Call Participants

EXECUTIVES

Chuck J. Ward
Executive VP & Chief Commercial Officer

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

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

Luca Barile
Executive VP & CFO

ANALYSTS

Brandon Babcock Cheatham
Citigroup Inc., Research Division

Brian Morrison
TD Cowen, Research Division

Christopher Li
Desjardins Securities Inc., Research Division

Jay Daniel Sole
UBS Investment Bank, Research Division

John Zamparo
Scotiabank Global Banking and Markets, Research Division

Luke Hannan
Canaccord Genuity Corp., Research Division

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

Ryland Conrad
RBC Capital Markets, Research Division

Stephen MacLeod
BMO Capital Markets Equity Research

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Gildan Activewear's 2026 Q2 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

Good morning, everyone, and thank you for joining us this morning. Earlier today, we issued a press release announcing our results for the second quarter of 2026, while updating our guidance for 2026 and maintaining our 3-year objectives for the 2026-2028 period. The company's management discussion and analysis and consolidated financial statements for the 3 and 6 months ended June 28, 2026, are expected to be filed with the Canadian securities regulatory authorities and the U.S. Securities and Exchange 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 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 known and unknown 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 full year and Q3 2026 outlook and our 3-year objectives for the 2026-2028 period as well as certain risks and assumptions related thereto, our earnings press release dated July 30, 2026. 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, a few items to note. We may refer to HanesBrands as Hanes throughout this call. And earlier today, we also announced that we entered into a definitive agreement to divest the HanesBrands Australian business, which we refer to as HAA. Remember that HAA had been classified as held for sale and reported as discontinued operations since the fourth quarter of 2025. As such, 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. Good morning, everyone, and thank you for joining us on this call. As we highlighted this morning's press release, we delivered strong results in this quarter as our team continued to execute with discipline against our strategic objectives. Our second quarter net sales from continuing operations were $1.58 billion, up 72% versus last year, primarily due to the HanesBrands acquisition. We also delivered second quarter adjusted diluted earnings per share from continuing operations of $1.28, up 32% compared to last year.

Furthermore, we updated our 2026 guidance, which Luca will review. And we maintain our 3-year objectives for the 2026-2028 period. We are very pleased with the excellent progress we are making with our integration of HanesBrands, only 8 months following the close of this transformational acquisition. In fact, we are well on track to generate approximately $100 million of targeted synergies in 2026, with the vast majority of these initiatives planned for this year already implemented. The actions we have taken so far in order to optimize our manufacturing and supply chain network are making our combined businesses more efficient.

As we exit 2026, we expect these benefits to become increasingly visible in our operating performance, setting us up favorably to deliver the next $100 million in targeted synergies we have identified for 2027. Furthermore, we are optimizing our distribution capabilities and standardizing our key IT manufacturing and supply chain processes across the combined business. We continue to expect approximately $250 million of annual run rate cost synergies over the next 3 years, while pursuing additional opportunities beyond our current target as the integration progresses.

Now from a commercial and market backdrop perspective. The proactive reduced sell-in we undertook, which we announced in fourth quarter of 2025 is now complete with our Wholesale business is performing well with continued share gains, strong brand momentum and market trends improved in June. In Retail, the environment was more measured, but our brands are performing. So while we are prudently planning around a current soft retail backdrop, we are also very focused on the opportunities ahead.

We announced this morning that we also expect to receive approximately $220 million of IEEPA tariff refunds in 2026. A significant portion of these tariff refunds represent the nonrecurring benefit, which is primarily tied to fiscal 2025 and products manufactured in our Asian hub. This portion of the refund will be reinvested into new incremental strategic growth initiatives in the second half of 2026, mainly to elevate the HanesBrands portfolio, such as improving product quality, investing behind the brand, retail marketing and accelerating product innovation and packaging enhancement to support stronger growth over time. Chuck will provide more details in a moment.

In addition, a sizable portion of the refund reflects the recurring benefit because following recent changes in U.S. tariff policy, tariffs no longer apply to apparel qualifying as originating under CAFTA-DR, which is a structural benefit for the company going forward. As a result, our updated 2026 guidance reflects the structural tariff benefit and underscores the underlying earnings power of the combined businesses as we exit 2026 and a foundation for further earnings growth in '27. Lastly, we also announced this morning that we entered into a definitive agreement to sell HAA. This step further reinforces our focus on significant value creation opportunities with HanesBrands and is expected to accelerate our debt reduction towards the midpoint of our targeted leverage framework and supports the resumption of share repurchases once this level is reached.

So let me conclude by saying our focus cannot be clearer, control what we control, execute our strategy, capture the significant opportunity ahead, drive profitable growth and long-term shareholder value. I look forward to answering your questions after our formal remarks. And now I'll turn it over to Chuck for a commercial review.

Chuck J. Ward
Executive VP & Chief Commercial Officer

Thank you, Glenn, and good morning, everyone. Let me start by reviewing our commercial performance and then provide you with an overview of our exciting brand and marketing initiatives, which are underway.

Starting with Wholesale. Let me be clear, the fundamentals of our business remain healthy. First, inventory across Wholesale customers are in balance, both from a quality and a quantity perspective. We also saw underlying demand trends improve sequentially throughout the quarter with further strengthening in June, which we suspect is connected to major events like FIFA World Cup, the 250th anniversary of the United States and other tourism-related events. Q3 started a little softer, and it's been tougher to call a trend as the Middle East conflict resumed and cautiousness in the broader market became more pronounced.

In the second quarter, we continued to gain share in key growth categories such as ring-spun and fleece, supported by our product innovation. We also continue to see strong momentum for Comfort Colors, American Apparel and Champion, each delivering double-digit sales growth in the second quarter. ALLPRO continued to gain traction following last year's launch. The Gildan soft style collection continued to outperform the market, and we successfully launched the Hanes scrubs line.

