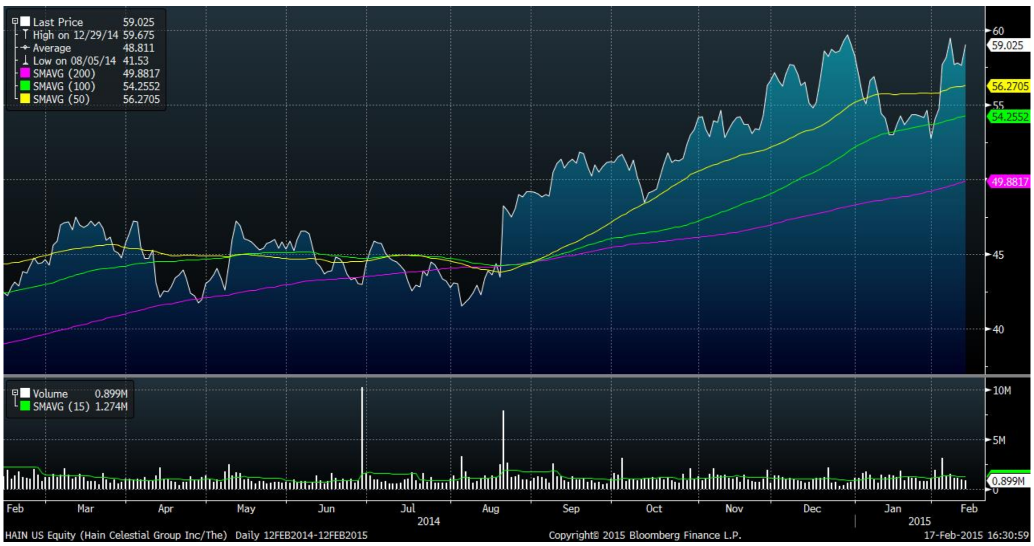
The Hain Celestial Group, Inc (HAIN: NASDAQ)

Financial Analysis By: Remy Fields – Consumer Staples

Company Profile as of 2/12/2015

Market Price: $59.02
Industry: Food Products
Market Cap: $5,864.94M
52-Week: $40.84 – 60.45

Source	Target Price	Reccomendation
Siena	$ 71.15	Buy
Bloomberg	$ 61.49	Buy
Capital IQ	$ 63.75	Buy
Yahoo Finance	$ 63.50	Buy



Thesis

-Positive industry outlook

-Positioning in market
  -Strength of balance sheet

-Possible cost cutting

The Hain Celestial Group Inc. is a buy because they are well positioned in an industry that has been and will continue to see rapid growth. Hain Celestial's strong balance sheet will allow them to acquire companies that will help their competitive advantage. The ability to acquire companies allows Hain to leverage their connections throughout the consumer staples industry and create efficiencies. Finally, Hain will be able to cut costs in SG&A that have not been priced into the market yet.

Company Overview

The Hain Celestial Group (Nasdaq: HAIN), is a leading natural and organic food and personal care products company in North America and Europe. Hain Celestial participates in almost all natural food categories with well-known brands that include Celestial Seasonings, Health Valley, Earth's Best, Arrowhead Mills, Hain Pure Foods, Spectrum Naturals, Spectrum Essentials, Imagine Food, Linda McCartney, Grains Noirs, Avalon Organics and many more. The Hain Celestial Group common stock trades on The NASDAQ Global Select Market. Together with its subsidiaries, manufactures, markets, distributes, and sells organic and natural products in the United States, the United Kingdom, Canada, and Europe. Its grocery products include infant formula, rice, non-dairy beverages, frozen desserts, flour and baking mixes, breads, hot and cold cereals, pasta, condiments, and personal care products, including skin, hair and oral care, deodorants, and many more. The company sells its products through direct sales people, brokers, and distributors to specialty and natural food distributors, supermarkets, natural food stores, mass-market retailers, e-tailers, food service channels and club, and drug and convenience stores in approximately 65 countries worldwide. The Hain Celestial Group, Inc. was founded in 1993 and is headquartered in Lake Success, New York.

Management

From a management standpoint The Hain Celestial Group is an experienced management team. The CEO, Irwin Simon, found the company in 1993. Before founding the company he worked in various marketing capacities for Slim-Fast Foods Company. The CFO, Stephen Smith, has been in his position since 2013. Previously, Mr. Smith worked at PricewaterhouseCoopers LLP as a Partner from 1993 until 2001. Another executive to note is John Carroll; he has worked in the Consumer Staples industry for over 15 years. He worked as the managing director of Heinz Frozen Foods from 1995 until 2003. After his stint at Heinz, he consulted for The Hain Celestial group and was brought on soon after in 2004. The management team has expertise in management and the consumer staples industry, which has transpired into the growth of the company.

