

WESTPEAK RESEARCH ASSOCIATION

Hanesbrands Inc. (NYSE:HBI)

Consumer Cyclical – Family Clothing Stores

Get Your Hanes On This

April 8th, 2022

Hanesbrands Inc ('Hanes') is a multinational clothing retailer which focuses on providing consumers with high-quality daily casual wear and apparel. However, their well-known subsidiaries which include brands such as Champion to target the niche streetwear market, which has a high concentration of younger audiences. Hanesbrands currently has operations in more than 40 countries, including 39 manufacturing facilities and 45 distribution centers in addition to 1002 retail locations internationally.

Thesis – Strong Return to growth after Pandemic Repercussions

As with the whole retail clothing industry, Hanesbrand's performance has suffered through the last year and a half as the pandemic continues to affect countries. Despite this, we believe Hanesbrands compared to the broader small-cap retail clothing market as a whole is situated in a unique position to recover from the devastating effects of the pandemic. The main catalyst for this turnaround story is the brand dominance of their subsidiaries and the ability to leverage their low-cost primarily owned supply chain. As a result, growing revenues and high EBIT target margins in the near term appear achievable given the current business landscape, however, the industry has seen a decline in growth rates prior to the pandemic; thus revenue growth may start to taper off after initial recovery.

Drivers – Brand Portfolio and Cost Reductions

Moving forward, Hanesbrands continued success lies in their ability to progressively grow their main subsidiary 'Champion'. Whilst staple in the western streetwear industry, Champion currently lacks a foothold within international overseas markets. The presence of consistent growth of the Champion brand will indicate strong sustained growth for Hanesbrands. Further, cost reduction through different methods such as leveraging their world-class fully owned supply chain and streamlining their product portfolio will be a key driver as well.

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Equity Research US

Price Target	USD\$ 22.19
Rating	Buy
Share Price (Feb. 25 Close)	USD\$ 14.30
Total Return	44.18%

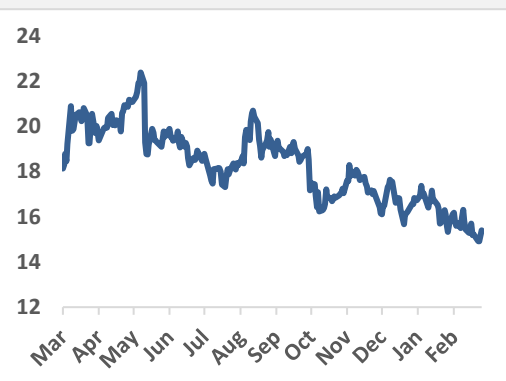
Key Statistics

52 Week H/L	\$22.82/\$14.51
Market Capitalization	\$5.49B
Average Daily Trading Volume	\$4.63M
Net Debt	\$3786.6M
Enterprise Value	\$8718.1M
Net Debt/EBITDA	3.54x
Diluted Shares Outstanding	\$352.1M
Free Float	98.82%
Dividend Yield	3.6%

WestPeak's Forecast

	2021E	2022E	2023E
Revenue	\$7.12B	\$7.48B	\$7.77B
EBITDA	\$1.21B	\$1.21B	\$1.32B
Net Income	\$269M	\$586M	\$717M
EPS	\$0.76	\$1.66	\$2.04
P/E	21.6x	9.9x	8.1x
EV/EBITDA	4.5x	6.2x	5.9x

1-Year Price Performance



Valuation

Given Hanesbrand's current share price of \$16.48, we believe it is undervalued within current market conditions. To reach this conclusion, we incorporated a discounted cash flow (DCF) using the exit multiple method with a 10.0x multiple along with an FY22E EV/EBITDA mean based comparable company analysis (CCA) approach, with both methods being proportionally weighted at 50%. With our financial analysis and forecasts, the combination of both our DCF and CCA methods signals a share price upside gap of 44.18% with a price target of \$22.19. Thus, we initiate a BUY rating on Hanesbrands inc.

Business Overview/Fundamentals

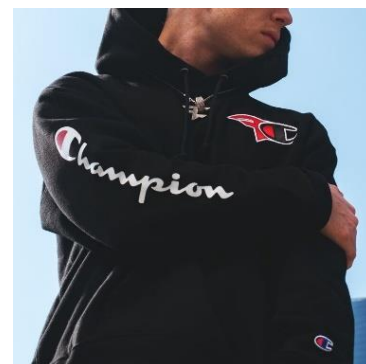
Company Overview

Hanesbrands Inc ('Hanes') is a multinational clothing retailer which focuses on providing consumers with high-quality daily casual wear and apparel. They currently are trying to target the niche street-wear market which has a high concentration of younger audiences through their well-known subsidiaries such as Champion and DKNY. Hanesbrands has operations in more than 40 countries, including 39 manufacturing facilities and 45 distribution centers in addition to 1002 retail locations internationally.

For reporting purposes, the company differentiates operations into three main segments: Innerwear, Activewear, and International

Champion

Champion has multiple product lines focusing on casual wear, athletic apparel, and streetwear, offering a balance between leisure and sportswear. Through their frequent partnerships with legacy brands from multiple industries such as Supreme, esports team 'cloud9' and influencer brand 'FaZe Clan', they have been able to gain dominance within the streetwear industry and have itself become a cornerstone brand with younger audiences. Champion has been the primary focus for Hanesbrands as they continue to target future growth.



Innerwear and Activewear

The Innerwear and Activewear segments include only domestic sales stemming from the United States. Hanesbrands Innerwear product lines primarily come from their business 'Hanes', and include product categories that include but is not limited to men, women, and children's underwear and socks, intimate apparel, face coverings, and gowns. Activewear apparel includes branded products sold within retailers and wholesalers such as licensed sports apparel and licensed logo apparel that are sold within collegiate bookstores.

International

The international segment of their business constructs of sales from international retailers, and includes all different product lines that Hanesbrands offer through their main and subsidiary entities, such as Innerwear and Activewear. A large driver of international sales is produced from Champion, due to its prevalence within the global streetwear scene and its product offering is considered to transcend most norms within different countries.

