

COMPANY PROFILE

# Hanesbrands Inc.

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## COMPANY OVERVIEW

Hanesbrands Inc. (Hanesbrands or 'the company') is a manufacturer and marketer of innerwear and activewear apparel. The company's product offerings include bras, panties, shapewear, hosiery, men's underwear, children's underwear, socks, t-shirts and other activewear. Hanesbrands classifies its business operations into four reportable segments: Innerwear, Activewear, International and Direct to Consumer. The company operates in the Americas, Europe, Australia and Asia/Pacific. It is headquartered in Winston-Salem, North Carolina.

The company reported revenues of (US Dollars) US\$6,028.2 million for the fiscal year ended December 2016 (FY2016), an increase of 5.2% over FY2015. In FY2016, the company's operating margin was 12.9%, compared to an operating margin of 10.4% in FY2015. In FY2016, the company recorded a net margin of 8.9%, compared to a net margin of 7.5% in FY2015.

## KEY FACTS

<b>Head Office</b>	Hanesbrands Inc. 1000 East Hanes Mill Road Winston-Salem North Carolina Winston-Salem North Carolina USA
<b>Phone</b>	1 336 519 8080
<b>Fax</b>	
<b>Web Address</b>	www.hanes.com
<b>Revenue / turnover (USD Mn)</b>	6,028.2
<b>Financial Year End</b>	December
<b>Employees</b>	67,800
<b>New York Stock Exchange Ticker</b>	HBI

## SWOT ANALYSIS

Hanesbrands is a manufacturer and marketer of innerwear, activewear and hosiery apparel. The company owns a portfolio of well-known brands, including Hanes, Champion, DIM, Bali, Playtex, Maidenform, JMS /Just My Size, Nur Die/Nur Der, L'eggs, Flexees, Wonderbra, Gear for Sports, Lilyette, and Lovable. Hanesbrands' strong brand portfolio enables it to strengthen its footprint in core markets. However, intense competition could have an impact on the company's position in the market.

<p><b>Strength</b></p> <p>Inorganic Growth Strong Brand Portfolio Strong Financial Performance</p>	<p><b>Weakness</b></p> <p>Dependence on Large Retail Customers Concentrated Operations</p>
<p><b>Opportunity</b></p> <p>Growing Apparel Retail Market in the US Rising Popularity of Online Shopping</p>	<p><b>Threat</b></p> <p>Fluctuations in Foreign Exchange Currency Rates Intense Competition Increase in Labor Cost in the US</p>

### Strength

#### Inorganic Growth

Hanesbrands has been expanding its offerings through the inorganic route over the last few years. For instance, in 2015, the company acquired Knights Apparel, a seller of licensed collegiate logo apparel in the mass retail channel, from Merit Capital Partners. This acquisition offered value-creating opportunity for the company's existing licensed collegiate apparel business and provided strong growth potential for its college licensed brands.

Further in 2016, the company acquired Champion Europe, which owned the trademark for the Champion brand in Europe, the Middle East and Africa. This acquisition would create a combined growth platform to take the advantage of growing global consumer active apparel market. In the same year, the company acquired Pacific Brands, one of the leading underwear and intimate apparel companies in Australia. The acquisition added Australia and New Zealand to the list of countries (the US Canada, Mexico, Brazil, France, Germany, Italy, Spain, and South Africa) where the company holds leading market share position for underwear, intimate apparel or hosiery. Also, with this acquisition, Hanesbrands expects considerable savings through the use of Hanes' large-scale, low-cost global supply chain. Inorganic growth through strategic acquisitions enables the company to gain significant market share.

#### Strong Brand Portfolio

Hanesbrands has a portfolio of well-known apparel brands such as Hanes, Champion, Maidenform, DIM,

Bali, Playtex, Bonds, JMS/Just My Size, Nur Die/Nur Der, L'eggs, Lovable, Wonderbra, Flexees, Gear for Sports and Berlei. It has strong brand positioning in various apparel product categories. The company's brands either hold the number one or number two market positions in the US by units sold in most product categories in which it operates. For instance, Hanes is the number one brand of total apparel in the US and is found in 80% of the US households. The company is also the intimate apparel category leader in the US with its Hanes, Maidenform, Bali, Playtex, JMS/Just My Size, L'eggs, Donna Karan and DKNY brands. Hanesbrands is one of the leading manufacturers and marketers of men's underwear and children's underwear in the US under Hanes, Champion and Polo Ralph Lauren brands and women's sheer hosiery under the L'eggs, Hanes, Maidenform, JMS/Just My Size, Donna Karan and DKNY brands. The company is also a leader in activewear market through its Champion, Hanes and JMS/Just My Size brands.

Further, some of the company's innerwear brands are also market leaders across Australia and Western and Central Europe. In the intimate apparel category, Hanesbrands hold the number one market share in Spain and the number two market share in France, Italy and Australia. The company is also the category leader in men's underwear in Australia, France and Spain, and in hosiery in France and Germany. Hanesbrands' strong brand portfolio enables it to strengthen its footprint in various markets.

#### Strong Financial Performance

Hanesbrands registered strong growth in terms of revenues and profits during 2014–16. The company's revenues increased at a compound annual growth rate (CAGR) of 6% from USD5,324.7 million in FY2014 to USD6,028.2 million in FY2016. As compared to FY2015, the revenues increased 5.2% in FY2016. The increase in revenues was primarily due to incremental net sales of USD435 million from businesses acquired in 2016, primarily Hanes Australasia and Champion Europe; acquisition of Knights Apparel in 2015, which added an incremental USD21 million of revenues in 2016; and sustained growth in the Activewear segment within the company's college bookstore business and Champion sales within the mass merchant channel.