Industry Outlook

When looking into the consumer staples industry as a whole there are not high expectations of growth, but when considering a smaller part of the industry the growth expectations are higher. Organic foods used to be a niche market, but the growing consumer interest has opened the market to many opportunities. Two out of every three consumers say they buy some sort of organic food. Millennials desire to live a healthy lifestyle that is why we are seeing the frozen food category move more and more to fresh. With millennials moving into the working class, their spending is going to become a large percentage of the spending occurring in the consumer staples industry. Many health risks are associated with the use of conventional food due to the presence of chemicals, such as, pesticides, antibiotics and other drugs. This has resulted in consumers preferring organic food & beverages products that are non-toxic and environment friendly. In addition, we are near-epidemic levels of obesity and the increased occurrence of diabetes, which have stirred a national debate over food policy and diet. This debate has not only influenced consumers, it has caused policy makers to take action. Recently, the FDA has made regulations that have strained food producers to make healthier food. In addition, the FDA has become stricter on their policies for labeling food. In 2013, they set forth a ruling that made it more difficult to label foods gluten-free and non-GMO (Genetically Modified Organisms). This is a good part of the consumer staples industry to be in from a top-down perspective.

One specific area that is growing rapidly is organic personal care market. Sales of organic personal care products are at 7.6 billion dollars and are expected to grow to 13.2 billion by 2018. The popularity of organic personal care products has grown because of the growth of organic food. People care about the different shampoos and lotions they are using on their bodies. They want it to be healthy for their skin without all the chemicals that have come along with skin care products of the past. Consumers have not only become more aware of what they put in their bodies, but they have become more aware of what goes on their bodies.

Another type of product that is expected to see exceptional growth is the gluten-free product line. Gluten-free products were made for the one-percents of human beings who are actually diagnosed with Celiac Disease. At first look, it would appear this is a terribly insignificant niche market, however with further analysis we see that the it appeals to a great deal of the population at large. Eighty-two percent of gluten-free consumers have not been diagnosed. Consumers are eating the gluten-free products because they believe that the products are healthier, so the popularity has risen. Fifty-five percent of gluten-free eaters spend thirty percent of their grocery budget on gluten-free foods. Sixty-eight percent of gluten-free eaters shop at three or more stores a month to find gluten-free foods. These statistics shows that the consumers that eat gluten-free foods believe in it so much that they are willing to go out of their way to find the gluten-free product because it is important to them. Furthermore, 82% of the consumers that shop for gluten-free products have not reached their buying potential in the industry. This leaves more room for improvement just based off the consumers already eating –gluten-free.

Finally, consumers around the world are interested in living healthier lives, a trend that supports companies including athletic apparel and outdoor equipment makers, organic grocery stores, providers of vitamins and nutritional supplements, and fast-casual restaurant chains that offer what are perceived as healthier food options. Nike, Under Armour and many more have marketed active lifestyles, the growth of these companies show that consumers are trying to live healthier lifestyles. One market that has recently emerged is wearable devices. This industry is made up of health trackers from Google, Apple, Microsoft, Fitbit, and more. If these huge names have entered this market, it is because they believe it has great potential. If fitness trackers do become the next "big thing", they will remind people everyday of their health. With this new heightened awareness, many consumers will seek healthier alternatives as they proceed to the check out counter.

Positioning in market

The Hain Celestial Group is positioned very well in consumer staples market with this shift in consumer ideals. The Hain Celestial Group has over 25 brands that range from rice to turkey to personal care. What really differentiates the Hain celestial group from most of their competitors is that they 99% of their food products do not contain GMO's. In addition to having the organic food that consumers are looking for they also have gluten-free brands. Currently, six of their brands produce gluten-free products. They have over 500 gluten-free products on the market today, and expect to release more soon. Again, this positions them in a place that many of their competitors are not in or attempting to move to. Being one-step ahead has allowed Hain Celestial to solidify their buyers from over twenty different sellers. Hain Celestial has big names buying their products, such as, Whole Foods, Amazon, Costco, United Natural Foods Inc., Publix, and many more. Hain Celestial has diversified their portfolio, in which their biggest buyer only makes up 13% of their portfolio. This is a good position because they do not rely on one grocery store too much for their sales. An additional way the Hain Celestial Group has positioned themselves well is in the geographic locations they sell. North America accounts for 48% of the organic food market and Europe consists of 45% of the market. Hain Celestial is positioned well with 60% of their sales in the U.S., 30% coming from the U.K. and 10% being split between Canada and Europe. As mentioned above the organic personal care industry is expected to grow 40% by 2018. Also, the Hain Celestial Group is well positioned in this market. The Hain Celestial Group has six different brands in the organic personal care industry and continues to innovate in that industry.

