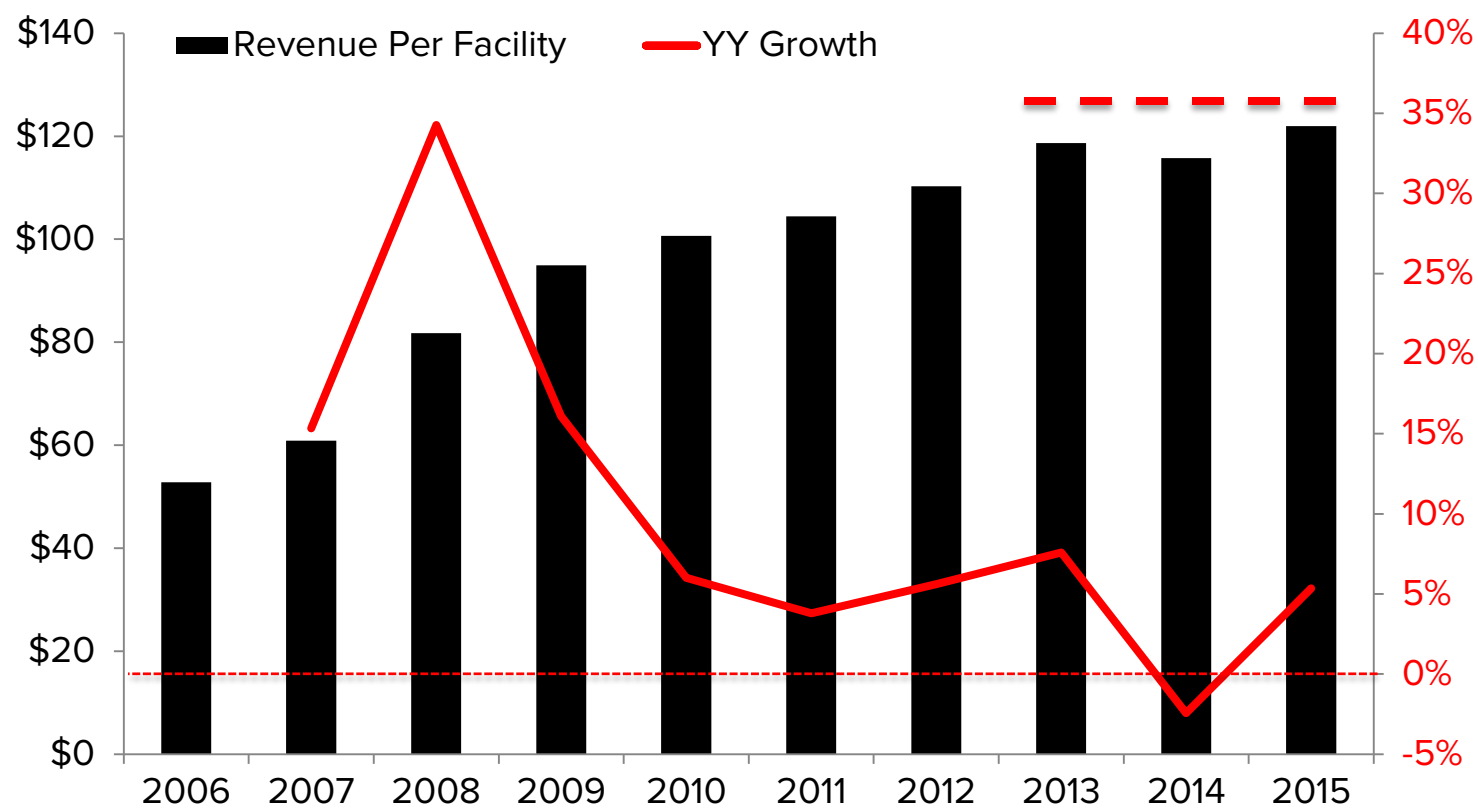
## REVENUE AND HBI FACTORY COUNT



The company clearly got much more efficient after its IPO.

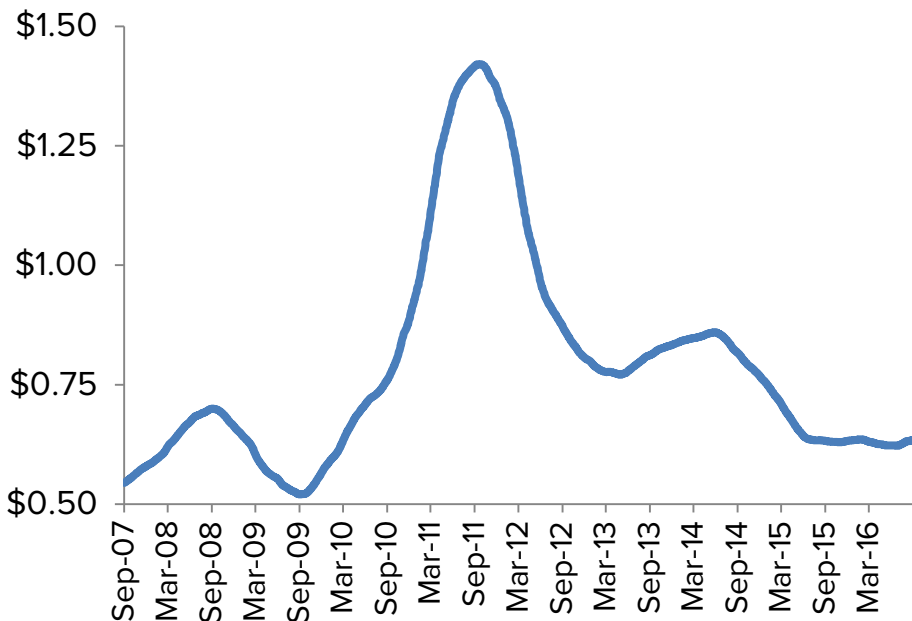
# FACTORY PRODUCTIVITY

## FACTORY PRODUCTIVITY



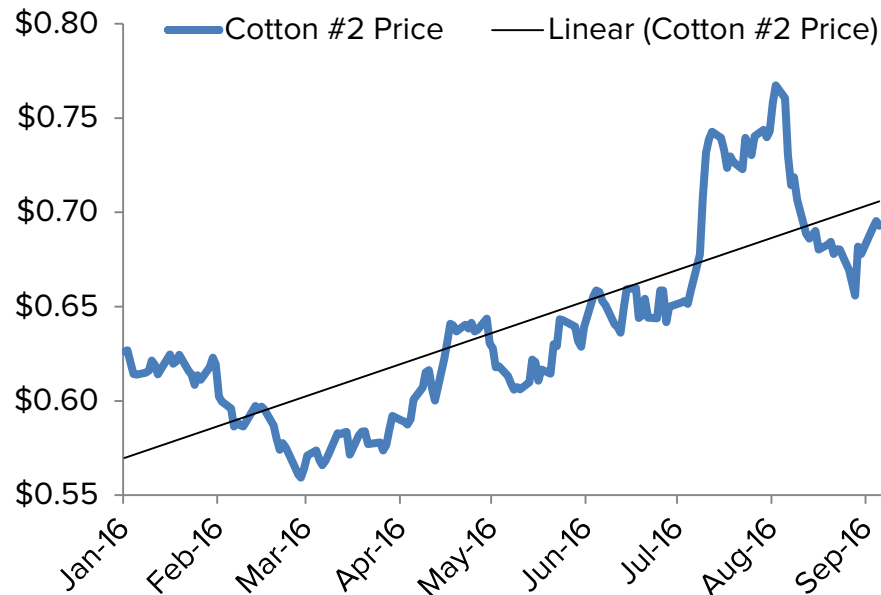
Productivity, as measured by rev per factory, is up 125% in a decade, but has clearly started to flatten out.

# COTTON TRENDS



## COTTON #2 TTM AVG PRICE

Cotton appears to have found a bottom. The tailwind should be fully recognized, as **price changes take 4-5 quarters to flow through to the P&L** due to hedging and the production process



## YTD PRICE – TRENDING UP

Cotton prices have been climbing year to date. **A 10% move in cotton will have a 40-60bps impact to gross margin.** On July 2Q call Gildan mgmt. implied that current levels warrant price increases in 2017 (ie margin pressure).

# HOW MUCH IS THE COTTON COST?

## EXAMPLE: PRICE BREAKDOWN OF A SHIRT

### FOB Model



**\$20**



**End Retail: \$20**

**Wholesale: \$10**

**FOB: \$5.25**

Materials: \$2.50

Labor: \$0.75

Transport: \$0.75

Duties/Other: \$0.50

Factory Profit: \$0.75

**Brand Profit: \$4.75**



UNDER ARMOUR

### Vertically Integrated (HBI)



**\$10**

Hanes

**End Retail: \$10**

**Wholesale Price: \$5**

**FOB: \$0**

**Vertical Costs**

Materials: \$1.25

Labor: \$0.75

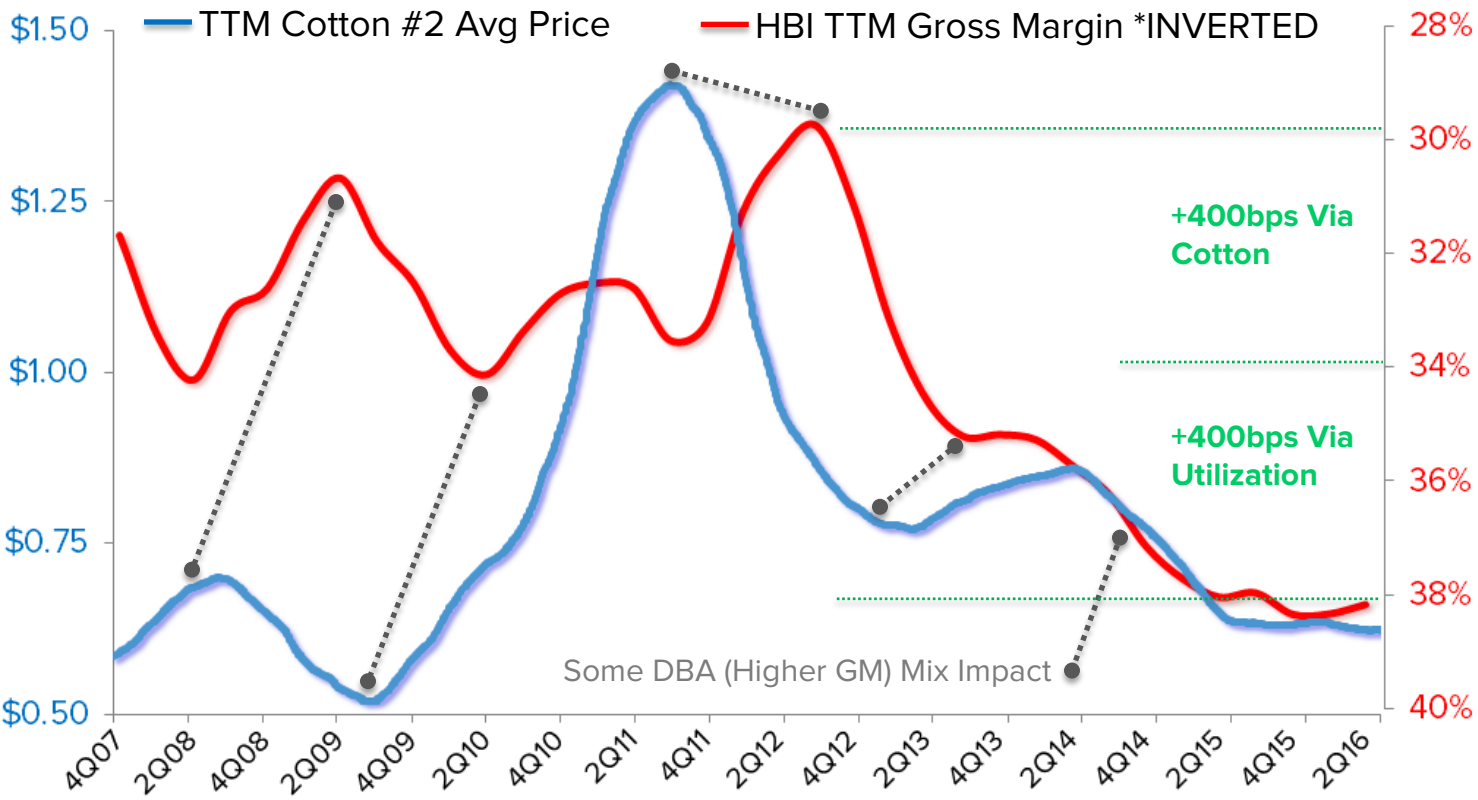
Transport: \$0.50

Duties/Other: \$0.25

**HBI Profit = \$2.25**

# THE COTTON CORRELATION

## COTTON VS GROSS MARGIN



Back when cotton was at similar prices, margins were still ~400bps below today.

Half of the move from 2012 trough was cotton, half from supply chain efficiency with increased utilization.

