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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Gildan Activewear's 2026 Q3 Earnings Conference Call. Please be advised that today's conference 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

Good morning, everyone, and thank you for joining us. Earlier today, we issued a press release announcing our results for the third quarter and first 9 months of 2026 and updated our full year 2026 guidance. The company's management discussion and analysis and consolidated financial statements for the 3 and 9 months ended September 27, 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.

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 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 2026 outlook and the risks and assumptions related thereto, our earnings press release dated November 5, 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 or Hanes throughout this call. As announced on October 26, 2026, we completed the sale of HanesBrands Australia business, which we refer to as HAA. 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 in this morning's press release, our results this quarter did not meet our expectations, reflecting a more subdued demand environment and some near-term challenges. The demand recovery we had anticipated did not materialize as expected.

Our third quarter net sales from continuing operations were $1.47 billion, up 61% (sic) [61.1%] versus last year, primarily due to the HanesBrands acquisition. Adjusted diluted earnings per share from continuing operations were $1.54, up 54% compared to last year. Our sales came in below our guidance of approximately $1.65 billion, mainly due to greater than anticipated demand softness and unfavorable mix, primarily in Wholesale. We also experienced some product availability and service constraints, primarily in Retail. Margins and cash flow held up well, supported in part by tariff refunds. Furthermore, we announced on October 26, 2026, that we completed the sale of HAA for approximately $490 million, paid in cash at closing, and we used the net proceeds from the transaction to repay outstanding debt.

Gildan continues to generate strong free cash flow, and we remain committed to disciplined capital allocation, including returning capital to shareholders. Consistent with this approach, we announced this morning that our Board approved a new normal course issuer bid to repurchase up to 5% of the issued outstanding common shares. With respect to our outlook, since we reported our second quarter results, the macroeconomic environment has changed rapidly. This morning, we updated our 2026 guidance, and we believe it is prudent to withdraw our previously communicated objectives for 2026 to 2028 period. Let me stress, we believe that the underlying

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strength and long-term prospects of the business remain strong, and we expect to provide an updated long-term outlook at an Investor Day, which is intended to be held in the spring of 2027.

Now let me take a few minutes to provide an update on the Hanes integration. We remain on track to generate approximately $100 million in targeted synergies for 2026, and we continue to expect approximately $250 million annual run rate cost synergies by the end of 2028. And we are pursuing additional opportunities beyond our current targeted as the integration progresses. Since closing the acquisition on December 1, 2025, we have made tremendous progress bringing the 2 companies together and building the foundation of the combined companies. In less than a year, we have moved decisively across virtually every area of the organization. We rationalized our supply chain footprint, announced 9 facility closures. We integrated and combined sock manufacturing and supply chain activities. We transitioned most of the Hanes textiles into Gildan's network and made great progress on consolidating key systems, and we completed the sale of HAA.

As we did this, we also focused on bringing innovation, elevation in the manufacturing of Hanes products. What is particularly encouraging is that we accomplished much of the heavy lifting required to establish the foundation of the combined organizations during our first year. Looking to 2027, our focus will increasingly shift towards optimizing our platform, further integrating processes and continuing to embed a one-company culture as we focus on realizing the full potential of the combination. In addition, we intend to bring our product innovation pipeline to market with new enhanced products expected to roll out progressively through 2027. Lastly, the build-out of our second facility in Bangladesh Phase 2 remains a key to our ring spun and innerwear cost leadership and innovation. It should significantly enhance the company's positioning to support key sales growth drivers, and the production of the second phase is expected to start in 2028.

In closing, we recognize that this quarter fell short of what we expected to deliver, and our updated outlook is not where we want it to be. We are acting decisively on several key aspects of our business, addressing the product availability, service constraints in retail, sharpening execution across our channels, capturing the full value of the Hanes integration and investing behind our brands. In the current environment, our priorities remain clear. Stay focused on what we control, including leveraging the scale of our business, our manufacturing network, our commercial capabilities and strengthening the foundation of the combined platform and continue to invest strategically in innovation and growth.

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. From a commercial and market backdrop perspective, macroeconomic conditions changed rapidly after we reported our second quarter results. Rising interest rates and persistent inflation in household essentials weighed on consumer demand for apparel in general. More broadly, the consumer remains challenged. We are operating in an increasingly K-shaped economy where higher income households continue to spend while lower and middle-income consumers who are feeling the cumulative impact of higher prices for everyday essentials and higher borrowing costs are becoming more selective with discretionary purchases, including apparel.

In this environment, consumers are prioritizing value. Retailers appear to be managing inventories and replenishment more selectively, adjusting future orders where sell-through or category performance is softer while continuing to replenish categories that are performing well. Retailers are also responding by emphasizing opening price points and smaller pack sizes to maintain affordability and consumers have shown limited willingness to absorb higher prices. While this backdrop is weighing on unit volumes in the near term, we believe our low-cost vertically integrated manufacturing model and our portfolio of brands spanning value to premium position us well to serve consumers across income levels.

So looking at our third quarter net sales from continuing operations of $1.47 billion versus our guidance of approximately $1.65 billion, there were 2 main factors behind the shortfall. First, approximately $100 million reflected greater-than-anticipated demand softness with the demand recovery assumed in the company's previous outlook not materializing as expected and unfavorable mix, primarily in Wholesale. Against this softer market, our share gains in some channels were also lower than we anticipated. That said, Comfort Colors, American Apparel and Champion continued to perform well with our customers.

