

## Hanesbrands Inc.

**Executive Summary:** Hanesbrands Inc. (“HBI” or the “Company”) is a leader in the manufacturing and marketing of apparel essentials, selling apparel under the Hanes, Champion, Playtex, Bali, Just My Size, barely there and Wonderbra brand names.

**Summary Pros:** HBI maintains dominant brands and its focus on the staple apparel sector should make it less sensitive to broader macro concerns. The Company has a number of value creation levers including deleveraging, operational cost initiatives, and a reduction in the price of key raw material inputs. Most importantly, HBI trades at extremely attractive valuation multiples.

**Summary Risks:** Investors may be concerned about HBI’s ability to service its debt in a challenging retail environment. In addition, some of HBI’s accounts, such as Mervyn’s, have filed for bankruptcy, resulting in an increase in the write off of receivables. Finally, a published short case by a prominent firm was published earlier in the year which questioned some of HBI’s strategic, operational, and financial reporting aspects.

### COMPANY OVERVIEW

HBI is an integrated manufacturer and marketer of T-shirts, bras, panties, adult and children’s underwear, socks, hosiery, casual wear and active wear under the Hanes, Champion, Playtex, Bali, Just My Size, barely there and Wonderbra brand names. The Company was spun out of Sara Lee Corp (“SLE”) in late 2006.

Hanes is the largest and most widely recognized brand in HBI’s portfolio and one of the most recognized apparel and accessory brands among women in the US. Hanes could be found in 85%+ of US households that purchased men’s or women’s casual clothing or underwear in 2007. Champion is HBI’s second largest brand, specializing in athletic apparel and also distributes products under the C9 by Champion brand exclusively through Target Corp (“TGT”). Playtex is the Company’s third-largest brand and offers a line of bras, panties and shapewear, including products for hard to fit figures while Bali is HBI’s fourth-largest brand, offering a range of bras, panties and shapewear sold in the department store channel. Other brands in the Company’s portfolio include L’eggs, Just My Size, barely there, Wonderbra, Outer Banks and Duofold.

The Company generally controls these brands worldwide with the exception of Wonderbra and Playtex in Europe. In February 2006, SLE sold its European branded apparel business to Sun Capital Partners, giving it the right to sell Wonderbra and Playtex products in EU member states, Russia, South Africa, and Switzerland. In addition, Tupperware has three-year rights to use HBI trademarks in the Philippines and Malaysia as well as the rights over five years to sell discontinued HBI items in Mexico on a door to door basis.

Roughly 90% of the Company’s sales are in the US with Wal-Mart Stores (“WMT”), TGT, and Kohl’s (“KSS”) accounting for 27%, 14%, and 6% of sales, respectively. WMT and TGT account for 30% and 11% of innerwear sales, respectively, and 24% and 25% of outerwear, respectively. Of HBI’s \$4.5B in 2007 sales, 46% were through mass retail, 18% from other, 9% from international sales, 8% in direct sales, and 19% from national channels.

### KEY DATA AND STATISTICS

Ticker:	HBI
Industry/Sector:	Consumer/Apparel
Share Price:	\$13.19
52 Week Range	\$8.54-\$37.73
<b>KCM Valuation Target</b>	<b>\$20.00-\$38.00</b>

#### Company Value

Shares Out (MM)	95
Market Capitalization (\$MM)	\$1,253
Enterprise Value (\$MM)	\$3,554

#### Key Valuation Multiples

EV/LTM Rev	0.8x
EV/LTM EBITDA	6.8x
P/LTM EPS	7.6x
P/ (EBITDA - CapEx)	3.5x
EV/2009 Rev	0.8x
EV/2009 EBITDA	5.9x
P/2009 EPS	5.7x

#### Key Insider Data

Chief Executive	Richard Noll
Chief Financial	E. Lee Wyatt Jr.
Insider Ownership	~8%

**EXHIBIT I: HBI SEGMENT DATA**

SEGMENT DATA (USD MM)											
	2004	2005	2006	2007	Q1 07	Q1 08	Q2 07	Q2 08	Q3 07	Q3 08	LTM Q3 08
<b>Gross Revenues</b>											
Innerwear	\$2,705	\$2,741	\$2,575	\$2,557	\$590	\$544	\$692	\$636	\$635	\$650	\$2,470
Outerwear	\$1,243	\$1,301	\$1,154	\$1,222	\$284	\$272	\$264	\$260	\$349	\$348	\$1,206
Hosiery	\$401	\$354	\$278	\$266	\$74	\$67	\$51	\$50	\$64	\$50	\$244
International	\$368	\$355	\$400	\$422	\$91	\$105	\$109	\$131	\$103	\$117	\$471
Other	\$0	\$0	\$45	\$57	\$15	\$11	\$18	\$4	\$14	\$5	\$30
<b>Total Gross Revenues</b>	<b>\$4,716</b>	<b>\$4,750</b>	<b>\$4,452</b>	<b>\$4,524</b>	<b>\$1,054</b>	<b>\$998</b>	<b>\$1,133</b>	<b>\$1,081</b>	<b>\$1,166</b>	<b>\$1,170</b>	<b>\$4,421</b>
Total Eliminations	\$84	\$66	\$100	\$37	\$14	\$11	\$11	\$9	\$12	\$17	\$36
<b>Net Sales</b>	<b>\$4,633</b>	<b>\$4,684</b>	<b>\$4,352</b>	<b>\$4,487</b>	<b>\$1,040</b>	<b>\$988</b>	<b>\$1,122</b>	<b>\$1,072</b>	<b>\$1,154</b>	<b>\$1,154</b>	<b>\$4,385</b>
<b>Segment Profits</b>											
Innerwear	\$334	\$261	\$340	\$306	\$76	\$54	\$105	\$80	\$63	\$71	\$267
Outerwear	\$52	\$61	\$57	\$71	\$6	\$16	\$12	\$20	\$36	\$19	\$72
Hosiery	\$54	\$53	\$49	\$77	\$20	\$24	\$14	\$16	\$19	\$13	\$77
International	\$25	\$22	\$38	\$53	\$8	\$15	\$17	\$19	\$10	\$14	\$66
Other	\$0	\$0	(\$1)	(\$1)	(\$1)	(\$1)	\$1	\$1	(\$0)	\$0	(\$1)
<b>Net Profits</b>	<b>\$466</b>	<b>\$397</b>	<b>\$483</b>	<b>\$506</b>	<b>\$109</b>	<b>\$108</b>	<b>\$149</b>	<b>\$135</b>	<b>\$127</b>	<b>\$118</b>	<b>\$482</b>
<b>Revenue Contribution</b>											
Innerwear	57.3%	57.7%	57.8%	56.5%	56.0%	54.5%	61.0%	58.8%	54.5%	55.6%	55.9%
Outerwear	26.4%	27.4%	25.9%	27.0%	26.9%	27.3%	23.3%	24.1%	30.0%	29.8%	27.3%
Hosiery	8.5%	7.4%	6.2%	5.9%	7.0%	6.7%	4.5%	4.6%	5.5%	4.3%	5.5%
International	7.8%	7.5%	9.0%	9.3%	8.6%	10.5%	9.6%	12.1%	8.9%	10.0%	10.7%
Other	0.0%	0.0%	1.0%	1.3%	1.5%	1.1%	1.6%	0.4%	1.2%	0.4%	0.7%
<b>Growth</b>											
Innerwear	NA	1.3%	-6.0%	-0.7%	NA	-7.9%	NA	-8.0%	NA	2.4%	
Outerwear	NA	4.6%	-11.3%	5.9%	NA	-4.0%	NA	-1.3%	NA	-0.3%	
Hosiery	NA	-11.8%	-21.3%	-4.3%	NA	-9.4%	NA	-3.2%	NA	-21.7%	
International	NA	-3.5%	12.9%	5.4%	NA	15.3%	NA	20.1%	NA	12.8%	
Other	NA	NA	NA	27.4%	NA	-27.8%	NA	-76.3%	NA	-64.7%	
<b>Total Gross Revenues</b>	<b>NA</b>	<b>0.7%</b>	<b>-6.3%</b>	<b>1.6%</b>	<b>NA</b>	<b>-5.3%</b>	<b>NA</b>	<b>-4.6%</b>	<b>NA</b>	<b>0.4%</b>	
Total Eliminations	NA	-21.1%	51.5%	-62.7%	NA	-24.7%	NA	-18.9%	NA	40.0%	
<b>Net Sales</b>	<b>NA</b>	<b>1.1%</b>	<b>-7.1%</b>	<b>3.1%</b>	<b>NA</b>	<b>-5.0%</b>	<b>NA</b>	<b>-4.4%</b>	<b>NA</b>	<b>0.0%</b>	
<b>Segment Margins</b>											
Innerwear	12.4%	9.5%	13.2%	12.0%	12.9%	9.9%	15.1%	12.6%	9.9%	10.9%	10.8%
Outerwear	4.2%	4.7%	5.0%	5.8%	2.2%	6.0%	4.7%	7.7%	10.3%	5.5%	6.0%
Hosiery	13.4%	15.0%	17.7%	28.9%	27.2%	36.1%	27.5%	31.7%	29.1%	26.1%	31.6%
International	6.8%	6.1%	9.4%	12.6%	8.6%	14.1%	15.5%	14.4%	9.3%	12.0%	14.1%
Other	NA	NA	-2.1%	-2.4%	-5.0%	-7.6%	6.0%	19.9%	-2.3%	6.5%	-3.4%
<b>Profit Contribution</b>											
Innerwear	71.8%	65.8%	70.3%	60.5%	69.6%	49.6%	70.2%	59.1%	49.7%	60.4%	55.4%
Outerwear	11.2%	15.4%	11.9%	14.1%	5.6%	15.2%	8.3%	14.7%	28.3%	16.3%	15.0%
Hosiery	11.6%	13.3%	10.2%	15.2%	18.4%	22.3%	9.5%	11.6%	14.7%	11.1%	16.0%
International	5.4%	5.5%	7.8%	10.5%	7.1%	13.7%	11.4%	13.9%	7.6%	11.9%	13.8%
Other	0.0%	0.0%	-0.2%	-0.3%	-0.7%	-0.8%	0.7%	0.6%	-0.2%	0.3%	-0.2%

