Hanesbrands Inc.
Form 10-Q
October 29, 2015
Table of Contents

## UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

## FORM 10-Q

## QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 3, 2015
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-32891
Hanesbrands Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State of incorporation)

Winston-Salem, North Carolina
(Address of principal executive office)
(336) 519-8080
(Registrant's telephone number including area code)

20-3552316
(I.R.S. employer
identification no.)

27105
(Zip code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No * Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No *
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer $x$ Accelerated filer
Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x
As of October 23, 2015, there were $391,821,577$ shares of the registrant's common stock outstanding.

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## Table of Contents

## TABLE OF CONTENTS

Page
Forward-Looking Statements ..... 1
Where You Can Find More Information ..... 1
PARTI
Item 1. Financial Statements (unaudited):
Condensed Consolidated Statements of Income for the quarters and nine months ended October 3. 2015 and September 27, 2014 ..... $\underline{2}$
Condensed Consolidated Statements of Comprehensive Income for the quarters and nine months ended October 3, 2015 and September 27, 2014 ..... 3
Condensed Consolidated Balance Sheets at October 3, 2015 and January 3, 2015 ..... 4
Condensed Consolidated Statements of Cash Flows for the nine months ended October 3, 2015 and ..... 5 September 27, 2014
Notes to Condensed Consolidated Financial Statements ..... 6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ..... $\underline{23}$
Item 3. Quantitative and Qualitative Disclosures about Market Risk ..... $\underline{33}$
Item 4. Controls and Procedures ..... 33
PART II
Item 1. Legal Proceedings ..... $\underline{35}$
Item 1A. Risk Factors ..... $\underline{35}$
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds ..... $\underline{35}$
Item 3. Defaults Upon Senior Securities ..... $\underline{35}$
Item 4. Mine Safety Disclosures ..... $\underline{35}$
Item 5. Other Information ..... 35
Item 6. Exhibits ..... $\underline{36}$
Signatures ..... 37
Index to Exhibits ..... E-1

## Table of Contents

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as "may," "believe," "will," "expect," "project," "estimate," "intend," "anticipate," "plan," "continue" or similar expressi particular, statements under the heading "Outlook" and other information appearing under "Management's Discussion and Analysis of Financial Condition and Results of Operations" include forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements.
Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. More information on factors that could cause actual results or events to differ materially from those anticipated is included from time to time in our reports filed with the Securities and Exchange Commission (the "SEC"), including this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended January 3, 2015, under the caption "Risk Factors," and available on the "Investors" section of our corporate website, www.Hanes.com/investors.
All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q or our Annual Report on Form 10-K for the year ended January 3, 2015, particularly under the caption "Risk Factors." We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings over the Internet at the SEC's website at www.sec.gov. To receive copies of public records not posted to the SEC's web site at prescribed rates, you may complete an online form at www.sec.gov, send a fax to (202) 772 -9337 or submit a written request to the SEC, Office of FOIA/PA Operations, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information.

We make available free of charge at www.Hanes.com/investors (in the "Investors" section) copies of materials we file with, or furnish to, the SEC. By referring to our corporate website, www.Hanes.com/corporate, or any of our other websites, we do not incorporate any such website or its contents into this Quarterly Report on Form 10-Q.

## Table of Contents

## PART I

Item 1. Financial Statements

HANESBRANDS INC.
Condensed Consolidated Statements of Income (in thousands, except per share amounts)
(unaudited)

|  | Quarters Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
|  | October 3, 2015 | September 27, 2014 | October 3, 2015 | $\begin{aligned} & \text { September } 27 \text {, } \\ & 2014 \end{aligned}$ |
| Net sales | \$1,591,038 | \$ 1,400,728 | \$4,321,992 | \$3,802,150 |
| Cost of sales | 1,010,288 | 903,013 | 2,726,786 | 2,443,304 |
| Gross profit | 580,750 | 497,715 | 1,595,206 | 1,358,846 |
| Selling, general and administrative expenses | 372,422 | 343,823 | 1,158,014 | 926,042 |
| Operating profit | 208,328 | 153,892 | 437,192 | 432,804 |
| Other expenses | 718 | 795 | 1,930 | 1,890 |
| Interest expense, net | 31,356 | 23,528 | 87,263 | 66,465 |
| Income before income tax expense | 176,254 | 129,569 | 347,999 | 364,449 |
| Income tax expense | 14,100 | 10,625 | 38,307 | 49,367 |
| Net income | \$ 162,154 | \$118,944 | \$309,692 | \$315,082 |
| Earnings per share: |  |  |  |  |
| Basic | \$ 0.41 | \$0.30 | \$0.77 | \$0.78 |
| Diluted | \$0.40 | \$0.29 | \$0.76 | \$0.77 |

See accompanying notes to Condensed Consolidated Financial Statements.
2

## Table of Contents

HANESBRANDS INC.
Condensed Consolidated Statements of Comprehensive Income (in thousands)
(unaudited)

|  | Quarters Ended |  |  | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | $\begin{aligned} & \text { October 3, } \\ & 2015 \end{aligned}$ |  | $\begin{aligned} & \text { September 27, } \\ & 2014 \end{aligned}$ | October 3, 2015 |  | $\begin{aligned} & \text { September 27, } \\ & 2014 \end{aligned}$ |
| Net income | \$ 162,154 |  | \$118,944 | \$309,692 |  | \$315,082 |
| Other comprehensive income (loss), net of tax of $(\$ 1,589),(\$ 1,382),(\$ 5,323)$ and $(\$ 2,670)$, respectively | (15,130 | ) | (1,684 | (10,793 | ) | 1,503 |
| Comprehensive income | \$147,024 |  | \$117,260 | \$298,899 |  | \$316,585 |

See accompanying notes to Condensed Consolidated Financial Statements.
3

## Table of Contents

HANESBRANDS INC.
Condensed Consolidated Balance Sheets
(in thousands, except share and per share amounts)
(unaudited)

|  | $\begin{aligned} & \text { October 3, } \\ & 2015 \end{aligned}$ | $\begin{aligned} & \text { January 3, } \\ & 2015 \end{aligned}$ |
| :---: | :---: | :---: |
| Assets |  |  |
| Cash and cash equivalents | \$284,595 | \$239,855 |
| Trade accounts receivable, net | 850,334 | 672,048 |
| Inventories | 1,813,510 | 1,537,200 |
| Deferred tax assets | 215,413 | 215,065 |
| Other current assets | 101,602 | 101,064 |
| Total current assets | 3,265,454 | 2,765,232 |
| Property, net | 652,391 | 674,379 |
| Trademarks and other identifiable intangibles, net | 711,217 | 691,201 |
| Goodwill | 837,975 | 723,120 |
| Deferred tax assets | 278,968 | 294,347 |
| Other noncurrent assets | 73,395 | 73,502 |
| Total assets | \$5,819,400 | \$5,221,781 |
| Liabilities and Stockholders' Equity |  |  |
| Accounts payable | \$637,788 | \$621,220 |
| Accrued liabilities | 516,595 | 495,627 |
| Notes payable | 120,083 | 144,438 |
| Accounts Receivable Securitization Facility | 258,264 | 210,963 |
| Current portion of long-term debt | 39,407 | 14,354 |
| Total current liabilities | 1,572,137 | 1,486,602 |
| Long-term debt | 2,361,607 | 1,613,997 |
| Pension and postretirement benefits | 362,545 | 472,003 |
| Other noncurrent liabilities | 272,812 | 262,407 |
| Total liabilities | 4,569,101 | 3,835,009 |
| Stockholders' equity: |  |  |
| Preferred stock (50,000,000 authorized shares; \$. 01 par value) |  |  |
| Issued and outstanding - None | - | - |
| Common stock (2,000,000,000 authorized shares; \$. 01 par value) |  |  |
| Issued and outstanding - 392,334,805 and 400,789,120, respectively | 3,923 | 4,008 |
| Additional paid-in capital | 280,699 | 290,926 |
| Retained earnings | 1,349,059 | 1,464,427 |
| Accumulated other comprehensive loss | (383,382 | ) $(372,589$ |
| Total stockholders' equity | 1,250,299 | 1,386,772 |
| Total liabilities and stockholders' equity | \$5,819,400 | \$5,221,781 |

See accompanying notes to Condensed Consolidated Financial Statements.
4

## Table of Contents

HANESBRANDS INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

Operating activities:
Net income
Adjustments to reconcile net income to net cash from operating activities:
Depreciation and amortization of long-lived assets
Amortization of debt issuance costs
Stock compensation expense
Deferred taxes and other
Changes in assets and liabilities, net of acquisition of business:
Accounts receivable
Inventories
Other assets
Accounts payable
Accrued liabilities and other
Net cash from operating activities
Investing activities:
Purchases of property, plant and equipment
Proceeds from sales of assets
Acquisition of business, net of cash acquired
Other
Net cash from investing activities
Financing activities:
Borrowings on notes payable
Repayments on notes payable
Borrowings on Accounts Receivable Securitization Facility
Repayments on Accounts Receivable Securitization Facility
Borrowings on Revolving Loan Facility
Repayments on Revolving Loan Facility
Incurrence of debt under the Euro Term Loan Facility
Repayments on Euro Term Loan Facility
Borrowings on Term Loan A Facility
Repayments on Term Loan A Facility
Borrowings on Term Loan B Facility
Repayments on Term Loan B Facility
Repayments of assumed debt related to acquisition of business
Share repurchases
Cash dividends paid
Taxes paid related to net shares settlement of equity awards
Excess tax benefit from stock-based compensation
Debt issuance costs and other
$\left.\begin{array}{lll}\begin{array}{l}\text { Nine Months } \\ \text { October 3, } \\ \text { Ended } \\ 2015\end{array} & \begin{array}{l}\text { September 27, } \\ 2014\end{array} \\ & \\ \$ 309,692 & \$ 315,082\end{array} \quad \begin{array}{lll} & \\ & \\ 75,750 & 69,540 & \\ 5,222 & 4,344 & \\ 9,831 & 11,998 & \\ (4,316 & ) & (2,571\end{array}\right)$

| $(73,771$ | $)(46,562$ | $)$ |
| :--- | :--- | :--- |
| 15,250 | 5,015 |  |
| $(192,829$ | $)(352,986$ | $)$ |
| - | $(8,779$ | $)$ |
| $(251,350$ | $)(403,312$ | $)$ |

$\left.\begin{array}{lll}817,141 & 109,313 & \\ (833,822 & ) & (101,994 \\ 209,041 & 115,609 & \\ (161,740 & ) & (72,399 \\ 4,056,000 & 2,639,000 & \\ (4,079,500 & ) & (2,662,000 \\ - & 476,566 & \\ (3,022 & ) & \\ 425,000 & - & \\ (10,625 & ) & \\ 425,000 & - & \\ (2,125 & ) & \\ - & (111,193 & ) \\ (306,094 & ) & \\ (121,713 & ) & (89,638 \\ (53,108 & ) & (32,294 \\ 38,298 & 26,162 & \\ (12,327 & ) & (4,431\end{array}\right)$

| Net cash from financing activities | 386,404 | 292,701 |
| :--- | :--- | :--- |
| Effect of changes in foreign exchange rates on cash | $(3,160$ | $)(4,741$ |
| Change in cash and cash equivalents | 44,740 | 99,969 |
| Cash and cash equivalents at beginning of year | 239,855 | 115,863 |
| Cash and cash equivalents at end of period | $\$ 284,595$ | $\$ 215,832$ |

See accompanying notes to Condensed Consolidated Financial Statements. 5

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements (dollars and shares in thousands, except per share data) (unaudited)

## (1) Basis of Presentation

These statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and, in accordance with those rules and regulations, do not include all information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Management believes that the disclosures made are adequate for a fair statement of the results of operations, financial condition and cash flows of Hanesbrands Inc., a Maryland corporation, and its consolidated subsidiaries (the "Company" or "Hanesbrands"). In the opinion of management, the condensed consolidated interim financial statements reflect all adjustments, which consist only of normal recurring adjustments, necessary to state fairly the results of operations, financial condition and cash flows for the interim periods presented herein. The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts and disclosures. Actual results may vary from these estimates. A subsidiary of the Company closes one week earlier than the Company's consolidated quarter end. The difference in reporting one week of financial information for this subsidiary did not have a material impact on the Company's financial condition, results of operations or cash flows. Certain prior year amounts in the notes to condensed consolidated financial statements, none of which are material, have been reclassified to conform with the current year presentation. These reclassifications had no impact on the Company's results of operations.
These condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.
(2)Recent Accounting Pronouncements

Measurement Period Adjustments
In September 2015, the FASB issued new accounting rules, which simplify the accounting for measurement period adjustments by eliminating the requirements to restate prior period financial statements for these adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new standard, which should be applied prospectively to measurement period adjustments that occur after the effective date, is effective for the Company in the first quarter of 2016. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations or cash flows.
Revenue from Contracts with Customers
In July 2015, the FASB decided to delay effective dates for the new accounting rules related to revenue recognition for contracts with customers by one year. The new standard will be effective for the Company in the first quarter of 2018 with retrospective application required. The Company is currently in the process of evaluating the impact of adoption of the new rules on the Company's financial condition, results of operations and cash flows.
Inventory
In July 2015, the FASB issued new accounting rules, which require inventory to be recorded at the lower of cost or net realizable value. The new standard will be effective for the Company in the first quarter of 2017. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations or cash flows.
Debt Issuance Costs
In April 2015, the FASB issued new accounting rules, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new rules will be effective for the Company in the
first quarter of 2016. The Company does not expect the adoption of the new accounting rules to have a material impact on the Company's financial condition, results of operations or cash flows.

