

Company: HanesBrands
Event: Hanesbrands 2013 Analyst Day
Participants: Charlie Stack, Rich Noll, Bill Nictakis, Sidney Falken, Howard Upchurch, John Marsh, Mike Faircloth, Gerald Evans, Rick Moss
Date:

Charlie Stack

Good morning. My name is Charlie Stack and I am the Chief Investor Relations Officer here at Hanesbrands. We are please you've taken the time to hear about our business and the opportunities that lie ahead. You should have a small handout in front of you that includes our forward-looking statement and the press release issued yesterday afternoon that highlights the topics of today's meeting.

Let me first take a moment to review or forward-looking statement that is on the current slide as well as in our handouts. I want to remind everyone that we may make forward-looking statements either in our prepared remarks or in the associated question and answer sessions. These statements are based on current expectations and are subject to certain risks and uncertainties that may cause actual results to differ materially. These risks are detailed in our various filings with the SEC, such as our most recent Forms 10-K and 10-Q, and may be found on our website and in our news releases and other communications. The company does not undertake to update or revise and forward-looking statements which speak only to the time at which they are made.

Please also note in May 2012, Hanesbrands announced exiting certain international and domestic imagewear categories that are now classified as discontinued operations. Unless otherwise noted, today's speakers will be discussing our performance from our continuing operations. Also, today's references to earnings per share, EBITDA, gross margin, SG&A and operating margin represent continuing operations excluding charges primarily related to items such as bond prepayment in 2012 and for 2007 through 2009 gains related to pension and post-retirement benefits, restructuring and related expenses, and other debt pre-payment expenses.

Additional information, including reconciliation to GAAP performance measures can be found in today's press release and in the Investors section of our Hanesbrands.com website. Our presentation materials, including the slides with presenters' prepared remarks, will be posted to our website following today's events.

In terms of today's agenda, I will spend a few minutes reviewing our shareholder returns and valuation. Rich will then highlight our accomplishments and key themes for the day. And next, our senior management team will discuss strategies and different aspects of our business model. At that point, Bill and Gerald will come up and take a few questions on what you've seen and heard so far. Then we'll take a short break after which Rick will come up and discuss how this business model translates into a great financial model. And finally, Rich will return at the end to discuss our future potential. Following the presentations, we'll leave time for questions from our audience here in North Carolina.

So now that we are through the formalities, let's get started and I am batting leadoff today. Let me take you through a few highlights of our shareholder return and current valuation relative to a series of benchmarks.

Let's take a look at our total shareholder return since our spinoff in 2006 and obviously we've seen nice results particularly over the past 15 months or so. Since the spinoff, we have returned a compound annual growth rate of about 11 percent versus 6 percent for the S&P 400 Mid-Cap Index and 2 percent for the S&P 500. In fact, we've outperformed the S&P 500 four out of the last six years. We've seen valuation increase high single-digits since the beginning of this year and our share price has risen nearly 80 percent since the beginning of 2012 when high cotton prices were on all of your minds.

In the box on the right of the screen, you'll see our beta relatively in line with the S&P 500 and S&P 400 Mid-Cap indexes. But our R squared and correlations are lower, meaning we appreciate relative to our performance and not necessarily to that of the overall market. We've managed through some extraordinary times. We've delivered exceptional returns to our investors and done it all without returning cash to shareholders as worked through our heavy debt load.

Now I have heard for years that that heavy debt load was an anchor around the neck of our P/E multiple and that anchor has now been cut. When you look at our multiple before the credit crisis, it was right in line with the S&P 500. With our era of high leverage now behind us, I am hearing from current and potential investors that they expect that multiple to continue to float up as we deliver results going forward.

Equally as important when looking at our business model is our valuation on a price-to-free-cash-flow basis. As shown on the chart on the right, we also have plenty of room to expand this valuation metric as well. But in the end, we'll control what we can control as we grow profitably, generate strong consistent free cash flow and use that cash flow wisely to create further value for our shareholders, all of which we are here to talk to you about today.

And with that, I am going to turn it over to a special guest to introduce our next speaker, our chairman and chief executive officer, Rich Noll.

Rich Noll

Well, thank you Michael. And thank all of you for joining us here today.

For my opening, I will spend a few minutes reviewing our financial accomplishments since the Great Recession and highlight today's three key themes.

From 2009 to 2012, we grew sales \$800 million, operating profits over \$100 million, EPS over \$1.00 and all while reducing leverage two full turns. And we're not done. In 2013 using the mid-point of our guidance, we intend to grow sales another \$100 million, operating profits \$85 million, EPS 70 cents, and all while reducing leverage close to another full turn. Given that these results happened in spite of cotton inflation, it demonstrates that we have pricing power, that we can successfully manage volatility and we strive to do what we say.

Now turn your attention on this slide to the red boxes and look at the relationship of compound annual growth rates for sales, operating profit and EPS. Each growth rate increases substantially as you walk down the P&L from 5 percent CAGR for sales to 12 percent for operating profit, and increasing again to 21 percent for earnings per share. That's the relationship for which we continually strive, magnifying growth rates down the P&L. It's the essence for our financial model.

Now let's look at these graphs one more time, noticing the consistency across time. First for sales, now for operating profit, it dropped a little in '12 but not much, now look at EPS, and lastly leverage. You get no inkling that we raised our selling prices double-digits, multiple times, in one year, because we faced the highest cotton costs since the Civil War. No inkling at all. It looks as if it was a rather serene, calm environment. But you know better. This consistency is not by chance. Rather this consistency is a function of our business model, selling branded needs, not wants.