Second, approximately $60 million reflected product availability and service constraints and were associated with evolving demand and order patterns, primarily in Retail. The balance of the shortfall pertains to lower net selling prices. Weather was also a factor in the quarter. We experienced exceptionally warm temperatures, including record or near record heat in several markets in the U.S. and in Europe, which contributed to an unusually warm start to the fall season. This weighed on fleece demand, which softened meaningfully in September, declining to mid- to high teens. Because fleece carries a higher average selling price than our basic T-shirt offering, this

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created an unfavorable impact to our sales mix, and some of that softness carries into Q4, whereas we had expected strong fleece sales during this period.

Now let me update you on the strategic growth initiatives we talked about last quarter, which were already underway and are focused on further strengthening the HanesBrands portfolio and increasing consumer engagement. As the environment evolved during the quarter, we continued to take a disciplined approach to reinvesting a portion of the tariff refunds. The key pillars of our strategy remain unchanged: brand elevation, retail marketing programs and accelerating innovation and packaging enhancements. However, we shifted some of the spending initially planned for the third quarter into the fourth quarter while keeping the overall envelope largely the same.

Within that, we increased our investment in brand building in the third quarter, where we believe it can deliver the greatest value in the current environment, and we intend to maintain that higher level into the fourth quarter. As we move into 2027, we have a compelling pipeline of product innovation coming to the market with a steady flow of new and enhanced offerings throughout the year. The rollout will begin across men's underwear and socks before broadening into women's and kids categories, bringing improved comfort, fit and performance alongside refreshed packaging and merchandising. We believe these innovations will further elevate our core brands and strengthen our offering with consumers and retail partners.

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

Luca Barile
Executive VP & CFO

Thank you, Chuck, and thank you all for joining us today to discuss our third quarter results. Let me start with the specifics of the quarter, then turn to cash flow and balance sheet items and our updated 2026 outlook. First, the quarterly results. We reported third quarter net sales from continuing operations of $1.47 billion, up 61.1% year-over-year compared to our guidance of approximately $1.65 billion. The year-over-year increase reflects the HanesBrands acquisition, partially offset by lower volumes, reflecting the difficult macroeconomic conditions since we reported our second quarter results and lower net selling prices. Compared with pro forma net sales from continuing operations of $1.61 billion, the decline was primarily due to lower volumes reflecting softer-than-anticipated demand trends across both Wholesale and Retail.

Looking at Wholesale, net sales were $735 million compared to $789 million in the prior year, down 6.8% and down 10.8% compared to pro forma net sales from continuing operations for Wholesale of $823 million in the prior year. The decline in Wholesale sales versus pro forma net sales from continuing operations is mainly due to softer demand trends amid the difficult macroeconomic environment, the positive impact of sales in the prior year in anticipation of announced price increases and to a lesser extent, product mix. As for Retail, net sales were $732 million compared to $122 million in the prior year, primarily reflecting the acquisition of HanesBrands. Compared to pro forma net sales from continuing operations of $787 million, Retail sales were down 7%, mainly due to softer demand trends amid the difficult macroeconomic environment as well as product availability and service constraints associated with evolving demand and order patterns. These factors were partially offset by the wraparound effect of pricing initiatives implemented after the third quarter of 2025.

Shifting to margins. We generated gross profit of $625 million or 42.6% of net sales versus $307 million or 33.7% of net sales in the same period last year. Adjusting for an inventory fair value step-up cost of $10 million recorded as part of the HanesBrands acquisition, adjusted gross profit was $635 million, or 43.3% of net sales, compared to 33.7% in the prior year. The year-over-year improvement mainly reflects a benefit of approximately $177 million in IEEPA tariff refunds, and lower manufacturing and raw material costs. These factors were partly offset by unfavorable mix and the flow-through of tariff costs in inventory. So excluding the positive impact of IEEPA refunds on gross profit and the offsetting tariffs embedded in our cost of inventory as well as the reinvestment in strategic initiatives, adjusted gross margin would have been approximately 37% for the third quarter.

SG&A expenses were $240 million compared to $95 million in the prior year. Adjusted SG&A expenses were $238 million or 16.3% of net sales compared to $95 million or 10.4% of net sales for the same period last year. The increase in adjusted SG&A in the quarter primarily 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. In addition, the higher SG&A includes expenditures related to the strategic reinvestments utilizing a portion of IEEPA refunds. This was partially offset by synergies realized from the HanesBrands integration process and lower variable compensation.

As we bring 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 $396 million, up $185 million year-over-year. Adjusted operating margin was 27% of net sales, up 380 basis points versus last year and 100 basis points ahead of our guidance of

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approximately 26%. The year-over-year increase reflects higher gross margins and the favorable impact from synergies realized as part of the HanesBrands integration process, partly offset by HanesBrands' lower operating margins due to historically higher levels of SG&A relative to Gildan.