6

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
(3) Acquisitions

Knights Apparel
On April 6, 2015, the Company completed the acquisition of Knights Holdco, Inc. ("Knights Apparel"), a leading seller of licensed collegiate logo apparel in the mass retail channel, from Merit Capital Partners in an all cash transaction valued at approximately $\$ 193,520$ on an enterprise value basis. The Company funded the acquisition with cash on hand and short-term borrowings under its Revolving Loan Facility.
The Knights Apparel and Pro Edge trademarks and brand names, which management believes to have indefinite lives, have been valued at $\$ 12,000$. Amortizable intangible assets have been assigned values of $\$ 31,200$ for license agreements, $\$ 14,500$ for distribution networks, and $\$ 2,250$ for non-compete agreements. License agreements are being amortized over 14 years. Distributor relationships are being amortized over 12 years. Non-compete agreements are being amortized over one year.
Knights Apparel contributed net revenues of approximately $\$ 121,000$ and $\$ 21,000$ of pretax earnings since the date of acquisition. The results of Knights Apparel have been included in the Company's consolidated financial statements since the date of acquisition and are reported as part of the Activewear segment.
Factors that contribute to the amount of goodwill recognized for the acquisition include the value of the existing work force and cost savings by utilizing the Company's low-cost supply chain and expected synergies with existing Company functions. Goodwill associated with the acquisition is not tax deductible.
The allocation of purchase price is preliminary and subject to change. The primary areas of the purchase price that are not yet finalized are related to certain income taxes and residual goodwill. Accordingly, adjustments will be made to the values of the assets acquired and liabilities assumed as additional information is obtained about the facts and circumstances, which existed at the valuation date. The acquired assets and assumed liabilities at the date of acquisition (April 6, 2015) include the following:
Cash and cash equivalents $\$ 59$
Trade accounts receivable 14,879
Inventories 22,820
Deferred tax assets and other 2,190
Trademarks and other identifiable intangibles $\quad 59,950$
Total assets acquired 99,898
Accounts payable 3,742
$\begin{array}{ll}\text { Accrued liabilities and other } & \text { 3,065 }\end{array}$
Deferred tax liabilities and other noncurrent liabilities $\quad 19,964$
Total liabilities assumed 26,771
Net assets acquired 73,127
Goodwill 120,393
Purchase price \$193,520
Unaudited pro forma results of operations for the Company are presented below for quarter-to-date and year-to-date assuming that the 2015 acquisition of Knights Apparel had occurred on December 29, 2013.
Quarters Ended Nine Months Ended

Net sales
Net income
October 3, September 27, October 3, September 27,
$201520142015 \quad 2014$
\$1,591,038 \$ 1,473,026 \$4,344,149 \$3,922,118
Earnings per share:
Basic
$\begin{array}{llll}\$ 0.41 & \$ 0.32 & \$ 0.78 & \$ 0.78\end{array}$
Diluted
0.41
$0.31 \quad 0.77$
0.77

Table of Contents
HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
DBApparel Acquisition
In August 2014, MFB International Holdings S.à r.l. ("MF Lux"), a wholly owned subsidiary of the Company, acquired DBA Lux Holding S.A. ("Hanes Europe") from SLB Brands Holdings, Ltd and certain individual Hanes Europe shareholders in an all-cash transaction equal to $€ 400,000$ enterprise value less net debt and working capital adjustments as defined in the purchase agreement. Total purchase price was $€ 297,031$ (approximately $\$ 391,861$ based on acquisition date exchange rates). The acquisition was financed through a combination of cash on hand and third-party borrowings.
Hanes Europe is a leading marketer of intimate apparel, hosiery and underwear in Europe with a portfolio of strong brands including DIM, Nur Die/Nur Der and Lovable. The Company believes the acquisition will create growth and cost savings opportunities and increased scale to serve retailers. Hanes Europe utilizes a mix of self-owned manufacturing and third-party manufacturers. Factors that contribute to the amount of goodwill recognized for the acquisition include the value of the existing work force and cost savings by utilizing the Company's low-cost supply chain and expected synergies with existing Company functions. Goodwill associated with the acquisition is not tax deductible.
Since January 3, 2015, goodwill increased by $\$ 2,807$ as a result of measurement period adjustments to the acquired income tax balances. The purchase price allocation was finalized in the third quarter 2015.
(4) Stockholders' Equity

Basic earnings per share ("EPS") was computed by dividing net income by the number of weighted average shares of common stock outstanding. Diluted EPS was calculated to give effect to all potentially dilutive shares of common stock using the treasury stock method. On March 3, 2015, the Company implemented a four-for-one stock split on the Company's common stock in the form of a $300 \%$ stock dividend. All references to the number of shares outstanding, per share amounts and share options data of the Company's common shares have been restated to reflect the effect of the split for all periods presented.
The reconciliation of basic to diluted weighted average shares outstanding is as follows:

|  | Quarters Ended |  | Nine Months Ended |  |
| :--- | :--- | :--- | :--- | :--- |
|  | October 3, | September 27, | October 3, | September 27, |
|  | 2015 | 2014 | 2015 | 2014 |
| Basic weighted average shares outstanding | 399,445 | 402,392 | 402,011 | 401,968 |
| Effect of potentially dilutive securities: |  |  |  |  |
| Stock options | 1,943 | 4,228 | 3,035 | 4,392 |
| Restricted stock units | 1,587 | 1,904 | 1,298 | 1,696 |
| Employee stock purchase plan and other | 4 | - | 19 | - |
| Diluted weighted average shares outstanding | 402,979 | 408,524 | 406,363 | 408,056 |

For the quarters and nine months ended October 3, 2015 and September 27, 2014, there were no options or restricted stock units excluded from the diluted earnings per share calculation because their effect would be anti-dilutive. For the quarters ended October 3, 2015 and September 27, 2014, the Company declared and paid cash dividends of $\$ 0.10$ and $\$ 0.075$ per share, respectively. For the nine months ended October 3, 2015 and September 27, 2014, the Company declared and paid cash dividends of $\$ 0.30$ and $\$ 0.225$ per share, respectively.
The Company resumed repurchasing Company common stock in the open market during the third quarter of 2015 under a program previously announced in 2007. The Company's Board of Directors authorized up to 40,000 shares to be repurchased in open-market transactions, and such repurchases are subject to market conditions, legal requirements and other factors. During the quarter ended October 3, 2015, the Company entered into transactions to repurchase 10,665 shares at a weighted average repurchase price of $\$ 29.15$ per share. The shares were repurchased at a total cost of $\$ 311,103$, of which $\$ 5,009$ settled in the fourth quarter of 2015. At October 3, 2015, the remaining repurchase authorization totaled 17,986 shares. The program does not obligate the Company to acquire any particular amount of
common stock and may be suspended or discontinued at any time at the Company's discretion.
8

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
(5) Inventories

Inventories consisted of the following:

|  | October 3, | January 3, |
| :--- | :--- | :--- |
| Raw materials | 2015 | 2015 |
| Work in process | $\$ 172,921$ | $\$ 122,873$ |
| Finished goods | 202,026 | 196,886 |
|  | $1,438,563$ | $1,217,441$ |
|  | $\$ 1,813,510$ | $\$ 1,537,200$ |

(6) Debt

Debt consisted of the following:

Senior Secured Credit Facility:
Revolving Loan Facility $1.83 \%$
Euro Term Loan
Term Loan A
Term Loan B
6.375\% Senior Notes

Accounts Receivable Securitization Facility Other International Debt

Less current maturities

| Interest <br> Rate as of <br> October 3, <br> 2015 | Principal Amount <br> October 3, <br> 2015 | January 3, <br> 2015 | Maturity Date |
| :--- | :--- | :--- | :--- |
|  |  |  |  |
| $1.83 \%$ | $\$ 153,000$ | $\$ 176,500$ | April 2020 |
| $3.50 \%$ | 400,651 | 436,953 | August 2021 |
| $1.66 \%$ | 414,375 | - | April 2020 |
| $3.25 \%$ | 422,875 | - | April 2022 |
| $6.38 \%$ | $1,000,000$ | $1,000,000$ | December 2020 |
| $1.10 \%$ | 258,264 | 210,963 | March 2016 |
| Various | 10,112 | 14,898 | Various |
|  | $2,659,277$ | $1,839,314$ |  |
|  | 297,670 | 225,317 |  |
|  | $\$ 2,361,607$ | $\$ 1,613,997$ |  |

On April 29, 2015, the Company refinanced its senior secured credit facility (the "Senior Secured Credit Facility") to extend the maturity date of the revolving loan facility (the "Revolving Loan Facility") to April 2020 and reduce the maximum borrowing capacity from $\$ 1,100,000$ to $\$ 1,000,000$, re-price the Revolving Loan Facility at favorable rates, and add an additional $\$ 850,000$ in term loan borrowings ( $\$ 425,000$ for a new term loan a facility, the "Term Loan A Facility", and $\$ 425,000$ for a new term loan b facility, the "Term Loan B Facility"). The Company incurred $\$ 10,900$ in fees related to this refinancing.
The Revolving Loan Facility, the Term Loan A Facility and the Term Loan B Facility are guaranteed by substantially all of the Company's existing and future direct and indirect U.S. subsidiaries, with certain customary or agreed-upon exceptions for certain subsidiaries. The Company and each of the guarantors under the Revolving Loan Facility, the Term Loan A Facility and the Term Loan B Facility have granted the lenders under the Senior Secured Credit Facility a valid and perfected first priority (subject to certain customary exceptions) lien and security interest in (i) the equity interests of substantially all of the Company's direct and indirect U.S. subsidiaries and $65 \%$ of the voting securities of certain first tier foreign subsidiaries; and (ii) substantially all present and future property and assets, real and personal, tangible and intangible, of the Company and each guarantor, except for certain enumerated interests, and all proceeds and products of such property and assets.
All borrowings under the Revolving Loan Facility must be repaid in full upon maturity. Outstanding borrowings under the Revolving Loan Facility may be reborrowed and repaid without penalty.
Outstanding borrowings under the Term Loan A Facility are repayable in equal quarterly installments in the following annual percentages, with the remainder of the outstanding principal to be repaid at maturity: year one, $5.0 \%$; year two, $7.5 \%$; years three and four, $10.0 \%$; and year five, $15.0 \%$.