In addition, Hain Celestial plans to announce 75 new products at the Expo West in March. These products shall be aimed at the high growth potential areas within the industry. They will be announcing products throughout all of their brands, but some key products will include gluten-free, lactose free, and non-GMO coconut bites. They also plan to announce a new beauty treatment for puffy eyes, pimples, under-eye circles, and thin lips in the fast growing organic personal care industry. These innovations have great potential to be huge hits, and are in markets that have high growth expectations in general.

Strength of Balance Sheet

Another strength that The Hain Celestial Group has in the industry is a strong balance sheet. This is important because, although organic growth has been in the high single digits for the Hain Celestial Group, it can be difficult to find in consumer packaged goods companies today. Having the ability to do this is important because they are less likely to miss an opportunity in the market if they are not able to create it themselves. An example of this would be in the meat, fish and poultry product segment. This product segment has the potential to grow at a 14.6% CAGR through 2020. Currently, The Hain Celestial Group is not in this industry, but there have been talks about moving into it. If they choose to acquire a number two or three in the product segment as they have done in the past in other product segments they will be an instant competitor. The Hain Celestial Group has shown that in the past they will not acquire someone unless they have the ability to help create efficiencies in the company. These efficiencies have made acquisitions, such as Rudi's Organic Bakery and Tilda, well worth the price. Certain synergies that they have used in the past to create value in an acquisition are operational and economies of scale. Operationally they have been able to create value by cutting SG&A of the company they acquire because they have the ability to leverage the SG&A that Hain Celestial already uses. In addition, they have helped smaller companies that they have acquired find and develop more efficient distribution channels. Distribution plays an important role in the success of companies and The Hain Celestial Group has those connections. If they are to buy a company in the meat, fish, and poultry product segment, they will have more places for their product to go.

Possibility of cost cutting

As I have mentioned above Hain Celestial has created operational synergies in the past. Recently, they have had an acquisition of Rudi's Organic Bakery in May and they have already closed their offices and have had them move into their headquarters. This may have already been priced into the stock, but what has not been accounted for as of yet is if Hain Celestial cuts more costs by moving their Canada office into their headquarters as well. At this time, Canada is run as a separate entity, but there is a possibility to create efficiencies by better integrating the operations of Canada and the U.S. In addition, in the U.K Hain Celestial has three different businesses (Tilda, Hain Daniels, and Ella's) running as separate businesses. Hain Europe is also running as its own business, which means that these four businesses have the opportunity to become more strategically integrated to cut costs of operations. This is important because the stock market has not priced this in yet, and there is a possibility to get in ahead of it.

Conclusion

In conclusion, the Hain Celestial Group is a buy because of their positioning in a rapidly expanding market. They are better situated than their competitors are because they have the products that consumers are looking for. They also have the experience of making popular products in the industry, which means they should be able to continue innovating in the fast growing product segments. In addition, they have a strong balance sheet in an industry where organic growth is difficult. Their balance sheet will allow them to buy into a product segment that is growing quickly. Finally, The Hain Celestial Group has been known to cut costs in the past and currently have the ability to do this domestically and internationally. They have multiple businesses running in similar areas, now they must find ways to integrate them together to lower costs.

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The Hain Celestial Group, Inc.	HAIN	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Remy Fields	$59.03	$63.75	$71.15	0%	20.55%	

General Info

Sector	Consumer Staples
Industry	Food Products
Last Guidance	Feb-04-2015
Next earnings date	5/5/2015

Market Data

Enterprise value	$6,604.91
Market Capitalization	$5,864.94
Daily volume	0.90
Shares outstanding	101.72
Diluted shares outstanding	102.42
% shares held by institutions	94.53%
% shares held by insiders	2.38%
Short interest	7.82%
Days to cover short interest	7.01
52 week high	$60.45
52-week low	$40.84
5y Beta	0.40
6-month volatility	27.13%

Peers	Market Cap.
The WhiteWave Foods Company	$6,196.65
Treehouse Foods, Inc.	$3,756.10
Post Holdings, Inc.	$2,556.96
Snyder's-Lance, Inc.	$2,122.18
Mead Johnson Nutrition Company	$19,974.71
Boulder Brands, Inc.	$626.00
Monster Beverage Corporation	$19,947.25
Flowers Foods, Inc.	$4,108.27
Pinnacle Foods Inc.	$4,217.07
Keurig Green Mountain, Inc.	$19,312.09

