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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Gildan Activewear's 2026 Q1 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, Angela. Good morning, everyone, and thank you for joining us this morning. Earlier today, we issued a press release announcing our results for the first quarter, while maintaining our guidance for 2026 as well as our 3-year objectives for the 2026-'28 period.

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 and Exchange Commission today and will also be available on our corporate website. As a reminder, please note that we'll be holding our Annual General Meeting today at 2:00 p.m. Eastern Time with more information available on the Events page of 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 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, including in the case of our fiscal 2026 outlook and our 3-year objectives for the 2026-'28 period as well as certain risks and assumptions related thereto and our earnings press release dated April 30, 2026.

During this call, we'll 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, a few items to note. Remember that the first quarter represents the first full fiscal reporting period during which the results of HanesBrands are fully consolidated into the company's financial statements. Please note that we may refer to HanesBrands as Hanes throughout this call.

Then as previously announced, 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. So unless otherwise indicated, the figures we'll be discussing today are from continuing operations and therefore, exclude the results of the HAA business.

With this in mind, we are only in a position to confirm that the sale process is progressing as expected and will not provide any further update at the moment.

Also, as we announced last quarter, we have transitioned to reporting disaggregated net sales by wholesale and retail as of the first quarter. You will find in our press release supplementary pro forma net sales from continuing operations, disaggregated by channel and geographic area on a quarterly and full year basis for 2025. In addition, you'll also find supplementary pro forma net sales from continuing operations for the same periods, showing Gildan on a stand-alone basis and adjusted for HanesBrand sales.

For reference, wholesale comprises sales to distributors, screen printers embellishers and global lifestyle brand customers, which we refer to as GLB, whereas retail comprises sales to mass merchants, department stores, national chains, specialty and online retailers and directly to consumers.

And now I'll turn it over to Glenn.

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

Thank you, Jessy, and good morning, everyone, and thank you for joining us on this call. As we highlighted in this morning's press release, we are pleased with our first quarter performance, reflecting disciplined execution and continued progress against our strategic priorities. We delivered record Q1 sales from continuing operations of nearly $1.2 billion, which were up 64% versus last year, primarily due to the HanesBrand acquisition.

We also reported adjusted diluted earnings per share from continuing operations of $0.43 compared to $0.59 in the first quarter of 2025, reflecting the short-term impact of integration initiatives that we have put in place to accelerate synergies captured.

We remain very excited about the Hanes acquisition and the opportunities we see. We are progressing well with our integration initiatives and relocating textile production volumes from the Hanes to the Gildan facilities, leveraging our low-cost manufacturing and supply chain structure.

We are working fast but with a well-thought approach to be able to unlock the benefits of operating as one integrated company. And we continue to optimize and expand our capacity in 2026 to support growth in 2027. We are also enhancing our distribution network. Our plans to standardize IT systems, key supply chain and manufacturing processes all remain on track.

Given the progress so far, we remain confident in attaining our objective of approximately $250 million in run rate cost synergies over the next 3 years, including approximately $100 million in 2026. And we continue to pursue additional synergies beyond the 3-year target.

Now with the situation in the Middle East, the external environment around us becomes increasingly uncertain. But Gildan has navigated through uncertain situations in the past with agility and discipline. That said, I'd like to address 2 key elements related to this situation.

First, despite inflationary environment, we have good visibility for 2026 when it comes to our input costs, including cotton, polyester as well as energy. Second, our Bangladesh operations have been running normally until now. And we have built in temporary contingency plans should the situation deteriorate. This is what our agility and our vertical integration enables us to do.

So we have a clear line of sight into our plans for the rest of the year, and we are focused on what we can control, driving operational excellence, advancing on our integration of Hanes, maintaining our cost discipline and consistent execution.

With that in mind, considering the strength of our competitive positioning across our product lines, channels and geographies, driven by our scale and our strong pipeline of innovation, we are maintaining our guidance for 2026 and remain confident in our ability to achieve our 3-year objectives for 2026-2028 period. 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, and good morning, everyone. Thank you for joining us today to discuss our first quarter results. Let me start with the specifics of the quarter, then turn to our 2026 outlook and guidance.

First, the quarterly results. We reported record first quarter sales from continuing operations of $1.17 billion, up 63.8% year-over-year, in line with guidance of approximately $1.15 billion. The increase reflects the HanesBrands acquisition, partially offset by our integration initiatives undertaken to optimize the company's manufacturing footprint and accelerate synergy capture.

Now compared with pro forma net sales from continuing operations of $1.29 billion, the year-over-year decline was primarily driven by lower volumes stemming from our proactive inventory reduction across customer channels, which temporarily reduced sell-in as we previously communicated.

Now looking at wholesale. Net sales were $552 million compared to $626 million in the prior year, due primarily to the impact of the voluntary inventory reduction across customer channels as well as the nonrecurrence of some preemptive buying ahead of tariffs in the comparable period last year. This was partially offset by pricing initiatives, which were implemented to partially offset a portion of the impact from tariffs, the contribution of HanesBrands unfavorable mix. We continue to see robust demand for Comfort Colors and our new brands such as Champion, which is under a licensing agreement and ALLPRO.

