



Hain Celestial

(NASDAQ: HAIN)

Sector Perform

Above Average Risk

Company Update
Price Target
Upgrade
EPS Upgrade

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Price: 15.13 Price Target: 18.00 ↑ 17.00
52-Wk High: 22.97 52-Wk Low: 11.60
Float (MM): 27.1 Debt to Cap: 2.8%
Shares Out (MM): 34.6 Market Cap (MM): 523
Dividend: 0.00 Yield: 0.0%
Tr. 12 ROE: 4.90% Est 3-Yr EPS Gr: 15.00%
Trading Vol. (MM): 0.200
Institutional Own.: 68%

(FY Jun)	2001A	2002A	2003E	2004E
Diluted EPS	0.70	0.56	0.79	1.03
Prev.			0.77	0.99
P/E	21.61x	27.02x	19.15x	14.69x

Diluted EPS	Q1	Q2	Q3	Q4
2001	0.21A	0.30A	0.12A	0.08A
2002	0.16A	0.15A	0.15A	0.11A
2003	0.14A	0.25A	0.22E	0.19E
Prev.		0.26E		0.15E
2004	0.20E	0.32E	0.27E	0.23E
Prev.				0.20E

All values in USD unless otherwise noted.

Q2 Increases Confidence In Estimates

Event

Reported strong Q2 results.

Investment Conclusion

- EPS of \$0.25 (vs. \$0.15 last year) met expectations.
- Accelerated internal sales growth, improved earnings quality, and raised Q4 guidance indicate a possible turn in performance.
- Increasing 2003/2004 estimates to \$0.79/\$1.03 from \$0.75/\$0.99 and raising target to \$18 from \$17.
- Given yesterday's stock appreciation, we would await a better entry point.

Valuation

Based on our calendar 2004 estimates, Hain trades at an EV/EBITDA multiple of 6.4x and a P/E multiple of 13.7x. These multiples reflect an approximate 15% discount to other companies in our healthy lifestyles universe. We are raising our price target to \$18 (prev. \$17) to reflect our upward earnings revision and increased confidence in our estimates. At our price target, shares would trade in line with other healthy lifestyles companies and would trade at a slight premium to conventional food manufacturers. Our price target assumes a 25% discount to Hain's historical average multiple.

Impediment

Increasing competition, particularly in the mass market, could impact Hain's sales and/or margins and cause performance to fall short of expectations. Inability to meet our estimates could impede achievement of our price target.

Q2 Recap

Hain reported strong Q2 results. EPS of \$0.25 (vs. \$0.15 last year) compare to our estimate of \$0.26, consensus of \$0.24, and guidance of \$0.26-\$0.27. Internal sales growth accelerated to 9% from 6% last quarter, driving in line sales of \$123 million. Celestial Seasonings (+9.3%), Yves (+19%) and Garden of Eatin' (+16%) drove the acceleration in sales growth. Operating margins improved to 11.2% from 9.5%, as 210 basis points of gross margin improvement more than offset a 40 basis point increase in SG&A. The gross margin improvement reflects resolved inefficiencies in Terra Chip manufacturing, a richer mix of high margin tea sales, and reduced distribution costs. These factors were partially offset by lower margins from Europe

For pertinent disclosure, see Disclosure section at the end of this report.

