



HEDGEYE

NEW BEST IDEA: SHORT BNNY

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HEDGEYE CONSUMER STAPLES

April 10, 2014

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KEY POINTS

1

STRONG, RESONANT BRAND

Annie's is a great brand in the right category. As advertised, it authentically honors social responsibility and environmental sustainability by selling clean products and giving mom a healthy alternative to mainstream packaged goods.

2

INTERMEDIATE-TERM GROWING PAINS

The company has reported significant volume growth on its grocery and mass distribution segments since coming public, however, this growth has not been as rosy as it may seem. We firmly believe that managing a rapidly growing business is becoming increasingly challenging for a management team that has recently had some difficulty with internal controls.

3

SUBSTANTIAL PREMIUM VALUATION

At 35x NTM EPS, BNNY is trading at a notable premium to the group which is generally trading at 22x. To its credit, BNNY has shown significantly stronger top line growth than its peers, but we expect margin pressure, weak internal controls and a lack of earnings visibility to be a drag on the stock.

DURATION

3W

TRADE: 3 WEEKS OR LESS

Bearish on an immediate-term TRADE duration.

3M+

TREND: 3 MONTHS OR MORE

We are bearish on an intermediate-term TREND duration due to decelerating two-year sales trends, notable margin pressure, balance sheet issues, a lack of visibility and aggressive estimates. We believe 4QF14 will be a difficult quarter for BNNY and aggressive FY15 expectations will be reset as Annie's incurs some short-term growing pains.

3Y

TAIL: 3 YEARS OR LESS

We are bullish on a long-term TAIL duration. To be clear, this is not a structural short. Annie's is a strong, prominent natural and organic brand that has shown remarkable top line growth and is well positioned to capitalize on a rapidly growing organic food category.



COMPANY OVERVIEW

ANNIE'S INC

- BNNY's core business is the marketing and distribution of natural and organic foods under the Annie's brand name.
- Annie's is the leading natural and organic brand with products in over 26,500 stores.
- BNNY has the number one natural and organic market position in four product lines: macaroni and cheese, snack crackers, fruit snacks and graham crackers.
- BNNY operates three main business segments: meals; snacks; and dressings, condiments and other.
- The company has shown remarkable top line growth lately.
- Mission statement: To cultivate a healthier, happier world by spreading goodness through nourishing foods, honest words and conduct that is considerate and forever kind to the planet.

ANNIE'S INC

FY14E FINANCIALS

\$ in million except per share data

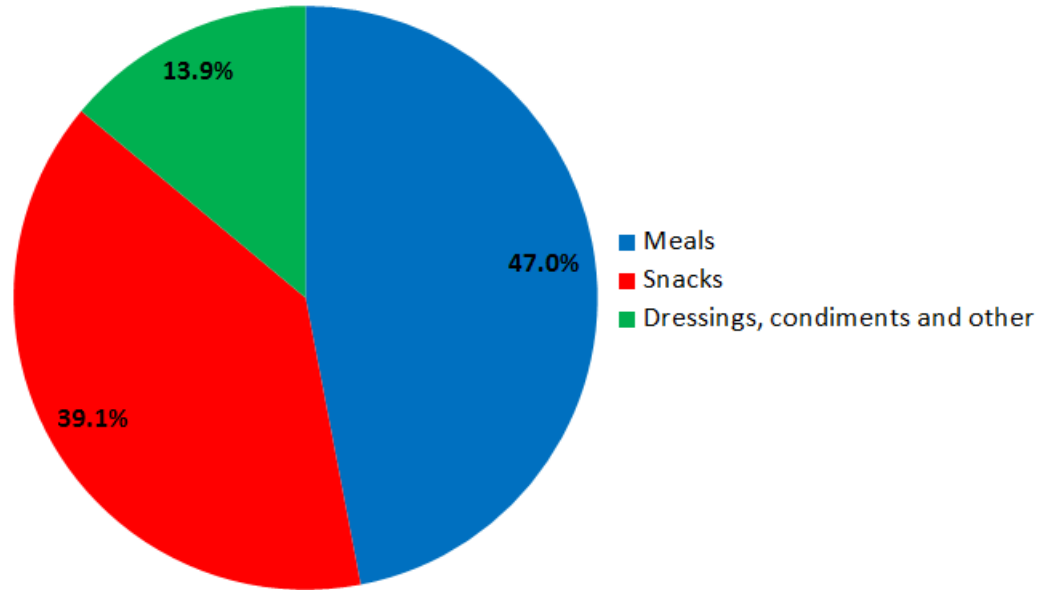
Total Revenue	\$204.3
Gross Profit	77
EBITDA	28
EBIT	26
Net Income	16
Total Enterprise Value	\$625.80
Cash & Short-Term Investments	21
Net Debt	0
Current Market Capitalization	633
Diluted Shares Outstanding (mm)	17.4
Current Price Per Share	\$37.23
Free Cash Flow	0
Dividend Yield	0%

BUSINESS SEGMENTS

MEALS AND SNACKS COMPRISE OVER 86% OF REVENUES

BNNY OPERATING SEGMENTS

% of Net Sales



Source: BNNY FY13 10-K

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Annie's
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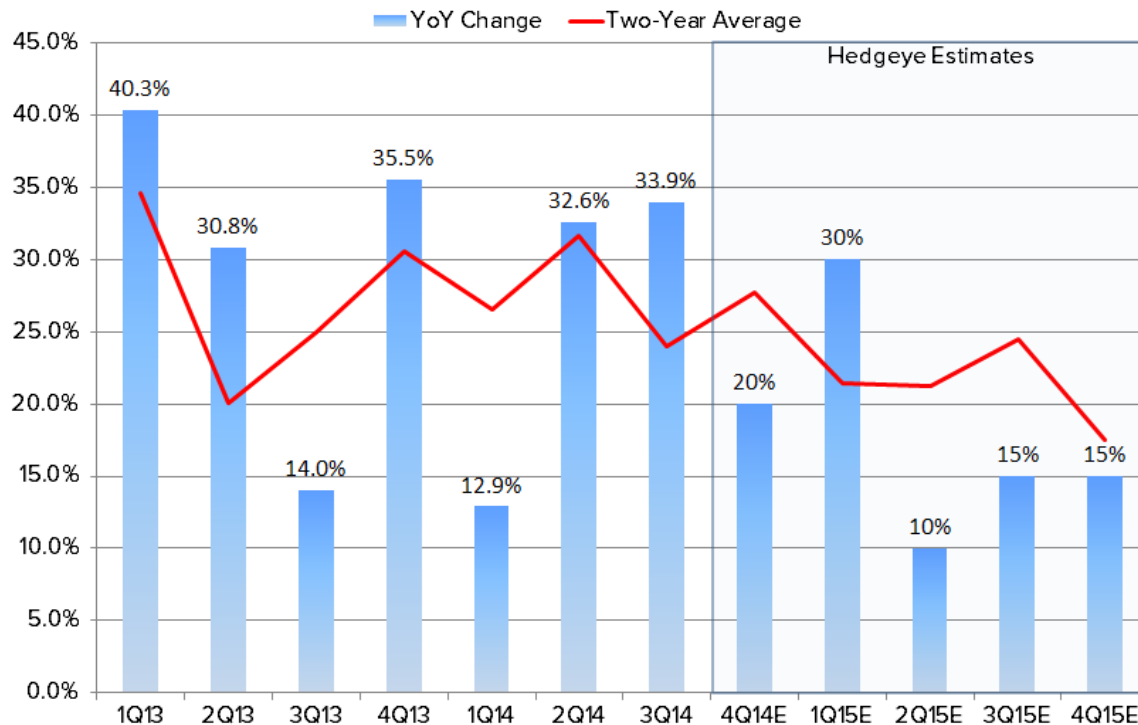


DECELERATING GROWTH

REVENUE GROWTH

WE EXPECT MEALS REVENUE GROWTH TO DECELERATE OVER THE NTM.

