



When is a Commodity Not a Commodity?

Barry Pasikov

Managing Member

*H*AZELTON *C*APITAL *P*ARTNERS



The Fine Print



“Don’t Sue Me”

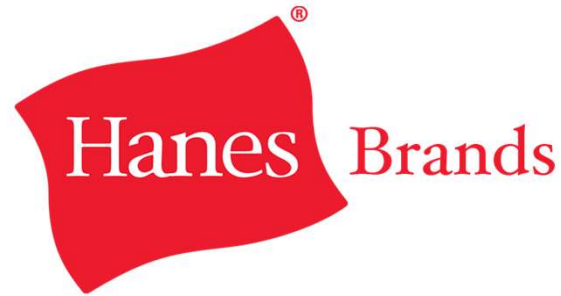
Hazelton Capital Partners, LLC is not providing investment advice through this material. This presentation is provided for informational purpose only as an illustration of the firm’s investment philosophy and shall not be considered investment advice or a recommendation or solicitation to buy or sell any securities discussed herein. As of the date of this presentation the firm continues to own the securities discussed herein. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Past performance is not indicative of future results, and no representation or warranty, express or implied, is made regarding future performance.

Hazelton Capital Partners, LLC may engage in securities transactions that are inconsistent with this communication. The information and any opinions contained herein are as of the date of this material, and the firm does not undertake any obligation to update them. Information contained in this presentation has been obtained from sources which we believe to be reliable, but we do not make any representation as to its accuracy or its completeness and it should not be relied on as such.

This material does not take into account individual client circumstances, objectives, or needs and is not intended as a recommendation to any person who is not a client of the firm. Securities, financial instruments, products or strategies mentioned in this material may not be suitable for all investors.

In reaching a determination as to the appropriateness of any proposed transaction or strategy, clients should undertake a thorough independent review of the legal, regulatory, credit, accounting and economic consequences of such transaction in relation to their particular circumstances and make their own independent decisions.

Hanesbrands Overview



Hanesbrands = Leading Global Consumer Goods Company – Designs, Manufactures, Markets and Distributes Innerwear & Activewear Apparel

Innerwear (Underwear) = Apparel Worn Between Clothing and Skin

- Bras, Panties, Hosiery, Shapewear, Lingerie, Socks, T-Shirts & Underwear

Activewear = Sports, Exercise & Outdoor Athletic Apparel

- Sports Bras, Underwear, Shorts, Leggings, Compression & T-Shirts, Pants, Hoodies/Sweatshirts, Sweatpants

Hanesbrands History

Quick History

- Founded in 1901 – Men’s Socks & Underwear Company
- 1979 – Acquired by Consolidated Foods Corp (Sara Lee)
- 2006 – Spun out of Sara Lee w/\$1.9b Market Cap & \$2.5b Debt
 - Financial Crisis → Closed/Relocated 12 plants
- 7 Acquisitions = \$3 billion
 - 2010 – Gear for Sports(\$225m) – Licensed Logo Athletic Apparel
 - 2013 – Maidenform(\$585m) Woman’s Bra & Underwear
 - 2014 – DBApparel(\$550m) Europe – Intimate Apparel
 - 2015 – Knights Apparel(\$200m) – Sports Licensing
 - 2016 – Champion Europe(\$250m) – EU/Mid East/Africa
 - 2016 – Pacific Brands(\$800m) AUZ/NZ – Underwear, socks, bras
 - 2018 – Bras ‘N Things (\$400m) AUZ/NZ/SA – Intimate Apparel

