Call Participants

EXECUTIVES

Chuck J. Ward
President of Sales, Marketing & Distribution

Glenn J. Chamandy
President, CEO & Director

Jessy Hayem
Head of Investor Relation

Rhodri J. Harries
Executive VP and Chief Financial & Administrative Officer

ANALYSTS

Brian Morrison
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Jay Daniel Sole
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Mark Robert Petrie
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BMO Capital Markets Equity Research

Vishal Shreedhar
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Presentation

Operator

Good morning, and welcome to the Third Quarter 2024 Gildan Activewear Earnings Conference Call. [Operator Instructions]

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

Jessy Hayem
Head of Investor Relation

Thank you, Angela. Good morning, everyone. Earlier, we issued a press release announcing our results for the third quarter of 2024, along with our interim shareholder report containing management's discussion and analysis, as well as consolidated financial statements. These documents are expected to be filed with the Canadian securities regulatory authorities and the U.S. Securities Commission today, and they will also be available on our corporate website.

Joining me on the call today are Glenn Chamandy, President and CEO of Gildan; Rhod Harries, Executive Vice President and Chief Financial and Administrative Officer; and Chuck Ward, President, Sales, Marketing and Distribution. This morning, we'll take you through the results for the quarter, and then a question-and-answer session will follow.

Before we begin, please take note that certain statements included in this conference call may constitute forward-looking statements, which involve unknown and known risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. We refer you to the company's filings with the U.S. Securities and Exchange Commission and Canadian securities regulatory authorities.

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.

And now, I'll turn it over to Glenn.

Glenn J. Chamandy
President, CEO & Director

Thank you, Jessy, and good morning, everybody. As highlighted in this morning's release, our Gildan Sustainable Growth strategy, or GSG, is clearly driving growth. We delivered record third quarter sales of $891 million, which were up 2.4% versus last year. Excluding the phase-out of Under Armour, our third quarter consolidated sales would have been up high-single digits.

We are not only strengthening our competitive position and driving growth, but we are also continuing to enhance our profitability, as reflected in our Q3 results, with adjusted operating margins of 22.4%, up 430 basis points year-over-year, and record third quarter adjusted diluted EPS of $0.85, up 15% versus last year, all while continuing to return significant capital to shareholders with a record of $404 million returned in Q3 and $643 million year-to-date. Rhod will provide more details shortly.

But let me tell you that we are very excited about the opportunities ahead, as we continue to leverage the benefits of our ongoing yarn operation modernization in the United States, scale up further, capitalizing on our new Bangladesh operation, which is ramping up as planned and which will support the long-term growth of our ring-spun products, as we continue to optimize our operations in Central America to support the growth of our fleece and as we leverage the largest pipeline of innovation in the company's history with the development of our new soft cotton technology, our new MVS technology for fleece, our new color blast for Comfort Colors, our plasma technology to improve and reduce the cost of screen printers digital printing, just to name a few, with more to come in 2025.

The successful execution of 3 strategic pillars: capacity expansion, innovation and ESG, all of which are pretty much in place today and definitely moving the company in the right direction. Our complete focus on executing our GSG strategy gives us the confidence in our ability to deliver on our 3-year growth targets that we had laid out earlier this year for the 2025 to 2027 period, including mid-single-digit sales growth, improved adjusted operating margins over the 3-year period as compared to 2024, CapEx as a percentage of sales about 5% per year on average, continued share repurchase in line with leverage framework of 1.5x to 2.5x net debt to adjusted EBITDA, and adjusted diluted EPS growth in the mid-teen range.

As we approach 2025, we are well positioned with good visibility heading into the new year, assuming that the current macroeconomic outlook holds.

I'm looking forward to answering your questions after Rhod's formal remarks, and I now will turn it over to Rhod.

Rhodri J. Harries
Executive VP and Chief Financial & Administrative Officer

Thank you, Glenn, and good morning, everyone, and thank you for joining us today to discuss our third quarter results. I'll start by going over the specifics of the quarter, and then I will comment on our outlook and guidance for 2024. So let's begin with the quarter's results.