Selling needs with a strong branded consumer franchise also helps us to deliver our long-term commitments. For example, over a year ago when we announced guidance for 2012, we also provided earnings guidance for 2013, a full year in advance. As you know, we delivered '12 and we are a little ahead of that guidance for 2013.

But let me give you an example over an even longer timeframe. Let's go back three years to February 2010 when we last held an Investor Day in New York. Remember February of 2010? Unemployment was hovering around 10 percent and the world was still in shock. But we at Hanes vowed to exit the recession stronger than we entered, being very optimistic about both 2010 and our long-term future. On that day we outlined a 3- to 4-year EPS goal to double 2009's \$1.57, ultimately reaching \$3.00 to \$4.00 per share. We made this commitment in February of 2010. Many people weren't sure if the recession would ever end, but here we were confidently setting aggressive long-term goals.

It's now three years later, and with our 2013 guidance, we are right on track. And remember, we laid out these goals with no line of sight to the cotton inflation to come in '11 and '12, but we still delivered.

Let me now highlight today's three key themes which are depicted on this graphic. I happen to think that these are the least understood and therefore least valued aspects of our company. The first theme is that we have a consumer franchise which is comprised of hundreds of millions of consumers, not a dozen retailers. The second theme is our innovate-to-elevate strategy which is our major sales and margin driver which should allow us to improve our operating margins into that 12 percent to 14 percent range. And the third and final theme is the sustainable shareholder return potential provided by our free cash flows.

So over the next two hours keep these three themes in mind, consumer franchise, margin expanding innovate-to-elevate strategy, and the return potential provided by or free cash flow.

I'll be back a little bit later to talk about what these aspects mean to our future. But it's now time to turn it over to our senior operating team to discuss the first two themes in more detail. As you know we have two co-chief operating officers, Gerald Evans and Bill Nictakis. In this section, they will bookend their teams, with Bill opening and Gerald concluding. So now let me turn it over to Bill. Bill.

Bill Nictakis

Thanks, Rich. We are going to spend the next hour or so talking about a couple of the key themes that Rich just mentioned. I'm going to start by first touching on our strong consumer franchise. And then I want to give you a very high level overview of our second theme, our innovate-to-elevate strategy of which you'll hear much more throughout the day.

The first theme is that we have a strong consumer franchise. Our customers are hundreds of millions of consumers, not a dozen big retailers. These hundreds of millions of customers know our brands, they prefer our brands, and they wear our products every day. This fact provides us a level of stability and longevity for which every CPG company strives, the staying power of a strong consumer franchise.

As Rich said, this concept is one of the least understood elements of our business. Brands are really the bedrock of HBI. Because of the nature of our categories and how customers interact with them, we think of our big brands as consumer franchises that we continually nurture and support, and from which we can generate consistent sales and profits.

And consumers really demand brands. When you ask them to explain their decision tree on how they make purchase decisions, you'll see that brand is the number one criteria, and price ranks a distant fifth.

The second theme for which I want to give you a roadmap and is really the main purpose of having you here with us today, is our approach to continually improve margins via our innovate-to-elevate strategy. This strategy is not simply a cost play, it's not a product newness story for retailers, nor is it a niche strategy for segmenting consumers. Rather, it is an integrated strategy that combines our consumer franchise brands, our unmatched R&D and innovation capabilities, and our low-cost global supply chain to generate a higher average price per unit and a lower average cost per unit which results in sustainable gross margin expansions.

So let me overview our innovate-to-elevate strategy and then the rest of our team will walk you through the specifics. There are three key elements to this strategy. The first is our big brand franchises. Hanes is the third largest apparel brand in terms of dollars and number one brand in terms of units. We have four brands with \$400 million or more of annual retail sales. We hold the number one or the number two share in every category in which we compete. Importantly, our brands resonate with consumers young and old, rich and poor, and they span from aging baby boomers to new second wave Millennials. Over the past six years, we spent over three quarters of a billion dollars in advertising, R&D, and quality improvements. And the result is that our leading brands have never been stronger.

The second element of our innovate-to-elevate strategy is innovation. And there are three points I want to make here. Number one is that we use a disciplined CPG process to direct our innovation. We are not interested in newness or fashion, but rather focus on identifying the long-term megatrends that will impact our categories over the next five to 10 years. The key is long term trends, not fleeting fashion. And once we have identified these trends, we utilize a disciplined big idea process to put more science into the art of apparel. And as Sidney will explain in a few minutes, this approach has enabled us to dramatically improve our success rates.

The second point about our approach to innovation is that we focus it against big platforms. Today, you'll hear our team talk about three distinct platforms. Tagless, ComfortBlend and Smart Sizes. Not only will you hear about them this morning, but when we move to the breakout rooms after lunch, you'll be able to see and touch many of these products.

And lastly, a critical element of our innovation is that it's margin accretive. Plain and simple, big ideas that we'll pursue are ones that we can charge for, and ones that we can leverage in our supply chain in order to drive further economies of scale.

The third part of our innovate-to-elevate strategy is our supply chain. And I want to summarize briefly how it's become such an integral part. Our supply chain organization has delivered superb results over the past six years since Spin. They have offshored the vast majority of our production, reduced energy and water consumption by 20 percent to 30 percent, dramatically improved quality and delivered over \$30 million to \$40 million of savings per year. But what's most exciting is not just their ability to deliver productivity in a traditional manner, but how we'll achieve continued margin gains by improving the linkage between the front end of our business and our supply chain. By focusing our innovation on initiatives that are both big consumer ideas and to leverage our existing manufacturing footprint and expertise, we are able to drive further economies and reduce costs.

