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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Third Quarter 2023 Gildan Activewear Earnings Conference Call. Please be advised that today's conference call is being recorded. (Operator Instructions)

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

Jessy Hayem

Good morning, everyone. Earlier we issued a press release announcing our results for the third quarter of 2023. We also issued our interim shareholder report with the Canadian securities and regulatory authorities, and the U.S. Securities Commission, which are available on our corporate website.

Joining me on the call today are Glenn Chamandy, President and CEO of Gildan; Rod Harries, our Executive Vice President and Chief Financial and Administrative Officer; and Chuck Ward, President, Sales, Marketing and Distribution. This morning, Rod will take you through the results for the quarter and 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 Rod.

Rhodri J. Harries - *Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer*

Thank you, Jessy. Good morning, all, and thank you for joining us today. This morning, we reported our third quarter results, which unfolded largely in line with our expectations. We resumed our sales growth trajectory and delivered operating margin, which is back within our target range, a testament to the fact that our competitive position remains very strong even in a challenging environment driven by our industry-leading, vertically integrated manufacturing platform and our continuous focus on optimizing our operations.

So we ended the quarter with net sales of \$870 million, up 2% year-over-year, and operating margins of 18.1% with GAAP EPS and adjusted EPS of \$0.73 and \$0.74 respectively. We generated operating income of \$305 million and free cash flow of \$265 million, which allowed us to be active on our capital allocation priorities or more specifically our share buyback program where we have repurchased over 3.5% of our float year-to-date through the end of the third quarter.

As communicated in today's press release, we are updating our guidance for revenues and EPS, which are now expected to be at the lower end of our previously communicated ranges. I'll provide more details on our guidance a little further, but more importantly, I will also provide details on why we remain confident in our ability to maintain growth momentum and strong operating margins as we move through this uncertain environment towards 2024 and beyond.

Now let me turn to our third quarter results. Net sales for the third quarter came in at \$870 million, up 2% with Activewear sales essentially flat at \$744 million, while Hosiery and underwear sales were up 16%. Looking at Activewear, there are several puts and takes to highlight. Firstly, we benefited from healthy POS levels for Activewear overall, particularly in fleece and ring-spun products. In fact, we benefited from strong fleece shipments, which were driven by both double-digit sell-through trends and seasonal replenishment.

Now within fleece, we did see some of the trade-down we had described in Q2. But all in all, it was a strong quarter for our fleece category. We also saw strong shipments of ring-spun products as we continue to grow share in this category. Elsewhere, we did see some offsetting factors in Activewear with lower shipments of basic T-shirts and the unfavorable impact of some targeted price actions in certain channels, although overall the pricing environment remains relatively stable.

Finally, international markets performed well below our expectations with sales down 23% during the quarter due to lower demand and price pressures across all international markets.

Turning to the Hosiery and underwear category. This was a bright spot for the quarter, and we saw increasing momentum and good sell-through data. In particular, we are excited with the rollout of our new and expanded underwear programs in the mass retail channel, which are driving market share gains. Further in Hosiery, we continue to see strong demand for our products. Thus overall, a solid quarter for the Hosiery and underwear category, despite ongoing industry-wide weakness.

So on the whole and despite the challenging environment, we are pleased with the sales performance we were able to deliver in the quarter as travel, tourism, large events, and the everyday use and replenishment nature of our products continue to drive underlying demand.

Turning to margins. Gross margin came in at 27.5% of sales in the third quarter, down 220 basis points versus the prior year. As anticipated, the lower gross margin was primarily driven by higher raw material and manufacturing input costs as well as slightly lower net selling prices. However, as expected, we saw a sequential improvement of 170 basis points to our gross margin from Q2 to Q3 as pressures stemming from the flow-through of peak cotton costs in the first half of 2023 abated. This will continue to be a tailwind for us as we move through Q4 and importantly, as we move into 2024.

Turning to SG&A. Expenses for the third quarter were \$82 million and were flat year-over-year. As a percentage of sales, SG&A was down 20 basis points to 9.5%, primarily driven by the benefit of sales leverage. Looking at our SG&A performance so far this year, we continue to be pleased with how the team is managing SG&A in this difficult inflationary environment and we expect this performance to continue as we move forward.