Versus guidance, the outperformance mainly reflects a benefit of about 200 basis points from shifting some of the reinvestments of IEEPA tariff refunds into strategic initiatives from the third quarter to the fourth quarter, partly offset by about 100 basis points of greater-than-anticipated SG&A deleverage on lower-than-expected third quarter sales. Net financial expenses were $61 million, up $17 million year-over-year, primarily due to higher borrowing levels related to the HanesBrands acquisition. Now taking into account these factors and a higher outstanding share base as a result of the acquisition, GAAP diluted earnings per share from continuing operations were $1.37 compared to $0.80 in the prior year. Adjusting for restructuring and acquisition-related costs, the inventory fair value step-up cost and an income tax recovery of $11 million related to restructuring charges and other adjustments, adjusted diluted earnings per share from continuing operations were $1.54, up 54% from $1 in the prior year.

Now turning to cash flow and balance sheet items for the first 9 months of 2026. Cash flows from operating activities, which include discontinued operations, were $701 million compared to $270 million in the prior year. After accounting for capital expenditures of $78 million, we generated approximately $622 million of free cash flow. During the first 9 months of 2026, we returned $139 million to shareholders through dividends. We ended the third quarter with long-term debt, including the current portion of $3.98 billion, net debt of $4.14 billion and a leverage ratio of 2.7x net debt to 12 -- 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: amid a macroeconomic environment that has changed rapidly since we reported our second quarter results. Revenue is expected to be in the range of $5.4 billion to $5.5 billion compared to previous guidance of the low end of $6 billion to $6.2 billion. Full year adjusted operating margin of approximately 20% compared to previous guidance of approximately 21.8%. Adjusted diluted EPS in the range of $3.70 to $3.80 compared to previous guidance of $4.65 to $4.75. CapEx to come in at approximately 3% of net sales and free cash flow to be $700 million to $750 million compared to previous guidance of approximately $1 billion.

Our updated guidance reflects the third quarter sales shortfall and our expectation that these softer demand conditions will persist into the fourth quarter. As such, the reduction in full year 2026 revenue guidance compared with our previous guidance reflects both the impacts realized in the third quarter and our updated expectations for the fourth quarter and is attributable to several factors, including approximately $300 million with $240 million in Wholesale and $60 million in Retail, reflecting softer-than-anticipated demand by end consumers with the demand recovery assumed in the company's previous outlook not materializing as expected as well as unfavorable product mix, primarily due to lower-than-anticipated fleece shipments. Approximately $145 million, with $45 million in Wholesale and $100 million in Retail, reflecting lower-than-anticipated customer replenishment as customers manage working capital levels; approximately $75 million, reflecting product availability and service constraints associated with evolving demand and order patterns, primarily in Retail; and approximately $30 million, reflecting lower-than-anticipated net selling prices across customers and channels.

Now given the current macroeconomic environment and the update to our full year 2026 guidance, we believe it is prudent to withdraw our previously communicated objectives for the 2026 to 2028 period initially provided in our August 13, 2025 news release and outlined in our Q4 earnings release issued on February 26, 2026. As Glenn mentioned, the underlying strength and long-term prospects of the business remain strong, and we expect to provide an updated long-term outlook at our Investor Day, which we intend to hold in the spring of 2027. These 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, of which approximately $202 million was received in the first 9 months of 2026. It also assumes that a significant portion of tariff refunds equivalent to the nonrecurring refund benefit recorded in 2026 will be reinvested into further strategic growth initiatives in 2026, including investments in brand building, retail marketing programs and accelerating product innovation and packaging enhancements.

Our outlook assumes that the softer consumer demand experienced since the reporting of our second quarter results persists in the fourth quarter with no further meaningfully deterioration in the macroeconomic pricing and inflationary environment and the absence of a significant shift in labor conditions or the competitive environment. The adjusted effective income tax rate for 2026 is expected to be approximately 16%. The lower tax rate versus our previous expectation of 18% is the result of earlier-than-anticipated tax benefits resulting from the integration and the recognition of tax attributes that were not previously expected to be utilized. In addition, as Glenn mentioned, we used the proceeds from the sale of HAA to repay outstanding debt, and our Board approved a new NCIB to repurchase up to 5% of issued and outstanding common shares. As such, with the renewed NCIB and an expected strong free cash flow, we believe that share repurchases are an appropriate use of capital.

Importantly, our capital allocation discipline has not changed. While our leverage may temporarily exceed our target framework of 1.5 to 2.5x net debt to trailing 12 months pro forma adjusted EBITDA, we remain focused on maintaining an investment-grade credit

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rating, and we expect to return to within our net leverage target framework by the end of 2027. In summary, recognizing that our sales and guidance fell short of expectations, we generated $622 million of free cash flow through the first 9 months, and we expect $700 million to $750 million for the full year. Our updated guidance takes a prudent view of the fourth quarter, and we remain focused on maintaining a strong financial position while returning capital to shareholders through our dividend and our new NCIB.

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] Ginny, you may begin the Q&A session, please.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Chris Li with Desjardins.

Christopher Li
Desjardins Securities Inc., Research Division

I know it's a tough question to answer right now with all the macro uncertainties. Your revised guidance for this year implied Q4 sales will be down around, I think, 16%. How should we think about the first half of next year, understanding that there will be more macro pressure, but at the same time, you'll be lapping the proactive destocking from a year ago? So any sort of touch points or guidance on that would be great.

