

Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Gildan Activewear's 2025 Q3 Earnings Conference Call. Please be advised that today's conference is being recorded. I would now like to hand the conference over to Jessy Hayem, Senior Vice President, Head of Investor Relations and Global Communications. Please go ahead.

Jessy Hayem

Senior VP & Head of Investor Relations and Global Communications

Thank you, Jeannie. Good morning, everyone, and thank you for joining us. Earlier today, we issued a press release announcing our results for the third quarter while updating our full year guidance for 2025. We also issued our interim shareholder report containing management's discussion and analysis and consolidated financial statements. These documents are expected to be filed with the Canadian Securities and Regulatory Authorities and the U.S. Securities Commission today, and they'll also be available on our corporate website.

Now joining me on the call today are Glenn Chamandy, our President and CEO; Luca Barile, Executive Vice President, CFO; and Chuck Ward, Executive Vice President, Chief Operating Officer. This morning, we'll take you through the results for the quarter, and then a question-and-answer session will follow. Before we begin, please take note that certain statements included in this conference call may constitute forward-looking statements, which involve unknown and known risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

We refer you to the company's filings with the U.S. Securities and Exchange Commission, and Canadian securities regulatory authorities. During this call, we will also discuss certain non-GAAP financial measures. Reconciliations to the most directly comparable IFRS measures are provided in today's earnings release as well as our MD&A. And now I'll turn it over to Glenn.

Glenn J. Chamandy

President, CEO & Director

Thank you, Jessy, and good morning, everyone. We're pleased with our third quarter results as we continue to drive profitable growth, especially in a macroeconomic backdrop, which remains fluid. We saw strong net sales growth of 5.4% in Activewear and adjusted operating margins of 23.2%, which allowed us to deliver record adjusted diluted EPS of \$1 this quarter, an increase of 17.6% versus the same period last year. These are record-setting third quarter results, which once again showcased the effectiveness of our Gildan sustainable growth strategy in driving strong financial performance.

Our sales in the distributor channel remain healthy, and we're seeing sustained momentum in our national account customers, which is supported by strong overall competitive positioning. We continue to drive growth in key categories. We're very pleased that our innovation pipeline continues to create excitement, and we have now introduced new brand offerings such as ALLPRO and Champion. Furthermore, our Comfort Colors brand continues to perform very well. This year, the brand is actually celebrating its 50th anniversary. A great milestone for Comfort Colors whose pigment dyed shirts are redefining comfort and style. They're crafted from 100% rings spun cotton, grown and harvested in the U.S. using a pigment pure technology, which helps to reduce water and energy and shortens processing time.

So as we turn the page to another successful quarter of execution, we are narrowing our adjusted diluted EPS guidance to a range of \$3.45 to \$3.51, and also updating our full year adjusted operating margins, CapEx, free cash flow guidance. Luca will detail this in a moment. We believe that this is an exciting pivotal moment for Gildan, and we're enthusiastic about the next phase of our growth journey.

We're delivering constant execution of our strategic priorities. We're capitalizing on the largest innovation pipeline in the company's history. And now we're focused on planning the integration of the proposed acquisition of HanesBrands, which will broaden our portfolio of retail presence as we look to drive meaningful run rate synergies of at least \$200 million by leveraging our best-in-class large-scale, low-cost vertically integrated manufacturing network.

We continue to expect the transaction to close late this year or early 2026. As you can expect, we have put in place an integration team that have begun planning for this combination. At this point, there is no further commentary that we'll be positioned to provide for the proposed transaction. In conclusion, we continue to execute from a position of strength. We have a solid foundation. We're focusing on our GSG strategy with our strong competitive positioning, all of which is putting us in a great position to execute on the eventual

combination with HanesBrands and ultimately drive long-term shareholder value. I look forward to answering your questions after our formal remarks, and now I'll turn it over to Luca for a financial review.

Luca Barile
Executive VP & CFO

Thank you, Glenn. Good morning, everyone, and thank you for joining us today to discuss our third quarter results. Let me start with the specifics of the quarter, then turn to our 2025 outlook and guidance. First, the quarterly results. We reported third quarter sales of \$911 million, up 2.2% year-over-year, in line with previously provided guidance of low single-digit growth. The 5.4% increase in Activewear sales was driven by favorable product mix and higher net prices.

As Glenn mentioned, we continue to drive growth in key categories and are experiencing robust demand for Comfort Colors while supplementing our portfolio with the addition of ALLPRO and Champion. Sales to North American distributors were solid, complemented by sustained momentum at our national account customers, driven by our strong overall competitive positioning. Sales in the hosiery and underwear category were down 22% versus last year, which reflect, as expected, a timing shift of shipments into the fourth quarter and to a lesser extent, unfavorable mix as the category experienced continued broader market weakness during the quarter.

Turning to international markets. Sales were down by \$4 million or down 6.1% year-over-year, primarily reflecting ongoing demand softness across markets. We don't typically spend time on our year-to-date results, but just a brief comment that on a year-to-date basis, our consolidated revenue growth is at mid-single digits, excluding the impact of the exit of the Under Armour business in 2024, setting us up well for the full year.