Note(s):

1) 2004-05 annual results are based on Sept FYE, 2006 and 2007 based on new Dec FYE

**Pros:**

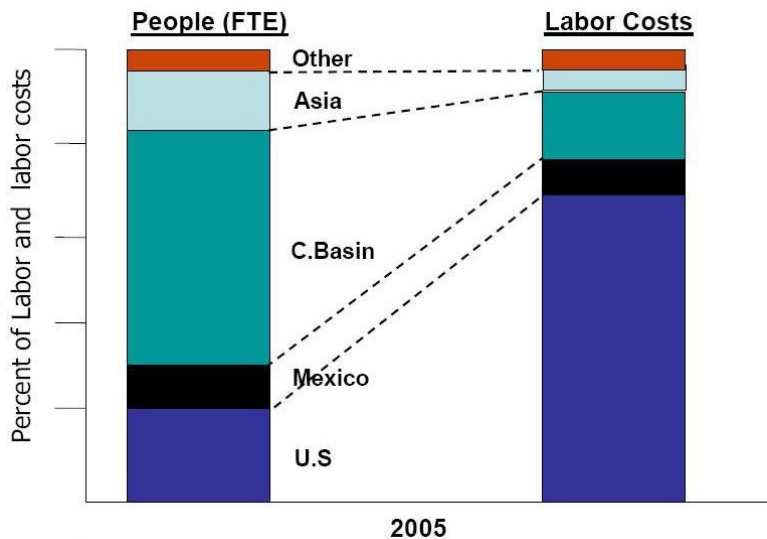
**Dominant Brands:** HBI is a leader in its product categories. Visiting any WMT or TGT demonstrates a wide array of products from HBI with competition coming mainly from Fruit of the Loom, Russell, and Vanity Fair which are all held by Berkshire Hathaway ("BRK"), as well as Maidenform ("MFB"), Warnaco Group ("WRC"), and Gildan Activewear ("GIL"). Private label is not a significant threat and most pricing differences between private label and branded staple apparel is 10% or less. Despite a focus on value, both WMT and TGT have demonstrated that they prefer to offer branded value. WMT along with other HBI clients, agreed to a price increase on HBI products in the coming year while TGT worked with HBI on the development of its exclusive C9 by Champion line of products. Some retailers, like TGT, do offer their own private label items under brands like Gilligan & O'Malley

but these are actually at higher price points as TGT has tried to up-sell its customers. In summary, HBI's brands are real and command a significant moat in the world of staple apparel.

Staple Apparel: Innerwear should have a lower beta relative to the economy. Replenishment trends are not likely to change much irrespective of the economy and – at the expense of some banality – the current performance of broader equity markets may spur an increase in the replenishment of innerwear.

Cost Initiatives: One of HBI's early presentations clearly illustrated that labor costs are an area that management can streamline in order to drive profitability. As Chart I illustrates, in 2005 roughly 20% of HBI's labor costs were in the US but that 20% accounted for nearly 80% of total labor costs. Management has been working to shift its labor force to emerging markets by closing US facilities and opening new ones in the Caribbean, Central America, and Asia. Through 2008, HBI has already eliminated roughly 9,400 jobs and is transitioning these jobs from the US, Mexico, and Central America to other regions in Central America, Asia, and the Caribbean.

**CHART I: HBI LABOR COST ANALYSIS**



Source: HBI October 2006 Investor Presentation

HBI has lagged its rivals in terms of shifting its labor costs overseas. Companies like GIL have generated operating margins in the 15+% range in part due to early adoption of overseas labor while HBI has generally been in the 10% range. Labor costs are a significant opportunity for margin expansion because the average hourly labor cost for apparel production in the US is about \$15 compared to <\$1 in Asia and <\$2 in the Caribbean. Another important aspect of building new plants is HBI's ability to achieve better levels of productivity and efficiency as these plants will have new technology. HBI expects manufacturing will be handled equally between facilities in Central America (includes Caribbean) and Asia by 2011.

Cotton Prices: Cotton, which accounts for 6% of HBI's cost of goods sold ("COGS") had been increasing in price from about \$0.56 per lb in Q2 07 to \$0.70+ by mid 2008. According to the National Cotton Council of America's "A" Index, cotton prices peaked in March 2008 and after maintaining prices in the high \$0.70 range through August dropped to \$0.62 in October and \$0.55 in November with current prices below \$0.50. In addition, on November 25, 2008 the *Wall Street Journal* published an article entitled "Cotton Crop Can't Weather Downturn" that suggested global demand for cotton would decline by 3% heading into the first half of 2009. Given a global slowdown, a lengthy drop in cotton prices is possible and this could provide meaningful tailwinds for HBI.