BNNY MEALS REVENUE GROWTH

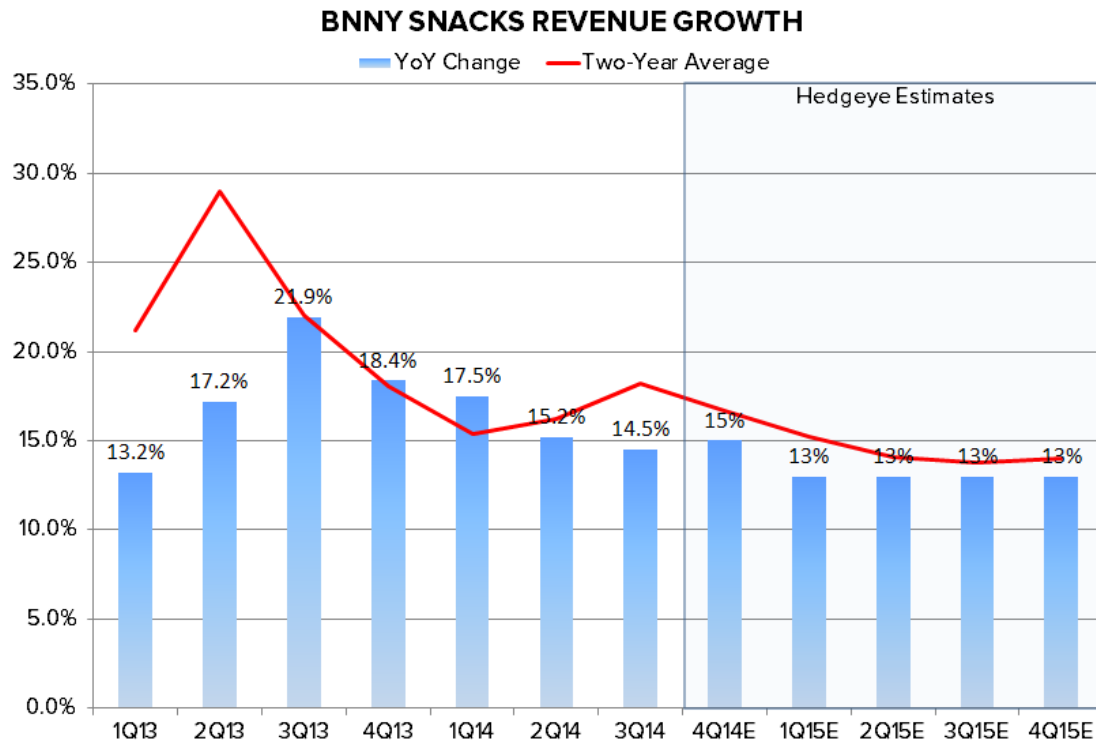


Source: Company Filings, Bloomberg

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REVENUE GROWTH

SIMILARLY, WE EXPECT THE “CORE” SNACKS REVENUE GROWTH TO DECELERATE OVER THE NTM – ALBEIT AT A LESSER RATE THAN MEALS. “CORE” SNACKS EXCLUDES THE IMPACT OF THE RECENT JOPLIN PLANT ACQUISITION.



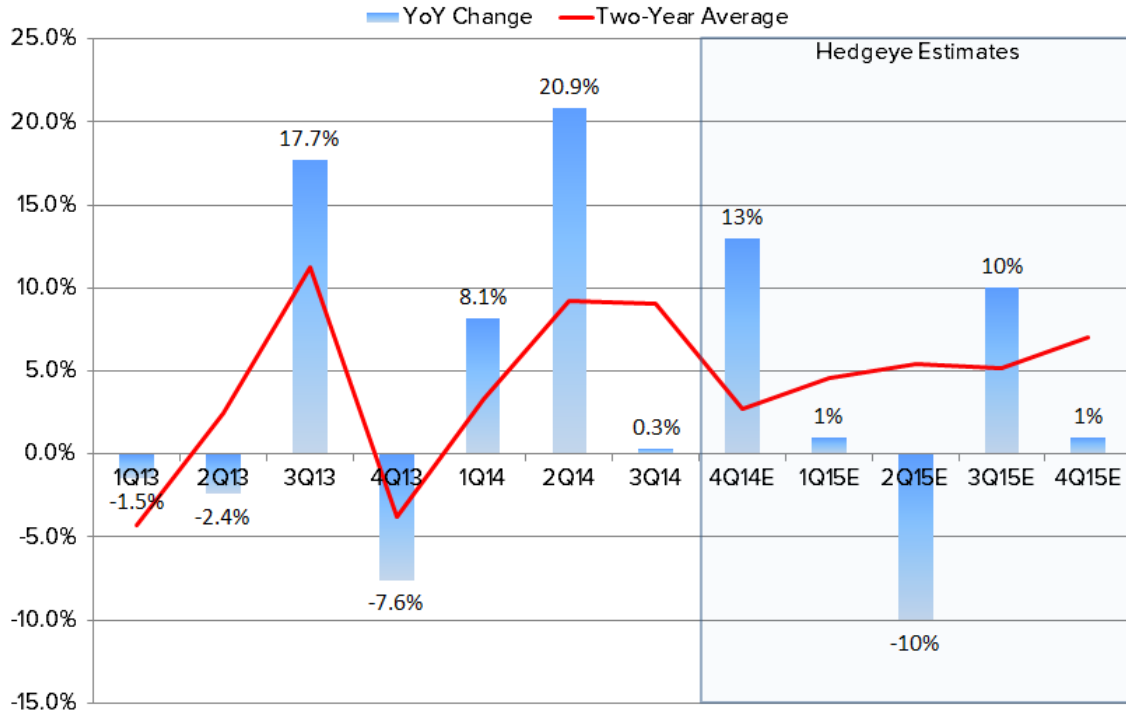
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REVENUE GROWTH

WE EXPECT DRESSINGS, CONDIMENTS & OTHER REVENUE GROWTH TO ACCELERATE SLIGHTLY OVER THE NTM.