Shifting to margins for the quarter. Our gross margin was 33.7%, a 250 basis point improvement over the prior year, primarily due to lower manufacturing costs and favorable pricing, which reflect price increases implemented to offset the initial impact from tariffs. To a lesser extent, we also benefited from lower raw material costs. SG&A expenses were \$95 million versus \$84 million last year. Excluding charges related to the proxy contest and leadership changes and related matters, which were almost entirely incurred in the prior year, adjusted SG&A were still \$95 million or 10.4% of sales compared to \$78 million or 8.8% of sales in the same quarter last year, reflecting higher variable compensation and IT-related general and administrative expenses.

As we bring these elements together and adjusting for restructuring and acquisition-related costs primarily related to the proposed HanesBrands acquisition as well as the costs related to the proxy contest and leadership changes and related matters, which were almost all entirely incurred in the prior year. We generated adjusted operating income of \$212 million, up \$12 million, representing a record 23.2% of net sales. This reflects an 80 basis point improvement year-over-year, which came in ahead of guidance we provided.

Net financial expenses of \$44 million were up \$13 million over the prior year due primarily to fees related to the committed financing that we obtained for the proposed HanesBrands acquisition and due to generally higher borrowing levels. Furthermore, in connection with the proposed acquisition, as you may have seen, we announced on September 23, a private placement offering of USD 1.2 billion aggregate principal amount of senior unsecured notes across 2 series. The proceeds from this offering will be used to fund the proposed acquisition of HanesBrands, refinance its debt and cover related transaction costs. Taking into account all these factors and adjusting for restructuring and other costs and the financing fees in connection with the proposed HanesBrands acquisition, we generated record adjusted diluted EPS of \$1, up 17.6% compared to \$0.85 in the comparable period.

Now turning to cash flow and balance sheet items for the first 9 months of 2025. Operating cash flow was \$270 million compared to \$291 million last year, primarily reflecting higher working capital investments. After accounting for CapEx of \$82 million, we generated approximately \$189 million in free cash flow in the first 9 months of 2025, of which \$200 million was generated in the third quarter. During the first 9 months of the year, we returned \$286 million in capital to shareholders, including \$102 million in dividends and repurchased about 3.8 million shares under our NCIB program. Finally, we ended this quarter with net debt of about \$1.7 billion and at a leverage ratio of 2x net debt to trailing 12 months adjusted EBITDA, at the midpoint of our targeted range of 1.5x to 2.5x.

Now turning to our strategy and outlook. As Glenn highlighted earlier, we are pleased with the team's continued execution as we approach the end of a very solid year. We continue to tap into the largest innovation pipeline in the company's history with more product launches to come in 2025 and into 2026. Now turning to the outlook. We remain focused on operational agility and committed to executing on our GSG strategy in order to drive strong financial performance as we navigate a fluid macroeconomic environment.

We are updating our 2025 guidance as follows and expect revenue growth for the full year to be up mid-single digits, in line with previous guidance. Full year adjusted operating margin to increase approximately 70 basis points compared to previous guidance of up approximately 50 basis points. Our CapEx to come in at approximately 4% of sales compared to previous guidance of 5% of sales. Adjusted diluted EPS to be in the range of \$3.45 to \$3.51, which is up approximately 15% and 17% year-over-year compared to our

previous guidance of \$3.40 to \$3.56; and free cash flow to now approximately \$400 million compared to our previous guidance of above \$450 million.

The assumptions underpinning this outlook are the following: Firstly, we continue to reflect the impact of tariffs currently in place in conjunction with mitigation initiatives available to us, including pricing and our ability to leverage our flexible business model as a low-cost, vertically integrated manufacturer. The higher tariffs are also embedded in our inventory costs. Furthermore, the outlook continues to reflect growth in key product categories, driven by recently introduced innovation, the favorable impact from new program launches and market share gains and the various incentives from jurisdictions where we operate.

We've assumed no share repurchases for the remainder of 2025, as indicated at the time of the announcement of the proposed HanesBrands acquisition. We've taken into account acquisition-related costs incurred thus far, and we anticipate that our adjusted effective tax rate for 2025 will remain at a similar level to what we saw for the full year in 2024.

Finally, we've assumed no meaningful deterioration from the current market conditions, including the pricing and inflationary environment and the absence of a significant shift in labor conditions or the competitive environment. So in summary, we are pleased with the quarter, and we remain confident in our ability to deliver continued strong financial performance as we look ahead and get ready to welcome HanesBrands. Thank you. And now I'll turn it over to Jessy.

Jessy Hayem

Senior VP & Head of Investor Relations and Global Communications

Thank you, Luca. This concludes our prepared remarks, and now we'll begin taking your questions. [Operator Instructions] Jeannie, can you please begin the Q&A session?

Question and Answer

Operator

Thank you. [Operator Instructions] And your first question comes from Paul Lejuez with Citigroup.

Paul Lawrence Lejuez

Citigroup Inc., Research Division

A couple of questions. One, can you just talk a little bit more about the weakness in the underwear business, where you think that market share might be going? Maybe you can quantify how much was the shift versus overall market weakness? And what's your view on when that business stabilizes? And then second, just curious what you're seeing at point of sale overall. Maybe if you could talk to pockets of strength and weakness at point of sale.