About a 12month lag to hit the P&L.

# INNOVATION TIMELINE



Michael Jordan introduces the ComfortSoft® undershirt



2003- Tagless T

2005- Perfect Panty

2006- ComfortSoft

2007- All-Over Comfort Bra

2008 - Lay-flat Collar

2012- Instant Slimmer underwear

2012- Innovate-to-elevate introduced

2013- X-Temp

2015- ComfortFlex Bras

2016- Fresh IQ

HANES  
Brands Inc

Jennifer Love Hewitt introduces All-Over Comfort bras



# RELATIVE INNOVATION IS WHAT MATTERS

2 | UN  
DR

HIGH PERFORMANCE MEN'S ATHLETIC UNDERWEAR



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THE JOEY POUCH™



MEN'S BUCK NAKED PERFORMANCE BRIEFS



SALE

DULUTH  
TRADING  
CO.



X-TEMP™  
When you're cool, you're comfortable.

Tommy John®



MYPAKAGE  
BY JOEY PITS

SHOP PRODUCT #PERMISSIONTOPLAY BLOG ENTROURAGE ABOUT US LOCATIONS



THE KEY TO OUR COMFORT STORY

Our Keyhole Comfort Technology uses a 3-dimensional pouch that makes MyPackage the most comfortable, best fitting underwear. Ever.

FIND OUT MORE



## MENS PERFORMANCE UNDERWEAR BRANDS ARE PLENTIFUL

UnderArmour was the pioneer in mens performance underwear, now there are dozens of gimmicky brands. Unlike years past where you needed manufacturing assets, now you need a design and link to Asia.



# INNOVATE-TO-ELEVATE

## PRODUCT IN INNOVATION PIPELINE STRONGER THAN EVER?



2012- Instant Slimmer underwear: uses Novarel yarn tech to reduce appearance of cellulite

- Maidenform shapewear tiny caffeine capsules embedded in it to promote fat destruction
- Resulted in class action lawsuit claiming false advertising



2016- Fresh IQ: Odor-control technology designed to mechanically attack bacteria

- Is anti-odor or antimicrobial really new?
- We can't find specifics on how this new tech works.



Designed to adapt to  
your temperature & activity



Comfortable  
performance gear



Advanced odor  
protection technology

...any real innovation since tagless?



A man in a dark suit and white shirt is shown from the chest up. He has a serious expression and his eyes are squinted. The collar of his white shirt is wrinkled. The background is a light blue and white geometric pattern.

Hanes

home

men

women

kids

A collar that lays flat.  
That's the Hanes® Comfort Fit Promise.

**BEHAVIORAL CONSIDERATIONS**

# COMPENSATION FUELS THE FIRE

## MANAGEMENT PERFORMANCE CRITERIA

### Compensation Discussion and Analysis

#### 2015 Performance Criteria

The Compensation Committee chose to use sales growth, earnings per share growth excluding actions ("EPS-XA"), and cash flow from operations as performance criteria for our named executive officers' 2015 performance-based pay opportunities, as follows:

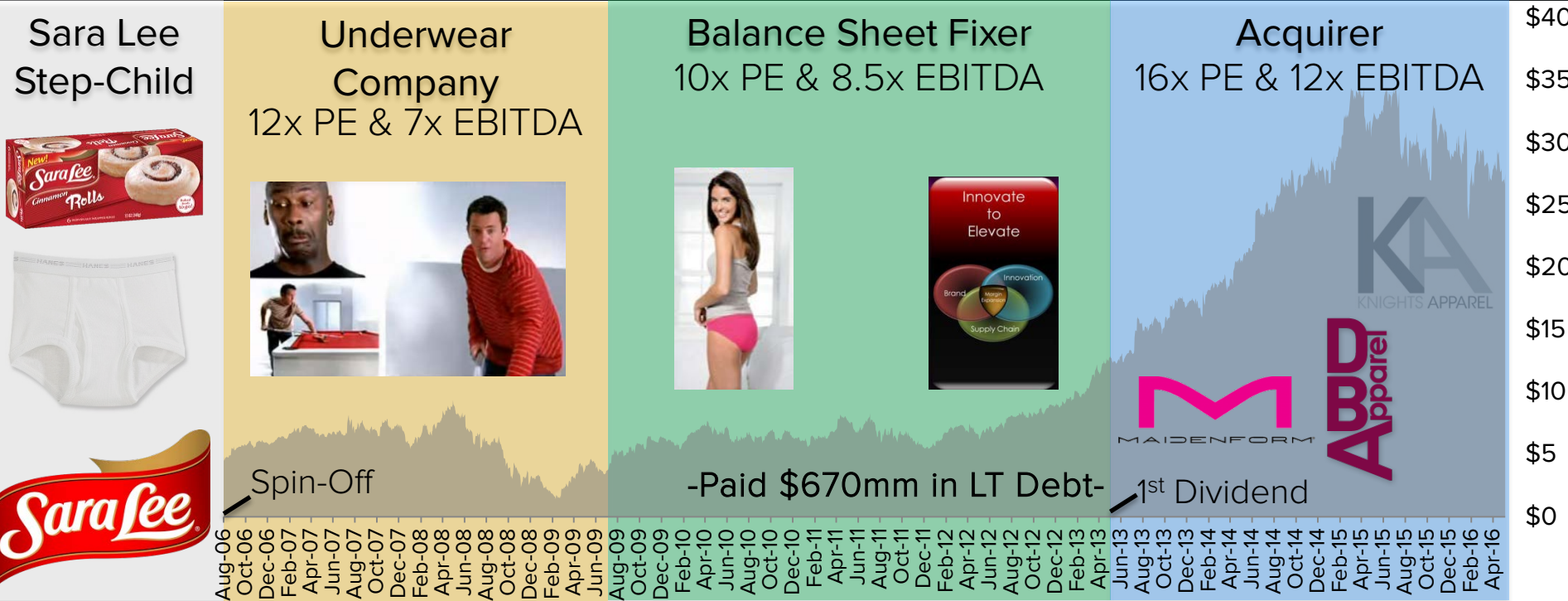


60% of incentive compensation is directly benefitted by the rate of acquisition and the magnitude of charges.

The price and quality of acquisitions has minimal significance in the short to intermediate term.

CHANGES OVER TIME	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sales	20%	20%	25%	25%	25%	20%	20%	20%	20%	20%
Operating Profit			75%							
NOPAT	80%	80%								
EPS Ex Actions				75%	75%	40%	40%	40%	40%	40%
Cash Flow From Operations								40%	40%	40%
Free Cash Flow (CFFO - Capex)						40%	40%			

# STAGES OF HANESBRANDS (AGAIN)

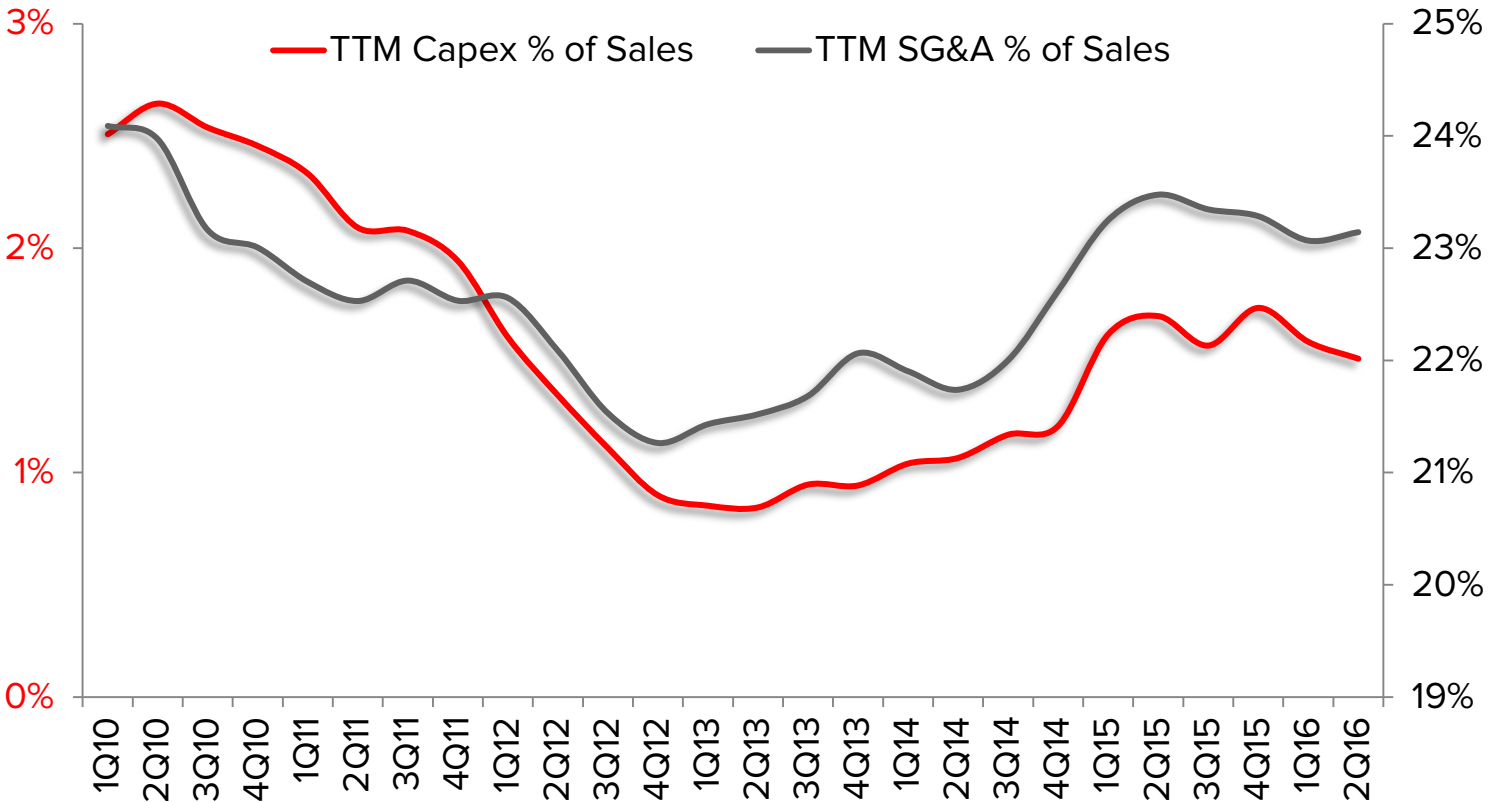


## LET'S LOOK AT THIS AGAIN ...

Let's look at this again in the context of HBI's capex spend.

# ORGANIC INVESTMENT SLOWING

## CAPEX AS % OF SALES

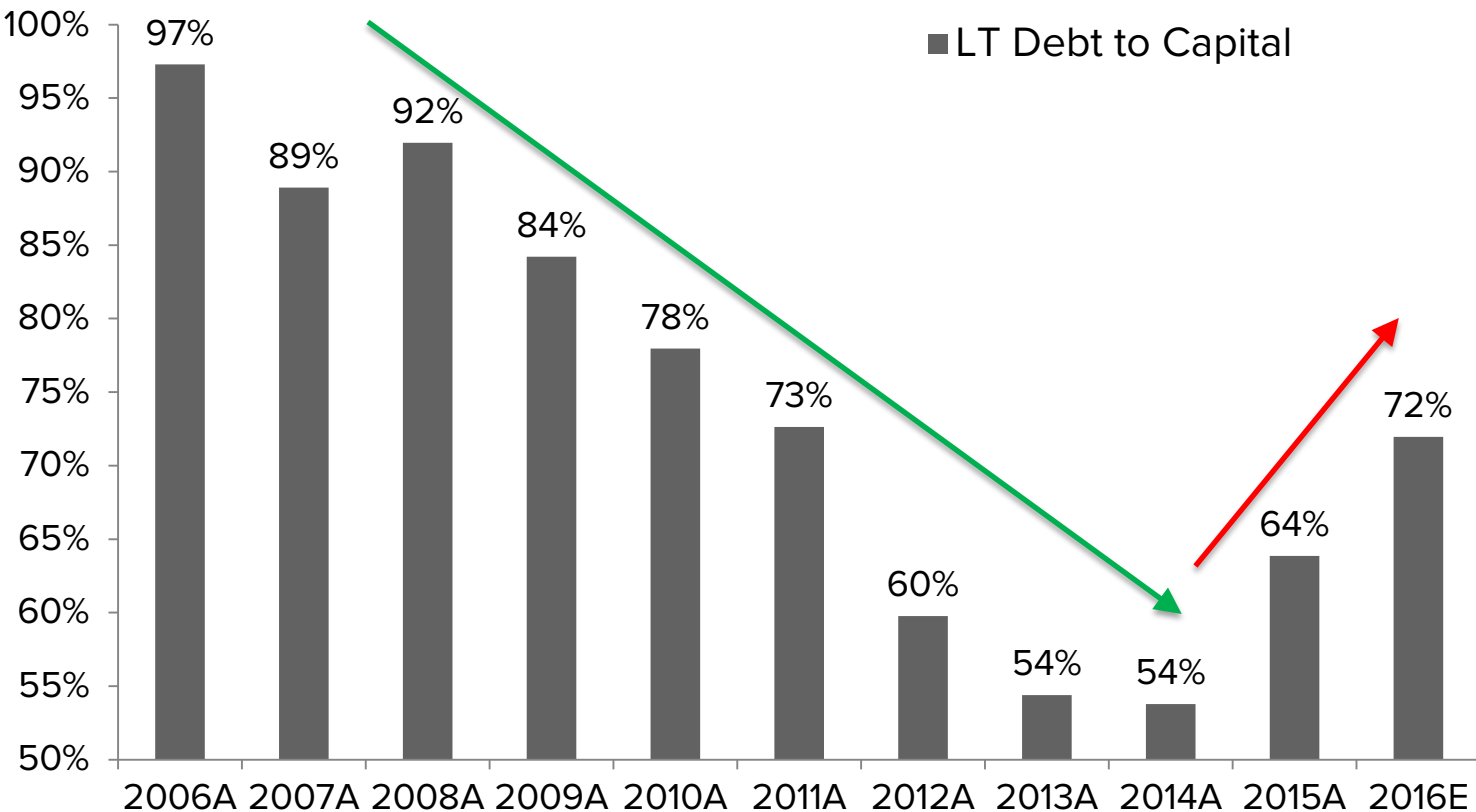


When acquisition activity kicked into high gear, capex started to decline materially.