For example, HBI will probably have close to \$4.3B in 2008 sales and roughly \$2.9B in COGS. Cotton costs will account for about \$173MM in total COGS. Along with some expected interest expense reductions, the Company's EPS could easily get into the \$2.20+ range in 2009 due to an anticipated relief in cotton prices. Given

how tightly the Company manages its SG&A, which is actually down in 2008 compared to 2007, HBI can drive any incremental cotton savings to the bottom line.

## EXHIBIT II: HBI COTTON COST SENSITIVITY

	2008E	Avg Price per Cotton Lb					
		\$0.65 2009E	\$0.60 2009E	\$0.55 2009E	\$0.50 2009E	\$0.45 2009E	\$0.40 2009E
Sales	\$4,318	\$4,318	\$4,318	\$4,318	\$4,318	\$4,318	\$4,318
COGS	\$2,884	\$2,879	\$2,866	\$2,853	\$2,840	\$2,828	\$2,815
Gross Profit	\$1,434	\$1,439	\$1,452	\$1,465	\$1,477	\$1,490	\$1,503
Gross Margin	33.2%	33.3%	33.6%	33.9%	34.2%	34.5%	34.8%
SG&A	\$1,030	\$1,020	\$1,020	\$1,020	\$1,020	\$1,020	\$1,020
EBIT	\$403	\$419	\$432	\$445	\$457	\$470	\$483
Interest Expense	\$154	\$148	\$148	\$148	\$148	\$148	\$148
EBT	\$249	\$271	\$284	\$297	\$310	\$322	\$335
Taxes (24%)	\$60	\$65	\$68	\$71	\$74	\$77	\$80
Net Income	\$189	\$206	\$216	\$225	\$235	\$245	\$255
Shares	95	95	95	95	95	95	95
EPS	\$1.99	\$2.17	\$2.27	\$2.37	\$2.48	\$2.58	\$2.68
<i>Cotton Impact on EPS Growth</i>		8.7%	13.9%	19.1%	24.3%	29.5%	34.6%
<u>COGS and Cotton Rec:</u>							
Total COGS	\$2,884	\$2,879	\$2,866	\$2,853	\$2,840	\$2,828	\$2,815
Cotton Cost (6% COGS)	\$173	\$168	\$155	\$142	\$129	\$116	\$103
Avg Cotton Price per lb	\$0.67	\$0.65	\$0.60	\$0.55	\$0.50	\$0.45	\$0.40

Note(s):

- 1) Estimated figures based on Kinnaras Capital Management research
- 2) 2009E sales assumed to be flat to isolate cotton cost sensitivity

Deleveraging: HBI's net debt balance is roughly \$2.2B while its LTM Q3 08 EBITDA is about \$555MM including stock compensation (\$525MM without) resulting in net debt/EBITDA of 4.0x. HBI is well within its debt covenants and expects to pay down \$75MM to \$125MM of debt by the end of 2008. However, it's also important to note that for bank purposes, HBI's leverage ratio is below 4.0x due to allowed add-backs and exclusion of certain debt components (A/R securitization). This may seem like a significant amount of debt but the Company is very well positioned to handle this level of leverage. Deleveraging with a company that has a relatively steady top line that offers the opportunity for margin expansion can be a powerful value creating tool.

HBI management has been very proactive in managing its debt structure with about \$2B of its debt capped through 2009. As far as covenants go, the Company's Q1 09 EBITDA would have to decline by over 80% to breach its leverage covenant. Management believes HBI can meet covenants with an 8-10% sales decline in 2009. In addition, there are no prepayment penalties on HBI debt and the Company should be well positioned to crank out strong cash flow.

The Company also faces very little refinancing or liquidity risk as most maturities occur from 2011-2014. Additionally, the bulk of HBI's debt is a \$976MM Term Loan B due in 2013, a \$450MM Second Lien due in 2014, and \$500MM in Floating Rate Notes due in 2014. The Company's revolver offers plenty of capacity as the entire \$500MM facility is undrawn based on HBI's latest 10-Q. These are important aspects of HBI's debt because only \$139MM of HBI's debt is based on a typical amortization schedule (Term Loan A) with the B loan requiring small annual principal repayments (typically 1%).

Management's run-rate free cash flow estimate is \$200-\$300MM which does not include any of the inventory work down from inventory build-up tied to its global supply chain. Since management has been adjusting its operations globally, it has taken inventory up by \$200MM to \$1.3B in recent quarters to ensure there are no supply disruptions while working on its supply/logistics plans. Any work down of this inventory will directly benefit cash flow which can be used to pay down debt. The markets should ascribe a better valuation for HBI as its credit

profile improves and EPS grows through reduced interest expense. Given the current malaise in credit markets, HBI could also repurchase debt in the open market that in some cases is trading at significant discounts to par. In summary, HBI is probably one of the best companies to maintain this type of capital structure.

**Valuation:** Using reasonable estimates for the coming years, HBI is valued at roughly 5.0-6.0x 2009 EPS and about 5.0-6.0x 2008E Non-GAAP EPS. Adjusted EPS is important for HBI because from the very start, management indicated that it would record up to \$250MM in restructuring charges over the next few years as it improves its supply chain and shifts production overseas. This has resulted in additional non-cash charges that need to be scrubbed to determine HBI's true earnings power.

For example, in Q3 08, HBI's GAAP EPS was \$0.17. However, about \$4MM in costs were tied to accelerated D&A and another \$14MM were tied to inventory write-offs. These inventory write-offs were part of HBI's restructuring efforts and were tied to raw materials and work in progress associated with plants that the Company closed. Once HBI's logistics operations are completed, these types of charges won't show up in its P&L. On the flip side, SG&A on a GAAP basis for Q3 08 was \$255MM but management included an extra \$2.5MM in SG&A tied to additional D&A that made expenses higher on an adjusted basis. So management is not exactly shifting costs when they only benefit Non-GAAP EPS. Once these, along with some additional restructuring charges were accounted for, HBI's Non-GAAP EPS was \$0.52. In Q3 08, the Company also indicated that Mervyn's filed for bankruptcy which resulted in a \$0.04 charge to HBI. When factoring in all of these one-time charges, the Company's Non-GAAP EPS was \$0.56.

In regards to a fair price for HBI, investors should note that BRK paid fairly high prices for acquiring Fruit of the Loom and Russell Corp. In the case of Russell, gross margins were about 4% below HBI's and EBIT margins were roughly 3% below HBI's levels. Fruit of the Loom was in bankruptcy when BRK purchased it and Russell's performance was rapidly declining yet BRK paid fair valuations for these businesses. A 0.5x-0.7x EV/Sales multiples would be inappropriate to use for HBI given it's not bankrupt like Fruit of the Loom was and is not struggling anywhere close to Russell. Yet HBI trades for just 0.8x EV/LTM Sales and 6.8x LTM EBITDA, which is basically what BRK paid to acquire Russell.