Chuck J. Ward

Executive VP & COO

Paul, it's Chuck. Thank you for the questions. A couple of quick things, I guess, first on the underwear and innerwear business. What we're seeing, the innerwear business was impacted by a few things for the quarter. There continues to be some delays in some floor sets by a large retailer. So we're continuing to face that a bit. Also, some of it is retailers managing inventory investments and balances due to the impacts if you think of what they now have impacts of tariffs in their inventory and some cautiousness overall, we did see during Q3, the retailers starting to manage inventory a little tighter.

And also, we had talked previously about some ongoing product and program resets that are happening within the space with some customers. So all those things kind of drove the quarter results that you see here. I think as we think about it going forward, we expect to see a return in the innerwear of growth in Q4. So we expect Q4 to be back to a growth perspective.

Overall, on POS and what we're seeing in the market, I mean, what we're seeing is a stable market. We have seen it stabilized over the year. We think that we'll continue to see that through Q4 as well. And so -- and I think if you think about categories and how they're performing, I mean, we're seeing strong performance, obviously, with our Comfort Colors brand. We're continuing to see very large growth and net fleece has performed well. Glenn mentioned in his comments some about some new Activewear programs and national account growth that we're seeing as well. So we're capitalizing on those things as we go. And then obviously, we feel good about our brand portfolio and where we are to address the market going forward.

Paul Lawrence Lejuez

Citigroup Inc., Research Division

When you say stable market, are you saying stable to last year, like POS is flat to last year or stable at a low single-digit or mid-single-digit rate?

Chuck J. Ward

Executive VP & COO

Yes. More in line with Q2, what we were talking about in Q2, the market has kind of been stable at that same rate going forward.

Operator

Your next question comes from the line of Chris Li with Desjardins.

Christopher Li

Desjardins Securities Inc., Research Division

Just maybe a first question on your guidance update. On your free cash flow guidance, you are guiding a little bit lower despite lower CapEx. It looks like it's mostly coming from higher working capital investment. Can you please elaborate a little bit of what's driving the change in the guidance for this year?

Luca Barile

Executive VP & CFO

Yes, sure. Thank you, Chris, for your question. So look, from a free cash flow perspective, we're actually -- so a few things. One, very good free cash flow performance in the quarter. We generated \$200 million, which is right in line with our own internal expectations.

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And the revision to the guidance from a free cash flow perspective, there's a few things that drive that. One is the, just taking into account the transaction costs incurred to date with the proposed HanesBrands acquisition. The second is there's a bit of timing with respect to working capital.

I'd reiterate that our view on working capital as a percentage of sales is really to be around 37% to 38%. We'll get there as we move into 2026. And right now, there's also some tariff costs that are incurred in our inventory. So that's really the main drivers. From a cash flow generation perspective that we're still generating healthy elements of free cash flow. That's really driven by the fact that we have really strong margin performance coming through, and that's expected to continue into next year.

Christopher Li
Desjardins Securities Inc., Research Division

Great. Okay. That's very helpful. And then maybe just another one on the guidance update. The operating margin expected to increase by 70 basis points this year. As you look out into next year, what are some of the key puts and takes? And maybe directionally speaking, do you think 70 basis point improvement again next year is achievable?

Luca Barile
Executive VP & CFO

Well, starting with the guidance for this year, the one thing that we're very pleased with, and that is -- it starts with the performance that we've seen sort of quarter-over-quarter and specifically in the third quarter is strong margin performance. And the strong margin performance comes from -- is twofold. One, from strong gross margin performance, but also really good cost control around SG&A. And the reason why we've upped the guidance there in terms of up to 70 basis points improvement year-over-year versus the 50 that we previously guided to is because the elements that we control that have been driving the margin expansion are things that are foundational to the way the company is running today and will continue to run.

Those things are really embedded in the ramp-up of Bangladesh, right? Our investment in Bangladesh and the cost differential that that's bringing us is contributing to that margin. That's expected to continue. The investments we made into our yarn operations, optimization of our yarn footprint and those costs are coming through. Those will continue. The optimization of our Central American capacity and quite frankly, overall, our network overall, that's coming through.

So there are elements that when you take a look at the gross margin in the third quarter, we do have some impact from favorable pricing. There's a little bit of timing versus Q4. But the way to think about the margin, it's strong and it's sustained, and it's driven by things that we control and that are foundational to the business model. So that's what I would -- how I would think about heading into next year.

Operator

Your next question comes from the line of Jay Sole with UBS.

Jay Daniel Sole
UBS Investment Bank, Research Division

Two-part question for me. First is just on the fleece business. Glenn, if you can just talk about how the fleece business trended maybe in September, if the weather is a little bit warmer and maybe what you've seen in October as the weather has gotten a little cooler and just how inventory in that business is looking overall and how demand is looking?

And then secondly, with all the tariffs now, it's been a couple of quarters since April 2. What kind of conversations are you having with companies? What kind of opportunity do you see maybe to capture some new business from companies maybe looking to move some of their production out of Asia, maybe to your factories with your company, whether it's in Bangladesh or Central America?

Glenn J. Chamandy
President, CEO & Director

Okay. Well, I would say, look, fleece is still performing well for us. We're in a good position with fleece this year. It's really early. I mean the season really only starts kicking off, like we ship a lot of our fleece in the end of Q2, Q3 basically. And then the season really sell-through period is -- starts now and moves into the fall and winter really. So I think we're -- it's early days in terms of weather. But so far, the sales are meeting our expectations, I would say, in terms of fleece so far for this year.