Is this the new JNY?

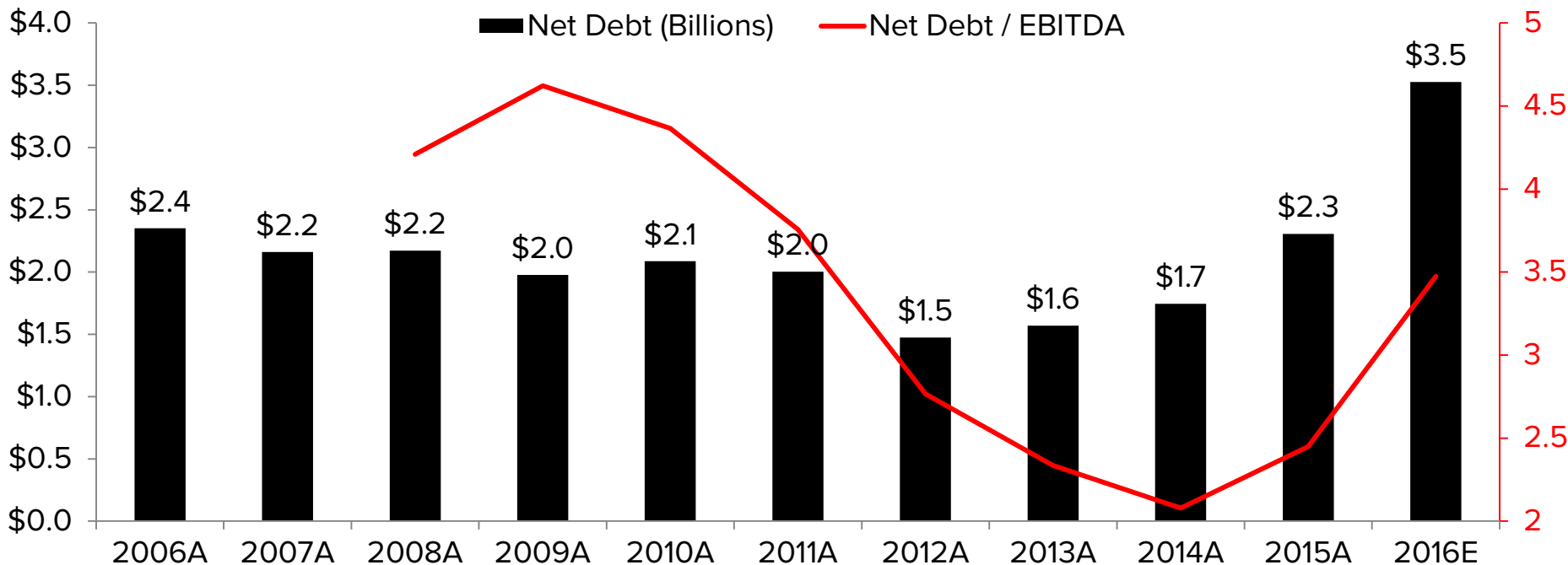
# BALANCE SHEET TEMPORARILY IMPROVED

## HBI LEVERAGE SINCE IPO



This used to be a great deleveraging story...

# INCREASING LEVERAGE AT CYCLE END



## NET DEBT TO EBITDA SINCE IPO

Company borrowed in Q1 to buy back stock, announced 2 acquisitions for ~\$1.05bn, then did 2 debt offerings. We could argue on GAAP #s HBI is in violation of its debt covenants. Dangerous for equity value heading into recession.

# DECEPTIVE DEAL DETAILS

## HBI Reported Deal Valuation

10x EBITDA

## Pacific Brands Reported Deal Valuation

12x EBITDA

## Hedgeye Estimate (Including Divestitures)

12.5x EBITDA

### Pacific Brands Press Release

- 21.3x F16 P / E, 13.9x F16 EV / EBIT and **12.0x F16 EV / EBITDA** based on broker consensus estimates<sup>2</sup>

### Hanesbrands Press Release

The transaction is valued at approximately US\$800 million on an enterprise-value basis, or slightly more than **10 times projected calendar 2016 EBITDA (for all businesses)**, and would pay Pacific Brands shareholders AUD1.15 per share.

*“Clearly, everybody can calculate the trailing 12-month multiples. What we wanted to provide was line of sight into what we believe the earnings power is for calendar 2016 for the total Company and use that multiple, since that is generally how stocks are valued...*

*If you actually go and look at consensus earnings down there for Pac Brands and actually extrapolate that to calendar 2016, you will see a multiple that is right about 11 because they have been growing pretty substantially...*

*We actually think they can do a little bit better than that. They have been handling foreign exchange and prices and stuff like that, and so we get to a multiple that is just slightly over 10.*

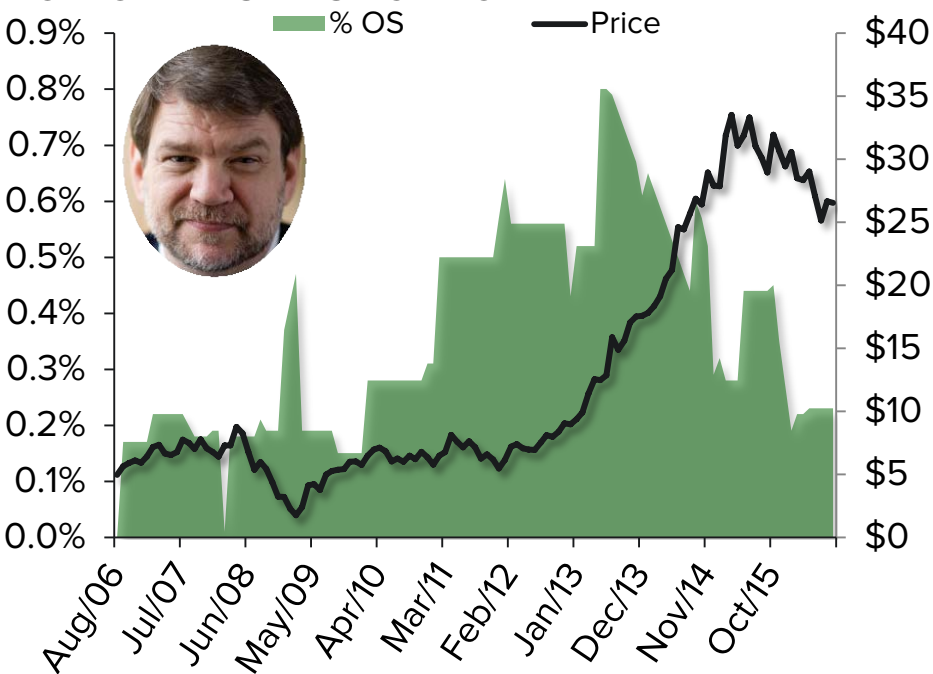
HBI reported a 10x Multiple for the deal.

Pacific Reported a 12x multiple.

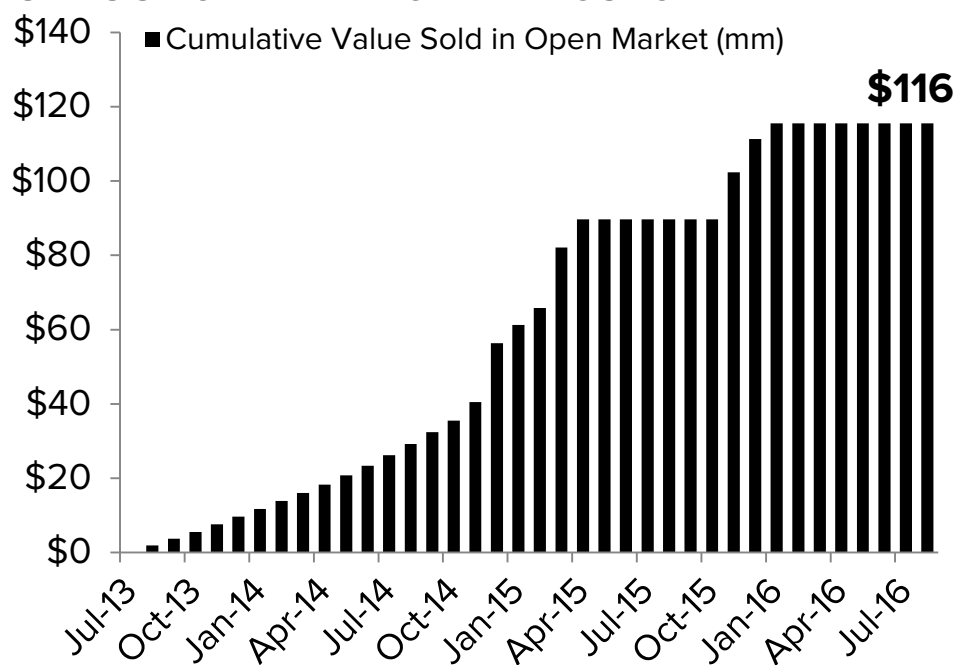
We estimate the Real Multiple is more like 12.5x

# RICHARD NOLL HBI OWNERSHIP %

## NOLL OWNERSHIP SINCE IPO



## SALES SINCE MAIDENFORM ANNOUNCED



## NOLL SELLING STOCK

Noll owned 0.8% of the company in 2013 ... now owns just 0.2% after selling at the highs. Now he is stepping down from his CEO position at age 58, after cashing in \$116mm.