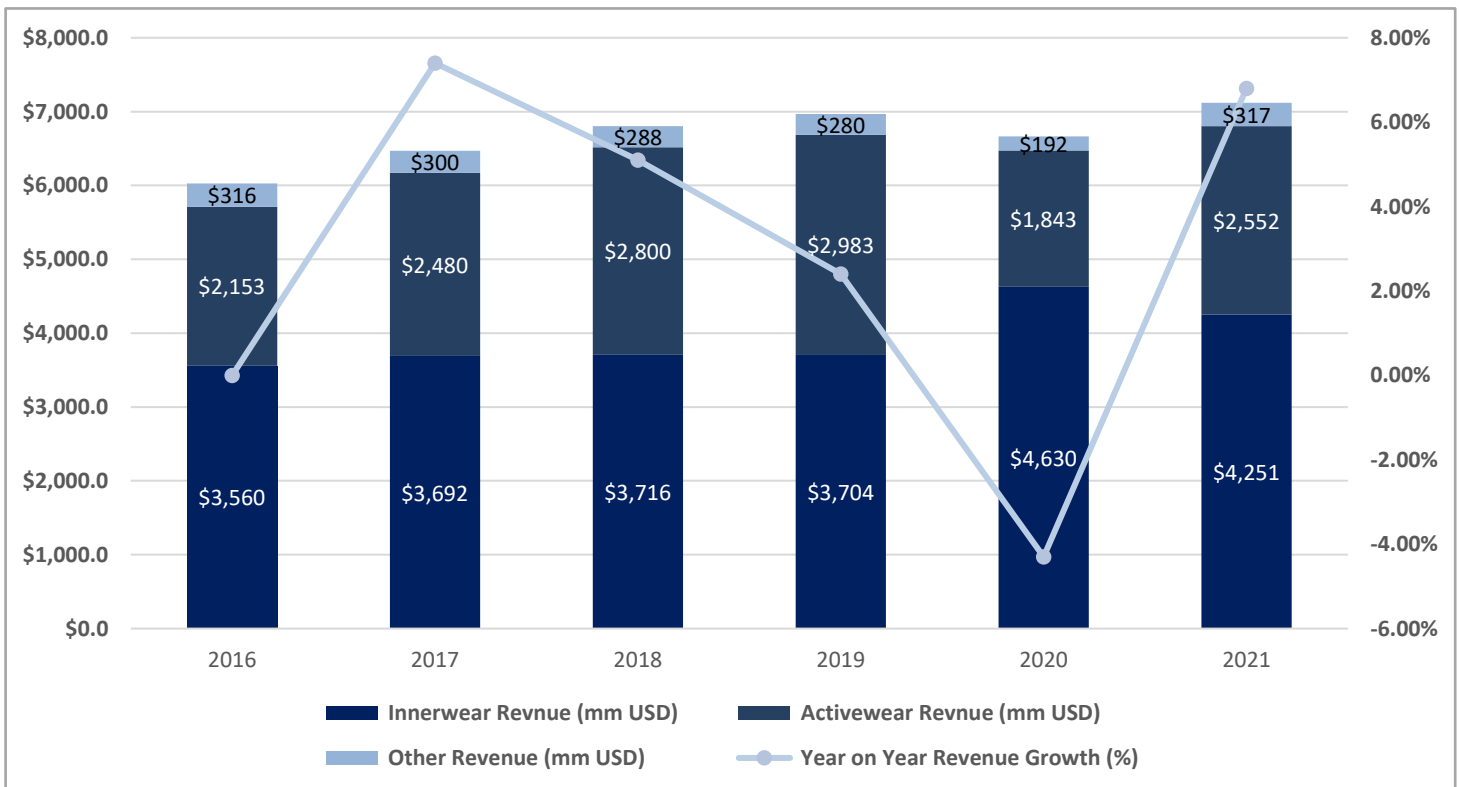


Revenue Breakdown

Product Lines

Historically, Hanesbrands generates the majority of its revenue from its innerwear segment. During the fiscal year of 2021, the company realized 55% of its revenue from this segment itself, and this is on par with past trends, with a historical 6 year average of 58% of revenue being generated from this segment. Their activewear segment contrarily captured 41% of Hanesbrand’s total revenue, with this segment having a historical 6-year revenue share of 38%. Comparatively, this revenue trend is also reflected when looking at revenue generation per square feet of property. Once again, innerwear products outperform the activewear product line, with the former realizing an average of \$582.9/sq. Ft and the latter with only \$312/sq. Ft. This relative outperformance is due in part to its primary brand and business ‘Hanes’ being renowned for selling its innerwear products such as underwear rather than activewear. Lastly, a relatively small 4% of Hanesbrands revenue came from the segment ‘Other’, with products that don’t fit into both categories.

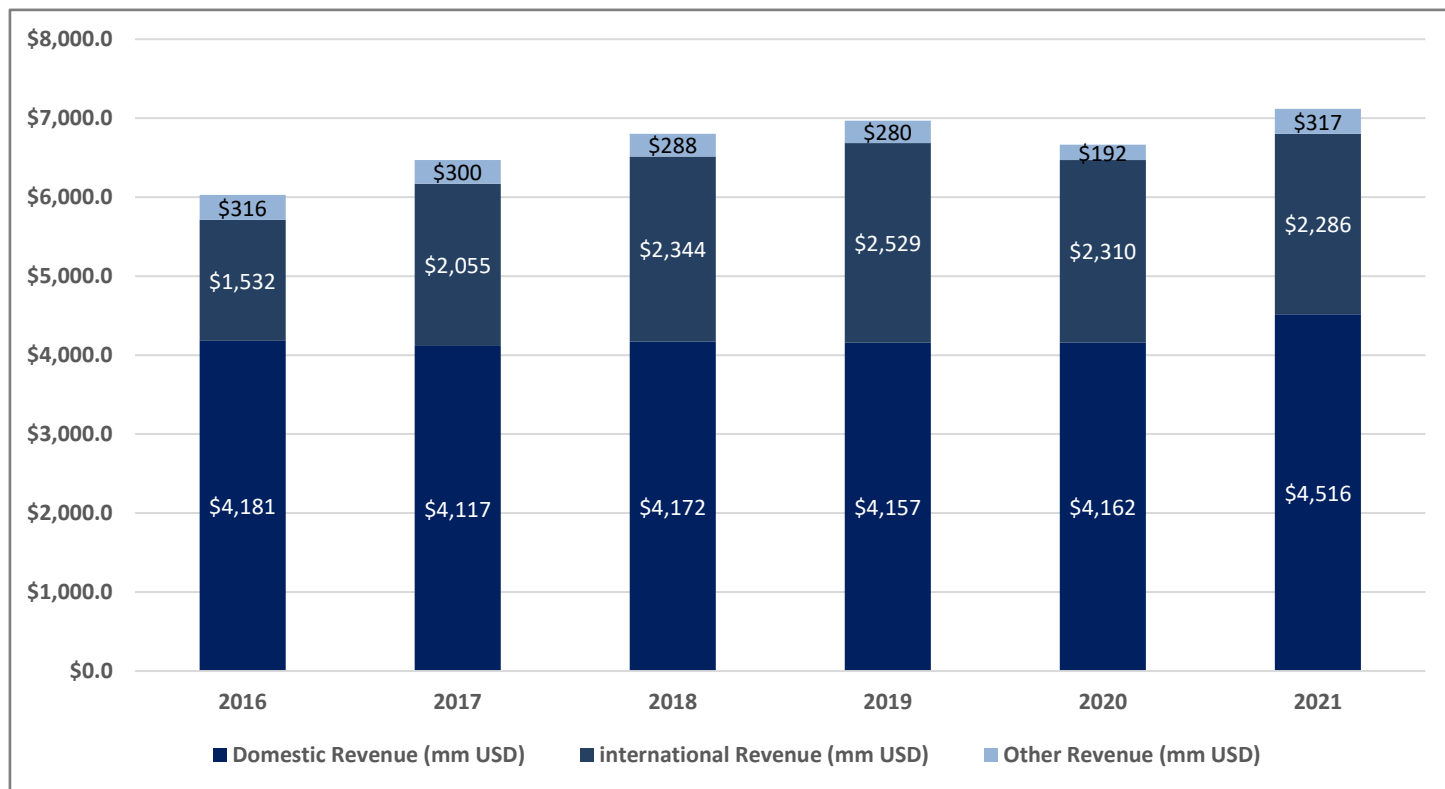
Exhibit 1: Revenue Breakdown by Product Line



Geographic Basis

Comparing revenues on a geographic basis, Hanesbrands realizes most of its sales domestically within the U.S where primary operations are held. Sales domestically and internationally have seen steady growth year on year growth in the years prior to the pandemic and have shown signs of strength and recovery in the recent fiscal year of 2021, with total revenues bouncing back by 6.8%. In FY21, domestic sales were a dominant segment of Hanesbrands revenue, with sales within the United States alone accounting for 63% of the company’s revenue, whereas international sales only generated 32% of total revenues and 5% coming from ‘other’ parts of the company’s operations. This is not surprising considering their primary brand and the main subsidiary ‘Hanes’ and Champion tends to cater towards the American market. However, Champion’s growth in international presence over the past half-decade has allowed for the growth of international sales for Hanesbrands. Whilst sales in FY16, international sales only accounted for 25% of total revenues, sales within this segment within recent years have seen growth of 8% to an average contribution of 33% to overall revenues. Growth within this market acts as a representation of a key performance indicator for the Champion brand, as management has stated that they intend to capture larger market shares within developing international markets through their main subsidiary.