Regarding tariffs, I would say to you that, look, there's a lot of uncertainty in the market today. And I think that we're seeing a lot of people looking to reorient their supply chain. But at the same time, there's a little bit of I would say, hesitation because people don't

understand are tariffs off, the tariffs are on. They're making a deal, they're not making a deal. They're going to court, they're not going to court. So shifting your supply chain is never something you want to do in a knee-jerk type of reaction. So -- and even ourselves, to be honest with you, there's ways for us in our own manufacturing to further optimize, I would say, our supply chain relative to the way we're set up, but we're sort of waiting to see how all of these things materialize.

So overall, I would say that there's definitely going to be a rethink in terms of how people are trying to reorient into their supply chain. And there's also going to be specific areas where I think the opportunity is going to allow us to look at other product categories. So for example, if you look at the 100% polyester product category, that's an area where the tariffs are the highest and duties are the highest. So -- and that's an area that we have -- our Rio Nance 6 facility, for example, has got a lot of capabilities of producing polyester. So -- and there's been trade legislation changes in that category. So we think that, that's something that we can capitalize on, and that's probably one of the areas where we have actually the lowest market penetration.

So we're working quickly now on building product innovation, things that we're doing to look at that category. And one of our brands, which is ALLPRO, I mean it's really focusing on all polyester type products and as well as a lot of the big brands that are looking maybe potentially nearshore, those are -- that's a category which is really important to them. So overall, look, we think there's going to be an opportunity. I think it still has to come to fruition, I would say, as we move into the future. But I think we're well positioned with our manufacturing footprint to take advantage of any type of opportunity.

Operator

Your next question comes from the line of Vishal Shreedhar with National Bank.

Vishal Shreedhar

National Bank Financial, Inc., Research Division

Luca, when you mentioned that the market was stable, my understanding was that the market was -- I'm talking about the wholesale market was under pressure, at least for the last several quarters. So were you talking on a volume basis or on a sales basis? And are you including national accounts in that as well when you're saying it's stable?

Glenn J. Chamandy

President, CEO & Director

When we look at the market, we look at the whole market in styrene, and I would say to you that the Q3 was similar to Q2. And what we said in Q2, it was down low single digits basically. So we're seeing the same type of comps as we move into Q3. So it hasn't really improved and hasn't gotten any worse. So it's more stable relative to Q2, but still negative year-over-year.

Obviously, we're doing well in the market because of our soft cotton technology, our Comfort Colors, our AA basically is continuing to grow, our launch of our ALLPRO and Champion, and remember that 3/4 of our sales growth this year in 2025 was projected coming from new programs. Our fleece is in retail, a big major program we had is doing very well. So all those things are driving the sales growth for us to have our mid-single-digit growth for the full year, which we're on track for. But I would say that the market, it was down probably low to mid in Q1. We said low in Q2, and it's probably in the same level Q3, and we're expecting that type of scenario in Q4 in our assumption.

Vishal Shreedhar

National Bank Financial, Inc., Research Division

Okay. And that's on a sales basis, right, not on a unit basis?

Glenn J. Chamandy

President, CEO & Director

Yes. Yes.

Vishal Shreedhar

National Bank Financial, Inc., Research Division

Okay. Okay. And with respect to the gross margin, and I know you chatted to this a little bit earlier, but it improved quite a bit sequentially. Is that mainly related to the manufacturing initiatives? Or was there pricing in there as well?

Luca Barile

Executive VP & CFO

Yes, Vishal. So again, the gross margin was strong in the quarter. It's a combination of things. But really what's driving the foundation of the margin at the end of the day is the contribution of the lower manufacturing costs. There is some impact from pricing, but really the lower manufacturing cost is what's foundational. And that is what's going to carry forward not only into the fourth quarter, but that's foundational to the business as we move into next year.

Glenn J. Chamandy
President, CEO & Director

Yes. And then, maybe just add one thing to that, I would say is that, look at the fundamentals of our strategy of optimizing our manufacturing and scaling and generating scale in our operations is going to continue as we move into 2026 because we've expanded in Central America, like we said this year, which we've added another 10% capacity in our facilities in our 4 walls at a limited CapEx and the CapEx is coming even below our expectations. So as we leverage that CapEx as we move into 2026, obviously, that's going to continue to help us with additional cost reductions and margin expansion as we continue to optimize our facilities.

And we're actually in the process now of looking to expand within our Bangladesh facility within the 4 walls of that as well. And we believe that we actually can expand that facility by probably another 50% as we look at the 4 walls of that building by utilizing some space that we have within our park and allowing us to drive additional capacity. So these are all the things that's built into Gildan DNA is looking at ways really to optimize our manufacturing, particularly as we look at our overall planning as we move into 2026 and bringing on Hanes and as far as we continue to plan our integration strategy. So scale is going to be a key driver of continued margin expansion, and we think we're well positioned to continue to grow our margins as we move forward and lower our costs.

Operator

Your next question comes from the line of Brian Morrison with TD Cowen.