As Glenn mentioned in his remarks, we reported third quarter sales of $891 million, up $21 million or 2.4%, at the high end of our guidance range for the quarter of flat to low-single-digit growth. If we exclude the impact of the phase-out of Under Armour, net sales for the quarter were up high-single digits on a year-over-year basis. This was driven by a strong performance in Activewear, up $44 million or 6%, driven by higher sales volumes, reflecting positive POS across channels in North America. We observed continued momentum with national account customers in several of our retail end markets, namely craft, online retailers and in certain other mass markets. Moreover, our strong competitive positioning has enabled us to capitalize on recent changes in the industry landscape.

The overall growth in Activewear sales would have been [higher] but was partially offset by unfavorable product mix in the quarter. This was partly because of lower fleece sales compared to last year's strong performance, which was largely due to timing differences and which we had anticipated. Overall, though, we were pleased with our mid-single-digit sales growth in Activewear, as we continue to see market share gains in key growth categories, as well as a positive market response to our newly introduced products featuring our new soft cotton technology.

Looking at international markets, sales increased by 20%. Growth stemmed from positive POS in Europe, our largest market, as well as inventory replenishment by distributors from suboptimal levels. We are now clearly increasingly better positioned to service this market as we ramp up our Bangladesh facility.

Turning to Hosiery and underwear, as expected, this category was down 18% versus the prior year, mainly due to the phase-out of the Under Armour business, and to a lesser extent, due to unfavorable mix. Excluding this phase-out, our Hosiery and underwear sales would have been up low-double digits year-over-year, highlighting strong underlying growth as we gained further traction with other national account customers and despite the prevailing broader market weakness in underwear.

And finally, a quick note regarding our year-to-date net sales. If we exclude the impact of the Under Armour phase-out, sales for the Hosiery and underwear category, as well as consolidated sales would have increased by mid-single digits year-over-year.

Turning our focus to margins for the quarter, our gross margin was 31.2% versus 27.5% in the prior year, a 370 basis point improvement, primarily due to lower raw material and manufacturing input costs, in line with our expectations.

As for SG&A, expenses were $84 million in the quarter, including $6 million in carryover charges related to the proxy contest and related matters. Excluding these charges, adjusted SG&A expenses were $78 million or 8.8% of net sales, a 70 basis point improvement versus last year. The year-over-year reduction in SG&A mainly reflected the ongoing positive benefit of the jobs credit introduced by Barbados during the second quarter as part of their economic policies.

As we bring all these elements together and adjusting for proxy contest and related matters, we generated adjusted operating income of $200 million or 22.4% of net sales, in line with our guidance and up 430 basis points compared to the prior year.

As expected, the company's adjusted effective income tax rate for the quarter was 18.7% compared to 5.1% last year, reflecting the enactment of Global Minimum Tax in Canada and Barbados earlier this year.

After reflecting higher net financial and income tax expenses and our lower outstanding share base, we reported GAAP EPS of $0.82. Adjusting for the charges related to the proxy contest and related matters, our adjusted diluted earnings per share were at a record level for a third quarter at $0.85 versus $0.74 in the prior year, which represents a 15% increase.

Now, let's shift to cash flow and balance sheet items. With cash flow from operating activities of $178 million and CapEx of $30 million, the company generated free cash flow of $149 million in the third quarter. This, together with our strong balance sheet, allowed us to continue to execute on our capital allocation priorities. And reflecting our strong commitment to returning capital to shareholders, we repurchased close to 9 million shares under our NCIB and returned a quarterly record of $404 million in capital, including dividends to shareholders in the third quarter. We ended the quarter with net debt of $1.5 billion and a net debt to EBITDA leverage ratio of 1.9x, well within our targeted debt levels.