BNNY DRESSINGS, CONDIMENTS AND OTHER REVENUE GROWTH



Source: Company Filings, Bloomberg

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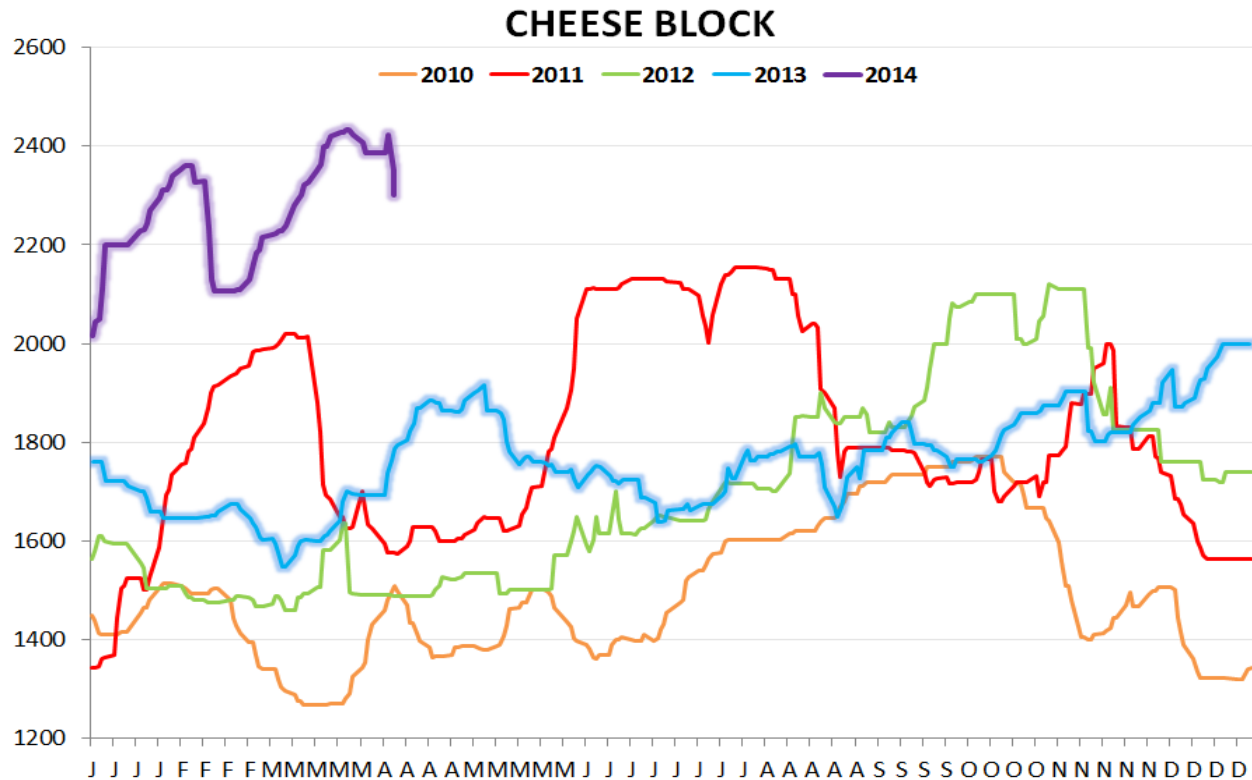
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MARGIN PRESSURE

COMMODITY PRESSURE

BNNY HAS TWO SIGNIFICANT INFLATION HEADWINDS IN THE FORM OF CHEESE (+22% YOY) AND ORGANIC GRAIN PRICES.

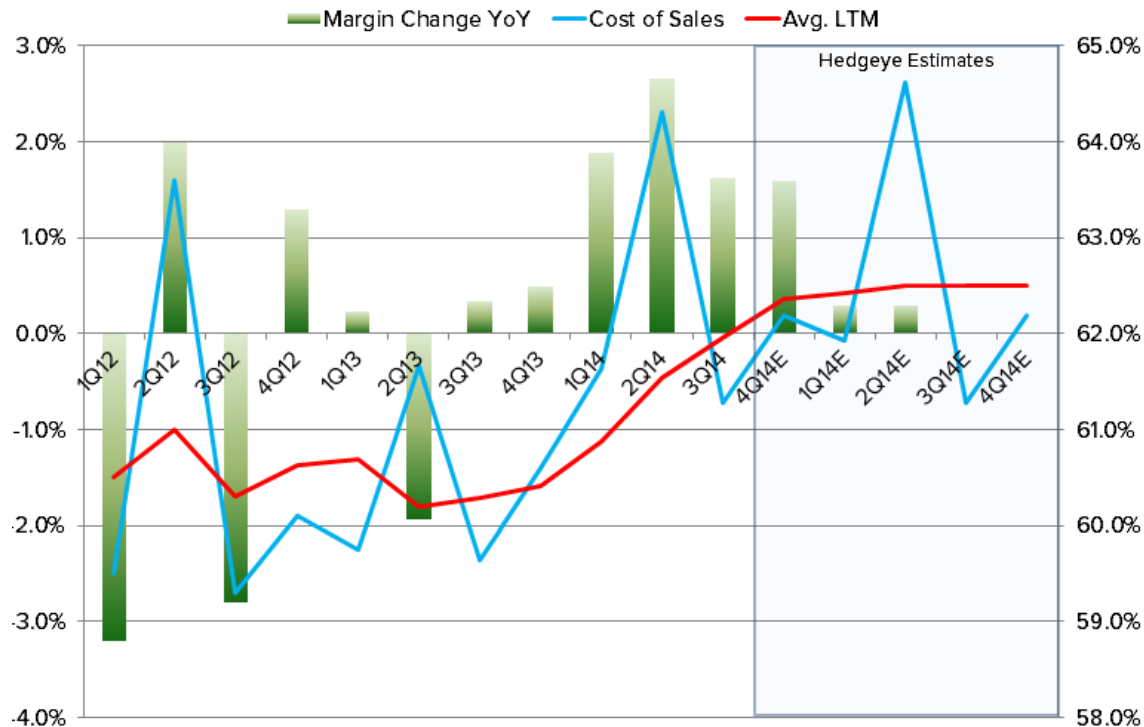


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BNNY COST OF SALES

FY15 WILL BE A “TALE OF TWO HALVES,” AS INFLATION HEADWINDS DRIVEN BY ORGANIC WHEAT AND CHEESE PRICES ARE EXPECTED TO PERSIST THROUGH 1HF15 BEFORE MODERATING IN2HF15.