So that's an overview of what you'll hear from the next four speakers as they provide you more details and examples of our innovate-to-elevate strategy. And while you'll hear the details over the next hour from Sidney, Howard, John and Mike, let me give you the elevator speech summary.

Our innovate-to-elevate strategy helps us increase price per unit, helps us lower cost per unit thereby allowing gross margins to expand. This strategy is the major enabler of us ultimately reaching our 12 percent to 14 percent operating profit margin goal.

So that's the summary of innovate-to-elevate. And now to provide you with more details on how we're executing this strategy, let me turn the podium over to Sidney and we'll get started. Sidney.

Sidney Falken

Thank you, Bill. As you heard from Bill, we approach marketing with as much science as art. We use a disciplined data-driven approach that we've developed over many years and which is consistent with best practices you will find at leading CPG companies.

This is a fascinating time to be in marketing because we're facing a huge demographic shift, the likes of which we haven't seen for forty years. In the same way the Baby Boomers defined American culture as they came of age, a new wave of consumers is coming, and they will shape both our culture and apparel trends. I'm sure you've heard about Millennials, the important 18-34-year-old segment that's a focus of so many marketers. We use the term "second waver" to refer to the Millennials and their kids. By 2020, these consumers will drive 70 percent of apparel spending.

To win big in the marketplace, we believe brands need to span the needs of both older consumers and younger consumers. Let's take a look at this video which will give you insight into the group we call second wavers.

Let me orient you to this chart. At the top are some iconic brands which based on research are strongly preferred by both Boomers and Second Wavers. We call them Spanner Brands. The bottom left box includes examples of brands that are preferred by Second Wavers, and the bottom right box highlights some brands that have built strong franchises with Boomers.

We're fortunate that our Hanes and Champion brands are able to span both the Boomers as well as the Second Wavers. The biggest most valuable brands in the market are able to appeal to this broad demographic, they are for everyone.

We're very proud of our strong portfolio of brands. Hanes alone is close to \$4 billion in retail sales. Hanes is number one in terms of unit share by a large margin and a close number three in dollar share just under Nike's \$4.2 billion. Thanks to the strength of our brands, we hold the number one or number two share in every category in which we compete.

I'd like to talk a bit more about Hanes. It's just an amazing consumer franchise. But first, what exactly is a consumer franchise and why do we care about it? The term consumer franchise refers to consumers' feelings and behaviors towards a brand and the strength of their relationship with the brand. We care because brands matter in apparel and the relationship we build with consumers is an important driver of repeatable revenue streams.

The six items listed on this chart characterize a strong consumer franchise. And I want to stress this is not some touchy-feely marketing stuff. We quantitatively track and manage all of these things. Consumer franchises are built over decades. Brands build powerful franchises through hundreds of millions of interactions with consumers and that drives their financial performance.

So let me tell you a little bit more about our flagship brand. Hanes has extraordinary market presence. It's found in 8 out of 10 households, sold everywhere from dollar stores to department stores and a recent bit of news, Hanes is number two on the Women's Wear Daily Top 100 Brands list.

You have reprints of the Women's Wear Daily list on the tables in front of you. Now this list is a ranking of brand familiarity among women with household incomes of \$50,000 or more. Some

of the other great brands on the list include Levi's which is number four, Calvin Klein which is number 7 and Coach which is number 20. So we're very pleased with our ranking in this study.

Hanes has virtually universal awareness and a stellar reputation. Our customers genuinely like us and they trust us because we've been very consistent. Hanes is all about comfort and we are absolutely passionate about delivering the highest level of comfort, quality and value.

The profile of the Hanes customer looks very similar to the profile of the American consumer. This chart compares demographics of Hanes customers, the data in the red bars, relative to total apparel, the purple bars. You can see there are no significant skews. It's interesting to note that over half of our consumers are under 35 and close to 40 percent live in households with incomes over \$75,000. One way we keep an eye on the health of our brands is with our proprietary Equity Tracker. We've been tracking brand equity across our core categories since 1993, so we have a very robust understanding of our brands as well as of competitive brands.

This chart compares Hanes versus key competitors in the men's underwear category. We're looking at two key equities here, "for someone like me" which is an indicator of brand relevance and also the attribute that's most highly correlated with purchase intent, and also comfort which is central to Hanes' positioning. As you can see, Hanes does very well on these key measures with both older and younger consumers. And importantly we have a clear advantage versus all of these competitive brands.

So that's brand. Let's turn to innovation. We have a very disciplined approach to bringing big ideas to market. It always starts with consumer need, always in a big category. We test concepts to ensure we have a winning idea and then we test the product to ensure we're delivering. The advertising we put behind our products is tested to be sure it's engaging and persuasive, and we apply proven media principles to drive awareness of the news. Finally, we put together big launch plans with our retail partners so we can be sure we'll have a win in the marketplace. This is a proven formula. We've been leveraging our bid idea process for years to drive growth in the men's underwear category.

Tagless is the first of the big innovation platforms that we'll speak about today. We launched Tagless Tees nearly a decade ago and drove double-digit category growth as well as big share gains for Hanes. And when we looked at the idea of Tagless Bottoms, we could see it was going to be a big idea too. It ticked all the boxes. The consumer need was there, itchy tags are the number two comfort problem in the category. Underwear bottoms are a big category. So we tested the idea and we launched Tagless Bottoms last year with a new TV campaign that ran at strong media levels with great display support from our retailers.