Consequently, summing up these elements for the third quarter, we generated operating margin of 17.8% of sales and adjusted operating margin of 18.1% of sales, putting us back within our target 18% to 20% range. And after reflecting net financial expenses of \$21 million and factoring in continued share repurchases, we reported GAAP and adjusted diluted EPS for the quarter of \$0.73 and \$0.74 respectively.

Moving on to cash flow and balance sheet items. Cash flow from operating activities totaled \$305 million versus \$66 million in the prior year, mainly due to significantly lower working capital investments this quarter, which included the impact of working towards ending 2023 with healthy but below 2022 inventory levels. Furthermore, after capital expenditures of \$43 million in the third quarter, we generated \$265 million of free cash flow compared to the use of \$7 million in the prior year.

On the CapEx front, the progressive ramp-up of our new Bangladesh facility is underway, which will continue through 2023 and into 2024. And we continue to expect an exit capacity rate around 25% at the end of 2023. Finally, we ended the quarter with net debt of \$1 billion and a net debt-to-EBITDA leverage ratio of 1.6x, well within our 1 to 2x targeted debt levels.

Now turning to the outlook for the full year. We continue to expect year-over-year revenue growth in the fourth quarter as we cycle an easier comparative period and benefit from the full rollout of our new retail programs. However, even though POS trends have progressively improved through 2023 across both our Activewear and Hosiery and underwear categories, and trends remain in positive territory into Q4, we are seeing some softness in certain markets stemming from the macro environment.

As such, we are tilting our guidance towards the lower end of previously provided ranges for revenue and EPS. Accordingly, for 2023, we now expect revenue for the full year to be down low single digits versus the prior year. This compares to prior guidance of revenues being flat to down low single digits. There is no change to our full year adjusted operating margin guidance, which is expected to be slightly below the low end of our current 18% to 20% annual target range.

We now expect adjusted diluted EPS to be at the low end of the previously provided range of \$2.55 to \$2.65, including the impact of assumed share repurchases of 5% of our outstanding public float in 2023. And again, we continue to expect strong full year free cash flow generation above \$425 million after capital expenditures, which are expected to be at the lower end of our 6% to 8% target range. So no change to these metrics or to our attention to remain active on share buybacks as we finish the year and head into 2024.

So in closing and as we head towards the end of the year, I would like to leave you with a few thoughts. 2023 has been characterized by normalizing inventory and replenishment patterns following the multiyear volatility related to the pandemic. But unfortunately, we are seeing end-user behavior impacted by inflationary pressures and uncertain macroeconomic conditions.

Consequently, while our year-to-date top line growth is not where we originally hoped it would be when we started the year, we have demonstrated again how our company can remain resilient, agile and financially strong in any environment.

Further, we are incredibly excited with the opportunities that lie ahead. Despite the tough environment, we have resumed our growth trajectory and we are making great strides in our GSG strategy: accelerating the pace of product innovation, optimizing our manufacturing platform to strengthen our competitive cost structure and progressing on our ESG targets, all of which support our long-term growth opportunities, which remain intact.

Furthermore, we remain encouraged by market share gains in key categories, and our strong margins and cash flow generation and our overall balance sheet strength, which are allowing us to deliver on our capital allocation priorities. Our focus on the long-term vision for our company and on creating value for our stakeholders remains unwavering, and we thank you for interest and support in Gildan.

This concludes my formal remarks. And with that, I will turn it back over to Jessy.

Jessy Hayem

Thank you, Rod. Before moving to the Q&A session, I ask you to limit the number of questions to 2 and we'll circle back for a second round of questions if time permits. Deserae, you may begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Paul Lejuez with Citigroup.

Paul Lawrence Lejuez - *Citigroup Inc., Research Division - MD and Senior Analyst*

Can you talk a little bit more about the international markets where you saw weakness? Any more specifics on where that was, what categories? And I'm curious if that is what's driving the change towards the low end of the range? And then specifically, how did your outlook change, if at all, within the U.S. market within each of your 2 segments?