Brian Morrison
TD Cowen, Research Division

Glenn, I wanted to follow up with that what you just talked about. So how much capacity you talked about the increase in Bangladesh and in Honduras throughput. How much available capacity in dollars is within your existing infrastructure? It sounds like there's another \$200 million to \$250 million in Bangladesh 1, and what is your view for a go-ahead for a second facility at Bangladesh? I know you already have some of the pieces already in place there.

Glenn J. Chamandy
President, CEO & Director

Well, I think -- 2 things. One, look, we'll articulate some of our plans as we move into Q1 and report because we'll have good visibility on our total integration plan with HBI. So I think that will sort of give you a little bit of context. But the increased capacity that we can get out of Bangladesh right now doesn't preclude us from putting up the second facility. So we still have that optionality. What we're going to do is we have space available to us in Bangladesh, where we can add additional knitting equipment, and we're putting in some more dyeing and finishing equipment in the facility and the existing facility will allow us to get the first level of expansion. And then we'll also, obviously, as we move forward, evaluate Phase 2.

Phase 2 would be a much bigger, longer project. It's going to take 12 to 18 months to develop. So that's something that will be down the road. But trying to get incremental capacity and also looking to optimize our cost structure and reduce the amount of capital we've got to spend. That's our first priority as we bring on HBI. So with all of that and looking at the ecosystem of what they're doing, the products, the mix and all the different things, we're building, I think, a cohesive integration plan that ultimately is going to continue to lower our costs and bring us scale, which is what we called out before.

But more importantly, we think that there's a lot of room in terms of the margin improvement and operating margin improvement on the other side because we don't -- we believe that Hanes should be operating in the same type of operating margins as Gildan does today. So that's our long-term goal, let's say, for example, as we drive into the future. So everything being equal, I think we're in a very good position. We're very comfortable with our positioning, and we're going to continue to leverage our best-in-class vertically integrated large-scale manufacturing as we build our plans into '26, '27 and '28.

Brian Morrison
TD Cowen, Research Division

And Glenn, to follow up, how long would it take you to expand Bangladesh 1? And have tariffs on Bangladesh made you alter any of your logistics or supply chain in order to optimize your cost structure?

Glenn J. Chamandy
President, CEO & Director

I would say, look at the -- even with tariffs, Bangladesh is very competitive. And what we said before is that it had a 25% cost advantage relative to what we're doing in Central America and the products that we're producing. So the tariff impact with U.S. cotton obviously is a lot lower than that. And then as we continue to scale the thing up and lower our cost, therefore, they will be offsetting some of that tariff cost even further. So that's all part of the strategy, how we're going to continue to drive efficiencies in our system.

So look, we think that we're in a good place. We're going to continue -- we feel comfortable, and you can see it's flowing through in our operating margin expansion this year. And all we're saying to you is that, look, we've got further room to continue to expand our manufacturing footprint, reduce our costs and make us more competitive and continue to innovate our products.

And don't forget, one of the things that you could take into account is that even though that we've seen margin expansion, don't preclude us that the fact that we've reinvested significantly in our product and innovation because the things that we're doing in our soft cotton technology, for example, have -- we're putting more value into these garments, so more cost in terms of a like-for-like type thing. But the fact is, is because we're optimizing, we're offsetting those costs with lower manufacturing costs, which is improving our operating margin. So it's a win-win scenario in our ecosystem. And by bringing in, I think, as we move forward into '26 and taking in the big volume that we have from Hanes, that's only going to continue to allow us to scale up even further, and we're really excited about the opportunity.

Operator

Your next question comes from the line of Stephen MacLeod with BMO Capital Markets.

Stephen MacLeod
BMO Capital Markets Equity Research

Just a couple of questions. Just looking at the imprintables channel in Q3, and you sort of called it out as being similar to Q2. Can you talk a little bit about sort of what you're seeing within each segment of that market, fashion basics, basics and fleece?

Glenn J. Chamandy
President, CEO & Director

Well, I would say to you that, look, our soft cotton technology continues to drive our basic strategy. Comfort Colors is doing really well again, similar to last year. AA is actually coming back. We're seeing good growth in AA. And we have our new brands, ALLPRO, Champion and all the new programs we have. So it's -- we're doing well in a bad market, I mean that's the truth of the situation. The market conditions, like we said, are down low single digits, and we're doing well. So I think that we're well positioned and good -- hopefully, we'll see a big improvement in market conditions in 2026. And with the momentum we have, I think we'll be -- we'll see a good strong 2026.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's great. And then just turning to the cotton cost environment. Obviously, it's been very benign over the last sort of year or so. And I'm just curious, how much does that play into your gross margin outlook? And do you see incremental upside from this sort of more benign cotton cost environment?

Glenn J. Chamandy
President, CEO & Director

No, I would say that, look, it's sort of going sideways right now. So there'll be no impact one way or the other on margins.

Luca Barile
Executive VP & CFO

Yes. And I would say -- just to complement that, I would say that, look, if you look at the -- starting with the Q3, the strong margin performance, it really was driven by lower manufacturing costs. There was a little bit of lower raw material costs that did come through. And we do have visibility of that as we move forward. But the real driver of the sustained margin moving forward is from the manufacturing cost.

Operator

Your next question comes from the line of Martin Landry with Stifel.