### EXHIBIT III: RELEVANT M&A COMPS BY BRK

Key M&A Comps								
Transaction (Buyers/Target)	Date (MM/YY)	Description	Price (\$MM)	EV (\$MM)	EV/Sales	EV/ EBITDA	P/E	
BR/Fruit of the Loom	04/02	Purchased out of Chapter 11	\$835	\$2,435	0.5x	11.1x	NA	
BRK/Russell Corp	05/06	Was struggling when acquired	\$598	\$1,050	0.7x	6.8x	24.2x	

#### Russell Operating Info:

Gross Profit Margin	27%
EBITDA/EBIT Margin	11-10%/7.5-6.6%
Net Inc/EPS Info	Net Inc declined from mid 3% to 1.7%; EPS growth was 24% in 2004 to -51% in 2006 when acquired

The Company's current status is also not representative of what it will look like in the next 18-36 months. HBI's focus on procuring more labor overseas should yield significant margin improvements as some competitors that already have a significant portion of labor costs in emerging markets have operating margins that are 300+ basis points higher than HBI. The Company has also successfully instituted price increases that WMT and TGT have accepted. Cotton prices are a tailwind and HBI has done a good job in managing its debt and putting itself in a position to successfully delever.

HBI could achieve Non-GAAP 2008 EPS of \$1.99 and the various drivers at its back entering 2009 and into 2010 could fuel significant earnings growth. Assuming even modest revenue increases from mostly price increases partially offset by volume declines, cotton prices in the mid \$0.50 per lb range, some SG&A savings due to marketing and advertising savings (management has indicated there is \$40MM it can pull back, one can assume less to be conservative), and some reduction in interest expense could result in EPS over \$2.30 per share in 2009. If HBI management can continue its momentum into 2010 and eke out some solid sales growth in the

event of a possible economic recovery, HBI could generate \$2.80+ in EPS. A conservative 10.0x 2009 EPS could yield a \$20+ share price.

The Company's valuation should also improve as it delevers due to a better credit profile and the various value levers should also spark an improvement in capital return metrics like return on invested capital. The Company's stable operations also lend itself to discounted cash flow analysis and assuming average annual sales growth of just 1% from 2008-2013 (HBI's long-term sales growth target is 1-3%) and some steady improvements in margins can easily yield values between \$30-\$40 per share (see Appendix II).

**Cons:**

**Debt:** While deleveraging is a strong value driver, the current macro environment can pressure HBI's ability to reduce its debt. If HBI struggles to pay down debt and if its credit rating suffers, earnings growth through reduced interest expense won't be likely and HBI will have to rely more on its other operational levers.

**Macro:** The current consumer environment is one of the worst on record and could persist for much longer than most expect. HBI management is executing on a number of operational and financial strategies from supply chain improvements to aiming for a lower permanent tax rate but sales growth is the key to leveraging these efforts. Management's target is for 1-3% sales growth but if sales come under those levels for an extended period, operational improvements may be difficult to drive through to the bottom line.

**Short Thesis:** In June 2008, Herb Greenberg's research firm, Greenberg Meritz Research & Analytics ("GMRA"), released a report presenting the short case on HBI. After the release of this report the stock took a significant hit and few people at the time knew why since GMRA's report did not get the same public attention as a downgrade by a sellside firm. Whitney Tilson followed up by making GMRA's report publicly available in July on Seeking Alpha, allowing the broader investment community to review the short-case. Since that time it seems as though the stock always had some steady selling pressure on it throughout the year, with short interest of roughly 10-20% for most of the year. While much of Herb's work is insightful, GMRA's analysis of HBI seemed weak and the following discussion attempts to address some of the claims GMRA set forth in its report. GMRA's report is at [http://designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Hanesbrands\\_GMRA.pdf](http://designs.valueinvestorinsight.com/bonus/bonuscontent/docs/Hanesbrands_GMRA.pdf).

On page 3 of its report, GMRA questions HBI's sales growth, indicating that the Company's sales growth was below its long-term expectation of 1-3%. Without a doubt HBI, like many other companies that sell into consumer channels was experiencing a slowdown in sales heading into 2008. In Q1 08, sales were down 5% which was a poor showing. However, since that time HBI sales in Q2 08 were down 4.6% and in Q3 08 sales were up 0.4%. Part of the reason for the larger decline in Q2 08 was due to some retailer pushing back-to-school purchases back into Q3 so the results are still not great but in the face of a difficult consumer environment, HBI's topline is showing some resilience. Like HBI, many companies are susceptible to a weak macro environment such as J. Crew Group ("JCG"), TGT, and Starbucks ("SBUX"), but one could argue that HBI's stock has been hammered far harder for what are mostly "just the economy" issues where companies like TGT, SBUX, and JCG have had company-specific issues impacting them.

Another issue GMRA raises is the quality of HBI's results because it includes translation gains from foreign exchange ("FX"). Translation gains accounted for \$11MM or 1.1% of Q1 08 sales growth and 2% of Q2 08 operating profits. Fair enough, but the same argument could be made for a variety of companies where the FX impact would be far greater. Does this mean that companies such as General Electric ("GE"), McDonalds ("MCD"), and many other blue-chip companies (maybe that does not apply to GE) which have, in some cases, 50+% of sales from international operations all have poor earnings quality as well? Once again, a slowing economy and FX translation, when it's relatively minor, are not really high on the list of making a compelling short.

On page 4 of its report, GMRA asserts that profits were magnified by a \$12MM reduction in the allowance for doubtful accounts and questions the reason this occurred and suggests that this would have reduced non-GAAP operating income by 10% or \$9MM. Something that impacts EPS in such a manner that suggests earnings management should be reviewed and would be valid...except for the fact that this impacted EPS was not true. During the Q2 08 conference call, HBI CFO Lee Wyatt addressed this concern.

**Jacob Strumwasser – Solam Capital:** Hi, guys. How are you? Just a follow-up on a question that was asked. Last quarter you decreased allowance as a percent of gross receivables, so I guess I'm trying to understand why given more retailer defaults, i.e., Mervyn's and Goody's, did you think that made sense?

**Lee Wyatt – Hanesbrands, Inc:** Yes, let me be really clear on what happened in the first quarter with our receivable reserves. That \$11 million reduction in the balance sheet reserves did not impact profit. Those were just some normal write-offs as we cleared deductions and other charges. Really didn't relate very much to bad debt. There were other type reserves and charges. So, unrelated. We're 1.5% bad debt reserve, which has been very consistent over the last couple years, again, reflecting that good quality. So, those write-offs in the first quarter one, did not impact profit and really didn't reflect anything to do with accounts receivable bad debt reserves.

The suggestion of earnings manipulation did the job in supporting GMRA's short thesis and may have induced less thorough investors to sell without questioning any of the assertions. This benefited short sellers like Tilson but the reality, as indicated in the above exchange on the Q2 08 conference call, shows that the assertion held little weight behind it. To be fair, this report was before Q2 08 was released but one would have expected someone to reach out to HBI management to discuss anomalies on the financial statements. Irrespective of that, the fact remains that the suggestion of managing receivables to benefit EPS had no actual bearing.

Page 5 of GMRA's report also indicates an "artificial" EPS boost due to a \$2.7MM drop in stock compensation on a comparable basis to Q1 07. That is true but HBI went public towards the end of 2006 and 2007 was its first full year as a public company. Anyone that's analyzed spin-offs has generally been accustomed to the fact that the first few quarters is when management is issued stock and option awards so those figures are usually higher in the first year. GMRA may not point this out because it would diminish the perceived value of that data point.

On page 6, GMRA highlights a reduction in interest expense from \$47MM to \$40MM and that somehow is lower quality earnings. The problem is that aside from stagflation environments, interest costs generally decline with a slowing economy due to easing by Central Banks. So GMRA derides HBI for slow sales and then at the same time says that a reduction in interest expense should be viewed skeptically in terms of earnings power? GMRA misses the larger point because one of the most attractive aspects of HBI is that it is a phenomenal deleveraging play and an ongoing reduction in interest expense is what will be a contributor to earnings growth which should yield a higher valuation in the future.