Outstanding borrowings under the Term Loan B Facility are repayable in $0.25 \%$ quarterly installments, with the remainder of the outstanding principal to be repaid at maturity. If the Term Loan B Facility is repriced or refinanced on or prior to the

9

Table of Contents
HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
twelve month anniversary of its funding and as a result of such repricing or refinancing the effective interest rate of the Term Loan B Facility decreases, the Company shall be required to pay a prepayment fee equal to $1.0 \%$ of the aggregate principal amount of the Term Loan B Facility subject to such repricing or refinancing.
The Term Loan A Facility, the Term Loan B Facility and the Company's euro term loan facility (the "Euro Term Loan Facility" and together with the Term Loan A Facility and the Term Loan B Facility, the "Term Loan Facility") require the Company and its subsidiary Maidenform Luxembourg ("MF Lux"), as applicable, to prepay any outstanding Term Loans in connection with (i) the incurrence of certain indebtedness and (ii) non-ordinary course asset sales or other dispositions (including as a result of casualty or condemnation) that exceed certain thresholds in any period of twelve-consecutive months, with customary reinvestment provisions. The Term Loan B Facility and the Euro Term Loan Facility also require the Company and MF Lux, as applicable, to prepay any outstanding Term Loans under the Term Loan B Facility and the Euro Term Loan Facility in connection with excess cash flow, which percentage will be based upon the Company's leverage ratio during the relevant fiscal period. All such prepayments will be made on a pro rata basis under each of the applicable Term Loan Facilities that are subject to such prepayments.
At the Company's option, borrowings under the Revolving Loan Facility, the Term Loan A Facility and the Term Loan B Facility may be maintained from time to time as (i) "Base Rate" loans, which bear interest at the highest of (a) $1 / 2$ of $1 \%$ in excess of the federal funds rate, (b) the rate publicly announced by JPMorgan Chase Bank as its "prime rate" at its principal office in New York City, in effect from time to time and (c) the "LIBO Rate" (as defined in the Senior Secured Credit Facility and adjusted for maximum reserves) for LIBOR-based loans with a one-month interest period plus $1.0 \%$, in effect from time to time, in each case plus the applicable margin, or (ii) LIBOR-based loans, which bear interest at the LIBO Rate, as determined by reference to the rate for deposits in dollars appearing on the Reuters Screen LIBOR01 or LIBOR02 Page for the respective interest period or other commercially available source designated by the Administrative Agent, in each case plus the applicable margin. The applicable margin for the Revolving Loan Facility and the Term Loan A Facility is based on the Company's leverage ratio. When the leverage ratio is greater than or equal to 4.00 to 1.00 , the applicable margin for LIBO Rate loans is $2.00 \%$ and the applicable margin for Base Rate loans is $1.00 \%$. When the leverage ratio is less than 4.00 to 1.00 but greater than or equal to 3.25 to 1.00 , the applicable margin for LIBO Rate loans is $1.75 \%$ and the applicable margin for Base Rate loans is $0.75 \%$. When the leverage ratio is less than 3.25 to 1.00 but greater than or equal to 2.50 to 1.00 , the applicable margin for LIBO Rate loans is $1.50 \%$ and the applicable margin for Base Rate loans is $0.50 \%$. When the leverage ratio is less than 2.50 to 1.00 , the applicable margin for LIBO Rate loans is $1.25 \%$ and the applicable margin for Base Rate loans is $0.25 \%$. The applicable margin under the Term Loan B Facility is $2.50 \%$ for LIBO Rate loans and $1.50 \%$ for Base Rate loans. Borrowings under the Euro Term Loan Facility bear interest at the "EURIBOR Rate" (as defined in the Senior Secured Credit Facility) plus $2.75 \%$.
The Senior Secured Credit Facility requires that the Company maintain a minimum interest coverage ratio and a maximum total debt to EBITDA (earnings before income taxes, depreciation expense and amortization), or leverage ratio. The interest coverage ratio covenant requires that the ratio of the Company's EBITDA for the preceding four fiscal quarters to its consolidated total interest expense for such period shall not be less than 3.00 to 1.00 for any fiscal quarter. The leverage ratio covenant requires that the ratio of the Company's total debt to its EBITDA for the preceding four fiscal quarters will not be more than 4.00 to 1.00 ; provided that, following a permitted acquisition in which the consideration is at least $\$ 200$ million, such maximum leverage ratio covenant shall be increased to 4.50:1.00 for each fiscal quarter ending in the succeeding 12 -month period following such permitted acquisition. The method of calculating all of the components used in the covenants is included in the Senior Secured Credit Facility. The Senior Secured Credit Facility contains customary events of default, including nonpayment of principal when due; nonpayment of interest after stated grace period, fees or other amounts after stated grace period; material inaccuracy of representations and warranties; violations of covenants; certain bankruptcies and liquidations; any cross-default to material indebtedness; certain material judgments; certain events related to the Employee Retirement

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Income Security Act of 1974, as amended, or "ERISA," actual or asserted invalidity of any guarantee, security document or subordination provision or non-perfection of security interest, and a change in control (as defined in the Senior Secured Credit Facility).
As of October 3, 2015, the Company had $\$ 830,252$ of borrowing availability under the $\$ 1,000,000$ Revolving Loan Facility after taking into account outstanding borrowings and $\$ 16,748$ of standby and trade letters of credit issued and outstanding under this facility.

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
The Other International Debt outstanding as of October 3, 2015 consists of mortgage loans and term loans collateralized by fixed assets. These loans have maturity dates ranging from December 2015 to May 2018, and bear interest primarily based on EURIBOR rates.
In March 2015, the Company amended the accounts receivable securitization facility that it entered into in November 2007 (the "Accounts Receivable Securitization Facility"). This amendment primarily extended the termination date to March 2016.
As of October 3, 2015, the Company was in compliance with all financial covenants under its credit facilities. On October 23, 2015, the Company increased its borrowing capacity on the Term Loan A Facility by $\$ 300,000$ at similar terms to those previously in place.
(7) Accumulated Other Comprehensive Loss

The components of Accumulated other comprehensive loss ("AOCI") are as follows:
Balance at January 3, 2015 ) \$(34,099 \$4,834 \$(564,831 ) \$221,507 \$(372,589 )

Amounts reclassified from
accumulated other comprehensive - (8,614 ) 9,987 (1,214 ) 159
loss
Current-period other
comprehensive income (loss) ( $17,115 \quad 13,454 \quad(3,182)(4,109 \quad)(10,952)$ activity
$\left.\left.\begin{array}{lllll}\begin{array}{l}\text { Cumulative } \\ \text { Translation } \\ \text { Adjustment }\end{array} & \begin{array}{l}\text { Foreign } \\ \text { Exchange } \\ \text { Contracts }\end{array} & \begin{array}{l}\text { Defined } \\ \text { Benefit Plans }\end{array} & \text { Income Taxes } & \begin{array}{l}\text { Accumulated } \\ \text { Other } \\ \text { Comprehensive } \\ \text { Loss }\end{array} \\ \text { (34,099 } & \text { ) } \$ 4,834 & \$(564,831 & ) \$ 221,507 & \left.\begin{array}{l}\$(372,589\end{array}\right) \\ & (8,614 & ) & 9,987 & (1,214\end{array}\right) 159\right)$

Balance at October 3, 2015 $\$(51,214) \$ 9,674 \quad \$(558,026) \$ 216,184 \quad \$(383,382)$
The Company had the following reclassifications out of AOCI:

| Component of AOCI | Location of Reclassification into Income | Amount of Reclassification from AOCI |  | Amount of Reclassification from AOCI |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | Quarters Ended |  | Nine Months Ended |  |
|  |  | October 3, 2015 | $\begin{aligned} & \text { September 27, } \\ & 2014 \end{aligned}$ | October 3, 2015 | $\begin{aligned} & \text { September 27, } \\ & 2014 \end{aligned}$ |
| Gain on foreign exchange contracts | Cost of sales | \$3,956 | \$368 | \$8,614 | \$1,398 |
|  | Income tax | (1,780 | (146 | ) $(3,434$ | ) (557 |
|  | Net of tax | 2,176 | 222 | 5,180 | 841 |
| Amortization of deferred actuarial loss and prior service cost | Selling, general and administrative expenses | (5,101 | (2,606 | ) $(9,987$ | ) $(7,809$ |
|  | Income tax | 1,852 | 1,024 | 4,648 | 3,064 |
|  | Net of tax | (3,249 ) | (1,582 ) | ) $(5,339$ | ) $(4,745$ |
| Total reclassifications |  | \$(1,073 ) | \$(1,360 | ) \$(159 | ) $\$(3,904$ |

(8)Financial Instruments and Risk Management

The Company uses forward foreign exchange contracts to manage its exposures to movements in foreign exchange rates. As of October 3, 2015, the notional U.S. dollar equivalent of commitments to sell and purchase foreign currencies within the Company's derivative portfolio was $\$ 261,048$ and $\$ 622$, respectively, primarily consisting of
contracts hedging exposures to the Euro, Canadian dollar, Mexican peso and Australian dollar.

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
Fair Values of Derivative Instruments
The fair values of derivative financial instruments recognized in the Condensed Consolidated Balance Sheets of the Company were as follows:

|  |  | Fair Value |  |
| :--- | :--- | :--- | :--- |
|  | Balance Sheet Location October 3, | January 3, |  |
| Hedges |  | 2015 | 2015 |
| Non-hedges | Other current assets | $\$ 3,024$ | $\$ 3,447$ |
| Total derivative assets | Other current assets | 3,154 | 2,960 |
| Hedges |  | 6,178 | 6,407 |
| Non-hedges |  |  |  |
| Total derivative liabilities | Accrued liabilities | $(578$ | $)$ |

Net derivative asset
\$5,515
\$6,298
Cash Flow Hedges
The Company uses forward foreign exchange contracts to reduce the effect of fluctuating foreign currencies on short-term foreign currency-denominated transactions, foreign currency-denominated investments and other known foreign currency exposures. Gains and losses on these contracts are intended to offset losses and gains on the hedged transaction in an effort to reduce the earnings volatility resulting from fluctuating foreign currency exchange rates. The Company expects to reclassify into earnings during the next 12 months a net gain from AOCI of approximately \$7,119.
The changes in fair value of derivatives excluded from the Company's effectiveness assessments and the ineffective portion of the changes in the fair value of derivatives used as cash flow hedges are reported in the "Selling, general and administrative expenses" line in the Condensed Consolidated Statements of Income.
The effect of cash flow hedge derivative instruments on the Condensed Consolidated Statements of Income and AOCI is as follows:


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The Company uses foreign exchange derivative contracts as economic hedges against the impact of foreign exchange fluctuations on existing accounts receivable and payable balances and intercompany lending transactions denominated in foreign currencies. These contracts are not designated as hedges under the accounting standards and are recorded at fair value in the Condensed Consolidated Balance Sheet. Any gains or losses resulting from changes in fair value are recognized directly

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
into earnings. Gains or losses on these contracts largely offset the net remeasurement gains or losses on the related assets and liabilities.
The effect of derivative contracts not designated as hedges on the Condensed Consolidated Statements of Income is as follows:


As of October 3, 2015, the Company held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis. These consisted of the Company's derivative instruments related to foreign exchange rates and deferred compensation plan liabilities. The fair values of foreign currency derivatives are determined using the cash flows of the foreign exchange contract, discount rates to account for the passage of time and current foreign exchange market data and are categorized as Level 2 . The fair value of deferred compensation plans is based on readily available current market data and is categorized as Level 2 . The Company's defined benefit pension plan investments are not required to be measured at fair value on a recurring basis.
There were no changes during the quarter ended October 3, 2015 to the Company's valuation techniques used to measure asset and liability fair values on a recurring basis. There were no transfers between the three level categories and there were no Level 3 assets or liabilities measured on a quarterly basis during the quarter ended October 3, 2015. As of and during the quarter ended October 3, 2015, the Company did not have any non-financial assets or liabilities that were required to be measured at fair value on a recurring or non-recurring basis.
The following tables set forth, by level within the fair value hierarchy, the Company's financial assets and liabilities accounted for at fair value on a recurring basis.

