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Market Intelligence

Gildan Activewear Inc. TSX:GIL

M&A Call

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to today's conference call. Please be advised that today's call is being recorded.

I would now like to hand the conference over to Jessy Hayem, Senior Vice President, Head of Investor Relations and Global Communications. Please go ahead.

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

Thank you, Sarah, and good morning, everyone. Thank you for joining us on such short notice. Earlier today, we were excited to announce that Gildan and HanesBrands have agreed to combine their businesses to create a global basic apparel leader pursuant to a definitive merger agreement that was entered into by the two companies.

On today's call, we'll take you through some of the details about the proposed transaction, including the acquisition rationale, transaction terms and financing and will discuss Gildan's 3-year outlook, assuming completion of the proposed transaction and reflecting its impact.

Joining me on the call today are Glenn Chamandy, President and CEO of Gildan; Luca Barile, Executive Vice President, Chief Financial Officer of Gildan; and Steve Bratspies, CEO of HanesBrands. They'll go over some prepared remarks and then a question-and-answer session will follow. Please note that the press release announcing the proposed transaction as well as a support presentation are now available on Gildan and HanesBrands corporate website.

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 Gildan's and HanesBrands' filings with the U.S. Securities and Exchange Commission and in the case of Gildan, the Canadian securities regulatory authorities. Including the announcement press release filed earlier today and particularly the cautionary statements regarding forward-looking statements included in the press release. All of the forward-looking statements on today's call are expressly qualified by this cautionary statement.

Please also take note that this conference call is not a solicitation of proxies in connection with the transaction. However, under SEC rules, Gildan, HanesBrands and certain of their respective directors and officers may be deemed to be participants in the solicitation of proxies in connection with the transaction. We refer you to Gildan and HanesBrands filings with the U.S. Securities and Exchange Commission. And in the case of Gildan, the Canadian securities regulatory authorities, including the announcement press release filed earlier today, for additional information about Gildan and HanesBrands directors and executive officers.

During this call, we'll also discuss certain non-GAAP financial and other measures, including pro forma measures, we refer you to the announcement press release and the relevant filings made by each party with U.S. and Canadian securities regulatory authorities for additional information on these measures.

And now I'll turn it over to Glenn.

Glenn J. Chamandy
President, CEO & Director

Thank you, Jessy, and good morning, everyone. Today is a historic moment in Gildan's journey. Earlier today, we announced that Gildan entered into a definitive agreement to acquire HanesBrands, a leading manufacturer and marketer of branded innerwear products for a total enterprise value of $4.4 billion. Together with Hanes, the combination will create a global basic apparel leader with access to iconic innerwear brands and further strengthen our low-cost vertically integrated manufacturing network. And we'll achieve a scale that distinctly sets us apart.

The combination with Hanes strengths are positioning with an opportunity to expand the heritage Hanes brands presence in Activewear across channels, while enhancing Gildan's retail reach for its portfolio of brands.

Further, our state-of-the-art, low-cost vertically integrated platform will be utilized to enhance efficiencies and drive additional innovations. We're very excited about the next stage of growth and remain focused on supporting our customers and continuing to drive long-term shareholder value.

I'm also extremely pleased to welcome the Hanes team to the Gildan family. And with that, I'll turn the call over to Stephen, who is with us today and then I'll come back to provide more details about what we believe is a compelling strategic financial rationale for this combination. Stephen?

Stephen B. Bratspies
CEO & Director

Thanks, Glenn, and good morning, everyone. Our team at HanesBrands has known you and Gildan for many years, and we have great respect for your company, manufacturing strength and long track record of success. In recent years, the Hanes brand team has made substantial progress to strengthen and focus our business, delivering consumer-centric innovation, driving market share gains and retail space expansion and attracting younger consumers to our portfolio of brands. We've simplified our supply chain and enhanced our manufacturing process. Our team has faced opportunities and challenges with determination and I'm incredibly proud of how far we've come.

HanesBrands' Board of Directors is confident the combination with Gildan is the right next step for the company and will be a positive catalyst to take HanesBrands to the next level. As part of Gildan, HanesBrands will benefit from an even stronger financial and operational foundation that will provide new growth opportunities.

The combination of our two companies will help to power further innovation, a broader product offering and greater reach across channels and geographies. Importantly, the transaction delivers significant and certain value for our shareholders, both through immediate cash and a substantial upside potential of the combined company.

As part of Gildan, we look forward to expanding on HanesBrands' portfolio of leading innerwear brands and go-to-market expertise. Opening new doors for growth and impact. I couldn't be more thrilled about the future of HanesBrands under Gildan's leadership, especially as Gildan intends to maintain a significant presence in Winston-Salem.