Hanesbrands Portfolio

Portfolio of Brands



Innerwear Market

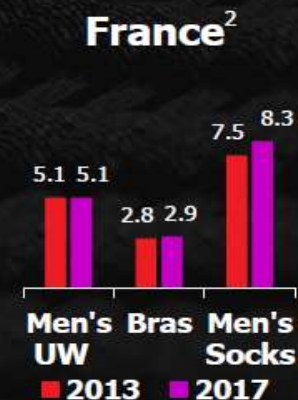
\$165B

2017 Global
IW Market

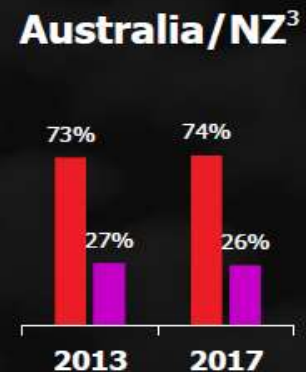
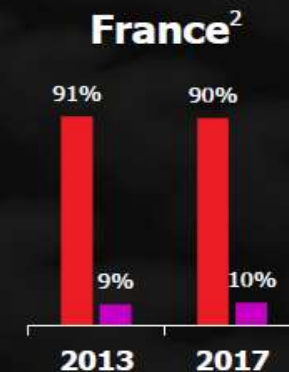
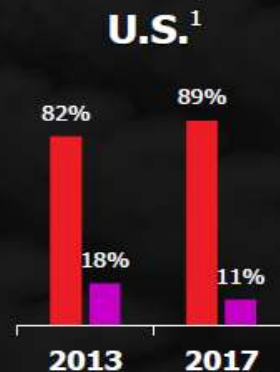
66%
Basics

34%
Intimates

Per Capita Consumption (units)



Heavily Branded



■ Branded ■ Private Label

Stable, Heavily Branded Category with Consistent Consumer Consumption

Growth - 5-7% CAGR

U.S.

Europe

Australia

Rest of World

FR

GER

SP

ITALY

Global Market: **\$165B¹**

\$22B

\$29B (EU Top4: **\$13B**)

\$2B

\$112B

Activewear Market

Growth – 8-12% CAGR

US = ~\$60bn

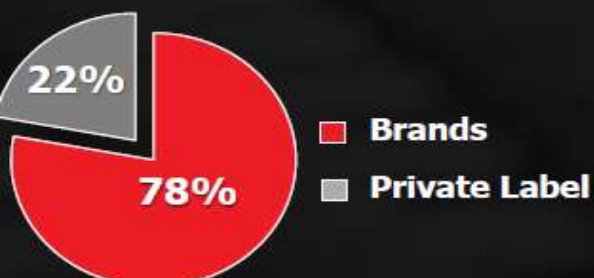
ROW = ~\$120bn



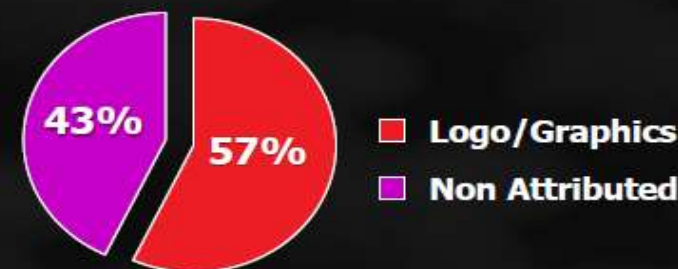
 ALTERNATIVE.

 Hanes

 Champion



U.S. Per Capita
Consumption
Increasing



Is Hanesbrand Unique?

At First Blush – It Does Not Appear to Be....



Hanes

5 Pack Boxer Brief

Target = **\$14/Pack**



Fruit of the Loom

5 Pack Boxer Brief

Target = **\$14/Pack**



Gildan

5 Pack Boxer Brief

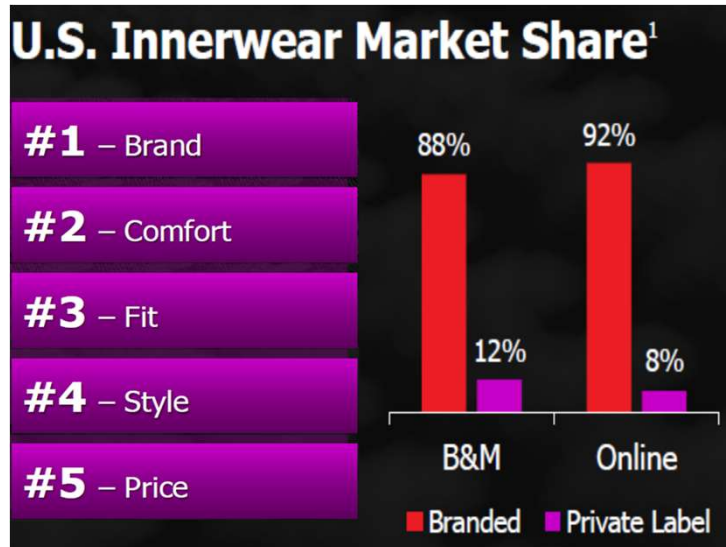
Target = **\$14/Pack**

Is Industry Unique?

