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**Haynes**

**International**

**Final Equity Report**

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**Why we picked this company:**

We were looking at a large list of the potential companies under the criteria given, yet we wanted something that stuck out to us from such a large list. One ratio that is interesting to dive into is the price to earnings ratio. We skimmed through all of the options looking for an extremity that we could delve into and find something interesting, and something that could prove to be a hole in the market that could potentially be capitalized upon. We found quite a few extremities, most of which were startups, failing companies, and biotech companies. We decided that biotechs and startups don’t give us many options to investigate, and we would know very little of their niches especially when it comes to advanced biology and technology. What remained was the subset of manufacturers that are perceived as failing, and we began a strenuous search of what has the most concrete evidence of being an undervalued company.

We then found several manufacturers that had extreme price to earnings ratios and began eliminating those that didn’t meet the following criteria. We wanted companies with a long history so that we could refer to data that pertained to the company and would be able to forecast factors as well with think intuitively about the time periods that company has sustained through to think about how it would continue to do in the future. We also wanted a company that had relatively low debt; not to say that debt is a bad thing, but we wanted a company that wasn’t overleveraged and could continue to hold their own without being that high of a risk where we had to want a huge return to make up for that greater amount of risk involved. After those criteria were implemented we only had a couple companies left to look at, but the one we selected stood out the most to us.

Haynes international was the only company that survived our elimination process and made sense to us as to why it should be a profitable investment due to how undervalued it currently is. This company is intuitive; they make a specialized product, have been around a long time, have good prospects for the probable future, and have a low amount of debt. All of these factors helped us delve deeper into the company to start looking more into these ratios and really tell the story about how profitable Haynes International can be.

**Haynes International Background:**

The story of Haynes International spans a century of products, processes and, most of all, people. Formed in Kokomo, Indiana in October 1912, the more than 100-year history of Haynes’ continuous operation also captures the historic growth of many well-known nickel and cobalt-base superalloy families. Haynes uses their product expertise to hold a competitive edge over their direct competition. They use their applications in aerospace, rockets to Mars, World Wars, the chemical industry, and medical prosthetics. Haynes long history, contributions to the U.S. wars, relationships with vendors, and new product innovations throughout the years have made them a staple in the high-performance alloy and nickel industry.

During World War I, the strategic importance of the company’s alloys became clearly apparent as demand for industrial production increased dramatically. This was especially true for the manufacture of military aircraft engines. The most important aircraft engine of World War I was the Liberty engine. More than 13,000 were built before the armistice and more than 20,000 by the time wartime production ended in 1919. Haynes also played a significant part for the U.S. during World War 2. Before the second world war, during the mid-1930s there was rapid advancement in the aircraft industry. New, higher horsepower, air-cooled, gasoline piston engines kept pushing altitude ceilings and speed barriers. One of the biggest advancements were the modifications and capabilities that metals created could handle without causing damage. By combining a STELLITE® alloy with the precision casting process, the company was able to produce a turbine blade that could withstand the high temperatures and stresses encountered in the supercharger. Over 25 million were produced during WWII with production peaking at 2 million units a month.

Haynes standard product forms include sheet and plate, bar and billet, seamless and welded pipe and tubing, wire and welding consumables, fittings and flanges. Since Haynes products and services are applicable in various markets, they operate in a plethora of revenue generating industries. High-temperature alloys are used by manufacturers of equipment that is subjected to extremely high temperatures, such as jet engines for the aerospace market, gas turbine engines used for power generation and waste incineration, and industrial heating equipment. Their corrosion-resistant alloys are used in applications that require resistance to very corrosive applications found in areas such as chemical processing, power plant emissions control, hazardous waste treatment, sour gas production and pharmaceutical vessels. Currently, Haynes International maintains a total of approximately 23 published U.S. patents and applications and approximately 223 foreign counterpart patents and applications targeted at countries with significant or potential markets for the patented products. Since fiscal year 2000, Haynes technical operations have yielded nine new proprietary alloys. Haynes International has manufacturing facilities in Kokomo, Indiana; Arcadia, Louisiana; and Mountain Home, North Carolina. The Kokomo facility specializes in flat products, the Arcadia facility specializes in tubular products and the Mountain Home facility specializes in high-performance wire products. Haynes products are distributed primarily through their direct sales organization.

**Industry Research/Outlook:**

 Haynes has an interesting business model since it provides millions of parts and products to several industries throughout the world. One industry that generates notable profits for Haynes International is aerospace. Each year, Haynes provides millions of highly resistant alloys to the U.S. and international defense operations/stations. Most of these supplied alloys are used within the aerospace and transportation division. Having the resources and capabilities to operate in various markets and industries gives them a competitive advantage over more focused firms.



 When analyzing the high-performance alloy industry outlook by market size, we noticed that the Aerospace market has the largest forecasted growth in comparison to the other six markets within the graph. The high-performance alloys market receives a high degree of momentum from the aerospace and power industries. Increasing population, changing consumer preferences, development in economy, consumer awareness, and urbanization are some other factors that are driving the high-performance alloys market. Technological advancement and an increased level of production leading to attaining economies of scale have had a positive impact for the high-performance alloy industry.

**SWOT Analysis:**

**Strengths**

The demand for its high-performance alloy is slowly increasing. A large portion of the demand comes from aviation and aerospace, followed by chemical processing, industrial gas turbine, and related industries. The forecast of sustainable demand for high-performance alloy ensures its viability as a company for the long term. The materials needed to create a high performance allow is in abundant supply. The materials it needed such as cobalt, nickel, iron, silicon, aluminum, are in abundant supply. This means that Haynes International can sustain the operation of its business provide a stable price for its clientele. Hayne’s brand is reputable in the alloy industry where its brand command premium prices for its quality. The aerospace industry prefers their high-temperature resistant allows (HTA) and non-corrosion resistant alloys (CRA) for their planes, engines. Even the power industry prefer their alloys in creating turbine in generating power and recycling waste. Also, Hayne’s non-corrosion resistant alloys have many applications such as power plant emissions control and treating hazardous waste. It could be used in many industries such as automotive, solar and nuclear power industries. This means that products that are geared towards energy efficiency and effective waste management are dependent on Haynes International high-temperature resistant alloys (HTA) and non-corrosion resistant alloys (CRA).