Finally, I want to extend my deepest gratitude to our associates around the world, your dedication, hard work and resilience have built HanesBrands into an iconic and trusted name. Thank you, and over to you, Glenn.

Glenn J. Chamandy
President, CEO & Director

Thank you, Steve. There is no doubt in our minds that the strengths of our companies are complementary. At Gildan, we have a proven operational experience to drive significant value creation and here are the core elements that I'd like to leave you with, which underscore the compelling strategic and financial rationale for the combination.

First, the acquisition effectively doubles our revenues to about $6.9 billion on a last 12-month pro forma basis and builds on industry-leading margins. Our expanded scale will enhance Gildan's position in basic apparel as one of the largest global apparel players by number of units sold with strong innovation from yarn spinning to end product and great supply chain capabilities to support customers.

Second, we'll be bringing together Gildan's leadership in Activewear with Hanes' leading innerwear retail presence and expertise. The combination will enhance our go-to-market capabilities and our continued growth in all channels. It will accelerate Gildan's retail presence which is portfolio of brands while supporting the growth of the Hanes brand in Activewear in all retail channels. Furthermore, the combination of our organizations will result in meaningful balanced category and channel exposure. So Gildan's product offering and diversification will be enhanced with the addition of Hanes iconic innerwear brands, broadening our consumer reach and further reinforcing our reliance on seasonal and cyclical variations.

Our state-of-the-art low-cost vertically integrated manufacturing network will be instrumental. The combined global supply chain is expected to enhance our low-cost advantage with an opportunity to drive manufacturing synergies. Gildan will use its best-in-class low-cost manufacturing structure and operational expertise to efficiently relocate production volumes across geographies and to optimize its network of distribution, logistics, infrastructure by leaning on proven operational capabilities.

Finally, the transaction is expected to be immediately accretive to Gildan's adjusted diluted EPS in year 1, and it's accretive to adjusted diluted EPS over 20% pro forma for the expected synergies of $200 million.

So in conclusion, today marks the start of an exciting new chapter for both Gildan and Hanes. Together, we're bringing complementary strength, shared values and united vision to create something far greater than the sum of the parts. This combination positions us well to expand opportunities for our people and delivering even more value to our customers and our shareholders.

I want to thank our team for their dedication and commitment that made this moment possible. And I'm confident that the road ahead will be defined by collaboration, innovation and success. We're enthusiastic about shaping what's next together and optimistic about the future.

And now I would pass the call over to Luca. Thank you.

Luca Barile
Executive VP & CFO

Thank you, Glenn, and good morning, everyone. Let me start by going over the transaction terms and financing, and then I'll discuss our 2025 guidance and 3-year outlook. Under the terms of the merger agreement, which has been unanimously approved by the Boards of Directors of Gildan and HanesBrands. HanesBrands shareholders will receive 0.102 Gildan shares and $0.80 in cash for every HanesBrands share for a total enterprise value of $4.4 billion. Based on the August 11 closing price for Gildan and HanesBrands shares, the offer implies a value of $6 per HanesBrands share, representing an implied premium of approximately 24% and to HanesBrands' closing price.

This represents an enterprise value to adjusted EBITDA multiple of 8.9x HanesBrands' last 12 months adjusted EBITDA or 6.3x including expected run rate synergies of $200 million. Furthermore, the HanesBrands' Board of Directors recommended that HanesBrands' shareholders vote in favor of the proposed transaction, which is expected to close in late 2025 or during the first quarter of 2026.

The transaction is subject to HanesBrands' shareholder approval and other customary closing conditions, including regulatory approvals. That said, upon closing, HanesBrands shareholders will own approximately 19.9% of Gildan shares on a non-diluted basis providing HanesBrands' shareholders the ability to participate in the combined entities expected growth opportunities and synergies.

Now turning to transaction financing. The implied transaction consideration is approximately 87% stock and 13% cash for every HanesBrands share. The cash portion of the acquisition is anticipated to be approximately $290 million. Moreover, we expect to refinance HanesBrands' revolving credit facility, term loans, unsecured notes, and short-term debt totaling about $2 billion in aggregate.

Accordingly, Gildan has obtained $2.3 billion of committed transaction financing comprised of $1.2 billion bridge facility as well as term loans in the aggregate amount of $1.1 billion. The bridge facility provides financing to backstop an anticipated issuance of new debt securities prior to the closing of the acquisition. Importantly, we expect to obtain investment-grade ratings from S&P, Moody's and Fitch.