And for those of you that attended or will be attending a Bruno Mars concert, you'll see that Comfort Colors is now the official apparel partner for The Romantic Tour in Europe and in the United States. Importantly, we are also seeing favorable competitive dynamics that are creating new opportunities for us to capture additional market share. For example, similar to what we have done with Comfort Colors, we are making targeted investments in our American Apparel brand to further capitalize on the continued premiumization that we're seeing in the market.

Turning to Retail. During the quarter, we saw softness in the broader market and cautiousness on part of retailers managing their inventories, which resulted in lower seasonal inventory builds at certain large retail customers. Our brands performed generally well, supported by some initial introductions of product innovation, the relevance of our brand portfolio and the quality of our customer relationships.

Now let me give you an overview of some of the initiatives that we have already begun implementing to elevate and further strengthen the HanesBrands portfolio and increase consumer engagement. As Glenn mentioned, we're taking a disciplined approach to reinvesting a portion of the tariff refunds into initiatives that support long-term growth like brand building, retail marketing programs and accelerating product innovation and packaging enhancements. So for the HanesBrands, we are focusing on investments to strengthen brand relevance, increase consumer engagement and support the innovation that we're introducing in key categories.

We have already begun this work with a bold refresh of the brand platform for Hanes, which is now live in the market and is backed by consumer research. Our objective is to modernize how Hanes shows up with consumers while staying true to its heritage of trusted comfort, quality and everyday value. We will bring this to life across key consumer touch points, including digital, social, streaming, retail media, online shopping channels and select high visibility placements with a clear objective to deepen the engagement, to strengthen the HanesBrands portfolio and to support profitable growth over time. Our accelerated and expanded investment substantially increases the scale of our reach. We expect the campaign ecosystem to deliver about 1 billion impressions and reach approximately 120 million consumers, allowing Hanes to reconnect with the majority of U.S. households, further supporting our product placement and demand.

And with that, I will turn it over to Luca for the financial review.

Luca Barile
Executive VP & CFO

Thank you, Chuck, and good morning, everyone. Thank you for joining us today to discuss our second quarter results. Let me start with the specifics of the quarter, then turn to our 2026 outlook and guidance and finally, the HAA sale announcement.

First, the quarterly results. We reported strong second quarter net sales from continuing operations of $1.58 billion, up 72.3% year-over-year and in line with guidance of approximately $1.6 billion. The increase reflects the HanesBrands acquisition, partially offset by the impact of integration initiatives announced in the fourth quarter of 2025 to optimize our manufacturing footprint and accelerate synergy capture. Compared with pro forma net sales from continuing operations of $1.72 billion, the year-over-year decline was due to lower volumes stemming from a continuation of our proactive inventory reduction across customer channels as we integrate HanesBrands, which temporarily reduced sell-in as previously communicated as well as the nonrecurrence of some pre-buying in the second quarter of 2025 ahead of pricing actions, primarily in Retail.

Now looking at Wholesale. Net sales were $769 million compared to $781 million in the prior year, down 1.5% and down 5.8% compared to pro forma net sales from continuing operations for Wholesale. The decline was mainly due to the proactive inventory reduction across our combined customer channels, partially offset by pricing initiatives. As for Retail, net sales were $813 million compared to $137 million in the prior year, primarily reflecting the acquisition of HanesBrands. Compared to pro forma net sales from continuing operations of $901 million, the decline was due to cautious retailer inventory management in response to softer consumer demand and softness in the broader market, partially offset by pricing actions.

As Chuck mentioned earlier, Retail sales were also impacted by lower seasonal inventory builds at certain large Retail customers, reflecting their tempered optimism in the current soft broader environment as well as the nonrecurrence of some prebuying activity in the second quarter of 2025 ahead of pricing actions. Finally, to a lesser extent, Retail sales were also affected by the lower sell-in previously detailed.

Shifting to margins. We generated gross profit of $460 million or 29.1% of net sales versus $289 million or 31.5% of net sales in the same period last year. Adjusting for an inventory fair value step-up cost of $86 million recorded as part of the HanesBrands acquisition, adjusted gross profit was $545 million or 34.5% of net sales compared to 31.5% in the prior year. The 300 basis point improvement mainly reflects the favorable contribution from HanesBrands, lower raw material costs and to a lesser extent, pricing initiatives to partially offset the impact from tariffs, which continued to impact gross margins, notwithstanding an approximate $25 million benefit recorded in the quarter from a Phase 1 tariff refund under U.S. Customs and Border Protection's refund process.

SG&A expenses were $194 million compared to $82 million in the prior year. Adjusted SG&A expenses were $193 million or 12.2% of net sales compared to $81 million or 8.8% of net sales for the same period last year. The increase in adjusted SG&A in the quarter reflects the acquisition of HanesBrands, including the impact of higher amortization of intangible assets and depreciation of property, plant and equipment resulting from the fair value purchase accounting impacts of the acquisition. This was partially offset by synergies realized from the HanesBrands integration process and a subsidy recorded as part of the HanesBrands integration plan under the Barbados Economic Diversification and Growth Fund, which was retroactive to 2025.

As we bring all these elements together and adjusting for restructuring and acquisition-related costs and the inventory fair value step-up cost as part of the HanesBrands acquisition, adjusted operating income was $352 million, up $144 million year-over-year. Adjusted operating margin was 22.3% of net sales, down 40 basis points versus last year, but 260 basis points ahead of guidance of approximately 19.7%. The year-over-year decrease in adjusted operating margin reflects HanesBrands' lower operating margins due to historically higher levels of SG&A relative to Gildan and a net headwind from IEEPA tariffs, inclusive of tariff refunds, partially offset by a favorable contribution from the aforementioned Barbados fund subsidy, lower raw material costs and pricing initiatives implemented to partially offset the impact from tariffs.