Let's now focus on our strategy and outlook. As Glenn mentioned earlier, we continue to progress on the 3 pillars of our GSG strategy: capacity-driven growth, innovation and ESG. The ramp-up of our new manufacturing complex in Bangladesh is on track and set to be at an exit capacity rate of 75% by year-end. On the innovation front, our new products are receiving positive feedback. And lastly, with regards to ESG, we're proud to have received yet another recognition, this time as one of Canada's Most Responsible Companies by Newsweek, ranking 14th overall and securing the top spot in the retail and consumer goods industry, a testament to our fundamental commitment to ESG.

So overall, we're very pleased with our performance despite a somewhat mixed macroeconomic backdrop. More specifically, considering where we are today in our final quarter, we feel we are on track to deliver our full year 2024 guidance, and as such, we have further narrowed our 2024 outlook range as follows.

We're moving our revenue growth guidance to the upper end of our previous range. So we now anticipate growth of low-single digits compared to our previous guidance of flat to up low-single digits, noting that if we were to exclude the impact of the Under Armour license agreement, 2024 full year revenue growth would be in the mid-single-digit range. And remember, this phase-out has had minimal impact on our profitability.

We now also expect adjusted operating margin to slightly exceed 21% compared to our previous guidance of slightly above the high end of our 18% to 20% target range for 2024. This factors in the benefit of the refundable jobs credit introduced by Barbados, as described earlier.

We now expect adjusted diluted EPS to be in the range of $2.97 to $3.02, up significantly between 15.5% and 17.5% year-over-year, which compares to our previous guidance range of $2.92 to $3.07 for 2024. This takes into account an expected adjusted effective income tax rate of approximately 18% for the full year compared to 4.4% last year.

We also continue to expect CapEx to come in at approximately 5% of net sales, and free cash flow is still expected to be above 2023 levels, driven by increased profitability, lower working capital investments and lower CapEx than in 2023.

Finally, we plan to continue share repurchases in the final quarter, given the strength of our balance sheet, our expected strong free cash flow and our leverage framework target of 1.5x to 2.5x net debt to adjusted EBITDA.

So this wraps up our financial overview for the quarter. Before we take your questions, I would just like to reemphasize that the strength of our vertical integration model, our steadfast focus on our cost structure, the successful execution of our GSG strategy, combined with the strength of our balance sheet and free cash flow generation ability, all position the company favorably for the coming years, especially considering the current competitive landscape.

So bottom line, and as Glenn mentioned earlier, we feel like we are fully on track to deliver on the targets we have provided for the next 3 years of mid-single-digit revenue growth, improved annual adjusted operating margin as compared to 2024 and mid-teen adjusted EPS growth.

Thank you all for joining us today. With that, I will now turn it back over to Jessy.

Jessy Hayem
Head of Investor Relation
Thank you, Rhod. This concludes our prepared remarks, and we'll now begin taking your questions. [Operator Instructions] Angela, you may begin the Q&A session.

Question and Answer

Operator

[Operator Instructions] Thank you. Your first question comes from the line of Paul Lejuez with Citi.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Two questions. One, just, during the quarter, curious if you could talk about POS trends that you saw throughout, how it trended, and if you could comment on anything that you might be seeing fourth quarter to date.

And then, looking out to next year, curious if you have any high-level thoughts about '25 market growth, but also market share opportunities, just given the changing competitive landscape that you're seeing out there.

Glenn J. Chamandy
President, CEO & Director

Why don't you start from POS?

Chuck J. Ward
President of Sales, Marketing & Distribution

Paul, it's Chuck. And I guess, we'll start with your question on the POS trends. So overall, we think the market has continued to be down low-single digit to mid-single digits, but we've been gaining share in all the categories. Our basics POS was positive for the second quarter in a row. And I think it's showing really, as Rhod and Glenn both mentioned, that our innovation, our soft cotton technology is really coming through and well received by the market. But then, our growth continues to be really in the ring-spun and fleece categories, where we're continuing to take share and drive growth with those categories.

As for the trends through the quarter and then also what Q4 looks like, we continue the same trend we've been seeing, which the quarter start out with a little slower POS and then it picks up throughout the quarter. We saw that in Q3, and we continue to see that in -- as we go into Q4. So that's just sort of on the trends and where the POS had been. And I'll let Glenn talk about 2025.