I'd like to share the Tagless TV spots with you now. Now these are some of the strongest spots we've ever tested for the brand. This campaign uses Michael Jordan in a really key role. As you probably know, we're entering our 25th year of partnership with MJ. And in these spots, he's the hero who comes in to represent the brand and get rid of the annoying tags. So let's roll the spots. Notice that last spot was in Spanish. Nearly a quarter of Second Wavers are Hispanic so it's important that we let them know about our Tagless underwear as well. With the Tagless platform, we also tapped into the power of our supply chain. Introducing Tagless men's

underwear bottoms generated \$4 million in cost savings. The next one example of our innovate-to-elevate strategy, rice per unit up, cost per unit down allowing us to expand gross margins.

Now this chart shows the impact of our commitment to the innovate-to-elevate strategy on our men's underwear business. On the left you see our ratings on "for someone like me" among both older and younger men again from 2007 to 2012. The ratings are equally strong with both groups and this is the highest number we have ever seen on this important measure. This equity strength is driving results in the marketplace. Since 2007, our men's underwear sales CAGR is 8 percent and we've gained 10 share points.

So today you're going to hear more about how we're applying our big idea process to building all of our leadership brands. We're committed to identifying megatrends, addressing consumer needs and letting consumers know about our innovative products and great brands.

So now I'd like to introduce Howard Upchurch, President of our Innerwear business.

Howard Upchurch

Thanks, Sidney. Good morning. I'm pleased to spend the next few minutes discussing the business strategy for our Innerwear business and how we are employing the innovate-to-elevate strategy.

Innerwear has been executing the innovate-to-elevate strategy for a number of years. This has allowed innerwear to achieve strong growth over the past few years in both operating profit and operating profit margin including a record 17 percent operating profit margin in 2012. Our focus for the future is continuing to improve on this strong base and drive profitable growth.

Our strategies are focused behind building consumer product driven innovation. Innovate-to-elevate is our mantra and you will see examples of how we continuously reinvent our core categories with new platforms, fits and product solutions to improve the wearing experience and improve our margins. As we develop these innovations, it is imperative we continue to drive consumer awareness of our brands and new products.

Now let's talk about the category characteristics. Innerwear is a large category, nearly \$20 billion in retail sales in 2012. Innerwear is apparel essentials you wear close to the body and is the foundation for everyone's daily wardrobe for their entire lives. We group the categories as "basics" which includes men's and kid's underwear and socks across the family, and "intimates" which includes bras, panties, shapewear and hosiery. The business model for Innerwear is primarily replenishment focused with core items remaining in the product line for many years.

Because innerwear categories are worn daily, unit consumption is relatively consistent over time. This chart illustrates US per capita purchases of our key categories. You can see the stability, even the recession year of 2009 did not see significant shift in per capita purchases. This demonstrates the stability of our categories. In boom times or bad times, during inflation or deflation, consumers wear Innerwear products everyday. This is a great category.

The third very attractive element of the innerwear category is that it is heavily branded. Brands significantly outperform private label, much more so than in overall apparel or in many of the traditional CPG categories. Consumers really demand brands and when you ask them to explain their decision tree on how they make purchase decisions, you will see the brand is the number one criteria, and price ranks a distant fifth.

Not only are consumers focused on brands, they are loyal to their favorite brands. This brand centricity really plays to our strength. Brands matter a lot, according to consumers, and we have the best brands. So that's the backdrop. We compete in a very attractive category. It is big and steady, driven by consumer needs and it's very branded.

Our deep understanding of the consumer allows us to deliver products that meet their needs in the innerwear categories. HBI holds the number one or number two market position in dollars and units across the market. We have successfully harnessed our brands, product innovation and the scale and efficiency of the supply chain to execute our innovate-to-elevate strategy and hit that sweet spot that drives sustainable sales and margin expansion. Price per is up, cost per unit is down creating gross margin expansion.

We leverage the big idea process that Sidney explained earlier to develop meaningful innovations that move the needle in our core categories. Our focus is on large platforms that can be carried across categories and brands. Tagless underwear is a great example of this thinking. Sidney told you about the Tagless platform and how we have successfully taken this innovation across innerwear.

I'm pleased to announce that the success of this formula in men's underwear is leading to a great win for us. We will be gaining distribution of Hanes Men's Underwear at Macy's in May. Most brands start out in department stores and work their way down-channel. This is big deal. Our expansion upstream is a true indicator of the strength and vitality of the Hanes brand. And we are very excited about this launch.

So what's next? Well, our second platform is ComfortBlend, our newest fabric innovation that combines cotton and synthetic yarns for products that are softer, shrink less and dry faster. It is an outgrowth of the performance fabric megatrend as active inspired fabrics are working their way into everyday wear. We worked through each step of the big idea process, testing the concept, the product and the advertising. We introduced Hane's Men's ComfortBlend Underwear in 2012 with a 30 percent price premium to our core products, and the results have been fantastic. It's the kind of innovation we call a drawer changing event. Get it? Drawer, change your drawers, all right, I'll stick with my day job. Anyway, this is where the consumer so loves the product that they replace everything in their drawer. We are taking this winning concept to socks, kid's underwear and panties. You will see all of these products in the afternoon breakout sessions.

Now let's take a look at how we are marketing this innovation. Here is the commercial launching Hanes Comforblend. It's a great spot and no kittens were harmed in the making of this ad.