Now turning to retail. Net sales were $614 million compared to $85 million in the prior year, primarily reflecting the contribution from the HanesBrands acquisition and higher net selling prices. To a lower extent, retail sales were also affected by the lower sell-in previously detailed and the nonrecurrence of preemptive buying ahead of tariffs. As previously mentioned, our key underwear brands captured additional market share in the quarter and new programs launched in mid-2025 are performing well.

Shifting to margins. We generated gross profit of $278 million or 23.9% of net sales versus $222 million or 31.2% of net sales in the same period last year. Adjusting for an inventory fair value step-up charge of $106 million recorded as part of the HanesBrands acquisition, adjusted gross profit was $385 million or 33% of net sales compared to 31.2% in the prior year.

The 180 basis point improvement mainly reflects favorable pricing initiatives implemented to partially offset the impact of tariffs, the favorable contribution from HanesBrands and to a lesser extent, lower raw material and manufacturing costs.

SG&A expenses were $219 million compared to $87 million in the prior year. Adjusting for charges related to the proxy contest and leadership changes and related matters, adjusted SG&A expenses were $218 million or 18.7% of net sales compared to $86 million or 12.1% of net sales for the same period last year. The increase in adjusted SG&A in the quarter reflects the acquisition of HanesBrands, partially offset by synergies realized as part of the HanesBrands integration process.

As we bring all these elements together and adjusting for the restructuring and acquisition-related costs and the inventory fair value step-up charge as part of the acquisition as well as the costs relating to proxy contests and leadership changes and related matters, adjusted operating income was $167 million, up $31 million year-over-year. Adjusted operating margin was 14.3% of net sales, was down 470 basis points versus last year and ahead of guidance provided of approximately 12.9%.

The year-over-year decrease in adjusted operating margin is mainly a reflection of the HanesBrands acquisition and Hanes' lower operating margins due to historically higher levels of SG&A relative to Gildan. Net financial expenses were $67 million, up $37 million year-over-year, primarily due to higher borrowing levels related to the HanesBrands acquisition.

Now taking into account all of these factors and a higher outstanding share base as a result of the acquisition, GAAP diluted loss per share from continuing operations was $0.30 compared to GAAP diluted earnings per share of $0.56 in the prior year. And adjusting for restructuring and acquisition-related costs, inventory fair value step-up charge and an income tax recovery of $33 million related to restructuring charges and other adjustments. Adjusted diluted earnings per share from continuing operations were $0.43, down 27.1% from $0.59 in the prior year.

Now turning to cash flow and balance sheet items. Cash flows used in operating activities, which includes discontinued operations, totaled $279 million for the first quarter compared to $142 million in the prior year, primarily reflecting lower net earnings from continuing operations. After accounting for capital expenditures totaling $30 million, the company consumed approximately $310 million of free cash flow. We ended the quarter with net debt of $4.868 billion and a leverage ratio of 3.3x net debt to trailing 12 months pro forma adjusted EBITDA.

As previously announced, we are pursuing a sale of HAA and the net proceeds from the potential divestment will be used to pay down a portion of the company's outstanding debt and further accelerate our objective to return to a leverage framework of 1.5 to 2.5x net debt to pro forma adjusted EBITDA.

Turning to the outlook. For 2026, with respect to our continuing operations, we are maintaining our guidance as follows: revenue of $6 billion to $6.2 billion, full year adjusted operating margin of approximately 20%, CapEx to come in at approximately 3% of net sales, adjusted diluted EPS in the range of $4.20 to $4.40, an increase of 20% to 25% year-over-year and free cash flow to be above $850 million. Furthermore, the assumptions underpinning our outlook are essentially the same as we previously communicated and are detailed in our press release issued earlier today.

Finally, we have also provided guidance for our second quarter. We expect net sales from continuing operations to be approximately $1.6 billion. This continues to reflect the proactive temporary reduction of inventory levels across customer channels, which is reducing sell-in as we complete the consolidation of manufacturing facilities to accelerate synergy capture. Furthermore, a timing shift in shipments from the second quarter into the second half of 2026 is also reflected and is due to the nonrecurrence of some pre-buying in the second quarter of 2025 ahead of pricing actions.

Our adjusted operating margin is expected to be around 19.7%, reflecting the higher SG&A levels, which includes 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 the second quarter is expected to be slightly lower than the expected full year 2026 adjusted effective income tax rate.

In summary, we are pleased with the quarter and our integration progress. The broader operating environment remains uncertain, and we feel cautiously optimistic about the remainder of 2026, while being mindful of the Middle East conflict and the heightened concerns on the end consumer. Nonetheless, we are focused on what we can control. We believe that our low-cost vertically integrated business model and the agility it provides, together with strong industry positioning, provide a solid foundation for us to navigate evolving external conditions and support continued financial performance.

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]

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Jay Sole with UBS.