Glenn J. Chamandy
President, CEO & Director

Yes. Look, as far as we go forward into 2025, I think, look, we've got very good visibility, first of all, on our cost structure, and we have very good visibility on new programs that are basically going to support our growth for 2025. And I would say that we've taken a conservative assumption to flat-to-low single-digit growth. Basically, we're taking still a view that the market is still going to be weak as we move into next year. But those things considered, we feel comfortable that we'll be able to hit our mid-single-digit growth target.

Paul Lawrence Lejuez
Citigroup Inc., Research Division

Just to be clear, that is a flat-to-low single-digit growth in the market overall?

Glenn J. Chamandy
President, CEO & Director

Yes.

Rhodri J. Harries
Executive VP and Chief Financial & Administrative Officer

That's correct, Paul. Flat-to-low on the market. And then overall, we're effectively going to be mid-single, in line with our 3-year algorithm for growth. And obviously, we do feel very good about the market share opportunities highlighted when we opened up the call and all the things that we're working on.

Operator

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

Mark Robert Petrie
CIBC Capital Markets, Research Division

I wanted to just sort of follow that same theme and maybe specifically hone in on national accounts. If you could just sort of talk about the dynamics that you saw in Q3, how you expect that to play out in Q4 and then into 2025? And how sticky you think the gains that you've been able to secure are?

Chuck J. Ward
President of Sales, Marketing & Distribution

Okay. Thank you, Mark. And we feel like our national account business has been going well. Rhod called it out in his comments. We've seen gains across the categories there and across channels within our national accounts. And we think we've continued to gain share because, as I mentioned earlier, where the market is, down low-to-mid single-digits, but yet we are continuing to grow. So we continue to gain share in those categories. And we feel good about kind of that moving forward as well. As Glenn mentioned, as we think about going forward into 2025 between the market growth and then plus our new programs, we feel like we're going to be able to hit our targets of growing mid-single digits. So I think we feel good about the national account business.

Glenn J. Chamandy
President, CEO & Director

And also, some of it is not just market share, but don't forget, we're getting new programs, which just add on to -- so it's a combination of new programs and share that's growing the overall growth. I think that's an important point.

Mark Robert Petrie
CIBC Capital Markets, Research Division

Understood. And also, could you just expand on specifically how the U.S. yarn operations sort of layer into the GSG plan and the opportunities that that's affording you with regards to market share momentum?

Glenn J. Chamandy
President, CEO & Director

Well, what they're supporting, first of all, is giving us a competitive advantage as all of our soft cotton technology has really been developed throughout our yarn operations and gives us a competitive advantage. We've also not just modernized and changed the way we make our MVS for our fleece, but we've also significantly increased the capacity within those factories. So part of the optimization is the changeover from our new soft cotton technology, as well as adding capacity and tweaking how we're going to make our yarn for our fleece, which will now become more -- will become softer, as well as the -- we will have much better printing capabilities in terms of the garments themselves. So these are types of things that we're continuing to do. And it's for us being a vertically-integrated company, it gives us an advantage, and we're continuing to spend and innovate and drive sales. And this is -- our sales in basics are positive for second quarter, and this is really because of the technology we've been able to deliver to the market.

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 ask you a question. I think Rhod had alluded to this in his prepared remarks, but just changing industry dynamics, 2 of your largest customers essentially have now gotten together because of an acquisition. Can you just talk about how that might impact the business? I guess, there's some concern out there that they're bigger, maybe they have a little bit more leverage now, they can maybe extract some better price and put some pressure on your margins. Do you think that's possible? And really, what do you think the impact to Gildan is from that acquisition?

Glenn J. Chamandy
President, CEO & Director

Well, I think that we're going to be the beneficiary of consolidation, and consolidation has been happening for the last 20 years. So this is not new. We understand what's happening in the market, and we've been the beneficiary. So when you look at what is going to continue to happen, the distributor market consolidates, but there's also going to be consolidation in brands. Delta has gone away.