Rhodri J. Harries - *Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer*

So I'll just handle the -- what's driving the change to the low end of the guidance and I'll turn it over to Chuck to give a view on what's going on in the markets.

But if you do look at what we've said on the guidance, yes, the answer is international did play into that. So if we look at the fourth quarter and what we're seeing, we do still see good growth. So we -- I would say, probably the best way to think about it is a mid-single-digit growth for Q4. We will get the benefits of the retail programs. We are seeing the market share gains. We do have the easier comps. But then we have to be a little cautious as we look at the market on a go-forward basis, driven by some softness that we are seeing in certain areas, and international is playing into that very definitely.

We are also being careful on pricing as well. I think as we go into the fourth quarter, and that is really an international when we look at it. So we do see lower prices than international. We see some pockets somewhere around different markets. But overall, actually pricing is staying relatively stable as we finish up the year as we move into 2024. But international is playing into it and I'll turn it over to Chuck to give you some color.

Chuck J. Ward - *Gildan Activewear Inc. - President of Sales, Marketing & Distribution*

Thank you, Rod. I guess we'll start first with Q3 and the international question. I mean, overall, as we look at internationally -- and I'm going to break it down Europe and Asia -- as we think about Europe, we were up low single digits from a POS perspective, but we did see destocking during the quarter. It continues to be a challenging market in Europe.

Obviously, there's current geopolitical and economic environment challenges. But the fundamentals of the market we think are still there and we're starting to see the POS come back, but we did see destocking during Q3. And we're seeing sequential improvement as we go into Q4. Asia also was down high single digits, low double digit as well. And again, I think that's on inflationary pressure.

Now as we think about Q4, as Rod mentioned, and we think about internationally, we are seeing improvement in the POS, but we think it will be a -- continue to be a challenging market. We're also seeing some challenges, obviously, in national accounts that service large retailers as they also face sort of the macroeconomic conditions that we see, and that's the way we're looking into Q4.

Paul Lawrence Lejuez - *Citigroup Inc., Research Division - MD and Senior Analyst*

And then specifically on the U.S. business, what changed there in terms of your outlook?

Rhodri J. Harries - *Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer*

If you look at the U.S. business, actually the U.S. business is holding up pretty well, Paul, as we go into the fourth quarter. As we said, we see positive POS from an Activewear perspective, we see positive POS in underwear and Hosiery. So we feel very good about that. Really, we know we're taking share and we know that the programs that we're focusing on are doing very well in the marketplace. So overall, the U.S. is holding up.

Now we are seeing probably a little bit more destocking in the fourth quarter than we had anticipated. If you look at the third quarter, we did see some destocking. We saw in basics, it wasn't quite as much as we anticipated. But as we go into the fourth quarter, we'll probably see some catch up on that and we'll see a little bit more destocking. So those are the things that we're thinking about from a U.S. perspective. But overall, I would say we're very, very pleased with how we're performing in this market because we could see our market share is growing. And effectively, we're very well positioned in all of the different channels that we're selling into.

Operator

Next question comes from the line of Chris Li with Desjardins.

Christopher Li - *Desjardins Securities Inc., Research Division - Research Analyst*

Maybe just a follow-up question on the POS trend, in particular in the U.S. for Activewear. I remember last quarter, you mentioned that in July, it was up mid-single digits. Is it possible to provide some guidance or color in terms of how that trended in August and September, and then also how that is trending so far in Q4?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

It's Glenn. Looking to Rod's point, I mean, our POS overall in Activewear is running mid-single digits positive. So we're really in Q3 similar to what we discussed with you in our last conference call. So we really basically for the full quarter finished around mid-single digits. And that was driven by double-digit fleece and ring-spun growth. And the overall market, particularly in our distributor channel, was -- it was probably down double digits. So we're taking share. And I think that's really the point is that we're really performing well in a really tough environment. So we're on all 4 cylinders and we're pretty excited about our share momentum.

And one of the things I think is important for us in this type of environment is to focus on what we can control. So we're focusing on taking share. Our availabilities are great. We're doing quite well in all of our product categories. We're focusing on our operating margins where we can see that the margin improvement in Q3 will continue to improve as we move into Q4 as we discussed. Our costs are under control and we have very good visibility as we move into Q4.