BNNY COST OF SALES

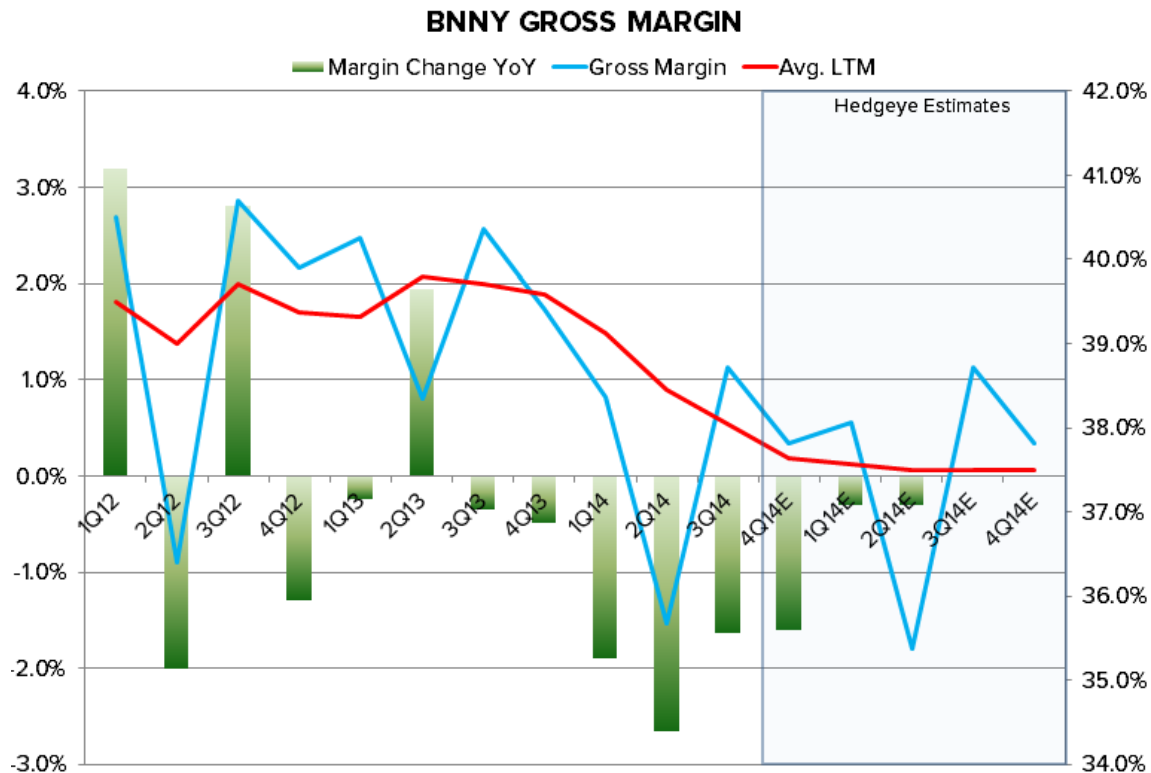


Source: Bloomberg, Company Filings

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BNNY GROSS MARGIN

WE EXPECT INCREASED COMPLEXITY, NEW PRODUCTS AND FOOD INFLATION TO DRIVE A NOTABLE DECLINE IN GROSS MARGIN IN 4Q14 AND 1HF15.