Net financial expenses were $69 million, up $37 million year-over-year, primarily due to higher borrowing levels related to the HanesBrands acquisition. Taking into account all of these factors, and a higher outstanding share base as a result of the acquisition, GAAP diluted earnings per share from continuing operations were $0.49, compared to $0.91 in the prior year. Adjusting for restructuring and acquisition-related costs, the inventory fair value step-up cost and an income tax recovery of $29 million related to restructuring charges and other adjustments, adjusted diluted earnings per share from continuing operations were $1.28, up 32% from $0.97 in the prior year. Adjusted diluted EPS from continuing operations includes the positive impact of $0.11 per share from the IEEPA tariff refunds in the second quarter of 2026.

Now turning to cash flow and balance sheet items for the first half of 2026. Cash flows from operating activities, which include discontinued operations, were $68 million compared to $46 million in the prior year. After accounting for capital expenditures totaling $51 million, the company generated approximately $17 million of free cash flow with $326 million recorded in the second quarter. As planned, during the first half of 2026, we returned $92 million to shareholders through dividends. We ended the first half of 2026 with net debt of about $4.69 billion and a leverage ratio of 3.2x net debt to trailing 12 months pro forma adjusted EBITDA.

Now turning to the outlook. For 2026 and with respect to our continuing operations, we are updating our full year guidance as follows. Revenue is expected to be at the low end of the previously communicated range of $6 billion to $6.2 billion. Full year adjusted operating margin of approximately 21.8% compared to previous guidance of approximately 20%. Adjusted diluted EPS in the range of $4.65 to $4.75, an increase of approximately 32.5% to 35% year-over-year, compared to previous guidance of $4.20 to $4.40. CapEx to come in at approximately 3% of net sales and free cash flow to be approximately $1 billion, compared to previous guidance of above $850 million. The assumptions underpinning our updated outlook are detailed in our press release issued earlier today.

Notably, our outlook includes approximately $220 million in expected IEEPA tariff refunds under U.S. Customs and Border Protection's refund process, which was initiated in the second quarter of 2026, with most of the refunds anticipated to be recorded during the third quarter and inclusive of approximately $25 million recorded in the second quarter. Importantly, our outlook also assumes that a significant portion of these tariff refunds, which is equivalent to the nonrecurring refund benefit recorded in 2026 will be reinvested in 2026 into the strategic growth initiatives, which Chuck detailed earlier.

Said differently, we are reinvesting the portion of refunds that relates to IEEPA tariffs paid in fiscal 2025 as well as IEEPA tariffs paid in 2026 on products manufactured in our Asian hub, which were subsequently subject to the Section 122 and Section 301 tariffs. Whereas we have reflected in our 2026 guidance, the positive impact of the refunds tied to the recurring structural benefit for apparel qualifying as originating under CAFTA-DR being tariff-free. As such, we believe that our updated 2026 guidance for adjusted operating margin of approximately 21.8% and adjusted EPS of $4.65 to $4.75 reflects the underlying earnings power of our combined business as we exit 2026. It's a relevant base for future comparison, providing a strong foundation for further growth in 2027.

Finally, we have also provided guidance for our third quarter. Net sales from continuing operations are expected to be approximately $1.65 billion, with both Wholesale and Retail returning to growth as compared with pro forma net sales from continuing operations in the prior year. Adjusted operating margin is expected to be approximately 26%, compared to 23.2% in the prior year, reflecting the significant anticipated tariff refunds positively impacting gross margins, the flow-through of realized synergies and the Barbados subsidy, partly offset by higher SG&A levels due to the reinvestment of some of the aforementioned tariff refunds as well as higher amortization of intangible assets and depreciation of property, plant and equipment resulting from the fair value purchase accounting impacts of the HanesBrands acquisition. And lastly, the adjusted effective income tax rate is expected to be approximately 18.5% in the third quarter of 2026.

Finally, earlier today, we also announced that we entered into a definitive agreement to divest the HanesBrands Australia business, which we refer to as HAA to BBFIT Investments for an enterprise valuation of approximately AUD 700 million or approximately USD 490 million at current exchange rates, subject to customary adjustments. Remember that we had communicated our intention to pursue a sale of HAA and announced the launch of a formal sale process in the fourth quarter 2025 earnings release, at which time the business was classified as held for sale and reported as discontinued operations. The transaction is expected to close in the second half of 2026, subject to the receipt of required regulatory approvals and customary closing conditions.

Proceeds from the transaction will be used to pay down a portion of outstanding debt, accelerating our return to the midpoint of our target leverage framework of 1.5 to 2.5x net debt to trailing 12 months pro forma adjusted EBITDA. As we previously communicated, we expect to renew our NCIB program when the net debt ratio approximates the midpoint of our target leverage framework.

In summary, we delivered strong second quarter results, generated strong free cash flow and continued to advance the HanesBrands integration with discipline. While the broader operating environment remains dynamic, we remain focused on what we can control. delivering product innovation, maintaining strong customer partnerships, executing with agility, improving operational efficiency and driving profitable growth. Our updated guidance reflects the structural benefits in the business, the strength of our cash generation, which is underpinned by our continued focus on working capital management and our confidence in the combined company's earnings power. 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] Operator, you may begin the Q&A session, please.

Question and Answer

Operator

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

Jay Daniel Sole
UBS Investment Bank, Research Division

Great. My first question is about the guidance raise. So nice guidance raise. Now it looks like that the growth in earnings this year will be in the mid-30s range versus before. If we look back at the previous 3-year guidance, which is based on the midpoint of the fiscal '25 guidance and where fiscal '25 ended, it was only going to be up in the low 20s. Do you feel like the new guidance is sort of like a -- at the same time, you're reiterating your 3-year outlook for low 20s adjusted diluted EPS CAGR in the low 20% range. The question is, is this guidance raise for this year sort of a pull forward of earnings out of future years? Or when you say that the company can grow off of this year's base, do you still feel like you can grow at that low 20% range off of, say, somewhere between $4.65 and $4.75 in earnings? That's my first question. Hopefully, that makes sense.