... But Operate in Niche Segment of Fashion Industry

Benefits:

- Brands Matter = Less Chance of Disruption



- Underwear Styles Do Not Quickly Change → They Evolve

Top Five Brands

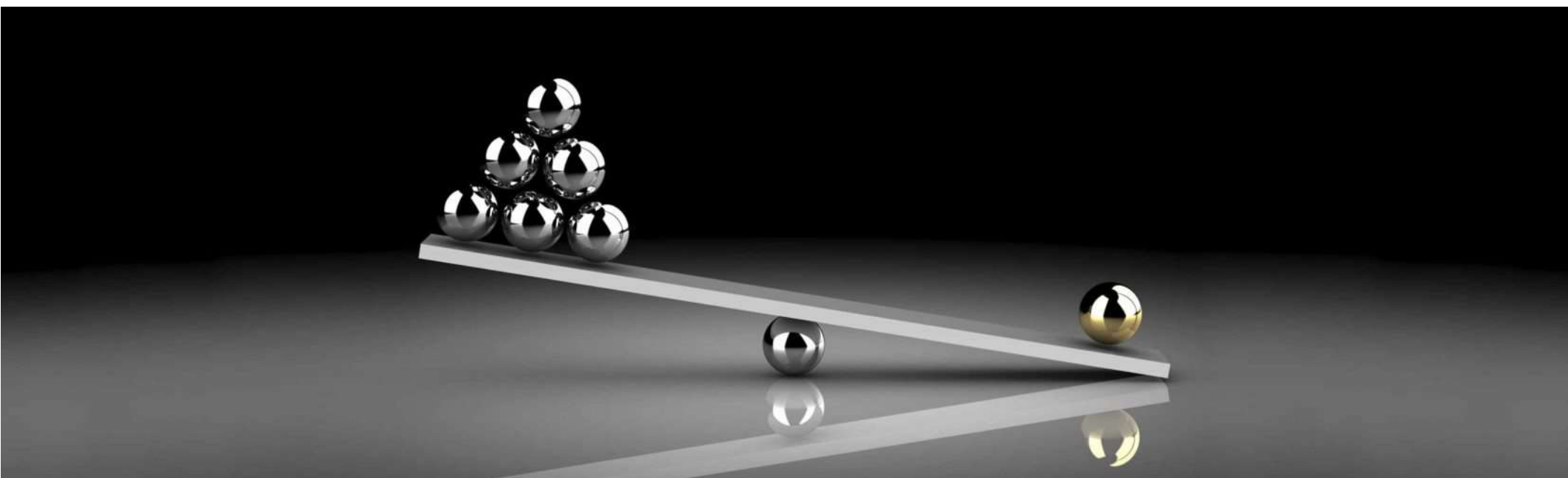


Global Underwear Market = \$165b
US = ~\$22 billion EU = ~20 billion

Emerging Countries Going To Lift Underwear Market

Competitive Advantage

Does Hanesbrands Have a Competitive Advantage??



- Production
- Innovation
- Industry

Competitive Advantage

“A Low Cost Producer”

Production = 80% Apparel Manufactured Globally in 52 Owned & Operated Plants - 20% Through Dedicated Contractors

- Upgrading & Volume → Lower Production Costs/Unit



Competitive Advantage

Innovation

- R&D = \$70 million → Integrated Across Platforms & Geographies
- Innovation Leader → ↑ Shelf Space
- Innovation → Pricing Power → ↑ ASP – Especially During Inflation

Innovation platforms reinforce the relationship between the brand and the consumer