Also, the operating income and net income of Hanesbrands grew at a CAGR of 17% and 15%, respectively, between FY2014 and FY2016. The operating income and net income grew by 30.3% and 25.8%, respectively, in FY2016 over FY2015. Strong financial performance will provide the company with financial flexibility and also help in expansion activities.

#### Weakness

##### Dependence on Large Retail Customers

Hanesbrands' revenues are highly concentrated in terms of its customers. The company's top 10 customers accounted for nearly 52% of its net sales. The company's largest customers, Wal-Mart and Target, accounted for 20% and 15% of total sales in FY2016, respectively. For the Innerwear segment, concentration is even higher, with Wal-Mart accounting for 34% of net sales and Target 17% of net sales during FY2016. In the Activewear segment, Target represented 28% of net sales and Wal-Mart represented 19% of net sales. Since supply contracts with these clients do not involve any long-term contracts, any loss or material reduction in sales to any of these top customers would have a material

adverse effect on the company's business.

### Concentrated Operations

The company's operations are excessively concentrated on the US. Hanesbrands generated 74.5% of its revenues from the US in FY2016. It derived remaining 25.5% of the revenues from Europe, Japan, Canada, Mexico, Brazil, China and other countries. High dependence on the US market makes the company vulnerable to negative trends in the customer demand, economic downturn in the region, and other similar factors affecting the market. Therefore, Hanesbrands' concentrated operations expose it to risks associated with the economy, while its competitors with significant operations in other countries would be safeguarded against such risks.

## Opportunity

### Growing Apparel Retail Market in the US

The apparel retail market in the US has witnessed a moderate growth in the recent past. According to MarketLine, the apparel retail market in the US grew by 3.3% in 2015 to reach a value of USD300.9 billion. In 2020, this market is expected to reach a value of USD344.8 billion, an increase of 14.6% since 2015. Womenswear is the largest segment of the apparel retail market in the US, accounting for 52.3% of the market's total value. The US accounts for 24% of the global apparel retail market value. The growing online spending is also expected to contribute to the growth of the apparel market across geographies. With rising apparel market in the US, Hanesbrands is well positioned to generate revenues from its product offering.

### Rising Popularity of Online Shopping

The e-commerce sales have been growing at a fast pace in recent times as the online channel is growing in popularity as the most preferred channel for several customers. According to the US Department of Commerce, the online retail sales (adjusted for seasonal variation) in the US totaled USD389.9 billion in 2016, an increase of 15% over 2015. Total retail sales, on the other hand, grew by only 3% during the same period. e-commerce sales accounted for 8% of total retail sales in 2016. In addition, total e-commerce sales in the US for the first quarter of 2017, adjusted for seasonal variation, was USD105.7 billion, an increase of 14.7% over the same period last year.

Hanesbrands sells its branded products through its online websites under the Hanes, One Hanes Place, JMS/Just My Size and Champion names. The Direct to Consumer segment of the company recorded revenues of USD315.6 million in FY2016, representing 5.2% of the total net sales. Hanesbrands can leverage its online presence to serve a larger customer base, which, in turn, will augment its revenues.

## Threat

### Fluctuations in Foreign Exchange Currency Rates

Although the company sells many of its products in transactions denominated in the US currency, purchase of raw material, payment of wages, and other supply chain related payments take place in foreign currencies. Therefore, when the US dollar weakens against these foreign currencies, the company's cost of sales could increase. Outside the US, the company may pay for materials or finished products in US dollars, and in some cases a strengthening of the US dollar could increase the costs where foreign currency is used to purchase the US dollars required to make such payments. The company is also exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in the financial statements due to the translation of operating results and financial position of its foreign subsidiaries. Thus, high exposure to foreign currency makes the company highly sensitive to foreign currency exchange fluctuations which could affect its operational results and financial position.

#### Intense Competition

The apparel essentials market is highly competitive. The company competes on the basis of brand name recognition, price, product quality, selection, service and purchasing convenience. Some of the companies that Hanesbrands competes with have substantially larger resources. The company's Innerwear segment faces stiff competition from companies such as L Brands and Jockey International. In the Activewear segment, it competes with Gildan Activewear and The Gap. The company also competes with various manufacturers of varying size across all business segments, including Fruit of the Loom. In the International segment, Hanesbrands compete with Triumph International and Calzedonia, which are European intimate apparel distributors, as well as with other international activewear retailers such as Nike, adidas, Puma, Under Armour and Converse. Furthermore, department stores and other retailers market sell basic apparel products under private labels. Failure to compete with its peers on quality, pricing and brand promotion could affect the company's market share and revenues.

#### Increase in Labor Cost in the US

Labor wages have been rising in the US. The federal minimum wage rate in the US, which remained at USD5.15 per hour since 1998, increased to USD5.85 per hour in 2008. It further increased to USD6.55 per hour in 2009 and to USD7.25 per hour in 2010. Moreover, many states and municipalities in the US have minimum wage rate even higher than USD7.25 per hour due to higher cost of living. For instance, the minimum wage rate has increased in the states of Arkansas (from USD8 in 2016 to USD8.5 in 2017), Colorado (from USD8.31 in 2016 to USD9.3 in 2017), and New York (from USD9 in 2016 to USD9.7 in 2017). The company's cost structure will be negatively impacted by the rising labor wages. It could impact the margin expansion adversely and affect the company's profitability.

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