GMRA also takes issue with HBI's tax rate on the same page as Q1 08's effective tax rate was 24% vs. 30% on a QvQ basis. Fair enough except that HBI management stated from the very start of HBI's public debut that it expects its long-term tax rate to be permanently lower with a targeted range of 22-25% because of its global supply chain efforts. Through the first nine months of 2008, HBI's effective tax rate has been roughly 24.3% vs 30.3% over the comparable time period. The reduced tax rate is an initiative HBI management undertook and deserves to be recognized for this in a positive light. However, discussing the publicly stated tax strategy of HBI reduces the impact of highlighting a curious quarterly comparison as part of a short sell thesis.

On page 8, GMRA asserts that deleveraging is a poor use of HBI's cash flow. Deleveraging is a huge value creation lever yet GMRA implies that HBI is using cash flow to solely deleverage at the expense of the operations. The Company has invested over \$100MM through 2008 in its supply chain, demonstrating that it is not neglecting its operational needs and that deleveraging and company investment are not mutually exclusive. Secondly, improving HBI's credit profile and allowing for EPS growth through reduced interest expense from deleveraging are legitimate value creation vehicles. In fact, in the classic *You Can Be a Stock Market Genius*, Joel Greenblatt highlighted deleveraging as a strong value creation tool for spin-offs.

GMRA also points out slower inventory turns and this is one legitimate issue. Higher inventory can reflect challenges in terms of managing working capital but there are additional factors that are contributing to the Company's higher levels of inventory. First, cotton prices in 2007 and for the first part of 2008 increased dramatically with Q1 08 inventory including some supply priced in the \$0.73-\$0.74 per lb range along with higher freight, FX, and oil prices. This means that inventory purchased during that time would already be valued on the books at a higher value, inflating those prices. Secondly, HBI is making a number of supply chain adjustments worldwide so did not want to assume the risk of supply disruptions while transitioning from certain facilities.

While a slow consumer environment can make inventory turns more challenging, there are a few areas that HBI should benefit from. The first is that HBI's costs are decreasing. Cotton costs as previously mentioned are down considerably from peak levels. That alone will reduce the level of inventory growth. In addition, HBI instituted price increases this year which retailers accepted. As a result, the higher price point along with lower costs should spur greater cash generation going forward and work to normalize inventory levels. However, the supply chain initiatives are expected to last through 2009 so higher inventory levels could persist (~\$1.3B) and be an area of legitimate concern.

GMRA's choice of peers with respect to inventory turnover is also somewhat misleading. While GIL can be considered a peer for the purposes of working capital comparisons, MFB is a bad comparison in terms of working capital. Unlike HBI and GIL, MFB is not vertically integrated and does not manufacture any of its own intimate apparel as it sources all of its production. That operating model can lend itself to faster cash conversion due to tighter order books so comparing MFB, which should in any circumstance turn inventory faster, to HBI is of little worth from the perspective of inventory turnover.

GMRA points out on page 10 that HBI's accounts payables ("A/P") increased more than in previous quarters such that operating cash flow was overstated. GMRA to its credit does recognize that managing working capital including A/P is a sign of good cash management so the notion that it selects this as a potential negative seems to add little value. HBI did a good job in improving its A/R collections in Q1 08, should that be reversed to further reduce operating cash flow? D&A was lower QvQ so perhaps if that was comparable to Q1 07, then operating cash flow would be higher. If stock compensation in Q1 08 was comparable to Q1 07 then operating cash flow would have been higher. The point is any number of items can influence operating cash flow for one quarter so a slight change in A/P was hardly a material issue.

Another challenge HBI will face according to GMRA is its transition to China given costs in China had been rising back in Q1 08. GMRA sites some anecdotal "evidence" that switching production to China can be challenging but provides little data that helps frame its argument. One of the main value levers for HBI has been potential cost savings from transitioning more labor overseas and HBI made that very clear in one of its earlier presentations in 2006. As Chart I previously illustrated, the Company's US labor force is just about 20% of its total labor force but accounts for nearly 80% of its total costs. Even with a declining USD vs. Renminbi or other emerging currencies, transitioning overseas can offer HBI tremendous cost savings. As mentioned previously, the average US based apparel worker makes \$16 in hourly wages while the cost in Asia can be <\$1. There's plenty of room for these emerging currencies to appreciate before rendering little benefit to HBI's labor strategy. CEO Richard Noll directly addressed the opportunity in the Q2 08 conference call via the First Call transcript:

Let me now address questions as to whether Asia is still a good location to manufacture our products. The answer is emphatically yes. Our Asian network will be balanced across multiple countries in the region and while we will locate our textile production in China, it will only account for 10% of our Asian employees. Textile manufacturing is a very technical capital intensive process and we wanted to be able to draw on the vast technical expertise in China. For example, in Nanjing, the university system has over 300,000 students from which we can draw highly educated talent. The remaining 90% of employees will be located elsewhere in the region, mainly in sewing operations in Thailand and Vietnam.

To be fair, Noll's comments were after the publication of GMRA's report but labor data has been available as was Chart I from HBI's investor presentation in 2006. GMRA next continues to present GIL as a serious threat to HBI on page 12. First, GMRA seems to present some sleight of hand by stating that GIL's plants are largely in Central America rather than Asia. This would lead the reader to conclude that HBI's plants are largely in Asia and not in Central America. The fact is that most of HBI's facilities, which include corporate headquarters, are in the US but the Company is well aware of the benefits of operating in Central America and the Caribbean.

Caribbean and Central America facilities account for 16% of HBI's total square footage while China and Thailand are just over 1%. HBI is expanding in China and in Vietnam so these figures will be higher when HBI releases its 2008 10-K next year but GMRA's framing of the location of GIL's operating facilities could lead a less curious investor to the incorrect conclusion that most of HBI's facilities are in Asia. Based on HBI's latest 10-Q, HBI (my emphasis in bold) "approved actions to close 11 manufacturing facilities and two distribution centers and eliminate approximately 9,400 positions in El Salvador, Mexico, Costa Rica, Honduras, and the United States. The

production capacity represented by the manufacturing facilities will be relocated to lower cost locations in **Asia, the Caribbean Basin and Central America.**”

**EXHIBIT III: HBI FACILITIES**

	Owned Sq Ft	% of Total	Owned Sq Ft	% of Total	Total Sq Ft	% of Total
United States	12,074,449	77%	3,738,192	61%	15,812,641	72%
<u>Non-U.S. facilities:</u>						
Mexico	1,039,289	7%	364,651	6%	1,403,940	6%
Dominican Republic	761,762	5%	501,403	8%	1,263,165	6%
Honduras	356,279	2%	809,165	13%	1,165,444	5%
El Salvador	571,395	4%	165,665	3%	737,060	3%
Costa Rica	470,111	3%	11,464	0%	481,575	2%
Canada	289,480	2%	126,777	2%	416,257	2%
Brazil	0	0%	164,548	3%	164,548	1%
Thailand	131,356	1%	4,484	0%	135,840	1%
Belgium	0	0%	101,934	2%	101,934	0%
Argentina	80,938	1%	7,301	0%	88,239	0%
China	0	0%	47,495	1%	47,495	0%
10 other countries	0	0%	70,491	1%	70,491	0%
Total non-U.S. facilities	3,700,610	23%	2,375,378	39%	6,075,988	28%
<b>Totals</b>	<b>15,775,059</b>	<b>100%</b>	<b>6,113,570</b>	<b>100%</b>	<b>21,888,629</b>	<b>100%</b>