I don't know if you just heard recently that Fruit is pulling out of the printwear market. So as brands leave the industry, Gildan has a competitive advantage. They are a large customer to us, but we're also a large customer to them as well. So I think it's a mutually good opportunity for everybody. And the market will be more stable with fewer distributors. And I think, overall, it's a win-win for everybody.

Operator

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

Stephen MacLeod
BMO Capital Markets Equity Research

I just wanted to see if you could give a little bit of sort of more specific color around what you saw for POS trends within ring-spun, fashion basics, fleece and basics?

Chuck J. Ward
President of Sales, Marketing & Distribution

Stephen, so as I was mentioning, we did see again positive POS in basics, as Glenn mentioned as well. And again, we think our soft cotton technology is hitting the market and is well received. As I mentioned, we're still driving growth with our ring-spun as we continue to take share across ring-spun and fleece categories. And we see those will be -- have driven growth, and they're going to continue to drive growth in the future years. We've seen ring-spun up high-single digits. And fleece is maybe a little softer as it started out the season due to weather, but we still feel really good about the category and really good about our strong position that we have in the fleece category as well. So positive momentum in both those areas.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's great. And then, just on fleece, with respect to the timing impact that you saw in Q3, how do you expect that to evolve in Q4? If you could just remind us sort of the timing impact on fleece?

Rhodri J. Harries
Executive VP and Chief Financial & Administrative Officer

Steve, it's Rhod. Yes, we will see, I would say, good fleece sales in Q4. As we said, if we look at Q3, we were impacted by some timing as we've been moving our production around really to optimize cost. And so we had expected that Q3, we wouldn't see quite the fleece sales that we might normally expect. But we will see the fleece sales now flowing through in the fourth quarter. And that would, I would say, effectively support us as we move through the quarter. Look, I think, the fourth quarter looks good as we've talked about overall. If you look at the -- we have headwind, right? We have headwind with respect to the phase-out of Under Armour. And the fourth quarter is a big quarter historically from a hosiery perspective. So you'll see the most significant impact of that phase-out occurring in the fourth quarter.

But overall, I would say, we feel good about the way that the quarter is unfolding. And I think what's, I would say, very pleasing about all of this, if you look at what our Activewear business is doing because of all the things that we've talked about, where we're trending, up 6% sales in the third quarter. That overall category is really driving, I would say, the mid-single-digit growth overall. And I would say, as we move into the fourth quarter, we should continue to expect that to unfold as we finish the year. Again, we'll see what happens to the macro environment, but that's what our expectation is.

And then, as we move into '25, again, we continue to see that as being a big driver of our overall performance. So I would say, we're in good shape for the quarter. The innerwear business, obviously, I talked about the Under Armour phase-out. I would say, in some areas, things are a little bit weaker than we might like. A call-out there would be underwear, for example. That segment overall continues to be down if you look more broadly from a market perspective, but we're performing well there. So I would say that we are happy with our underwear performance, and we will see that flow-through also in the fourth quarter. So I think we're set up well for -- to finish the year and to move into '25.

Stephen MacLeod
BMO Capital Markets Equity Research

Okay. That's great color. And then, maybe just one more, if I could. You talked a little bit about like kind of unfolding 2025 in terms of the top line. You've had strong gross margin and strong SG&A leverage year-to-date. Can you just give a little bit of color on how you would expect that to evolve as you look into 2025?

Rhodri J. Harries
Executive VP and Chief Financial & Administrative Officer

Yes. Look, I think we feel that we have gross margin well under control, right? If you look at the performance in the quarter, effectively where we ended up, 31.2%, and now, we've moved above that 30% level as we've been talking about. And Glenn highlighted it in the early part of the comments. If you look at what's going on, on the cost side, we feel we have that well under control with the ramp-up of Bangladesh, effectively the optimization of Central America with the yarn optimization, and so that's going well. I think from a pricing perspective, we see a very stable environment. And so I would say, we feel well positioned on the gross margin side for '25 and actually really as we go forward, right, over the whole 3-year period. I would say, everything is coming together, and we really are benefiting from all of these elements of the strategy that we put in place. And then, we continue to grow top line and then we leverage SG&A as well as that in order to drive operating margin performance. So we're in good shape overall and very much in line with what we planned for finish the year, for '25 and over the 3 years.