We had really great cash flow and that's another big focus for the company, is to continue driving strong cash flow and continue to buy back shares, like we've seen this -- the 5% and maybe we'll be in a position to even to buy back more as we move into the latter half of the year. And despite the environment, we're reinvesting in low cost -- in developing our low-cost positioning with continued investments in Bangladesh as well as investments in our yarn spinning operations, which we're focusing on -- really focusing on value and innovation.

So we've got a lot of innovation that we're going to bring to the market in 2024. And we think we're going to enhance our value proposition and we're working on supporting new programs as well. So all these things together, I mean, the market conditions are weak, but more importantly is we're focusing on what we can control and just making sure that we stick to our knitting and deliver strong operating results for Q4 and as we move into 2024.

Christopher Li - *Desjardins Securities Inc., Research Division - Research Analyst*

Okay. That's very helpful. And maybe my second question is switching gears to the tax rate. There seems to be a potential for a 15% global minimum tax potentially for next year. Just want to get maybe your latest thoughts around that. And if it does happen, what are some of the ways that Gildan can offset some of the impact?

Rhodri J. Harries - *Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer*

(inaudible) There is a lot of focus on global minimum tax. We are closely monitoring developments to set the impact as we go forward. I think as you look at global minimum tax, you have to take a look at and understand the specific implementation details that are occurring in the various countries, including the countries where we operate. And we are monitoring the impact of other incentive programs, which are under review in certain jurisdictions around the world, which are effectively being put in place to support investment and the local activity.

So as we go forward here, I think we'll get more clarification, more clarity on that as we move into the fourth quarter. And we have to look at all of this together to be able to assess the impact for 2024 and beyond. So we're monitoring it and we do very definitely expect news here as we finish out the year and we get into the early part of next year. And I think really you have to look at the complete impact of the whole package in order to assess what's going to unfold.

So we are, in fact, monitoring. And as Glenn said, we're focusing on the things that we can control and we think we're doing very, very well. And then some of these other things that are unfolding, we'll see how they impact us. But I think that's sort of just a linear interpretation of effectively a 15% tax rate is probably pretty conservative based on what we're seeing unfolding in variable jurisdiction.

Operator

Next question comes from Jay Sole with UBS.

Jay Daniel Sole - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Softlines & Luxury*

I'm just wondering if you can elaborate a little bit more on the ring-spun business in the quarter. It sounded like it was quite positive and there's some market share gains. Can you just maybe give us a little bit more idea of what you're seeing in that business that's driving the strong trends that you're seeing for Gildan?

Chuck J. Ward - *Gildan Activewear Inc. - President of Sales, Marketing & Distribution*

Sure, Jay. I think we continue to perform well in that market and we continue to take share. We have a quality product at a good value price and we continue to see that we're taking share from our competitors in that area. So as Glenn mentioned, we are up double digits in that area and we'll -- I think we'll continue to do that as we go forward.

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

And look, we know we're competing with competitors that have very high-cost structures. And as we continue to reinvest in our low-cost manufacturing, we're widening the gap on our cost position that will continue allowing us to continue taking more share. So we're in a great position. We're investing heavily in our low-cost manufacturing, particularly in our Bangladesh facility, which will be dedicated to 100% of ring-spun type products and will be utilized to support all of our future growth. So we're pretty confident that we're going to continue to take share as we move into the future.

Jay Daniel Sole - UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Softlines & Luxury

And then maybe if I could ask one more. Just on modeling the fourth quarter, is it possible just you can tell us a little bit about how gross margin trends will continue to improve and sort of how you're thinking about SG&A dollar growth in 4Q?

Rhodri J. Harries - Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer

Okay, Jay. If you look at gross margin and we look at how it's going to evolve in Q4, we do see improvement. We saw improvement -- well, effectively, if you look sequentially from Q2 to Q3, we saw 170 basis points of improvement driven by the lower fiber costs, and we said that will be a tailwind into Q4 and very definitely we do see that. So effectively, we see -- we'll see sequential improvement in gross margin as we move into Q4 as we continue to see those lower fiber costs. And effectively, the tailwind that we're going to see in Q4 is probably even stronger than what effectively we saw from a sequential basis between Q2 and Q3.

