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Operator

Ladies and gentlemen, thank you for standing by, and welcome to Gildan Activewear's 2025 Q4 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, Sarah. Good morning, everyone, and thank you for joining us. Earlier today, we issued a press release announcing our results for the fourth quarter and full year 2025 and initiated guidance for 2026. The company's management discussion and analysis and consolidated financial statements are expected to be filed with the Canadian securities and regulatory authorities and the U.S. Securities Commission today and will also be available on our corporate website.

Now joining me on the call today are Glenn Chamandy, President and CEO of Gildan; Luca Barile, Executive Vice President, Chief Financial Officer; and Chuck Ward, Executive Vice President, Chief Commercial Officer. This morning, we'll take you through the results for the quarter and additional updates 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.

Before I turn it over to Glenn, as you know, on December 1, 2025, the company completed the acquisition of HanesBrands. As such, the fourth quarter and full year 2025 results include HanesBrands' contribution from December 1, 2025 to December 28, 2025. Moreover, as announced this morning, the HanesBrands Australian business, which we refer to as HAA, has been classified as held for sale and reported as discontinued operations as of December 1, 2025, the date of closing of the HanesBrands acquisition. Unless otherwise indicated, the figures we will be discussing today are from continuing operations and therefore, exclude the results of the HAA business.

And now I'll turn it over to Glenn.

Glenn J. Chamandy

Co-Founder, President, CEO & Director

Thank you, Jessy, and good morning, everybody, and thanks for joining us today. I'd like to start the call by taking a moment and thanking our employees, both Gildan and Hanes for their dedication and commitment and outstanding execution through the year. I'd also like to acknowledge the loyalty of our customers and the ongoing support of our shareholders.

As we highlighted in this morning's press release, 2025 was another important year for Gildan. And we concluded on a high note with record revenues from continuing operations of about \$3.6 billion, strong adjusted operating margins of 21.5% and a year-over-year adjusted diluted EPS growth of 17% or adjusted diluted EPS from continuing operations of \$3.51, which includes the contribution of Hanes since December 1, the date of the closing of the acquisition.

As we look ahead to 2026, we are very excited about the Hanes acquisition, which doubles our scale, combines iconic brands with our world-class, low-cost vertically integrated platform and unlocks a powerful engine for innovation and growth. Our global team's focus is now fully capturing the value of our expanded platform. In fact, the integration is well underway and progressing ahead of plan.

Let me give you a few highlights about the progress we have made so far. Since the transaction closed, our teams have moved quickly and decisively with a strong focus on unlocking the significant value that we targeted, leveraging the scale and capabilities of the combined organizations. We've already begun our manufacturing footprint optimization. We made the decision to close that 2 Hanes

textile factories in early 2026. Production volumes from these facilities will be relocated across our consolidated network in early 2026, leveraging Gildan's low cost structure and further accelerating our synergies.

As a result, our capacity is tight in the short term. We are, therefore, proactively undertaking a temporary reduction of inventory levels across customer channels. We will continue to optimize and increase our production levels through 2026 to support the growth going forward into 2027. Furthermore, we are optimizing our distribution capacity and work is underway to standardize IT platforms and harmonize key manufacturing supply chain processes to drive further efficiencies and unlock the full benefits of the operating as one integrated business.

We have put in place a new organizational structure to support the combined operations with leadership presence in Winston-Salem, North Carolina. Chuck Ward has been appointed to a newly created role of EVP and Chief Commercial Officer. In this role, he will lead the company's commercial strategy for retail and wholesale channels. Given the pace and the quality of the progress so far, we are raising our synergy expectations.

We now anticipate approximately \$250 million in run-rate cost synergies over the next 3 years, an increase from the original \$200 million target. We now expect approximately \$100 million per year in 2026 and 2027 and at least \$50 million in 2028. And we will continue to pursue additional synergies beyond our revised 3-year synergies target. Furthermore, the associated onetime restructuring costs are expected to stay within a 1:1 ratio to the cost of synergies generated.

Now just touching on Bangladesh. Today, we are pleased to announce that we are moving forward with Phase 2 of our Bangladesh complex. Over the next 18 months, we will begin construction of our second large-scale textile facility with initial production expected to come online in the later part of 2027, supporting growth plans for 2028. As previously communicated, the supporting infrastructure is already in place, and the required investment remains within our CapEx guidance. Expanding our Bangladesh footprint is central to reinforcing our cost leadership in ring spun and in innerwear. And the addition of a second facility strengthens our ability to support key sales drivers, enhances our flexibility and position us well for the long-term demand.

Today, we are also announcing that following a comprehensive evaluation and strategic alternatives, we have determined that pursuing a sale of the HanesBrands Australia business, or HAA, is in the best interest of Gildan's stakeholders. As a result, Gildan has initiated a formal process for HAA.

Finally, with a strong foundation and a further strengthened competitive position across product lines, channels and geographies, we remain confident in our ability to unlock targeted run-rate synergies and achieve these synergies -- objectives for the 2026 to 2028 period outlined in our August 2025, including compounded annual sales growth of 3% to 5% versus pro forma net sales from continuing operations of \$6.089 billion for the Gildan and Hanes combined businesses for fiscal 2025 and adjusted diluted EPS growth in the low 20% range compared to the fiscal 2025 adjusted diluted EPS from continuing operations.

In conclusion, we believe this is an exciting and pivotal moment for Gildan, and we're enthusiastic about the next phase of our growth journey. We have a solid foundation that allows us to execute from a position of strength. With scale both in wholesale and retail and setting us succinctly apart and underpinning our strong competitive positioning and putting us in a greater position to continue driving sustainable growth and long-term shareholder value. I look forward to answering your questions after our formal remarks. And now I will 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 fourth quarter and full year results. Let me start with the specifics of the quarter, then turn to our 2026 outlook and guidance.