Exhibit 2: Revenue Breakdown by Geography



Industry Analysis

Classification and Overview

In accordance to the North American Industry Classification system, Hanesbrands has a NACIS code of 4481480, classifying it as a Family Clothing Store. Family Clothing Stores are firms that create and manufacture clothes for men, women, or children without any clear specification in gender or age.

In 2021, there were 26,989 businesses classified within the Family Clothing Stores industry - a 4.9% growth from the previous year. Currently, for the annual year of 2021, the Industry has total revenues of \$91.8 bn and net profits of \$3.3bn, indicating a 3.6% net profit margin. It is important to note that whilst total revenues for this year had a moderately respectable growth of 10.8%, this indicated a 469.6% growth in net profits for the industry during the same timeframe, due to many companies operating at a loss in 2020 from the impacts of the Covid 19 pandemic. As a result, total revenue over a 5 year period in 2021 has decreased at an annualized rate of -4.0%

Trends

Over the past 5 years, the family clothing store industry has struggled. Between 2019 and 2020 there was slow growth in the industry, however, this growth was mainly due to the overall expansion of the economy and other macroeconomic factors rather than industry-specific factors.

A significant emerging trend includes the increasing mounting competition from different stores and industries. Firstly, the growth of luxury malls and specialty clothing or department stores has started to displace traditional powerhouse clothing stores and malls such as Sears and JC Penny and has therefore weighed down on revenue growth. Further, some struggling firms within the space have not been able to effectively rebound or recover from the effects of the e-commerce industry, mainly due to a lack of digitization and adoption in an era where consumers demand ease of accessibility and speed. It is expected that the family clothing industry will continue to experience competition from external sources such as department stores and e-commerce operations.

However, there is some good news for the industry. As the economy returns to normality and consumer income increases accordingly, the negative impacts of the Covid 19 pandemic have started to subside. For example, after an estimated 28.2% fall in revenue in 2020, a 10.8% growth in total overall revenue and a 469.6% increase in net profits in tandem with rising consumer confidence and foot traffic at retail stores are good indicators of a return to normality for the industry. Further, as travel restrictions for many countries continue to be in place, this acts as a barrier to travel for consumers. As a result this saved disposable income by consumers allows for greater spending potential on material items such as clothing.

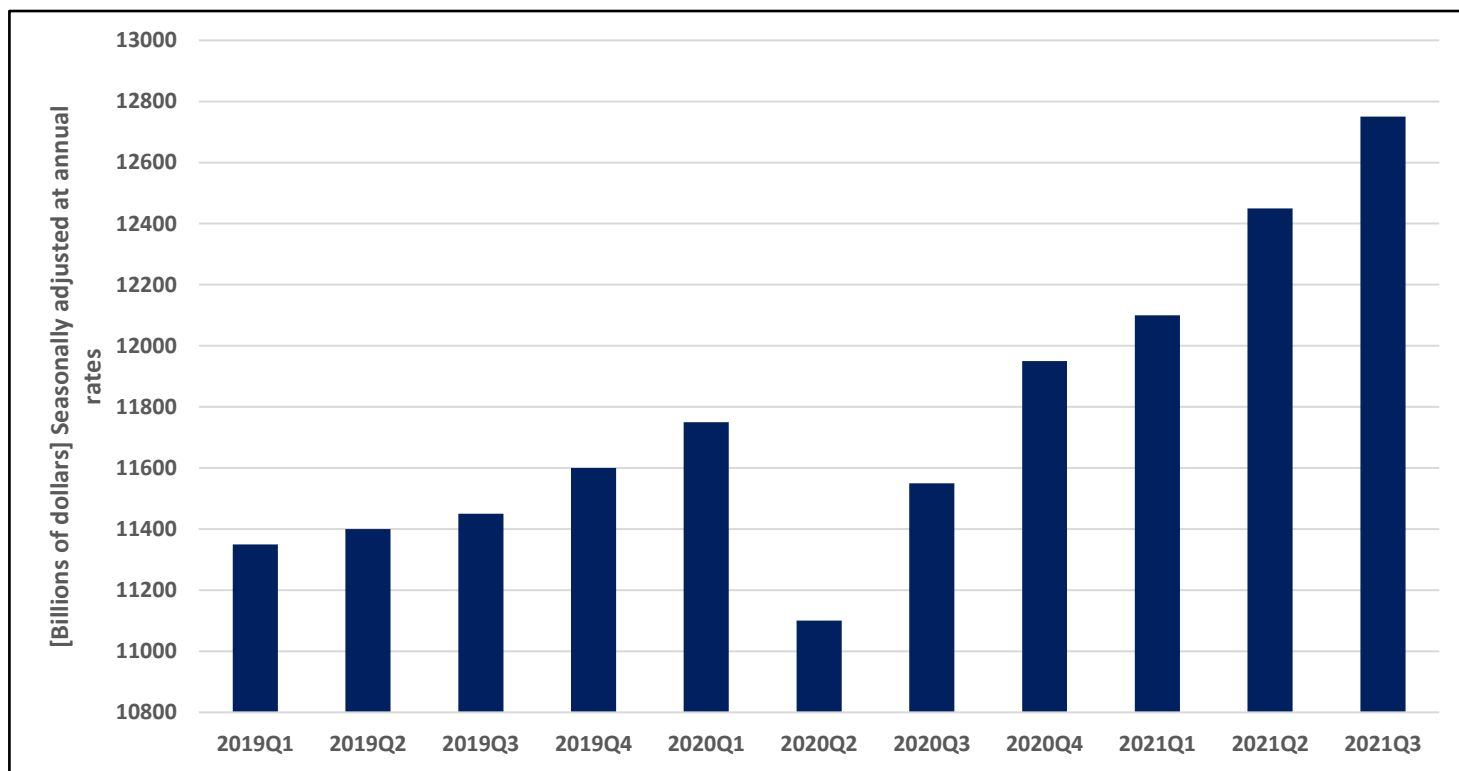
Drivers and Demand Determinants

Demand for the Family Clothing Store industry includes both short and long-run factors which affect the US economy.

Firstly touching on long-run determinants, the target demographics of the family clothing industry mainly comprises of a relatively wide group of audiences, including 20-64-year-olds as they frequently purchase clothes for themselves and their children. Over the next 5 years, it is expected that this demographic is set to grow, allowing businesses in the industry an opportunity to increase revenue streams in the future. Further, unlike other traditional clothing stores, family clothing stores cater towards a wide range of audiences such as male, female, and children lines as well, thus they are somewhat hedged against large demographic shifts.

Short-term determinants include consumer economic sentiment and disposable income. As disposable income increases, family clothing stores will likely see revenues decrease slightly as consumers tend to consume higher-quality clothing. However, a large decrease in disposable income does not necessarily result in a positive effect for operators' revenue as well as consumers will then decrease consumption on all products. Thus a stable level of consumer disposable income is ideal for maximum growth.

Exhibit 3: U.S Consumer income



Industry Outlook

Over the next 5 years, the industry is expected to recover from the effects of the Covid 19 pandemic and continue its slow growth prior to the event.