TAGLESS®

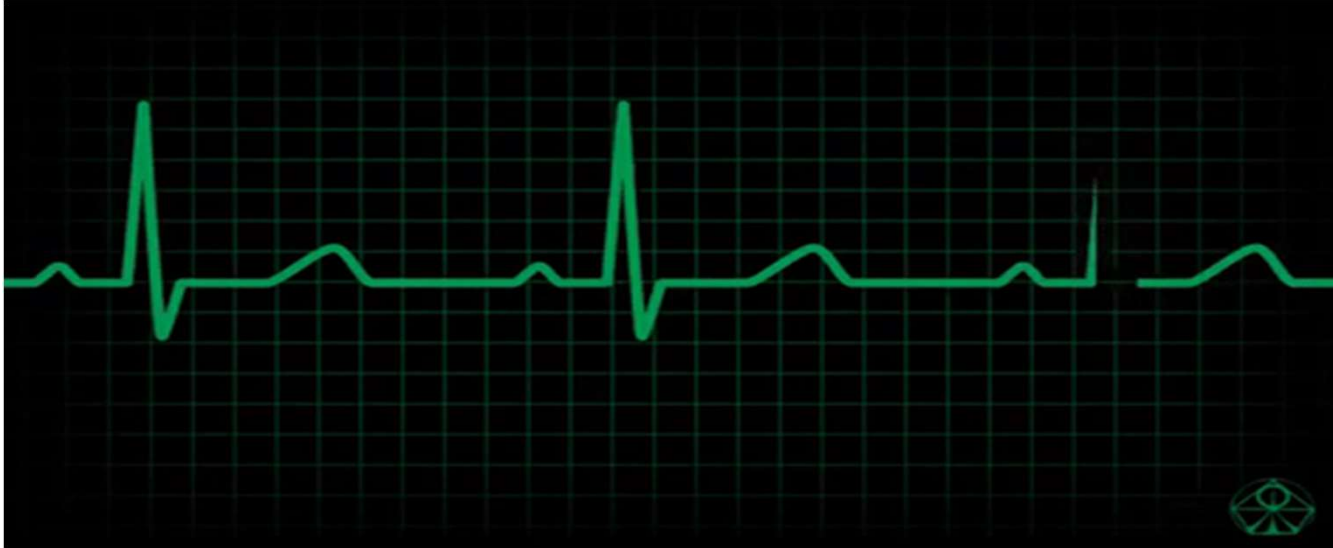
ComfortBlend®

X-TEMP®
MORE THAN COOL®

**COMFORT
FLEX FIT.**

Competitive Advantage

Industry - Not Growing



Barriers??

- Highly Concentrated Market in NA Top 5 Brands = 90% Market Share
 - Europe Top 5 = 55-80% & Asia = 30-45% → Driving HBI Acquisitions
- Door Closures → ↓ Revenue Growth → Opportunity for HBI Globally

Key Take Away

- Not Attractive Market to Enter, Deploy Capital & Expect Good Return

Scarce Resource

What is Hanesbrands Scarce Resource?



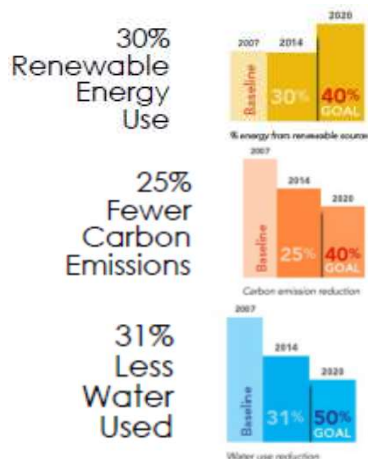
- Global Brand
- Supply Chain & Operations
- Management

Scarce Resource

A Commodity is Not a Commodity - When it's a Brand

Expand the Brand

- 80% US HH Own Hanes → Recognized Globally
- Acquisitions = Land & Expand → Fragmented Markets
- Advertising & Marketing = ~175m or 3% Revenues
- MJ Spokesman ~30 Years – Global Brand Campaigns



- Recognized by "Great Place to Work Institute" for workplace practices in Central America and the Caribbean.



- Featured on Forbes Best Places to Work list in U.S.