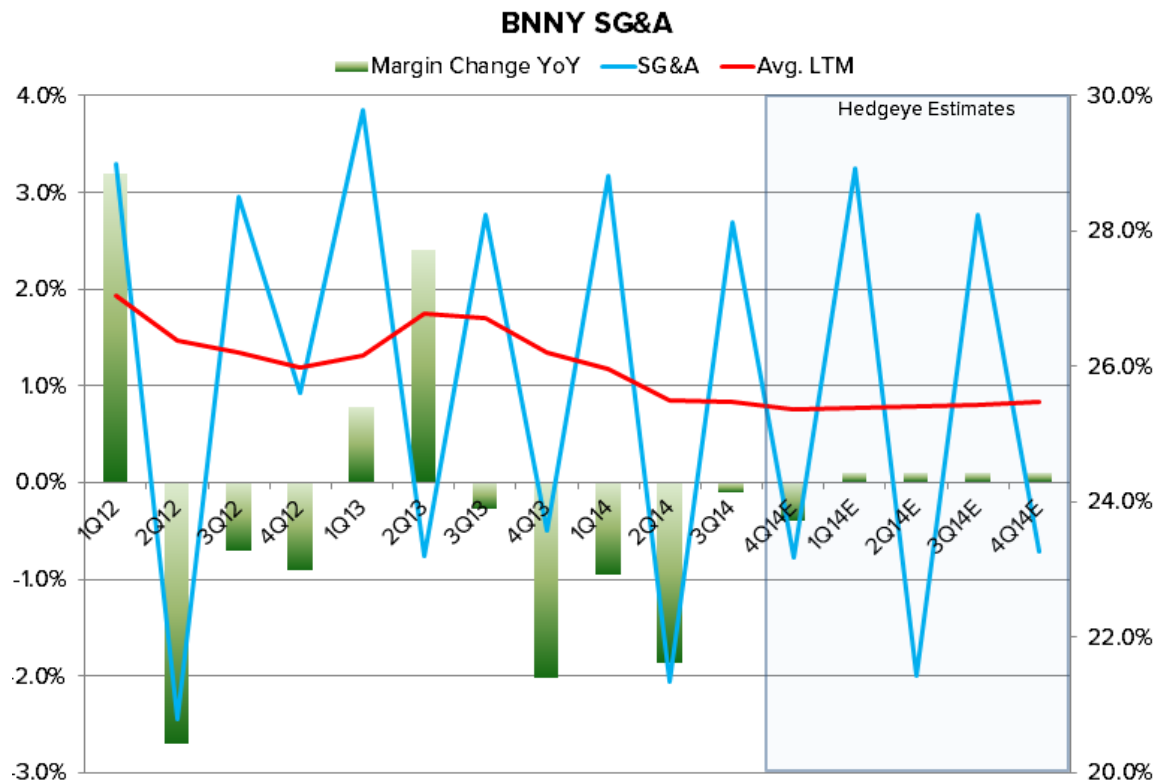


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BNNY SG&A

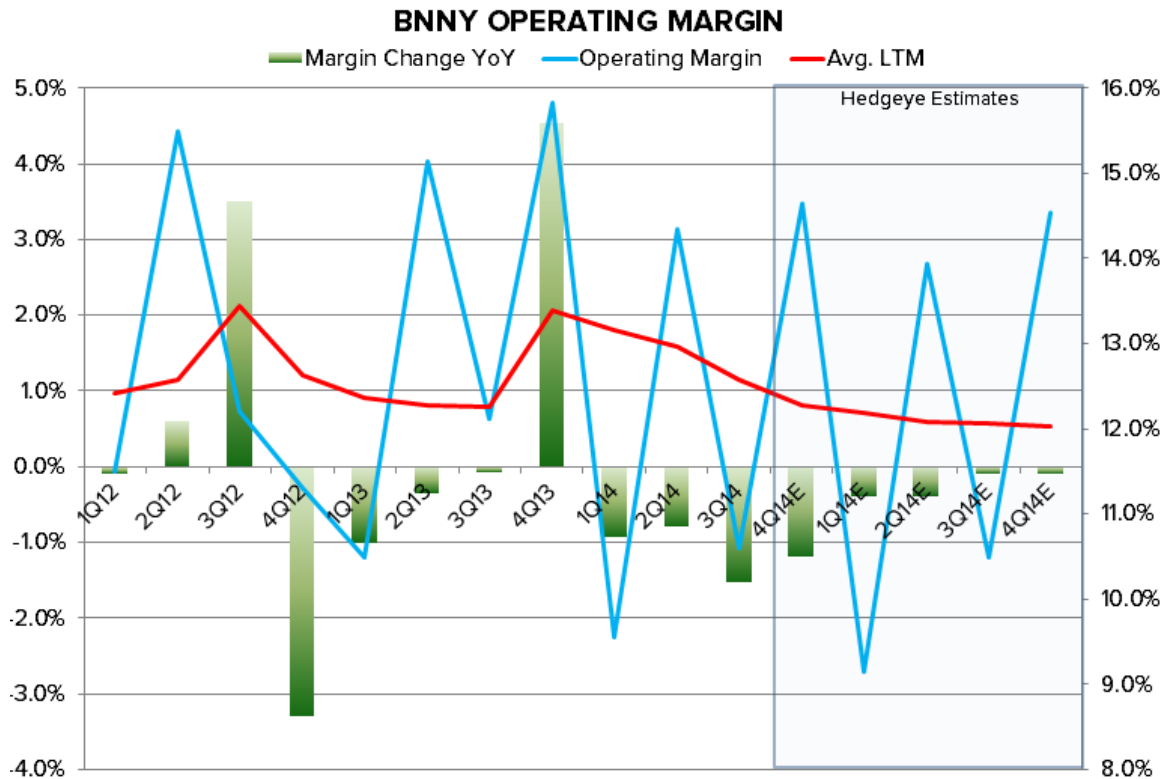
WITH THE COMPANY REMAINING ON A VERY AGGRESSIVE GROWTH CURVE AND PIVOTING TO AN ASSET-BASED MODEL, THEY DON'T HAVE MUCH LEVERAGE LEFT ON THE SG&A LINE.



Source: Bloomberg, Company Filings

BNNY OPERATING MARGIN

WE BELIEVE COGS PRESSURE AND LIMITED INCREMENTAL LEVERAGE ON THE SG&A LINE WILL LEAD TO OPERATING MARGIN CONTRACTION IN FY15.



Source: Bloomberg, Company Filings

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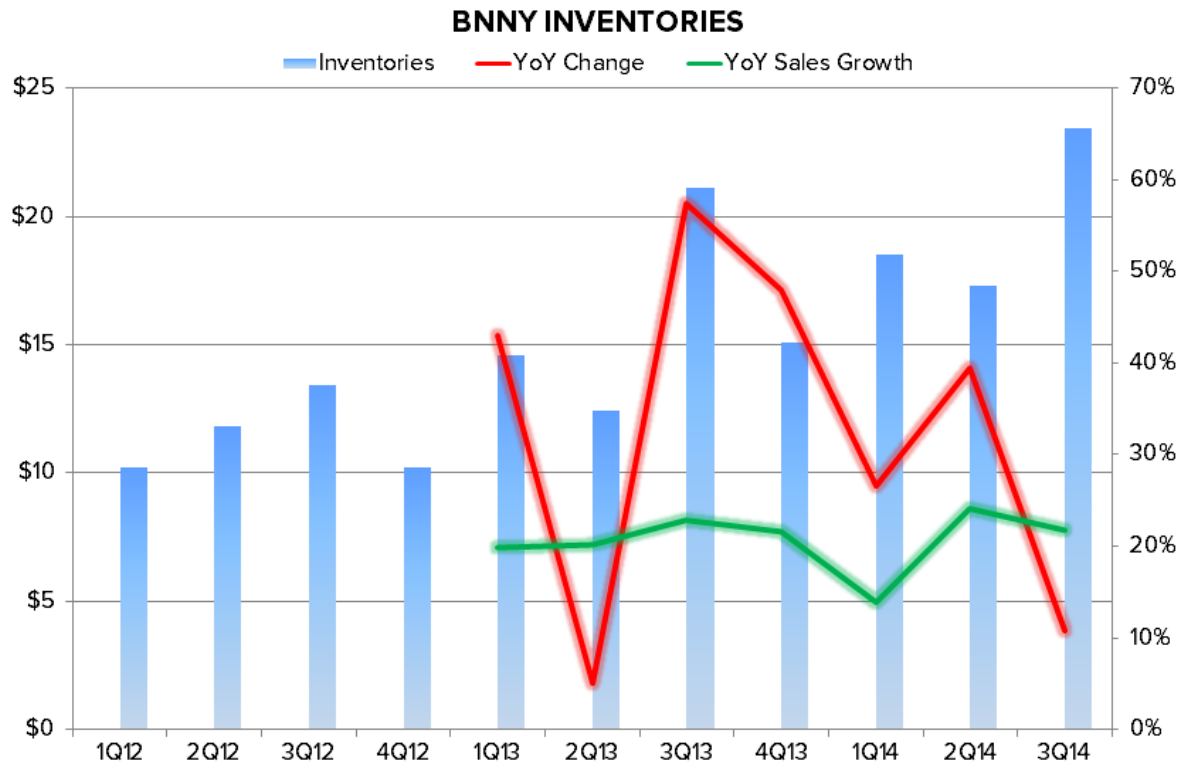
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BALANCE SHEET ISSUES

BNNY INVENTORIES

“AGED” INVENTORY IS A RED FLAG THAT HAS PREVIOUSLY SIGNALLED LOOSE INTERNAL CONTROLS.