First, the quarterly results. As a reminder, HAA operations have been classified as held for sale and are therefore reported as discontinued operations as of the fourth quarter of 2025. We reported fourth quarter sales from continuing operations of \$1.078 billion, up 31.3% year-over-year. Excluding Hanes' contribution of \$217 million for the period from December 1 to December 28, 2025, organic growth was up 4.9%. Activewear sales grew 10.3% to \$788 million, once again reflecting the Hanes acquisition and complemented by favorable mix and higher net selling prices.

We saw solid sales to North American distributors and continued growth with national account customers, driven by our strong overall competitive positioning, new programs contribution and market share gains in key growth categories. We continue to see robust demand for Comfort Colors and our innovative pipeline continues to drive excitement with our new soft cotton technology and new brands such as Champion and ALLPRO.

For the Innerwear category, which now includes hosiery, underwear and intimates, sales were up about 171% versus last year, primarily reflecting HanesBrands' contribution in December, offset by slightly lower volumes owing to continued broader market weakness.

Turning to international markets. Sales were \$68 million, up 5.1% year-over-year, primarily reflecting the acquisition, which was partially offset by demand softness across markets and more specifically in the U.K. On a full year 2025 basis, excluding HanesBrands' contribution of \$217 million for the period from December 1 to December 28, 2025, net sales were up 4% year-over-year and in line with guidance. Furthermore, excluding the impact of the exit of the Under Armour business in 2024, net sales would have been up approximately 4.7% year-over-year.

Shifting to margins for the quarter. We generated gross profit of \$312 million or 28.9% of net sales versus \$253 million or 30.8% of net sales in the prior year. Adjusting for an inventory fair value step-up charge of \$35.4 million recorded as part of the HanesBrands acquisition, adjusted gross profit was \$347 million or 32.2% of net sales compared to 30.8% in the prior year. The 140-basis point increase was primarily driven by favorable pricing implemented to offset the impact from tariffs, lower manufacturing and raw material costs and to a lesser extent, the favorable HanesBrands contribution.

SG&A expenses were \$125 million compared to \$78 million in the prior year, primarily reflecting the combination with HanesBrands. Adjusting for charges related to the proxy contest and leadership changes and related matters, adjusted SG&A expenses were \$124 million or 11.5% of net sales compared to \$78 million or 9.5% of net sales for the same period last year. The increase in adjusted SG&A in the quarter reflects primarily the combination with HanesBrand as well as purchase accounting impacts, including amortization of intangible assets recorded in connection with the acquisition.

As we bring all these elements together and adjusting for restructuring and acquisition-related costs, as well as the inventory fair value step-up charge recorded as part of the acquisition and costs related to the proxy contest, leadership changes and related matters, adjusted operating income was \$223 million, up \$48 million or 20.7% of net sales compared to 21.3% in the prior year, mainly a reflection of HanesBrands' lower adjusted operating margin.

A brief comment on the full year adjusted operating margin. It reached 21.5% of net sales, up 20 basis points compared to the prior year. Excluding HanesBrands, adjusted operating margin was roughly in line with the guidance provided, which called for an increase of approximately 70 basis points year-over-year. Net financial expenses for the quarter were \$43 million, up \$16 million year-over-year, primarily due to higher borrowing levels related to the HanesBrands acquisition.

Taking into account all these factors and a higher outstanding share base as a result of the acquisition in the fourth quarter, we generated GAAP diluted EPS from continuing operations of \$0.32 versus \$0.86 in the prior year, while adjusted diluted EPS were \$0.96, up 16% from \$0.83 in the prior year. For the full fiscal year 2025, GAAP diluted EPS from continuing operations were \$2.57 compared to \$2.46 in the prior year, while adjusted diluted EPS increased by 17% to \$3.51 from \$3 in the prior year. Excluding HanesBrands' contribution, adjusted diluted EPS came in toward the low end of the guidance range provided.

Now turning to cash flow and balance sheet items for the year. Operating cash flow, which includes discontinued operations, totaled \$606 million compared to \$501 million in the prior year, primarily reflecting lower working capital investment. After accounting for capital expenditures totaling \$114 million, the company generated approximately \$493 million of free cash flow, which includes discontinued operations. During 2025, we returned \$319 million to shareholders, including dividends paid and by repurchasing about 3.8 million shares under our NCIB program. We ended the year with net debt of \$4.417 billion and a leverage ratio of 3x net debt to trailing 12 months pro forma adjusted EBITDA.

As Glenn detailed, Gildan has determined that pursuing a sale of HAA is in the best interest of Gildan and its stakeholders. We will only proceed with a potential transaction if value and terms are attractive and determined to be in the best interest of the company. And the proceeds from the potential divestment will be used to pay down a portion of the company's outstanding debt and further accelerate Gildan's objective to return to a leverage framework of 1.5 to 2.5x net debt to pro forma adjusted EBITDA ratio, while largely offsetting the expected earnings dilution from the HAA sale.

Now turning to the outlook. Looking ahead to 2026, we expect to build on the progress made across our key strategic initiatives under our Gildan sustainable growth strategy, driving continued market share gains in key product categories in a dynamic macroeconomic environment. We have a strong foundation. And now with the Hanes acquisition, and even further strengthened competitive position across product lines, channels and geographies.

As such, for 2026, with respect to our continuing operations, meaning excluding HAA, we expect the following: revenue of \$6 billion to \$6.2 billion, full year adjusted operating margin to be approximately 20%. CapEx to come in at approximately 3% of net sales. Adjusted diluted EPS in the range of \$4.20 to \$4.40. Free cash flow to be above \$850 million.

There are various assumptions underpinning this outlook. They are: firstly, our full year guidance reflects continuing operations and excludes the contribution from HAA operations, which are reported as discontinued operations. Net sales and diluted earnings per share for HAA for 2026 are expected to be approximately \$675 million and \$0.21, respectively. Also, our outlook takes into account the expiry of a Transition Service Agreement at HanesBrands related to its divestiture of Champion, representing slightly over \$100 million in sales in 2025.