Our third platform is Smart Sizes. The two major consumer complaints in the bra category are, one, can't find the right size. In fact, a consumer once said, "I would rather have a root canal than shop for a bra." And the second is, "can't find comfortable bra." Well, Smart Sizes effectively addresses both, combining a simplified shopping system with a more comfortable flexible fit. Again, we worked our way through the big idea process checklist and we pushed this innovation across all our bra brands. Our research tells us this product is starting to drive incremental purchases in a category where consumers typically buy only a little over three bras per year. Again, we are driving a big platform for sustainable sales growth and margin expansion. And this is only the beginning as we are building a pipeline of innovation for the future. In this afternoon's breakout sessions, you will get to touch and feel the products built off of these platforms as well as see additional introductions.

Once we developed innovation, telling the consumer about it is key to success. As noted previously, we will increase our marketing spending by \$30 million to \$40 million in 2013, much of the increase is focused behind innerwear. We will support the Hanes Men's Tagless and ComfortBlend innovations with the commercials you have seen today. And we will have new campaigns supporting Hanes socks and panties and Playtex bras in the second half of the year.

We continue to evolve our media mix. Digital and social media are playing an increasingly important role in how consumers learn about brands and products. HBI currently spends approximately 20 percent of our budget in these media channels with further increases expected over time. We have a great base to build on. Our Hanes brand currently has over 2.5 million Facebook fans with more coming daily. Hopefully, you will all hit the Like button for Hanes after today as well.

Effectively marketing these innovations accrues benefits back to the supply chain. Driving higher volume helps the supply chain leverage scale and drive cost down even further, increasing margins while funding additional support for our brands and products so we can do it over and over again. We call it elevation cycle, the byproduct of our strategy.

So to sum up, Innerwear is successfully delivering strong results with the innovate-to-elevate strategy. Price per unit is up, cost per unit is down and we have margin expansion.

And now I would like to introduce John Marsh, President for Outerwear. Thanks.

John Marsh

Thanks, Howard.

Well, let's talk about Outerwear. The task at hand for Outerwear differs from that of Innerwear. Outerwear has historically delivered only mid-single digit operating margins. Our objective is to move this business to double-digit territory.

We are doing this by remaking the Outerwear business to ensure consistent discipline in following the innovate-to-elevate model. Over the last 18 months or so, we've taken actions that have put us on the right track to accomplish this goal. We are leveraging our strong brands,

bringing large-platform innovation to the market and internalizing the production of scalable programs. We are capitalizing on another megatrend that is especially applicable to Outerwear. It's the rise of the Active category as a lifestyle. I'll say more about this shortly. And we changed the business mix last year as we exited low profit, private label segments that were part of the Imagewear category.

So our business model and our profitability are changing. Today our business is a little larger than it was a few years ago, but our business mix is very different. In addition to exiting the unprofitable private label segment and internalizing production of large core programs, we made an accretive acquisition in Gear for Sports.

The result is the business is now 100 percent branded and the Imagewear category represents only 11 percent of the total. And we're already starting to see the benefits from this strategy. We finished with a strong second half last year and we have good visibility into 2013 where we are projecting profit per unit to triple from where it was just a few years ago.

Now let me introduce what we see as a multi-decade megatrend. It's how the Active category is becoming a lifestyle. And it has become a bigger part of our lives and we are wearing Active apparel in more usage occasions than ever. The following videoclip brings this trend to life so let's take a look.

This long-term megatrend is really being driven by our busy, multi-tasked active lifestyles. We like the looks that come from Active styling and it's just more comfortable. In fact, a recent study showed that people wear their Active apparel for activities other than exercising 93 percent of the time and that's up six points from 2009.

What's happening is that the lines between the Athletic and Casual categories are blurring to form a much bigger Active Category at \$46 billion plus. Products and brands now span the continuum. There is a convergence of leading apparel brands that are taking actions to take advantage of this multi-decade trend. As an example, Under Armour introduced Charged Cotton to move to the left within the continuum. Nike has taken similar actions by introducing Nike 6.0 the cotton-based Street Active collection.

This megatrend plays to our strength. We are well-positioned to compete in this expanded Active category with our brands. Hanes on the more casual end, C9 positioned right in the middle and Champion bookending the category from its more casual urban line to its performance products on the athletic end.

Let me speak specifically about our brands and some of our product innovations. Sidney talked about the strength of the Hanes brand and those brand equities play equally well in the Active business especially tees and fleece.

Our vision for Hanes is simple. It is to continue to migrate our business from opening price points to better price points by delivering great on-trend products while leveraging our global supply chain. In t-shirts alone, the better price point segment is more than 10 times larger than

the opening price point segment and is growing at a faster pace. And we are competing from a position of strength. We own the number two market share position in both tees and fleece.

From a product perspective, we are bringing large platform innovation to the market that can be applied across categories for the family. ComfortBlend, you've already heard about, is a perfect example. We are extending the ComfortBlend innovation from Innerwear to Outerwear. We are following each and every step of the big idea process. And our lightweight, quick drying fabric has a super soft touch for the ultimate in comfort. As a result, we now have the ability to bring a compelling message across the entire apparel pad, from Howard's Innerwear business with socks and underwear into our Outerwear categories with tees and fleece.

Let me now transition to our Champion brand. Our Champion business is a great example where we have a strong brand and our innovation has been excellent. We are using the elevation cycle Howard just spoke about. And results have been good but there is room for further profit improvement and actions are underway to further integrate portions of the Champion line into our supply chain as we push toward higher profitability across our entire Outerwear business.