My second question is, can you talk about your balance sheet a little bit, specifically accounts receivables and days sales outstanding? I guess there's been some talk that if you look at your accounts receivables and also maybe some factored receivables that are off balance sheet, it looks like days sales outstanding are a little bit on the high side. Can you just explain why that is and sort of what that -- what the implications are for your business and what you see for that part of the balance sheet going forward?

Luca Barile
Executive VP & CFO

Okay. Thanks for your questions, Jay. So on the first question, first of all, the short answer is yes, and I'll give you the context, okay? So when we take a look at the updated guidance range, which is now from an adjusted operating margin perspective, 21.8%, it's important really to understand the underlying assumptions there, okay? So we start off with our IEEPA tariff refunds. We expect to receive $220 million of IEEPA tariff refunds, okay? $25 million has already been recorded in our Q2 results, and we expect most of the remainder to be recorded in Q3, okay?

There's a significant portion of those refunds, about half that represents a nonrecurring benefit, right? And that's tied to tariffs that were paid in 2025 as well as tariffs emanating from our Asian hub. And that's important because the product and manufacturing out of the Asian hub after the IEEPA tariffs were deemed illegal were subject to tariffs under Section 122 and are currently subject to tariffs under the Section 301. So that's representing a nonrecurring benefit.

Now we're taking that nonrecurring benefit, and we're reinvesting that in 2026 into 3 main buckets. The first is retail marketing and advertising campaigns. The second is retail promotions and demand generation initiatives. And the third is accelerating the product innovation and packaging enhancements. And that's going to have the effect of really strengthening brand relevance and creating momentum as new products hit the market. So now the remaining half of the refunds, right, really represents a structural benefit, and this is really important because right now, in our CAFTA-DR region, we are not paying tariffs on apparel qualified goods that we bring into the commerce of the U.S. And that's really what informs our guide.

So when you take a look at the adjusted operating margin of 21.8%, it's really representative of the earnings potential and margin strength of the combined go-forward business. It reflects that underlying power of the combined business, and it is a foundation for future growth in 2027 and beyond. So that, you have to think about, is really as the new base. And remember, in this year, we already had $100 million of synergies penciled in, and we have the next $100 million of synergies in 2027. So that really informs the base for 2027. So again, the short answer is yes, and I want to make sure you have the right context.

Now on your second question regarding the balance sheet. So well, first, with respect to the balance sheet, I want to reiterate that we're confident, one, that our current disclosure is accurate and comprehensive with respect both to our financial information and our governance practices, okay? Second, we look at our DSOs, receivable quality, channel health, including sell-through, which we monitor closely on an ongoing basis. So as opportunities emerge for us to gain market share, we launched and expanded several brands. We entered new product categories and supported our customers as they transition business to us.

So whenever you launch brands, build distribution or penetrate new channels, working capital requirements generally increase. The distributors need inventory as they get behind new products, brands, programs take time to mature. And those dynamics can impact both receivables and DSOs. Now while DSOs have increased, we've supported customer demand and gained share in a softer market during a period of significant industry disruption, okay? So our growth in Wholesale continues to be driven by market share gains, customer adoption of new product categories and brands such as Comfort Colors, ALLPRO and Champion, okay?

So from our perspective, the key takeaway is that our working capital trends reflect strategic growth initiatives in a period of industry consolidation rather than any deterioration in the underlying health of the channel. We've guided to our free cash flow to now come in at approximately $1 billion for 2026, and that's supported by our working capital coming down to lesser than 30% of net sales by the end of Q4. Now for further clarity, our targeted working capital level focuses on the core elements of working capital, such as AR and inventory. It excludes the benefit of the current portion of long-term debt, net of cash and cash equivalents, okay?

So now if you peel back the onion on AR, we had an increase in net AR for the quarter. That was primarily due to the impact of higher sales in Q2 compared to Q4 '25 and Q1 '26. The increase was partially offset by reductions in both net and gross DSOs during the quarter, which sequentially improved versus Q4 '25 and Q1 '26 as expected. So look, as planned, our sale of trade AR to financial institutions under our receivables purchase agreements that remained at relatively consistent levels versus Q4 and Q1 '26 as a percentage of gross receivables.

And we expect gross and net DSOs to further decline as we move towards achieving our target of ending the year with working capital as a percentage of sales below 30%. And also with respect to inventories, our inventory position and valuation remain in line with expectations and is expected to come down further as we progress throughout the end of the year. And additionally, inventories across our customer base remain in balance, both from a quality and quantity perspective. So our continued focus on working capital management is a key pillar underpinning our guidance of generating $1 billion of free cash flow in 2026.

Operator

Your next question comes from Brian Morrison with TD Cowen.

Brian Morrison
TD Cowen, Research Division

I don't -- I'm probably going to go down the same line here, but I appreciate all the color you just gave, Luca. And I understand the $4.60 (sic) [$4.65] to $4.70 (sic) [$4.75] EPS is a base to grow from, but I am getting lots of incoming on this IEEPA that you just addressed. So am I correct that of that $220 million, about half of that or $110 million is the structural benefit that you put in guidance and it represents all of the 180 basis point increase? Or maybe what you could do is, are there other drivers in there? Because if it's all from the 180 basis points, I would expect some of that to be offset from reinvestment in SG&A. Just maybe walk through a bridge of that 180 basis points, please.

Luca Barile
Executive VP & CFO

Yes. So thank you, Brian. So what we have, again, underpinning our guidance is we're receiving $220 million of IEEPA tariff refunds, right? Now half of that -- so call it, half of that is around $110 million. That is being reinvested in the business, in the initiatives that Chuck had outlined earlier today. So that full receipt of the $220 million plus the reinvestment of the nonstructural portion of that benefit is included in our guide, but there's also the structural benefit going forward.

And the way to think really about the structural benefit, if you really think about the P&L, is that tariffs that were incurred that are flowing through the P&L in 2026 are now offset with the structural benefit. So that has the implication of bringing the adjusted operating margin to 21.8% for the year. And that's why that is the base that we will move off of as we grow into 2027. That's why we're calling it a structural benefit.