Jay Daniel Sole
UBS Investment Bank, Research Division

Great. Two questions for me. I'd love if you could give us a little review of the point of sale, both for the Gildan and Printwear business, but also for the Hanes business that you saw in the quarter and that you're kind of seeing second quarter to date.

And then also maybe if you can take a step back and tell us how the strategy that you're developing for the Hanes business is evolving, how you're thinking about investing in marketing, investing in product. If you can give us an update on that, that would be terrific as well.

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

Well, I'll let Chuck go with the -- to discuss the market conditions, and I'll answer the other side.

Chuck J. Ward
Executive VP & Chief Commercial Officer

Okay. Thank you. Yes, as we look at net sales for the quarter, as Luca said, we were in line with guidance. Both markets were a little bit softer than we expected with some impacts in the U.S., obviously, with some tough weather during Q1 that everybody experienced. But overall, as Glenn mentioned, we performed well, and we outperformed both markets. We continue to gain share in both markets. And as he mentioned in his comments, we typically perform well in challenging markets. But if I break it down, we really, Jay, look at wholesale retail, as Jessy mentioned in her opening remarks. So I'll really address it from a wholesale retail perspective.

As we look at the wholesale market, the market was down low single digits, while we performed up low single digits. So again, continuing to take share in the market. If you really dive into that market, Jay, it's continuing strong performance with our premium products. Luca mentioned Comfort Colors, for example, and the strength that we're seeing continue in that brand, our growth in Champion, the license that we have for that product, our ALLPRO brand. So really continue to perform well in that market.

From a retail perspective, we'll say the market was flattish in the retail market, but we were also up low single digits in that market as well, really with underwear performing exceptionally well, not only in men's, but also in women's and kids as well. We also continue to gain momentum in activewear in retail. But we did see a little bit of softness in intimates and in socks.

And then when we look at it from an international perspective, we were slightly below the plan in international, but it's mainly due to the uncertain macro conditions and the rising energy costs we're seeing. We continue to see what we've been seeing for some time, which is a strong performance in Continental Europe, continued pressure in the U.K. and some pressure in Latin America. So we feel really good about how we performed in the markets. As we shifted into Q2, we're seeing some improvements in both markets overall. We're continuing to grow in our key growth categories and outperform those markets.

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

Great. And maybe just a second part of that question. Look, as we continue to go forward, I mean, we're very excited, obviously, about the opportunity. I mean the big -- the big thing for us right now is to continue to integrate Hanes into Gildan and leverage really everything that Gildan has to offer because we're taking, I think, what we think is one of the most highly iconic brands in the industry and putting it together with the world's global low-cost manufacturer. And what we're able to do is basically just provide an innovation platform that we think is going to excel and open up doors.

And we've already accomplished a lot of that. Like -- the reason for us, obviously, to wind down the Hanes facilities, integrate into Gildan's network is to capture what we believe is the future value creation that we have to offer with the brand from an innovation perspective. So all those things are in place. And we're really excited about it. We've started showcasing some of this with our retail partners.

Like we said in our last call, we're going to have our Investor Day in December, and we'll be really excited about showing off all the things we're doing from our product innovation, our positioning, our advertising, how we're really -- our whole go-forward strategy. And there's a lot of work has been done. We're moving, like I said earlier in my comments, very effectively. It seems quick, but I think we're doing it in a very organized fashion to be able to make sure that we achieve all of our goals, including the synergies that we set forth. But it's not just the synergies for us, it's important to make sure that we get back on a growth trajectory. And you need to make an investment.

And our investment is -- the synergies are an investment because as we bring those synergies and as we bring their product into our environment, we create synergies and those synergies turn into innovation because we at Gildan, that's our whole secret sauce really is to be able to improve the quality of the product and the consumer experience for what we're going to be doing. So we're well positioned, and we're excited, and we can't wait to show it to you.

Operator

Your next question comes from the line of Paul Lejuez with Citigroup.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Could we just go back to, Glenn, what you said on the Bangladesh facility. I think you said it was -- it's been operating normally until now. I just wanted to clarify that it's still running normally. Curious what your expectation is in terms of the Bangladesh facility or if you did see something change recently?

And then second, I would love if you could share your gross margin and SG&A targets for the year and just how each compare to what would be the adjusted numbers for the same line items last year?

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

Okay. So look, like what I said in my comments, yes, we're running normally. We haven't had disruption. The facility is running as it was before the crisis. In fact, I mean, the volume is a little bit higher. So things are going as planned. We have a lot of redundancy in our energy there. We have solar. We have different energy sources that we use. So we have our own LNG facility basically on site in our own campus. I mean -- so we're pretty well insulated. I wouldn't say that things are not tight in the country because, obviously, the energy situation is tight. But so far, we've been operating effectively.

And like what I said earlier, we built a contingency plan, not that we don't think we can operate, but if there's an Armageddon and the whole blow up in the Middle East, I mean, obviously, we're going to have to react to any type of situation that could happen. So we -- we're very diligent. We're very focused. We have a good plan, and we're comfortable with our positioning and the guidance that we set forth.