Scarce Resource

Leverage Supply Chain & Operations

Lower Costs & Reduce Expenses

- \uparrow Manufacturing Efficiency \rightarrow \downarrow Unit Cost \rightarrow \uparrow Speed to Market
 - DIM & Bonds Underwear Unit Cost \downarrow by $\sim 20\%$
- \uparrow Operational Efficiencies = \$150m / year (2019)
 - IT, Integration & Automation \rightarrow SG&A Growth Lag Revenues



Scarce Resource Management

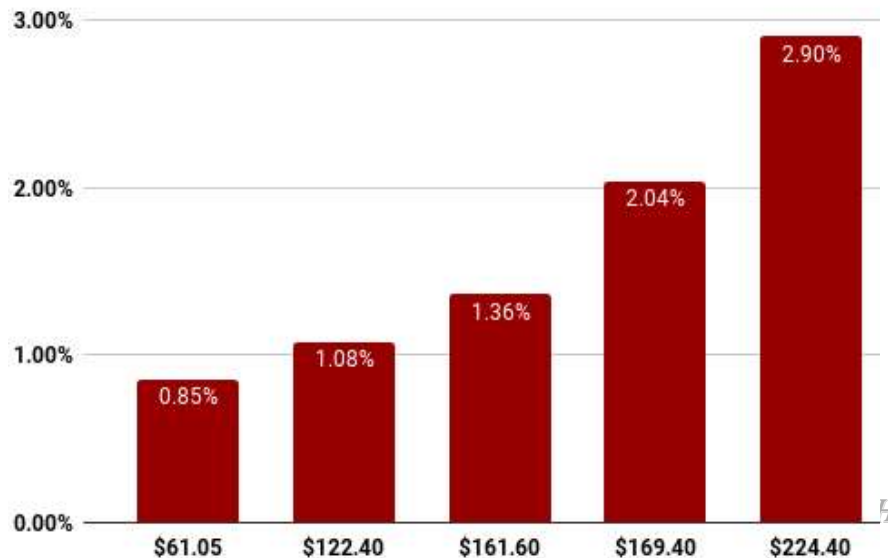
Battle Tested Over Past 11⁺ Years

- Op Reorg, Balance Sheet, Financial Crisis, Cotton Prices, ↓ Retail Traffic

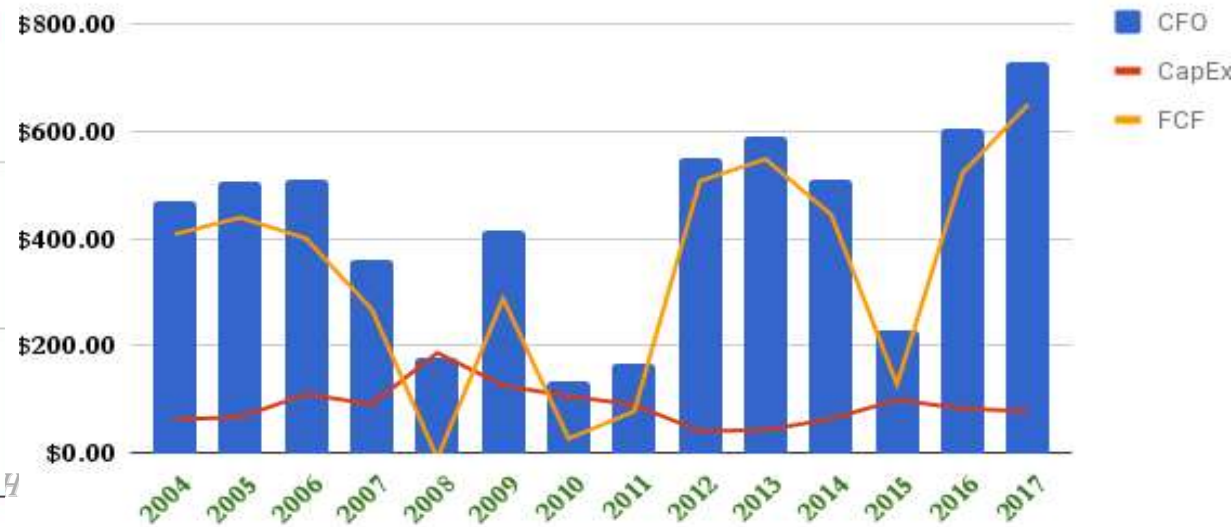
Creating Value for Company & Shareholders