**No Ride Up Panties**

that fit your every curve

**100% comfort guarantee**

**EXPECTATIONS**

# ACQUISITION BUMP, BUT TOUGH 2H

## Acquisition Impact

### 2016

Revenue: \$365mm

Adjustments: \$100mm in charges

EBIT: \$20-25mm in EBIT

Interest: \$30mm

EPS: +\$0.04 with lower tax rate

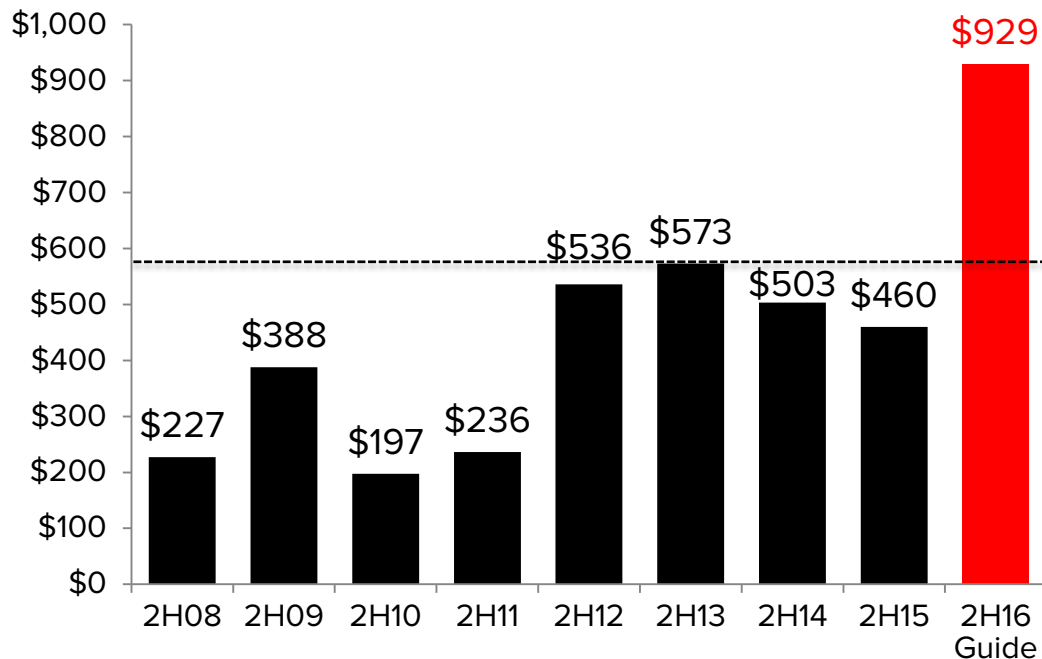
### Annualized

Revenue: ~\$820mm

EPS: \$0.07, +4%

Price: \$1.03bn

## 2ND HALF CASH FROM OPS

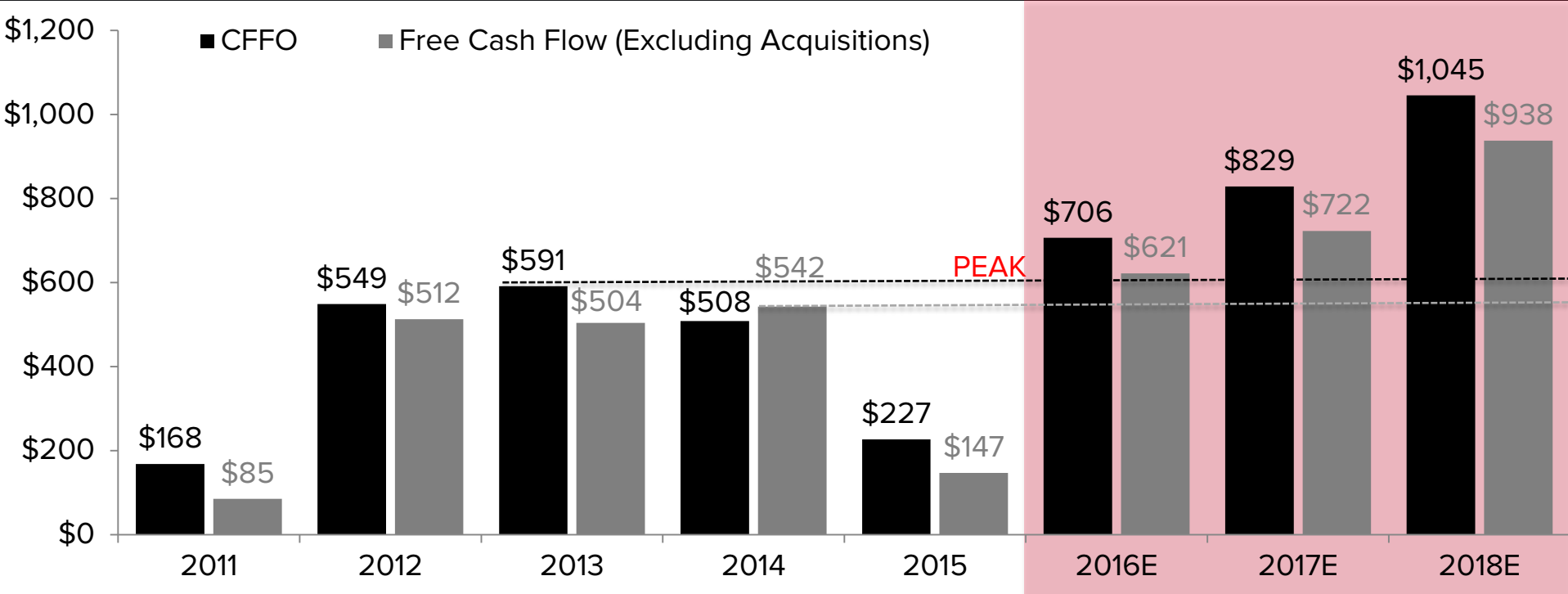


## OVERVIEW OF REVISED GUIDANCE AFTER ACQUISITIONS

Expensive deal for minimal near term benefit.

Expectations for second half cash flow are unprecedented.

# BIG TAIL CASH FLOW EXPECTATIONS



## OPERATING AND FREE CASH FLOW HISTORY/EXPECTATIONS

Expectations for over \$900mm in FCF, or \$2.45 per share?

That's 9.4% FCF Yield today, on a fictitious number three years out that likely won't happen.



**CATALYST – AUSTRALIA?**

# THE AUSTRALIAN BUBBLE



**One Trick Pony** – ~ 30% of Australian GDP revolves around building, selling, and financing property.

**Over-construction** - There's 15x as many res. construction cranes in Australia per capita as the major cities of N.A.

**King of the Bubbles** - Australia's **real** home prices rose +120% between 1Q90 and 4Q14. Canada (another short) rose +67% over the same time.

**Timing Matters** - Over-supply at a tipping point with demand waning

## HEDGEYE FINANCIALS SHORTING AUSTRALIAN HOUSING & BANKING

The Australian economy is facing a worse housing bubble than the US saw in 2008, with even greater implications for the consumer. HBI due diligence was questionable assessing this market.

# HOME EQUITY WITHDRAWAL

## AUSTRALIA

The IMF (Klyuev and Mills) and the Australian Housing and Urban Research Institute (Ong) find HEW to have been **13-15%** of disposable income in any given year during 2001-08.

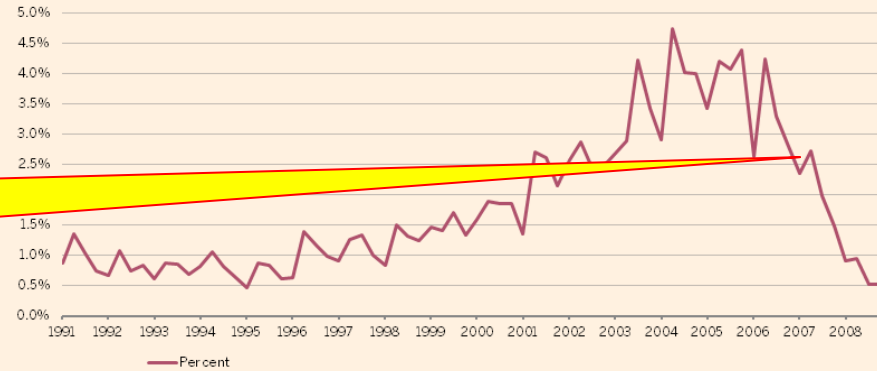
USA saw a 400bps disposable income growth headwind from HEW decline

Source: Melbourne Institute  
[https://www.melbourneinstitute.com/downloads/hilda/Bibliography/Other\\_Publications/2013/Ong\\_et\\_al\\_Assets\\_debt\\_and\\_the\\_drawdown\\_of\\_housing\\_equity\\_by\\_an\\_ageing\\_population.pdf](https://www.melbourneinstitute.com/downloads/hilda/Bibliography/Other_Publications/2013/Ong_et_al_Assets_debt_and_the_drawdown_of_housing_equity_by_an_ageing_population.pdf)

## UNITED STATES

HEW reached a peak of **4~4.5%** consumer's spending in the US in 2004-2006.

Share of consumer spending financed by home equity withdrawals  
(Home improvements and other personal consumption)



Source: James Kennedy, Matthew Klein's calculations

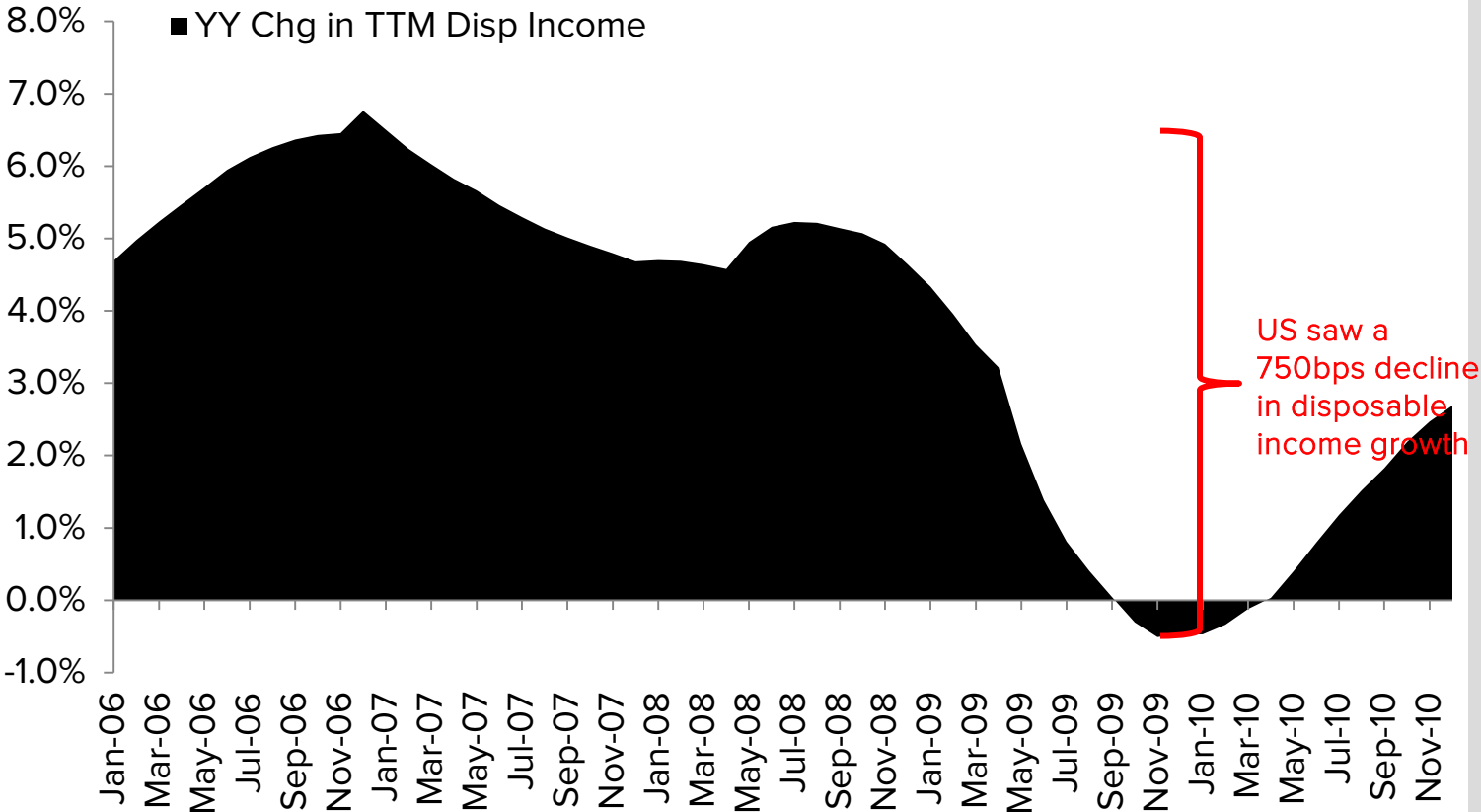
Source: Financial Times

## AUSTRALIANS HAVE BEEN SUPPLEMENTING THEIR INCOME FOR A LONG TIME

IMF estimates find that Australian Home Equity Withdrawal has been fueling as much as 13-15% of disposable income from the 2001-2008 period – the period evaluated in the study.