Luca Barile
Executive VP & CFO

Yes. And with respect to your question on the margins, so we've given the guidance for the full year in terms of our adjusted operating margin of approximately 20%. And so really to understand the composition of that margin, we can start with sort of the performance already to date. The adjusted operating margin in the first quarter 14.3%. That was higher than our guide of 12.9%. Some of that was driven by some timing of SG&A versus the remainder of the quarters.

But why I start with the first quarter is because what you're going to see as we navigate through the year is a sequential improvement in adjusted operating margin. And the guidance we're giving for the second quarter is an adjusted operating margin of 19.7%. Now what's driving that sequential improvement and why we're providing the guide not only for the second quarter, but the visibility of the full year is because as an organization, based on our operating model and as well as the solid cost control that we put in place, we have visibility on the costs that are flowing through our P&L, right?

So the strength that underpins the margin are the same elements that we had last year, right? We had the optimization of our Central American facility. We had the investments we made in yarn spinning, the investments we made in Bangladesh. So that's the foundation. Then we have the synergies that are starting to flow through, right? We've got about $100 million of synergies called out for 2026. So as that materializes, that's going to lend itself to an improvement in the operating margin.

And finally, when you do look at gross margin versus SG&A, our gross margin also expected to sequentially improve. I would say the contributions there as you have a pricing tailwind from some of the pricing actions taken in the prior year, lower year-over-year fiber costs. From a cotton perspective, we have full visibility for 2026 because of our hedged strategy and our hedge position and our operating model. The synergy realizations coming through gross margin, although in the first year, it's more pronounced on the SG&A side and those proactive actions that we're taking in order to manage costs as we go through the integration.

On the SG&A side, there were higher levels of SG&A from the Hanes perspective. We have higher SG&A coming through because of the impact of the acquisition, the PPA adjustments such as the amortization of intangibles and property, plant and equipment. But again, as synergies are realized on the SG&A side, which we're well on our way, that will lend itself to improvement. So the headline adjusted operating margin of approximately 20% for the year and in the second quarter, a sequential improvement up to 19.7%.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Got it. When you say gross margin sequentially improved, is that each quarter of the year? And do you want to put out there your target gross...

Luca Barile
Executive VP & CFO

Correct. So we have the Q1 results. The adjusted gross margin for Q1 is at 33%. The adjusted SG&A is at 18.7%, those will sequentially improve -- will sequentially improve in order to yield an adjusted operating margin for the full year of approximately 20%.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

And how about in terms of the exit rate on the SG&A?

Luca Barile
Executive VP & CFO

Well, in terms of our guidance, we provide the adjusted operating margin. We provide guidance on our adjusted EPS. So I think with the color that I provided you, you can infer that there's sequential improvement. We're not providing a specific guide on the gross margin and the SG&A in isolation.

Operator

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

Brian Morrison
TD Cowen, Research Division

Two questions. Glenn, should we expect optimization of the Hanes facility integration in the second half of this year? And then what are the next major buckets of synergies? Is it yarn spinning more vertical integration? Just some color on the major buckets still to do.

And then, Luca, on the back half, the forecast margin is about 22%. Can you build off that in 2027? Or should we take into account a seasonally weaker Q1 to build off a bit lower base?

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

Okay. So just on the integration, look, we're fully advancing on the integration, including yarn. The bulk of Hanes' volume is being produced in Gildan's world today, yarn, all of our supply chain, the processes we use in chemicals, distribution, everything that we do in terms of Gildan's world. from a supply chain perspective is pretty much going through a process and will be fully integrated. And basically, that's why we're comfortable, and that's why we chose to wind down and manage our inventory in the customer channels because we wanted to really accelerate as best as possible the transition of Hanes into our world for 2 reasons. Obviously, one is to capture the synergies, but the second is to provide the innovation that we really need to drive the revenue growth for 2027.

So all that is in place, and that's why we're confident and that's why the margin is expanding in the back half of the year. And although this year, there'll be a smaller portion on the synergy side of COGS, but there'll be a lot of it will be SG&A. But as we really roll into

'27, that's where we're going to see the COGS input as we start turning the inventory into 2027. So everything is on plan, and we're excited about our positioning.

Luca Barile
Executive VP & CFO

Great. And then to your...

Brian Morrison
TD Cowen, Research Division

And how much is...

Luca Barile
Executive VP & CFO

Go ahead.

Brian Morrison
TD Cowen, Research Division

Glenn, on that drawdown that you referred to, what's the magnitude of it? How much will be a tailwind as we get into 2027?

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

Well, I mean Luca, it is yours.

Luca Barile
Executive VP & CFO

Yes. So again, when you take a look at the first quarter performance and what we're guiding for the second quarter, right? So you have to take a look at that from an understanding that the fundamentals are growing, right? We're growing both in wholesale and growing in retail. Chuck alluded to the market conditions and how we're outperforming the market. So that growth is then offset by the proactive production in inventories across channels that's reducing selling and that there's also sort of the timing right between the quarters and the cadence of the quarters because of some nonrecurrence of pre-buying before tariffs, which is a Q1 phenomenon and pre-buying from last year ahead of price increases in the second quarter.