And we expect that at closing, Gildan's net debt leverage ratio will be approximately 2.6x. It should be noted that we intend to pause our share repurchases through closing of the transaction, and until our net debt leverage ratio moves back to the midpoint of our target leverage framework of 1.5 to 2.5x net debt to adjusted EBITDA. That said, we see our net debt leverage moving back to or below 2x within 12 to 18 months following the closing of the transaction.

Finally, one last item to consider before I turn to our 2025 guidance and 3-year outlook. In conjunction with today's announcement and following the close of the transaction, we expect to initiate a review of strategic alternatives for the HanesBrands Australia business. We'll conduct a strategic review and execute the approach that is in the best interest of the company and which creates long-term value for our shareholders.

We are focused on wholesale printwear and retail markets where we can leverage our low-cost vertically integrated manufacturing network and the Gildan and HanesBrands portfolio of brands. At this point, it would be premature for us to provide further comment on this matter.

Now turning to the outlook. Firstly, considering the expected timing of the transaction close, we are reaffirming our revenue and adjusted diluted EPS guidance for 2025, as recently detailed in our second quarter earnings release. Then as Glenn mentioned earlier, the transaction is expected to be immediately accretive to Gildan's adjusted diluted EPS and the accretion to adjusted diluted EPS is in the 20%-plus range pro forma for the expected run rate cost synergies of $200 million. Approximately $50 million in synergies are expected to be realized in 2026, $100 million in 2027 and $50 million in 2028.

Therefore, assuming completion of the proposed transaction and reflecting its impact, we are providing a 3-year outlook for the 2026 to 2028 period. As such, we expect net sales growth at a compound annual growth rate in the 3% to 5% range. CapEx as a percentage of sales of approximately 3% to 4% per year on average. Continued shareholder returns via share buybacks and dividends in line with the previously stated long-term leverage framework of 1.5 to 2.5x net debt-to-adjusted EBITDA.

As mentioned earlier, we intend to pause our share repurchases until our net debt leverage ratio moves back to the midpoint of our target leverage framework. And adjusted diluted EPS is expected to grow at a compound annual growth rate in the low 20% range as compared to the midpoint of Gildan's 2025 adjusted diluted EPS guidance of $3.40 to $3.56. In this regard, adjusted EPS growth in the first year after acquisition is expected to meaningfully exceed the low 20% range.

With that, I'll now turn the call back 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]. Sarah, you may begin the Q&A session, please.

Question and Answer

Operator

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

Jay Daniel Sole
UBS Investment Bank, Research Division

Terrific. Glenn, Steve, both of you have talked about opportunities for, I guess, what would you call nearshoring, just because of the tariff situation that the U.S. has created, putting tariffs on many countries in Southeast Asia. How does this deal perhaps create an opportunity to take market share from some of the manufacturers in Southeast Asia? And how does it maybe accelerate that opportunity? If you could talk about that, that would be great.

And then secondly, Glenn, if you could talk a little bit more about the synergies. If you can give us a little bit more detail why you think $200 million is the opportunity out there? Where will it come from? If you could outline that in a little bit more detail, that would be great.

Glenn J. Chamandy
President, CEO & Director

Okay. Great. Well, look, I think that both companies are in a unique position today. If you look at the manufacturing footprint and supply chain of Gildan and Hanes and overlay, we're exactly aligned together. We have basically the bulk of our production in Central America and the Caribbean as well as some production in Asia. So we think that we're really well aligned to take advantage actually of this near-shoring opportunity. Our manufacturing capabilities, our low-cost model and the investments we made, I think will enhance and support what's there for Hanes to really step up to the plate.

So altogether, our network, I think, will work together. And also, that's part of really when you go to your second part of the question is the synergies. I mean the synergies are really leveraging our manufacturing structure. We've got available capacity. They've got two large facilities in the region that can be modernized to Gildan standards. And obviously, we're going to relocate volumes geographically and in-source more volumes into our own premises. So that's going to be a big part of the synergies as well as leveraging the Hanes retail expertise and all what they have together in Winston-Salem and really consolidating distribution footprints, optimizing logistics, IT infrastructure.

I mean there's a lot of synergies. I mean we feel that there's at least $200 million. Our analysis says that number is greater but we're providing a $200 million target because that's what we know we can deliver and we're very comfortable with those synergies basically.

Operator

The next question comes from Paul Lejuez with Citigroup.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Just to continue on the synergy topic. Can you maybe talk about what the earlier synergies to be realized or likely to be maybe in other words, like the low-hanging fruit that maybe gets that $50 million in year 1 versus the $100 million and $50 million in years 2 and 3? And then second, can you just talk about the Australian business a bit, the manufacturing base that is used for that business, the EBITDA tied to that business, and how does selling that business if, in fact, you do impact the synergy numbers that you indicated today? Like were there any synergies tied to the Australian business in the numbers you provided?