# DISPOSABLE INCOME DOWN 750BPS

## US DISPOSABLE INCOME IN RECESSION

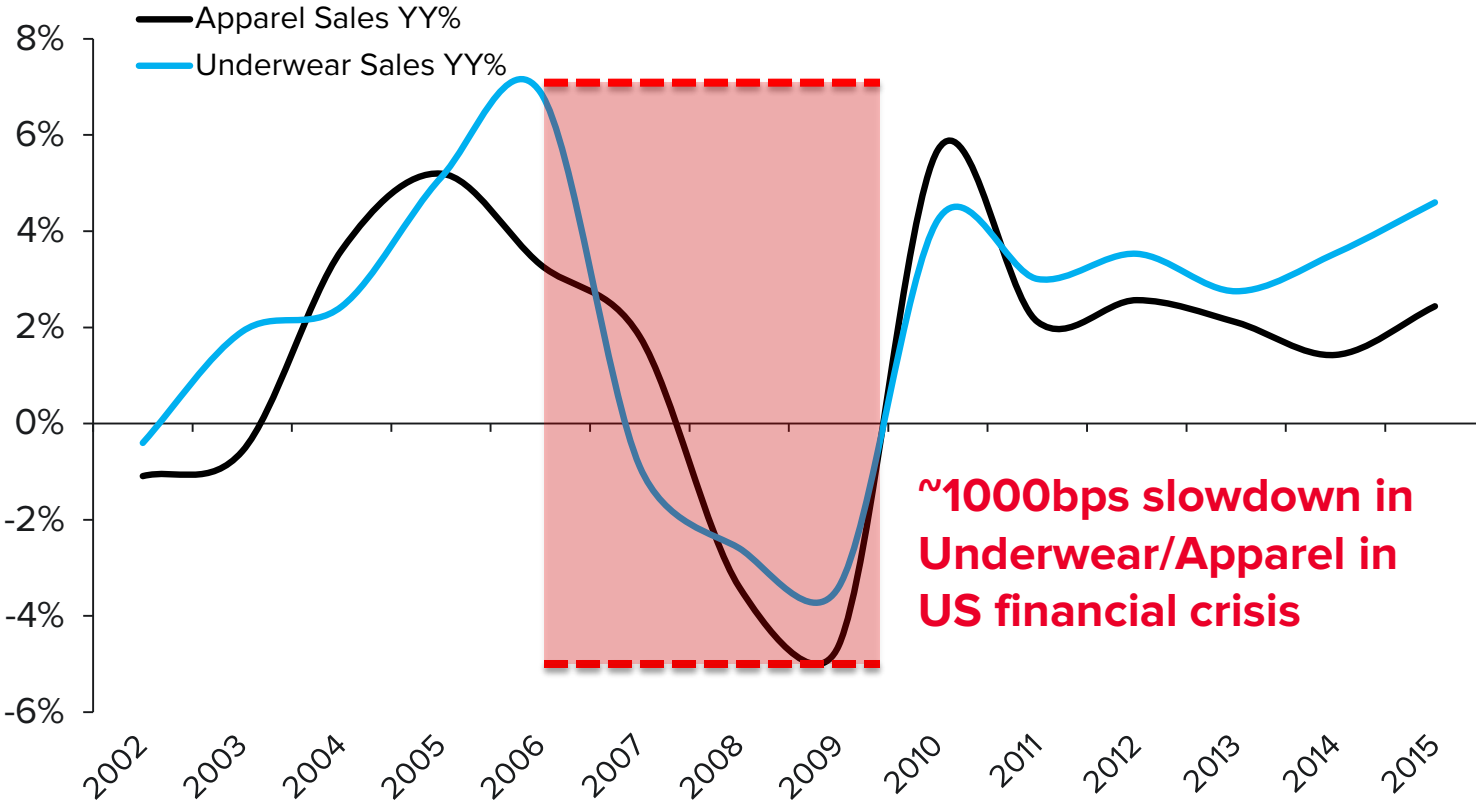


Takeaway: With a 400 bps headwind from HEW, the US saw a 750bps slowdown in discretionary income growth.

**Australia has an HEW rate about 3x that of USA in 2006.**

# US RECESSION SLOWDOWN

## U.S. UNDERWEAR & APPAREL IN RECESSION



US saw 1000bps slowdown in underwear sales growth in last recession.

We think Australia could see up to 1500bps slowdown





# AUSSIE ACQUISITION - PACIFIC BRANDS

# PACIFIC BRANDS ACQUISITION

PACIFIC B **R** ANDS

**Price: \$800mm**

**Revenue: \$600mm**

**2016 Est EBIT Margin: 9%**

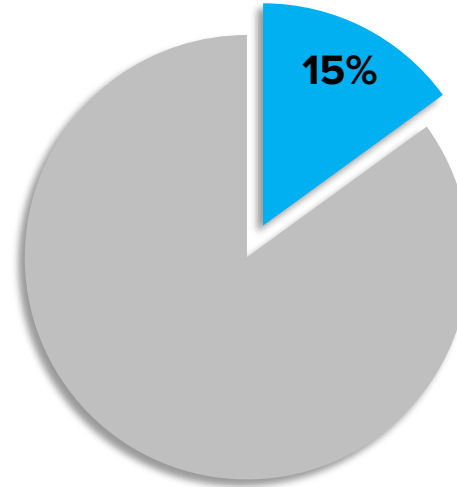
**2018 EBIT Margin Target: 14%**

**Brands:**



## Market Share:

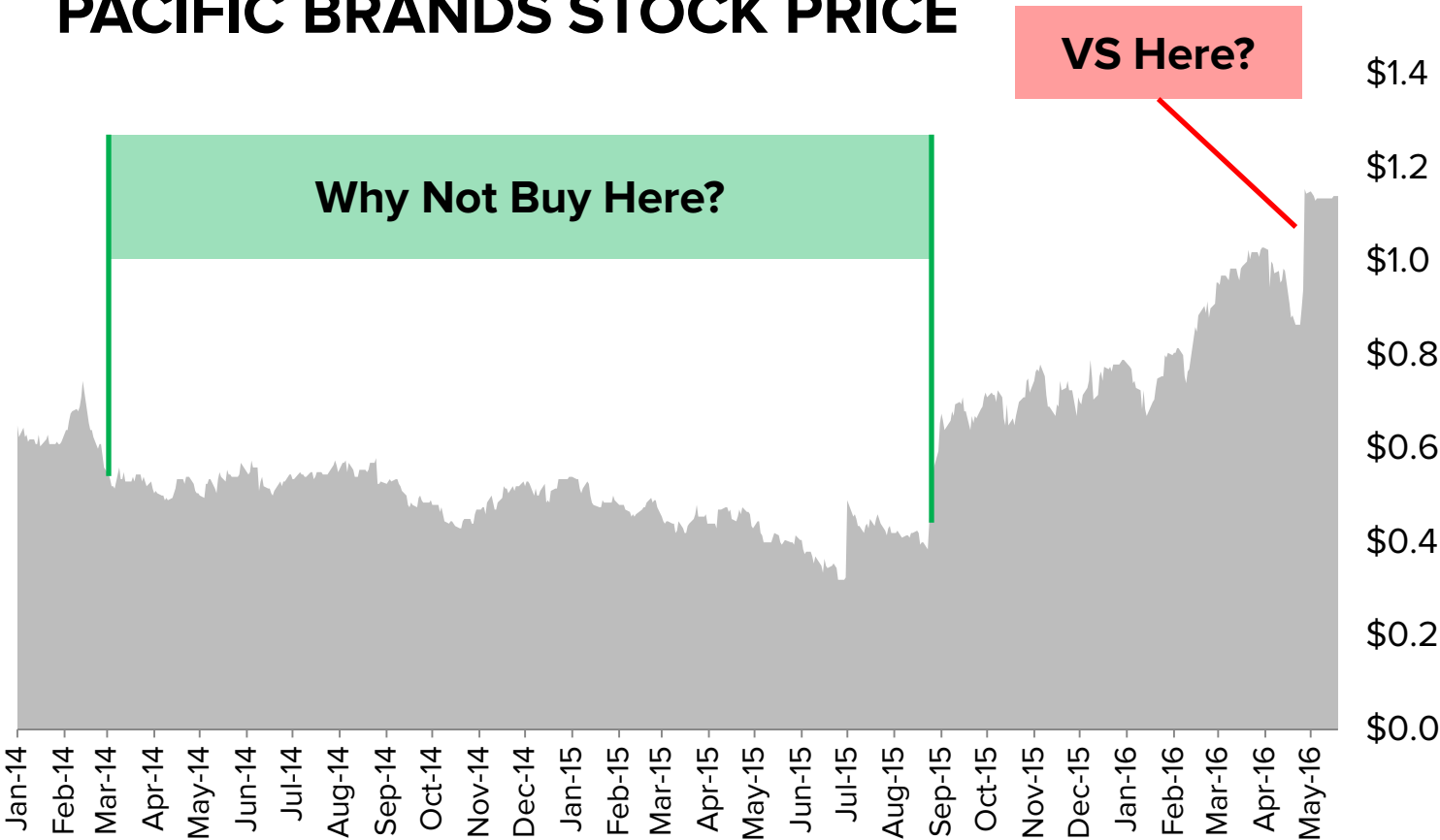
- Pacific Brands Australasia Market Share
- Other



Pacific has #1 market share position in Australasia at 15%.

# OVERPAYING FOR PACIFIC BRANDS

## PACIFIC BRANDS STOCK PRICE

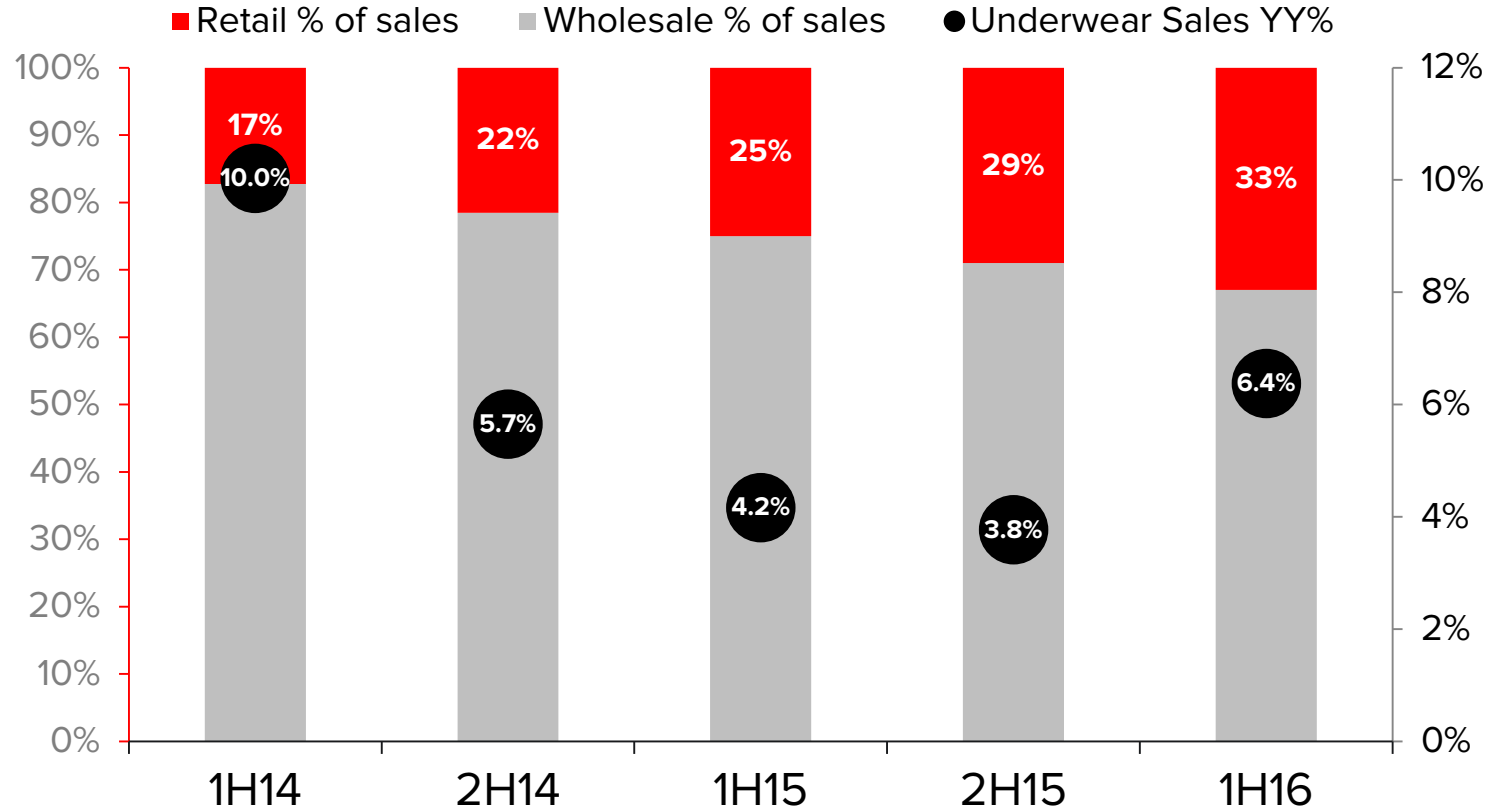


HBI is offering about 3x what Pacific was worth less than a year ago.

Why weren't they in the market making offers before the asset doubled in price?

# PACIFIC HAS DECEPTIVE GROWTH

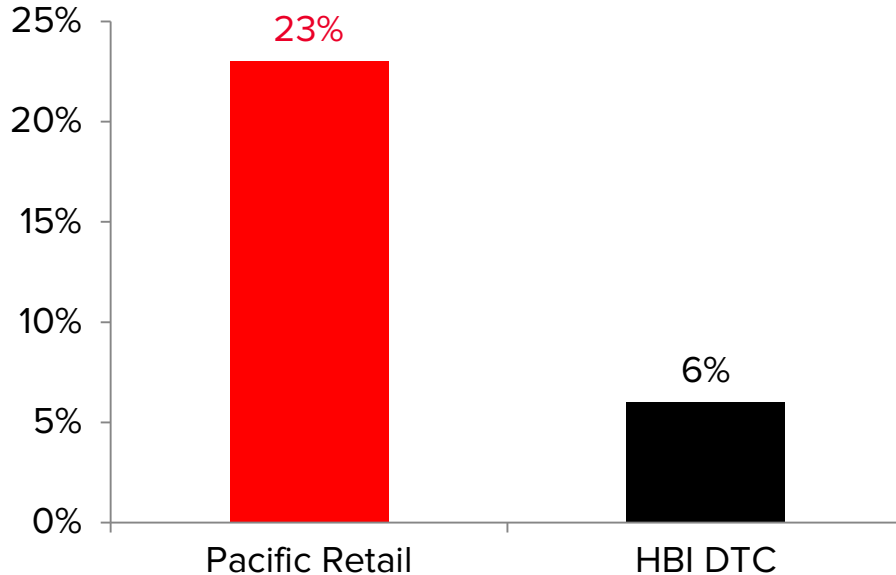
## UNDERWEAR SEGMENT BREAKOUT



Retail channel approaching 1/3 of underwear sales.