Our 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.

Furthermore, and as previously detailed, our outlook reflects the temporary reduction of inventory across our combined customer channels, which we are proactively undertaking. Our outlook reflects continued disciplined adjustments to our operating footprint and commercial mix with a focus on margin accretive growth.

Our outlook reflects our currently expected impact of tariffs, including the expected positive impact of the February 20, 2026, U.S. Supreme Court decision in validating certain tariffs and the subsequent related announcements by the U.S. Administration, together with mitigation initiatives, including pricing actions and our ability to leverage our flexible business model as a low-cost, vertically integrated manufacturer. Higher tariff costs incurred prior to these developments remain embedded in our inventory costs.

Given the dynamic and rapidly evolving tariff environment, the level and structure of tariffs and their effects remain uncertain and difficult to predict. In addition, our outlook does not reflect potential rights, if any, to refunds, which remains subject to, among other, applicable procedural requirements and further guidance from U.S. Customs and Border Protection.

As previously communicated, there will be no share repurchases until our net debt leverage ratio approximates the midpoint of our target leverage framework of 1.5 to 2.5x net debt to trailing 12 months pro forma adjusted EBITDA. The adjusted effective income tax rate for 2026 is expected to be around 19%.

Our outlook assumes continued successful execution of the HanesBrands' integration plan, including the realization of the anticipated benefits from actions already undertaken as well as future integration actions.

And finally, we have assumed no meaningful deterioration from current market conditions, including the pricing and inflationary environment and the absence of a significant shift in labor conditions or the competitive environment.

As Glenn laid out earlier, we are reiterating our 3-year objectives for 2026 to 2028 period, including compound annual net sales growth of 3% to 5% and versus pro forma net sales from continuing operations of \$6.089 billion for the Gildan and HanesBrands combined businesses for fiscal 2025. And adjusted diluted EPS growth in the low 20% range compared to our fiscal 2025 adjusted diluted EPS from continuing operations.

And turning to the guidance for our first quarter of 2026. We expect net sales from continuing operations to be approximately \$1.15 billion. As detailed earlier, given our ongoing consolidation of manufacturing facilities and in order to accelerate and increase synergy capture and support our new operating model, we are proactively undertaking a temporary reduction of inventory levels across customer channels which will have an impact on the net sales in the quarter.

Our adjusted operating margin is expected to be approximately 12.9%, reflecting the higher SG&A levels, which will be impacted by higher amortization of intangible assets and depreciation of property, plant and equipment resulting from the fair value purchase accounting impacts of the HanesBrands acquisition, in addition to a timing differential between some integration-related costs incurred and the flow-through of their benefit in subsequent quarters. Finally, the company's adjusted effective income tax rate in Q1 and is expected to be slightly higher than the expected full year 2026 adjusted effective income tax rate.

Lastly, the company has implemented a reorganization of its internal sales teams to more closely align with its go-to-market strategy. This organizational realignment is intended to enhance strategic focus and operational execution by reflecting the distinct customer engagement models and growth drivers of each channel. As a result, effective the first quarter of 2026, we will transition from disclosing net sales for Activewear and Innerwear which was previously Hosiery and Underwear to providing the same information on a retail and wholesale basis.

We believe these changes will improve transparency and better align the company's reporting with its go-to-market structure. We expect to provide supplemental 2025 pro forma disaggregation of revenue disclosure when we report our first quarter results for 2026.

In summary, we are pleased with the quarter, and we're excited to continue to provide you with the updates on our integration progress and our major 2026 initiatives in the spring when we release our first quarter results.

Thank you. And now I'll turn it over to Jessy.

Question and Answer

Jessy Hayem

Senior VP & Head of Investor Relations and Global Communications

Thank you, Luca. This concludes our prepared remarks, and now we'll be taking your questions. [Operator Instructions] usual, before moving to the Q&A session, I'd like to remind you to limit your questions to 2 and then we'll circle back for a second round if time permits. Sarah, you may begin the Q&A session, please.

Operator

[Operator Instructions] Your first question comes from Paul Lejuez with Citigroup.

Brandon Babcock Cheatham

Citigroup Inc., Research Division

This is Brandon Cheatham on for Paul. I was hoping you could talk a little bit more about the destocking that you're planning for the year. What is the cadence of that? Is it primarily hit 1Q? And should we see that kind of rebound as the year progresses? And I just want to confirm, it sounds like this was driven by your capacity changes by shutting down those 2 facilities. It's not something that you're seeing in customer orders, so are some orders just going unfulfilled? Or are you kind of working hand-in-hand with your customers on that. And then I have a follow-up.

Glenn J. Chamandy

Co-Founder, President, CEO & Director

I'll start with the first part of the question. So what we're doing is look at -- we communicated last year that we are increasing our internal capacity in Bangladesh and in Central America, obviously, in anticipation to support the Hanes integration. So there's a disconnect between what our ultimate capacity is and what our run rate is. So currently, we have all the capacity in place to support the closure of the 2 Hanes facilities. And these are -- they only had 2 facilities. So it's basically closing both of their textile facilities.

And what we're currently doing is we're bringing that product into our Gildan network. And obviously, we're ramping the volumes up to support the capacity that's in place. So the disconnect for us right now is that we're short on available inventory where we have a little bit available -- we have tightness of inventory as we move into 2026 that needs to be managed. So we're proactively reducing inventory in the channels to reflect that, which will ultimately should allow us to bring that inventory back up as we move into the later part of this year into '27.

I'll maybe let Luca talk about the timing.

Luca Barile

Executive VP & CFO

Yes. Thanks for your question. So I think in order to articulate the timing and really understand how this is impacting our guide, it's really important to understand the composition of the top line. Let me start by saying that as we understand the top line, the starting point is really our pro forma results for 2025, okay? And in other words, the pro forma results simulate as if the Hanes acquisition would have occurred the first day of '25. So our pro forma net sales are \$6.089 billion. That excludes both the sales contribution of HanesBrands Australia, which is now classified as an asset held for sale and as a discontinued operation and the expiry of the transition service agreement at Hanes, which related to its divestiture of Champion, which was slightly over \$100 million. So that's the starting point.