Glenn J. Chamandy
President, CEO & Director

We really want to comment on the exact synergies, but one would say, look at, I mean, they're both public companies. You've got public company expenses. I mean, it's obviously an obvious first year reduction of SG&A. So I'll leave it with that. But I think we have a very good articulate plan to roll out the synergies over the 3-year period. $50 million in year 1, $100 million in year 2 and $50 million in year 3. As for Australia, look, we really haven't applied any synergies to Australia because Australia is a business that's completely outsourcing the majority of its product. It's not a manufacturing model like the traditional Hanes underwear and innerwear business. So that's one of the reasons why we're looking to divest it because we really don't have a lot of synergies that will be applied to that business, and we're looking for a strategic review of what to do with the business as we go forward.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Got it. And then just one follow-up. What rate do you expect to be able to refinance the debt at? And are there any savings including in the synergy numbers you provided today?

Luca Barile
Executive VP & CFO

Yes. So the way we think about the refinancing, we're in a really good position given the committed financing for the transaction. And the way I would think about it is that will be refinanced at market rates.

Operator

The next question comes from Chris Li with Desjardins.

Christopher Li
Desjardins Securities Inc., Research Division

I want to start with Glenn, I think you've mentioned this maybe in your opening remarks already, but I wanted to maybe go deeper a little bit in terms of what type of revenue synergies do you expect to achieve as a result of this combination?

Glenn J. Chamandy
President, CEO & Director

Well, when you look at the two businesses combined and where we guided to the 3% to 5% in revenue growth, Gildan's strategy is not changing. If you look at the core business of Gildan, it's a mid-single-digit growth. Gildan is a leader in activewear. We're leveraging our manufacturing platform really to focus on the wholesale market and leveraging innovation and our cost structure to continue taking market share within the distributor market, the national accounts and supporting retailer private label as well and our GLB businesses.

The focus with Hanes. Hanes is more of a, I would say, low single-digit business. But they're the #1 player in innerwear, 125-year iconic brand and they're unrivaled in terms of their retail presence. So our objective is to really look at and where the value to unlock the value of HanesBrands is to really leverage our low-cost manufacturing and drive additional Activewear sales in Hanes brand in retail across all the retail channels.

So that's really where we look at the big opportunity. We guided to a 3% to 5%. So if you take Gildan and you take that mid-single digits and Hanes at low single digit, that sort of brings you into the range. And then as we look at the 3% to 5%, how we would get to the higher end of that range is really being successful on driving an Activewear strategy at retail. And that would really be, I think, where the large opportunity will come from a synergy of the two companies.

Christopher Li
Desjardins Securities Inc., Research Division

Okay. That's helpful. And maybe one for you, Luca. I think on your own, you're going to be generating about $450 million of free cash flow this year, and I think Hanes has a target of $300 million of free cash flow this year. On a combined basis, what do you think will be the free cash flow generation potential of this company?

Luca Barile
Executive VP & CFO

Thank you for your question. It's going to be strong. I think that's the way you have to think about it. The cash flow generation is going to be strong. And maybe with that question, I think the thing to keep in mind, I guess, from a financial rationale of the behind the transaction, what's comforting or what's very attractive is you take a look at the model, right? The transaction is immediately accretive to earnings, right? 20% plus pro forma for synergies. The growth profile that Glenn just articulated, 3% to 5% CAGR over the next 3 years. We're moving from mid-teens to low 20s in terms of the EPS CAGR.

All this and the leverage that's expected at closing is 2.6x. So to your point on cash flow, with strong cash flow, we delever this transaction relatively quickly. 12 to 18 months, we're going to be back around 2.0x of leverage, and that gives us the ability now with that strong free cash flow to return capital back to shareholders via share buybacks. We remain investment grade, $200 million of synergies. It's front-loaded EPS. So I think the cash flow generation is linchpin. If you think about this, we really have the ability to unlock value with a strong balance sheet and strong balance sheet fundamentals.

Operator

The next question comes from Vishal Shreedhar with National Bank.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Glenn, just as you contemplated this deal, I'm wondering how you think about the long-term performance at Hanes and maybe why that may have underperformed relative to expectations and even within your own retail aspirations over the years and the long-term performance of Gildan in retail. And when you look at those two together, the -- there may have been some underperformance at least relative to expectations of The Street. So how should we think about the combined entity and why you're so comfortable about the sales target at Hanes, reconstituting and delivering sustainable growth. We understand the cost synergies, but on the revenue side, why do you feel comfortable about the outlook for sustainable growth?