Foreign exchange derivative contracts
Foreign exchange derivative contracts
Deferred compensation plan liability Total

| Assets (Liabilities) at Fair Value as of <br> October 3, 2015 |  |  |
| :--- | :--- | :--- |
| Quoted Prices InSignificant |  |  |
| Active Markets | Other | Significant |
| for Identical | Observable | Unobservable |
| Assets | Inputs | Inputs |
| (Level 1) | (Level 2) | (Level 3) |
| \$- | $\$ 6,178$ | $\$-$ |
| - | $(663$ | ) |
| - | 5,515 | - |
| - | $(29,931$ | - |
| $\$-$ | $\$(24,416$ | $\$-$ |

13

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

Foreign exchange derivative contracts
Foreign exchange derivative contracts
Deferred compensation plan liability
Total

| Assets (Liabiliti January 3, 2015 | ies) at Fair V |  |  |
| :---: | :---: | :---: | :---: |
| Quoted Prices In | nSignificant |  |  |
| Active Markets | Other |  |  |
| for Identical | Observable |  |  |
| Assets <br> (Level 1) | Inputs <br> (Level 2) |  |  |
| \$- | \$6,407 |  | \$ |
| - | (109 | ) | - |
|  | 6,298 |  | - |
| - | (28,289 |  | - |
| \$- | \$(21,991 | ) | \$ |

Fair Value of Financial Instruments
The carrying amounts of cash and cash equivalents, trade accounts receivable, notes receivable and accounts payable approximated fair value as of October 3, 2015 and January 3, 2015. The carrying amount of trade accounts receivable included allowance for doubtful accounts, chargebacks and other deductions of $\$ 23,394$ and $\$ 16,856$ as of October 3, 2015 and January 3, 2015, respectively. The fair value of debt, which is classified as a Level 2 liability, was $\$ 2,757,559$ and $\$ 1,893,514$ as of October 3, 2015 and January 3, 2015, respectively. Debt had a carrying value of $\$ 2,659,277$ and $\$ 1,839,314$ as of October 3, 2015 and January 3, 2015, respectively. The fair values were estimated using quoted market prices as provided in secondary markets, which consider the Company's credit risk and market related conditions. The carrying amounts of the Company's notes payable, which is classified as a Level 2 liability, approximated fair value as of October 3, 2015 and January 3, 2015, primarily due to the short-term nature of these instruments.
(10) Income Taxes

The Company's effective income tax rate was $8 \%$ for the quarters ended October 3, 2015 and September 27, 2014. The Company's effective income tax rate was $11 \%$ and $14 \%$ for the nine months ended October 3, 2015 and September 27, 2014, respectively. The quarter and nine months ended October 3, 2015 included net income tax benefits of approximately $\$ 56,000$ resulting from the completion of the Internal Revenue Service audit examination of the 2011 and 2012 tax years and the remeasurement of certain unrecognized tax benefits. Offsetting these tax benefits, we have also elected to repatriate approximately $\$ 200,000$ of current year foreign earnings. The quarter and nine months ended September 27, 2014 included net discrete tax benefits of approximately $\$ 9,000$ primarily related to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statutes of limitations.

## (11)Business Segment Information

The Company's operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms.
The types of products and services from which each reportable segment derives its revenues are as follows:
Innerwear sells basic branded products that are replenishment in nature under the product categories of men's underwear, children's underwear, socks, panties, hosiery and intimates, which includes bras and shapewear. Activewear sells basic branded products that are primarily seasonal in nature under the product categories of branded printwear and retail activewear, as well as licensed logo apparel in collegiate bookstores, mass merchant and other
channels.
Direct to Consumer includes the Company's value-based ("outlet") stores and Internet operations that sell products from the Company's portfolio of leading brands. The Company's Internet operations are supported by its catalogs.

14

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
International primarily relates to the Europe, Asia, Latin America, Canada and Australia geographic locations that sell products that span across the Innerwear and Activewear reportable segments.
The Company evaluates the operating performance of its segments based upon segment operating profit, which is defined as operating profit before general corporate expenses and amortization of intangibles. The accounting policies of the segments are consistent with those described in Note 2 to the Company's consolidated financial statements included in its Annual Report on Form 10-K for the year ended January 3, 2015. The Company decided in the first quarter of 2015 to revise the manner in which the Company allocates certain selling, general and administrative expenses. Certain prior-year segment operating profit disclosures have been revised to conform to the current-year presentation.

Net sales:
Innerwear
Activewear
Direct to Consumer
International
Total net sales

Segment operating profit:
Innerwear
Activewear
Direct to Consumer
International
Total segment operating profit
Items not included in segment operating profit:
General corporate expenses
Acquisition, integration and other action related charges
Amortization of intangibles
Total operating profit
Other expenses
Interest expense, net
Income before income tax expense

| Quarters Ended |  | Nine Months Ended |  |
| :--- | :--- | :--- | :--- |
| October 3, | September 27, | October 3, | September 27, |
| 2015 | 2014 | 2015 | 2014 |


| $\$ 667,192$ | $\$ 648,310$ | $\$ 1,990,979$ | $\$ 2,007,794$ |
| :--- | :--- | :--- | :--- |
| 516,804 | 424,745 | $1,193,057$ | $1,037,063$ |
| 106,642 | 112,663 | 289,674 | 300,729 |
| 300,400 | 215,010 | 848,282 | 456,564 |
| $\$ 1,591,038$ | $\$ 1,400,728$ | $\$ 4,321,992$ | $\$ 3,802,150$ |


| Quarters Ended |  |  | Nine Months Ended |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| October 3, 2015 |  | September 27 <br> 2014 | October 3, 2015 |  | September 27, <br> 2014 |
| \$136,777 |  | \$130,592 | \$443,589 |  | \$412,515 |
| 97,240 |  | 69,974 | 191,476 |  | 151,178 |
| 11,756 |  | 16,629 | 21,432 |  | 26,526 |
| 34,821 |  | 28,826 | 77,941 |  | 52,946 |
| 280,594 |  | 246,021 | 734,438 |  | 643,165 |
| (24,248 | ) | (24,274 | ) $(69,841$ | ) | (67,705 |
| (42,787 | ) | (63,135 | ) $(211,981$ | ) | (129,817 |
| (5,231 | ) | (4,720 | ) $(15,424$ | ) | (12,839 |
| 208,328 |  | 153,892 | 437,192 |  | 432,804 |
| (718 | ) | (795 | ) $(1,930$ | ) | (1,890 |
| (31,356 | ) | (23,528 | ) $(87,263$ | ) | (66,465 |
| \$176,254 |  | \$129,569 | \$347,999 |  | \$364,449 |

For the quarter ended October 3, 2015, the Company incurred acquisition, integration and other action related charges of $\$ 42,787$, of which $\$ 7,720$ is reported in the "Cost of sales" line and $\$ 35,067$ is reported in the "Selling, general and administrative expenses" line in the Condensed Consolidated Statement of Income. For the quarter ended
September 27, 2014, the Company incurred acquisition, integration and other action related charges of $\$ 63,135$, of which $\$ 22,565$ is reported in the "Cost of sales" line and $\$ 40,570$ is reported in the "Selling, general and administrative expenses" line in the Condensed Consolidated Statement of Income.
For the nine months ended October 3, 2015, the Company incurred acquisition, integration and other action related charges of $\$ 211,981$, of which $\$ 47,939$ is reported in the "Cost of sales" line and $\$ 164,042$ is reported in the "Selling,
general and administrative expenses" line in the Condensed Consolidated Statement of Income. For the nine months ended September 27, 2014, the Company incurred acquisition, integration and other action related charges of $\$ 129,817$, of which $\$ 41,227$ is reported in the "Cost of sales" line and $\$ 88,590$ is reported in the "Selling, general and administrative expenses" line in the Condensed Consolidated Statement of Income.
As part of the Hanes Europe acquisition strategy, the Company has identified management and administrative positions that are considered non-essential and/or duplicative that will be eliminated. As of October 3, 2015, the Company has accrued

15

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)
approximately $\$ 55,000$ for employee termination and other benefits recognized in accordance with expected benefit payments for affected employees. The charges are reflected in the "Cost of sales" and "Selling, general and administrative expenses" lines of the Consolidated Statements of Income. As of October 3, 2015, no significant benefit payments had been made. $\$ 17,200$ and $\$ 37,800$, respectively, is included in the "Accrued liabilities" and "Other noncurrent liabilities" line of the Consolidated Balance Sheet.
(12) Consolidating Financial Information

In accordance with the indenture governing the Company's $\$ 1,000,0006.375 \%$ Senior Notes issued on November 9, 2010, as supplemented from time to time, certain of the Company's subsidiaries have guaranteed the Company's obligations under the $6.375 \%$ Senior Notes. The following presents the condensed consolidating financial information separately for:
(i) Parent Company, the issuer of the guaranteed obligations. Parent Company includes Hanesbrands Inc. and its 100\% owned operating divisions, which are not legal entities, and excludes its subsidiaries, which are legal entities;
(ii) Guarantor subsidiaries, on a combined basis, as specified in the Indentures;
(iii) Non-guarantor subsidiaries, on a combined basis;
(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate intercompany profit in inventory, (c) eliminate the investments in the Company's subsidiaries and (d) record consolidating entries; and
(v) The Company, on a consolidated basis.

The $6.375 \%$ Senior Notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary, each of which is $100 \%$ owned, directly or indirectly, by Hanesbrands Inc. A guarantor subsidiary's guarantee can be released in certain customary circumstances. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries that are eliminated upon consolidation.

Condensed Consolidating Statement of Comprehensive Income Quarter Ended October 3, 2015

| Net sales | $\$ 1,133,652$ | $\$ 316,403$ | $\$ 916,747$ | $\$(775,764$ | $)$ | $\$ 1,591,038$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Cost of sales | 967,456 | 181,680 | 682,314 | $(821,162$ | $)$ | $1,010,288$ |
| Gross profit | 166,196 | 134,723 | 234,433 | 45,398 | 580,750 |  |
| Selling, general and administrative | 207,848 | 62,970 | 101,860 | $(256$ | $) 372,422$ |  |
| expenses | $(41,652$ | $)$ | 71,753 | 132,573 | 45,654 | 208,328 |
| Operating profit | 232,445 | 134,138 | - | $(366,583$ | - | - |
| Equity in earnings of subsidiaries | 718 | - | - | - | 718 |  |
| Other expenses | 24,304 | - | 6,770 | 282 | 31,356 |  |
| Interest expense, net | 165,771 | 205,891 | 125,803 | $(321,211$ | $) 176,254$ |  |
| Income before income tax expense | 3,617 | - | 10,483 | - | 14,100 |  |
| Income tax expense | $\$ 162,154$ | $\$ 205,891$ | $\$ 115,320$ | $\$(321,211$ | $\$ 162,154$ |  |
| Net income |  |  |  |  |  |  |
|  | $\$ 147,024$ | $\$ 205,891$ | $\$ 97,820$ | $\$(303,711$ | $) \$ 147,024$ |  |

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data) (unaudited)

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Equity in earnings of subsidiaries
Other expenses
Interest expense, net
Income before income tax expense
Income tax expense
Net income
Comprehensive income

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Equity in earnings of subsidiaries

## Other expenses

Interest expense, net
Income before income tax expense
Income tax expense
Net income
Comprehensive income

Condensed Consolidating Statement of Comprehensive Income Quarter Ended September 27, 2014


Condensed Consolidating Statement of Comprehensive Income Nine Months Ended October 3, 2015

| Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor <br> Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| :--- | :--- | :--- | :--- | :--- |
| $\$ 3,290,292$ | $\$ 712,103$ | $\$ 2,464,999$ | $\$(2,145,402)$ | $\$ 4,321,992$ |
| $2,672,806$ | 385,190 | $1,833,148$ | $(2,164,358$ | $)$ |
| 617,486 | 326,913 | 631,851 | 18,956 | $1,595,786$ |
| 676,126 | 168,606 | 315,742 | $(2,460$ | $1,158,014$ |
| $(58,640$ | $) 158,307$ | 316,109 | 21,416 | 437,192 |
| 453,666 | 309,250 | - | $(762,916$ | - |
| 1,930 | - | - | - | 1,930 |
| 65,005 | $(4$ | 22,186 | 76 | 87,263 |
| 328,091 | 467,561 | 293,923 | $(741,576$ | 347,999 |
| 18,399 | 207 | 19,701 | - | 38,307 |
| $\$ 309,692$ | $\$ 467,354$ | $\$ 274,222$ | $\$(741,576$ | $\$ 309,692$ |
| $\$ 298,899$ | $\$ 467,354$ | $\$ 258,235$ | $\$(725,589$ | $\$ 298,899$ |