Martin Landry

Stifel Nicolaus Canada Inc., Research Division

Glenn, I want to come back on the market dynamic. You're saying that the market has been weak in Q1, Q2 and Q3, and you also expect the market to be down in Q4. I'm just trying to understand why is the importable market down? The economy is doing well. GDP is growing nicely. So what explains the fact that the industry is in decline?

Glenn J. Chamandy

President, CEO & Director

Well, I would say that there's different things overall when we look at the market. Our GLB customers are basically -- you can follow them. I mean, they're not performing as they were in previous years. So that's one. We're seeing large retailers managing inventory a little bit on maybe the national account side.

You have corporate promotional products, companies worried about tariffs and spending money basically in -- which is affecting potentially some of the printwear market. The travel, the tourism sort of it, I think that part is still going good. People are still moving around and spending. So there's different pockets of things, I would say, that are affecting the market. And it's hard to say really because there's so many different avenues of market growth, let's say, for example, or market consumption really at the end of the day. So we really don't have a total handle on it, to be perfectly honest with you. But we just -- we get the results, obviously, and it's a little bit here, a little bit there, and it all adds up to -- maybe, Chuck, you want to add into that?

Chuck J. Ward

Executive VP & COO

Yes. No, I think, Martin, again, I think to be clear, that's the market overall. As Glenn said, it's all the -- it's not just in imprints. It's across the whole market we're talking about the way it looks at that, and we talked about inventory and retailers and so forth. I mean when you're talking about the imprints market, Martin, we feel great about our positioning. When we look at our brand portfolio, what we have and the ability to address the market.

Glenn's talked about our soft cotton technology, things we've done there that's really driving our basics category. Plasma print, which we've talked about, which has been testing with DTG printers is going great. It's going to be launched in Q4. It looks good. We're expanding the Gildan line and with the new Hammer Max heavyweight that kind of takes on the workwear, streetwear side. He talked about Comfort Colors, it's our fastest-growing brand. We've doubled our manufacturing capacity with that. And we're seeing a lot of organic marketing coming out of that, like CNBC had an article recently, New York Times had one. GQ had something.

We're just getting a lot of organic marketing through that brand. And we're capitalizing on that brand strength and going to expand it into premium bags and hats. We're doing a women's fleece collection. So Glenn talked about AA. And really, when you think about it, Martin, one of the things if you look back at our investor presentations and what's on our website, we had said that we really participated in the core of the imprints market, which is about 60% of that market. And we've said we really don't play in the 40% overall.

But now we're looking -- for example, I just talked about Comfort Colors going into hats and bags. We hadn't historically played in hats, outerwear, teamwear, bags, accessories. And we're working to now try to reach into that 40%. We're investing in innovation in our polyester fibers and the imprintability of poly and poly yarns to maybe benefit going forward, as Glenn was talking about bringing in poly product. And so that brings me to ALLPRO, where that's hitting new white space categories with performance and corporate ID, uniforming markets, outerwear, some outerwear jackets in that. Champion, obviously, going off the heritage of the Champion brand with authentic sports team colors or fanwear, teamwear, coaches jacket, shorts, different things. So I would say we feel very good about our ability to address the imprints market and as we go forward and again, to play in areas maybe we hadn't played in the past.

Glenn J. Chamandy

President, CEO & Director

So just to summarize that despite there could be some negativity in the market, we're well positioned for growth regardless. And despite the market being down, we're still seeing mid-single-digit growth from all these factors that Chuck just mentioned. And hopefully, as we move into 2026, we'll see some positive momentum in the market, which will even accelerate our growth further.

Martin Landry

Stifel Nicolaus Canada Inc., Research Division

Okay. That's great color. And just to be clear, you said, Chuck, that you're entering into hats. Are you entering into other categories like bags and workwear or just hats?

Chuck J. Ward
Executive VP & COO

No, no, hats. We're doing hats. We're going to do some bags. Things like our Hammer Max will probably play a little bit in workwear, as I mentioned. We're going to do some outerwear jackets things in ALLPRO, and Champion has coaches jackets. So yes, we're playing in areas that if you go back to that investor presentation in areas where we said we didn't play in the past, we're reaching into.

Operator

Your next question comes from the line of Paul Kearney with Barclays.

Paul David Kearney
Barclays Bank PLC, Research Division

First one is just looking at inventories, can you comment on levels in the quarter? How much of the increase was from the higher tariff costs? And where do you expect to end Q4? And then I have a quick follow-up.

Luca Barile
Executive VP & CFO

Yes. Thanks for your question. So we're comfortable with where inventories are. The inventory levels are slightly higher, and there's a few reasons for that. One, yes, there are some costs related to tariffs that are in our inventory, but it's better -- it's more that we're really well positioned from an in-stock level. And if you remember that when we have really good in-stocks, that drives really good availability, and that's what's really important from the market's perspective of our customers.

So as I did comment earlier, look, we've got a strong focus on working capital, a strong focus on generating cash flow. Our target is to bring that working capital down towards the 37%, 38% as we're in 2026. We'll be slightly higher than that as we end Q4, but we're well positioned, and we're in control of our working capital. So it's -- I would think of it as good inventory.