- Leveraging Debt → Accretive & Geographical Acquisitions
- OCF ↑ \$650mn 2017 → \$1bn (2020) → Return to Shareholders
- Div = \$785m (2013-2018) & Buy Back > \$1.1b 2015 - 2018

2013 - 2017 Dividends

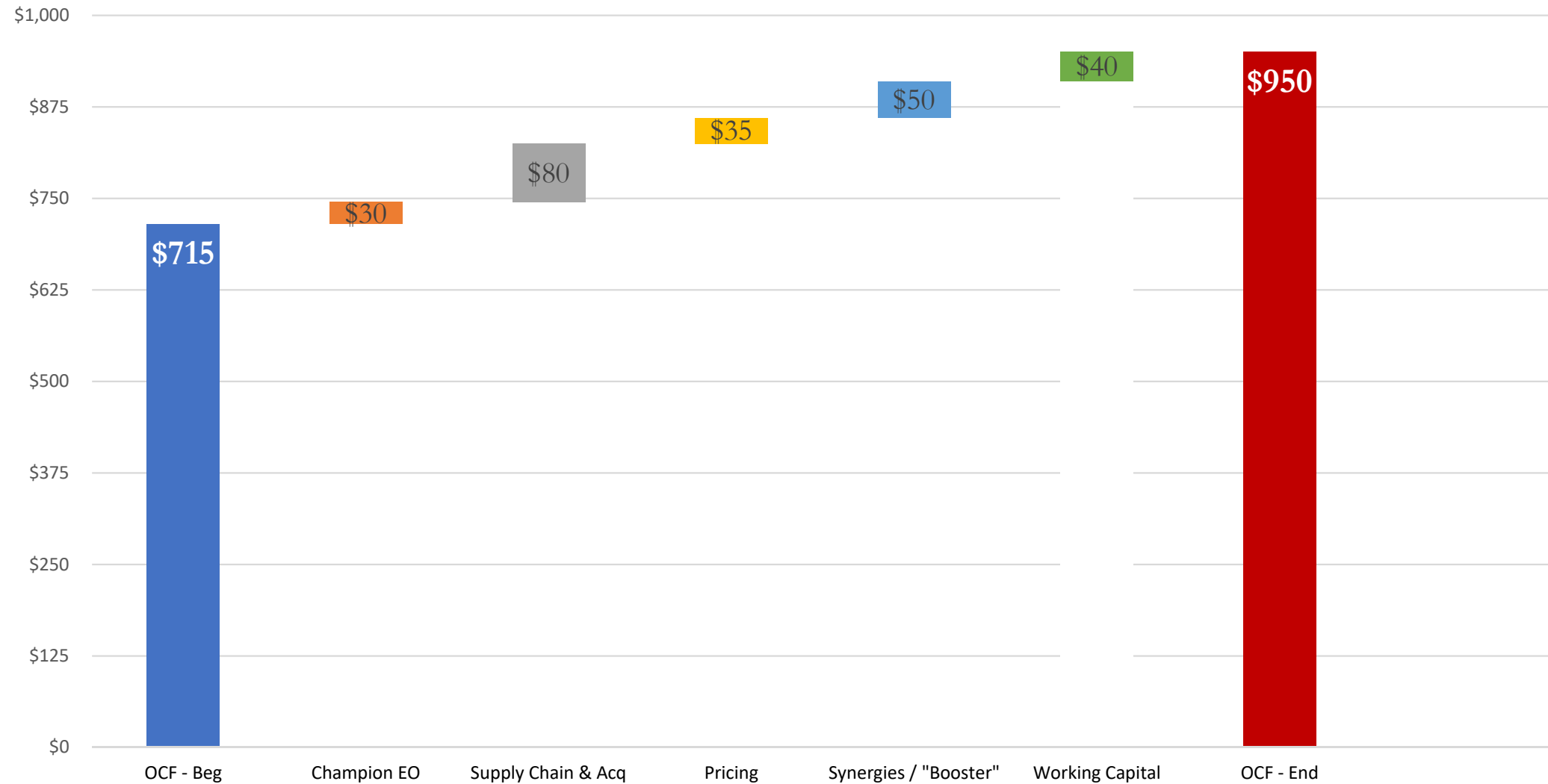


Cash Flows, CapEx & FCF



Generating Cash Flow

OCF \$715mn → \$1 Billion by 2020??