Disposable income for consumers is expected to increase at an annualized rate of 2.7% over the next five years, which will help to give a slight boost in demand for industry products. As mentioned before, there will also be a growth in the age demographic of 20-64-year-olds, thus, will also contribute to increases in revenue and demand for the industry as well. The expected increase within this age group is forecasted at an annualized rate of 0.2% over the next 5 years. As a result, it is expected that industry revenue will grow to \$99.4 billion in 2026, representing an annualized rate of 1.6%.

As disposable income is expected to grow, consumers over time will start to shift to higher quality, premium brands, and will be less price-sensitive to products and goods and more responsive to marketing. Thus consumer preferences for high-quality products will start to overshadow the incentive to save, and this will benefit retailers of high-end products, allowing them to gain increased revenues and market share. Further, with traditional brick-and-mortar stores being closed for most of 2020, these stores will likely see an increased rate of foot traffic and sales as consumers opt for the experience of shopping in person rather than online. Established, high brand image stores will likely experience an increase in sales, whilst lower-priced discount stores may see some stagnation. As a result, the number of firms within the family clothing market is expected to grow at an annualized rate of 1.1% or to 28459 companies by 2026.

Additionally, supply chain shortages are expected to return to normality, thus allowing for larger quantities of products to be produced and imported. Apparel retailers will be able to take advantage of this by saving purchase costs through purchasing economies of scale. Retailers will no longer need to rely on domestically produced clothing due to overseas shortages and import restrictions, and as imported goods are most likely cheaper than those domestically produced, retailers will be able to save on costs. It must also be considered that the world price of cotton is expected to decline at an annualized rate of 0.2% over the next 5 years. As a result of these factors, it is expected that profit will only increase marginally.

Catalysts

Release of 'Full Potential Plan'

Recently, with the hiring of their new Chief Executive Officer, Hanesbrands underwent a full comprehensive review of their business and has unveiled a multi-year plan to target consumer centric-growth.

Outlined by management as the four main pillars of focus for their vision is:

1. Grow Champion globally and reach a \$3 Billion valuation by 2024
2. Reignite innerwear growth for younger audiences
3. Drive consumer centricity through eCommerce and digital capabilities
4. Focus and simplify portfolio and all aspects of business

With this plan in place, the company expects Champion to capture a significant portion of international markets and anticipates the brand to reach a valuation of \$3 billion by 2024, reflecting a CAGR of 14% with reference to 2021 sales figures. Concurrently, they also foresee growth of net sales of their innerwear product lines internationally by \$200 million. As a result, overall sales revenue is also expected to increase from its 2021 midpoint guidance sales point of \$6.25 billion to roughly \$7.4 billion by 2024 indicating a 6% CAGR.

Strong 2021 Performance

After suffering through FY20 with a decline in total revenue of -4.3% from FY19, Hanesbrands recovered with a strong show of strength, with total revenues across all segments increasing by 14.6% in Q1 of FY21 year over year. This robust recovery led to Hanesbrand's excellent earnings release in Q1FY21 which shattered analysts' expectations by beating estimates for both sales growth and earnings per share concurrently. Consensus street estimates for EPS was 0.26 with reported EPS being 0.39 representing a 50% outperformance. Along with this remarkable stock growth was impressive online eCommerce sales growth for Hanesbrands which was registered at 82% year over year. Further, operating profit increased by a significant margin from 72 million in Q1FY20 to 210 million in Q1FY21. Thus, these results in 2021 are indicative of a substantial turnaround for Hanesbrands, and further, emphasize the robustness of the company. This has given a strong basis for continued success for the company not only into 2021, but into the near future.

However, looking into 2022, there is uncertainty whether or not this type of growth can be sustained. As already seen in 2021, total revenue gain has already started subside throughout Q2 and Q3 of 2021. Hence, it is a common consensus among investors that the strong performance in Q1 was primarily due to the excess quantitative easing and stimulus fed into the economy by the American government. To ensure future growth, Hanesbrands ability to fully carry out its multi-year full potential plan is crucial.

Management Team

Stephen B. Bratspies - Chief Executive Officer

In 2020, after the retirement and departure of CEO Gerald W. Evans Jr, Mr. Bratspies was elected as the new Hanesbrands CEO and subsequently appointed to the company's board of directors in August 2020.

Prior to his joining of Hanesbrands, Mr. Bratspies had multiple roles within different industries. He first entered the finance industry acting as a management consultant for A.T Kearny. Then he started his distinguished career at Walmart Inc. first holding the role of VP of marketing in 2005, and internally climbing the ranks to eventually serve as Chief Merchandising Officer in 2015 until his departure in 2020. Additional to his experience, he has also had a world-class education, achieving an MBA from the Wharton School of business in 1994.



Mr. Bratspies' previous experience of merchandising and marketing gained from his various roles at Walmart Inc. is believed to be an important asset for HanesBrands and critical to the success of their multi-year full potential growth plan. As a result, Mr. Bratspies' total compensation has a value of \$4.8m for FY20, whilst only \$1.2m of such was cash compensation. This low cash compensation rate aligns with HanesBrand's goals to reduce costs and to keep capital within the business.

- Chief Financial Officer

Mr. Dastugue joined HanesBrands in 2021 after his departure from Walmart Inc. He brings over 30 years of financial leadership experience and has an extensive background in corporate strategy, tax reporting, and financial examination and planning.

His 30 years of experience comprises of high executive roles from world-renown brands such as Walmart inc. and J.C. Penney Company. Most recently, Mr. Dastugue was the executive vice president and chief financial officer at Walmart Inc. where he played a key role in driving improved profitability and productivity across the company's \$370B U.S segment. During his 20 year tenure at J.C. Penney, he had various financial and real estate management roles and through good performance, climbed ranks internally. He eventually served as the chief financial officer for the company as well. He currently holds an MBA from the University of Texas.



For his experience, Mr. Dastugue is well compensated with a total compensation package of \$3.02m for one fiscal year. Mr. Dastugue's \$3.02m package is primarily comprised of performance-based bonuses along with a base salary pay of \$750,000.

Greg L. Hall - Chief Consumer Officer

Mr. Hall joined Hanesbrands as Chief Consumer Officer in November of 2020. His roles include overseeing HanesBrands, Domestic and international brands, e-commerce platforms, and retail teams. Further, he is also in charge of consumers 'omnichannel' experience, which is a combination of the experience offered through their websites, stores, and eCommerce retail partners. As a result, Mr. Hall is extremely crucial to the success of their recently announced multi-year growth plan due to his major role in HanesBrand's eCommerce platforms.

Previous to his appointment at Hanesbrands, Mr. Hall had a 14-year tenure at Walmart Inc. starting as senior director of marketing in 2005, and eventually reaching the role of senior vice president for private brands/manufacturing and food and consumables. He has also held various merchandising and marketing titles such as vice president of Marketing and senior vice president of Merchandising. He currently holds an MBA from Northwestern University's Kellogg School of Management.



Mr. Hall is well paid for his future contributions to HanesBrands' multi-year plan. Starting from the end of FY2020 (Nov), Mr. Hall's has a gross compensation package value totaling \$1.9m, with a \$600,000 base salary pay and the rest being additional performance-dependent bonuses

Shareholder Base, Liquidity, Market Depth

Shareholder Base

HanesBrands currently has 349.2m shares outstanding with a free float of 98.82% and aggregated equity ownership amongst management only at 1.18%. The shareholder base of HBI is quite concentrated, with the top 10 shareholders having a total equity value of 45.84%. The majority of shareholders are institutional investors with this demographic holding 90.58% of shares outstanding. This majority interest by institutions is greater than typical for retail apparel companies, thus indicating that ‘smart money’ sees HanesBrands and their stock to be a solid holding for the future.