**Channel Mix Boosting Rev:** Underwear sales grew 6.3% in 1H16, but sales up just 2.5% for brand at retail.

# THE PACIFIC RISK



## DIRECT AS % OF REVENUE

Higher Retail/Direct distribution means more risk in a consumer collapse.

- 10-15% hit to Pacific Revenue
- ~400-500bps Pacific margin compression
- EBIT 50-75% below guide
- = ~5-10% EPS Hit vs Expectation in 2017-2018

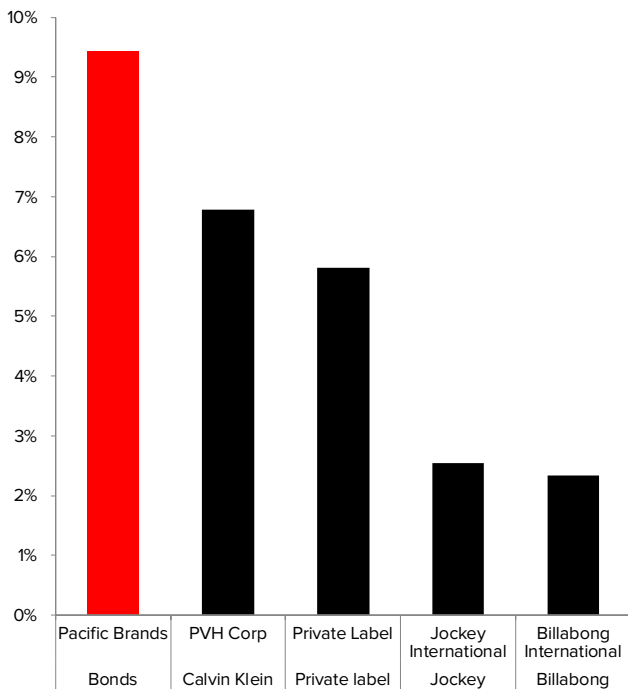
## EARNINGS DOWNSIDE

When Australia rolls, we'll see earnings coming down and multiple compression as it vastly underperforms expectations. REMINDER they paid 12.5x EBITDA for this asset... heading to 20x+.

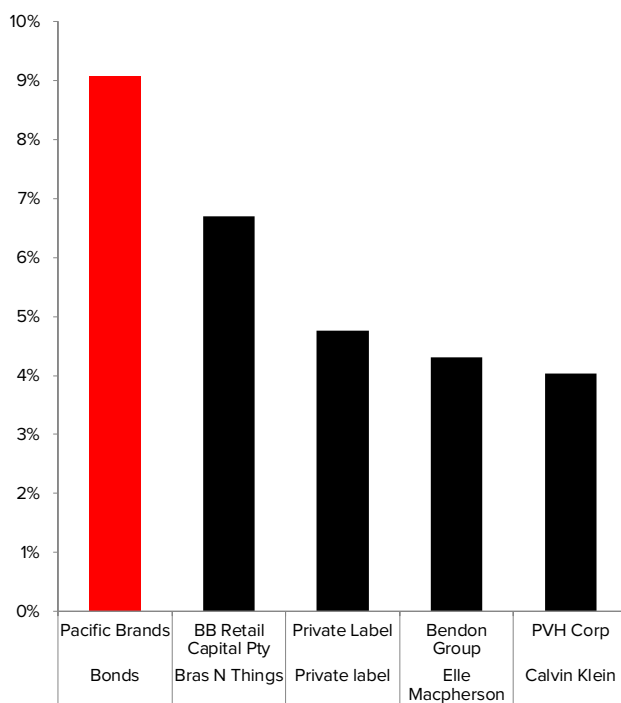
# AUSTRALASIA MARKET SHARE

## UNDERWEAR & HOSIERY MARKETS

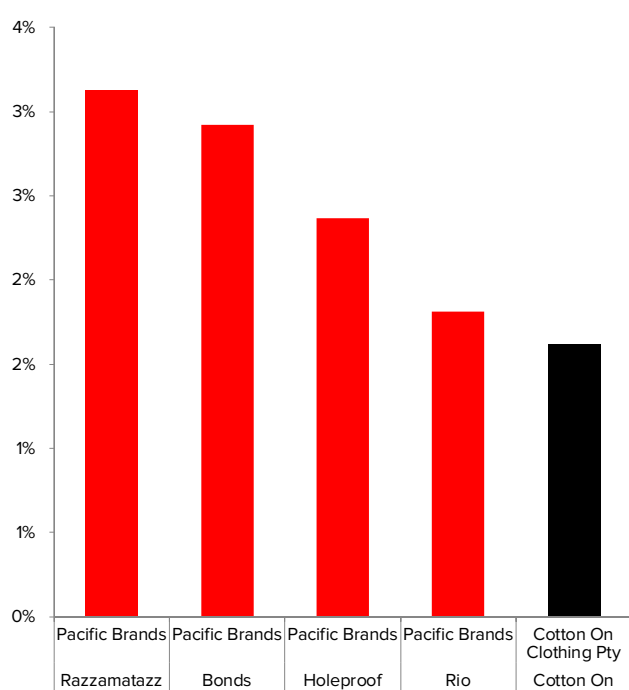
Men's Underwear -- AusAsia Market Share



Women's Underwear -- AusAsia Market Share



Hosiery -- AusAsia Market Share

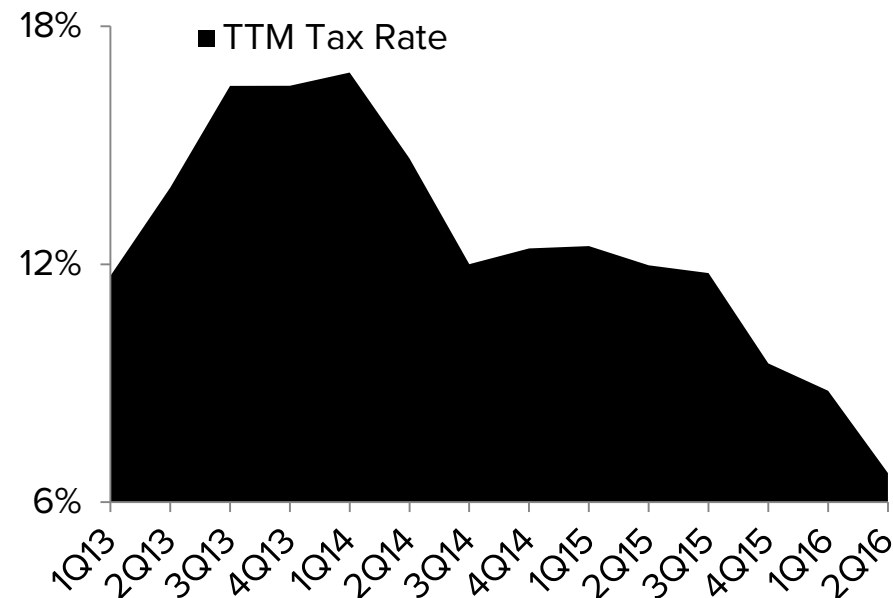




# APPENDIX



# UNSUSTAINABLY LOW TAX RATE



## HBI TAX RATE OVER PAST 3 YEARS

Tax rate at 6.7% ~650bps below MGMT LT guide.

*"And we think there's no reason why acquisitions shouldn't enable us to ... sustain a tax rate in the low to mid teens really for the foreseeable future." Jan '14*

## Europe's Apple Tax Ambush

The EU rolls over the U.S. Treasury and Irish tax law to punish an American company.



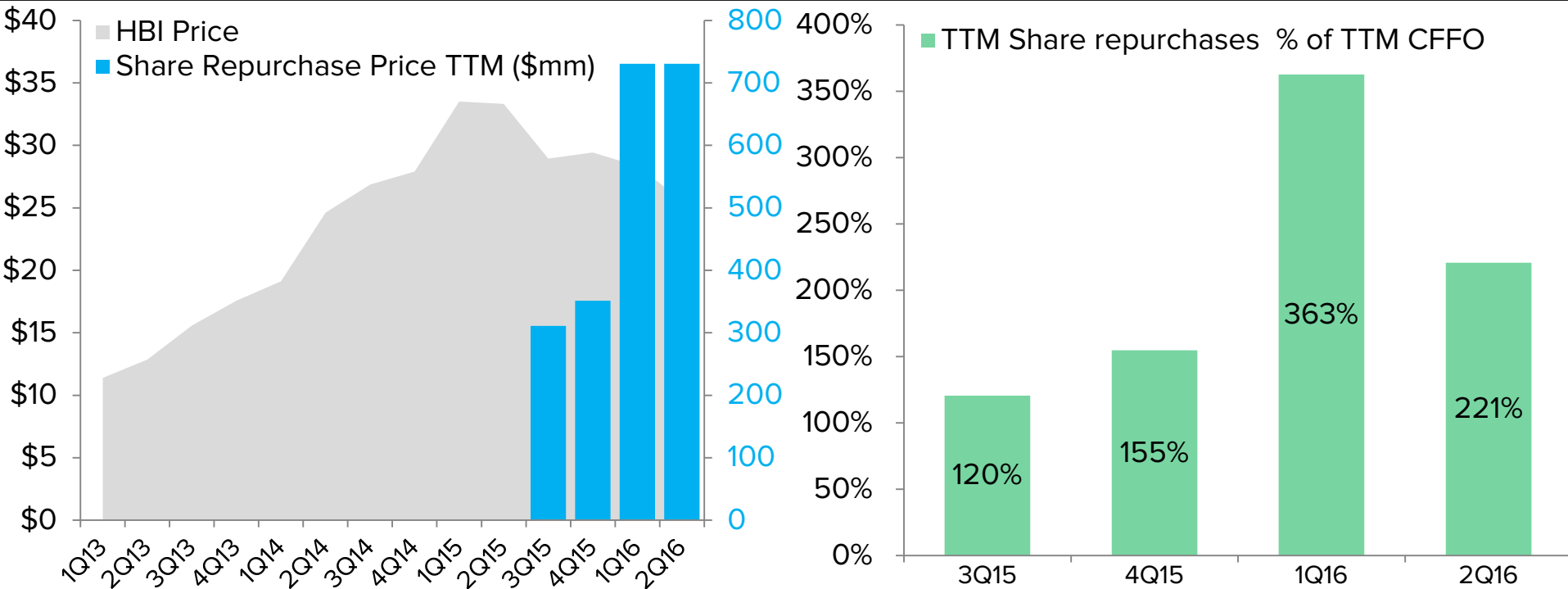
## New U.S. inversion rules threaten Pfizer-Allergan deal

## REGULATORY RISK

The winds are changing on tax rate tricks for multinationals: The EU is saying Apple owes \$14.5bn from its transfer pricing strategies. US is cracking down on inversions.