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

| Net sales | $\$ 3,186,705$ | $\$ 645,891$ | $\$ 1,923,295$ | $\$(1,953,741)$ | $\$ 3,802,150$ |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Cost of sales | $2,488,843$ | 341,010 | $1,470,885$ | $(1,857,434$ | $)$ | $2,443,304$ |
| Gross profit | 697,862 | 304,881 | 452,410 | $(96,307$ | $1,358,846$ |  |
| Selling, general and administrative | 654,311 | 178,274 | 88,840 | 4,617 | 926,042 |  |
| expenses | 43,551 | 126,607 | 363,570 | $(100,924$ | $) 432,804$ |  |
| Operating profit | 353,096 | 285,924 | - | $(639,020$ | $)$ | - |
| Equity in earnings of subsidiaries | 1,890 | - | - | - | 1,890 |  |
| Other expenses | 55,984 | 2,176 | 8,895 | $(590$ | $) 66,465$ |  |
| Interest expense, net | 338,773 | 410,355 | 354,675 | $(739,354$ | $) 364,449$ |  |
| Income before income tax expense | 23,691 | 14,023 | 11,653 | - | 49,367 |  |
| Income tax expense | $\$ 315,082$ | $\$ 396,332$ | $\$ 343,022$ | $\$(739,354$ | $\$ 315,082$ |  |
| Net income |  |  |  |  |  |  |
|  | $\$ 316,585$ | $\$ 396,332$ | $\$ 340,073$ | $\$(736,405$ | $) \$ 316,585$ |  |

18

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

|  | Condensed Consolidating Balance Sheet October 3, 2015 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Parent <br> Company | Guarantor <br> Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| Assets |  |  |  |  |  |
| Cash and cash equivalents | \$7,528 | \$11,892 | \$ 265,175 | \$- | \$284,595 |
| Trade accounts receivable, net | 50,360 | 130,109 | 670,868 | (1,003 ) | ) 850,334 |
| Inventories | 1,117,978 | 175,507 | 645,250 | (125,225 ) | ) 1,813,510 |
| Deferred tax assets | 199,258 | 4,194 | 11,961 | - | 215,413 |
| Other current assets | 35,738 | 11,369 | 54,495 | - | 101,602 |
| Total current assets | 1,410,862 | 333,071 | 1,647,749 | (126,228 ) | ) 3,265,454 |
| Property, net | 94,560 | 39,372 | 518,459 | - | 652,391 |
| Trademarks and other identifiable intangibles, net | 3,573 | 132,878 | 574,766 | - | 711,217 |
| Goodwill | 232,882 | 244,008 | 361,085 | - | 837,975 |
| Investments in subsidiaries | 4,365,430 | 2,109,640 | - | (6,475,070 ) | - |
| Deferred tax assets | 195,044 | 74,734 | 9,190 | - | 278,968 |
| Receivables from related entities | 4,992,102 | 4,882,314 | 2,401,294 | (12,275,710 ) | ) - |
| Other noncurrent assets | 60,139 | 375 | 12,881 | - | 73,395 |
| Total assets | \$11,354,592 | \$7,816,392 | \$ 5,525,424 | \$(18,877,008) | \$5,819,400 |
| Liabilities and Stockholders' |  |  |  |  |  |
| Equity |  |  |  |  |  |
| Accounts payable | \$253,912 | \$28,966 | \$ 354,910 | \$- | \$637,788 |
| Accrued liabilities | 205,555 | 55,007 | 256,752 | (719 ) | ) 516,595 |
| Notes payable | - | - | 120,083 | - | 120,083 |
| Accounts Receivable Securitization Facility | - | - | 258,264 | - | 258,264 |
| Current portion of long-term debt | 30,813 | - | 8,594 | - | 39,407 |
| Total current liabilities | 490,280 | 83,973 | 998,603 | (719 ) | ) 1,572,137 |
| Long-term debt | 1,959,438 | - | 402,169 | - | 2,361,607 |
| Pension and postretirement benefits | 297,205 | - | 65,340 | - | 362,545 |
| Payables to related entities | 7,268,908 | 3,604,534 | 1,391,740 | (12,265,182 ) | - |
| Other noncurrent liabilities | 88,462 | 31,054 | 153,296 | - | 272,812 |
| Total liabilities | 10,104,293 | 3,719,561 | 3,011,148 | (12,265,901 ) | ) 4,569,101 |
| Stockholders' equity | 1,250,299 | 4,096,831 | 2,514,276 | (6,611,107 ) | ) $1,250,299$ |
| Total liabilities and stockholders' eq | \$11,354,592 | \$7,816,392 | \$ 5,525,424 | \$(18,877, 008 ) | \$5,819,400 |

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data)
(unaudited)

|  | Condensed Consolidating Balance Sheet January 3, 2015 |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Parent Company | Guarantor <br> Subsidiaries | Non-Guarantor Subsidiaries | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| Assets |  |  |  |  |  |
| Cash and cash equivalents | \$10,910 | \$10,796 | \$ 218,149 | \$- | \$239,855 |
| Trade accounts receivable, net | 73,794 | 37,511 | 561,514 | (771 ) | 672,048 |
| Inventories | 958,376 | 120,341 | 607,356 | (148,873 ) | 1,537,200 |
| Deferred tax assets | 200,050 | 3,515 | 11,500 | - | 215,065 |
| Other current assets | 38,446 | 11,224 | 51,394 | - | 101,064 |
| Total current assets | 1,281,576 | 183,387 | 1,449,913 | (149,644 ) | 2,765,232 |
| Property, net | 88,599 | 46,221 | 539,559 | - | 674,379 |
| Trademarks and other identifiable intangibles, net | 4,102 | 79,393 | 607,706 | - | 691,201 |
| Goodwill | 232,881 | 124,247 | 365,992 | - | 723,120 |
| Investments in subsidiaries | 3,732,783 | 1,792,790 | - | (5,525,573 ) | - |
| Deferred tax assets | 202,910 | 74,735 | 16,702 | - | 294,347 |
| Receivables from related entities | 4,585,755 | 4,471,644 | 2,087,280 | (11,144,679 ) | - |
| Other noncurrent assets | 55,540 | 428 | 17,534 | - | 73,502 |
| Total assets | \$10,184,146 | \$6,772,845 | \$ 5,084,686 | \$(16,819,896) | \$5,221,781 |
| Liabilities and Stockholders' |  |  |  |  |  |
| Equity |  |  |  |  |  |
| Accounts payable | \$353,799 | \$11,925 | \$ 255,496 | \$- | \$621,220 |
| Accrued liabilities | 190,739 | 61,339 | 242,437 | 1,112 | 495,627 |
| Notes payable | - | - | 144,438 | - | 144,438 |
| Accounts Receivable Securitization Facility | - | - | 210,963 | - | 210,963 |
| Current portion of long-term debt | - | - | 14,354 | - | 14,354 |
| Total current liabilities | 544,538 | 73,264 | 867,688 | 1,112 | 1,486,602 |
| Long-term debt | 1,176,500 | - | 437,497 | - | 1,613,997 |
| Pension and postretirement benefits | 399,931 | - | 72,072 | - | 472,003 |
| Payables to related entities | 6,544,095 | 3,270,513 | 1,330,071 | (11,144,679 ) | - |
| Other noncurrent liabilities | 132,310 | 12,609 | 118,287 | (799 ) | 262,407 |
| Total liabilities | 8,797,374 | 3,356,386 | 2,825,615 | (11,144,366 ) | 3,835,009 |
| Stockholders' equity | 1,386,772 | 3,416,459 | 2,259,071 | (5,675,530 ) | 1,386,772 |
| Total liabilities and stockholders' eq | \$ 10,184,146 | \$6,772,845 | \$ 5,084,686 | \$(16,819,896) | \$5,221,781 |

## 20

## Table of Contents

HANESBRANDS INC.
Notes to Condensed Consolidated Financial Statements - (Continued)
(dollars and shares in thousands, except per share data) (unaudited)


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## Table of Contents <br> HANESBRANDS INC. <br> Notes to Condensed Consolidated Financial Statements - (Continued) (dollars and shares in thousands, except per share data) (unaudited)

Net cash from operating activities Investing activities:
Purchases of property, plant and equipment
Proceeds from sales of assets
Acquisition of business
Disposition of business
Other
Net cash from investing activities
Financing activities:
Borrowings on notes payable
Repayments on notes payable
Borrowings on Accounts Receivable
Securitization Facility
Repayments on Accounts Receivable Securitization Facility
Borrowings on Revolving Loan Facility 2,639,000 -
Repayments on Revolving Loan Facility (2,662,000 ) -
Redemption of Floating Rate Senior

## Notes

Cash dividends paid
Incurrence of debt under the Euro Term Loan Facility
Repayments of assumed debt related to acquisition of business
Taxes paid related to net shares
settlement of equity awards
Excess tax benefit from stock-based compensation
Other
Net transactions with related entities
Net cash from financing activities
Effect of changes in foreign exchange rates on cash
Change in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of period

Condensed Consolidating Statement of Cash Flow
Nine Months Ended September 27, 2014

|  | Parent <br> Company |  | Guarantor <br> Subsidiaries |  | Non-Guaran Subsidiaries |  | Consolidating <br> Entries and <br> Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net cash from operating activities | \$425,011 |  | \$273,268 |  | \$ 147,250 |  | \$ (630,208 | \$215,321 |
| Investing activities: |  |  |  |  |  |  |  |  |
| Purchases of property, plant and equipment | (13,451 | ) | (4,741 | ) | (28,370 | ) | - | (46,562 |
| Proceeds from sales of assets | - |  | 47 |  | 4,968 |  | - | 5,015 |
| Acquisition of business | - |  | - |  | (352,986 | ) | - | (352,986 |
| Disposition of business | - |  | - |  | - |  | - | - |
| Other | - |  | - |  | (8,779 | ) | - | (8,779 |
| Net cash from investing activities | (13,451 | ) | (4,694 | ) | (385,167 | ) | - | (403,312 |
| Financing activities: |  |  |  |  |  |  |  |  |
| Borrowings on notes payable | - |  | - |  | 109,313 |  | - | 109,313 |
| Repayments on notes payable | - |  | - |  | (101,994 | ) | - | (101,994 |
| Borrowings on Accounts Receivable Securitization Facility | - |  | - |  | 115,609 |  | - | 115,609 |
| Repayments on Accounts Receivable Securitization Facility | - |  | - |  | (72,399 | ) | - | (72,399 |
| Borrowings on Revolving Loan Facility | 2,639,000 |  | - |  | - |  | - | 2,639,000 |
| Repayments on Revolving Loan Facility | (2,662,000 | ) | - |  | - |  | - | (2,662,000 |
| Redemption of Floating Rate Senior Notes |  |  | - |  | - |  | - | - |
| Cash dividends paid | (89,638 | ) | - |  | - |  | - | (89,638 |
| Incurrence of debt under the Euro Term Loan Facility | - |  | - |  | 476,566 |  | - | 476,566 |
| Repayments of assumed debt related to acquisition of business | - |  | - |  | (111,193 | ) |  | (111,193 |
| Taxes paid related to net shares settlement of equity awards | (32,294 | ) | - |  | - |  | - | (32,294 |
| Excess tax benefit from stock-based compensation | 26,162 |  | - |  | - |  | - | 26,162 |
| Other | 1,464 |  | - |  | (5,895 | ) | - | (4,431 |
| Net transactions with related entities | (293,850 | ) | (266,916 | ) | (69,442 | ) | 630,208 | - |
| Net cash from financing activities | (411,156 |  | (266,916 | ) | 340,565 |  | 630,208 | 292,701 |
| Effect of changes in foreign exchange rates on cash | - |  | - |  | (4,741 | ) | - | (4,741 |
| Change in cash and cash equivalents | 404 |  | 1,658 |  | 97,907 |  | - | 99,969 |
| Cash and cash equivalents at beginning of year | 5,695 |  | 7,811 |  | 102,357 |  | - | 115,863 |
| Cash and cash equivalents at end of period | \$6,099 |  | \$9,469 |  | \$ 200,264 |  | \$- | \$215,832 |

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## Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations This management's discussion and analysis of financial condition and results of operations, or MD\&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" in this Quarterly Report on Form 10-Q for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q. The unaudited condensed consolidated financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes for the year ended January 3, 2015, which were included in our Annual Report on Form 10-K filed with the SEC. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included elsewhere in this Quarterly Report on Form 10-Q and those included in the "Risk Factors" section and elsewhere in our Annual Report on Form 10-K for the year ended January 3, 2015.