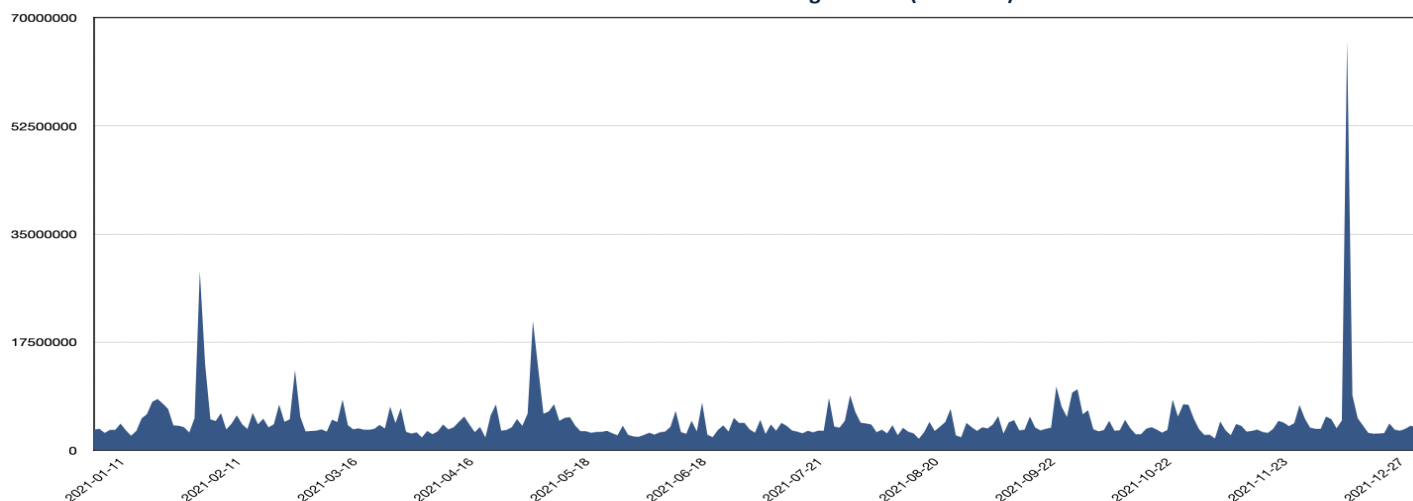
Exhibit 4: HBI Shareholder base

Shareholder (Name)	Shares Held	Shares Outstanding
	mm	%
Vanguard Group Inc.	37.24	10.66%
Blackrock Inc.	22.63	6.46%
Diamond Hill Capital Management	22.24	6.37%
SSgA Funds Management Inc.	16.75	4.80%
Shapiro Capital Management LLC	13.65	3.91%
Lyrical Asset Management LP	12.45	3.56%
ArrowMark Colorado Holdings LLC	11.78	3.37%
Cookie & Bieler LP	8.82	2.53%
Parnassus investments	7.51	2.15%
Geode Capital Management LLC	7.10	2.03%
Top 10 Identified Shareholders	160.17	45.84%

Liquidity

Hanesbrands daily trading volume for the LTM (Jan 07 21 - Jan 07 22) had an average value trading volume of 4.63mm shares per day with an average price of \$18.905. This implies that the amount of liquidity exchanged trading HBI was around \$87.53 mm per day, in comparison to its market capitalization of \$5.49 bn. The anomalous spikes shown on the graph are attributed to quarterly earnings releases and hence mass investor speculation.

Exhibit 5: HBI Last Twelve Months Trading Volume (in Shares)



Valuation

Our valuation methodology incorporated a discounted cashflow (DCF) using the exit multiple method with a 10.0x multiple along with a FY22E EV/EBITDA mean based comparable company analysis (CCA) approach, with both methods being proportionally weighted at 50%. With our financial analysis and forecasts, the combination of both our DCF and CCA methods signals a **share price upside gap of 34.6%** and a share price of **\$22.19** up from the current share price of \$16.48.

Discounted Cash Flow Assumptions

Revenue Forecasts

It is important to note that as the FY 2021 10-K has yet to be released by Hanesbrands, extrapolation of data was used to predict revenues for Q4 in order to have a full year of data for comparison. Further, for revenue breakdown by product line, revenue listed under 'International' was split between the Innerwear and Activewear segments relative to the proportional percentage of the revenue share of each segment.

Our five-year sales projections are primarily based on Hanesbrands' strong performance and return to growth after the COVID-19 pandemic in 2020. Further, we also took into consideration industry health as a whole as well as management's proposed multi-year 'full potential' plan. With all these factors in mind, we remain cautious yet optimistic of Hanesbrands' sales growth. Government stimulus resulting in increased consumer income and economic health from 2021 has helped to boost sales numbers substantially within FY21. However, with announcements that the American government may start to taper off economic stimulus, and price increases in CPI's indicating a 6.8% inflation rate in 2021 - the highest since 1968 -, net sale numbers may suffer.

However, with the recent appointments of 3 top executives (CEO, CFO, CCO) all of whom have worked together previously during their long tenures at Walmart inc. in the past, we believe their vision with their multi-year plan and synergies are enough to bring growth to Hanesbrands during this period of uncertainty. Across the board, we expect to see modest growth in Hanesbrands revenues, with a 5.06% CAGR in revenues over the next 5 years. This is in line with management's target and expectations of 6% overall sales growth from the mid-year point of 2021 to 2024. The achievability of this will remain heavily reliant on the momentum created from their strong 2021 recovery and the effective implementation of their proposed growth plan.

Cost Assumptions and Margin Analysis

Hanesbrands through their quarterly reports has announced upcoming emphasis on further cost controls. Even with their vertically integrated efficient supply chain, this advantageous asset still over competitors nevertheless still resulted in COGS having a 5-year historical average rate of 63.6% of gross revenue with a high of 72.3% in FY20. Thus it remains uncertain whether Hanesbrands can effectively reduce costs without sacrificing quality and performance in other sectors of their business. As a result, we project future COGS % of revenue to remain relatively similar to historical averages at around 60%. However, there is potential for further reduction in costs if Hanesbrands can shift operations in a meaningful manner. With the planned multi-year expansion plan, Hanesbrands will be able to gain further economies of scale by expanding their operations and taking advantage of purchasing power and bulk buying of raw materials for their factories and production

of apparel; all of which helps to reduce lower average unit costs. Further, as inflation in the U.S starts to increase, they will be able to shift production to their lower costs regions where they have operations such as the Dominican Republic and El Salvador. Hence, it would not be surprising if management is able to reduce COGS % in the future to more than 60%

Looking at EBITDA as a percentage of revenue, the historical 5-year rate of this margin has an average value of 11.96%. However, due to Hanesbrands renewed emphasis on cost-saving on all fronts, and the recent reduction of the previously fierce competition within the retail apparel space due to COVID-19, we estimate that EBITDA% will improve, and increase to a cumulative average of 17% over the next 5 years.

Tax Rate

Whilst the discretionary U.S tax rate is set at 21%, Hanesbrand's own historic tax rate has been monumentally higher at 36.7% due to accounting practices such as the shifting of deferred losses and taxes. Hence, we have incorporated a 30% effective tax rate to reflect their relatively high past tax payments.

Dividend Policy

Historically, Hanesbrands has provided investors with incentives to hold their stock with a strong annual dividend yield of 2%-4%. They have delivered a quarterly dividend of \$0.15, or \$0.6 annually per share and we will assume this will remain unchanged over the next 5 years.