From that point, effectively, both wholesale and retail are fundamentally growing. And they're growing off of that pro forma base in line with the expectations of our growth over the next 3 years of 3% to 5%. The wholesale growth vectors, they include growth in key categories: fleece, ring spun, Comfort Colors, brands like Champion, ALLPRO, the continuation of strong growth from national accounts, which includes some of our private label programs in fleece and [T] and items that contributed to our 75% of our organic growth in '25, that continues as we move into '26, continue to take share despite a fluid macroeconomic environment from our product innovation and some positive mix is also contributing to that accretion.

On the retail side, growth is expected across all categories. It's primarily supported by sales share gains and expansion across key retail customers and channels. And it's complemented by the impact of some price that we took to work through the impact of tariff costs and inventory. So that underlying growth I just described is offset really by 2 factors. The first is our proactive decision to temporarily

reduce inventories across the customer channels, as Glenn was alluding to. That inventory reduction driven by the accelerated integration of production volumes from the closure of the 2 Hanes facilities into our network, that's a trade-off of short-term capacity tightness for accelerated synergy capture.

So as a reminder, we're expected to yield run rate synergies now of \$250 million over the next 3 years versus the \$200 million was previously communicated. And that cadence is now realized with \$100 million in 2026, \$100 million in 2027 and \$50 million in 2028. And the second factor is remember that we're continuing to optimize our operating footprint and commercial mix with a clear focus on margin accretive growth. So effectively, the \$6 billion to \$6.2 billion top line guide from continuing operations, it excludes \$675 million of expected contribution from HAA. It's rooted in the foundational growth, and it's offset by the actions that we are taking for the long term.

So in terms of the cadence, when you take a look at our Q1 net sales guidance, it's approximately \$1.15 billion. So again, to appreciate what's happening in Q1, we needed the understanding of the full year, and our Q1 guidance reflects our proactive decision to temporarily reduce the inventories across channels. And Q1 also has in terms of the addition to that, where we're comping higher sales in the first quarter of 2025 related to customers across channels where there was some prebuying in anticipation of potential tariffs coming through. So it's impacting our Q1 guidance and some of that may trickle into the beginning of the second quarter.

Brandon Babcock Cheatham
Citigroup Inc., Research Division

Got it. That's very helpful. And then just a follow-up. After you close those 2 Hanes facilities, what sales can you achieve with your current manufacturing capacity? And then when Bangladesh Phase 2 comes online, should we think about that as an incremental \$500 million in sales capacity? Or has anything changed there?

Glenn J. Chamandy
Co-Founder, President, CEO & Director

So we have enough sales capacity today to support the guide of the 3% to 5% over the 3-year period. And once we bring Bangladesh 2 online, obviously, we'll be able to support '28 and '29 at least with the level of capacity. Now it's a little bit different mix associated because we're going to -- depending on what product and what mix goes into that textile facility. But I would say that we definitely have visibility on enough capacity to support '28 and '29 with the development of the second phase of Bangladesh, and we can support '26 and '27 going into '28 with what we have available to us right now.

And that's the part that's important to understand is that we did already put -- embedded into our guidance of CapEx guidance in 2025. We did an expansion throughout our network. We're expanding again in DR '26, which is embedded into our 3% CapEx number that we outlined as well as the development of our Bangladesh facility. That's all embedded in our 3% to 4% CapEx number. But the important thing to understand is that everything is in place. It's now the disconnect. We couldn't start ramping up production in 2025 in anticipation for the Hanes closure. We had to wait for the closure to happen. Otherwise, we would have been consuming more working capital, et cetera, et cetera.

So the way you have to look at it is that all this capacity is in place. We're running at a certain run rate today. We're closing the 2 Hanes facilities. That product amongst our product has to be sort of manufactured. And there's a disconnect between the time it takes us to sort of develop and grow the volumes within the capacity that's already there. And that's sort of why we're managing these inventories in the channel in the short term.

But that's really a short-term situation, and it will work itself through as we move through this year. And the other important point is that when we look at synergies, obviously, the synergy from Hanes' cost structure to the Gildan cost structure, that's a synergy which is quantifiable, but scale is also a huge synergy for us right now. And as we continue to optimize and grow the Gildan footprint, we're continuing to lower our cost structure and be better positioned, I think, as we continue to go forward. And we're very excited about where we are.

Operator

Your next question comes from Jay Sole with UBS.

Jay Daniel Sole
UBS Investment Bank, Research Division

Great. Maybe, Glenn, I want to just follow up on that. I think you mentioned in the prepared remarks that you see \$100 million in synergies this year, \$100 million next year and at least \$50 million in 2028. Can you just talk about what you're seeing that allowed

you to raise the guidance? And sort of do you see opportunities even beyond in 2028 versus kind of what was stated in the press release today?

Glenn J. Chamandy

Co-Founder, President, CEO & Director

Yes. Well, look, I mean, there's definitely an ongoing opportunity for us to continue reducing and increasing the synergy levels. I mean, as we go into this, obviously, when we called out in the beginning, we said it was \$200 million, potentially up to \$300 million. What we do is we just want to make sure that we articulate what we really have clear line of sight of. And right now, we have clear line of sight of \$200 million, and we're continuing to move forward and see if we can bring that \$200 million up.

Now as far as the opportunity above and beyond the 3-year period, there's things like Bangladesh, for example. There's still a lot of fabric that is being sourced outside, and that will be internalized as we go forward and bring on Bangladesh. So we know that Bangladesh will bring us additional savings and synergies as we move past the 3-year period. So we're really comfortable on the \$250 million and potentially taking that up from there as we move forward, and we'll communicate that as we move along. And every quarter, we'll give you an update, but we're effectively looking to get all these synergies.