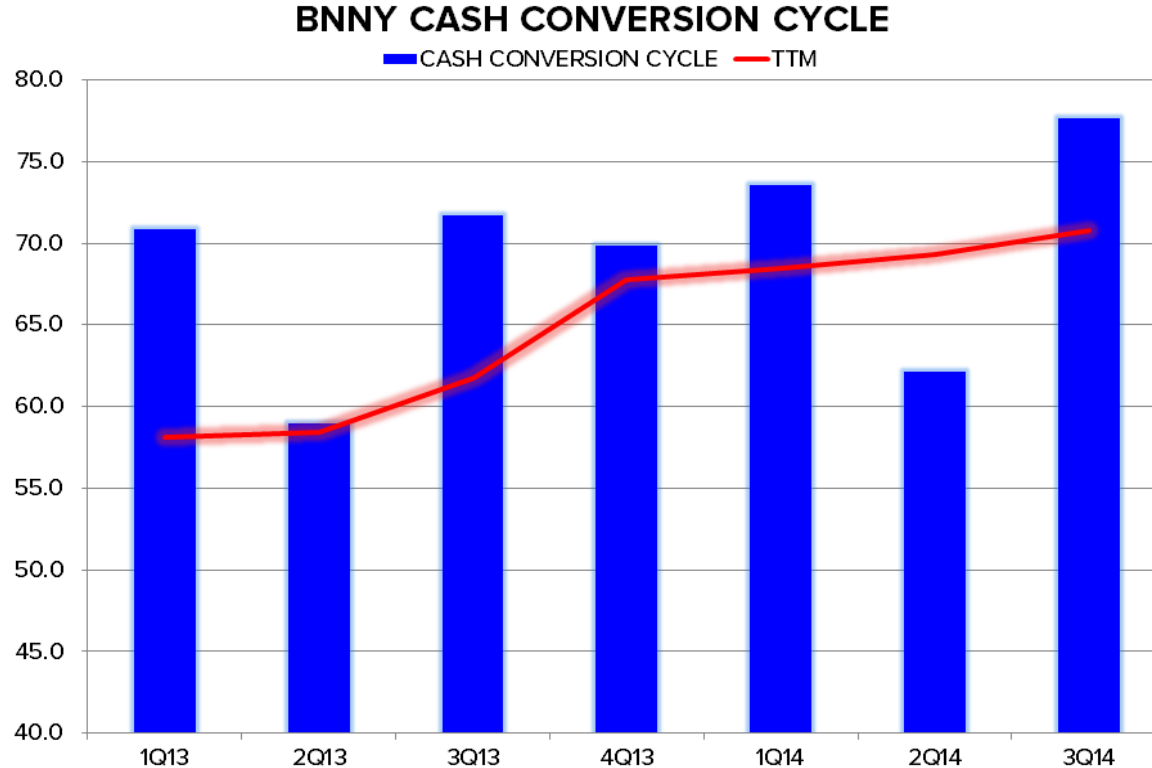


Source: Company Filings, Bloomberg

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BNNY CASH CONVERSION CYCLE

BNNY'S CASH CONVERSION CYCLE CONTINUES TO GROW AT A STEADY RATE, SUGGESTING THAT IT IS BECOMING INCREASINGLY CHALLENGING TO CONVERT PRODUCT INTO CASH.



Source: Company Filings, Bloomberg

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INCREASED COMPETITION

INCREASED COMPETITION

WHITEWAVE FOODS IS ENTERING THE MACARONI & CHEESE AND CRACKERS MARKET WITH ITS HORIZON BRAND.

Expanding the power of the Horizon brand to center of the store



Kids meals



Kids snacks



INCREASED COMPETITION

POWER PLAYERS WANT A PIECE OF THE ORGANIC PIE.

- “We’re removing the premium associated with organic groceries.” – Jack Sinclair, Executive VP at Walmart
- “At Walmart, internal company research found that 91 percent of customers said they would buy ‘affordable’ organic products if they were available, executives said.”
- “...Target, one of Walmart’s primary competitors, said on Tuesday that it would expand the presence of organic products in its stores.”

Walmart to Offer Organic Line of Food at Discount Prices

By ELIZABETH A. HARRIS and STEPHANIE STROM APRIL 10, 2014

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[Walmart](#) plans to announce on Thursday that it is putting its muscle behind Wild Oats organic products, offering the label at prices that will undercut brand-name organic competitors by at least 25 percent.

The move by Walmart, the nation’s largest retailer and grocer, is likely to send shock waves through the organic market, in which an increasing number of food companies and retailers are seeking a toehold.

“We’re removing the premium associated with organic groceries,” said Jack L. Sinclair, executive vice president of Walmart U.S.’s grocery division. The Wild Oats organic products will be priced the same as similar nonorganic brand-name goods.

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FINANCIAL SETUP

HEDGEYE EARNINGS ESTIMATES

EARNINGS ESTIMATES NEED TO COME DOWN...

Annie's Inc **37.23**

EARNINGS AND VALUATION SUMMARY				
FY ends Dec.	NTM	FY2015E	FY2016E	FY2017E
Hedgeye EPS	\$1.02	\$1.08	\$1.25	\$1.43
Consensus	\$1.05	\$1.13	\$1.32	-
Variance %		-4.2%	-5.7%	-
P/E	35.4X	33.4X	28.9X	25.0X

INVESTMENT POSITIVES

- 1) Great brand in the right category
- 2) Strong volume growth
- 3) Broader popularity
- 4) New products

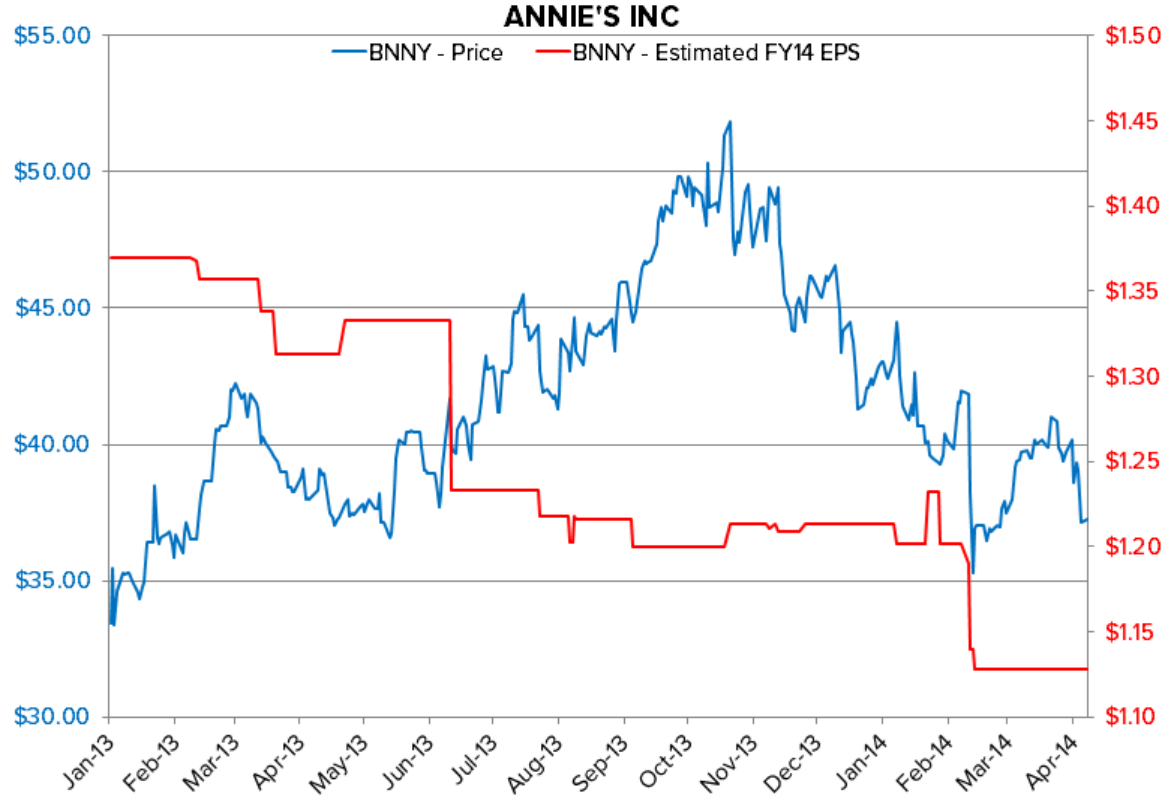
SUMMARY FINANCIALS			
	FY2013	FY2014E	FY2015E
Sales (mm)	\$171	\$204	\$230
Consensus (mm)	-	\$204	\$242
EBITDA Margin	14.6%	13.8%	13.2%
EV/EBITDA	25.9X	23.0X	21.3X