If you look at SG&A, effectively we do have our SG&A dialed in very well. We've got it well under control. And I think if you look at effectively what we see, we would expect spending on a dollar basis to be pretty consistent sequentially with what we saw in Q3. So overall, our operating margin is moving to the high end of that range, right? We've effectively been talking about that for some time that we expected that to occur in the back half of the year, and we can see that coming and effectively will put us in a strong position in the fourth quarter and then it will put us in a very strong position as we move into 2024.

And as Glenn said, we have good visibility on our cost structure, on our fiber costs as we move into '24. And so we do feel very good about how we're set up. So high end of the range in Q4 and then as we move into '24, we're going to continue to benefit from that as we move into next year.

Operator

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

Mark Robert Petrie - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst

So just a follow-up with regards to the destocking commentary. Could you just talk a little bit about the behavior that you're seeing at distributors broadly, both around price and inventory levels?

Glenn J. Chamandy - Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director

Well, the price is pretty consistent and so there's really nothing on price at the distributor level through to Q3. And inventory levels are in good shape. I mean, we anticipated a little bit more stock destocking. And again, that's one of the reasons why our sales were a little higher than we anticipated. But we also expect destocking in Q4, which is seasonally what happens is it's the lowest quarter of the year as we move in -- because typically, distributors carry inventory in Q4 to service Q1 and both those quarters being the lower end of our quarters, it's normal that we get destocking.

So I think we've got it dialed in. The inventories are in very good shape. The service levels are good, and POS for us is pretty strong. So we're -- I think we got it pretty well laid out right now.

Mark Robert Petrie - CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst

Okay. And based on your expectations for 2024 and sort of the macro environment and what you see for inventory levels at distributors today or should be -- or are embedding in your guidance for Q4, would you expect destocking to be a headwind in 2024 or stable?

Rhodri J. Harries - *Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer*

No, we don't -- Mark, we do not expect the destocking to be a headwind in 2024. We expect it effectively to have a stable environment. And of course, if you look at 2022 to 2023, that was a big headwind for us in '23 because we had all of that restocking that was occurring effectively in the first half of '22, which is very difficult for us to comp in the beginning of '23. That's obviously why we saw the weaker quarters in Q1 and Q2. Now we've got all of that behind us.

And so we do see a very stable environment from an inventory perspective as we move into 2024 on the printwear side. And I would say that puts us in a very good position as we allow that POS and the market share gains to really just drive our performance.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Got it. Helpful. Second question, just with regards to the shelf space wins that you guys have had in retail in 2023, curious just your view sort of on opportunities that you see in the market today for sort of continued momentum just given how dynamics in the category have evolved and private label being a general winner.

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, look, we're going to continue to leverage, obviously, our shelf space. Obviously, we rolled those programs out. They were off to a late start, so we didn't really get what we anticipated the full benefit of those programs and the rollout. So I think that that's maybe one positive thing as we move into '24 as we really get the full impact of all of the shelf space that we will have in 2024. And like anything else, we obviously obtained new programs in retail and as well as with our GLB customers.

So overall, look, we're well positioned to move into 2024 with the full rollout of these underwear programs, some Activewear wins and our GLB programs, and continued taking market share as we move into 2024 in our core wholesale business. So overall, we're still cautiously optimistic. But more importantly, like I said earlier is we're going to continue to focus on what we control and that's going to be our operating margins. And as we move into 2024, we've got great visibility on maintaining really strong operating margins and strong free cash flow as we move into next year.

Operator

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

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

In the past, through Gildan's history, it's used periods of weakness to build its business and acquire brands. Is that something that's on the radar for Gildan as you look at some of your competitors maybe struggling a bit?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, right now, look at -- historically, we bought some brands in our channel. Anvil bought Alstyle, but we bought these brands for the value of their inventory or working capital pretty much, right? So -- and then we've leveraged our low-cost manufacturing and had a significant return on investment. So I wouldn't say we would never not look at something.