Weighted Average Cost of Capital (WACC)

Utilizing CAPM (Capital Asset Pricing Model), we determined Hanesbrand's cost of equity to be 9.7%, derived from a 9.2% expected market return (S&P 500), along with a 1.8% risk-free rate (5-year US treasury Bill return rate) and a beta volatility rate of 1.07 from Bloomberg. Further, we determined Hanesbrand's pre-tax cost of debt to be 1.7% and applied our aforesaid effective tax rate of 30% to deduce a WACC of 6.9%

Comparable Companies Analysis Set

The following apparel companies below were used to create a relevant portfolio of comparable companies in order to establish an accurate and contextual valuation of Hanesbrands. This set of companies are comprised of businesses that operate within the same sectors as Hanesbrands, operate under similar business models, and have similar yet differentiated product offerings. Within our selected set portfolio, Hanesbrands operates at a relatively higher multiple when compared to its near competitors (8.2x vs industry mean of 2022E 15.0x EV/EBITDA multiple). We have decided to use the 2022E mean EV/EBITDA multiple of 7.5x when valuing Hanesbrands, implying that they are currently trading at a discount compared to its competitors.

Under Armour Inc. (NYSE: UAA)

Under Armour, Inc., together with its subsidiaries, engages in the developing, marketing, and distributing performance apparel, footwear, and accessories for men, women, and youth. The company offers its apparel in compression, fitted, and loose fit types. It also provides footwear products for running, training, basketball, cleated sports, recovery, and outdoor

applications. In addition, the company offers accessories, which include gloves, bags, headwear, and sports masks; and digital subscription and advertising services under the MapMyRun and MapMyRide platforms

Lululemon Athletica (NASDAQ: LULU)

Lululemon athletica inc., together with its subsidiaries, designs, distributes, and retails athletic apparel and accessories for women and men. It operates through two segments, Company-Operated Stores and Direct to Consumer. The company offers pants, shorts, tops, and jackets for healthy lifestyle and athletic activities, such as yoga, running, and training, as well as other sweaty pursuits. It also provides fitness-related accessories.

PVH Corp. (NYSE:PVH)

PVH Corp. operates as an apparel company worldwide. The company operates through six segments: Tommy Hilfiger North America, Tommy Hilfiger International, Calvin Klein North America, Calvin Klein International, Heritage Brands Wholesale, and Heritage Brands Retail.

Ralph Lauren Corp. (NYSE: RL)

Ralph Lauren is a designer fashion company founded in 1967 by designer Ralph Lauren. They currently design, market, and distributes lifestyle products in North America, Europe, Asia, and internationally. The company offers apparel, including a range of men's, women's, and children's clothing and accessories,

V.F. Corporation (NYSE: VFC)

The V.F Corporation is a global apparel company founded in 1899 that focuses on three broad product categories: outdoor, active, and work. The company sells its products primarily to specialty stores, department stores, national chains, and mass merchants, as well as sells through direct-to-consumer operations, including retail stores, concession retail stores, and e-commerce sites, and other digital platforms.

Recommendation - Buy

Given our projections and our analysis of Hanesbrands fundamentals through a discounted cash flow analysis and comparable company analysis, we propose a price target of \$22.18 representing an implied upside of 34.6% from the current share price of \$16.48.

Once again, we have begun to see confident signs of strength from Hanesbrands after the effects of the pandemic in FY20. Hanesbrands' robust recovery throughout FY21 is indicative of its ability to survive throughout the current volatile business environment. Further, we believe their newly established top-tier management team with many years of experience within the field has an optimistic yet undoubtedly realistic vision for the company, and this is shown through their so-called 'Full Potential' multi-year plan to capture long-term growth opportunities.

We believe that Hanesbrands has been overlooked and thus heavily discounted by the wider market despite being a company with characteristics that are indicative of a top performer. As aforementioned above during our discussion of the discounted cash flow, while we remain cautious due to the volatility of the business environment caused by the COVID-19 pandemic, and recent changes in government stances in economic stimulus, we still believe Hanesbrands presents an opportunity for investors to capture share price growth. Hanesbrands has already shown resilience during times of unpredictability, and while industry headwinds have revealed signs of declining growth rates for the apparel and retail industry as a whole prior to the pandemic, investors should expect Hanesbrands top tier management team to effectively implement their 'Full Potential' plan which should allow the company to outperform it's competitors and continue on an upwards trajectory.

Risks

Hanesbrands' outlying risks can largely be attributed to external factors due to the nature of its business and the industry it is in.

Consumer Income

Consumer income is one of the most substantial risks that Hanesbrands faces. With clothing being a normal good, this indicates that as consumer disposable income increases, a correlation of an increase in demand for such products is expected. Thus, as consumer income falls, demand and, therefore, revenue for Hanesbrands will do so as well. This trend was strongly indicated during the Covid-19 pandemic as businesses globally started to furlough and fire employees, increasing unemployment rates and reducing consumer income. As a result of this, revenue in the retail clothing industry fell by 28.2% whilst Hanesbrands revenue fell by 5%.

Commodity Pricing

Commodity pricing is also a significant risk external risk that significantly affects Hanesbrand's performance. Cotton is the primary commodity that threatens HBS's profit margins. HBS heavily relies on the use of cotton in its products and, unlike other players in the field, has a vertically integrated supply chain with its manufacturing and distribution department. As

such, HBI does not outsource its production to a third-party factory. While this does help to cut out the extra margins a third party is likely to add on for the use of their service, this also places the risk of shifting commodity prices ultimately on HBI. Once again, this effect was seen during the COVID-19 pandemic, with cotton prices rising 13.10%, leading to a decrease in HBI's gross profit by 32.04%.

Competitive Industry

Competition in the retail clothing industry is exceptionally fierce due to the sheer volume of businesses within the space. The pricing power that Hanesbrands can expect to gain from its subsidiary brand names such as Champion and DKNY will be somewhat limited as consumers likely have a threshold for brand value and premium pricing given the availability of almost identical products from other strong brands. These competitors include Ross Stores, The TJX inc., The Gap Inc. Jockey, Warnaco, and Victoria's Secret. Additionally, Hanesbrands Inc.'s business is sensitive to changes in retailers' private label strategies, which was seen when Target decided that it would renew its contract for the exclusive C9 x Champion apparel line collaboration in 2020. Target has decided that it will sell its own private label products. Over the last twelve months, the C9 apparel line allowed HBI to target younger niche audiences and generated \$380 million in revenue, which was a significant 5.7% of Hanesbrands Inc.'s total revenue during the same period.

Environmental Social Governance

New Sustainability Goals

With the growing focus on social welfare and corporate governance, Hanesbrands has recently announced new sustainability goals on many aspects of their business operations that they intend to target by 2030. These goals fall into the category of 'people, planet, and product' and aim to align with the United Nations (UN) sustainable development goals. By the annual year of 2030, HBI seeks to improve the lives of 10 million people globally through new health and wellness programs, diversity and inclusion initiatives, improved workplace quality, and philanthropic efforts that will enhance local communities. Next, HanesBrands will reduce gas emissions by at least 25% to align with science-based targets, reduce water use by 25%, use 100% renewable electricity in company-owned operations, and bring landfill waste to zero. Lastly, HanesBrands will eliminate all single-use plastics and reduce packaging weight by 25% while also moving to 100% recycled polyester and sustainably sourced cotton.

Social Accountability

HanesBrands currently has a social responsibility program called Hanes for Good which focuses on workplace equality, philanthropy, community building, and environmental sustainability.