So when you take these 2 elements together and you have growth that's outperforming the rates that Chuck was alluding to, and then you see the results. And that should give you a good indication of the value of the inventory reduction.

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

And then as we go through the year, look, we're working diligently to get that capacity that we've installed up and running. So we have really very comfortable with our supporting our capacity for 2027 to take advantage of any opportunities to restock the channel.

Luca Barile
Executive VP & CFO

And Brian, the tail end of your first question on the margins as we move into '27. Obviously, we're giving the guide for 2026. But as you would recall, we have $100 million of synergies coming in this year. We've got $100 million of synergies slated for '27 and at least $50 million for 2028.

So as the strong fundamentals of the margin that we articulated continue to come through and additional run rate synergies come through, that is definitely part of the algorithm that supports our 3-year targets, right, of our earnings effect of their adjusted EPS CAGR growth of in the low 20% range. So margins will be continuing to be healthy.

Operator

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

Stephen MacLeod
BMO Capital Markets Equity Research

Lots of great color so far. Just wanted to ask if you're able to quantify kind of the amount of synergies you achieved in Q1 relative to your $100 million target for '26?

Luca Barile
Executive VP & CFO

Yes. So what I can say about that is, look, we're confident in achieving the $100 million in our results for this year. What I can share with you is that we're well on our way. As you know, we've taken proactive actions in order to accelerate the synergy capture. Glenn has alluded to those. So although I won't give you a full quantification of that, what I can tell you is we have visibility to the $126 million, and we're well on our way in achieving that number.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's great. And then maybe for my second question, just with respect to the temporary inventory reduction, and that obviously lingers a little bit into Q2. I'm just curious on operationally, like how long that overhang is meant to -- is expected to impact your sales? Is it isolated to Q2? Or will it be something that trickles into the back half of the year as well?

Luca Barile
Executive VP & CFO

Yes. So the way I would say is we've seen a pronounced impact in the first quarter. It's -- the remainder of that impact is penciled into the guide of the second quarter, where revenue will be approximately $1.6 billion. And then given our guide for the full year of $6 billion to $6.2 billion, when you take a look at the back half, the back half is a return to growth. So you can infer that, that phenomenon will complete in the second quarter.

Operator

Your next question comes from the line of Mark Petrie with CIBC.

Mark Robert Petrie
CIBC Capital Markets, Research Division

I just want to come back to the demand environment and how that has evolved as macro uncertainty has sort of ramped up. I think you've made some -- a couple of comments on this, but just hoping for a bit more granularity. And then specifically, I think your full year guide is based on an assumption of industry flat to low single-digit growth. I just wanted to gauge your comfort level with that today versus end of February when you initiated it.

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

I think on the -- I'll answer the growth part. Look, we believe that things are on track in terms of the flat to low single-digit growth, I mean, from what we see out in the marketplace today. That's a snapshot in where we are today. I mean, that's not $10 gasoline prices in the United States, for example, that could change things in the future. But where we are today, I would say -- and what we're seeing so far as we started Q2, I mean, that's sort of -- we've seen improvements since Q1. So I think that, that's still a very good assumption for us as we move through the balance of the year.

Luca Barile
Executive VP & CFO

Yes. And Mark, on the markets, I mean, I'll dig in a little bit more. As I mentioned, both markets were -- well, wholesale was down low single digits during the quarter and retail was somewhat flat. I mean we -- as I mentioned, going into Q2, we are seeing some improvements. As Glenn said, I mean, we'll continue to monitor closely what happens with inflation and so forth as it comes through in the future.

But as we mentioned, we perform -- typically perform well in those markets. And sometimes there's trade downs and so forth. So we're cautiously optimistic of where we are and where we're headed. As Glenn said, we feel good about our future growth. And again, if there's a trade down from inflation, we trend well, and we take opportunity from that. If there's poly-based impacts from polyester going up because of cost, it sometimes drives people towards cotton products, so we can capture that as well. What I would say is we're well positioned to capture wherever the trends move.

Glenn J. Chamandy

Co-Founder, President, CEO & Director

And maybe look at -- also, I would say that look, we're really well positioned from a nearshoring perspective. I mean, one thing I would take in account is that the bulk of our volume being in this hemisphere has allowed us to, I think, have a competitive advantage not just because of the closeness to the marketplace, but now also from a cost perspective. As of March 1, obviously, we're not paying tariffs on product coming in from Central America anymore, which has allowed us to continue driving a good cost structure in this hemisphere.

We'll wait and see what happens as all the global 301s and tariff situation works itself out in the next couple of months. But we're well positioned. We think that there's opportunity for us. And look, what we also said is that look, you create an opportunity like every -- in every situation, and we're well positioned and we're taking advantage of, we think, is the Hanes positioning, their brand strategy and our low-cost manufacturing and the products that we can enhance in the innovation, but also looking into the active side of the business where we really can leverage idle cost manufacturing for new programs.