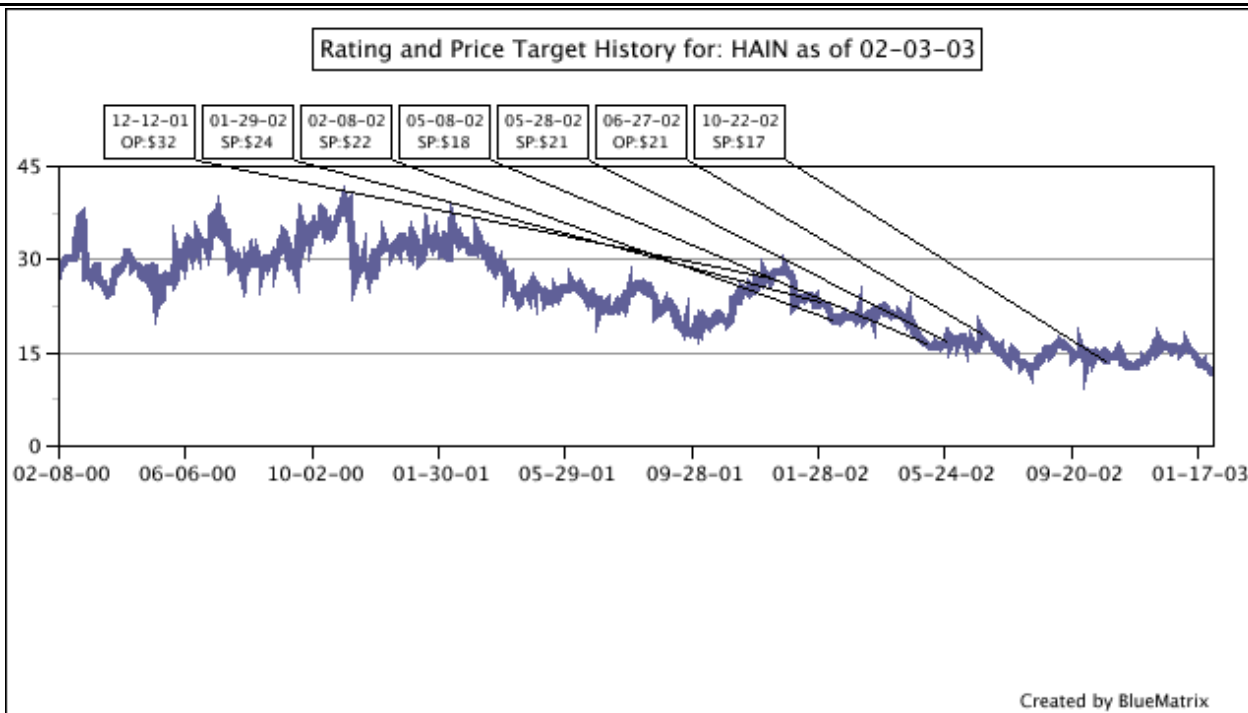
businesses (Lima and Biomarche).

The benefit of easy comparisons notwithstanding, Q2 was Hain's cleanest quarter in recent memory. Quality of earnings was high, as the company did not rely on pro forma adjustments (excluding a small restructuring charge which was expected) to meet estimates. Management reiterated its Q3 guidance and raised its Q4 guidance by \$0.04. Overall, Q2 results indicate a possible turn in performance and suggest to us that earnings might have bottomed. While we believe Hain still has obstacles to overcome, including declining growth in the aseptic soy category (approx. 15% of sales) and market share loss key categories, improved earnings visibility is a positive for the stock. We have raised estimates for 2003 and 2004 to \$0.79 and \$1.03 from \$0.77 and \$0.99, respectively, and we have increased our price target to \$18 from \$17. Given the recent strength in the stock, however, we would wait for a better entry point before building positions.

Company Description

Hain Celestial Group (Uniondale, New York) is the leading marketer of natural/organic food and beverage products.

Disclosures



Rating	RBC Capital Markets		Distribution of Ratings, Firmwide	
	Count	Percent	IB Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [TP/O]	365	49.13	86	23.56
HOLD [SP]	295	39.70	41	13.90
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Hain Celestial Group
Earnings Model
(In thousands, except per share amounts)
Fiscal Year Ends June 30