Luca Barile
Executive VP & CFO

Chris, thank you for your question. So a few elements. I think in order to understand the underlying strength of the business, one really has to understand what has taken place in the third quarter, given that our third quarter net sales came in below our guidance, but also below last year. So I do want to make sure I give you an informed view of the third quarter, explain how those trends have translated to the fourth quarter and then touch upon some of the underpinning elements that one can think of as you move forward. At this juncture, we aren't providing guidance for 2027. Typically, we do so for every fiscal year when we report our Q4 earnings. But let's focus on the third quarter first, and I'll get to your question.

So when you take a look at the third quarter, right, the revenue was $1.47 billion versus our pro forma, that was down about 8.9%, right? So there was a delta of about $143 million. And you need to look at that through the lens of Wholesale and Retail. So when you take a look at Wholesale, $735 million, that was down 10.8% versus pro forma of $823 million. The contributing factors, first and foremost, right, the softer demand trends that were experienced amid the macroeconomic environment, contributed to that difference as well as and very important is the unfavorable mix, which was driven by lower fleece sales than anticipated, okay? Third, there was a positive impact on prior year sales ahead of announced price increases in Q3 of 2025, okay?

But when you take a look at the Wholesale market, you have to take a look also at the market performance itself. And in Q2, the market was down low single digit, but was strong in June, right? And what we see now in Q3, and we've projected to Q4 is a market that is down mid-single digit. And our previous guidance was flat to down low single digit. But we had, in our estimates, previously assumed that the Q2 fleece tightness that we experienced was going to sell in closer to the season. And those sales have not come through. Historically, fleece has been a very strong category for us. But in the face of the warmer weather that we've experienced, we've seen the category in September alone, the POS was down, as Chuck was mentioning, mid- to high teens. And we've carried that forward, right, in terms of the expectation for the fourth quarter. So when you take a look at the elements in the Wholesale market, right, the 2 elements that contributed really are the softer demand trends and the unfavorable mix, which was impacted by fleece, okay?

When you look at Retail, Retail $732 million, right, down 7% versus the pro forma of $787 million. The contributing factor there year-over-year, right, we had softer demand trends amid the macro environment. That was partially offset by the wraparound of price. But we did experience availability and service constraints, right, that impacted the quarter. So when you take a look at Q4, you're right because we've given a view on the full year. Q4 is implied to be down. It will be down in both Wholesale and will be down in Retail. But the elements are the macro environment and on the Retail side, really that the availability and service constraints in Q3, which are, at this point, largely behind us and an element that we can tackle.

The other element in the full year guidance, which you have to take into consideration, which is important, is amid the softer demand trends in the macro environment I outlined, we are projecting that in the fourth quarter, we will see lower-than-anticipated customer replenishment as customers manage their working capital, and that's about $145 million. About $45 million of that in Wholesale, but primarily it's $100 million in Retail. And you have to think about that categorization as effectively customers curtailing their weeks of supply amid the environment. So once we understand the drawdown in the guidance this year and the performance, you say, well, what's the underlying business like, right?

Comfort Colors, American Apparel, Champion, these categories performed well. From a share perspective, we gained a little bit less share than anticipated, right? But the underlying strength of our product portfolio, the innovation that we're putting into our products, our view into 2027 positions the underlying strength of the business well. But it's important to understand the current scenario, and

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we've taken the cautious approach to the fourth quarter, given what we know, and we've drawn down the guidance accordingly. So I can't provide more guidance on 2027, but did want to share the more we -- the current conditions are understood and the underlying strength is understood to give us a view on going forward.

Christopher Li
Desjardins Securities Inc., Research Division

Okay. That's very helpful. And my maybe a follow-up question is, when you mentioned that you do expect to return to your financial leverage framework by the end of 2027. Just curious, what are some of the key building blocks that need to happen for that to be achieved?

Luca Barile
Executive VP & CFO

Well, it's a good question. So Chris, I would say that as a company, and that's evidenced this year so far, right, we've generated $622 million of free cash flow, and we're anticipating $700 million to $750 million for the year. In terms of our capital allocation strategy, we really do balance 2 key elements. One is remaining investment grade from a balance sheet perspective is very important to us and also important to our stakeholders and our customers.

So our target range of 1.5 to 2.5x has not changed. We may temporarily operate slightly higher than that range, but we balance that against also use of capital. The really good use of capital presently, we believe, is we've renewed our 5% NCIB program and, through that and our dividend, returning capital to shareholders. So strong free cash flow and our balance sheet strength really underpins our view of returning to framework by the end of '27.

Operator

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

Jay Daniel Sole
UBS Investment Bank, Research Division

Glenn, I want to just ask you about your 3-year outlook. Obviously, we're not getting a 3-year outlook today. But given this change in the environment and the opportunity to rethink the guide -- or to change the guide, what are you going to rethink about the strategy? What might you do different? Like what can you do to drive sales growth? Do you need to reinvest more? Can you just talk to us about what this is going to cause you to do based on this being the change in the environment over the last few months?

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

Well, yes, thank you. Look, we're disappointed, obviously, with the market. But I would say to you, that doesn't -- that has not changed our positioning. I mean, the consumer is basically under pressure. We think that will turn itself out. I mean, obviously, higher interest rates, higher oil costs, higher food costs, et cetera, those are things that are not in our control.