And these are all things that we're in the process of doing. So as we go through this year, we'll see, but our lines of sights really now are focusing on 2027 and beyond as we reposition the brand, the strategy, the innovation and really gear the company up for future growth.

Operator

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

Christopher Li
Desjardins Securities Inc., Research Division

My first question is, I know it's well understood of how you guys are gaining market share in the wholesale channel. I wanted to ask if you can elaborate on what's sort of driving the market share gains in underwear, which obviously is a much bigger part of your business now.

Luca Barile
Executive VP & CFO

Yes. Sure, Chris. I mean, as Glenn mentioned, a couple of things. On the wholesale side, part of it is we continue to expand our categories as well. We're opening up new parts of the market there. We're doing hats and accessories, and we actually launched scrubs this year. We're expanding our performance products and as well, as I mentioned before, and we're continuing to grow in those premium offerings in comfort colors and AA. Then on the retail side, as you talked about on the underwear side, Glenn mentioned it, we're -- a couple of things. We're starting our innovation cycle with the Hanes products, as he mentioned. We've presented those to retailers. We have great reception. There's actually a lot of excitement in the retailers by what combined we can do with our supply chain and our cost structure combined with the Hanes brand.

I think that's going to open up expanded opportunities in retail. I think you're going to see us not only expand the core products, but also be able to come trade up products as well. And again, we're working closely with those retailers on the space, the programs, the packaging, really across the board of how we go to market with the Hanes brand.

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

And maybe just to add 1 more point, Luca. I mean, the good news is that Hanes is winning today with what they have. And they've been consuming before we acquired Hanes, they've been taking market share in the market. And so -- which is a good thing. And that's why 1 of the reasons why we're so excited about the opportunities. So they were taking share and now all of a sudden, you're going to see, okay, with a product which is okay, but not anywhere near what Gildan is going to innovate.

And as we bring in our innovation, that's why we're so excited about this thing because they're already winning, but they're going to win even more. And I think that that's really the key for us as we go forward and launch all of our product offerings and the innovation as we move into 2027. I think that's the key. So we're already in a good position. We're already taking share. And I think that for us, I think we're -- with the value-add and innovation, I mean, it's going to be, we think, a game changer for the industry, and we're totally excited about it.

Christopher Li
Desjardins Securities Inc., Research Division

That's very helpful. And maybe just a follow-up question on that, Glenn. I know you mentioned many times before that you think activewear in the retail channel is also a big opportunity. I'm just wondering where are you on that journey in terms of sort of rejuvenate that growth? And is that more of a 2027 story? Or can we actually see some of that growth being manifested in the latter part of '26 on the active?

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

The thing about retail, look, it takes time to develop retail programs because they're always 9 months out. So obviously, it will be more of a 2027 story. But we're working diligently right now with our retail partners. And look, nothing happens overnight, okay? Because the key thing you have to understand is that you have to basically put the positioning, get the product right, get -- it's a whole package that happens. So we're working closely with our retail partners. We're in a process of, I think, driving an innovation cycle, and they see what Gildan can do for Hanes as a brand. And Hanes is one of the most iconic brands in retail. Its recognization is one of the highest in all apparel brands within the consumer space.

So with our innovation and everything else we have to do, we think that, look, we're very confident that we're going to see growth. And it's not going to happen overnight. But as we do this, we're going to -- we'll be on a trajectory for 2027 and then you have to make an investment. The investment is either in advertising, innovation and quality. Those are all the attributes that you have to continue to look at it.

Things don't happen overnight, but they will happen. And that's the point that I think we need to make sure that we resonate with our shareholders is that you have to make an investment sometimes to get a return. And those investments are being made early, quickly, diligently, and we expect to see fruit from our investments as we move into 2027.

Operator

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

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

I understand that your cotton needs are hedged for this year, but I think energy costs have gone up as well and freight costs have gone up. So in the past, there's been occasions where you have absorbed higher costs and other times, you've passed on -- that you've passed them on to your customers. So I was wondering what's going to be your pricing strategy this time around to deal with your rising input costs?

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

Well, first of all, Martin, the one thing to take into account is we also hedge energy as well, okay? So we hedge all of our exposure to make sure that we have visibility and deliver our operating results when we give guidance. So we have very good visibility for 2026 on all those components that I mentioned, cotton, poly, energy for this fiscal year. So look, we'll wait and see. I mean, if you look at Gildan's history, we've always been able to offset any type of inflationary pressure with price because we're the price leader.

We set the prices in the market. Our competitors are typically high-cost manufacturers that don't have the low-cost opportunity like Gildan. And don't forget, what we said earlier is all the things we're doing from the Hanes perspective is that with the scale and the combined companies, we're widening our competitive advantage. So we're reducing our costs, not just by in-sourcing the Hanes products into Gildan's facilities, but Gildan in generally is lowering its overall cost because of the fact that our scale continues to grow, the company becomes bigger.