But I think right now, we're well positioned. We've -- we're focusing on organic growth. Our back to basics is working on all 4 cylinders and moving into our GSG strategy where we're going to start seeing good top line growth. We're taking share in a weak market. We've got our Bangladesh

facility coming along, which is going to give us, we think, a significant competitive advantage in driving our ring-spun category and allowing more capacity to be freed up for expanding our fleece business. So we're in relatively good shape.

So I would never say never. At the right price, we'll always look at everything. But I mean, at this point in time, we think we can drive significant EPS growth on organic basis.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And over the last several years, Gildan has put in a lot of work on efficiency and we've seen that come through in the P&L. Just wondering if there's any major initiatives that we should contemplate in 2024.

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, that's built into our DNA, right? I mean, we're constantly optimizing our operations. Last quarter, we optimized some of our sewing facilities. We're recently in the process of optimizing some of our yarn-spinning facilities. There's sort of -- we're always looking at ways to maximize our cost. And back to basics was the strategy that sort of put us in this position, but it's -- that's our DNA, right? It's making sure that we optimize everything we're doing. So a cost competitiveness and -- is the most important skill set that we have, which has allowed us to achieve these high operating margins.

And then the one area where I think that we have a really big focus, which we're going to bring to the market in '24, is innovation. We've been spending a lot of energy on a complete cycle of innovation, probably the largest innovation cycle since we actually started the company to be honest with you, in which we're going to cover all of our fabrics, our garments, the construction of our garments, et cetera. So as we move into next year, I think we're not only going to be positioned on the low end of the cost curve, but we're also going to be, I think, separating ourselves from our competitors in terms of the innovation we're going to be able to bring to the market by leveraging our low-cost manufacturing. So we're in a relatively good position and I think we're excited about that, about 2024.

Operator

Next question comes from the line of Martin Landry with Stifel.

Martin Landry - *Stifel Nicolaus Canada Inc., Research Division - MD of Equity Research*

If we look at your guidance for -- your full year guidance implies that your Q4 operating margin is going to be in or around 20%. And I was wondering, I mean, next year, as you mentioned, you're going to benefit from low cotton costs. So is it -- is this a good run rate for next year? And is there a potential for you to perhaps maybe even exceed your high end of your historical range of 18% to 20% next year, given fiber costs are going to be so low?

Rhodri J. Harries - *Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer*

Martin, the answer to that is yes. There is the potential we could exceed the high end of our range. I mean, I think if you look at how we're performing, where our margins are going to here as we finish up the year, as we move into next year, if you think of all the things that Glenn just covered as far as further optimization of our facilities and everything that we're doing, there very definitely is the potential that we could go to the above our range in '24.

Martin Landry - *Stifel Nicolaus Canada Inc., Research Division - MD of Equity Research*

Okay. And maybe the other side of the coin, assuming that everybody benefits from lower fiber costs next year, is there a risk that the industry becomes more promotional and you need to discount to move products? How do you think about that?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, like, one of the things that I would say to you is that it's not necessarily lower cotton cost that's driving our operating margins, it's normal cotton costs in relation to our selling prices. So we never raise selling prices to reflect the peak of cotton. And now, selling -- cottons come down, but cottons come down to where we really set price. So I would say that there's still lots of inflation. Wages are continuing to go up both in North America and particularly in Central America. Energy is going up.

So there's -- it's not like there's not still a big headwind of inflation that's still there, to be honest with you. And so partly what's driving our operating margins is more the alignment of our pricing in cotton as well as our ability to optimize all of our facilities, our cost structure. And even though we're going to be at the higher end of our operating margins and maybe pass it, we're also investing heavily on innovation.

So typically, we've taken a lot of our cost savings from our manufacturing and put into price and drove market share by price. We're already the price leader. Our gap in pricing relative to our fashion competitors is significant, right? So our focus right now really is to take our low-cost model, leverage our operating margins and also to reinvest in innovation, to put a little bit of money back into our products basically to help us gain more market share. So I think we're in a good position as we move into '24 on all fronts.