	1997	1998	1999	2000	2001	Sep 01	Dec 01	Mar 02	Jun 02	2002	Sep 02A	Dec 02A	Mar 03E	Jun 03E	2003E	Sep 03E	Dec 03E	Mar 04E	Jun 04E	2004E
Net sales		174,264	269,760	332,436	348,223	89,735	105,169	105,614	95,436	395,954	96,420	123,006	130,402	120,309	470,137	120,499	144,118	139,998	129,526	534,140
Cost of goods sold	69,960	96,425	163,073	223,417	234,643	63,460	72,873	73,172	67,950	277,455	67,166	82,660	88,282	83,374	321,482	82,903	95,838	94,079	89,114	361,934
<i>Non-recurring items in COGS (10)</i>									14,838											
Gross profit	73,103	102,868	155,944	109,019	113,579	26,275	32,296	32,442	27,486	118,499	29,254	40,346	42,120	36,935	148,655	37,596	48,279	45,919	40,412	172,206
SG&A	57,328	81,635	100,454	71,912	67,817	17,168	22,336	23,911	21,386	84,801	21,551	26,550	29,080	25,866	103,047	25,666	29,544	29,960	26,941	112,111
Amortization of GW	2,097	2,622	4,820	6,362	6,441	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>One-time charges (4,5)</i>																				
<i>Merger costs (4,5)</i>				15,633	1,032															
<i>Impairment of long lived assets (4,10)</i>				3,468					3,878	3,878										
<i>Non-recurring charge (3,4,10)</i>				12,833					19,217	19,217			440							
EBIT	13,678	18,611	50,670	30,745	39,321	9,107	9,960	8,531	6,100	33,698	7,703	13,796	13,040	11,068	45,608	11,929	18,735	15,960	13,471	60,095
Interest expense (income) and other	2,217	2,629	6,175	6,235	(2,861)	329	1,564	300	240	2,433	170	206	773	559	1,708	724	677	545	299	2,245
Other expense (income)				(1,585)	479															
Amortization of deferred fin.	509	474	325	466																
EBT	10,952	15,508	31,233	25,629	41,703	8,778	8,396	8,231	5,860	31,265	7,533	13,590	12,267	10,510	43,900	11,205	18,059	15,414	13,171	57,850
Income tax expense	4,297	7,004	12,730	10,152	17,516	3,336	3,191	3,094	2,203	11,824	2,844	5,137	4,637	3,973	16,591	4,236	6,826	5,827	4,979	21,867
Net income	6,655	8,504	18,503	15,477	24,188	5,442	5,205	5,137	3,657	19,442	4,689	8,453	7,630	6,537	27,309	6,970	11,233	9,588	8,193	35,982
<i>Extraordinary cost (6)</i>		1,342		(1,940)																
<i>Cumulative change in acct. prin. (7)</i>																				
Earnings per share (8,10)	\$0.34	\$0.49	\$0.69	\$0.51	\$0.70	\$0.16	\$0.15	\$0.15	\$0.11	\$0.56	\$0.14	\$0.25	\$0.22	\$0.19	\$0.79	\$0.20	\$0.32	\$0.27	\$0.23	\$1.03
Weighted average s/o	19,434	22,939	26,636	29,951	34,544	34,634	34,881	34,908	34,600	34,756	34,382	34,467	34,816	34,886	34,638	34,955	35,025	35,095	35,165	35,060
EBITDA	\$17,279	\$28,878	\$45,050	\$41,784	\$52,049	\$10,992	\$11,743	\$10,538	\$8,285	\$41,558	\$9,716	\$15,996	\$15,290	\$13,368	\$54,371	\$14,279	\$21,135	\$18,410	\$15,971	\$69,795
Growth %:																				
Gross sales (pre-EITF)																				
Internal Hain Sales - 2002						2.1%	1.5%	9.5%	3.0%	3.9%	1.4%	8.5%	8.0%	8.0%	6.6%	8.0%	8.0%	8.0%	8.0%	8.0%
Total Hain Sales		59.5%	97.6%	45.7%	3.3%	2.1%	10.9%	26.3%	14.3%	15.9%	7.8%	20.1%	30.2%	29.2%	22.3%	30.9%	21.6%	8.0%	8.0%	15.9%
Celestial sales		22.3%	18.9%	-4.1%	-5.2%	8.0%	0.0%	-1.7%	-1.5%	0.9%	1.0%	9.0%	5.0%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Sales (pre-EITF)		39.3%	60.1%	28.1%	1.0%	12.0%	7.5%	17.8%	11.9%	12.2%	6.3%	17.0%	23.9%	25.9%	18.5%	25.6%	17.2%	7.4%	7.7%	13.8%
Net sales			54.8%	23.2%	4.7%	6.5%	7.6%	21.3%	20.8%	13.7%	7.4%	17.0%	23.5%	26.1%	18.7%	25.0%	17.2%	7.4%	7.7%	13.6%
Sales Excl. Acquisitions						4.7%	2.1%	7.7%	1.4%	4.0%	1.5%	8.7%	6.9%	7.7%	6.4%	6.8%	7.2%	7.4%	7.7%	7.3%
Reported Internal Growth										4.0%	6.0%	9.0%								
Gross profit		40.7%	51.6%	-30.1%	4.2%	-15.3%	-8.8%	25.0%	29.8%	4.3%	11.3%	24.9%	29.8%	34.4%	25.4%	28.5%	19.7%	9.0%	9.4%	15.8%
SG&A		42.4%	23.1%	-28.4%	-5.7%	-4.1%	32.9%	33.7%	40.5%	25.0%	25.5%	18.9%	21.6%	21.0%	21.5%	19.1%	11.3%	3.0%	4.2%	8.8%
EBITDA		67.1%	56.0%	-7.2%	24.6%	-24.8%	-41.4%	7.7%	9.2%	-20.2%	-11.6%	36.2%	45.1%	61.4%	30.8%	47.0%	32.1%	20.4%	19.5%	28.4%
Income from operations		36.1%	172.3%	-39.3%	27.9%	-21.1%	-41.2%	30.0%	42.8%	-14.3%	-15.4%	38.5%	52.9%	81.4%	35.3%	54.9%	35.8%	22.4%	21.7%	31.8%
Net income		27.8%	117.6%	-16.4%	56.3%	-22.3%	-49.3%	21.1%	36.6%	-19.6%	-13.8%	62.4%	48.5%	78.7%	40.5%	48.6%	32.9%	25.7%	25.3%	31.8%
EPS		42.7%	42.2%	-26.2%	36.5%	-23.7%	-49.6%	20.9%	36.8%	-20.1%	-13.2%	64.4%	48.9%	77.3%	40.9%	46.2%	30.8%	24.7%	24.3%	30.2%
% of Sales:																				
Promotions % of gross					15.7%	14.4%	15.7%	13.7%	14.0%	14.5%	14.0%	15.7%	14.0%	14.0%	14.4%	14.0%	15.7%	14.0%	14.0%	14.5%
Promotions % of net		14.4%	18.3%	22.9%	18.6%	16.9%	18.6%	15.9%	16.4%	17.0%	15.7%	18.6%	16.3%	16.3%	16.8%	16.3%	18.6%	16.3%	16.3%	16.9%
COGS	48.9%	55.3%	60.5%	67.2%	67.4%	70.7%	69.3%	69.3%	71.2%	70.1%	69.7%	67.2%	67.7%	69.3%	68.4%	68.8%	66.5%	67.2%	68.8%	58.0%
Gross margin	51.1%	59.0%	57.8%	32.8%	32.6%	29.3%	30.7%	30.7%	28.8%	29.9%	30.3%	32.8%	32.3%	30.7%	31.6%	31.2%	33.5%	32.8%	31.2%	32.2%
SG&A	40.1%	46.8%	37.2%	21.6%	19.5%	19.1%	21.2%	22.6%	22.4%	21.4%	22.4%	21.6%	22.3%	21.5%	21.9%	21.3%	20.5%	21.4%	20.8%	21.0%
EBITDA margin	12.1%	16.6%	16.7%	12.8%	14.9%	12.2%	11.2%	10.0%	8.7%	10.5%	10.1%	13.0%	11.7%	11.1%	11.8%	11.9%	14.7%	13.2%	12.3%	13.1%
Operating margin	9.6%	10.7%	18.8%	9.2%	11.3%	10.1%	9.5%	8.1%	6.4%	8.5%	8.0%	11.2%	10.0%	9.2%	9.7%	9.9%	13.0%	11.4%	10.4%	11.3%
Net margin	4.7%	4.3%	5.8%	3.8%	5.9%	5.2%	4.2%	4.9%	3.8%	4.2%	4.9%	6.9%	5.0%	4.7%	5.0%	5.0%	6.6%	5.9%	5.4%	5.8%
Tax rate	39.2%	45.2%	40.8%	39.6%	42.0%	38.0%	38.0%	37.6%	37.6%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%