And as we move forward throughout the remainder of this year, let's say, the $110 million or half of the $220 million is going to be reinvested in the 3 buckets that I mentioned, which are the retail marketing and advertising campaigns, the retail promotional activity and accelerating the product innovation and packaging enhancements. So 21.8% is the base.

Brian Morrison
TD Cowen, Research Division

I get it. I understand. And then my second question is, when I take a look at the go-forward, the reiteration of 2028, should I simply assume that we have $150 million of synergies in '27 and '28, that's about another 200 basis points. So when I look out at 2028, that a 24% operating margin is reasonable? Or should we think that there should be some reinvestment offsetting that?

Luca Barile
Executive VP & CFO

So again, it's -- the base of '26 is the base as you think about the 3-year guide. We're not going to give specifics exactly on the 3-year guide, but the way you're thinking of the synergies is additive is exactly right. If you remember, we called out $250 million -- at least $250 million of synergies, $100 million in '26, $100 million in '27 and $50 million in 2028. But we're also actively pursuing potential other opportunities to increase that number. So you're thinking of it correctly.

Operator

Your next question comes from Paul Lejuez with Citi.

Brandon Babcock Cheatham
Citigroup Inc., Research Division

This is Brandon Cheatham on for Paul. I wanted to dig in on SG&A in the second quarter. Just help me understand the Barbados subsidy that was realized in the quarter. How much of that was a makeup amount? And how much will be going forward? And how should we think about SG&A for the balance of the year, excluding the incremental investments that you're making from tariffs, just to give us a sense of what we should build off of going into '27.

Luca Barile
Executive VP & CFO

Yes. Thanks for your question. So starting with Q2, let's address the Barbados subsidy. So as we've articulated in the past, we're continuously looking at incentives from the jurisdictions that we operate in. And I think it's really important to understand that now that we've obtained the subsidy from the Barbados government, that this was always part of our original guide, and I'll explain to you why.

In Barbados, they enacted in late 2025, the economic diversification and growth fund, okay? We applied for a subsidy under that fund in early 2026, and that was really done as part of the Hanes integration plan. So what we've received is a multiyear subsidy. What was recorded in Q2 was around $37 million. $25 million of that is related to the 2025 year and $12.5 million is representative of the first half of 2026. But this was included in our original guide. It represents our workings with the jurisdictions that we operate in, and that effectively came through in the second quarter in terms of SG&A.

In terms of the remainder of the year, look, we're giving you very clearly from an operating margin perspective that we will be approximately 21.8%. What you will see with SG&A is that you're going to see an uptick in the SG&A percentage as you move through the third and fourth quarter versus the second due to a portion of that reinvestment that we were articulating earlier. So again, I would point you to the 21.8% as the real basis for the year. And as you model the back half of the year, there would be an increase because of the reinvestment.

Brandon Babcock Cheatham
Citigroup Inc., Research Division

Got it. And just to put a point on that, you are always baking in the $25 million catch-up in guidance for this year, but not necessarily including that specifically in 2Q. Is that the right way to think about that?

Luca Barile
Executive VP & CFO

Correct. Because the enactment of the fund was in 2025. We were in an application process early in '26. And so timing and negotiation was the factor here. But that was always included in our original guide, correct.

Brandon Babcock Cheatham
Citigroup Inc., Research Division

Okay. And then just a follow-up. On the reinvestment, is there going to be any potential timing issues? Are you going to be able to redeploy the tariff refund all in the third quarter? Or could there be some movement between 3Q and 4Q?

Luca Barile
Executive VP & CFO

So the bulk of the refund we're anticipating to come into the third quarter, but our initiatives will be across the third and the fourth quarter, the reinvestment.

Operator

Your next question comes from Luke Hannan with Canaccord.

Luke Hannan
Canaccord Genuity Corp., Research Division

I wanted to get into Q3. First of all, maybe if we can just get a better understanding of POS trends quarter-to-date. But then more specifically, I think you had talked about growth returning in both Wholesale and Retail. And if you can frame up for us, particularly at Retail, where it sounds like the consumer is a little bit softer, where that growth is going to be coming from?

Luca Barile
Executive VP & CFO

Okay. Thanks for your question. So really to understand the growth profile of the third and fourth quarter, what I would actually do is start to really give you a bit more context on the full year. So our guidance range for the top line was $6 billion to $6.2 billion, right? And what we articulated previously was that really what governed the bookends of that range was effectively the macroeconomic environment, right, and the market assumptions. And our market assumption when we provided guidance last time was effectively that the market will be flat to up low single digits, okay?

So the first thing to really understand is that going forward, what we've done is we've baked in a market assumption that is flat to low single digits. And why that is the case is that effectively, what we saw predominantly on the Retail side is that the market weakened in June. And we've been cautious with that assumption as we move forward. So then when you look at the full year, now we're calling that we'll be at the low end of the $6 billion to $6.2 billion.

When we look specifically now at the third quarter, both Wholesale and Retail are returning to growth. Why? A few reasons. One is that the proactive reduction of inventories and reduction of sell-in, that's complete, as Glenn articulated. So with that behind us, the underlying business is growing. The fundamentals remain healthy in Wholesale. We continue to take share in a down market. We have a fleece, for example, sell-in that we articulated that would be pushed from the second quarter more to the fourth quarter, which was in line with when customers really need it. And growth categories such as Comfort Colors continues to grow really well, ring-spun, American Apparel, Champion. So the underlying health in the Wholesale is strong.

When we take a look at Retail, even though the market has weakened, we continue to have real good strength in underwear. We have visibility on the wraparound of some of the 2025 programs, some of the new programs that are hitting this year. So the third quarter returned to growth. But then when you look at the full year, knowing that you'd be at the low end of $6 billion to $6.2 billion and you understand where we are in the third quarter with revenue approximately $1.65 billion, it implies strong fourth quarter from a sales perspective.