Operator

Our next question comes from the line of Brian Morrison with TD Securities.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

First question for Glenn. I joined the call late and I know you don't give 2024 guidance, but I want to make sure I'm summarizing this properly. So you're looking for a flat pricing environment. You're looking for market share gains in Activewear, you expect retail growth and then obviously lower commodity prices. So you're looking for higher revenues next year, higher operating margin and growth excluding your NCIB. Is that correct?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Yes, that's correct.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

Okay. So that takes me to the next question for Rod. So Rod, if we -- go ahead.

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Sorry to bother. I qualify that as that the only difference is we're definitely looking at the new shelf space. We're looking at definitely taking market share. But the only thing that we don't know is really what the overall macro environment will be at the end of the day because your core business could -- we don't know what the core volume would be basically if there is a recession or something else. So but giving things equal, the answer is yes.

Brian Morrison - TD Securities Equity Research - Research Analyst

That's great. Good qualification, Glenn. Rod, that leads me to my next question. So in terms of -- if pricing is flat, I want to know what you think the EPS impact was from the elevated cotton prices this year. If cotton is 25% to 30% of your cost structure, I estimate it's got to be at least \$0.20 to \$0.30 of EPS this year. Is that fair?

Rhodri J. Harries - Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer

Yes. If you look at the impact overall, I mean, it's probably not far off the range as I think about it, Brian. I mean, it has had a big impact on effectively our cost structure. Other things have had impacts as well, though. Inflation as well has impacted us. We had the impact -- if you look at the pandemic, you had the inflationary costs that were up effectively that we saw the runoff of all of that. So it has had a significant impact as we move through the year. And as we say, we feel that that's behind us now. And as we go into '24, we are well positioned. And if you -- the one thing we do control or we've got really our arms around is our cost structure, and we feel very good about that as we head into '24.

Brian Morrison - TD Securities Equity Research - Research Analyst

Yes. I guess, I appreciate that. But I want to understand that the tailwind, all things being constant, is the tailwind going to be your starting base, is not \$2.55 of EPS, it's really closer to \$2.75 to \$2.85?

Rhodri J. Harries - Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer

Yes. Look, our tailwind -- yes, if you look at effectively our starting base level is, yes, the answer is it's strong as we move to '24.

Brian Morrison - TD Securities Equity Research - Research Analyst

Okay. And then sorry, Glenn, I didn't understand your comment -- or pardon me, Rod, to comment on GMT when you said it was conservative. Are you thinking that it might be above or below the 15%?

Rhodri J. Harries - Gildan Activewear Inc. - Executive VP and Chief Financial & Administrative Officer

I'm thinking when you look at the whole unfolding of GMT plus other things that other countries are looking at, I think, very definitely there effectively is the potential that it's below 15% for us if you look at it on a combined basis, if you look at the total impact in '24. We'll see. People are still working on their legislation. And so I think you have to really monitor it closely as you head into '24. And some of that will actually leak into -- sorry, as go to the end of '23, some of that will leak into '24 as well. I don't -- I'm not sure that all legislation will be in place as we finish the year. It will roll in in the very early part of the new year, but the answer is yes.

Operator

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

Stephen MacLeod - BMO Capital Markets Equity Research - Director of Special Situations Research

Just a couple of things I wanted to follow up on. The first one is just on ring-spun. You talked about some revenue gains there. I'm just curious, are you seeing any price sensitivity in ring-spun? Or is it more that you're seeing maybe with your pricing differential, your offering is more attractive to price-sensitive consumer? Just trying to understand the dynamic on what's driving ring-spun.

Chuck J. Ward - *Gildan Activewear Inc. - President of Sales, Marketing & Distribution*

I guess, overall, again, I think as we look at our product, I mean, I think we have a very good quality product at a good value as we were talking as we -- and we saw it through the pandemic. We saw some of our fashion competitors raise price pretty significantly above where we were and create a large gap, which drove more and more trial for us and an opportunity for us to gain share during that time.

Since that point in time, we have seen prices by some of the fashion competitors come back down. But even with them bringing prices back down, we're still gaining share and outperforming them despite where the gap may be. So we think we'll continue to gain share in the ring-spun category. And again, as Glenn mentioned, we're able to capitalize on the investments. We're making in our vertical integrated manufacturing to continue to do that, especially as we bring up Bangladesh. So I think we're well positioned.