INVESTMENT NEGATIVES

- 1) The pivot to an asset-based model
- 2) Commodity inflation
- 3) Decelerating sales trends
- 4) Margin pressure
- 5) Balance sheet issues
- 6) Employee turnover
- 7) Increased competition
- 8) Aggressive expectations

ANNIE'S EPS VS. PRICE

...WE EXPECT PRICE TO FOLLOW ACCORDINGLY



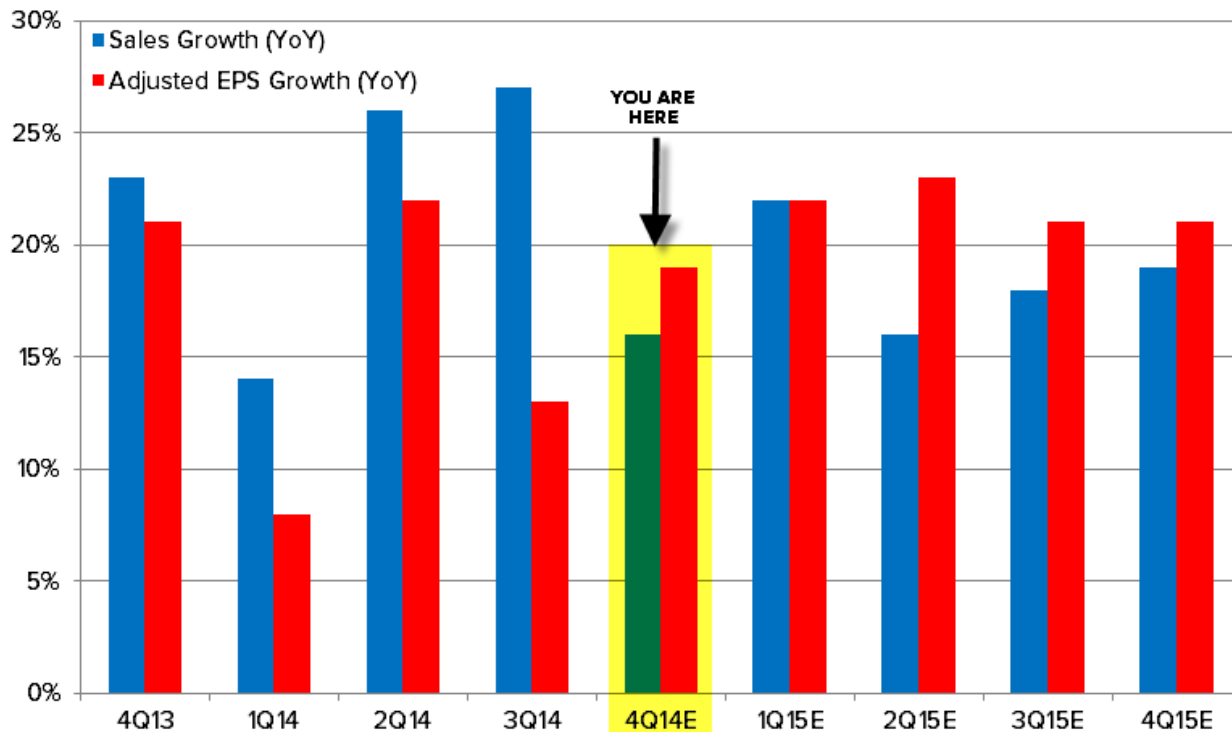
Source: Bloomberg, Company Filings

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AGGRESSIVE EXPECTATIONS

THE STREET IS EXPECTING EPS GROWTH TO OUTPACE SALES GROWTH IN EACH OF THE NEXT FIVE QUARTERS.

BNNY REVENUE & EPS GROWTH

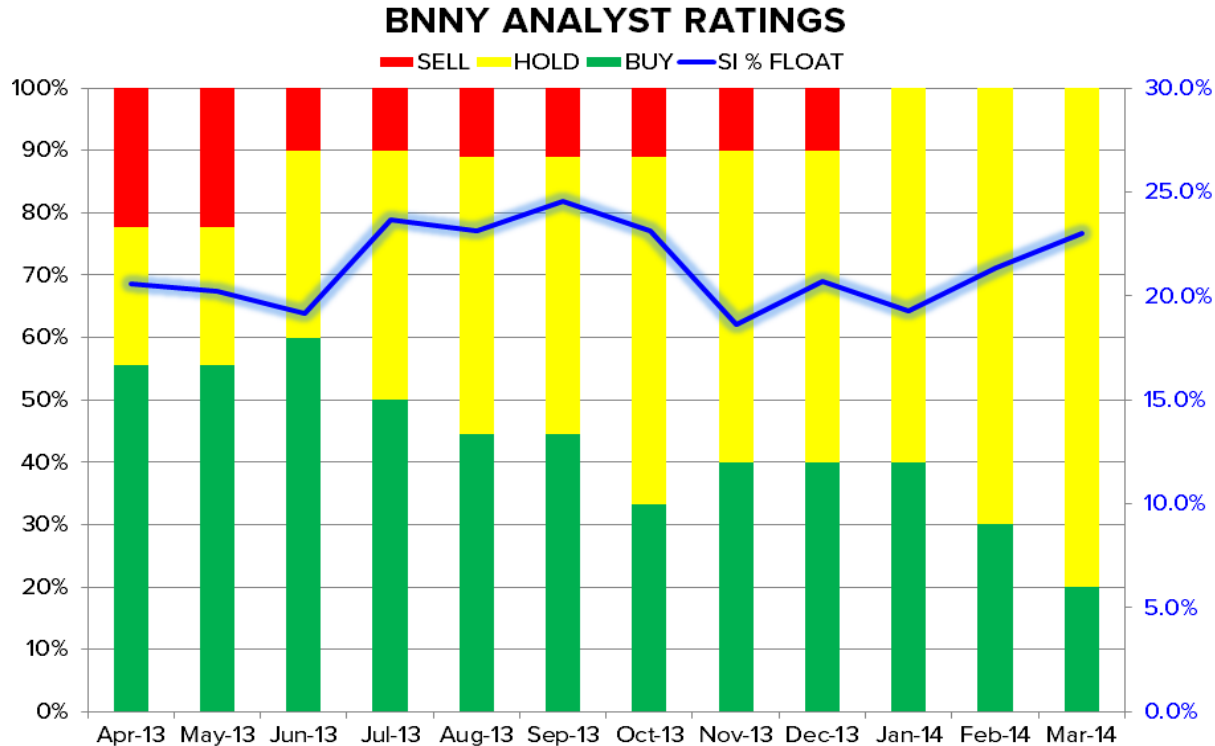


Source: Company Filings, Bloomberg

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SELL-SIDE SENTIMENT

THE STREET IS GENERALLY CAUTIOUS ON BNNY, WITH 80% OF ANALYSTS RATING THE STOCK A HOLD AND SHORT INTEREST COMPRISING 23% OF THE FLOAT. HOWEVER, THIS REMAINS A PRUDENT CALL.