Champion's better national brand positioning is resonating well in the market. And our success is reflected by the consistent market share gains we have made each and every year, culminating in reaching the number two overall share position last year. And Champion is a big brand at about \$2 billion at retail and brand awareness rivals other top brands at above 90 percent. Further, we own the number one market share position in the college bookstore channel and in the important sports bra market. Champion's brand position is unique and separates us from the intense in your face attitude of our competitors. Champion is about the enjoyment of sport and the social and interactive side of an active lifestyle.

Our target consumer is the amateur athlete, real everyday people. The brand is authentic and aspirational yet relatable. Take a look at the following video that portrays the essence of our brand positioning and some of the actions we are taking to drive this business. It's a great brand.

At the foundation of the Champion business is great product. So let me share a couple of this year's product stories that employ our innovate-to-elevate model and follow the big idea process. These products leverage the Active megatrend and the long-term trend toward performance fabrics.

C-Vapor is our latest innovation in our Double Dry line of performance tees. Our lightweight performance fabrications have drying times faster than any other product in our competitive set, allowing you to work harder and dry faster.

Our next innovation is in the sports bra category where one in every three bras sold is a Champion bra. From the invention of the original sports bra, the Jogbra, to the latest in control innovation Champion continues to lead the market. And just like with Innerwear bras, finding a sports bra that fits and performs is a big frustration. From Alpha smart size into the All Out Support bra which offers the support of two bras with the functionality and ease of one, we are providing solutions for her workout needs.

We're also investing at retail to bring our products to life in the sporting goods channel through our retail re-invent initiative. These concept shop formats enhance the consumer interaction with our brand. The early results look promising. We launched the retail re-invent in the fourth quarter of last year with Modell's Sporting Goods. In just the first 60 days, sales in the converted stores were up dramatically and well ahead of the balance of the chain. For those of you based in New York, you can see the new retail format at the Modell locations on the screen. We are rolling the retail re-invent to additional doors this spring and throughout the rest of the year. Further, we are driving our brand equity with millions of Second Wavers through event sponsorships, partnerships and digital outreach.

So there are a lot of exciting things going on with our brands and products in the Active category. And to capitalize on the long-term Active megatrend we are unveiling today that effective March 1st we will be renaming our business from Outerwear, wait for it, to Active wear. Pretty dramatic isn't it? This move more aptly describes our competitive space and will keep us focused on appropriate trend right innovation and product launches.

To summarize, we are making progress against our long-term goal of improving Active wear profitability over time. We are remaking our business model to consistently apply the innovate-to-elevate strategy. We are capitalizing on the Active megatrend with our strong brands and we are excited about the direction our business is headed and look forward to showing you some of our line shortly.

Our success would not be possible without a world-class supply chain. So this time I'd like to introduce Mike Faircloth, President and Chief Global Operations Officer.

Mike Faircloth

Good morning. Thanks, John.

Over the past few years, our supply chain team has done a great job positioning our operations into lower cost regions and factories. But now that work is done. Going forward, the new role of the supply chain is to support the innovate-to-elevate strategy. So we will just have two main topics today. First, I'll spend a few minutes on what we've accomplished and second focus on how the supply chain is an integral part of the innovate-to-elevate strategy.

To give you an idea of how we performed and changed compared to 2005. Today, we are operating fewer larger facilities, 59 less than in 2005 without any loss of capacity. This network shift alone has driven down our operating cost. So our global footprint is largely in place, properly positioned to support our business. And we have implemented many new processes over the past few years that now allow us to run the business efficiently with less inventory, while maintaining high levels of service.

And we truly achieved great results freeing up cash and lowering our cost but there's much more opportunity. And as Bill mentioned earlier, producing the quality of product is very important to us. Even though we consistently outperform our competitors, we are always working to reduce

defects. As you can see in the chart, we've made great progress and we'll continue to do so even further widening the gap, continue to add value to our brands.

As a team, we worked very hard since 2005 to implement many cost savings initiatives and those efforts coupled with the supply chain migration have lowered our cost of our products, many of them by double-digit percentages. These reduction efforts have made a tremendous impact, averaging nearly \$40 million a year, each and every year. So, overall, our supply chain is running well and we have great momentum going forward.

We have established a global network that's positioned just where we want it, balanced between the Eastern and Western hemisphere manufacturing clusters. And what sets apart is that we own our global supply chain. Nearly 90 percent of our product for the U.S. market comes through our owned and contractor network. And this gives us a tremendous advantage in the terms of low cost, compliance and the ability to efficiently scale up innovations across multiple product categories. We're not just a sourcing company operating with thousands of small-scale factories across the world or a manufacturing company that is narrow in capabilities and geography. Our supply chain is big, global, capable and is most certainly a key part of our strategy.

As noted on the previous slide, we produce nearly 40 percent of our unit volume in Asia, employing over 12,000 people in that region. 8,500 of those are based in Vietnam which I believe makes us the largest U.S. employer there. With that scale, Vietnam has quickly become the central hub of our Eastern manufacturing cluster. So, I'll briefly touch on our operations there.

As a company we have learned how to operate very efficiently in Vietnam and could not be more pleased with how our operations are performing. With that level of success, our plans are to continue to build out capacity, adding capabilities to produce even a wider variety of products over the next few years. Looking ahead, one emerging opportunity is the potential for a free trade agreement between the United States and Vietnam under the proposed Trans Pacific Partnership Act. And if this occurs, we will have an incredible operating advantage.