What's in our control is really the things that we've been able to do in building a strong brand portfolio, leveraging our low-cost manufacturing. And we believe that we're well positioned to execute on really innovating and reinvigorating the Hanes portfolio of brands. So we have a lot of momentum, I would say. It's hard to sort of comprehend that based on where we are today. But we've had a great reception from our Retail partners basically in terms of what things that we're doing on the innovation side, the packaging, the advertising. And we believe that, that's going to -- it's going to benefit us as we move into the next 3 years. And that's why we -- obviously, from where we are today from a revenue perspective, we had no choice but to relook at the revenue number.

But we still think and we're very positive that the company is in a very good position. Other than the consumer and the things that we don't control, the things we do control is, I think we did a great job on the integration. We've got our $100 million of synergies. We have very good sight and line of sight of the $100 million that we're going to capture for 2027. We feel comfortable on the $250 million, and we think that, obviously, there is more room for upside, which we'll continue to communicate as we go forward. But look, we've done a great job on the integration so far. The heavy lifting is behind us. We closed down all of Hanes' textile production. We consolidated our sock factory into their sock factory in El Salvador, creating probably one of the world's largest sock factories by machines that are actually fully running. We completed the full order-to-cash in the process of that integration and basically consolidated the distribution centers among socks.

We've done a lot of consolidation in the sewing network between Central America and Asia. We optimized distribution capacities and reduced facilities this year. And look, we're focused on 2027 for the complete full integration from all of our systems, order to

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cash for the balance of the product. So we're working light speed in terms of the integration. And combining that, we've completely reinvigorated every single one of Hanes' products that they're producing. I mean, we're -- that's why we were so excited originally about our Investor Day, but we're pushing that off a little bit because we just want to make sure that when we communicate, obviously, our long-term visions that we're well prepared. And look, we're getting the integration behind us. We have good visibility. And look, we're disappointed with the market, the consumer, obviously, the position we're in, but -- and we're really disappointed in letting down our shareholders, obviously, from what we guided to.

But when you look at the positive side of the integration, we're still generating positive EPS growth year-over-year. Our cash flow is still good, $700 million to $750 million. We executed on the HAA sale that we committed to. We bring our debt down within our range basically by the end of the year after a major acquisition. And we're en route to leverage all the synergies that we've outlined. And so there are moving pieces, but I would say to you that the business is not broken. We're very, very comfortable with our positioning. And look, we're still looking very forward to reissuing a longer-term guidance and meeting with our shareholders and explaining to them exactly where we are and the opportunities ahead of us.

Luca Barile
Executive VP & CFO

Yes. And I would say, Jay, just as mentioned earlier, right, we intend to hold that Investor Day in the spring of 2027. And from -- as I had mentioned on one of my previous remarks, really, the strength of our balance sheet is something that we are very focused on. And in terms of our deleveraging story, really coming back within our framework by the end of 2027 is what we're focused on.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. Maybe, Luca, if I could just follow up on that. I mean, given the softer demand conditions you talked about, the possibility that lasts into next year as some of the effects don't lap it until you get into the back half of next year. Is the change in long-term guide sort of signal that like, look, there's just going to be a lower base effect given what's going on this year? And -- or is it that you no longer really see the growth potential, like whatever the base is this year going forward after you adjust for the consumer environment, do you still see growth potential? Or can you just maybe frame like is this change about not being able to do the growth? Or is it just like having to really adjust the base and want to...

Luca Barile
Executive VP & CFO

Yes, Jay, it's the former, right? It's -- you have to readjust the base, right? And as Glenn was articulating, right, we had -- the prudent thing to do is withdraw the previously communicated guidance because of where we are today. So it's the base. And as we move forward, the fundamentals of the business are there. And maybe one aspect to think of is when you take a look at our margin profile, right, we're -- for the year, we've guided to an operating margin of 20%, right? And the previous guidance was 21.8%.

Effectively, within the guide of 20% now, you still have the consideration of the $100 million of synergies, right? But you're impacted by SG&A deleverage, right? So the shift in the top line has made its way through the numbers, which effectively governs the change in guidance on the adjusted earnings perspective. So it is a new base, and that is effectively the catalyst for withdrawing the previously communicated 3-year guide.

Operator

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

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Glenn, Gildan has been taking up prices in Wholesale for its apparel for several years now. And my understanding after speaking with some of your customers is that this is creating pressure in sales. And you've seen this pressure persist for years, and it gets more acute in some quarters and you're calling macro, which is understandable. But can you just comment on this? This taking up prices is in contrast to Gildan's long-term history of taking prices down, which has driven growth in this industry. But now this industry has been stagnant for years and you're commenting on the macro and it persisting, this weakness persisting. I want to get your perspective on if this is the right thing for Gildan to do. And if in the future, we should anticipate Gildan to revert back to its old strategy of taking down prices? Or are there more price increases expected?

Glenn J. Chamandy

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Co-Founder, President, CEO & Director

Well, that's a tale of 2 stories, I think I would say is that because, look, the #1 fastest-growing product in our line today is Comfort Colors. And Comfort Colors has growing at 20-plus percent a year, let's say, for example. And that shirt is selling for $5. We sell a basic shirt still relatively priced. I know that prices have gone up, but our basic shirts are still wholesaling at the $2.30 to $2.50 range basically. So they're still very, very attractive in today's environment.