## Overview

We are a consumer goods company with a portfolio of leading apparel brands, including Hanes, Champion, Bali, Playtex, Maidenform, DIM, JMS/Just My Size, L’eggs, Nur Die/Nur Der, Flexees, Wonderbra, Gear for Sports, Lilyette, Lovable, Rinbros, Shock Absorber, Track N Field, Abanderado and Zorba. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, children's underwear, activewear, socks and hosiery.
Our operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms. One of our subsidiaries closes one week earlier than the consolidated quarter end. The difference in reporting one week of financial information for this subsidiary did not have a material impact on our financial condition, results of operations or cash flows. In the first quarter of 2015, we revised the manner in which we allocate certain selling, general and administrative expenses. Certain prior-year segment operating profit disclosures have been revised to conform to the current-year presentation.
Highlights from the Third Quarter and Nine Months Ended October 3, 2015
Key financial highlights are as follows:
Total net sales in the third quarter of 2015 were $\$ 1.6$ billion, compared with $\$ 1.4$ billion in the same period of 2014, representing a $14 \%$ increase.
Operating profit increased $35 \%$ to $\$ 208$ million in the third quarter of 2015, compared with $\$ 154$ million in the same period of 2014. As a percentage of sales, operating profit was $13.1 \%$ in the third quarter of 2015 compared to $11.0 \%$ in the same period of 2014. Included within operating profit for the third quarter of 2015 and 2014 were acquisition, integration and other action related charges of $\$ 43$ million and $\$ 63$ million, respectively.
On March 3, 2015, we effected a four-for-one stock split in the form of a stock dividend to stockholders of record as of the close of business on February 9, 2015. All references to the number of common shares outstanding, per share amounts and share options data have been restated to reflect the effect of the split for all periods presented.
Diluted earnings per share increased $38 \%$ to $\$ 0.40$ in the third quarter of 2015, compared with diluted earnings per share of $\$ 0.29$ in the same period of 2014.
We acquired Knights Holdco, Inc. ("Knights Apparel") on April 6, 2015. The total purchase price paid at closing was $\$ 194$ million. The acquisition was funded with cash on hand and short-term borrowings. We believe the acquisition, when combined with our Gear For Sports brand, will create a commercial business that will take advantage of combined expertise in brand building, marketing, graphic design, licensing relationships, supply chain and retailer relationships across channels. The operating results of Knights Apparel from the date of acquisition are included in the Activewear segment.
We purchased approximately 10.7 million shares of our stock for approximately $\$ 311$ million at a weighted average cost per share of $\$ 29.15$.

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## Table of Contents

## Outlook

We expect our 2015 full year net sales to be approximately $\$ 5.85$ billion.
Interest expense and other expenses are expected to be approximately $\$ 115$ million combined, including higher debt balances and debt refinancing associated with the Knights Apparel acquisition as well as increased working capital requirements.
We estimate our full year effective income tax rate to be approximately $12 \%$.
We expect net cash flow from operations to be between $\$ 450$ million and $\$ 500$ million, which reflects approximately $\$ 100$ million in pension contributions. Net capital expenditures are expected to be approximately $\$ 95$ million and dividend payments are expected to be roughly $\$ 160$ million.
Our current estimate for pretax charges in 2015 for acquisition, integration and other actions is approximately $\$ 240$ million as a result of estimated integration costs associated with the Knights Apparel acquisition, the incurrence of DBA-related integration costs sooner than originally expected and our exit from the commercial organization in the China market. We concluded the integration of Maidenform during the third quarter of 2015 and expect no further Maidenform integration activities. Foundational charges are expected to be completed by the end of 2015. Seasonality and Other Factors
Our operating results are subject to some variability due to seasonality and other factors. Generally, our diverse range of product offerings helps mitigate the impact of seasonal changes in demand for certain items. We generally have higher sales during the back-to-school and holiday shopping seasons and during periods of cooler weather, which benefits certain product categories such as fleece. Sales levels in any period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel or change delivery schedules, manage on-hand inventory levels, or change the mix of products ordered with minimal notice to us. Media, advertising and promotion expenses may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions. Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse basis, our sales are impacted by discretionary spending by consumers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, gasoline prices, weather, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. Consumers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. These consumers may choose to purchase fewer of our products or to purchase lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time. Changes in product sales mix can impact our gross profit as the percentage of our sales attributable to higher margin products, such as intimate apparel and men's underwear, and lower margin products, such as activewear, fluctuate from time to time. In addition, sales attributable to higher and lower margin products within the same product category fluctuate from time to time. Our customers may change the mix of products ordered with minimal notice to us, which makes trends in product sales mix difficult to predict. However, certain changes in product sales mix are seasonal in nature, as sales of socks, hosiery and fleece products generally have higher sales during the last two quarters (July to December) of each fiscal year as a result of cooler weather, back-to-school shopping and holidays, while other changes in product mix may be attributable to customers' preferences and discretionary spending.

24

## Table of Contents

Condensed Consolidated Results of Operations - Third Quarter Ended October 3, 2015 Compared with Third Quarter Ended September 27, 2014

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Other expenses
Interest expense, net
Income before income tax expense
Income tax expense
Net income

| Quarters Ended <br> October 3, <br> 2015 <br> (dollars in thousands) | September 27, <br> 2014 | Higher <br> (Lower) | Percent <br> Change |  |
| :--- | :--- | :--- | :--- | :--- |
| $1,591,038$ $\$ 1,400,728$ $\$ 190,310$ 13.6 | $\%$ |  |  |  |
| 580,750 | 903,013 | 107,275 | 11.9 |  |
| 372,422 | 497,715 | 83,035 | 16.7 |  |
| 208,328 | 343,823 | 28,599 | 8.3 |  |
| 718 | 153,892 | 54,436 | 35.4 |  |
| 31,356 | 795 | $(77$ | $)$ | $(9.7$ |
| 176,254 | 23,528 | 7,828 | 33.3 |  |
| 14,100 | 129,569 | 46,685 | 36.0 |  |
| $\$ 162,154$ | $\$ 118,944$ | $\$ 475$ | 32.7 |  |

## Net Sales

Net sales increased $14 \%$ during the third quarter of 2015 primarily due to the following:
Acquisition of Hanes Europe in August 2014, which added an incremental $\$ 98$ million of net sales in 2015;
Acquisition of Knights Apparel in April 2015, which added an incremental $\$ 84$ million of net sales in 2015; and Higher net sales in our Innerwear segment of $\$ 19$ million.
Offset by:
Lower sales in our Direct to Consumer segment due to lower store traffic combined with a slow retail environment; and
Unfavorable foreign currency exchange rates. Excluding the impact of foreign currency reductions, consolidated net sales and International segment net sales increased $15 \%$ and $50 \%$, respectively.

## Gross Profit

Our gross profit was higher for the third quarter of 2015 as compared to the same period of 2014. The increase in gross profit was attributable to results obtained from our recent acquisitions of Hanes Europe and Knights Apparel combined with supply chain efficiencies and our Innovate-to-Elevate strategy, which combines our brand power, our innovation platforms and our low cost supply chain to drive margin expansion by increasing our price per unit and reducing our cost per unit. Additionally, input costs were lower in 2015 than they were in 2014. Included in gross profit in the third quarter of 2015 and the third quarter of 2014 are charges of approximately $\$ 8$ million and $\$ 23$ million, respectively, related to acquisition, integration and other action related costs.
Selling, General and Administrative Expenses
As a percentage of net sales, our selling, general and administrative expenses were $23.4 \%$ for the third quarter of 2015 compared to $24.5 \%$ in the same period of 2014. Included in selling, general and administrative expenses were charges of $\$ 35$ million and $\$ 41$ million of acquisition, integration and other action related costs for the third quarters of 2015 and 2014, respectively. Also included in selling, general and administrative costs are expenses of $\$ 75$ million and $\$ 8$ million related to Hanes Europe and Knights Apparel, respectively. Exclusive of acquisition, integration and other related costs and the purchases of Hanes Europe and Knights Apparel, selling, general and administrative expenses were lower due to cost control and synergy benefits from the integration of Maidenform.
Other Highlights
Interest Expense - higher by $\$ 8$ million in the third quarter of 2015 compared to the third quarter of 2014 primarily due to higher debt balances to fund working capital needs. Our weighted average interest rate on our outstanding debt was $3.69 \%$ during the third quarter of 2015 , compared to $4.05 \%$ in the third quarter of 2014.
Income Tax Expense - our effective income tax rate was $8 \%$ for the third quarter of 2015 and 2014, respectively. The third quarter of 2015 included net income tax benefits of approximately $\$ 56$ million resulting from the completion of

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## Table of Contents

Internal Revenue Service audit examination of the 2011 and 2012 tax years and the remeasurement of certain unrecognized tax benefits. Offsetting these tax benefits, we have also elected to repatriate approximately $\$ 200$ million of current year foreign earnings. The third quarter of 2014 included net discrete tax benefits of approximately $\$ 9$ million primarily related to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statute limitations.
Operating Results by Business Segment — Third Quarter Ended October 3, 2015 Compared with Third Quarter Ended September 27, 2014

|  | Net Sales Quarters Ended |  | Operating Profit |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Quarters En |  |  |
|  | $\begin{aligned} & \text { October 3, } \\ & 2015 \end{aligned}$ | $\begin{aligned} & \text { September 27, } \\ & 2014 \end{aligned}$ | $\begin{aligned} & \text { October 3, } \\ & 2015 \end{aligned}$ |  | September 27, |
|  | (dollars in thousands) |  |  |  |  |
| Innerwear | \$667,192 | \$648,310 | \$ 136,777 |  | \$130,592 |
| Activewear | 516,804 | 424,745 | 97,240 |  | 69,974 |
| Direct to Consumer | 106,642 | 112,663 | 11,756 |  | 16,629 |
| International | 300,400 | 215,010 | 34,821 |  | 28,826 |
| Corporate | - | - | (72,266 | ) | (92,129 ) |
| Total | \$1,591,038 | \$1,400,728 | \$208,328 |  | \$153,892 |
| Innerwear |  |  |  |  |  |
|  | Quarters Ended |  |  |  |  |
|  | October 3, | September 27, | Higher |  | Percent |
|  | 2015 | 2014 | (Lower) |  | Change |
|  | (dollars in th | sands) |  |  |  |
| Net sales | \$667,192 | \$648,310 | \$18,882 |  | 2.9 \% |
| Segment operating profit | 136,777 | 130,592 | 6,185 |  | 4.7 \% |

The higher net sales in our Innerwear segment primarily resulted from the following:
Higher net sales of intimates products driven by strong bra sales that resulted from the launch of our Hanes Ultimate and Hanes Platinum lines in the retail channel;
Increased sales of Maidenform and Bali products; and
Increased sales of other basics products in spite of a retail inventory adjustment at a major retailer.
Increased operating profit margins for the third quarter of 2015 as compared to the third quarter of 2014 were driven largely by Maidenform synergies, lower input costs and cost control.
Activewear

| Net sales | $\$ 516,804$ | $\$ 424,745$ | $\$ 92,059$ | 21.7 | $\%$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 97,240 | 69,974 | 27,266 | 39.0 |  |

Activewear net sales increased due to the following:
Higher sales for our Champion branded product due to space gains at retail and a favorable retail environment for
athletic apparel; and
The acquisition of Knights Apparel in April 2015.
Partially offset by:
Lower sales of Champion mass channel products; and
Soft sales of Hanes branded printwear products.
Operating profit within the Activewear segment increased as a result of the April 2015 acquisition of Knights Apparel, lower input costs and the continued benefits of the further development of our Innovate-to-Elevate strategy.