Current Capital Structure

Total debt/market cap	13.25%
Cost of Borrowing	3.33%
Interest Coverage	959.21%
Altman Z	3.70
Debt Rating	BBB
Levered Beta	1.11
WACC (based on market value weights)	7.95%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Simon, Irwin	Founder, Chairman, Chief Execu	$ 9,312,869.00	$ 26,493,755.00	$ 11,172,452.00
Smith, Stephen	Chief Financial Officer and Execu	$ -	$ -	$ 1,599,736.00
Faltischek, Denise	Chief Compliance Officer, Execu	$ 1,052,190.00	$ 1,217,315.00	$ 1,586,168.00
Carroll, John	Executive Vice President and Chi	$ 2,224,486.00	$ 2,693,195.00	$ 3,555,529.00
Lamel, Ira	Special Advisor to the Chief Exe	$ 2,030,242.00	$ 2,038,850.00	$ 1,035,147.00
Weiner, Ross	Chief Accounting Officer and Vic	$ -	$ -	$ -

Historical Performance

	HAIN	Peers	Industry	All U.S. firms
Growth	14.8%	12.6%	8.7%	6.0%
Retention Ratio	47.3%	129.3%	59.5%	61.6%
ROIC	48.8%	10.4%	13.5%	11.8%
EBITA Margin	9.7%	15.2%	11.6%	13.7%
Revenues/Invested capital	94.7%	89.2%	178.1%	202.3%
Excess Cash/Revenue	3.9%	8.0%	6.4%	18.5%
Unlevered Beta	0.89	0.67	0.64	0.95
TEV/REV	1.4x	2.4x	1.5x	2.4x
TEV/EBITDA	12.4x	13.6x	12.1x	11.3x
TEV/EBITA	15.3x	16.1x	15.3x	15.4x
TEV/UFCF	18.0x	107.6x	28.3x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	-2.9%	1.8%	3.8%
Last Quarter-1	-1.2%	1.0%	0.0%
Last Quarter -2	1.1%	-10.8%	2.3%
Last Quarter -3	0.2%	-2.0%	2.3%
Last Quarter -4	-0.8%	-2.2%	0.0%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	0%	N/A	N/A
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions / **Forecasted Profitability**

		Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
Operating. Cash/Cash	25.0%	LTM	54%	87%	$2,468.89	$177.61	$2,552.38	$148.23
Unlevered Beta	1.00	LTM+1Y	66%	85%	$4,106.25	$351.41	$2,923.20	$131.73
Rev/Invested Capital	90.0%	LTM+2Y	7%	85%	$4,409.70	$385.38	$3,026.08	$282.50
Continuing Period Revenue Growth	3.5%	LTM+3Y	7%	84%	$4,733.04	$431.49	$3,165.40	$292.17
Long Term ROIC	14.2%	LTM+4Y	6%	83%	$5,040.44	$474.20	$3,313.09	$326.51
Invested Capital Growth	Equals to Maintenance	LTM+5Y	5%	83%	$5,276.31	$504.51	$3,492.77	$324.84
Justified TEV/REV	2.4x	LTM+6Y	4%	83%	$5,485.38	$540.88	$3,681.17	$352.48
Justified TEV/EBITDA	13.0x	LTM+7Y	4%	82%	$5,677.37	$576.97	$3,846.55	$411.58
Justified TEV/EBITA	16.0x	LTM+8Y	3%	82%	$5,876.08	$597.36	$4,019.76	$424.15
Justified TEV/UFCF	30.0x	LTM+9Y	3%	82%	$6,081.74	$618.27	$4,216.56	$421.47

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	7.0%	8.0%	$65.61	$7,508.23	$875.19	$146.74	$6,486.29	$64.71
LTM+1Y	13.0%	8.0%	$141.88	$8,214.28	$875.19	$126.55	$7,212.54	$71.90
LTM+2Y	13.2%	8.1%	$150.96	$8,587.72	$875.19	-$120.19	$7,832.72	$77.88
LTM+3Y	14.2%	8.3%	$188.43	$9,015.65	$875.19	-$381.13	$8,521.58	$84.69
LTM+4Y	15.0%	8.4%	$217.61	$9,439.47	$875.19	-$679.68	$9,243.95	$91.83
LTM+5Y	15.2%	8.5%	$234.42	$9,892.39	$875.19	-$980.50	$9,997.70	$99.58
LTM+6Y	15.5%	8.6%	$252.63	$10,364.14	$875.19	-$1,313.09	$10,802.03	$107.26
LTM+7Y	15.7%	8.7%	$267.26	$10,821.95	$875.19	-$1,708.53	$11,655.30	$115.70
LTM+8Y	15.5%	8.8%	$269.39	$11,310.01	$875.19	-$2,120.55	$12,555.37	$124.60
LTM+9Y	15.4%	8.9%	$272.12	$11,831.95	$875.19	-$2,534.71	$13,491.47	$132.64

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**4%**	**N/A**	**3%**	**15%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$64.71	$71.90
σ(ε)	$0.32	$0.25
3 σ(ε) adjusted price	$63.75	$71.15
Current Price	$59.03	
Analysts' median est.		$62.84