Source: HBI 2007 10-K Page 29

Lastly, on page 13, GMRA indicates that HBI has removed its assertion that it commands the #1 or #2 spot in its main product categories and that “anything remotely like it” was removed from its latest quarterly filing, which at the time was Q1 08. This is a good comment and detail-oriented investors should often check for language changes. However, the main point is to determine if HBI is losing its brand position and while it may or may not be the #1 or #2 player in every category, visiting any WMT or TGT generally indicates that HBI and Fruit of the Loom are the main competitors in the basic apparel space. HBI also has an exclusive deal in supplying TGT, its second largest customer, with its C9 by Champion line. In any case, even in HBI’s Q1 08, HBI is pretty clear in making its market position fairly clear (emphasis mine):

We are a consumer goods company with a portfolio of **leading apparel brands**, including Hanes, Champion, Playtex, Bali, Just My Size, barely there and Wonderbra.... We are an **intimate apparel category leader in the United States** with our Hanes, Playtex, Bali, Just My Size, barely there, and Wonderbra brands... **We are also a leading manufacturer and marketer of men’s underwear and kids’ underwear** under the Hanes and Champion brand names...**We are a leader in the casualwear and activewear markets** through our Hanes, Champion and Just My Size brands...**We are the leading marketer of women’s sheer hosiery in the United States.**

While Herb Greenberg has discovered many frauds over his career, the 14 page report on HBI really seemed to depend on the reader not doing much of his/her own follow up work. The GMRA report in some cases provided little hard data as in the case of labor costs which would deflate the argument of expanding in China as less attractive as the report asserts. It also framed key points of its short thesis in a way that made certain items, such as HBI’s tax rate, seem like one-time occurrences when they are in fact, a publicly stated component of HBI’s long-term strategy. Once completing research on many of GMRA’s claims, it generally appears that the short case was mostly smoke and mirrors coupled with a timely release when HBI was fully valued.

**CONCLUSION**

Despite taking a beating like many stocks throughout this year, HBI may be positioned to perform extremely in 2009. The stock trades at a cheap valuation given its long-term prospects and management has identified a variety of levers it can pull in order to drive value. While sales could still be tepid in 2009, HBI's brand cachet is strong enough such that management successfully pushed through price increases. These price increases are occurring at a time when a key cost component – cotton – is dropping. In addition, HBI's supply chain initiatives are on track to permanently lower the Company's tax rate to 22-25% and management has identified roughly \$200MM in total savings of which about 25% have been realized, meaning that continued margin expansion should be realized. The Company can also be flexible during more challenging times and in the event of an increasingly difficult sales environment in 2009, management can scale back roughly \$40MM in marketing costs. The Company's high debt balance is ideal for the industry it operates in, where it commands a leading position across a variety of recession resistant categories. The predictability of this business provides a higher level of certainty with regards to cash flow and will allow the Company to rapidly improve its credit profile, sparking both earnings growth and possibly higher valuation multiples over time as a cleaner balance sheet emerges. In a year where earnings growth may difficult to come by, HBI is well positioned to offer significant earnings growth at valuation levels that offer the opportunity for expansion.

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**DISCLOSURE ON SUBJECT COMPANIES**

At the time of this publication, Kinnaras Capital Management LLC has no position in any of the companies mentioned in this report.

**APPENDIX I: HBI PUBLIC COMPARABLES**

Name	Ticker	Description	Market Cap (\$MM)	EV (\$MM)	EV/LTM Sales	EV/LTM EBITDA	P/E	EV/08 Rev	P/08 EPS	EV/09 Rev	P/09 EPS
Delta Apparel Inc.	AMEX:DLA	Manufactures branded/private label and retail-ready casual and athletic apparel	\$32	\$121	0.4x	6.6x	18.7x	NA	NA	NA	NA
Gildan Activewear Inc.	NYSE:GIL	Manufactures activewear for the wholesale global imprinted sportswear market	\$1,137	\$1,185	0.9x	4.7x	7.9x	0.9x	8.2x	0.8x	6.2x
Maidenform Brands Inc.	NYSE:MFB	Designs, sources, and markets intimate apparel products	\$225	\$277	0.7x	4.7x	8.1x	0.7x	8.5x	0.7x	8.2x
Warnaco Group Inc.	NYSE:WRC	Manufacturer of intimate apparel and sportswear including private label and licensed brands such as Warner's, Olga, Calvin Klein, Chaps, and Nautica	\$952	\$1,075	0.5x	4.0x	12.1x	0.5x	7.9x	0.5x	8.4x
Low					0.4x	4.0x	7.9x	0.5x	7.9x	0.5x	6.2x
High					0.9x	6.6x	18.7x	0.9x	8.5x	0.8x	8.4x
Mean					0.6x	5.0x	11.7x	0.7x	8.2x	0.7x	7.6x
Median					0.6x	4.7x	10.1x	0.7x	8.2x	0.7x	8.2x
<b>Hanesbrands Inc.</b>	<b>NYSE:HBI</b>	<b>Manufactures/markets innerwear, intimate apparel, and activewear under the Hanes, Champion, Playtex, Bali, L'eggs, and Wonderbra brands</b>	<b>\$1,254</b>	<b>\$3,555</b>	<b>0.8x</b>	<b>6.8x</b>	<b>7.8x</b>	<b>0.8x</b>	<b>6.6x</b>	<b>0.8x</b>	<b>5.7x</b>

## APPENDIX II: HBI VALUATION ANALYSIS

	Historical						Projected					
	2005	2006	2007	9M 07	9M 08	LTM Q3 08	2008	2009	2010	2011	2012	2013
Sales			4,474.54	3,315.41	3,213.65	4,372.78	4,317.93	4,350.31	4,491.70	4,581.53	4,661.71	4,743.29
Growth			NA	NA	-3.07%	NA	-3.50%	0.75%	3.25%	2.00%	1.75%	1.75%
Gross Profit			1,440.91	1,110.54	1,092.93	1,423.31	1,433.55	1,457.35	1,515.95	1,546.27	1,573.33	1,600.86
Margin			32.20%	33.50%	34.01%	32.55%	33.20%	33.50%	33.75%	33.75%	33.75%	33.75%
EBIT			400.16	330.46	315.40	385.09	403.21	437.31	490.80	516.00	537.91	560.26
Margin			8.94%	9.97%	9.81%	8.81%	9.34%	10.05%	10.93%	11.26%	11.54%	11.81%
EBITDAO			565.46	457.53	416.07	524.00	544.70	606.11	665.58	696.98	725.32	754.36
Margin			12.64%	13.80%	12.95%	11.98%	12.61%	13.93%	14.82%	15.21%	15.56%	15.90%
less: Tax			63.30	53.47	48.03	57.85	59.78	69.46	84.80	91.28	97.07	103.14
less: Maintenance CapEx			91.63	45.39	123.32	169.56	150.00	154.50	159.14	80.00	82.40	84.87
Core Free Cash Flow			410.53	358.66	244.72	296.59	334.92	382.14	421.64	525.69	545.85	566.35
FCF Margin			9.17%	10.82%	7.61%	6.78%	7.76%	8.78%	9.39%	11.47%	11.71%	11.94%
FCF Growth			NA	NA	-31.77%	NA	-18.42%	14.10%	10.34%	24.68%	3.83%	3.76%
Annualized Factor							0.25	1.00	1.00	1.00	1.00	1.00
Discount Factor							1.03	1.23	1.37	1.52	1.69	1.87
Present Value of Cash Flows							326.30	310.16	308.30	346.29	323.94	302.79
Adjusted GAAP EPS			\$ 1.42	\$ 1.29	\$ 1.59	\$ 1.73	\$ 1.99	\$ 2.32	\$ 2.83	\$ 3.04	\$ 3.24	\$ 3.44
Growth			NA	NA	23.42%	NA	40.03%	16.20%	22.08%	7.65%	6.34%	6.25%