Source: Bloomberg

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VALUATION

BNNY EV/NTM EBITDA

CHEAP CAN GET CHEAPER – FAST.



Source: Bloomberg

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BNNY P/FY14 EPS

WITH INTERNAL AND EXTERNAL ISSUES ON THE HORIZON IN THE INTERMEDIATE-TERM, WE ARE EXPECTING NOTABLE MULTIPLE COMPRESSION.

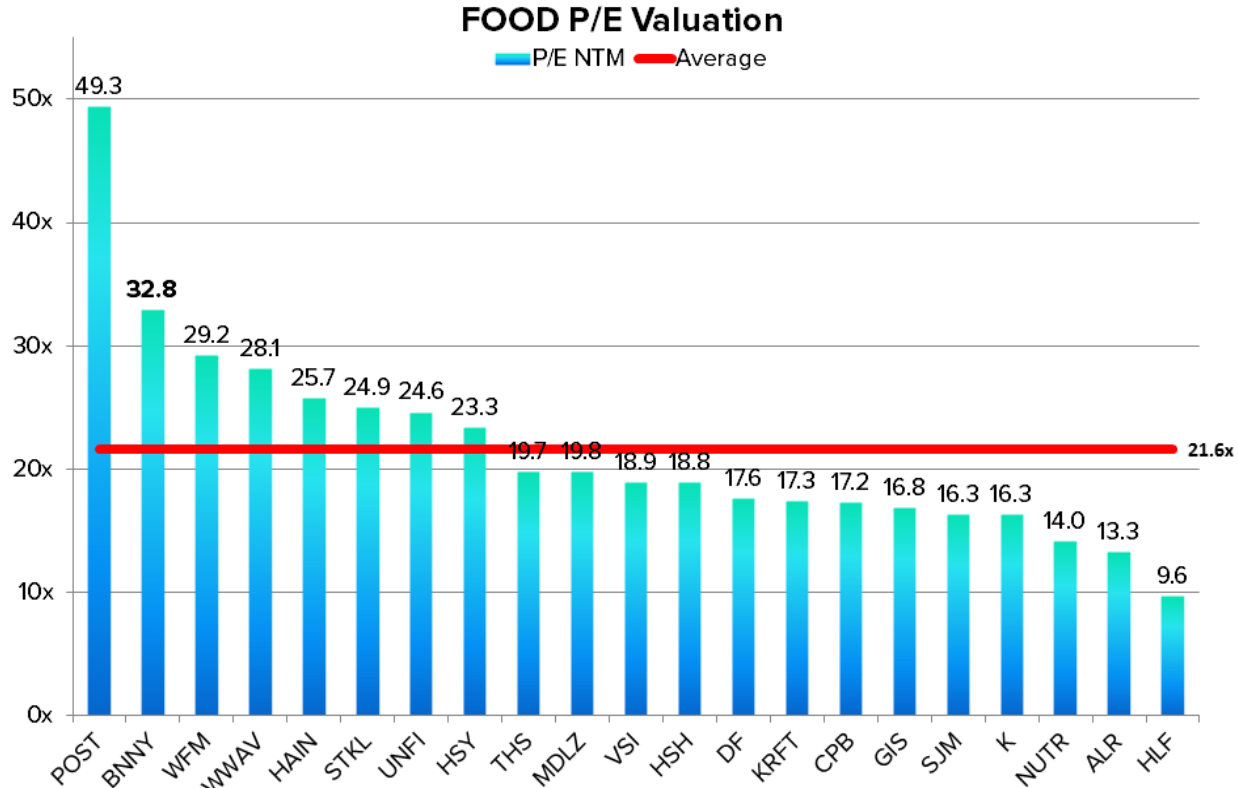


Source: Bloomberg

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FOOD CATEGORY P/NTM EPS

BNNY DESERVES TO TRADE AT A PREMIUM MULTIPLE TO ITS PEER FOOD GROUP, BUT NOT TO THE CURRENT EXTENT.



Source: Company Filings, Bloomberg

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RISK/REWARD SETUP

BNNY REPRESENTS AN ATTRACTIVE RISK/REWARD SETUP FOR SHORT SELLERS, OFFERING MATERIAL DOWNSIDE IN THE INTERMEDIATE-TERM.

		2015 P/E Multiple											
		24.5x	25.0x	25.5x	26.0x	26.5x	27.0x	27.5x	28.0x	28.5x	29.0x	29.5x	30.0x
Hedgeye EPS	\$ 1.00	\$24.44	\$24.94	\$25.44	\$25.94	\$26.44	\$26.94	\$27.44	\$27.94	\$28.44	\$28.93	\$29.43	\$29.93
	\$ 1.02	\$24.93	\$25.44	\$25.95	\$26.46	\$26.97	\$27.48	\$27.99	\$28.50	\$29.00	\$29.51	\$30.02	\$30.53
	\$ 1.04	\$25.43	\$25.95	\$26.47	\$26.99	\$27.51	\$28.03	\$28.55	\$29.07	\$29.58	\$30.10	\$30.62	\$31.14
	\$ 1.06	\$25.94	\$26.47	\$27.00	\$27.53	\$28.06	\$28.59	\$29.12	\$29.65	\$30.18	\$30.71	\$31.24	\$31.76
	\$ 1.08	\$26.46	\$27.00	\$27.54	\$28.08	\$28.62	\$29.16	\$29.70	\$30.24	\$30.78	\$31.32	\$31.86	\$32.40
	\$ 1.10	\$26.99	\$27.54	\$28.09	\$28.64	\$29.19	\$29.74	\$30.29	\$30.84	\$31.40	\$31.95	\$32.50	\$33.05
	\$ 1.12	\$27.53	\$28.09	\$28.65	\$29.21	\$29.78	\$30.34	\$30.90	\$31.46	\$32.02	\$32.59	\$33.15	\$33.71
	\$ 1.15	\$28.08	\$28.65	\$29.23	\$29.80	\$30.37	\$30.94	\$31.52	\$32.09	\$32.66	\$33.24	\$33.81	\$34.38
	\$ 1.17	\$28.64	\$29.23	\$29.81	\$30.39	\$30.98	\$31.56	\$32.15	\$32.73	\$33.32	\$33.90	\$34.49	\$35.07
		BEAR	BASE					BULL					
		-34%	-22%					-6%					

FOR MORE INFORMATION CONTACT:

SALES@HEDGEYE.COM

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