And also, one of the big drivers of our growth over the last probably 4 years has been fleece. We significantly has grown our fleece business, and fleece is a $10 item. So -- and that's really what has impacted us this year is because where we had seen growth year-over-year-over-year, that business has really declined beginning in the third quarter and what we're anticipating for the balance of this year. So -- and that affects not just obviously the top line, but also the mix as well. So I don't think that price is really a factor because where you see the market growing, I think these are all higher-priced garments. Our ALLPRO is growing, our Champion is growing.

So I think it's really what's affecting the demand in the industry is really the consumer spending. Things -- inflation is hurting. You go to a rock concert, you can't even afford the ticket. You don't buy a T-shirt because it's the last resort. I mean, there's things like that, I would say, that are affecting demand in the industry. So what we need to see is we need to see inflation obviously come down. Inflation is a factor. And when you look at price, just to sort of maybe look at that from a different angle, inflation is still very relevant as we move forward where we are today. Now that may change in the next couple of months, but cotton, polyester prices, dyes, chemical, energy, transportation, labor are all going up and interest rates as well.

So if anything, I would say that there's probably room for more price increases for people to be able to not just us, but the whole world to absorb these higher costs. I mean, freight costs from Asia have been going up by $1,000 every tranche basically. I mean, they're back up to close to COVID levels when you look at the price of diesel, even though oil was trading at $100 a barrel, diesel is trading in the equivalent of $200 a barrel. So there are underlying inflationary factors that I think will continue to pull up price unless there's a reversal of oil and underlying interest rates as we go forward.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

Okay. And given that some of your customers in the Wholesale channel are private equity owned and the industry is weakening, and we're already seeing them destock, how long do you anticipate this destocking in the Wholesale channel to persist? Do you think this is kind of a 2-quarter thing? Or should we just expect it to continue through the course of the year until we anniversary?

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

Okay. Well, look at -- I mean, the destock is not really -- when you look at the inventory that we called out, the $145 million, $45 million of that was Wholesale and $100 million was Retail. So retail -- retailers not just one across the board are bringing down their weeks of coverage basically of products they have on their floor. In Wholesale, we're calling out a reduction of inventory in the fourth quarter of about $45 million, but that's in line with the negative POS. And I think that, that's the -- that's not really -- they're keeping up their weeks of supply.

So unfortunately, when the POS goes down, you're only keeping inventory on weeks of supply, so you bring down those weeks of supply in conjunction, and that's what really is a reflection. It's not on that one customer you mentioned, that's somewhat across the board in our distributors. So it's more of a reduction in inventory in the channel, but more related around a POS phenomenon than it is a reduction. So we feel comfortable with the inventory in the channel where we're going to end up at the end of 2026. And it will be a function of really the growth. If revenues grow, inventories go up. And if revenue goes down in unit volume, that inventory will dissipate. So it's a function of where it is, but we're pretty much balanced, I would say, at the end of '26.

Operator

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

Brian Morrison
TD Cowen, Research Division

Maybe, Glenn, can I follow up on that question. So back in 2019, Gildan ran into a similar backdrop of a strong Q2 change in macro need to revise guidance. My question is, do you view today's release as comparable in that the rapid change in macro? Or is there anything you may view as structural with the recent industry M&A? And then back then, you also said that prior cycles typically take 2 to 3 quarters to revert back to normal. Would you still hold by that?

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

Well, I would say that, look, I think in 2019, we fell off against a big cotton bubble basically that sort of translated into demand disruption, and we reset, I think, the -- and we try to energize our business and take market share by passing through that higher cost cotton sooner than we needed to in order to take market share, which was very successful and put us on a trajectory of long-term growth as we went forward.

It's hard to say. I would say today, things are a little bit different because the market is like what Chuck said, is in a K-shape basically where the lower-end consumer is really feeling the pinch. And that's a function of higher interest rates, higher gas prices, food prices. I mean -- and those things are really affecting the low-end consumer. So I would say we need to see really to get back on a trajectory. The question is, is that are we at the bottom of the market? I don't know. But to get back on, I think, a growth trajectory, we need to see inflation subside as we go forward. So we know we have a lot of inflation, which I just mentioned. We probably are going to be in a position that prices need to even move up in 2027 from where we're at today. But it's hard to say exactly where the market would be and where that consumer will be as we go forward.

The one thing I would leave you with is that we feel very good about our innovation pipeline and the opportunity to continue growing market share in Retail. And that's, again, a lot of things that we did this year in terms of the Hanes integration we're not feeling the effects of them. I mean -- and that's just the reality of the situation because in Retail, the time from resetting the floor and all of these new packaging and products will flow through in 2027 and really give us the ability to, I think, continue to take share, and we're well positioned by supported by our brand advertising and all the things that we're doing. So there's moving pieces. And hopefully, we'll see the market bring some stability as we move into 2027.

Brian Morrison
TD Cowen, Research Division

Okay. And my follow-up, Chuck, can you just -- could you please just detail within the Wholesale, what segments were most impacted? Like was it corporate spend? Was it tourism? Were there other products other than fleece that you called out? That would be helpful.

Chuck J. Ward
Executive VP & Chief Commercial Officer

Thank you, Brian. Well, I think we saw it across the channel really overall. The biggest impact was what you just mentioned was fleece. And Glenn mentioned it well. If you look back over the last 3 to 4 years, fleece was growing at 10% plus a year. It's been a continuing growing category. It's become a big part of our business. And so the biggest impact for us was really the change in fleece. And again, I think it has a lot to do with the warm weather.