Hanesbrand Valuation

Valuation

Is HBI Cheap??

- Bear Case
 - US Retail Soft → Door Closure & ↓ Mall Traffic & Margins
 - '18 EPS = $\$1.72 \times 10 \rightarrow \17.20
- Base Case
 - US Retail Stabilizes & Margins Flat
 - '18 EPS = $\$1.80 \times 12.5 \rightarrow \22.50
- Bull Case
 - US Retail Rebounds & Margin Improvement
 - '18 EPS = $\$1.90 \times 14 \rightarrow \26.60



SHW vs. HBI

Valuation Over 10 Years

SHW	2006	2016	10-Yr CAGR
Revenue	\$7,810	\$11,856	4.26%
Net Income	\$550	\$1,130	7.47%
Earnings/Share	\$4.01	\$11.96	11.53%
P/E Multiple	10	25	
Free Cash Flow	\$606	\$1,070	5.85%
Shares (mm)	137	94.5	-3.65%
Dividend	\$135	\$317	\$2.1b
Payout Ratio	30%	27.50%	
Total Debt	\$875	\$2,200	
Stock Price Rtn	\$40	\$299	22.2%

HBI	2018	2028	10-Yr CAGR
Revenue	\$6,563	\$11,000	5.30%
Net Income	\$650	\$1,325	7.38%
Earnings/Share	\$1.81	\$5.14	11.02%
P/E Multiple	11	20	
Free Cash Flow	\$570	\$1,350	9.00%
Shares (mm)	360	258	-3.28%
Dividend	\$220	\$340	\$2.6b
Payout Ratio	34%	26%	
Total Debt	\$4,250	????	
Stock Price Rtn	\$20	\$103	17.9%

10 Year Return = 650%

** With \$19.78 Dividends = 700%*

10 Year Return = 415%

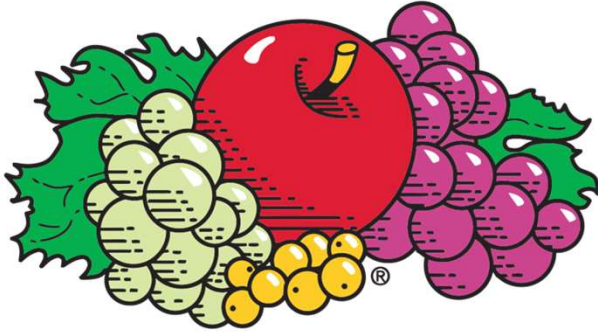
** With \$9.00 Dividends = 460%*

Held Through Jan 2018 > **1000%**

Downside Valuation = **Limited**



Makin' It Rain



FRUIT OF THE LOOM®

Berkshire Hathaway:

- 1985 - Closed Last Textile Mill
- 2002 - Bought Fruit of the Loom
- Why???



Why is Hanesbrands Hidden in Plain Sight?

Does Not “Fit” a Specific Investing Strategy

- Does Not Screen Well – 9x Book | 6x Debt/Equity
 - Not Growth Stock & Too Much Debt for Value

Current Retail Environment = Door Closures

- Bankruptcies, Destocking & ↓ Mall Traffic
 - Has Demand Changed??

Acquisition/Expanding Footprint

- Leverage Supply Chain
 - Acquisition & Integration → Mask Earnings Power

Fixed Operating Costs

- Adv = 3% | CapEx = 1.4% | R&D = 1% → Fixed Costs <6%
 - Cost to Maintain Brand & Some Downside Protection



Hanesbrand Risks

Political & Economic Risks

- Negatively Impact Global Supply Chain
 - Domestic & Foreign Taxes, Regulation, Tariffs

Industry Disruption

- Private Label & “Door Closures”
 - Impact Manufacture, Inventory, & Market Share

Financials

- Overextending
 - Debt & FCF & Paying Up for Acquisition

Spike in Cost of Goods Sold

- ↑ Commodity, Energy & Transportation
 - Can HBI Pass Along?



HAZELTON CAPITAL PARTNERS

“Simplicity is the Ultimate Sophistication”

Strategy

Discipline

Performance

Question & Answers



Explore more presentations at VALUExVail.com