- Notes:**
- (1) Company purchased Health Valley, Breadshop and Casbah from NNG in May of 1999. Accounted for as a purchase acquisition. Revenue contribution in '99 was \$7 million. Revenue base estimated to be \$75 mil.
 - (2) Company purchased Arrowhead Mills, Deboles, Terra Chips and Garden of Eatin' from Shansby in July of 98. Accounted for as purchase acquisition. Revenue base estimated to be \$60 mil.
 - (3) \$9.1 million one-time charge in Q1-00 relates to write-offs of Celestial's supplement business. Q1 revenues are adjusted to include \$5,098 revenues from 30-count supplements.
 - (4) Non-recurring costs associated with Celestial Seasonings merger
 - (5) \$1.0 million charge in Q1-01 relates to merger costs
 - (6) Extraordinary cost in 1998 relates to pre-payment of debt
 - (7) Accounting change relates to a write-off of previously capitalized start-up costs
 - (8) Q2-02 EPS includes \$0.06 of cost related to the transition to the new Terra Chip facility in Moonachie, NJ.
 - (9) Periods after FY-97 have been reclassified to reflect the adoption of EITF 00-14 and 00-25, relating to presentation of slotting fees and other trade promotions. The reclassification has no effect on net income.
 - (10) Q4-02 excludes the following non-recurring items:
 - (a) \$12.9 million (\$0.24 per share) related to divestiture of Health Valley manufacturing; approximately \$7.6 million (\$0.14 per share) related to the discontinuation of Celestial Seasonings' supplement business;
 - (b) Approximately \$2.7 million (\$0.05 per share) related to non-renewal of licensing agreement with Weight Watchers;
 - (c) Approximately \$1.6 million (\$0.03 per share) related to new business activities that have not yet provided a revenue benefit;
 - (d) Approximately \$1.1 million (\$0.02 per share) related to Wild Oats' distributor switch;
 - (e) Approximately \$0.5 million (\$0.01) for consulting fees and management reorganization expenses.