In 2019, Hanesbrands partnered with NGO Glasswing International - an NGO that supports 1 million people in 16 countries - to improve schools and afterschool programs to keep children in El Salvador safe and engaged in everyday life and education. The partnership, which has a duration of 10 years, will see Hanesbrands donate over \$1.2 million to help renovate local school infrastructure, extracurricular activities, and continuous training programs for teachers helping to improve the overall education experience for young students in El Salvador. More than 200 HBI employees currently volunteer to support this effort, and as of 2020, the program has already helped more than 5,000 Salvadorian students. Further, HBI has also endorsed many Glasswing programs in Honduras and Dominican Republic as well. However, it is essential to note that HBI also has factories in many of these countries.

As a result of these actions, HBI earned the CSR Footprint social impact award sponsored by Grupo Cerca Publishing and FUNDEMAS, nonprofits that promote corporate social responsibility in under-developed countries.

Additionally, HBI recently supported efforts for the fight against the COVID-19 pandemic by using its apparel design and manufacturing expertise to produce more than 20 million medical gowns to be distributed by the US Federal Emergency Management Agency to hospitals and healthcare facilities in need. Further, HBI has introduced mandatory face mask wearings for consumers and business-to-business customers. Meanwhile, their subsidiary Hanes Hosiery is providing free stockings to vulnerable members of the community.

Workplace Safety and Fairness

Hanesbrands prides itself on being an innovative workplace leader that provides the same benefits, wages, and opportunities for all employees, regardless of race, sex, age, disability, or any other characteristic that may cause discrimination. They actively seek out and prohibit gender and racial discrimination and are highly committed to not working with suppliers who employ individuals under the age of 15, even if such practices are permissible by law.

Currently, the company offers employee development programs with specific support for women through its annual Global Women's Leadership Conference and the Women Mentoring Women program. The WMM provides networking opportunities and develops mentor relationships between female students at local colleges and HBI employees.

The company also has a gender-specific complaint system that echoes an understanding of gender roles and the inequalities women frequently face in workplaces, for instance, allowing concerns to be reported to an individual or entity other than the direct supervisor telephone line and ensuring the protection of the individual. HBI also takes a step further and screens for gender-related issues among its suppliers, including sexual harassment and discrimination against women based on pregnancy and marital status. If these issues are identified, it requires corrective action to be taken, with over 70 factories disapproved last year.

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Appendix 1: Summary Page

(Figures in mm USD)	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	31-12-2021	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Income Statement											
Revenue	6,028.2	6,471.4	6,804.0	6,966.9	6,664.4	7,119.9	7,475.9	7,774.9	8,008.1	8,248.4	8,413.3
EBITDA	887.9	855.9	1,009.0	1,031.4	150.5	1,208.3	1,207.4	1,321.7	1,361.4	1,402.2	1,430.3
Net Income	539.4	61.9	553.1	600.7	(75.6)	269.0	586.3	716.9	714.1	700.8	735.0
Earnings Per Share	\$ 1.40	\$ 0.17	\$ 1.52	\$ 1.64	\$ (0.21)	\$ 0.76	\$ 1.66	\$ 2.04	\$ 2.03	\$ 1.99	\$ 2.09
Cash Flow Statement											
Capital Expenditures	(83.4)	(87.0)	(86.3)	(101.1)	(53.7)	(88.4)	(136.4)	(138.8)	(151.5)	(158.4)	(152.6)
Acquisitions	80.8	4.5	2.6	4.9	0.7	2.5	(3.0)	4.0	2.0	2.0	3.0
Divestitures	(964.1)	(62.2)	(334.9)	(25.2)	-	-	-	-	-	-	-
Dividend Payment	904.5	278.5	278.1	341.1	234.7	(101.2)	(842.6)	(210.6)	(210.6)	(210.6)	(210.6)
Dividend Per Share	\$ 0.44	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60	\$ 0.60
Dividend Payout to Earnings	-167.7%	-449.9%	-50.3%	-56.8%	310.5%	37.6%	143.7%	29.4%	29.5%	30.1%	28.7%
Dividend Payout to Core FCF	-114.1%	-48.2%	-33.8%	-37.5%	-37.9%	16.0%	617.6%	151.8%	139.1%	133.0%	138.1%
Dividend Yield	1.7%	2.7%	3.5%	3.7%	4.8%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Balance Sheet											
Current Assets	3,321.2	3,386.4	3,542.1	3,224.6	3,408.4	3,876.3	2,071.6	1,577.2	1,252.8	922.5	587.6
Non-Current Assets	3,609.3	3,508.4	3,696.1	4,129.4	4,290.5	3,560.9	3,212.5	3,246.7	3,270.0	3,250.4	3,254.6
Assets	6,930.5	6,894.8	7,238.2	7,354.0	7,698.9	7,437.2	5,284.1	4,824.0	4,522.8	4,172.9	3,842.2
Current Liabilities	1,625.7	1,778.7	2,045.9	1,771.4	2,103.4	2,629.9	1,331.0	1,181.8	1,217.2	1,253.8	1,278.8
Non-Current Liabilities	4,080.9	4,429.8	4,320.2	4,346.0	4,781.5	4,408.2	4,408.2	4,408.2	4,408.2	4,408.2	4,408.2
Liabilities	5,706.6	6,208.6	6,366.1	6,117.4	6,884.9	7,038.1	5,739.2	5,590.0	5,625.4	5,661.9	5,687.0
Shareholders' Equity	1,223.9	686.2	872.1	1,236.6	814.0	677.7	421.5	927.8	1,431.2	1,921.4	2,445.8
Cash	460.2	421.6	433.0	328.9	909.4	416.0	(1,708.7)	(1,945.7)	(2,366.7)	(2,796.5)	(3,199.7)
Debt											
Net Debt	(460.2)	(421.6)	(433.0)	(328.9)	(909.4)	(416.0)	1,708.7	1,945.7	2,366.7	2,796.5	3,199.7
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a	n/a	n/a	n/a	1.4 x	1.5 x	1.7 x	2.0 x	2.2 x
Operating Metrics											
Return on Equity (ROE)	44.1%	9.0%	63.4%	48.6%	-9.3%	39.7%	139.1%	77.3%	49.9%	36.5%	30.1%
Return on Assets (ROA)	7.8%	0.9%	7.6%	8.2%	-1.0%	3.6%	11.1%	14.9%	15.8%	16.8%	19.1%
Return on Invested Capital (ROIC)											
Valuation Metrics											
Stock Price (High)	\$ 29.25	\$ 25.13	\$ 22.40	\$ 19.13	\$ 17.58	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48
Stock Price (Low)	\$ 21.55	\$ 19.29	\$ 11.89	\$ 13.66	\$ 7.17	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48
Stock Price (Average)	\$ 25.40	\$ 22.21	\$ 17.15	\$ 16.40	\$ 12.38	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48	\$ 16.48
Diluted Shares Outstanding (Average)	384.6	369.4	364.5	365.5	352.8	352.1	352.3	352.3	352.3	352.3	352.3
Market Capitalization (Average)	9,768.0	8,205.0	6,249.4	5,992.7	4,365.5	5,801.9	5,805.1	5,805.1	5,805.1	5,805.1	5,805.1
Enterprise Value (Average)	9,307.7	7,783.4	5,816.4	5,663.8	3,456.0	5,385.9	7,513.8	7,750.8	8,171.8	8,601.6	9,004.8
P/E	18.1 x	132.6 x	11.3 x	10.0 x	n/a	21.6 x	9.9 x	8.1 x	8.1 x	8.3 x	7.9 x
EV/EBITDA	10.5 x	9.1 x	5.8 x	5.5 x	23.0 x	4.5 x	6.2 x	5.9 x	6.0 x	6.1 x	6.3 x
FCF Yield to Market Capitalization	6.8%	5.6%	11.8%	14.3%	2.0%	14.0%	-3.0%	20.6%	18.1%	18.7%	19.5%
FCF Yield to Enterprise Value	7.2%	5.9%	12.6%	15.1%	2.5%	15.1%	-2.3%	15.4%	12.9%	12.6%	12.6%
Free Cash Flow											
EBIT	775.6	723.1	868.0	889.7	6.5	975.6	1,093.7	1,229.2	1,235.2	1,226.2	1,285.0
Tax Expense	(34.3)	(473.3)	(93.8)	(79.0)	107.5	(77.4)	(86.7)	(97.5)	(97.9)	(97.2)	(101.9)
D&A	112.2	132.9	141.1	141.7	144.0	232.7	113.7	92.5	126.2	176.0	145.3
Capital Expenditures	(83.4)	(87.0)	(86.3)	(101.1)	(53.7)	(88.4)	(136.4)	(138.8)	(151.5)	(158.4)	(152.6)
Changes in NWC	(103.6)	164.9	(93.2)	4.9	(116.4)	(229.6)	(1,159.4)	108.2	(61.1)	(62.9)	(43.2)
Unlevered Free Cash Flow	666.6	460.6	735.8	856.2	87.9	812.9	(175.2)	1,193.7	1,050.9	1,083.6	1,132.6
Valuation Summary											
Current Price	\$ 16.48										
Target Price	\$ 22.19										
Total Return	34.6%										
Recommendation	BUY										
DCF Valuation											
Perpetuity Growth Implied Price	\$ 48.98										
Exit Multiple Implied Price	\$ 30.05										
Comps Valuation											
Comps - EV/EBITDA Implied Price	\$ 14.33										
Comps - P/E Implied Price	\$ 22.95										