And what gives us that confidence is really in, I would say, 5 categories. Again, I'll reiterate that the proactive lower sell-in is now complete as of Q2. So that's one thing. Two, I mentioned fleece sales are pushed closer to when customers need it, and that's going to be really a shift from Q2 to the fourth quarter. Some new programs wrap around, plus line of sight on other programs kicking in. And there is also a factor of easier comp on the HBI legacy sales between the third and the fourth quarter. And we're also going to start to see some of the positive effects of the reinvestment initiatives and retail promotional activity.

So that's what's underpinning the strength in the fourth quarter. Third quarter, you're already going to see return to growth for Wholesale and Retail, approximately $1.65 billion.

Luke Hannan
Canaccord Genuity Corp., Research Division

Okay. And then I also wanted to follow up. You talked about the net tariff headwind. So you did get some refunds during the quarter, but tariffs were still net-net a headwind for you during Q2. When does the inventory that you have on hand now, when does the embedded, I guess, tariff headwind on that dissipate? And then also, can you just confirm any product now that's coming from Bangladesh, I believe anything that's made predominantly with U.S. cotton after September, it should be coming in tariff-free. Can you confirm that, that's as of right now, it's not included in guidance?

Luca Barile
Executive VP & CFO

No. So I'll do a small clarification on that point is that product coming out of Bangladesh under the 301s is subject to tariff of 10%. Product coming out of Vietnam is under the 301 subject to 12.5%. And that's why -- that's actually specifically why the product coming out of our Asian hub is not a structural benefit. And those refunds are really a onetime refund or nonrecurring, if you will, and that's the portion that we're reinvesting.

The portion that's a structural benefit is anything coming out of the CAFTA-DR region, okay? So to the portion -- the earlier point that you made in terms of how this is going to flow in, the majority of the refunds and tariffs are really going to come through the third quarter. The fourth quarter, you will see an operating margin that's still going to be higher than what we're calling for the year, but is more akin to a run rate. And then you really have the 21.8% for the full year, which is the real foundation for moving into 2027.

So that's why you'll see the third quarter operating margin -- adjusted operating margin of approximately 26%. There's a little bit of timing there.

Operator

Your next question comes from Martin Landry with Stifel.

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

I was wondering if you could talk a little bit about the Wholesale segment, the performance of your point of sale and how the industry performed as well during Q2, that would be super helpful.

Chuck J. Ward
Executive VP & Chief Commercial Officer

Martin, yes, from the Wholesale segment perspective, the market continued to be down low single digits. We performed better than that. We were on the upper end of low single digits up. We continue to outperform the market and take share in Q2. And as I mentioned in my comments earlier, the market improved sequentially throughout the quarter with June being stronger, but some of that was the tourism piece.

Really, the drivers for us in that market continue to be Comfort Colors, which we talked about, American Apparel and Champion, which all grew double digits and continue to grow quite well and really just the premiumization of the market, and we continue to bring products to that market. So we've been able to take share in a down market in the Wholesale segment.

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

Okay. That's helpful. And just switching gears, Glenn, I was wondering if you could talk a little bit about Hanes' products during that transfer and now on a go-forward basis, did you rationalize the SKU count at Hanes? Did you prune some of their SKUs? And do you -- like what -- how much innovation do you expect to bring to the Hanes product line next year?

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

Well, that's -- if you look at the -- let's just start off with the whole acquisition of Hanes, I think maybe as a starting point, I think, is -- as we projected in the beginning of the year, in terms of -- and what we communicated from looking at how we were going to reintegrate their processes and their facilities and really Gildanize the Hanes product line with innovation was all part of allowing us to, first of all, start off by getting all the synergies.

So if we look at 2026 this year, we implemented about $100 million worth of synergies. And these are all implemented and flowing through. And with the actions we've taken in the manufacturing side of it, really the consolidation allows us basically not only to really obtain the synergies required to support and give us good visibility on those synergies as we move into 2027, but really gives us the ability to innovate the product line.

So we didn't only generate these synergies, but we really revamped completely the way the products are going to be sold as we move into 2027. And that's one of the things that we're going to articulate when we go to our investor conference that we're putting together in December, which we'll communicate the date, I guess, shortly. So we're not just looking at one particular category. We're looking at all the categories, the packaging, the products that we're producing. So we -- not only we're able to get the synergies we talked about with -- the synergy is that we're putting much more value in the products that we're going to be offering to consumers as we go forward. So we're very really excited.

And we've got the whole objective with re-spending the nonrecurring portion of the tariff is actually going to be the catalyst really for launching this as we move forward. So we're coming out not only with a great advertising and marketing plan, which you'll see very visible as we move through the fall. But we're also going to be making sure that we move out a lot of the older packaging and products from retail, which is supporting revenue growth in the back half of the year. And at the same time, making sure that we have a clear cutoff that as we move into the spring 2027, we've got a new look and image for the HanesBrands in retail with consumers as we go forward.

So we're really excited about where we are today. And again, we're moving forward. I think one of the things that we called out is the sale of the HAA, which is really now going to allow us to continue to focus on really the growth drivers as we get this behind us. And the combination of HAA and our increased guidance of over $1 billion of free cash flow, that's really going to bring us back to the midpoint of our debt leverage and to give us ability to start buying back stock once we conclude on that sale and we move into the balance of this year.

And Luca really called out, not only have we invested in the innovation, the packaging, et cetera, but we also have restructurally benefited from higher margins as we exit this year, which is a real structural underlying strength of our company and what we've been able to do through this integration and the consolidation. And that's really the base on which we have to grow into 2027 before we really add on the next layer of $100 million synergies and also lower interest rates as we move into 2027.

So the combination of these 2 companies, we think that we've done a great job. We're excited about our innovation. We've taken Hanes from an operating margin company with the low teens and really as I think we've accelerated that to be in line more closer to where we were with Gildan as we exited 2025 as a base. So if we really look at that, that's really the power and the value creation that we've really, I think, in a very short period of time, been able to complete.