## Table of Contents

Direct to Consumer

| Net sales | $\$ 106,642$ | $\$ 112,663$ | $\$(6,021$ | $)$ | $(5.3$ | $) \%$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Segment operating profit | 11,756 | 16,629 | $(4,873$ | $)$ | $(29.3$ | $)$ |

Direct to Consumer segment net sales and operating margin were lower due to reduced customer traffic at outlet stores.
International

Net sales
Segment operating profit

Quarters Ended

| October 3, <br> 2015 | September 27 <br> 2014 | Higher <br> (Lower) | Percent <br> Change |  |
| :--- | :--- | :--- | :--- | :--- |
| $\$ 300,400$ $\$ 215,010$ $\$ 85,390$ 39.7 | $\%$ |  |  |  |
| 34,821 | 28,826 | 5,995 | 20.8 |  |

Net sales in the International segment were higher as a result of the following:
Incremental sales of Hanes Europe products following its acquisition in August 2014; and
Sales increases in Asia due to space gains.
Offset by:
\$23 million unfavorable impact of foreign currency exchange rates and
The exit of a significant retailer in Canada.
Operating profit increased primarily due to higher Europe sales volume, partially offset by foreign currency exchange rates.

## Corporate

Corporate expenses were comprised primarily of certain administrative costs and acquisition, integration and other action related charges totaling $\$ 43$ million in the third quarter of 2015 as compared to $\$ 63$ million for the third quarter of 2014. Acquisition and integration costs are expenses related directly to an acquisition and its integration into the organization. These costs include legal fees, consulting fees, bank fees, severance costs, certain purchase accounting items, facility closures, inventory write-offs, infrastructure (including information technology), and similar charges. Foundational costs are expenses associated with building infrastructure to support and integrate current and future acquisitions, primarily consisting of information technology spend.

Acquisition and integration costs:

| Maidenform | $\$ 13,318$ | $\$ 26,074$ |
| :--- | :--- | :--- |
| Hanes Europe | 13,725 | 33,165 |
| Knights Apparel | 4,185 | - |
| Total acquisition and integration costs | 31,228 | 59,239 |
| Foundational costs | 8,979 | 820 |
| Other costs | 2,580 | 3,076 |
|  | $\$ 42,787$ | $\$ 63,135$ |

27

## Table of Contents

Condensed Consolidated Results of Operations - Nine Months Ended October 3, 2015 Compared with Nine Months Ended September 27, 2014

Net sales
Cost of sales
Gross profit
Selling, general and administrative expenses
Operating profit
Other expenses
Interest expense, net
Income before income tax expense
Income tax expense
Net income

| Nine Months Ended |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| October 3, | September 27, | Higher |  | Percent |  |
| 2015 | 2014 | (Lower) |  | Change |  |
| (dollars in thousands) |  |  |  |  |  |
| \$4,321,992 | \$3,802,150 | \$519,842 |  | 13.7 | \% |
| 2,726,786 | 2,443,304 | 283,482 |  | 11.6 |  |
| 1,595,206 | 1,358,846 | 236,360 |  | 17.4 |  |
| 1,158,014 | 926,042 | 231,972 |  | 25.0 |  |
| 437,192 | 432,804 | 4,388 |  | 1.0 |  |
| 1,930 | 1,890 | 40 |  | 2.1 |  |
| 87,263 | 66,465 | 20,798 |  | 31.3 |  |
| 347,999 | 364,449 | (16,450 | ) |  | ) |
| 38,307 | 49,367 | (11,060 | ) | (22.4 | ) |
| \$309,692 | \$315,082 | \$(5,390 | ) | (1.7 | )\% |

## Net Sales

Net sales increased $14 \%$ in the nine months of 2015 compared to the same period of 2014 as a result of the following:
Acquisition of Hanes Europe in August 2014, which added an incremental $\$ 431$ million of net sales;
Acquisition of Knights Apparel in April 2015, which added an incremental $\$ 121$ million of net sales; and
Higher net sales of our Gear For Sports business, which is in our Activewear segment.
Offset by:
Lower sales in our Innerwear segment due to lower sales of Intimates products driven by a short-term shipment reduction as we executed our brand consolidation strategy at retail earlier in the year; and
Unfavorable foreign currency exchange rates. Excluding the impact of foreign currency reductions, consolidated net sales and International segment net sales increased $15 \%$ and $98 \%$, respectively.

## Gross Profit

Our gross profit was higher for the nine months of 2015 as compared to the same period in 2014 as we continue to integrate our recent acquisitions. Additionally, we continue to maintain strong profit margins in our core business because of our supply chain efficiencies coupled with lower input costs and our Innovate-to-Elevate strategy that allows us to combine our brand and supply chain strengths with product innovation. Higher distribution costs for the nine months of 2015 compared to 2014 partially offset gross margin growth driven by our acquisitions. Included with gross profit in the nine months of 2015 and 2014 are charges of $\$ 48$ million and $\$ 41$ million, respectively, related to acquisition, integration and other action related costs.
Selling, General and Administrative Expenses
As a percentage of net sales, our selling, general and administrative expenses were $26.8 \%$ for the nine months of 2015 compared to $24.4 \%$ in the same period of 2014. The higher selling, general and administrative expenses were primarily attributable to charges of $\$ 164$ million related to acquisition, integration and other action related costs in the nine months of 2015 , whereas we incurred $\$ 89$ million of acquisition, integration and other action related costs in the nine months of 2014. Also included in 2015 were selling, general and administrative costs totaling $\$ 217$ million and $\$ 13$ million related to Hanes Europe and Knights Apparel, respectively. Exclusive of the impact of higher acquisition, integration and other action related costs and the purchases of Hanes Europe and Knights Apparel, selling, general and administrative expenses were lower due to improved expense management.
Other Highlights
Interest Expense - higher by $\$ 21$ million for the nine months of 2015 compared to the nine months of 2014 primarily due to higher debt balances related to the acquisition of Knights Apparel and our investment in working capital. Our weighted average interest rate on our outstanding debt was $3.80 \%$ during the nine months of 2015 whereas the similar rate for the nine months of 2014 was $4.06 \%$.

## Table of Contents

Income Tax Expense - our effective income tax rate was $11 \%$ and $13.5 \%$ for the nine months of 2015 and 2014, respectively. The third quarter of 2015 included net income tax benefits of approximately $\$ 56$ million resulting from the completion of the Internal Revenue Service audit examination of the 2011 and 2012 tax years and the remeasurement of certain unrecognized tax benefits. Offsetting these tax benefits, we have also elected to repatriate approximately $\$ 200$ million of current year foreign earnings. The third quarter of 2014 included net discrete tax benefits of approximately $\$ 9$ million primarily related to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statute limitations.
Operating Results by Business Segment - Nine Months Ended October 3, 2015 Compared with Nine Months Ended September 27, 2014

|  | Net Sales <br> Nine Months Ended |  | Operating Profit |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Nine Months Ended |  |  |
|  | $\begin{aligned} & \text { October 3, } \\ & 2015 \end{aligned}$ | September 27, | $\begin{aligned} & \text { October 3, } \\ & 2015 \end{aligned}$ | $\begin{aligned} & \text { September 27, } \\ & 2014 \end{aligned}$ |  |
|  | (dollars in thousands) |  |  |  |  |
| Innerwear | \$1,990,979 | \$2,007,794 | \$443,589 |  | \$412,515 |
| Activewear | 1,193,057 | 1,037,063 | 191,476 |  | 151,178 |
| Direct to Consumer | 289,674 | 300,729 | 21,432 |  | 26,526 |
| International | 848,282 | 456,564 | 77,941 |  | 52,946 |
| Corporate | - | - | (297,246 |  | (210,361 |
| Total net sales | \$4,321,992 | \$3,802,150 | \$437,192 |  | \$432,804 |
| Innerwear |  |  |  |  |  |
|  | Nine Months Ended |  |  |  |  |
|  | October 3, | September 27, | Higher |  | Percent |
|  | 2015 | 2014 | (Lower) |  | Change |
|  | (dollars in th | sands) |  |  |  |
| Net sales | \$ 1,990,979 | \$2,007,794 | \$(16,815 |  | (0.8 )\% |
| Segment operating profit | 443,589 | 412,515 | 31,074 |  | 7.5 |

The lower net sales in our Innerwear segment primarily resulted from the following:
Lower net sales of intimates products due to a soft retail sales environment and the short-term pressures from our announced brand consolidation efforts primarily in the second quarter; and
Lower net sales of hosiery products.
Offset by:
Higher sales of basics products in spite of a retail inventory adjustment at a major retailer.
Efficiency gains from our supply chain, our Innovate-to-Elevate strategy and lower input costs continued to drive margin expansion in our Innerwear segment. Higher distribution expenses offset a portion of the margin improvement. Selling, general and administrative costs in the first nine months of 2015 were lower than the corresponding period in 2014 due to synergies gained from the Maidenform acquisition.
Activewear

Net sales
Segment operating profit
Nine Months Ended

| October 3, | September 27, | Higher | Percent |
| :---: | :---: | :---: | :---: |
| 2015 | 2014 | (Lower) | Change |
| (dollars in thousands) |  |  |  |
| \$ 1,193,057 | \$1,037,063 | \$155,994 | 15.0 |
| 191,476 | 151,178 | 40,298 | 26.7 |

The higher net sales in our Activewear segment is attributable to the following:
Higher net sales in Gear for Sports business due to net space gains and higher sales volume;
Higher net sales of our Champion branded products at retail; and

The acquisition of Knights Apparel.

## Table of Contents

Margin expansion was driven by higher sales volume and further development of our Innovate-to-Elevate strategy in our Activewear segment as we are able to increase our price per unit with product innovations and reduce our cost per unit.
Direct to Consumer

Net sales
Segment operating profit
Nine Months Ended

| October 3, | September 27, | Higher | Percent |
| :---: | :---: | :---: | :---: |
| 2015 | 2014 | (Lower) | Change |
| (dollars in thousands) |  |  |  |
| \$289,674 | \$300,729 | \$(11,055 | ) (3.7 |
| 21,432 | 26,526 | (5,094 | ) (19.2 |

Direct to Consumer segment net sales and operating margin were lower due to reduced consumer traffic at outlet stores.
International

|  | Nine Months Ended <br> October 3, |  |  | September 27, |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
|  | Higher <br> (Lower) | Percent <br> Change |  |  |  |
| 2015 | 2014 |  |  |  |  |
| (dollars in thousands) |  |  |  |  |  |
| Net sales | $\$ 848,282$ | $\$ 456,564$ | $\$ 391,718$ | 85.8 | $\%$ |
| Segment operating profit | 77,941 | 52,946 | 24,995 | 47.2 |  |

Net sales in the International segment were higher as a result of the following:
Incremental sales of Hanes Europe products as a result of its acquisition in August 2014; and
Higher sales volume in Asia due to net space gains.
Offset by:
$\$ 54$ million unfavorable impact of foreign currency exchange rates; and
The exit of a significant retailer in Canada.
Operating profit increased primarily due to higher sales volume, partially offset by foreign currency exchange rates. Corporate

Corporate expenses were comprised primarily of certain administrative costs and acquisition, integration and other action related charges totaling $\$ 212$ million for the nine months ended October 3, 2015 as compared to $\$ 130$ million for the comparable period in 2014. Acquisition and integration costs are expenses related directly to an acquisition and its integration into the organization. These costs include legal fees, consulting fees, bank fees, severance costs, certain purchase accounting items, facility closures, inventory write-offs, infrastructure (including information technology), and similar charges. Foundational costs are expenses associated with building infrastructure to support and integrate current and future acquisitions; primarily consisting of information technology spend. A significant majority of Other costs are non-cash and relate to the exit of our commercial sales organization in the China market. The main factors that drove the decision to exit the China market were primarily related to the fragmented underwear market and business practices for innerwear and activewear in China that were not conducive to our wholesale business model. Exiting China is immaterial to our consolidated financial results and inconsequential to the International business.