Appendix 2: Discounted Cash Flow Analysis

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	31-12-2021	Dec-22	Dec-23	Dec-24	Dec-25	Dec-26
(Figures in mm USD)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
WACC Calculations											
Cost of Equity											
Risk-free rate	1.8%										
Expected market return	9.2%										
Market Risk Premium	7.4%										
Beta	1.07										
Cost of Equity	9.7%										
Cost of Debt											
Pre-tax cost of debt	1.7%										
Debt Adjustment Factor	1.57										
Effective tax rate	7.9%										
Cost of Debt	2.5%										
WACC											
Market value of equity	5,805.1										
Market value of debt	3,786.6										
Total Capitalization	9,591.7										
Cost of equity	9.7%										
Cost of debt	2.5%										
WACC	6.9%										
Free Cash Flow											
EBIT	775.6	723.1	868.0	889.7	6.5	975.6	1,093.7	1,229.2	1,235.2	1,226.2	1,285.0
Less: Tax expense	(34.3)	(473.3)	(93.8)	(79.0)	107.5	(77.4)	(86.7)	(97.5)	(97.9)	(97.2)	(101.9)
Add: Depreciation and amortization	112.2	132.9	141.1	141.7	144.0	232.7	113.7	92.5	126.2	176.0	145.3
Less: Capital expenditures	(83.4)	(87.0)	(86.3)	(101.1)	(53.7)	(88.4)	(136.4)	(138.8)	(151.5)	(158.4)	(152.6)
Less: Change in net working capital	(103.6)	164.9	(93.2)	4.9	(116.4)	(229.6)	(1,159.4)	108.2	(61.1)	(62.9)	(43.2)
Unlevered Free Cash Flow	666.6	460.6	735.8	856.2	87.9	812.9	(175.2)	1,193.7	1,050.9	1,083.6	1,132.6
Discount factor						0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						87.3	(175.9)	1,028.0	846.9	817.2	799.3
Discounted Cash Flow Valuations											
Perpetuity Growth Method											
Perpetuity Growth Rate	2.0%										
PV sum of unlevered FCF	3,402.9										
Terminal value	16,761.7										
Enterprise Value	20,164.6										
Add: Cash	873.6										
Less: Debt	3,786.6										
Less: Other EV adjustments											
Equity Value	17,251.7										
Shares outstanding	352.3										
Implied Share Price	\$ 48.98										
Current Price	\$ 16.48										
Implied Price	\$ 48.98										
Total Return	197.2%										
Exit Multiple Method											
Terminal EV/EBITDA Multiple											
PV sum of unlevered FCF	1.00%	\$ 32.62	\$ 36.09	\$ 40.15	\$ 44.97	\$ 50.78					
Terminal value	1.50%	\$ 35.26	\$ 39.24	\$ 43.95	\$ 49.64	\$ 56.62					
Enterprise Value	2.00%	\$ 38.34	\$ 42.96	\$ 48.53	\$ 55.37	\$ 63.96					
Add: Cash	2.50%	\$ 41.99	\$ 47.45	\$ 54.15	\$ 62.57	\$ 73.47					
Less: Debt	3.00%	\$ 46.39	\$ 52.95	\$ 61.20	\$ 71.88	\$ 86.25					
Less: Other EV adjustments											
Equity Value											
WACC											
Shares outstanding		7.90%	7.40%	6.90%	6.40%	5.90%					
Implied Share Price	8.0 x	\$ 22.84	\$ 23.54	\$ 24.26	\$ 25.00	\$ 25.77					
	9.0 x	\$ 25.56	\$ 26.33	\$ 27.12	\$ 27.94	\$ 28.77					
Current Price	10.0 x	\$ 28.29	\$ 29.12	\$ 29.98	\$ 30.87	\$ 31.78					
Implied Price	11.0 x	\$ 31.01	\$ 31.91	\$ 32.84	\$ 33.80	\$ 34.78					
Total Return	12.0 x	\$ 33.74	\$ 34.71	\$ 35.70	\$ 36.73	\$ 37.79					

Appendix 3: Comparable Companies Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple			P/E Multiple		
				2021A EV/EBITDA	2022E EV/EBITDA	2023E EV/EBITDA	2021A P/E	2022E P/E	2023E P/E
Under Armor Inc.	(NYSE: UAA)	9,450.6	9,730.4	14.1 x	14.1 x	12.4 x	20.9 x	24.8 x	21.1 x
Lululemon Athletica inc.	(NASDAQ: LULU)	45,928.7	45,795.0	31.3 x	28.4 x	24.3 x	53.3 x	45.8 x	38.5 x
PVH Corp.	(NYSE:PVH)	7,487.2	10,548.9	9.6 x	8.6 x	8.3 x	15.3 x	11.5 x	10.7 x
Ralph Lauren Corp.	(NYSE: RL)	8,689.2	9,115.1	9.6 x	9.1 x	8.4 x	21.8 x	16.0 x	14.5 x
V.F. Corporation	(NYSE: VFC)	28,474.1	27,506.8	16.9 x	14.7 x	13.1 x	28.2 x	22.7 x	19.6 x
Hanes Brands International	(NYSE:HBI)	5,805.1	8,718.1	8.2 x	8.2 x	7.7 x	49.9 x	8.7 x	8.1 x
Median				14.1 x	12.4 x		22.7 x	19.6 x	
Mean				15.0 x	13.3 x		24.2 x	20.9 x	
High				28.4 x	24.3 x		45.8 x	38.5 x	
Low				8.6 x	8.3 x		11.5 x	10.7 x	
				EV/EBITDA Implied Price		P/E Implied Price			
Median				\$ 34.26	\$ 31.22	\$ 43.18	\$ 39.77		
Mean				\$ 36.93	\$ 34.13	\$ 45.89	\$ 42.37		
High				\$ 77.43	\$ 69.25	\$ 86.97	\$ 78.12		
Low				\$ 17.69	\$ 18.25	\$ 21.85	\$ 21.72		