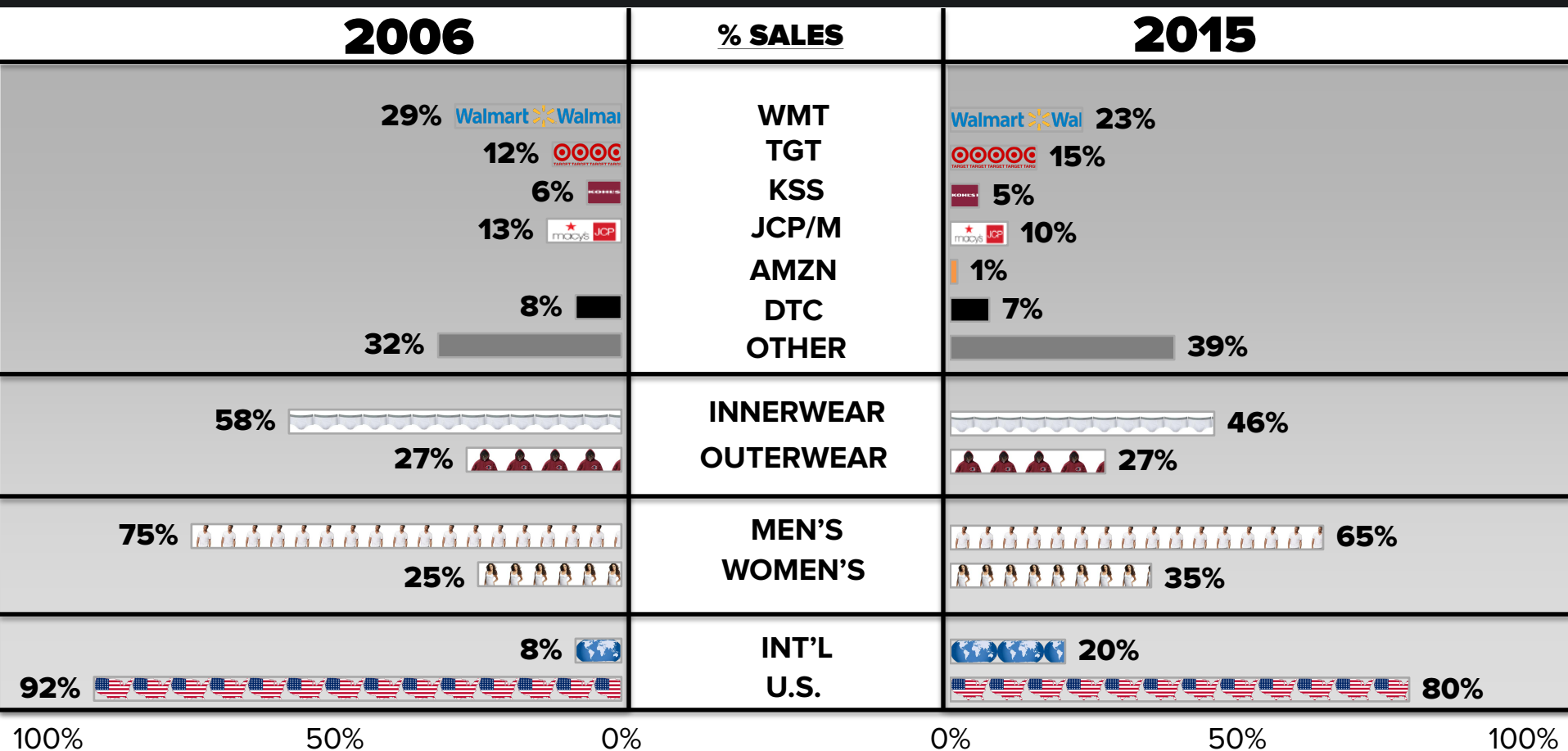
# REPO WHEN IT CAN, NOT WHEN IT SHOULD



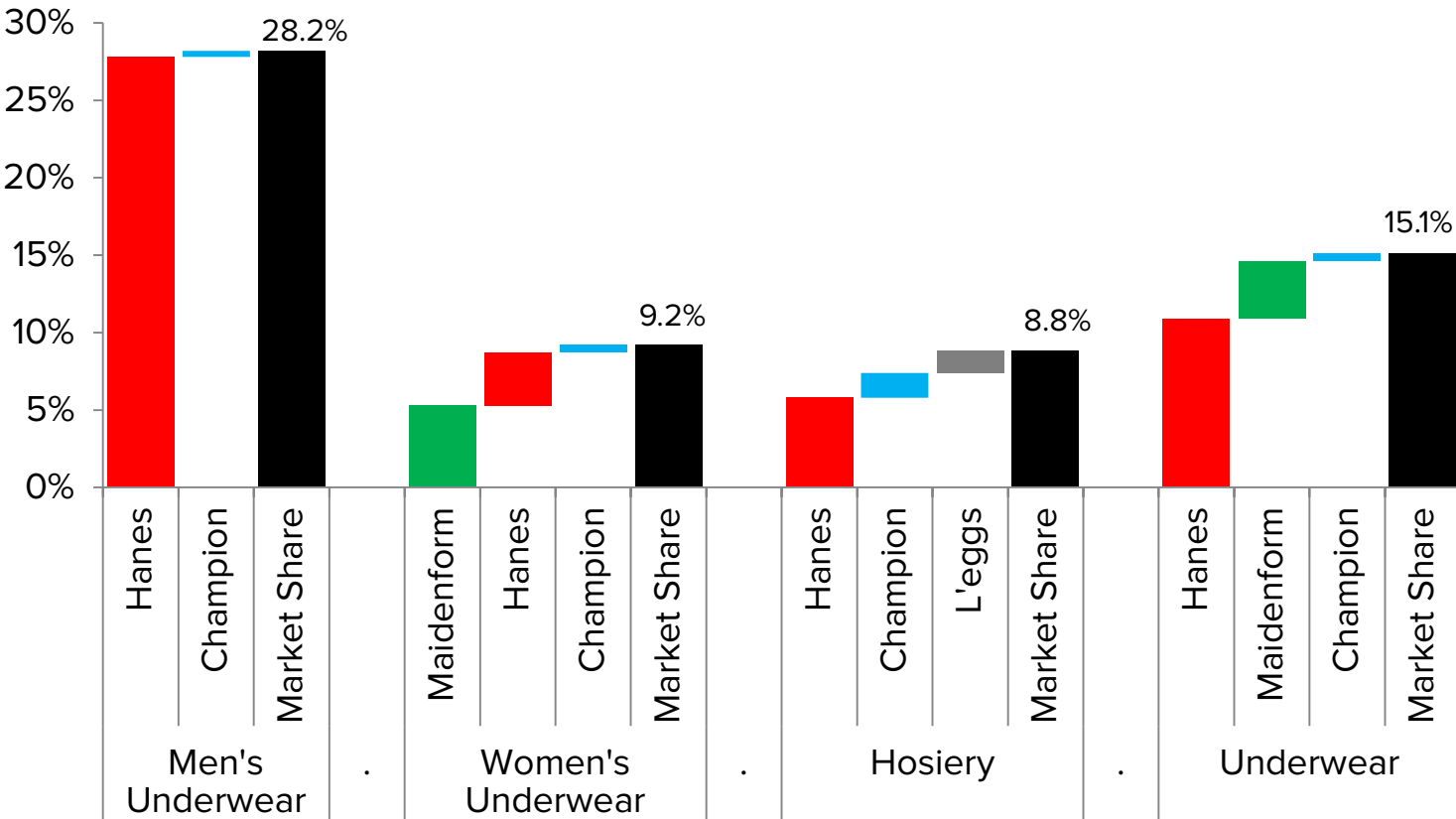
## HBI SHARE BUYBACK AND % OF CFFO

After years without buying stock, as of 1Q16 HBI has repurchased 363% of CFFO on a TTM basis. Borrowing against its revolver in 1Q. This at the same time CEO Noll is selling stock.

# HBI THEN & NOW



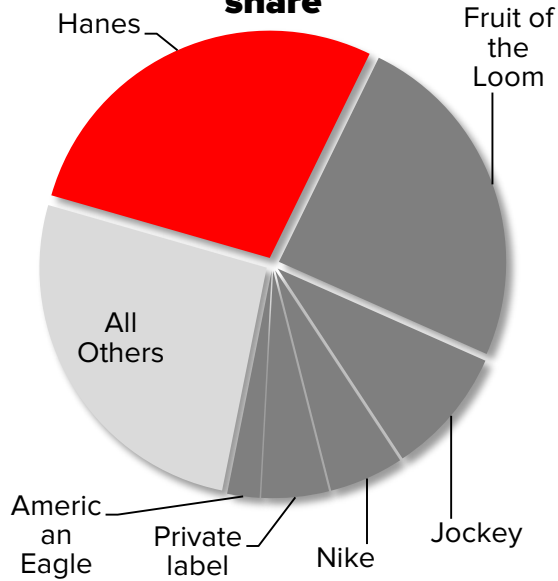
# MARKET SHARE BREAKDOWN



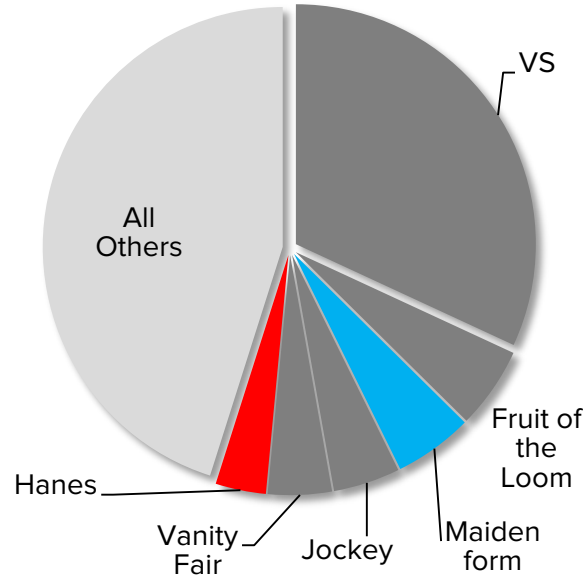
HBI has about a 28% share in its core business – and that share has not moved for the past three years.

# COMPETITIVE OVERVIEW

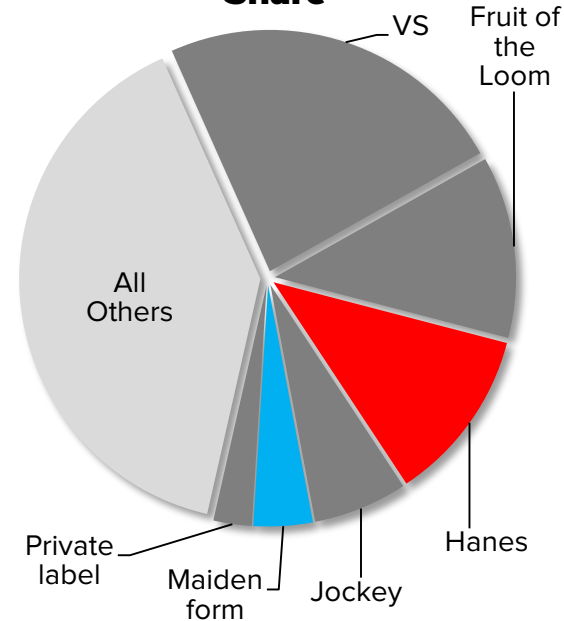
## Men's Underwear Market share



## Women's Underwear Market Share



## All Underwear Market Share



**THIS HAS BEEN A CONSOLIDATED INDUSTRY**

Though that seems to be changing on the margin.

# +10% COTTON MOVE = -40 TO -65BPS

Cotton in HBI Owned Production	2015	+10% Cotton
HBI Revenue	\$5,732	\$5,732
COGS	\$3,532	\$3,557
\$ Value of Cotton in HBI Produced Goods	\$247	\$272
Cotton Price COGS Increase		\$25
<b>Gross Margin Impact in BPS</b>		<b>-43bps</b>

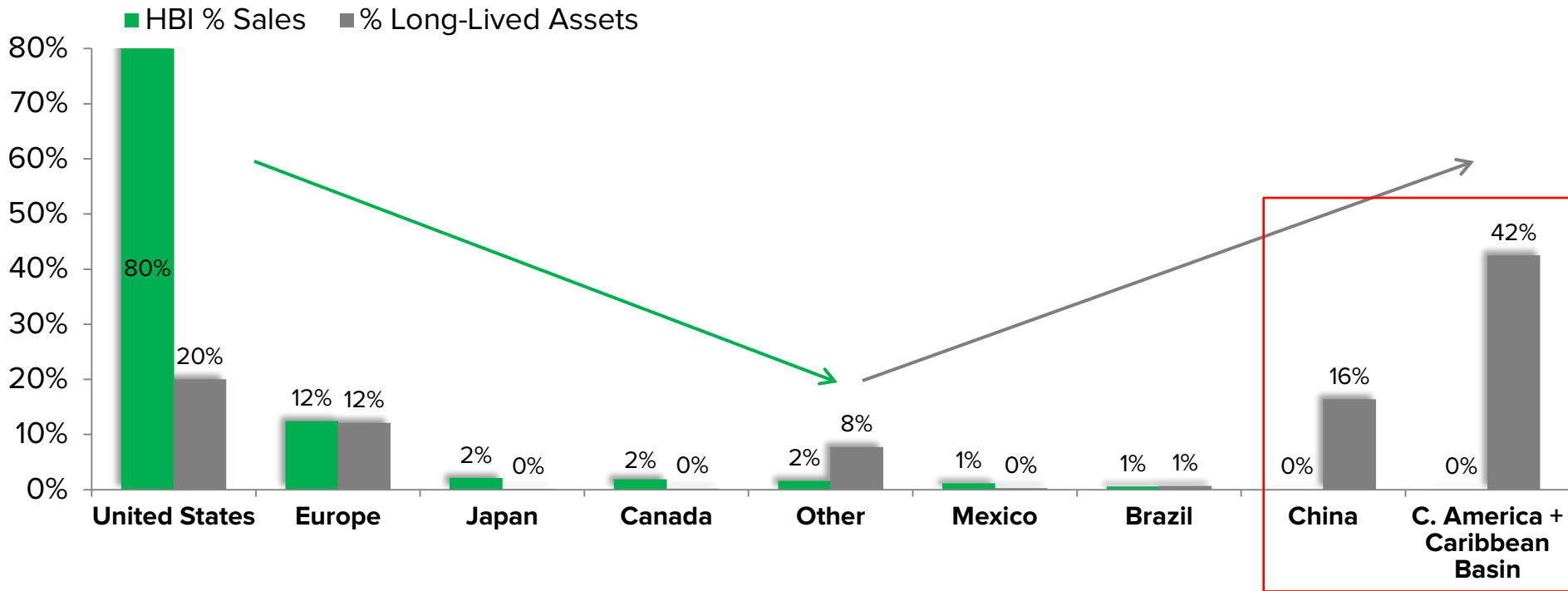


Assuming goods not produced by HBI have the same cotton use and cost dynamics which get passed on to HBI, we get upwards of ~65bps of gross margin hit for a 10% increase in cotton price.