You had record temperatures in parts of the U.S. and Europe that even warm still through October. And so it just gave us a really slow start to fleece. And it just has an oversized impact because of the high price -- sales price per unit compared to the other business. But I think the softness overall in seeing the channel down mid-single versus where, as Luca said, where we thought it would be was impacted by fleece and then outside of fleece was spread across all categories.

Operator

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

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

I'm trying to understand a little bit your target market now with the 2 combined companies. You're citing weakness in low-income consumer. I know this is not an easy question to answer, but what is your exposure to the low-income consumer right now? I don't know if you can talk about it per channel. Like what proportion do you think the low-income consumer represents of your total sales?

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

Well, look, if you look at the -- obviously, we have 2 different businesses catering ultimately to different consumers. But overall, I would say that the bulk of the innerwear revenues are coming from mass market customers. And obviously, the mass market customers is more oriented to servicing the low-end consumer. So I think that put that in perspective. And one of the, I guess, things that we just really need to evaluate is when that consumer will come back.

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Alan Greenspan once came out and said, the way he measures a recession is monitoring men's POS. And men's POS, when it goes negative, technically, the United States was going to a recession. So this K-shaped situation we have is we have, obviously, POS not performing and yet the higher-end affluent consumer, obviously, investing in stock market is doing really well. So we're really, I think, in a unique position because bulk of our products are going to masses, particularly in Retail.

And in Wholesale, I think we're more of a discretionary type event. I mean, you go to the rock concert, you can't afford a ticket. You still go to the show, do you not buy your T-shirt? You go buy pizza, a pizza shop, you don't buy a T-shirt. I mean -- so these are obviously discretionary items that people can avoid not to purchase. And that's one of the reasons why the -- I think we've seen a cyclical decline on a year-over-year basis, worse than we anticipated from the low to the mid-single digits.

Chuck J. Ward
Executive VP & Chief Commercial Officer

Yes. And I think what you're seeing on top of that is as you see Comfort Colors doing well, American Apparel, ALLPRO, the premium products, as Glenn mentioned in his comments earlier, are doing quite well. And that shows some of the diversification within that channel, Wholesale channel as well.

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

Okay. That's helpful. And maybe just looking at -- I would assume at Retail with mass retailers, the planogram discussions are happening now or have happened already for the reset in the spring. I'd love to hear a little bit how these discussions have gone, what shelf space look like for you guys next year versus this year?

Chuck J. Ward
Executive VP & Chief Commercial Officer

Yes, Martin, I mean, we're constantly in conversations with the retailers. As you mentioned, we don't have exact floor sets for next year. What I'll tell you is reiterate something Glenn said earlier. As we showed them our new innovation and new product, there was a lot of excitement because what we're doing, we're really raising that product quality, everything in men's bottoms, for example, the waistbands changed, the fabrics changed. Then not only we do that, we put it in better packaging.

And then across the line, we put in packaging that makes it shoppable from our base core all the way to our trade-up where it's more shoppable, better merchandised. And then on top of that, if you throw in the media campaigns and what we've done on the brand campaigns so far in Q3 and what we're going to do in Q4, hopefully, you've gotten to see some of our commercials that have been on Thursday Night Football, been on different programs. And so we're really doing -- amplifying the brand conversation right now. And then what we're going to follow that with as we go into 2027 is really product-specific messaging around our innovation. And then we -- because once you amplify the brand, you come behind that with product messages.

And as we've shown that to the retailers, that creates excitement to them because it drives traffic to their store. And that's what they're after is, can they drive additional ring and traffic in their store. So what I can tell you, I don't have space numbers yet for 2027. But I can tell you the conversations are going well, and the retailers are definitely excited about what we're doing with our products and our brands.

Operator

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

John Zamparo
Scotiabank Global Banking and Markets, Research Division

I wonder if you could share performance by month on a POS basis through Q3 and also for October?

Luca Barile
Executive VP & CFO

John, we don't provide that information, right, in terms of a monthly breakdown and POS by category. But what we can say is, look, we were surprised, obviously, with the rapidity of the impact within the third quarter. We were impacted by softer demand trends amid the macro environment. As we did mention, going into September, which is really the beginning of the fleece season, the most notable was really the fleece category where POS was down mid- to high teens, right? And that comparative to fleece growing year-over-year

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for the past few years was a differential, which was fueled really by the weather and other factors. So we don't provide that amount of detail, but that was a category that was clearly indicative.

Chuck, do you want to add anything there?

Chuck J. Ward
Executive VP & Chief Commercial Officer

Yes. What I would say, John, is we -- if you go back and listen to our last call, we mentioned that we had seen in Wholesale, for example, we saw a good June and then we saw softening in July. And what I'll just call you to is then it decelerated further more than expected in August and September. So that kind of gives you the trend of the quarter. Similarly, we had said in Retail last quarter that we had saw the start of Q3 a little softer and then deceleration. So that gives you a little bit of color. And then what I would tell you about October is we're trending as we've expected in our new guidance. So I would tell you, we're a similar trend, and we're in trend with what the guidance we've given.