Stephen MacLeod - *BMO Capital Markets Equity Research - Director of Special Situations Research*

Okay. That's great. And then just coming back to the 2024 outlook, I mean it sounds like you've had a lot of positive commentary around just the outlook and the -- on what you can control. But just as it relates to fiber costs, do you have -- is it fair to say that you have most of your fiber cost visibility sort of already lined up for 2024? Or do you have kind of 6 months visibility and then beyond that kind of depends on what the market does?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

I would say that we have very good visibility in our cost structure for the full of 2024.

Operator

Our next question comes from the line of David Swartz with Morningstar.

David Swartz - *Morningstar Inc., Research Division - Equity Analyst*

Can you give us a little bit more information about the ramp-up of the Bangladesh facility and how that fits into your production cycle and also if your plan have change at all because of the relative weakness of the international business and the possibility of higher wage rates in Bangladesh?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, we're continuing to ramp up our Bangladesh facility. We really -- it's going to be roughly about 25% of its running capacity by the end of our Q4 of 2023. And then we're going to continue to ramp up the plan, and our objective is to have 75% by Q4 2024. But that's sort of -- that's an exit rate. So if you take the average as, it starts at 25% and ends at 75%. I mean you can just give it's probably more of a 50% impact to -- and that's where we really need to support the growth of our ring-spun product categories and as well as the big underwear programs we have. So we're pretty much aligned and then the exit rate will continue to support 2025 as we move forward.

Regarding the wages, I mean, wages, I think, are pretty much in line in all of the areas, particularly in Bangladesh. I mean, wages are not a big factor of our overall cost structure in any of our operating margins of markets anyway. So it's -- we don't really see that as an issue.

Operator

And we have another question comes from the line of Sabahat Khan with RBC Capital Markets.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

I just want to get a little bit more color on the commentary around the innovation. I guess, is this innovation more around kind of remanufacturing the products at lower cost? Is it sort of new-to-market products? So you can talk a little bit about kind of what is included in these new launches.

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, it's really about the innovation of the types of material that we put into our products. We've significantly improved a lot of our fabrications as well as we redesigned the fit and look and feel of a lot of our products. So it's a -- and printability is another big aspect that we're looking at to support the digital printing market. So it's a combination of various innovation ideas that I think are really going to separate us from what's out there today in the market. We'll be presenting a lot of these at Long Beach in a couple of months. And we hopefully will be hosting an investor conference sometime in the new year to help showcase really where we're going and the leverage we have from our work integration and all the great things we've got going on.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

Great. And then I just wanted to follow up. There's some discussion earlier around sort of the distributor inventory levels expected to be sort of flat, and then your ship in following POS as well as market share capture. I guess, what is your sort of expectation on market share capture at this point? I'm guessing POS probably follows the macro to some extent. I'm not sure if you had any commentary there, but is it kind of the lower -- the new innovation and things like that are leading to some expectation of market share capture? Or how are you thinking about that for the top line for next year?

Glenn J. Chamandy - *Gildan Activewear Inc. - Founder, President, CEO & Non-Independent Director*

Well, look, I mean, right now in the traditional basic category or the open-end T-shirts, we've already had a quite large market share. So we're continuing to optimize on that. But the real big opportunity for us is to capitalize obviously on the ring-spun and the fleece segments, which is really where all our focus is. And we don't have a larger share there. So that's the area that we're seeing all these market share gains.

It's a combination of taking share in the ring-spun as well as the development of fleece because the one thing about fleece, it's a growth category. There's more sweatshirts being sold on a year-over-year basis. The category is up. It's almost up -- we said double digits, but it's almost really high double digits to be honest with you. It's doing very well. And it's a growing category. So those are the 2 big focuses for us. And we have what we think is competitors with very high-cost structures in these 2 areas that will allow us to continue taking share.

Operator

There are no further questions at this time. Ms. Hayem, I'll turn the call back over to you.

Jessy Hayem

Okay. Once again, we'd like to thank everyone for joining us this morning and we look forward to speaking to you soon. Have a great day.

Operator

This concludes today's conference call. You may now disconnect.

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