Our second topic is on how our global supply chain is applying an integral role in our innovate-to-elevate strategy. The role of the supply chain is very clear, first, by supporting our leading brands, through compliance, corporate responsibility, quality and service and second by enabling big innovations to be produced at scale across multiple product categories, and third, leveraging our global scale to operate a low cost network.

And I'll give you examples of how the supply chain supports each segment of the innovate-to-elevate strategy. One of the ways that we support our brands is by being firmly committed to providing a safe and rewarding environment for every person that makes our products around the world. Our corporate responsibility program extends well beyond labor to include safety, chemicals, community and sustainability initiatives. And we've been a leader in this area for decades pioneering many of the efforts in our sector. For example, we conducted nearly 800 audits alone last year even though we own the vast majority of our supply chain.

As you can see on the slide, we've received external recognition for the strength of our program. Hanes received an A rating at the top of the scale. And this is becoming increasingly more important to our retail partners. They know they can trust our brands which should lead to more business opportunity.

Secondly, innovation. Our innovation process is a competitive advantage. We spend around \$40 million a year on research product design and development, and we have well over 400 people positioned across the globe dedicated to innovation. In addition to our big idea innovation platforms that you've heard about earlier today, we spend a lot of resources working on new manufacturing processes which have greatly improved our products and our operating margins.

To keep the innovation pipeline full, we've established a network of universities, companies and individuals that keep us aware of emerging technologies. And once we see something that fits our business strategy, we begin to resource the project and place it into our structured R&D process. A few examples that began as blue-sky ideas are the Tagless Platform, the ComfortBlend Platform and our new sustainable flax fiber, as well as many water, energy and chemical reduction initiatives that have significantly lowered our manufacturing cost. We take a long-term view on innovation to ensure the pipeline is always full of big ideas and process improvements.

So the supply chain is a broad area. However, our role is clear to support the innovate-to-elevate strategy by operating a low cost supply chain. My first example is energy management. This is an area where we've made significant progress and not only from a corporate responsibility point of view but by dramatically lowering our annual operating cost. Through our energy treasure hunt process, we now have thousands of our employees involved in saving energy on a weekly basis. And together we reduced energy consumption by more than 20 percent, water by 30 percent and now 33 percent of our energy comes from renewable resources. And we've achieved great results and I'm very proud of the entire team for their tremendous accomplishments.

In recognition of our work, we've been named Energy Star Partner of the Year four years in a row. And most importantly as a team, we've lowered our annual energy cost by \$20 million with much more to come.

A second example is how we reduce cost by using sophisticated analytics to drive process improvements and efficiency gains through the entire supply network. This advanced analytics is quite unique to our industry. It's more common in larger and more capital-intensive industries such as chemical or pulp & paper. However, several years ago we invested in a dedicated team of PHDs and very talented people with advanced modeling and simulation skills. And they're leading the effort to optimize our processes using modeling and simulation to make decisions that have and will continue to improve our global supply network, driving productivity for many more years to come.

So in summary, we're very happy with our performance and our global manufacturing footprint. Our supply chain is very capable and our role is clear, it's an integral part for the innovate-to-elevate strategy. We'll support our great brands with world-class quality and compliance, enable

innovations to be produced at high efficiency and operate a low cost and efficient supply chain to further drive improvement in our operating margins.

So thank you and now I would like to bring back Bill Nictakis and introduce Gerald Evans our co-chief operating officer, to take a few questions before we take a break. Bill, Gerald?

Bill Nictakis

Thanks, Mike. To recap the summary, innovate-to-elevate as a simple strategy that we _____ [00:58:16] that requires a lot of work, a lot of coordination in a lot of hand across our top organization. You can do a great job with it and if all is ready, delivering results. So just in case anybody didn't get the three key elements of innovate-to-elevate, let me just summarize it for you and then we'll turn it over to questions.

First, is we're leveraging our great brands and our great innovations to draw up our price per unit up, leveraging our supply chain, strike cost per unit down, combining and gross margin expansion towards our long-term goal of 12 to 14 percent operating margin. Plan is simple, that's what we're rolling out and that's what we're closing on.

Let's take an important break, we will take question for a few minutes. Let me just remind you that we want to propose the questions on the consumer franchise as well as the innovative-to-elevate strategy and we'll talk about international and financial assets of the business after the break.

Questioner

Gerald, _____ [00:59:24] that Mike shows about the inventory reductions, the number of units and also the products that you've been driving down -- you know what types of goals do you have for the next couple of years _____ [00:59:36].

Gerald Evans

Yes. Our _____ [00:59:41] goal is to get returns up _____ [00:59:43] four level, three and a half to four level. So we're nowhere there now, that's what the trajectory that we have in our organization _____ [00:59:50] we begin, leveraging a lot of _____ [00:59:51]. So lots of opportunity for us to continue to draw our cash flow as we progress to get that goal. Let's try to keep this close to the consumer franchise and innovate-to-elevate right now. We'll get to the _____ [01:00:06] effect after the break.

Questioner

And could you just give a clear outline to the goals that Bill laid out for this _____ [01:00:13].

Gerald Evans

Yes, absolutely.

Questioner

And also what you would see on the financials which would include raw materials, the dollar rate _____ [01:00:21] getting turns up over time, I think we're a few steps to the three line.

Gerald Evans

Yes. It's likely to _____ [01:00:29] lots of them. Eric.

Questioner

Eric _____ [01:00:35] capital markets. I guess question on Outerwear, Active wear. Doubling of those more so in the up margins there to double digits, talk about the timing with the expectations of that and then right down towards the pricing component there's this, it sounds like you guys are going to be internalizing some of that production. How should we think about that? What programs are you going to be internalizing?