Glenn J. Chamandy
President, CEO & Director

Okay. Well, I'll start with the retail presence, okay? First of all, and maybe just sort of take it back in terms of the two different types of business and where really the value is going to be created, okay? In retail and maybe the reason why Gildan wasn't as successful in retail as Hanes has been in terms of their brand strategy, okay? So in retail, the key factors of driving success are our brands, innovation, quality, scale and availability and price. Those are sort of -- you got to look at the way the success factors roll out.

In wholesale, which is really our core business at Gildan today, it's price, availability, innovation and quality and brand is further down the requirement. So in wholesale, we're able to gain market share by leveraging our low-cost manufacturing. So if you look at the last 24 months, how much share we've gained because we have a significant advantage relative to our competitors. In retail, it's a little bit different. Brand is more relevant. And Hanes has a very, very strong brand. In fact, even though Gildan sells its underwear today in retail, Hanes brand is still gaining market share. So it has a good growth profile in the core Hanes brand and it's increasing share.

Where Gildan has been successful at retail is really driving a private label strategy and really sort of going after those third tier brands basically and taking share from them. So the combination of retail really works well because Hanes has got a positioning that we really can't leverage basically because of their brand strength and Gildan basically is really focused on the private label and those third-tier brands. So together, we now can tackle really the whole market and really drive synergies together. And if you look at the two companies, and they're always -- they work so well together that Hanes is sort of invested significantly year-after-year, hundreds of million dollars in advertising in their brand development.

We can never do that at Gildan. I mean, they've got -- if you take $100 million for the last 30 years, basically, hundreds and hundreds of billions of dollars basically invested in brand strategy, and contrary to what Hanes has been doing, investing in their brand, Gildan has been investing in low-cost vertically integrated manufacturing where we -- that's where all of our capital has gone in.

And so together, these two companies are complementary. You have an iconic brand like Hanes and you have a vertically integrated low-cost producer like Gildan, and now that opens up everything in the market for us from all aspects. So we're pretty confident that where the white space for Hanes basically is they're really an innerwear brand, and they really don't have an activewear presence at retail today.

I mean only 10% of the revenues are actually activewear and half of that is basically in the printwear channel. So they have very little retail presence than the Hanes brand. So we think we can unlock that value. And therefore, if we do, we think we'll be in a good position.

Now just going back to your question about what we think is that Hanes is a low single-digit business. Now they've gone sort of to their own back to basic strategy. Like you saw that in their earnings call where they just increased their earnings because they're reducing costs and sort of complexity out of their business.

And the one thing I want to leave you with is that the core Hanes business is underwear, socks, T-shirts and sweatshirts. It's everything that we do. I mean our product category, our manufacturing footprint everything is identical. So you can walk into a Hanes plant may not be as efficient and modernized as a Gildan factory is today, but they're running the exact same processes with the exact same types of equipment.

So this is a really complementary acquisition from all aspects, and we really work together where we've got the vertically integrated low-cost manufacturing, and now we can leverage its iconic brands in a much simpler downsized business that will be more manageable for Gildan and Hanes collectively to operate.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Okay. And with respect to the manufacturing which has been Gildan's strength over the long term. What percentage of HBI's manufacturing -- HBI manufactures a much broader product portfolio than Gildan with many categories that Gildan isn't in. So what percentage of their product portfolio could be accommodated within a Gildan facility? Or will Gildan be building different types of facilities? And does this change the facility plan that you've previously communicated to us about Bangladesh and the Honduras expansion?

Glenn J. Chamandy
President, CEO & Director

Well, I would say that Hanes stated that 75% of their volume has been is in-sourced. And when you take out the Australian business, that number goes way up. So that's the point. So like I said earlier, their product category and our product category are really the same. And what we're going to do is we're going to utilize the whole network to optimize it and come up with the best cost structure, best capital allocation that we possibly can in today's environment to create the amount -- maximum amount of synergies we can and flexibility in our supply chain.

So I think we -- and look, part of this is I haven't visited our factors yet. We've got a lot of data. But obviously, once we -- in the next coming months, we're going to continue to articulate our integration plan. And as we go through the next 4 or 5 months, we'll articulate as we conclude the transaction at the end of this year, beginning of next year and give more visibility on our actual integration in terms of the manufacturing.

Operator

The next question comes from Brian Morrison with TD Cowen.