Operator

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

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

I wanted to touch on the upcoming U.S. election. There's a lot of discussions about implementation of tariffs. So I'm just trying to understand what would be the implication for your production in Bangladesh that's destined to the U.S. market.

Glenn J. Chamandy
President, CEO & Director

Well, Martin, first of all, we're diagnostic because if tariffs come in, they come in for everybody, right? So we'll be in the same position that we're in today. Today, in Bangladesh, we do have tariffs coming back into the United States at the rate of 16.5%, and that's factored into our cost savings and everything else we have planned for that facility. So I would say, we're diagnostic. The only thing I would think tariffs could do is create inflation. And the question is, will be there elasticity in how many garments people can buy because costs will go up for consumers? But don't forget, even within Gildan, we're still very attractively priced in the marketplace. So I don't think it will be hugely effective to us personally. When our shirts are selling for $2.50 wholesale, even if they do go up, it'd still be very attractively priced overall. So it's hard to say what will happen, but I don't think we're going to be at a disadvantage. In fact, it may even be an advantage for us.

Martin Landry
Stifel Nicolaus Canada Inc., Research Division

Okay. And then, would your production in Central America be impacted by the tariffs that are contemplated?

Glenn J. Chamandy
President, CEO & Director

We don't know. Honestly, there's -- we have free trade agreements today, which we're applying to bring our products back into the United States. So it depends on if they apply tariffs on their free trade agreements or not. We don't know that, right? So we'll wait and see.

Operator

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

Brian Morrison
TD Cowen, Research Division

A question for Rhod or Glenn. How should we think about cotton prices in your pricing strategy going forward next year? I assume your competitors, with all their difficulties, may be hesitant to lower prices. But could that be a market share opportunity for you? I'm just wondering how we should think about this as the hedging rolls off next year.

Glenn J. Chamandy
President, CEO & Director

Well, I would say that, look, cotton prices -- first of all, we've got very good visibility on all of our cost structure, including cotton. And cotton has come down a little bit since last year, but there's still inflation in the system, right? So if you look at labor, transportation, energy, these things are all up. So I would say that whatever benefit there was of slightly lower cost of cotton, I think, offset by other inflationary items in people's overall cost structure. So our view is that pricing will be somewhat flat because of that.

But look, we're well positioned. We have a lot of cost initiatives coming through. We got Bangladesh this year. As we ramped it up, it was not a cost savings. It didn't affect our cost structure. It was probably operating at the same cost as our Central American operations. But what we pointed out is that once it's fully ramped up, it will be a 25% reduction relative to what we produce Fashion Basics in Central America. And our yarn optimization project, those costs have not -- savings have not flown through our cost of goods sold yet. So that's something that will be complete as we move into next year.

So we're -- our utilization of capacity in Central America is not running full at this point, and we're continuing to ramp that up, particularly with the mix of fleece. It's using much more of our capacity. So we're going to get some benefits as we move into next year on our capacity utilization. So overall, we're well positioned, and we've got good visibility. I would say that we've got a lot of new programs that have already been established as we moved into '24. And the only thing that we can't really control really is the outlook and the economic outlook. And hopefully, things improve because the market is weak. It's weak in all categories across the board today. And hopefully, we're at a bottom and that turns, and that would actually be upside to our overall sales plan.

Brian Morrison
TD Cowen, Research Division

Okay. I appreciate that, Glenn. Maybe I can just -- maybe I'm getting a bit in front of myself here. But with the success that you have with your market share gains, and maybe this is for Chuck, but where do we stand with Phase 2 of Bangladesh and what is the cost to complete that facility? Because I believe you have infrastructure in place. Should we be thinking that this could be a 2025 CapEx or 2026 CapEx? Maybe...