And this is not really a back-to-basic story. This is basically just us hunting and tackling and going through things. I mean there was a lot of complexity in the business that we're streamlining. And that's part of what we've taken into consideration even a little bit this year as we look at it. There's some businesses that -- and segments that they shouldn't really be in. And these are all areas that we're looking to streamline and reduce SG&A complexity. So overall, we're very excited.

And one thing I'd like to really point out about the synergies, it's not just about the synergies. Look, we have line of sight on synergies, but I also like to maybe just add. I think that the most important point about the whole thing is that we're also investing and we're investing in the innovation of the product. So just the fact that we're actually looking at the synergies, but we are not just reducing the cost structure of the businesses, but we're investing in the future.

And one of the things that we're doing right now is we're also reinvigorating the product offerings of the Hanes in all segments and enhancing what we think is the go-to-market strategy of the quality of these products by leveraging our vertically integrated low-cost manufacturing, the innovation that we've been able to develop. So that in a way is a dissynergy because we're putting more value in the garments that they're going to be going to market the are sold. We're in a very good position right now. We're going to be -- and this is one of the reasons why we're moving quickly because we want to not just capture the synergies, but we believe that the quicker that we can innovate and elevate the Hanes product category in the lines and offer better quality products to the consumer, the faster we're going to go on the trajectory of sales growth with this brand because we think the brand has a lot of legs, and we're very excited about our positioning so far.

Luca Barile

Executive VP & CFO

Yes. And maybe, Glenn, I'd just like to add, I think, Jay, from an earnings profile, right, in terms of our guidance that we're really encouraged, right, with the \$4.20 to \$4.40 of adjusted EPS, which includes \$100 million of synergies for 2026. So the actions we're taking, accelerating and increasing our synergies to \$250 million with \$100 million in 2026, \$100 million in '27 and \$50 million in 2028, we're very encouraged by that.

Jay Daniel Sole

UBS Investment Bank, Research Division

Well, if I can just follow up on that because there's a lot of important points there and Glenn, the investment in the product, I think I'm glad you brought that up. I think there's a thought out there. HanesBrands hadn't had a lot of sales growth looking backwards over the last few years, their history. I mean, do you see it the Hanes -- the portfolio of brands that you're acquiring with HanesBrands, do you see that as a portfolio that you can grow over time? And because not everybody has that -- is aware of that.

Glenn J. Chamandy

Co-Founder, President, CEO & Director

Right, exactly. So one of the things I think is important is that, first of all, we're going to hold an investor conference sometime in the fall. Jessy, Luca and myself are going to nail down that date because when we can explain to investors, shareholders really our strategy, the opportunity at hand, I mean the opportunity is -- we think is quite large. Hanes has had declines, but the declines have been in certain categories. I mean, intimates has not performed, but that's a category which is sort of a decline because of the consumer, it's a department store driven. Department stores have obviously declined over the years. It's also a consumer that's

basically changing their purchase habits from going to structured to unstructured product offerings. So there's different elements of why and where the sales have dissipated.

But the Innerwear business is still taking share. I mean, HanesBrand as a company is gaining market share. They gained market share in 2025. So far this year and the beginning of the year, they're continuing to gain share. And they're doing that, I think, without really the type of investment that was required for the long term. I mean that was sort of, I would say, the challenges that the company did have. They weren't able to invest the capital and innovation that Gildan or manufacturing capacity.

So when you take an iconic brand like Hanes and you combine that with the vertically integrated low-cost manufacturing, it's an exciting proposition. So we're really going to -- we're going to change the way underwear is being sold in the United States. I can tell you that with the development of our plan, we're going to explain all this to the market. But we are going to be investing in technology, innovation, ESG all the things that are fundamental to our Gildan sustainable growth strategy. And we're going to put that into, what we think is an underinvested brand in Hanes.

So despite the underinvestment, the thing is doing well. And we think with the investment we're making, innerwear as a category is going to continue to grow. And also, don't forget is that Hanes used to have a very large Activewear business. That's another growth opportunity for Gildan is because, look, we can leverage our platform, our products, our innovation, everything that we have from an Activewear perspective as well to help grow it.

I mean -- and back in -- when Hanes was spun off from Sara Lee, half of their business was Activewear and half their business was innerwear. So today Activewear is a very small part of their business. So we're excited. We think we have a lot to offer. We have a great team of people. Chuck is on the forefront of making sure that -- and has now taken over the -- both divisions and spending his time in Winson-Salem, where we're consolidating our retail groups together. And we're well positioned to continue to grow, and we're excited.

Operator

Your next question comes from Brian Morrison with TD Cowen.

Brian Morrison

TD Cowen, Research Division

Glenn, you mentioned the Q1 destock recovery later in this year and next. So why no change to the 2028 EPS CAGR guide with the increase in aggregate synergies to \$250 million that would be another \$0.20 to \$0.25. Is this a rounding error? Are you providing some cushion in that guidance? Maybe it's more appropriate for Luca.

Glenn J. Chamandy

Co-Founder, President, CEO & Director

Well, to understand is obviously -- Luca, do you want to?

Luca Barile

Executive VP & CFO

Yes, sure. So thanks for your question. So look, as we articulated in the press release, we're maintaining our view on the 3-year guide, right, 3% to 5% on the top line in terms of the CAGR, low 20% range adjusted EPS and 3% to 4% of net sales from a CapEx perspective and so on. So effectively, we've maintained that. You're right. We've increased the synergies to \$250 million, \$100 million in '26, \$100 million in '27 and \$50 million in '28.

And our 3-year guidance was put out really ahead of the increased synergy number. But there's puts and takes. But the ultimate takeaway is that we're very comfortable with what we put out. We're continuing to chase the performance and push for it. And as Glenn articulated, we're not stopping there, right? We're going after more if it can come. So today, what we're saying is we're comfortable with that top line CAGR. We're comfortable with that adjusted EPS growth over the 3 years, and we're encouraged by the synergies that we're estimating to date.