Paul David Kearney
Barclays Bank PLC, Research Division

Okay. And that was great color on the innovation and the growth outlook for the Activewear for next year. I guess my follow-up is I'm curious, after the HanesBrands acquisition, is there anything that we should be considering for the organic outlook for the Gildan business as you kind of roll in those brands and those customers? How should we think about the hosiery and underwear part of the business or any kind of shifts as you combine the businesses?

Luca Barile
Executive VP & CFO

Well, I think what's really important is if we take this kind of step by step is we look at what we're putting out in terms of guidance for this year, right? So when we take a look at the top line, we're reconfirming our guidance there on the top line of revenue up mid-single digit, right? We've seen this year a very strong performance, which is really fueling that top line growth. So revenue up mid-single digits, right?

Then when we take a look at the margin profile, we're calling up our operating margin guidance to 70 basis points year-over-year. Just as a reminder, 2024 was at 21.3%. And then this all feeds into an adjusted EPS guidance range that we've tightened right at \$3.45 to \$3.51, which is up 15% to 17%. As you think of the go forward, right, in terms of the proposed acquisition, what we've gone out to the market with, right, is a view that net sales are going to accrete over the next 3 years at a rate of 3% to 5% CAGR, right? So that's the way you have to think of the top line.

In terms of how much we're going to continue to invest in the business is 3% to 4% of that top line into CapEx, which is going to be really important, we're going to be doing this within a leverage framework of always with our target between 1.5x to 2.5x. It's really important to us to maintain that. If you notice where we are right now, we're actually at the midpoint of our range going into the closing of the transaction. And then from an EPS perspective, really jumping up to the low 20% range off the midpoint of what we're guiding to in terms of 2025.

So that's the profile of how you have to think about the coming together of the 2 entities. And then the first year, what we've articulated as well is that the EPS will be meaningfully higher than that average of the 20% over the next 3 years. So hopefully, that's helpful, but that's the way you should be thinking about the coming together of the 2 entities.

Operator

Your next question comes from the line of Luke Hannan with Canaccord.

Luke Hannan
Canaccord Genuity Corp., Research Division

Thanks for the commentary thus far. I wanted to follow up on the topic of there being delays in floor sets by large retailers. I know it was mentioned in the past that you have a large fleece program that's either already in place with your large retailer customers or set to. Has the timing of that been impacted at all by the fact that retailers are being a little bit more diligent in managing inventory?

Chuck J. Ward
Executive VP & COO

No, Luke, that has set and on the floor, it is doing well. It's performing well. Early reads on it are very good. They definitely wouldn't want to miss that fleece season. So, no, it's been placed in on the floor. It was more in the innerwear categories.

Luca Barile
Executive VP & CFO

And I would just add -- Luke, I would just add that, again, from a growth perspective this year, 75% of our growth is coming from new programs. That includes the T-shirt and fleece, meaningful programs within our national accounts. And so that plays into that piece right there.

Luke Hannan
Canaccord Genuity Corp., Research Division

And then for my follow-up, I wanted to ask on that same sort of topic or dynamic of customers being a little bit more diligent in managing inventory, it sounds like distributors overall seem to be okay with their inventory balances. What's your view on why that sort of dynamic wouldn't impact distributors, but retailers seem to be a little bit more impacted?

Chuck J. Ward
Executive VP & COO

Well, I think when you look at it, again, distributors have always known that availability is their #1 purchase criteria. So they have to have the product available. And so -- and they found as they do that, they have a better chance of servicing the market. So there's been an appetite to make sure they're well balanced and well stocked to service it.

And again, I think when you look at the retailers, I think they're a lot wider in what they're dealing with. It's not just innerwear that we talked about or Activewear we talked about, it could be everything else in the store and fashion goods, electronics, everything across the store that they're running into, and they're really uncertain about tariffs and so forth going forward. So I think they look at it probably a little differently than the distributors have to look at their supply chains.

Operator

Your next question comes from the line of John Zamparo with Scotiabank.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

I wanted to come back to the free cash flow guide, but related to the CapEx. Apologies if I missed it, what is the nature of that update? Are you deferring projects? Or are some areas of spending no longer as compelling as they were prior? And if it's the former, is that based on the supply chain uncertainty from some customers that you referenced?

Luca Barile
Executive VP & CFO

No. So 2 things. Starting with the CapEx guide, right? So going from 5% to 4% of net sales, I mean, still that's a healthy number, number one. One thing that we do not move off of, I think it's important to understand is how we reinvest in the maintenance of our

assets. So always think about almost around 2/3 of what we spend in CapEx goes through maintenance and reinvesting into our assets to make sure that we maintain our competitive advantage. That doesn't move.

And there is a little bit of shift in terms of timing of projects, which is effectively the difference between the 5% and the 4%. So that's the way I would think of the CapEx. And again, you touched upon free cash flow. I think, again, free cash flow is very important to us, and we're comfortable in terms of our free cash flow generation. The difference in the guide, again, comes down to we've reflected the transaction costs incurred to date. There's a bit of timing of working capital where we have a little bit of tariff cost that's in our inventories, but we're comfortable where we are, and we're comfortable that where we're going. There's nothing really major. It's timing.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

Okay. Understood. And then I wanted to ask about the competitive landscape, and I wonder if you've seen any meaningful change in that over the last quarter or so. Do you think your competitors are behaving rationally? Are they also passing on costs as you'd expect?