And not only that, but with the reinvigoration of the product, the Hanes, the marketing and all the things we're doing, we're very excited about the longer-term perspective. And it's very important to understand is that you have to build the foundation. And Gildan has always looked for the long term. And building a foundation is a key thing. And we're building a foundation both in earnings, product, and we think that that's going to be very powerful as we move into the future. And we're very excited to show everybody in December exactly what we're doing.

Operator

The next question comes from Vishal Shreedhar with National Bank.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

With respect to the refund of the tariffs and just referring to the Wholesale industry and the tepid volumes, Gildan has a history of taking prices down. So should we anticipate that the prices may come down in the future given that you've gotten the tariffs back and that was one of the causes of price increases in the past? And should we anticipate that? Or do you expect you to hold the margin benefits that you've got from the prices and the refunds?

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

I would say that you look at -- I mean, first of all, as a company, we didn't take price up all the way to cover all of the tariff benefit, okay, or the cost of tariffs. So that's number one. Secondly, there's lots of inflation. You can see today, obviously, raw materials have gone up. You can see the price of cotton, energy has gone up, labor is going up. So there's a lot of structural inflation still in the environment. So I would say to you that we don't see any movement necessarily on structural price changes as we go forward.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Okay. And with respect to the refund portion of the IEEPA benefits, it's a big number that you're reinvesting, and you indicated that we should see some of that revenue benefit starting to flow through in Q4. And how should we think about the residual benefit flowing into the other years and the potential benefit from that, just given the return on -- I'm trying to think about the return on investment of that large number of additional marketing and initiatives that you're putting into the product.

Luca Barile
Executive VP & CFO

Well, I think, Vishal -- thanks for your question. I think that's exactly it is that we make sure we really take a look at the return before spending money and spending our capital. So we saw this as an opportunity. And I do think it's really important to understand that this isn't something that fell into our lap. We've been monitoring the situation with tariffs for quite some time. We are very plugged in from an information perspective. And so we anticipated that tariffs were going to be coming off.

And even though that we had not previously included any of the refunds in our guide because we have to go through a process with the U.S. Customs and Border Protection and so forth, the anticipation was there. They were deemed illegal very early in the year. So the team -- as a team, we really start to focus on, we anticipated that this was coming and where are we going to put that capital. And so this was really put through really in 3 categories, which I would say is quite surgical, right?

So the first category, again, is retail marketing and advertising campaigns, retail promotional activity and accelerating the product innovation and packaging enhancements that Glenn was alluding to. What is the impact of that? The impact is that you're already starting to create additional strength and brand relevance and you're creating that momentum as the new products will hit the market.

So again, we've also articulated today, right, that from a 3-year perspective, there's no change to our expectations. And knowing where we are today and the guidance that we're giving for '26, it implies that there's strength moving forward. And this is just part of that strategy in order to make sure that these investments bear fruit as we are moving into '27 and '28. I hope that helps.

Operator

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

Stephen MacLeod
BMO Capital Markets Equity Research

I just wanted to just get a bit of a sense on how you see the back half free cash flow generation evolving to get to your $1 billion target.

Luca Barile
Executive VP & CFO

Sure. Thank you for your question. So as you mentioned, we're calling for approximately $1 billion of free cash flow this year. So the underlying contributors have always been the same, right? The synergies coming through the focus on our working capital, our working capital as a percentage of sales coming down to the end of the year at a level of sub-30%.

And again, I do want to, just for clarity, articulate that when you look at our -- for example, our disclosures on total working capital, we're really focused on the main elements, right, the AR, our inventory. So we're not taking that benefit of the current portion of long-term debt net of cash and cash equivalents. So the core real working capital coming down to a position of lower than 30%. Obviously, we have the impact of tariff refunds, net of the reinvestment and so forth.

Now in terms of the pattern of free cash flow generation, the way our business is structured is the first quarter is typically a cash consumption quarter. We've now returned to free cash flow generation this quarter and at a level of around $326 million. So when you do take a look at the second half, that's where the bulk of the $1 billion will be generated.

There could be some noise between the third and the fourth quarter. We do expect the majority of the refunds to come in the third quarter, and that's the way I think you have to think about it. But it's really underpinned by the business fundamentals and our real focus on working capital management.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's great. And then just coming back to the sort of balance sheet questions around the DSOs. Do you have a target in mind or a sustainable level that you expect to be at when we think about the combined business and all the moving parts that we have in the business right now with respect to the sales backdrop and some of the tariff impacts?

Luca Barile
Executive VP & CFO

So for us, very focused on the balance sheet. The balance sheet is very important. Again, I want to reiterate that bringing working capital to a level that sub-30% requires not only focus on AR, DSOs and so forth, but as well as inventory. So I do think it's important to recognize that over the last few quarters now, there has been an improvement in our DSOs, and that's purpose. That's come in as planned.

If you really take a look at -- if you look at our AR position at the end of the second quarter, the sales for the quarter and you take that over the 90 days of the quarter, you would have seen an improvement in gross DSOs and in net DSOs, which is notable, right, versus the first quarter and versus the fourth. So that's coming in as planned. And also, as previously articulated, in terms of our sale of receivable program, that's a program that we have in place, and we continue to operate with that program.

Remember, our sale of trade receivables, it's a standard business practice. It's a tool to optimize working capital and lower your interest cost. So we've engaged in this practice since 2016, and we'll continue to do so. And our sale of receivable program is a true sale program without recourse, okay? So given the full credit risk is transferred and in our case, to a third-party financial institution.

And the amounts used, right, as a percentage of gross AR have been pretty consistent between the fourth, first and now the second quarter as a combined business moving forward. So very strong focus. It's a key pillar to generating $1 billion of free cash flow, and that's where the focus remains.

Operator

Your next question comes from John Zamparo with Scotiabank.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

I want to ask about the buyback program. And I wonder, given the potentially greater earnings power from Gildan moving forward from the structural portion of the tariff changes, does that make management or the Board contemplate a buyback program that could begin before reaching 2x leverage?