Brian Morrison
TD Cowen, Research Division

Glenn, I want to circle back to that question. You just talked about the overlap in certain products, the socks, the underwear, the T-shirt, the sweatshirts. But Hanes also has a number of intimate brands such as Maidenform. I'm just wondering if you view these as core as they don't seem to overlap with your current profile?

Glenn J. Chamandy
President, CEO & Director

Yes. Well, they don't, obviously, and they -- basically, it's more of a cut-and-sew operation but it's very structured. So they produce outside of Maidenform, which is really more of a shapewear and it's more of those products are being sourced. And that's an area which I think Hanes called out, which is declining in revenue. That's something we still obviously need to continue to evaluate. But I would say that in general, the intimates business is a very structured business. I mean bras are relatively structured. They buy components. They're being produced in very efficient factories.

And for the bulk of their bra business, it's actually manufactured internally. So that's something that we still need to spend a little bit of time and energy on. But as far as we can see, it's just another part of the intimate business. And also it's very small in the overall scale of things. It's roughly 15% of the overall revenues as we go forward.

Brian Morrison
TD Cowen, Research Division

Okay. I wanted to ask you about the outsource of 25% that you answered that. I want to go on and ask, can you talk about the vertical integration opportunities. You've put a lot of capital recently into yarn spin and you're largely self-sufficient and that is going to flow through nicely, I believe, in 2026. I'm wondering if there's ample opportunity to expand vertical integration with Hanes and specifically on the yarn spinning front.

Glenn J. Chamandy
President, CEO & Director

What I would say to you is that, look, we'll definitely utilize our innovation between the yarns that we use to make our fleece, our new soft cotton technology to help support the growth of Hanes' Activewear business because that's really where I think the opportunity is for us collectively to grow top line sales. So I think we're well positioned. I mean, we've got ample capacity in our yarn spinning as we have new production coming online. And Hanes has a very good supply chain today in terms of who they buy their yarn from. So we'll manage and maximize both of these opportunities. And really, at the end of the day, the most important thing is that we believe that our manufacturing footprint can help innovate and elevate collectively all of our brand strategies amongst all of our portfolios as we continue to go forward.

Operator

The next question comes from Martin Landry with Stifel.

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

Luca, I was wondering if you could tell us what tax rate you're using in your accretion calculation for this year and the years forward?

Luca Barile
Executive VP & CFO

So when you think of taxes, obviously, you have the disclosures of both companies. And when you look at the combination, I would say that going forward, close to the 20% range is a rate to be used.

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

Okay. And Glenn, looking at Hanes, their revenues have been declining over the last 2 years, but there are pockets of growth within the organization. And for those of us that are maybe a little less familiar with Hanes. Can you just maybe talk a little bit about some of the packets of growth that they have, some of the brands that are doing well, some of the wins that they've had recently. That would be super helpful.

Glenn J. Chamandy
President, CEO & Director

Maybe we'll let Steve take that one, okay?

Stephen B. Bratspies
CEO & Director

Sure. As we think about our business, if you look at coming into this year, we have stabilized growth and are roughly flat to slightly up. So we feel good about where we are overall. Inside of that, our basics business, which is a lot of the business that Glenn has been talking about that fits so well under the Gildan umbrella, is now running up low single digits. So we're very excited that we've stabilized that business. The Hanes brand is incredibly powerful, continues to resonate with consumers. We continue to gain space at retail. So we're very solid in our basics business and feel good about that. And then some of the new businesses that we've been adding and expanding into Activewear, which Glenn talked about such a big opportunity, is also growing for us. So Activewear is up about 30%, and we are entering some new categories as well.

So we feel good that we've come over the hump, if you will, on growth. It's certainly challenging out there, but the businesses that are growing fastest inside HanesBrands right now, which is the Hanes brand and we refer to as our basics business is back to consistent growth. So the fit inside of the manufacturing capabilities at Gildan with our go-to-market is a very nice fit and should be complementary to both going forward.

Operator

The next question comes from Luke Hannan with Canaccord Genuity.

Luke Hannan
Canaccord Genuity Corp., Research Division

And congratulations on announcing this deal. I wanted to ask specifically about the opportunity for HanesBrands to be able to grow within Activewear. Is it, in your view, Glenn or Steve, whoever wants to take this, that it's possible for Hanes to -- now on a combined basis for Hanes to be able to have a market share in categories like fashion basics and fleece similar to what Gildan has today? Or in other words, can the portfolios of brands that you have in each of those categories, do you envision them both basically having similar market share over the long term?