Brian Morrison

TD Cowen, Research Division

Okay. And then maybe just from a high-level basis, maybe just update us with how far down the road the Australian process is. Obviously, you announced this back in August, you had closure of the [HBI] transaction in December. Is it well underway? Or is it really just commencing?

Luca Barile

Executive VP & CFO

So again, on the HAA process, first of all, the takeaways, look, we're only going to proceed with something that if there's value, the terms are attractive for us. It's in the best interest of the company and our stakeholders. So that's the headline. The other thing is that we've engaged our bankers. We're within a process. The process is unfolding as planned. But we don't intend to provide any further updates on that regarding the sale or transaction until it's either approved by the Board or the process is concluded. So it's underway. It's progressing as planned, and that's what I can share at this time.

Operator

Your next question comes from Ian Liu with Scotiabank.

Yiyang Liu

Scotiabank Global Banking and Markets, Research Division

My first question is on hosiery, underwear or innerwear segment. I was wondering if you could help us impact the performance this quarter, like organically, how did Gildan and Hanes Innerwear business perform? How much did the timing of shipment from Q3 into Q4 helped? And maybe what other factors that drove the result? Just trying to understand the underlying business performance during the holiday season as well.

Chuck J. Ward

Executive VP & Chief Commercial Officer

Okay. Thanks for the question, Ian. I think the good thing is, as we said back in Q3 of last year, we said that the Innerwear business would improve in Q4, and it did improve as we suspected quarter-over-quarter. Organically, we were effectively flat in Innerwear for Q4. But again, great improvement over Q3, just as we expected. One thing Glenn pointed out is both the -- our legacy and organic business as well as the Hanes business has continued to gain share in Innerwear and is performing quite well, not only through Q4, but as we've entered into Q1.

So we feel good about where we're positioned in the category and our outlook on 2026, which Luca had mentioned in his comments. So again, I think we feel good about where we are. We're going to continue to drive share there. We're going to continue, as Glenn mentioned, to look at product, where can we innovate, where can we make changes, where can we improve our customers' experience. And we think that's going to bode well for us going forward.

Yiyang Liu

Scotiabank Global Banking and Markets, Research Division

That's helpful. And then my second question is on the sales growth outlook. But could you maybe provide a bit more color on like the composition of the drivers of the organic growth expectations outside of the temporary inventory reduction. Maybe break it down by your expectations on Activewear and Innerwear or retail and wholesale and volume and pricing?

Luca Barile

Executive VP & CFO

Yes. Thanks for your question. So yes, so the revenue guide for 2026, right, between \$6 billion to \$6.2 billion. So as we spoke about earlier, fundamentally, from a wholesale and retail perspective, there's growth that's in the plan. That's offset by the initiatives, the proactive initiatives we're taking with reduction of inventories as well as, look, as we continue to look at the business and try to optimize the commercial mix and just really focusing on margin accretive growth.

So when you kind of peel back the onion and you say, well, where is that growth coming from for wholesale and retail, they don't come as a surprise. We've got growth in key categories, right, fleece, ring spun products, Comfort Colors, the Champion brand, ALLPRO, the basics driven by innovation, strong national account growth, right, our GLB customers. We have the wraparound of programs that contributed to 75% of our growth in 2025 that are coming into 2026, and we have that visibility on the same type of composition as we move forward.

So those really underpin the growth. And then when you take a look at retailers, really the retail growth across the categories that make up the innerwear, right, in terms of underwear, hosiery and so forth, it's across our key customers and channels. And where is that coming from? It's through share gains, expansion of space and so forth and the wraparound of programs. So that should give you a little bit of color on that front.

And so we're pleased with the \$6 billion to \$6.2 billion of the top line guide for 2026. And ultimately, with all of that contribution and the contribution of the synergy capture, we're going to see sequential improvement as we go through the year in terms of our operating margin and effectively deliver that -- expect to deliver that adjusted EPS of \$4.20 to \$4.40, which is up 20% to 25% versus our reported 2025 results of \$3.51. So we're encouraged by the growth profile.

Operator

Your next question comes from Martin Landry with Stifel.

Martin Landry

Stifel Nicolaus Canada Inc., Research Division

Glenn, I'm just trying to understand mechanically how the integration will happen. You're talking about closing the 2 facilities that Hanes was operating. Hanes had similar revenue levels as you did. So help me understand how are you going to cram 2 big facilities into what you had, like I think you said in excess of 10% capacity that you mentioned last call. So like how is this going to work? Are you going to use third-party providers as well?

Glenn J. Chamandy

Co-Founder, President, CEO & Director

No. We -- all this will be internalized in our own facilities. What we said last year is that we went through an expansion in our Bangladesh facility. We expanded it by 50% to be able to support the volumes of Hanes. We had about 10% excess capacity in our system, and we said we added another about 10% in Central America. That's what we communicated to you during 2025. We're also going to be adding additional capacity in our facility in DR in 2026 by moving some of their equipment into our facility. So overall, we have enough ample capacity to support.

Now you have to understand there's a big difference between Underwear and Activewear. Obviously, in terms of the amount of fabric and material it takes. It takes 1 pound to make an undergarment it takes 7 pounds to make -- sorry, take 7 pounds to make an average mix, 15 pounds to make a sweatshirt, 1 pound to make an undergarment. So in terms of poundage, when we look at capacity, you have to understand the mix associated with that type of product offering.

So overall, we're very excited. We have the capacity in place. We just have to get the volumes within those facilities running at the right capacity. And that's sort of the point of reflection here is that the capacity was installed and running at a certain rate. And now what we're doing is we're closing their facilities, there are 2 facilities, which will be shuttered sometime at the end of Q1.