Luca Barile
Executive VP & CFO

Thank you for your question, John. I think, again, the focus on the balance sheet, now we spoke about working capital, but also the focus on the balance sheet is making sure that we maintain an investment-grade balance sheet. Coming together after the transaction, that was very important to us, allowed us to take advantage of interest rate favorability, which, by the way, from an interest perspective, with everything that's in the guide plus our investment-grade balance sheet is going to give us favorability in the second half versus the first half.

So very focused on that, but also very focused and mindful of returning capital to shareholders. So we have to balance the 2. And we've been very consistent with our approach to capital allocation, where we've articulated when we approximate returning to the midpoint of our targeted range of 1.5 to 2.5x, we would then reinitiate our share buyback -- we expect to reinitiate our share buyback program. So we're also very pleased as we announced today, the definitive agreement for the divestment of HAA. That's going to accelerate that process. We expect that transaction to close in the second half of '26. And so that's where we should be in a position to make those decisions and be at the midpoint of our leverage range by -- at some point in the second half of this year.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

Understood. And then on a POS basis, I think the press release referenced Comfort Colors, American Apparel and Champion is growing double digits. When we think about consolidated sales growth at the POS level being lower, what are the largest categories or brands that are maybe moving the other way?

Chuck J. Ward
Executive VP & Chief Commercial Officer

Well, I think as we talked about, there's premiumization in the market, that's the reason we're continuing to move in those brands. I also mentioned in my comments, we're seeing our ring-spun category, our soft style move well as well. And then -- so they're performing above market. And again, on lower volumes, you got to remember the base of those is lower volume. So yes, they're up double digit. But I think our basics business is performing well, too and better -- slightly better than market. But again, we pulled up to the upper end of lower single digits by the double-digit growth in Comfort Colors, American Apparel and Champion.

Operator

Your next question comes from Chris Li with Desjardins.

Christopher Li
Desjardins Securities Inc., Research Division

Maybe just one follow-up for me. Just in terms of the Retail softness that you guys are seeing, I'm just wondering, is it more kind of broad-based? Or is it skewed towards more products that are a bit more economically sensitive like the intimates business?

Luca Barile
Executive VP & CFO

Yes. Thank you for your question, Chris. So the answer is that it's more broad-based. What we did see is we saw sort of a turn of the broader market towards softness in June. And so that's why what we did from a guidance perspective, from a forecast perspective is that we've changed our market assumption from flat to up low single digit for the year to flat to low-single-digit for the year. So that's really what informs being at the low end of the $6 billion to $6.2 billion. And really -- it's really more pronounced in -- or was pronounced in Retail, and it was in the month of June.

In Wholesale, actually, things really were on the up and up in June based on the elements that Chuck had referred to earlier, such as the FIFA World Cup and increase in tourism and so forth. On the Wholesale side, in July, it's harder to call a trend. It's come down a little bit, but still performing well. So that's really the way you should think about the broader market and the 2 markets for Wholesale and Retail.

Operator

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

Ryland Conrad
RBC Capital Markets, Research Division

Just on 2026 guidance with it being a 53-week fiscal year, could you just speak to what's embedded in your guide with respect to the expected incremental benefit or impact of that extra week, both for sales or EPS?

Luca Barile
Executive VP & CFO

Yes. Thank you for your question, Ryland. So I mean, that's been penciled into our original guide and continues to be penciled in -- to the guide that we're giving today. There is that 53rd week. And we do have, again, to -- a much, I would say, lower degree is that you see that also contributing to the fourth quarter versus the third.

Ryland Conrad
RBC Capital Markets, Research Division

Okay. Got it. And then just on margins and more generally, the inflationary pressures. I know you have good visibility on input costs, including cotton and energy for 2026 with hedging programs. But I'm curious if you've observed competitors across the industry take pricing to offset any of those inflationary pressures and whether that's maybe an opportunity for you to widen the price gap to competition and gain more share going forward?

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

Well, I would say if you look at, we're structurally, I think, sound in terms of our manufacturing footprint, our cost structure. We've always been the market leader. And also follow in the price setter. So look, I would say to you that inflation is relative, is in the market between labor, energy, raw materials, et cetera. So we're going to continue to pursue the best strategy like we've done historically is making sure that we're the market leader. At the same time, balance that out with making sure that we're optimizing our operating performance and creating long-term shareholder value, which we've been doing. So I think we're well balanced.

Operator

Your next question is a follow-up from Brian Morrison with TD Cowen.

Brian Morrison
TD Cowen, Research Division

Sorry to prolong the call. Just a quick question. With respect to the tariff refunds, the $220 million, can you just remind me what tariffs these fall under? Were they Section 301? What tariff refunds are you receiving back?

Luca Barile
Executive VP & CFO

Sure. Thanks, Brian. So just to be very clear, those are IEEPA tariffs that were deemed illegal, and those are the refunds that we are receiving through the process that was opened up by the U.S. Border and Customs Protection (sic) [U.S. Customs and Border Protection]. It's exactly the IEEPA tariffs.

Brian Morrison
TD Cowen, Research Division

Sorry, I should have known it's IEEPA. I assume it's 301. I apologize. But in terms of the amount, like was it 10% on Honduras? Where are they coming from specifically in terms of regions?

Luca Barile
Executive VP & CFO

So, yes. So the large -- there's 3 elements, right? There's the tariffs that we paid in 2025 with respect to CAFTA-DR as well as tariffs that were paid from our Asian hub, right? So that's -- if you think about it again, it was around half and half, right? So the structural benefit is that we're no longer paying tariffs, neither under Section 122 or under Section 301 for our production and our supply that's coming out of CAFTA-DR countries, right? So that's at 0% because our product is qualified trade coming into the U.S. Where we continue to pay tariffs is in Bangladesh under Section 301 at 10% and Vietnam under Section 301 at 12.5%. Those are the 2 numbers you have to keep in mind and CAFTA-DR at 0. That's the structural benefit.

Operator

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

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

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.