### Discounted Cash Flow Analysis:

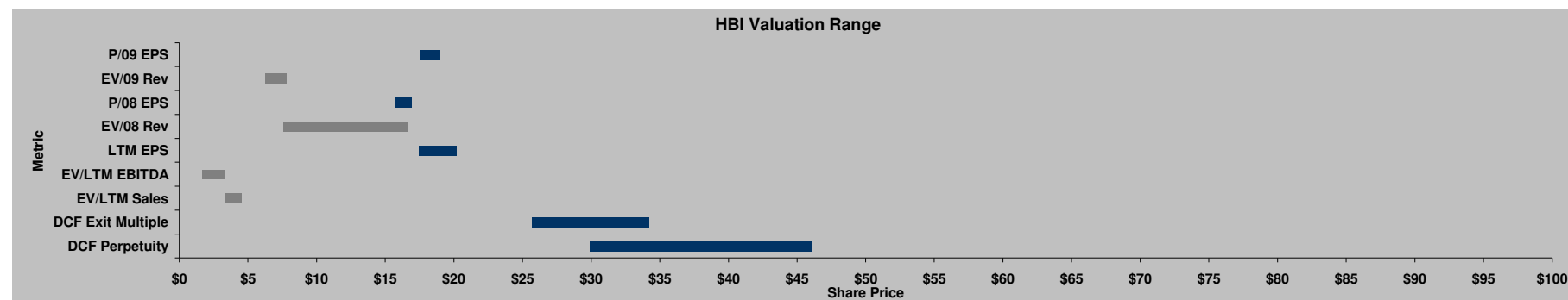
WACC	11.00%
Stable Rate	3.00%
Sum of PV of Cash Flows	1,917.78
Terminal Value - Perpetuity	3,898.48
Firm Value	5,816.26
Less Net Debt	2,300.57
Equity Value	3,515.70
Diluted Shares Outstanding	95.02
<b>Share Price - Perpetuity</b>	<b>\$37.00</b>
Terminal Value - 8.0x EBITDA Exit Multiple	3,226.50
<b>Share Price - 8.0x EBITDA Exit Multiple</b>	<b>\$29.93</b>

### EV/EBITDA Valuation

	LTM Q3 08	2008	2009	2010
	524.00	544.70	606.11	665.58
4.0x	(\$2.15)	(\$1.28)	\$1.30	\$3.81
5.0x	\$3.36	\$4.45	\$7.68	\$10.81
6.0x	\$8.88	\$10.18	\$14.06	\$17.82
7.0x	\$14.39	\$15.92	\$20.44	\$24.82
8.0x	\$19.91	\$21.65	\$26.82	\$31.83
9.0x	\$25.42	\$27.38	\$33.20	\$38.83
10.0x	\$30.94	\$33.11	\$39.58	\$45.84
11.0x	\$36.45	\$38.85	\$45.96	\$52.84
12.0x	\$41.96	\$44.58	\$52.33	\$59.85
13.0x	\$47.48	\$50.31	\$58.71	\$66.85
14.0x	\$52.99	\$56.05	\$65.09	\$73.85

### P/E Valuation

	LTM Q3 08	2008	2009	2010
	\$1.73	\$1.99	\$2.32	\$2.83
4.0x	\$6.90	\$7.97	\$9.26	\$11.30
5.0x	\$8.63	\$9.96	\$11.58	\$14.13
6.0x	\$10.35	\$11.95	\$13.89	\$16.96
7.0x	\$12.08	\$13.95	\$16.21	\$19.78
8.0x	\$13.80	\$15.94	\$18.52	\$22.61
9.0x	\$15.53	\$17.93	\$20.84	\$25.44
10.0x	\$17.25	\$19.92	\$23.15	\$28.26
11.0x	\$18.98	\$21.92	\$25.47	\$31.09
12.0x	\$20.70	\$23.91	\$27.78	\$33.91
13.0x	\$22.43	\$25.90	\$30.10	\$36.74
14.0x	\$24.15	\$27.89	\$32.41	\$39.57



INCOME STATEMENT	Projected								
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Sales			4,474.54	4,317.93	4,350.31	4,491.70	4,581.53	4,661.71	4,743.29
<i>Growth</i>			NA	-3.50%	0.75%	3.25%	2.00%	1.75%	1.75%
COGS			3,033.63	2,884.38	2,892.96	2,975.75	3,035.26	3,088.38	3,142.43
<i>% of Sales</i>			67.80%	66.80%	66.50%	66.25%	66.25%	66.25%	66.25%
Gross Profit			1,440.91	1,433.55	1,457.35	1,515.95	1,546.27	1,573.33	1,600.86
<i>Margin</i>			32.20%	33.20%	33.50%	33.75%	33.75%	33.75%	33.75%
SG&A			1,040.75	1,030.35	1,020.04	1,025.14	1,030.27	1,035.42	1,040.60
<i>% of Sales</i>			23.26%	23.86%	23.45%	22.82%	22.49%	22.21%	21.94%
Gain on Pension Curtailment			(32.14)	0.00	0.00	0.00	0.00	0.00	0.00
<i>% of Sales</i>			-0.72%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Asset impairments and restructuring			43.73	0.00	0.00	0.00	0.00	0.00	0.00
<i>% of Sales</i>			0.98%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill impairment			0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>% of Sales</i>			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other income			0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>% of Sales</i>			0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Operating Expenses			1,052.34	1,030.35	1,020.04	1,025.14	1,030.27	1,035.42	1,040.60
<i>% of Sales</i>			23.52%	23.86%	23.45%	22.82%	22.49%	22.21%	21.94%
EBIT			388.57	403.21	437.31	490.80	516.00	537.91	560.26
<i>Margin</i>			8.68%	9.34%	10.05%	10.93%	11.26%	11.54%	11.81%
Interest Expense			199.21	154.11	147.88	137.47	135.65	133.43	130.52
Other non-op expense			5.24	0.00	0.00	0.00	0.00	0.00	0.00
Loss on early ext of debt			0.00	0.00	0.00	0.00	0.00	0.00	0.00
TAXABLE INCOME			184.13	249.09	289.44	353.33	380.35	404.48	429.74
<i>Margin</i>			4.11%	5.77%	6.65%	7.87%	8.30%	8.68%	9.06%
Provision for Income Taxes			58.00	59.78	69.46	84.80	91.28	97.07	103.14
<i>% of Taxable Income</i>			31.50%	24.00%	24.00%	24.00%	24.00%	24.00%	24.00%
Minority Interest			0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income from Cont Ops			126.13	189.31	219.97	268.53	289.06	307.40	326.61
<i>Margin</i>			2.82%	4.38%	5.06%	5.98%	6.31%	6.59%	6.89%
Disc ops			0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Income			126.13	189.31	219.97	268.53	289.06	307.40	326.61
<i>Margin</i>			2.82%	4.38%	5.06%	5.98%	6.31%	6.59%	6.89%
Diluted Shares Outstanding			96.74	95.02	95.02	95.02	95.02	95.02	95.02
<i>Shares Growth</i>			NA	-1.78%	0.00%	0.00%	0.00%	0.00%	0.00%
EPS			\$ 1.30	\$ 1.99	\$ 2.32	\$ 2.83	\$ 3.04	\$ 3.24	\$ 3.44
<i>Growth</i>			NA	52.82%	16.20%	22.08%	7.65%	6.34%	6.25%