Glenn J. Chamandy
President, CEO & Director

Well, I would say that, look, there's two different channels, right? So I'll talk maybe about the wholesale channel and Steve can answer maybe a little bit more on the retail side. But I would say to you that we're continuing to drive market share in the printwear segment, on our fashion basics, our fleece and all of our soft cotton technology. And the big opportunity for us, I guess, is to leverage that opportunity and our cost structure at retail and unlock that potential in terms of Activewear, where we -- I think today, Hanes has a very limited amount of market share in the retail category, although it's growing. And maybe you want to just continue with that part of the answer, Steve?

Stephen B. Bratspies
CEO & Director

Sure. Yes, as you think about Activewear, as we define it today, our consumer Activewear business is really a retail business. So it's very complementary to Gildan's business, it's roughly about 10% of our U.S. business today. And primarily fleece, it's a very good business, and it is growing, and we see really good potential for not only top line but profit improvement over time and you take the synergies and the efficiency that Gildan brings, that should only accelerate. Hanes plays very well in that space in the channels that we're in. So it's a big opportunity and nice growth opportunity going forward.

Luke Hannan
Canaccord Genuity Corp., Research Division

And then for my follow-up, Glenn, you had mentioned that Hanes brand has also gone sort of its own version of Back-to-Basics, and that's helped them sort of upgrade their views on growth going forward. And -- but also, you did touch on innovation as well. And I just want to be get a little clarity, I guess, do you envision a -- in terms of rolling out innovation through HanesBrands assortment, things like the soft cotton technology, for example, is that specifically factored into the synergies that you're targeting? Or is that additive to that?

Glenn J. Chamandy
President, CEO & Director

Well, that's going to be a sort of a sales synergy. I mean, that's how we're going to get the top line growing. I would say that our cost structure -- the synergies are evolving more around cost, reducing cost of the units being manufactured. So the -- our technology and innovation because that's -- really, if you look at Gildan, we've built such a low-cost model that we're able now to invest in innovation, either being our ring-spun products or MVS yarn that we use for our fleece, our soft cotton technology we're just able to produce those products at a very favorable attractive price that will help drive revenue growth in the future. So one is we'll get the revenue growth, but two, is our objective is to support the brand strategy with innovation by leveraging low-cost manufacturing.

And that's really going to be the key to taking an iconic brand like Hanes and leveraging Gildan's footprint of low-cost manufacturing and really adding value to the consumer. I think ultimately, we'll continue to drive share and separate us apart from the competition.

Operator

The next question comes from John Zamparo with Scotiabank.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

I wanted to follow-up on the past questions about capacity and the messaging from Gildan prior had been that the business was operating at roughly 90% of capacity. So I wonder if you can share a pro forma number for the combined business, especially factoring in the potential exit of the Australia business and moving some manufacturing to internal? And are there any products or categories in which you're somewhat constrained?

Glenn J. Chamandy
President, CEO & Director

Well, what we said is that we had about 10% additional capacity then we were actually expanding to another 10% before the end of this fiscal year. So we had good ample capacity. So look, we haven't decided yet. We've got to do a little bit of work on the networking. But I would say to you that we got ample capacity basically available between the two companies. I think the capacity is strategically located geographically to continue to reduce the impact on tariffs. Between the two companies, Gildan and Hanes' volume today, we're the largest consumer of U.S. cotton probably a period. And they use U.S. cotton as well.

So we're going to definitely look to -- and one of the things about the scale that we mentioned earlier is that Gildan built this low-cost manufacturing advantage on scale. We had 1 plant and we had 2 plants and we had 3 plants, and we had 4 plants. And every time we got another plant basically, we said, well, let's just make this product in this plant, and let's just make this product in that plant.

So as we look at the network, we're going to streamline our combined manufacturing and say, okay, this is going to be making this product, with this we're making this product. So we're going to get scale and efficiency basically through the integration of the two businesses basically on a longer-term basis. So we're very optimistic that our synergy number is somewhat conservative and that we're going to add basically good cost, good innovation, and we're very excited about the opportunity.

Maybe one last point -- yes, sorry, just one last point. The Australian business is just not a manufactured business because the type of product that is sold in Australia is pretty much outsourced and bought from third-party suppliers basically.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

Right. Understood. Okay. And then thinking more broadly, this deal is materially larger than any acquisition Gildan has done in the past. Is there anything Gildan has learned from past acquisitions that you believe sets you up for a successful integration this time around? And in what ways is Gildan approaching this differently than in the past deals?