So look, we'll see how that goes as we move into 2027. But for now, I would say that prices will remain stable for 2026 because we're in a position that we have very good visibility, and we'll see what happens as we move, and we'll guide to that as we go into '27.

Operator

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

Luke Hannan
Canaccord Genuity Corp., Research Division

I wanted to focus on the Printwear market for a second. Can you just speak to -- I mean, what is the health overall of the distributor network there? I guess, more specifically looking to learn a little bit more about maybe the smaller distributors and how they're sharing against this backdrop as opposed to some of your larger customers there.

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

Look, I mean, look, the market obviously has consolidated over the years. And -- but everybody is pretty much in equal playing field. So I would say that the bigger distributors represent a larger portion of the market today. So it's -- I think it's -- this is the way the market has evolved and it's consolidated over time. So the customer base is healthy. I mean the industry itself has probably gone through 24 months of probably unrobust sales, I mean, to say the least, I mean, for various reasons.

But we still think that the long-term trajectory and all the work that we've done that the industry should continue to grow at low to mid-single digits actually is all the work that we've done, and we're projecting flat to low this year only because of the -- I think, the overall environment. But I would say that the industry and the customers at large are cautiously optimistic.

Luke Hannan
Canaccord Genuity Corp., Research Division

And then for my follow-up, sticking with the Printwear market for a second. And maybe we'll hear more about this in December as well. But I know in the past, for past Investor Days, it's been framed up the corporate promotional channel, for example, was a big piece of the end market, the collegiate channel as well, travel and tourism, et cetera. Has there been any big shifts in the sizes of each of those end markets since we would have last spoken at the Investor Day?

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

I would say the only real shift is that I think that from what we see in the industry is that people are gravitating to higher-value products. So for example, our Comfort Colors brand, our Champion, our All Pro, I mean, these -- our fleece. I mean all these product categories are ring-spun T-shirts basically our soft T-shirts are all growing basically. And the price points of these shirts are much higher than the typical basics. I mean, so people are spending more money on products. They're looking for innovation.

So those are all great opportunities for us basically, and we've been able to capitalize on them. And our Comfort Colors brand is growing 25%, 30% a year over the last 3 years, right, and continuing to growing this year. And these are shirts that are selling for $5 and $6 versus $2, to be honest with you. So it's -- the industry is evolving. It's good for us. I mean it's a value-add situation and it's good for our mix in terms of what we sell the channel.

Operator

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

John Zamparo
Scotiabank Global Banking and Markets, Research Division

I wonder if you can comment on the Bangladesh expansion, in particular, I appreciate the commentary on existing operations. So I wonder if you could update us on this initiative and whether it's progressing at the same pace as what you'd expected when you reported Q4.

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

Yes. Well, first of all, it's definitely on the same pace it was for Q4. We're confident in the long-term viability of Bangladesh, and we're proceeding as planned. Obviously, we're in the early stages of development of the facility. So that's the stage we're at. And it's important to understand even the long-term levers in terms of the energy of Bangladesh. And our commitment to be there, we believe that the infrastructure, even today, obviously, from what you read in the papers that there's limits in some of the infrastructures in terms of the energy and et cetera. But Bangladesh is doing a lot to overcome that.

They have 2 nuclear reactors that are coming online that are going to take up a majority of -- a big portion of their power electrical costs. One that is going to be starting in 2026 and probably after Q2, maybe Q3 or Q4, and another one that will be starting in early 2027. They have a big push for renewable energy basically, particularly in solar. They're drilling -- continued drilling. They have a lot of offshore capabilities in drilling gas offshore. And they've also built a much bigger infrastructure for being in LNG.

And we do is a combination of all these things in our facilities, including LNG, like we have the capabilities of turning LNG into gas in our facilities. We're running also renewables, et cetera. So with everything said, we're full steam ahead in terms of Bangladesh. We also believe that Bangladesh longer term will be positioned, we believe, from a trade perspective favorably. And so yes, we're moving forward as planned with our plan for Bangladesh.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

Okay. That's great color. And then as a follow-up, you referenced the contingency plans perhaps in place already in case there's further disruption to the business. I don't expect you to fully reveal that playbook. But can you share at a high level what those plans entail, what Gildan views as the primary risks from the war, whether it's higher costs or disruptions to the business, how you would navigate those?

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

Well, I think, look, I mean, at the end of the day, we have facilities in this hemisphere that we're shuttering down right now. So obviously, we have capacity that may not be at the same cost curve as Gildan's current operations. So what we're doing is we're basically -- we can manage -- and we're looking at an arm against situation because like I said earlier, we're running. We have energy today. We're meeting our objectives. We haven't lost any volume whatsoever. But if we were to lose all the oil in the Middle East, what would we do? I mean, we'd have a contingency plan for that. That's what I would say to you.

Operator

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

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Glenn, obviously, the backdrop is uncertain, and you've expressed that, and it's nice to know that you do have plans in place to -- and comfort in the 2026 outlook. Notwithstanding historically, the Gildan business on the Printwear side has been sensitive to confidence levels and business confidence levels. And I'm wondering if you're seeing any of that manifest in these quarters as it relates to the outlook, the energy price and the war.