**Weaknesses**

Haynes International incurs high manufacturing cost which could put the company in a lesser competitive position as competitors may be able to lower their manufacturing cost and pass the price to its clients at a lower price. As an established company in the high-performance metal industry, Haynes is slow to adapt to the rapid changes in the tech and manufacturing industry which could render the company obsolete when competitors could come up innovative alloys at a lower cost. The company also incurs high capital expenditures. This means that Haynes International is vulnerable to external shocks due to its large exposure in capital expenditure.

**Opportunities**

There is a growing demand from the aerospace and defense industry which presents an opportunity for the company to expand. It also ensures a sustained growth for Haynes International for a long period of time. Its North American market is increasing its demand which could potentially fuel more growth for the company. Also, Haynes could improve their supply-chain operations to provide their consumers more value for the same cost.

**Threats**

The company’s consumers that they serve are price sensitive. Which means that Haynes International could potentially lose customers if it raises its price or if competition would offer a lower price. Competition in the high-performance alloy industry is tough. Competitors are constantly on the lookout to outdo each other by innovating and creating better products, better service, or better price.

**Stock History:**

The Standard & Poor's 500 Index is the most commonly used benchmark for determining the overall state of the economy, and with that being said, investors also use the index as a benchmark for their portfolios. This reflects positively on Haynes International because when an in-depth look is taken over the company’s past six months stock history, it is apparent that Haynes’ stock price generally follows the same trend line of the S&P 500. Both Haynes and the S&P 500’s stock trends slightly upwards after a steep drop in December of 2018. However, Haynes’ stock tends to have greater volatility than that of the S&P 500. Haynes International has a beta of 2.13 compared to that of the benchmark of 1.00. This is not necessarily a bad thing because investors can capitalize on the stock fluctuations and capture its growth. Haynes International’s stock price currently sits at a value of $34.38 compared to $30.28 when we first started to analyze this company. Haynes’ stock price did not fall under the initial stock price the whole semester and has captured a 14% increase over the past four months.

**Competitors and Earnings:**

The top competitors in Haynes International’s industry include Allegheny Technologies Incorporated, Carpenter Technology Corporation, and Gerdau. Allegheny Tech Inc. is specialty metals producer headquartered in Pittsburgh, PA. They have 8,600 employees and rake in $4 billion in annual revenues. Carpenter Tech Corp. develops, manufactures, and distributes stainless steels and corrosion resistant alloys and is headquartered in Philadelphia, PA. They employ 4,800 people and obtain $2.3 billion in annual revenues. Lastly, Gerdau is largest long steel producer in Latin America. They are Haynes’ largest competitor in size with 45,000 employees that help bring Gerdau about $12 billion in annual revenues. Haynes International has 1,200 employees and their revenues approached $440 million last year. Their revenues are significantly smaller than that of their competitors because they adhere largely to the aerospace niche of buyers. The growing demand in the aerospace industry will surely benefit Haynes future earnings. Although, their earnings over the past several years have not been up to par. Haynes has reported a negative net income over the past two filed years. This net loss can be reflected in a failed acquisition for profit in early 2018 and the approved legislation of the Tax Cuts & Jobs Act. Signed into law in December 2017, this legislation created a permanent reduction in the federal corporate income tax rate, from 35% to 21%. According to the SEC, as a result of this reduction, “Haynes was required to revalue its net deferred tax asset to adjust for the future impact of lower corporate tax rates on this deferred amount and record any change in the value of such asset as a one-time non-cash charge on their income statement. This resulted in a discrete tax expense adjustment of $18.2 million and in turn increased Haynes’ reported net loss”. But since the hit taken in the first quarter earnings release of 2018, Haynes has recovered and has reported three positive quarters of earnings. And with the growing demand in the aerospace industry, Haynes International can expect growing returns in the foreseeable future.

**Conclusion:**

 Ultimately, Haynes International has been a trusted manufacturer within their industry. It is important to emphasize that since Haynes is producing in industries that have been continuously expanding, there is significant potential for Haynes’ value to increase. As a quality producer in an expanding field, Haynes will be able to capitalize on this by continuing to manufacture high-end products to meet the increased demand. The high barriers of entry in this industry allow for Haynes to continue to operate with little danger of newly emerging competitors that attempt to take advantage of the increased demand for these products. In addition, Haynes’ has experienced growth on certain financial formulas that are crucial to its success. In particular, the Net Profit Margin and Net Operating Margin have seen rapid growth from the start of 2018 to the end of the year. These are two formulas that will likely continue to increase, which will result in Haynes being able to take advantage of the increased demand more efficiently. The extremely high liquidity ratio of Haynes International is another aspect that must be observed. This provides investors with a safety net in the event that Haynes has a lackluster period of operation. Haynes has the ability to protect its value in the sense that they can quickly liquidate assets to acquire cash to pay off any debts undertaken that they would not have been able to pay otherwise. The opportunities and strengths presented here make it highly probable that Haynes will continue to experience growth and increase in value in the near future. As a company in this scenario, their current value does is not accurately represented, resulting in Haynes being undervalued. Investing in this company while now will allow investors to buy in before the price of shares increase in the probable event that Haynes has successful years of operation in the near future.

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