Glenn J. Chamandy
President, CEO & Director

Well, I mean, I think, look, we've had many good acquisitions basically and they've all been small, but they've all been consistent. T-shirts, sweatshirts, socks, underwear, things we know how to deal with. So this is a large acquisition in revenue. But in terms of the amount of product that they actually manufacture in terms of their scale, because it's innerwear, it's not as sizable, let's say, for example, from a manufacturing perspective is our Activewear business because Activewear, it takes a lot more fabric to be able to support it. So it's really -- the way you have to look at it is that's not deviating from what Gildan does best. It's really basically underwear, socks, T-shirts, sweatshirts, things that we are core to that we understand. Their processes are the same as ours. Their customers are the same as ours. Their distribution centers, functions just like ours do.

So the opportunity for us to scale these things together optimize and synergize what we have, I think, is going to be relatively easy. It will be complex because it's large, but it will be -- we have a very good understanding of it. And systematic the way we approach it to really continue to unlock all that value. So we'll be very careful.

And the other point is, look, we're going to also leverage the core competency of Hanes' sales and marketing team in Winston-Salem as well, which will be a continued a focus for the company and leverage us and give us additional manpower and expertise that today, we may not have as well. So there's a lot of great things that are happening here.

I think that the acquisition is -- these are two pieces that move very close together. And although it's large, and we feel that it's very complementary. And because of the similarities of all aspects of the business, we think it's very manageable from an integration perspective. And we feel that the integration should be complete in the 12 to 24 months, some of it will spill over in 36 months. That's why we're confident in the cadence of the accretion.

Operator

The next question comes from Stephen MacLeod of BMO Capital Markets.

Stephen MacLeod
BMO Capital Markets Equity Research

Great. I just wanted to ask a question about just kind of getting a better understanding of the retail strategy. So understanding that Hanes has a very, very strong innerwear position at retail. Glenn you just talked about leveraging a lot of the infrastructure that Hanes has in place. So do you expect to try to roll new brands from Gildan into retail? Or is it more just about leveraging the infrastructure to kind of get your Activewear brands your Activewear product more strongly into the retail channel.

Glenn J. Chamandy
President, CEO & Director

What I would say the focus is going to be to leverage the Hanes brand into Activewear. I mean, continue growing its innerwear business leverage it with innovation and that kind of opportunity. But the real Activewear play, I think, at retail is going to be the leverage, obviously, the Hanes brand. We do have a portfolio of brands. We have GOLDTOE, we have our Gildan underwear that's currently being sold through various retailers. We have a lot of our other products that are sold online, with retailers as well.

So they're going to manage anything that we look at. How we're going to go to market, I think, could be enhanced with the capabilities and the team that's available and the expertise that we have at Hanes today. So we think that we're going to enhance our positioning at retail with us leveraging Activewear and supporting low-cost manufacturing. But at the same time, there's a good opportunity that we can leverage our portfolio of brands as well.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's helpful. And then maybe just on manufacturing and synergies. I just had sort of two questions related. But one is, why do synergies tick up in 2027? And then when you think about the supply chain side of the synergy math, which is roughly 50%, do you see any manufacturing consolidation opportunities?

Luca Barile
Executive VP & CFO

Well, maybe one part of the question, Stephen, in terms of the uptick in the second year has also to do with the assumption of the closing of the of the transaction. If it closes in the first quarter of 2026, and then obviously, from a manufacturing perspective, you have the synergies that would roll through your cost and inventory and then roll into your P&L. So some of that is just structural with the way the cost -- and cost synergies would run through the P&L.

Glenn J. Chamandy
President, CEO & Director

And as far as the manufacturing footprint, look we're going to devise our strategy over the next 5 months. But look, we're going to optimize as best we can. We're going to basically -- just to put things in perspective, we're not optimizing Gildan's manufacturing because we have more capacity, including the extra 10%. So obviously, as we run our capacity full as a first step, that's going to reduce overall cost of Gildan, which will be a synergy in itself. And then we'll continue to look at the assets that are there for Hanes. In certain cases, there could be some modernization to those assets. We've also implied that we're going to spend about 3% to 4% still on CapEx.

So we're still continuing to invest capital, which is a key strength behind Gildan's low-cost vertically integrated manufacturing that's going to support innovation and revenue growth in the future. So we'll decide where we're going to put these assets. And somewhat -- the truth is tariffs will play a part of that. I mean if tariffs continue to go up, I mean, we're well positioned in this hemisphere really with our U.S. cotton input to reduce the impact of tariffs. So we'll decide where we'll put that capacity. And we think that, that will be once we have a better look at the facilities and build their integration plan.

Operator

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

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

Thank you, Sarah. Once again, we'd like to thank everyone for joining us today on short notice and attending our call. 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.