Luca Barile
Executive VP & CFO

Yes. No, I mean, again, we feel like from a consumer sentiment perspective and our customers as well, they're cautiously optimistic. We're not seeing that come through yet. Again, so we feel good about where we are in the market and where we think the market is going. I think the things Glenn was talking about were just as if there's a drastic deterioration, then obviously, we'll have to adjust and deal with that, but we're set to do so, and we feel good about kind of where we are in that.

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

And maybe also just add one more point. We're comping weak sales from '25 and I think even '24, particularly in Printwear as there's -- we've seen the market was more like down low single digits to, in certain cases, mid-single digits in Printwear over a '24, '25 year, year '24 and year '25. So we took share in those markets during those years and which we're continuing to take share now. So we're positioned. Our business is positive today, even though the market is -- we think, is down a little bit in Q1. And -- but we're continuing to take share. We're well positioned with our brand strategy. And what I said earlier in terms of Comfort Colors and All Pro and all the things that are selling, it's opened up new avenues of opportunity for us. So it's typically before, we were always selling into the basic T-shirt, but now we've got hats, we've got bags. We've got performance products. We're going after the other 60% of the channel, which we never really cater to before.

So all in all, I think that we're well positioned to weather even if the market continues to be at the same level in Q1. I mean we're comfortable as we go through the year with our guide.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Okay. So when Chuck indicated that the market was down low single digits and Gildan was up, was that in volume? Was that in dollars? Was that due to these new products that you've introduced? Or is it due to mix? Can you give me some more color on that? Because...

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

Yes. Look, as we go forward, look, it's revenue, it's dollars really at the end of the day because we're looking at from a unit perspective, when we sell a Comfort Color versus [indiscernible] 5000, obviously, we sell at a higher price point, right? So there's a little bit of a mix shift within our numbers. But I would say that our revenues in terms of how we see our POS, and that's how we measure retail as well. So our POS revenue is definitely on the positive side. And that's -- and we look at the market in the same way. So we're looking at both the same way.

Operator

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

Ryland Conrad
RBC Capital Markets, Research Division

With the transition to retail and wholesale revenue reporting, I guess at a high level, how should we think about kind of a normalized organic growth profile for each of those channels within your 3% to 5% growth framework through 2028?

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

Yes. So thanks for your question. So when you take a look at the guide, not only for this year, but over the '26 to '28 midterm guide, net sales, the CAGR will be growing at 3% to 5% range. And what we've articulated and what we've seen in the first quarter as well is that both in wholesale and retail, and you're right, that is exactly how we're looking at our business is wholesale and retail as we move forward.

We've seen growth in both. And the only reason that hasn't fully translated into sales being up versus the pro forma numbers is because of the actions that we're taking and a little bit because of the nonrecurrence of prebuy in the first quarter. So the underlying strength and the underlying growth profile is actually quite similar when you think about wholesale and in retail, those 2 channels. And that will come through over the course of the 3-year midterm guide that we provided within the 3% to 5% range.

So that's the way I think you have to think about it. And you're absolutely right. And that's why we've given the extra disclosure in our disclosures around the pro formas for wholesale and retail. That is the way we not only look at our business, report our business, but manage our business.

Ryland Conrad
RBC Capital Markets, Research Division

Okay. Got it. Appreciate that. And then just with the recent step-up in leverage, I'm curious if you could maybe share your latest expectations for leverage maybe at the end of this year. And whether the time line to restart the buyback has changed at all relative to the initial, I think, 12 to 18 months that was originally communicated?

Luca Barile
Executive VP & CFO

Yes. Good question. So -- and I appreciate that question because that's where we're very focused. I'm very focused, right, is from a financial perspective, as we navigate through this year, we are in a position where we're very -- we're targeting working capital to come down at a level that's going to be sub 30% by the end of the year. We're very focused on delevering the transaction. We're at 3.3x leverage at the end of the first quarter, and that was in line with our plan, our internal plans.

We're actively in a process for the divestment of our HAA, our Hanes Australia business, which I can't really comment on, but it's a competitive process, and it's actually progressing as planned. And so -- once that comes to fruition, the funds from that divestment will be put towards paying down our debt. And our target is to be back within our leverage framework as quickly as possible, which is 1.5 to 2.5x. And we have not changed our position that once we are back close to the midpoint of that leverage, which is around 2x, we will be in a position to return to buying back stock through our NCIB program.

I do think I want to remind you as well that one of the items that is also a focal point for us is the generation of free cash flow. We're going to be generating at least $850 million of free cash flow this year, which underpins the guidance that we've provided. So strong free cash flow generation. Within that, we're investing 3% of our top line into net sales and very focused on bringing down that working capital to a level that we will be able to operate in and be efficient with our cash, return to the leverage framework and return to buying back our stock.

Operator

That concludes our question-and-answer session. I would now like to hand the conference back over to Jessy Hayem for closing remarks.

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

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