And then that product, amongst our product will be in our facilities and then therefore, we'll be a little tight as we continue to ramp up to the level of production run rate that supported the capacity that's installed. And that's the whole important thing here. So we'll manage inventories in the channel. We feel very comfortable that we can do that without affecting our POS and as we go through the end of the year, some of that may come back in. Some of it may not, we're not sure. But that we always have the ability to put those goods back in the channel as we move into 2027.

So I think this is a good plan. And you have to understand things is that -- and the reason why we're accelerating this is just because this is not just about our manufacturing COGS side of it, but it's also the SG&A side. We're looking at IT systems, for example, the time it takes to do an implementation on a textile factory from an IT perspective is 9 months.

So the lesser facilities that we have to integrate, the quicker that we can get the other parts of our SG&A associated expenses and Hanes is spending a greater amount on IT systems than Gildan was just because of their complexity and other things that go with it. So we're looking at a comprehensive cohesive view of how we're going to be able to attack these synergies and complexity, simplification, all the things that we do are going to be instrumental to achieving it. That's why we're so confident in our ability to execute and achieve these synergies.

Martin Landry

Stifel Nicolaus Canada Inc., Research Division

Okay. That's helpful. And then, Luca, I don't know if you quantified it, but in your \$6 billion to \$6.2 billion revenue guide, what's the impact of that inventory reduction?

Luca Barile

Executive VP & CFO

So as we went through the guide for the \$6 billion to \$6.2 billion, again, the takeaway is that fundamentally, there's growth in the range that's consistent with what we're expecting over the 3 years of 3% to 5% across both wholesale and retail. As that comes into play, there's 2 factors that are effectively offsetting, which is, one, the proactive reduction of the inventories; and two, to a lesser extent, the -- as we continue to optimize the operating footprint on the commercial mix. So I would say it's closer to 2/3 on the first item and 1/3 on the second item. And that's what yields a guidance of \$6 billion to \$6.2 billion against the pro forma of 2025, which is \$6.089 billion.

Operator

Your next question comes from Vishal Shreedhar with National Bank.

Vishal Shreedhar

National Bank Financial, Inc., Research Division

Luca, I was just hoping to -- obviously, when you do a deal like this, things shift and things change. But at closing, my understanding was that management previously articulated leverage of about in the mid-2s, and you currently have 3. Maybe you can help me understand that.

Luca Barile

Executive VP & CFO

Yes, absolutely. So when we did close the -- first of all, we closed the transaction earlier than expected, right? We were saying that it was end of the year but really more in the first quarter. So we closed it earlier than expected, which we're really pleased because now we have the keys and we can get going with our integration plan. That's number one.

Number two, the elements that contributed to a leverage of around 3x or 3x at the end of the year. It was effectively slightly higher debt levels at closing. And also in terms of the EBITDA contribution of the EBITDA pro forma at the time, there was adjustments for differences between IFRS and U.S. GAAP and so forth that came into play. So we just shored up the number. But the takeaway here is we're at 3x leverage today.

In the guide, we're going to generate over \$850 million of free cash flow. That is a big number. And with that, we are putting that towards ensuring that we can delever this transaction as quickly as possible. We did come out in the original announcement saying that we would deliver between 12 to 18 months. We are trying to deliver as quickly as we can, maintain our strong balance sheet. We're an investment-grade balance sheet, which is valuable to us and also valuable to our customers.

So the focus is on delevering. And when we get to around the midpoint of our targeted range of 1.5 to 2.5x, we'll then return to buying back stock. So we put that on pause. So we feel very comfortable with where the balance sheet is today with the cash flow generation that's within the guide. And to complement all of that is also our HAA sale process, which would also further accelerate that delivery. So we're comfortable with where the leverage is, and we're attacking it.

Vishal Shreedhar

National Bank Financial, Inc., Research Division

Okay. And with respect to the EPS CAGR, my -- so we took -- you took up the synergies, you chatted about that. But my understanding was previously management had indicated it would be 20% CAGR with something materially exceeding 20% in the first year. And at the time that was given, HBI's consideration for Australia was understood. So just wondering how that's changed and what the thinking around that has changed?

Luca Barile

Executive VP & CFO

Yes. Sure, Vishal. So it's a good question. I think nothing has changed really is the way to think about it because we're at \$4.20 to \$4.40 off of our \$3.51. So we're growing between 20% to 25%. At the time, the discussion was around the consolidated entity. So now we've concluded our strategic review of HAA. HAA is now reported as a discontinued operation. And you'll see as it gets reported, HAA is projected to contribute \$0.21 of discontinued operations. That \$0.21 is not in our guide of \$4.20 to \$4.40. So if you would aggregate the 2, we would be exactly in line with what we had communicated. So the differential is simply HAA being recorded as asset held for sale and a discontinued operation.

Operator

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

Stephen MacLeod
BMO Capital Markets Equity Research

I just had a couple of follow-up questions. The first one is with respect to the Q1 inventory reduction. How do you balance that with potential sell-through challenges? Like do you expect that lower inventory will lead to stockouts in some situations or not?

Glenn J. Chamandy
Co-Founder, President, CEO & Director

No. No, we feel comfortable that -- and we're very prudent about our approach. And the inventory is going to be dispersed, like we said, through channels. So it's not particularly in one place. And we have good inventory levels in the channel because that's what's one of the things that have been allowing us to generate share. So we think we can optimize those levels. We have the capability of doing it and really not affect the POS at all.

We're very comfortable. We have very good in-stock levels. Our percentages -- and when you look in stock, it's not just the sheer volume we have in stock, but we really manage it by the percentage of the quality of that in-stock. So our quality of our in-stock today is very, very high. So you can -- so sometimes you have good inventories, but your quality is not good because you're missing something. Like for example, we've been chasing Comfort Colors now for the last 3 years because it's been growing by 40% a year. So -- but during 2025, we brought that inventories to an appropriate level to support the revenue of that as we increase our capacity. So overall, we think that we're in a very good position, and we don't see any negative impact from POS. And that answers your question.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's great. And then just my second one would be, I don't know if you disclosed it in the notes, I haven't seen it, but can you give a little bit of color as to what Hanes Australia adjusted EBITDA would have been in Q4?