10% increase in cotton price means a ~40bps hit to HBI margins within its own production.

This will take 9-12 months to hit the P&L, plus possible delay/ offset from hedging.

# TAX HAVENS

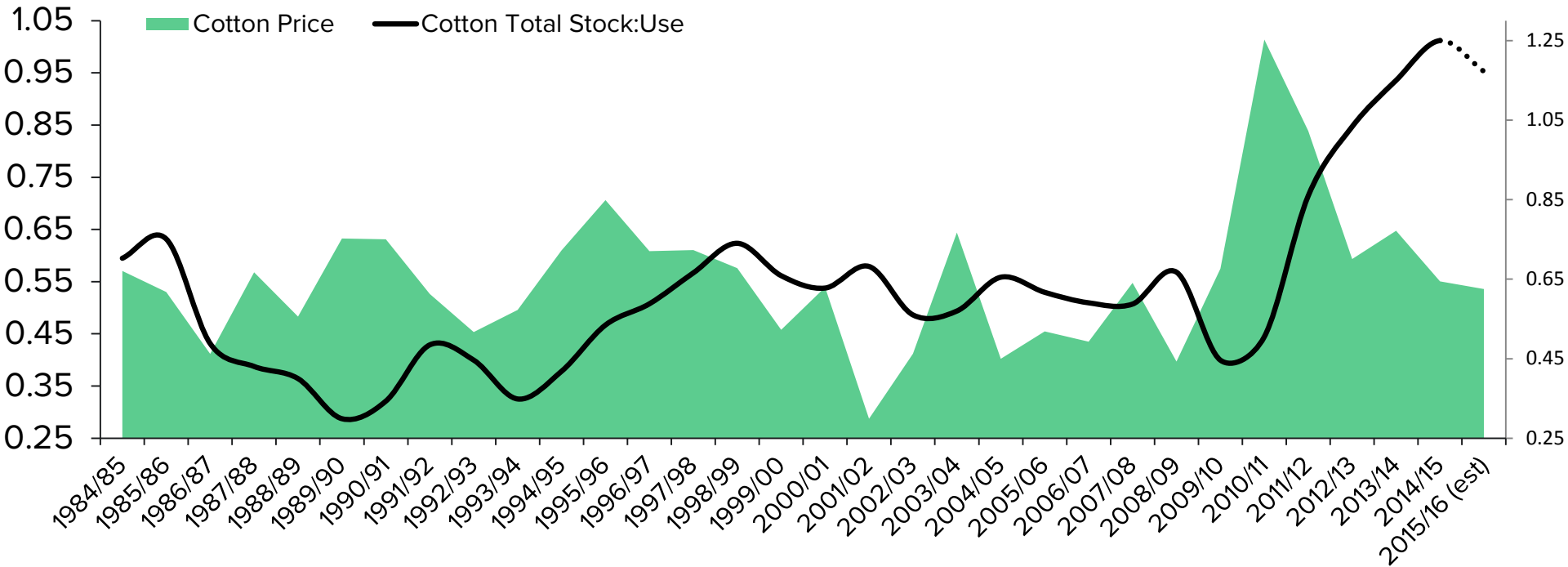


## U.S. IS 80% SALES, ONLY 20% LONG-LIVED ASSETS

Inverse correlation between Sales and Long-Lived assets.

Low tax rate due to earnings fed through foreign subsidiaries, mainly in the Cayman Islands.

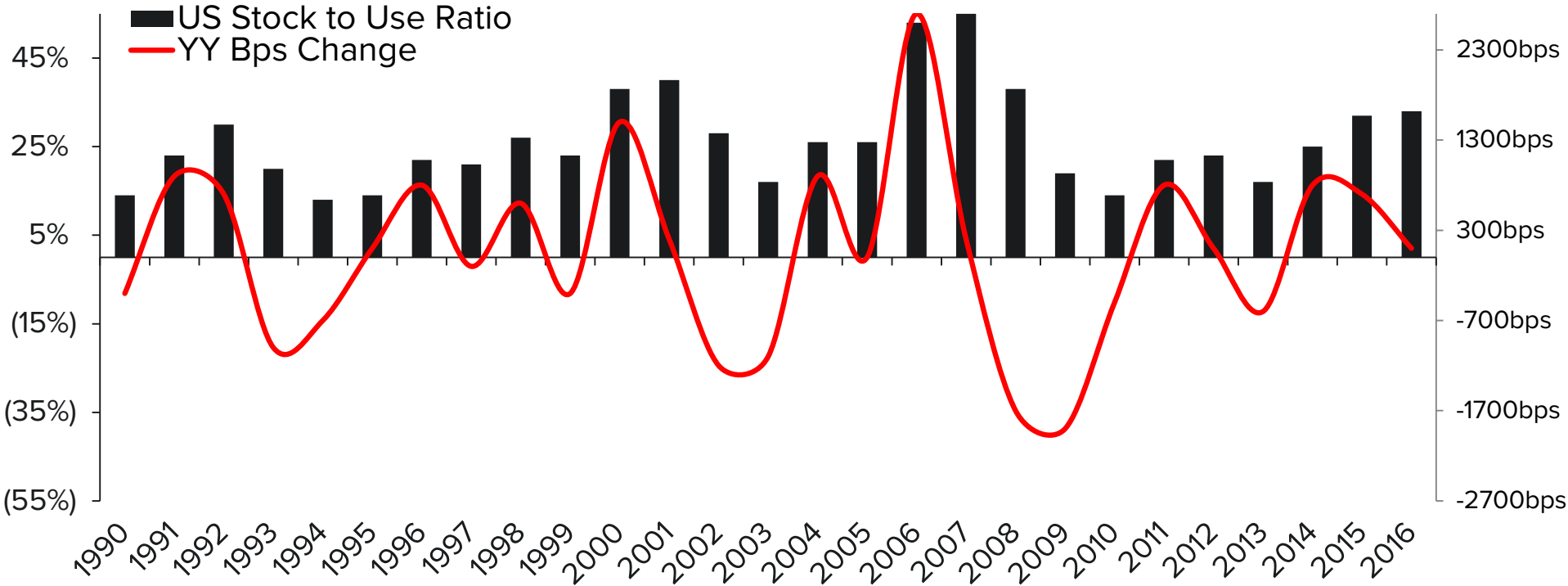
# COTTON STOCK: USE RATIO



## USDA PREDICTS CONSUMPTION WILL EXCEED PRODUCTION FOR 1ST TIME IN 6 YEARS

Responding to lower prices, world consumption is projected to exceed production by 3 million bales in 2015/16. When stock to use ratio goes back down, HBI's COGS will go up.

# US COTTON DEMAND

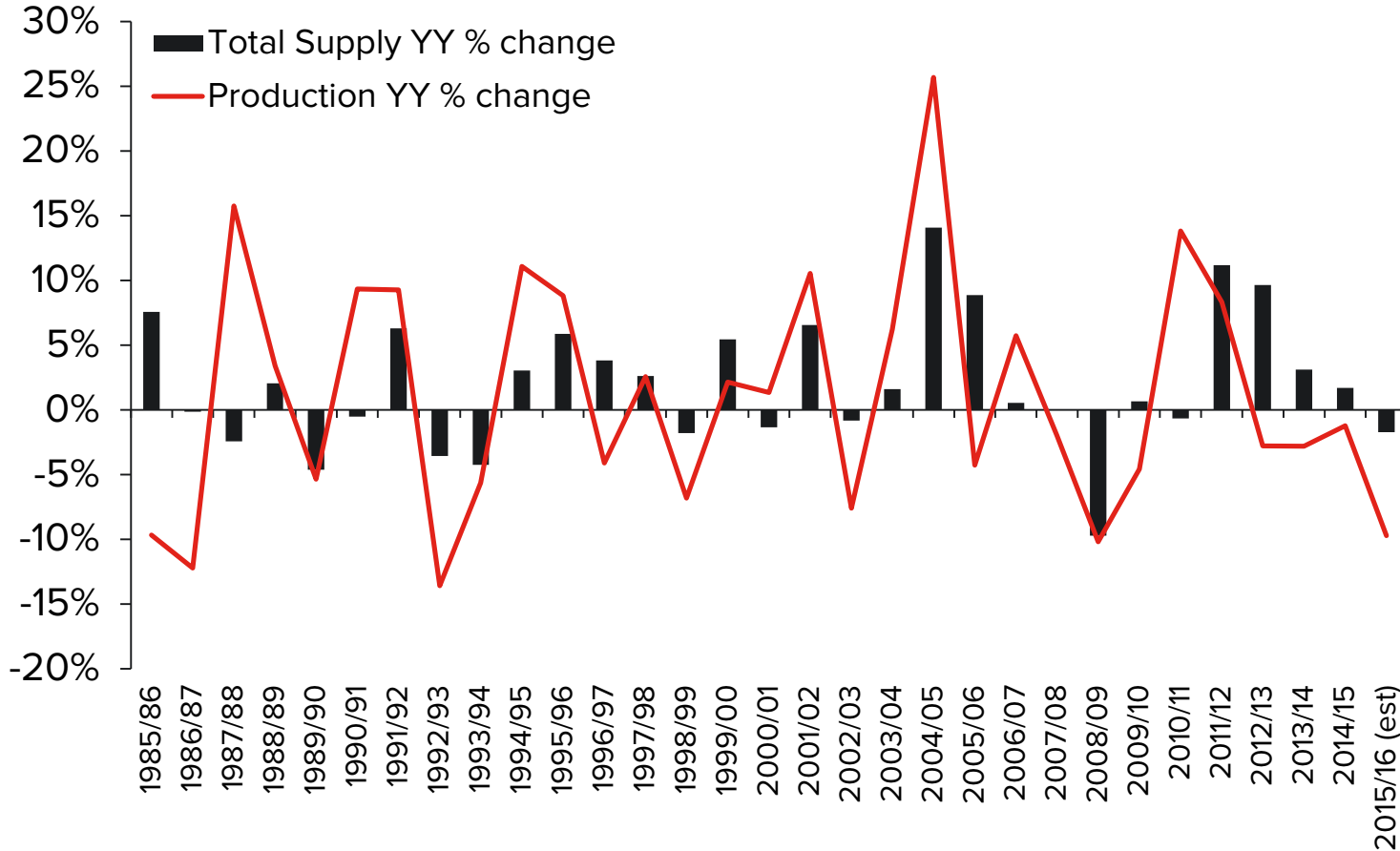


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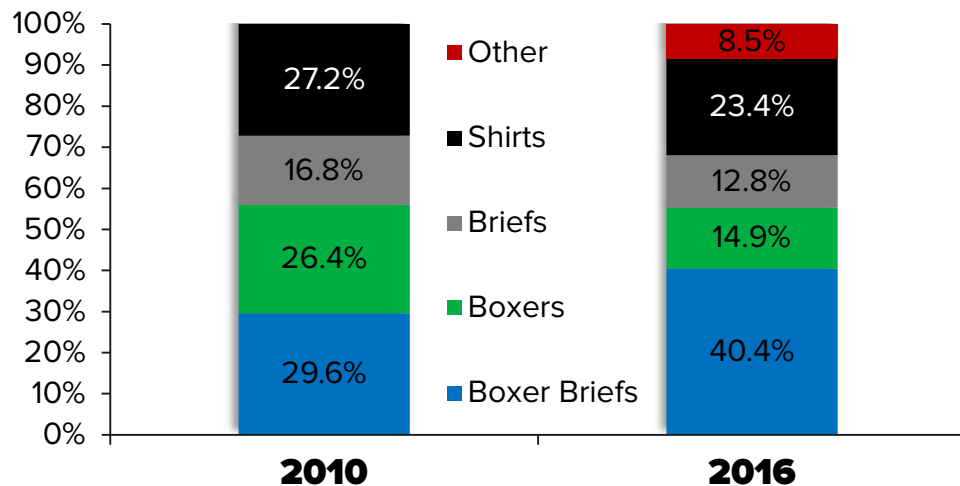
# COTTON PRODUCTION & SUPPLY



International production is slowing on the margin.

# HANES SKU BREAKOUT

## HANES SKU BREAKOUT



To its credit, the average SKU price on hanes.com has increased more than 50% since 2010.

SKU's on Retail Websites		
	HanesBrands SKUs	Champion SKUs
WMT	2,545	1,898
TGT	374	1,185
KSS	268	836
JCP	182	202
M	94	50

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