Glenn J. Chamandy
President, CEO & Director

I would say 2 things. First of all, we have all the capacity installed today to support the 2025, '26 and '27 period. So if you look at what we've done, we've already -- once we fully ramp up Bangladesh and optimize our Central American capacity, we have enough capacity in place. In our CapEx of 5%, what we've done is we will, in that period, include the development of our Phase 2 of Bangladesh, but that's really going to be supporting the sales of the end of '27 and probably into '28, let's say, for example. So we have enough. We're well positioned. Everything that we need to deliver our 3-year targets is in place. The capacity is in place, the innovation is in place, and the ESG initiatives are in place. So we're really -- I think that's why we're so confident and bullish about our 3-year outlook is because we really don't have to do anything but continue to sell and deliver and execute.

Chuck J. Ward
President of Sales, Marketing & Distribution

And Brian, the only thing I would add to that also, as Glenn said, we're well set up for the next 3 years, right? We know exactly where we're going and how to deliver it. But if things get better, we have the ability to also take advantage of that. And then, if you think beyond that and you think about the next phase of Bangladesh, what's important is that we put all of the infrastructure in for the second phase when we built the first phase. So it's all there. And so the cost of the second phase will be very low as compared to what we've spent on Phase 1. So when we see that come through, you're not going to see, I would say, anything of a meaningful impact. It will be inside of our normal envelope of effectively the 5% per year that we have as an assumption for the next 3 years and then even beyond that. Historically, we've been at those levels, and we think we can run the business and grow the business running with that type of spending.

Glenn J. Chamandy
President, CEO & Director

And just maybe to add one more thing that I would say is that in our planning process, towards the end of '25 is when we plan to start to develop the second phase of the operation.

Operator

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

Vishal Shreedhar

National Bank Financial, Inc., Research Division

I just want to ask about Bangladesh and the civil unrest there and how you see that unfolding. Is it fully stabilized? And do you see that as an impediment looking forward?

Glenn J. Chamandy
President, CEO & Director

No, look, we've been in Bangladesh for over 10 years. We've seen some instability in the past during election years. But I would say, look, we're very comfortable with Bangladesh. We lost a couple of days as we let people stay home just for safety reasons. But overall, things are running as planned. The plants are fully functioning and running today and being ramped up. So we're very comfortable with where we are in Bangladesh. Obviously, it's something we've developed. And being vertically integrated low-cost manufacturer, basically, we have the skill set to operate in some of these countries. We're still operating today every day in Haiti, which is probably, in a lot of cases, much more difficult environment in which to operate. So I would say that we're very comfortable with where we are in Bangladesh, and things are going well, and the plant will be on track and ramped up at 75% by the end of the year.

Vishal Shreedhar
National Bank Financial, Inc., Research Division

With respect to fleece performance, you mentioned it earlier in the call, it's been strong for the last several years, tepid in the quarter due to timing. But fleece has also benefited from a fashion trend towards that type of product. So wondering how you see that unfolding through the years. Do you expect the tailwind to persist? Or is it more of a transient bump over the last few years associated with the trend?

Glenn J. Chamandy
President, CEO & Director

Well, there's 2 things to note. One is that there's different areas in which we sell fleece. We've traditionally sold and have a larger market share in our distributor channel, but we have very little market share in our national account channel. So that's an area of significant growth for us. Fleece today as a category is around 17% of our unit volume. So it's still got a long way to go in terms of growth. So it's something that -- it's still in its beginning stages. So we're very comfortable that fleece as a category will continue to grow. We're comfortable that in the distributor business, we're continuing to take share. We've got new products that are coming in to be able to support future growth. We're very underpenetrated in the national account area. So overall, I would say that fleece will continue to be a growth category, high-single-digit growth over the next 3 years.

Operator

There are no further questions. I would now like to turn the call back over to Jessy Hayem for closing remarks.

Jessy Hayem
Head of Investor Relation

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

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