Luca Barile
Executive VP & CFO

So what we've provided is in terms of -- for 2026, we know the sales of \$675 and the contribution is expected to be \$0.21 of earnings. With respect to the fourth quarter and the disclosures, you can see the sales that it contributed to the fourth quarter, which was around \$70 million, and it contributed \$0.04 of earnings to discontinued operations.

Operator

Your next question comes from Chris Li with Desjardin Capital Markets.

Christopher Li
Desjardins Securities Inc., Research Division

My first question is just did you see any sequential improvement in terms of industry demand for both the wholesale and retail channel in Q4? And then what is your outlook that underpins your guidance for 2026 in terms of industry demand?

Luca Barile
Executive VP & CFO

Thanks, Chris. I mean, I think overall, the market was okay in Q4 on the dollar -- from a dollar perspective. The units were down slightly, but we're continuing to see higher value products that we've talked about, for example, Comfort Colors, Champion, ALLPRO. So we're continuing to see where the market has been driven by those higher-value products, and we're continuing to grow those and take share. So -- and overall, the wholesale and retail markets were a little bit softer than we expected, but we gained share in key categories, and we continue to go and grow on that.

As we look at 2026, we think we're going to be flat to up low single digits plus our new programs. So the way we get the growth we've talked about is we have that plus we have new programs. Not only do we have the wraparound from some of the programs that we've talked about in 2025, but also new programs in 2026 from -- everything from Champion and ALLPRO to some GLB programs as well as some new products and categories. You probably saw that we've talked about accessories, we've talked about scrubs. And then again, new retail programs, not only in Activewear, but Innerwear and not only in Hanes but also some private label programs as well. So we feel really good about where we are as we go into 2026 with those new programs and what we think the market assumption is.

Christopher Li

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Desjardins Securities Inc., Research Division

And my follow-up question is for Glenn. You mentioned earlier that Hanes the U.S. intimate business has been underperforming because of structural factors. Is that potentially something you would consider divesting at some point as you continue to integrate the business within the Gildan platform?

Glenn J. Chamandy

Co-Founder, President, CEO & Director

No, at this point in time, look, we think that it's sort of gone to a trough. I mean, there's 1 brand, which has really been underperforming the most of the brands that they do offer. I think they have a plan to stabilize that and reinvigorate it. So look, time will tell, but we think that it's definitely not going to be a growth driver for the company, but we think that we can elevate it, improve margins and stabilize the business basically that's where we are today, and we'll see how that goes as we go forward.

Operator

Your next question comes from Ryland Conrad with RBC Capital Markets.

Ryland Conrad

RBC Capital Markets, Research Division

Just on the operating margin guidance. Could you speak a bit to the assumed underlying margin expansion for stand-alone Gildan business? And just what the puts and takes are there for 2026?

Luca Barile

Executive VP & CFO

Yes. Thanks for your question. So for '26, the adjusted operating margin guidance, right, approximately 20%. The Gildan's based profile was obviously higher than the Hanes' base profile. So you have the 2 coming together, sequential improvement as you go through the year, given the synergies are coming in and so forth. But the growth drivers to the strong operating margin at the end of the day, remain unchanged.

If you take a look at what's been driving the operating margin performance at Gildan, we've had the optimization of our Central American capacity, our yarn optimization, the Bangladesh cost advantage that's really bolstered the gross margin, discipline around SG&A. So that's really the base. Then you tack on the Hanes profile and then you tack on the synergies that are coming in 2026 and that's effectively what's going to drive the 20%. And with that strong 20% delivering the earnings of \$4.20 to \$4.40. I do want to reiterate again that the quality of those earnings are strong because of the cash flow generation that we have in the plan, which is over \$850 million. So I would say it's the usual suspects that we're driving Gildan's margin that will continue, plus the synergies.

Ryland Conrad

RBC Capital Markets, Research Division

Okay. And then just on Comfort Colors expanding into new categories this year, is there anything you could share maybe on initial conversations with your customers there? And with respect to your net sales guidance for this year, like are there any assumptions baked into that around the contribution from those categories?

Chuck J. Ward

Executive VP & Chief Commercial Officer

Yes, Ryland, I think first on the expansions of Comfort Colors, One, the brand has continued to have consumer that really seeks the brand has an emotional connection to the brand. And it's going to open up our opportunity to go into other categories and things like the accessories. We did have our show out in Long Beach earlier in the year where we launched hats and bags. And what I can tell you from the reception perspective is from the minute to show up to the minute the show closed, there was a long line waiting at the booth to get a chance to win one and to see them.

And the feedback -- I was there on the floor with the customers, the feedback of the product was great. And so I think that customer gives us leeway to go into other categories, and we think we can continue to do that. And so we'll continue to grow that brand. Yes, there's contribution in our forecast for that. I would say it's muted in the first part of the year -- or I'm sorry, throughout the year because it's -- we're introducing the new category as well. So -- but yes, there is contribution.

The other brand that we're spending a lot of time with is ALLPRO. ALLPRO we've talked about that brand as well. It's growing. It's from a low base, but a great reception from the brand, and it allows us to play more in performance in corporate wear and go into different categories that way. Champion we talked about our license with Champion. It opens up other areas as well and fanwear, sportswear, kind of from the sports heritage brand that it is. So really, what we're trying to do as we look out at the market overall is how we continue to expand that addressable market for us and so that we can reach into other areas.

Operator

This concludes the question-and-answer session. I will turn the call to Jessy Hayem for closing remarks.

Jessy Hayem

Senior VP & Head of Investor Relations and Global Communications

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

Operator

This concludes today's conference call. Thank you for joining. You may now disconnect.

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