Nine Months Ended
October 3, 2015 September 27,
(dollars in thousands)
Acquisition and integration costs:

| Maidenform | $\$ 28,175$ | $\$ 72,473$ |
| :--- | :--- | :--- |
| Hanes Europe | 111,522 | 33,165 |
| Knights Apparel | 11,988 | - |
| Total acquisition and integration costs | 151,685 | 105,638 |
| Foundational costs | 28,616 | 3,430 |

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Other costs
31,680
20,749
\$211,981
\$129,817
30

## Table of Contents

Liquidity and Capital Resources
Trends and Uncertainties Affecting Liquidity
Our primary sources of liquidity are cash generated by operations and availability under the $\$ 1.0$ billion revolving credit facility (the "Revolving Loan Facility") under our senior secured credit facility (the "Senior Secured Credit Facility"), our accounts receivable securitization facility (the "Accounts Receivable Securitization Facility") and our international loan facilities.
At October 3, 2015, we had $\$ 830$ million of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), $\$ 188$ million of borrowing availability under our international loan facilities, $\$ 285$ million in cash and cash equivalents and $\$ 17$ million of borrowing availability under our Accounts Receivable Securitization Facility. We currently believe that our existing cash balances and cash generated by operations, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet foreseeable liquidity requirements.
On October 23, 2015, we increased the borrowing capacity on the Term Loan A Facility by $\$ 300$ million at similar terms to those previously in place.
We typically use cash during the first half of the year and generate most of our cash flow in the second half of the year. We expect our cash deployment strategy in the future will include a mix of dividends, acquisitions and share repurchases.

## Dividends

As part of our cash deployment strategy, in January 2015, April 2015 and July 2015 our Board of Directors declared a regular quarterly dividend of $\$ 0.10$ per share, which were paid in March 2015, June 2015 and September 2015, respectively. On October 27, 2015, our Board of Directors authorized a regular quarterly dividend of $\$ 0.10$ per share to be paid December 8, 2015 to stockholders of record at the close of business on November 17, 2015.
In addition, on March 3, 2015, we implemented a four-for-one stock split on our common stock in the form of a $300 \%$ stock dividend to stockholders of record at the close of business on February 9, 2015.
Share Repurchase Program
On April 28, 2015, our Board of Directors amended our existing share repurchase program to reflect the effect of the four-for-one stock split on our common stock that occurred on March 3, 2015. We resumed repurchasing Company common stock in the open market during the third quarter of 2015 under a program previously announced in 2007. Our Board of Directors authorized up to 40,000 shares to be repurchased in open-market transactions, and such repurchases are subject to market conditions, legal requirements and other factors. During the quarter ended October 3, 2015, we entered into transactions to repurchase 10.7 million shares at a weighted average repurchase price of $\$ 29.15$ per share. The shares were repurchased at a total cost of $\$ 311$ million, of which $\$ 5$ million settled in the fourth quarter of 2015. At October 3, 2015, the remaining repurchase authorization totaled 18 million shares. The program does not obligate us to acquire any particular amount of common stock and may be suspended or discontinued at any time at our discretion.
Cash Requirements for Our Business
We rely on our cash flows generated from operations and the borrowing capacity under our Revolving Loan Facility, Accounts Receivable Securitization Facility and international loan facilities to meet the cash requirements of our business. The primary cash requirements of our business are payments to vendors in the normal course of business, capital expenditures, maturities of debt and related interest payments, contributions to our pension plans, repurchases of our stock and regular quarterly dividend payments. We believe we have sufficient cash and available borrowings for our foreseeable liquidity needs.
There have been no significant changes in the cash requirements for our business from those described in our Annual Report on Form 10-K for the year ended January 3, 2015.

## Table of Contents

Sources and Uses of Our Cash
The information presented below regarding the sources and uses of our cash flows for the nine months ended October 3, 2015 and September 27, 2014 was derived from our condensed consolidated financial statements.

| Nine Months Ended |  |
| :--- | :--- |
| October 3, | September 27, |
| 2015 | 2014 |
| (dollars in thousands) |  |
| $\$(87,154$ | $\$ 215,321$ |
| $(251,350$ | $(403,312$ |
| 386,404 | 292,701 |
| $(3,160$ | $(4,741$ |
| 44,740 | 99,969 |
| 239,855 | 115,863 |
| $\$ 284,595$ | $\$ 215,832$ |

Operating activities
Investing activities
Financing activities
Effect of changes in foreign currency exchange rates on cash
Change in cash and cash equivalents
Cash and cash equivalents at beginning of year
Cash and cash equivalents at end of period
Operating Activities

Our overall liquidity is primarily driven by our strong cash flow provided by operating activities, which is dependent on net income, as well as changes in our working capital. We typically use cash during the first half of the year and generate most of our cash flow in the second half of the year. As compared to prior year, the lower net cash from operating activities is due to changes in working capital, specifically related to inventory, accounts receivable, accounts payable and a $\$ 100$ million voluntary contribution to our pension plan.
Investing Activities
The lower net cash used in investing activities is the result of the Hanes Europe acquisition in August 2014 offset by the acquisition of Knights Apparel in April 2015.
Financing Activities
The higher net cash from financing activities was primarily the result of higher net borrowings on our loan facilities, specifically due to new borrowings under the Senior Secured Credit Facility.
Financing Arrangements
In March 2015, we amended the accounts receivable securitization facility that we entered into in November 2007 (the "Accounts Receivable Securitization Facility"). This amendment primarily extended the termination date to March 2016.

On April 29, 2015, we refinanced our Senior Secured Credit Facility to, among other things, extend the maturity date of the Revolving Loan Facility to April 2020, re-price the Revolving Loan Facility at favorable rates and add an additional $\$ 850$ million in term loan borrowings. After the refinancing, our domestic debt was comprised of a $\$ 1$ billion revolving credit facility, a $\$ 425$ million New Term Loan A and an additional $\$ 425$ million Term Loan B. We incurred $\$ 10.9$ million in fees related to this refinancing. A portion of the proceeds was used as financing for the Knights Apparel acquisition with the balance to be used for working capital and other corporate purposes.
As of October 3, 2015, we were in compliance with all financial covenants under our credit facilities. We expect to maintain compliance with these covenants for the foreseeable future, however economic conditions or the occurrence of events discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended January 3, 2015 or other SEC filings could cause noncompliance.
Off-Balance Sheet Arrangements
We do not have any off-balance sheet arrangements within the meaning of Item 303(a)(4) of SEC Regulation S-K. Critical Accounting Policies and Estimates
We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with U.S. GAAP. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note 2, "Summary of Significant Accounting Policies," to our financial statements included in our Annual Report on Form 10-K for the year ended January 3, 2015.

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## Table of Contents

The application of critical accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known. The critical accounting policies that involve the most significant management judgments and estimates used in preparation of our financial statements, or are the most sensitive to change from outside factors, are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended January 3, 2015. There have been no material changes in these policies from those described in our Annual Report on Form 10-K for the year ended January 3, 2015.
Recently Issued Accounting Pronouncements
Measurement Period Adjustments
In September 2015, the FASB issued new accounting rules, which simplify the accounting for measurement period adjustments by eliminating the requirements to restate prior period financial statements for these adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The new standard, which should be applied prospectively to measurement period adjustments that occur after the effective date, is effective for us in the first quarter of 2016. We do not expect the adoption of the new accounting rules to have a material impact on our financial condition, results of operations or cash flows.
Revenue from Contracts with Customers
In July 2015, the FASB delayed effective dates for the new accounting rules related to revenue recognition for contracts with customers by one year. The new standard will be effective for us in the first quarter of 2018 with retrospective application required. We are currently in the process of evaluating the impact of adoption of the new rules on our financial condition, results of operations and cash flows.
Inventory
In July 2015, the FASB issued new accounting rules, which require inventory to be recorded at the lower of cost or net realizable value. The new standard will be effective for us in the first quarter of 2017. We do not expect the adoption of the new accounting rules to have a material impact on our financial condition, results of operations or cash flows. Debt Issuance Costs
In April 2015, the FASB issued new accounting rules, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new rules will be effective for us in the first quarter of 2016. We do not expect the adoption of the new accounting rules to have a material impact on our financial condition, results of operations or cash flows.
Item 3. Quantitative and Qualitative Disclosures about Market Risk
There have been no significant changes in our market risk exposures from those described in Item 7A of our Annual Report on Form 10-K for the year ended January 3, 2015.
Item 4. Controls and Procedures
As required by Exchange Act Rule 13a-15(b), our management, including our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, including our Chief Executive Officer and Chief Financial Officer, concluded that no changes in our internal control over financial reporting occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We excluded our wholly owned subsidiary, Knights Apparel, from our assessment of

## Table of Contents

internal control over financial reporting as of October 3, 2015 because our control over the operation was acquired in a purchase combination during 2015.

34

## Table of Contents

## PART II

## Item 1. Legal Proceedings

Although we are subject to various claims and legal actions that occur from time to time in the ordinary course of our business, we are not party to any pending legal proceedings that we believe could have a material adverse effect on our business, results of operations, financial condition or cash flows.
Item 1A. Risk Factors
We review and, where applicable, update our risk factors each quarter. The risk factor set forth below is in addition to the risk factors previously disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended January 3, 2015.

Work stoppages, union and works council campaigns and other labor disputes could adversely impact our productivity and results of operations.

As of January 3, 2015, we had approximately 59,500 employees, approximately $87 \%$ of whom were located outside the United States. Although only approximately 40 employees in the United States are covered by collective bargaining agreements, a significant portion of our employees based in foreign countries are represented by works councils or unions or subject to trade-sponsored or governmental agreements. Although we believe our relations with our employees are generally good and we have experienced no material strikes or work stoppages recently, we cannot assure you that any of our facilities will not experience a work stoppage or other labor disruption. Any work stoppage or other labor disruption involving our employees could have a material adverse effect on our business, financial condition or results of operations by disrupting our ability to manufacture and distribute our products.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None.
Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
Not applicable.
Item 5. Other Information
On September 9, 2015, Richard A. Noll, our Chairman and Chief Executive Officer, established a stock trading plan that is intended to comply with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and our insider trading policy.

Under the terms of the plan, the brokerage firm overseeing the plan may sell a predetermined number of shares of common stock held by Mr. Noll, provided that certain price thresholds are met. The trading plan was adopted to enable Mr. Noll to dollar cost average his sales and gradually diversify his investment portfolio, spreading stock trades over an extended period of time and reducing market impact.

Any transactions effected under the plan will be disclosed publicly through Form 4 filings with the Securities and Exchange Commission.

Except as required by law, we do not undertake to report stock trading plans by other company officers or directors, nor to report modifications or termination of any publicly-announced plan, including Mr. Noll's plan.

## Table of Contents

Item 6. Exhibits
The exhibits listed in the accompanying Exhibit Index are filed or furnished as part of this Quarterly Report on Form 10-Q.

36

## Table of Contents

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
HANESBRANDS INC.
By: $\quad / \mathrm{s} /$ Richard D. Moss
Richard D. Moss
Chief Financial Officer
(Duly authorized officer and principal financial officer)
Date: October 29, 2015
37

## Table of Contents

INDEX TO EXHIBITS

| Exhibit |  |
| :--- | :--- |
| Number | Description |

3.1 | Articles of Amendment and Restatement of Hanesbrands Inc. (incorporated by reference from |
| :--- |
| Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the Securities and |
| Exchange Commission on September 5, 2006). |
| 3.2 Articles Supplementary (Junior Participating Preferred Stock, Series A) (incorporated by |
| reference from Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the |
| Securities and Exchange Commission on September 5, 2006). |
| Articles of Amendment to Articles of Amendment and Restatement of Hanesbrands Inc. |
| (incorporated by reference from Exhibit 3.1 to the Registrant's Current Report on From 8-K |
| filed with the Securities and Exchange Commission on January 28, 2015). |

10.1 Second Amendment and Joinder Agreement, dated as of October 23, 2015 to Third Amended and Restated Credit Agreement dated April 29, 2015.
31.1 Certification of Richard A. Noll, Chief Executive Officer.
31.2 Certification of Richard D. Moss, Chief Financial Officer.
32.1 Section 1350 Certification of Richard A. Noll, Chief Executive Officer.
32.2 Section 1350 Certification of Richard D. Moss, Chief Financial Officer.
101.INS XBRL Instance Document
101.SCH XBRL Taxonomy Extension Schema Document
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF XBRL Taxonomy Extension Definition Linkbase Document

E-1