Glenn J. Chamandy
President, CEO & Director

I'd say overall, the whole market has passed on costs associated with tariff. I mean that's pretty consistent across all categories, all markets, all channels. I would say that in the printwear market, we're continuing to win. Our strength, like Chuck mentioned, in all the brand portfolio, the technology, the innovation, that's all a function of the capital that we've been spending and leveraging our large-scale low-cost manufacturing.

And so it takes a long time to put that in place, and then we're really capitalizing it in this type of market where our competitors, we think, are weak, undercapitalized and don't have really the brand strength, the innovation, the manufacturing to really grow their businesses. So we're continuing to lead and widen the gap against the competitive landscape in most of the cases where we operate.

Operator

Your next question comes from the line of Chris Li with Desjardins.

Christopher Li
Desjardins Securities Inc., Research Division

Glenn, I want to follow up your last answer to your last question. I just want to confirm, so have you seen a widening of your price gap versus your competitors given your low-cost advantage? And is that also allowing you to gain more market shares?

Glenn J. Chamandy
President, CEO & Director

No. We've taken price equal to whatever tariff impact, and we did it in stages, too. So we didn't really go out and price at one time. So we slowly took prices up to cover the impact of tariffs, so they would be aligned. And basically, the market had to follow because everybody has that same type of cost. So I would say to you that the pricing, I would say, relationship before and after tariffs is probably pretty consistent in the market, and everybody had to react to the tariff cost and everybody really reacts to our pricing because we're the price leader.

Christopher Li
Desjardins Securities Inc., Research Division

Okay. That's helpful. And maybe, Luca, just a follow-up for you. Just on the SG&A expense, sorry if you answered this already. It was a bit higher than what we were expecting in Q3. You noted there's some increase in variable compensation. Are you able to kind of break out for us just how much of that was from variable comp? And then maybe a follow-up to that is, as you look out for next year, your SG&A rate, should we be kind of anchoring around 10% of sales for next year? Is that still a good soft target?

Luca Barile
Executive VP & CFO

Yes. Thanks for your question. So look, in the quarter, I mean, slightly higher. I think there's 2 things. The drivers are some higher variable comp, but there was also some IT-related expenses that were more onetime in nature. The way you have to think about the target for SG&A and specifically for this year, right, we've given the operating margin guidance of 70 basis points higher year-over-

year. And when you look at the composition of the gross margin and the SG&A, our SG&A is always targeted to be around 10% of sales.

So there's a couple of onetimers here in the quarter, but we're comfortable with that target. And then with your question with respect to next year, I would point you towards the guidance that we've given in terms of the 2 companies coming together, the combination, which really yields really strong adjusted diluted EPS CAGR over the next 3 years with the first year being meaningfully higher than that low 20% range. So 10% is what we're looking at for this year in terms of what we can control on our end.

Operator

Your next question comes from the line of Ryland Conrad with RBC.

Ryland Conrad
RBC Capital Markets, Research Division

Just on the 3 quarters of expected growth from new programs this year. Just curious how long of line of sight or how much visibility you have on incremental program wins in national accounts into 2026?

Chuck J. Ward
Executive VP & COO

Yes, Ryland, thanks for the question. We have similar -- as we've mentioned, we have similar line of sight on our growth for next year. So similar percentages that we're looking at, as we said, for this year of growth that we see and have line of sight for next year.

Ryland Conrad
RBC Capital Markets, Research Division

Okay. Great. And just on Comfort Colors, I guess, could you talk a bit about the performance year-to-date and just the underlying drivers there? And then on the plans to expand that brand into additional product categories, like is there anything that you could share additionally there on that front, whether it be kind of timing or just expectations on how that will benefit the brand?

Chuck J. Ward
Executive VP & COO

Sure. I mean, again, the brand is -- again, it's our fastest-growing brand with double-digit growth. It's been very strong all year long. We haven't seen it falter at all. It just keeps growing. I mentioned we doubled our manufacturing capacity for that brand, and we're going to invest additional in 2026 to grow that capacity more. And so that's the reason we think it has brand strength to move outside of just where we have been, which is tees and fleece. We're adding more women's collections, which will be very strong. We're going to go into caps and bags, as I mentioned.

Again, I think that will be well received because then people can -- when they're putting this product out in the printwear, could go to fraternity stores, resorts, see it in bars where they're putting the things, they want to sell a hat and a T-shirt. They don't -- we're actually seeing it picked up quite a bit in band merch. And when people go to a concert, they may pick up a shirt, but they also want a hat. So we're trying to put out things that will go well with the core product and a lot of it will move together.

Glenn J. Chamandy
President, CEO & Director

And just to reference, even though there's hats and bags, these are all going to be cotton-based. They're going to be basically dyed in the same process as we make the T-shirts. So it's going to give an nostalgic look in terms of the pigment type technology that we use on all of the Comfort Colors products that we sell. So it's really going to be enlightening and stay consistent with the brand's heritage and focus.

Operator

There are no further questions at this time. I will now turn the call back over to Jessy Hayem for closing remarks.

Jessy Hayem
Senior VP & Head of Investor Relations and Global Communications

Thank you, everyone, for joining us today and attending our call, and we look forward to speaking with you soon. Have a great day.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.

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