John Zamparo
Scotiabank Global Banking and Markets, Research Division

Okay. And more broadly, I wonder why you think your industry is disproportionately impacted by the low-income consumer? Is it as simple as it's a discretionary category? Because there's many retailers and brands out there that have significant exposure to low income, but the organic sales declines are maybe not as material as what Gildan is facing and seemingly what the industry is facing. So I wonder how you think about the industry, why it's disproportionately impacted, particularly as many of us consider Gildan a share winner from trade down?

Chuck J. Ward
Executive VP & Chief Commercial Officer

Sure. And specifically, when you're talking about it from a Retail perspective, I think when you think about the economy overall, you see that the $150,000-plus consumer is doing pretty well. Because they're not as impacted by the fuel prices and food prices and so forth. But when you look at the consumer that's $100,000 and under, they're having to make some tough choices right now. They're having to decide, can I afford my gas to get to work and take the kids to school? What can I spend on food?

Now do I think the underwear recovers and innerwear recovers? Yes, I do. I think it's a category that's replenishable. People are going to want and need. But when they're making a tough decision at a point in time, can they put off that replenishment of their innerwear for a few more quarters or a month or whatever it is, that's a decision they make so that they can fuel their car and provide food. So I think that's the way we see it and the way we're hearing in the market. And again, I think it will come back, but it's a tough decision people are making right now at a lower income level.

Operator

Your next question comes from the line of Nevan Yochim with BMO Capital Markets.

Nevan A. Yochim
BMO Capital Markets Equity Research

You have Nevan on for Steve today. I was just hoping you can expand upon the product availability and service constraints you're facing in Retail? Was this related to a few large customers? Or would you view it as broader based? And then do you expect the full impact to be isolated to 2026?

Chuck J. Ward
Executive VP & Chief Commercial Officer

Sure. Thank you. And again, I think the -- if you can look at the availability constraints, they were across categories. So it wasn't a specific retailer or specific category. But I'll give you a little more color on that. I mean, you had several factors. One, we had the fact that we were impacted by shift cadence and kind of mix. And you could see things like change in lower pack sizes, things that our forecast came in a little bit different from what we forecast and planned for. So you had a little bit of that.

We had some minor production tightness as we went through some integration of the facilities that Glenn went through, but that went well. We just had some tightness through that. And then one of the bigger impacts, I would say, is the longer-than-expected lead times on certain sourced products and freight and transit times out of Asia that's really been impacted by the Middle East conflict and what we're seeing move around there. And one of the drivers there as you think about our Wholesale business, before we have back orders,

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we just fill them once we get the goods in. The retailers, we get an order in, if you can't fill it, it cancels. So that's -- it's a larger impact when you think about from a Retail perspective.

Now one of the things -- we have a plan and a clear set of actions underway to address this, and that's what we want to assure you. And one of those is looking at, for example, Hanes historically had lower inventory targets on some of these longer lead time items. And we're actually going to slightly increase those so that we can carry a little more supply onshore, invest a little working capital to make sure that we can service those -- that Retail demand and have product available.

So we're -- we've implemented that. We're in the process of building that up. And what I would tell you is, and I think we put in our release, for the most part, these inventory constraints are behind us. And so I would say they're largely behind us, and you shouldn't see that impact as we go into 2027.

Nevan A. Yochim
BMO Capital Markets Equity Research

Great. That's helpful. And then just lastly, Luca, are you able to unpack your margin guide for 2026? Relative to the prior expectations, would you view the pressure is more coming from gross margin or SG&A? And then any goalposts that you're able to provide as we head into 2027?

Luca Barile
Executive VP & CFO

Thank you for your question. So when we look at the gross margin and the SG&A and the operating margin, let's start with the third quarter. So the operating margin in the third quarter was 27%, which was ahead of guidance of 26%. Two main factors there, 200 basis points approximately because of the timing of our reinvestments that were planned between the third and the fourth quarter and then offset by about 100 basis points of SG&A deleverage, right? So still a strong margin within the quarter.

When you take a look at the full year, we're guiding to an adjusted operating margin of approximately 20%. That is underpinned by -- considers the $100 million of synergies. And as I mentioned, the previous guidance was 21.8%. Obviously, with the call down in terms of the top line, there's -- it's impacted by SG&A deleverage. But if you take a look at what really underpins our margin as we move forward, right, in gross margin, let's not forget this year, we had lower year-over-year fiber costs, right? We had the synergy realizations. We had tariff refunds net of some reinvestments that were through the gross margin.

We're managing inflationary puts and takes, right? And we do have good visibility at this juncture given our vertical integration and the way that our costs flow through inventory and cost of sales. So we've mentioned on previous calls, our advantage in terms of our network and operating in Bangladesh, our network optimization in Central America and the investments that we made in our yarn optimization have beared fruit. So the underlying gross margin is strong. And with respect to SG&A, when you take a look at our SG&A percentage, synergy realization is coming through. We have line of sight on the next $100 million for 2027 that's going into our operating margin as well.

And so we had some elements this year such as our -- the Barbados subsidy that has come through. We do have lower variable compensation this year, but we also had some onetime integration costs in our SG&A that will not recur. So when you take a look at the 20%, it was really impacted by SG&A deleverage. But as we move forward, we will see those synergies continue to come through and the underlying strength of the margin is there for the business.

Operator

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

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

Thank you. Once again, thank you for joining us today, and we look forward to speaking with you soon. Have a great day.

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

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