**SUMMARY BALANCE SHEETS**

	Historical		Projected					
	2006	2007	2008	2009	2010	2011	2012	2013
<b>Assets</b>								
<u>Current Assets:</u>								
Cash	155.97	174.24	12.73	296.26	508.79	840.28	1,190.96	1,553.66
Marketable Sec	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
A/R	488.63	575.07	561.33	565.54	583.92	595.60	606.02	616.63
Inventories	1,216.50	1,117.05	1,381.74	1,131.08	1,167.84	1,191.20	1,212.04	1,233.26
Other	210.08	227.98	259.08	261.02	269.50	274.89	279.70	284.60
Total Current Assets	2,071.18	2,094.33	2,214.87	2,253.90	2,530.05	2,901.97	3,288.73	3,688.14
PPE	556.87	534.29	577.64	598.82	619.31	555.12	487.56	416.48
Goodwill	281.53	310.43	310.43	310.43	310.43	310.43	310.43	310.43
Intangibles	137.18	151.27	145.00	138.67	132.28	125.82	119.30	112.71
Other Non-Current Assets	388.87	349.17	349.17	349.17	349.17	349.17	349.17	349.17
Total Assets	3,435.62	3,439.48	3,597.10	3,650.99	3,941.24	4,242.51	4,555.19	4,876.93
<b>Liabilities &amp; Shareholders Equity</b>								
<u>Current Liabilities:</u>								
CP LTD	9.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Notes Payable	14.26	19.58	19.58	19.58	19.58	19.58	19.58	19.58
A/P	587.54	669.41	690.87	522.04	539.00	549.78	559.41	569.19
Total Current Liabilities	611.18	688.98	710.45	541.61	558.58	569.36	578.98	588.77
LTD	2,484.00	2,315.25	2,233.51	2,207.11	2,182.12	2,153.22	2,117.94	2,071.73
Other Long-Term Liabilities	271.17	146.35	146.35	146.35	146.35	146.35	146.35	146.35
New Debt	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Liabilities	3,366.35	3,150.58	3,090.31	2,895.07	2,887.05	2,868.93	2,843.27	2,806.85
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shareholders Equity	69.27	288.90	506.80	755.92	1,054.19	1,373.58	1,711.92	2,070.08
Total Liabilities & Equity	3,435.62	3,439.48	3,597.10	3,650.99	3,941.24	4,242.51	4,555.19	4,876.93

**SUMMARY CASH FLOW STATEMENTS**

	Historical			Projected					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Cash Flow from Operations</b>									
Net Income			126.13	189.31	219.97	268.53	289.06	307.40	326.61
Adjustments:									
D&A			125.47	106.65	133.31	138.65	144.19	149.96	155.96
Amort of Intang			6.21	6.27	6.33	6.39	6.46	6.52	6.59
Stock Comp			33.63	28.58	29.15	29.74	30.33	30.94	31.56
Change in Working Capital and Other			67.61	(260.58)	75.67	(46.66)	(29.65)	(26.46)	(26.92)
Cash Flow from Operations			359.04	70.23	464.44	396.65	440.40	468.36	493.78
<b>Cash Flow from Investing</b>									
PPE			(91.63)	(150.00)	(154.50)	(159.14)	(80.00)	(82.40)	(84.87)
Acquisitions			(20.24)	0.00	0.00	0.00	0.00	0.00	0.00
Other			10.78	0.00	0.00	0.00	0.00	0.00	0.00
Cash Flow from Investing			(101.09)	(150.00)	(154.50)	(159.14)	(80.00)	(82.40)	(84.87)
<b>Cash Flow from Financing</b>									
Dividends			0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other			(243.38)	(81.74)	(26.41)	(24.99)	(28.90)	(35.28)	(46.21)
Cash Flow from Financing			(243.38)	(81.74)	(26.41)	(24.99)	(28.90)	(35.28)	(46.21)
Disc Ops + FX			3.69	0.00	0.00	0.00	0.00	0.00	0.00
Increase in Cash			18.26	(161.51)	283.53	212.53	331.49	350.68	362.70
Cash at Beginning of Year			155.97	174.24	12.73	296.26	508.79	840.28	1,190.96
Cash at Year-End			174.24	12.73	296.26	508.79	840.28	1,190.96	1,553.66
Revolver Drawdown			0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revolver Payback			0.00	0.00	0.00	0.00	0.00	0.00	0.00
LTD Payback			0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cash at Year-End			174.24	12.73	296.26	508.79	840.28	1,190.96	1,553.66

**ASSUMPTIONS**

## Summary Projected Financials

- 1) EBITDAO = EBITDA + Stock Compensation
- 2) 2007 EBIT is Non-GAAP and excludes \$32MM gain from pension curtailment and excludes \$44MM restructuring charge
- 3) 9M 07 and 9M 08 Gross Profit, EBIT, EBITDAO, Tax, and EPS are adjusted for restructuring charges which are outlined in HBI earnings release
- 4) Blue bars in Valuation Range are Kinnaras estimates for best valuations for HBI; lower valuations are based in some part on unadjusted Street estimates. For example, GIL currently trades at <1.0x EV/forward Sales due to recent earnings drop and no reported consensus change to estimates. Consensus revisions should occur resulting in lower forward revenue expectations and there a higher forward valuation which can then be applied to HBI.
- 5) No historical data for HBI displayed prior to 2007 because previous years' FY ended on July 1; HBI shifted to a Dec FYE in 2007
- 6) Change in working capital excluded from cash flow calculations, offset with higher discount rate
- 7) Mean/Median of Public Comparables in Appendix I used to calculated valuation ranges except for P/08 EPS which uses High/Low since Mean and Median are equal and EV/08 Rev which uses Mean/Median (equal) and High as Low value would result in a negative value due to HBI's debt level

## Income Statement

- 1) Sales based on Kinnaras estimates
- 2) Gross profit for 2008 is Kinnaras Non GAAP estimate to maintain consistency with 9M 08 figures
- 3) SG&A declines in 2008 and 2009 based on management indications regarding spending plans
- 4) Interest expense based on Kinnaras estimates
- 5) Tax rate based on management's 22-25% expected range over time
- 6) Share count assumed constant at 95.02MM

## Balance Sheet

- 1) Balance sheet accounts except for inventories kept constant at historical levels
- 2) Inventories decline in 2009 based on expectation that supply chain initiatives are completed
- 3) Debt paydown is based on HBI debt structure

## Cash Flow

- 1) D&A and Stock Comp based on Kinnaras estimates
- 2) PPE based on management expectations of aggregate capital expenditures in coming years with yearly amounts based on Kinnaras estimates
- 3) Other is debt payments based on Kinnaras estimate of HBI debt schedule; no cash flow sweep is applied