Gerald Evans

Well that's _____ [01:01:03] so we're not going to put the real, like in _____ [01:01:05] that's where John and his team focuses on, educate us to it. One is innovation, and the products that we're bringing out for Champion, we're bringing out for Hanes, all the products are margin _____ [01:01:17] so they deliver serial margins for us, combination of _____ [01:01:21] features that we charge for because of our brands, because of the innovation. Simultaneously, we can change the leverage of the supply chain to derive additional cost reduction for some of the products. So we've internalized fabrics, continuing to look for opportunities, we're going to make that to internalize it. So again, it's combination but again the key is drive innovation that people won't pay for and then whatever model the leverage of supply chain, drive the cost down, _____ [01:01:47] the more you internalize, you make the entire _____ [01:01:54] to drive down the cost. John insists on using the ComfortBlend or- _____ [01:01:59] bland. Well so if we keep this elevation, try to make more and more of the fabric across more and more brand is _____ [01:02:02] as well on a standpoint of improving _____ [01:02:07].

Questioner

_____ [01:02:10]. During the presentation, in-store signage and fixtures, as you mentioned a couple of times specifically on the chain and the retail re-invent, wondering if you can elaborate a little bit on initiative outside of the Champion initiative you mentioned in terms of elevating the brand by way of in-store fixtures, signage.

Gerald Evans

So the question is how are we trying to elevate the brand via in-store signage. That was _____ [01:02:38] by retailers. Some retailers are much more receptive to it than others, more

get challenged as John talked about, Modell is very interested in it, Sports Authority and things like that. Everybody's heard about JC Penny and we've talked to them, where it makes sense, should we do it. Again, we focus on we get payback or not, and we do utilize that CPG process Sidney spoke of that says, "Hey, if we do something, we have to generate the appropriate return on investment to continue it. So we're very methodical in planthold. We cut and we expand only if we see that kind of return.

Questioner

I was wondering if you guys can touch on a little bit more on the supply chain savings. I know you guys restructured it over the past, so going forward where we can we see those savings coming from. Is it new equipment, is it more profits improvement and it also has international bit addressing?

Gerald Evans

As Mike covered early on it was about the footprint move and more and more is about the optimization now. And what we expect is that we enter the \$40 million rate over the next period of time. And it's really a balance of how we run the supply chain, the optimization standpoint as well as the energy benefits and those kinds of things you drive, and increasingly distribution which is an important part of our supply chain as well. We are where we begin leveraging the supply chain with international, we'll touch more on the international section and how we greater leverage on a regional and national standpoint. But it certainly has powered some of our international businesses as well.

Questioner

_____ [01:04:18] question here, I'm from North Carolina. But you used Michael Jordan, I guess he's 50 now and you're talking about in 2020 and beyond you want to be able to catch those Second Waver people, obviously the Second Waver people have never seen Michael Jordan play basketball. And the question is if that role is to continue and you also kind of used _____ [01:04:43] adjustments for athletes to an athlete brand _____ [01:04:46] for the underwear brand, where is the next -- is there the next Michael Jordan and kind of how do you see that going forward?

Gerald Evans

So the question is Michael Jordan, we leveraged him, what's the next Michael Jordan, how long is he going to be relevant? There's not going to be another Michael Jordan, period. I mean, MJ is one of a kind, _____ [01:05:06] done. We are extremely fortunate that we now in year 25 of our relationship with MJ. He is still extremely relevant and popular. He is a true _____ [01:05:17] brand, Michael Jordan is that brand. He is popular with young as well as with the aging Baby Boomers. So we've had all of our advertising rigorously, we tested across demographics. And MJ is still the man. I mean, he still works and he says one word on some of these things, but the fact that MJ is there, you get the impactful-ness of our advertising through the roof.

Questioner

There's a question _____ [01:05:44] and Research Group. Question on your Asian supply chain and a follow-up on your _____ [01:05:50] program. You talked about Vietnam as a big base abroad for your supply chain and recently made a very big investment in China which you didn't mention, I was wondering what are your future plans to increase capacity of new innovation there. And then on the Macy's _____ [01:06:06] did that displace the Champion business or is it just a new addition program for Macy's?

Gerald Evans

Let me take the slides out for the Macy's part of the question. The first part of the question is what about the supply chain, you didn't talk about the China part, you talked about the Vietnam part. You're probably _____ [01:06:24] when we talked about when we made a decision on building a network within Asia. You make the decision on where you put portions of that network for different reasons. On the textile side, it's very much about labors of fairly small content and portion of the content in the textiles while you have big and important decisions to make like to access to water, access to reliable power, access to technical people that can run the factory and so forth. China was a very natural place to put that. We're still very happy with that as opposed to _____ [01:06:51] move your product in and out where we're situated. The best part of the labor content is in the selling and the assembly of the products so we made a separate decision there, in Vietnam in particular, it looked like a long-term choice and a proper choice for the long-term on where to build it. And so collectively, we're very happy with how it works and again, we have 11,000 people in Nanjing, as if you saw what Mike's talking about, up to 10,000 people that's in Vietnam. So I think you get a sense of the balance and how that network still works very well together and will for the long-term.

Bill Nictakis

Yet in terms of Macy's we have a Champion Men's Sportswear, we have underwear, Hanes will replace Champion underwear and we applied to get Champion in first, we weren't successful so we went with Hanes in first and they weren't quite ready to put Hanes in when we built the Champion underwear so we went with that, but we kept pounding _____ [01:07:40] appeal to the Macy's consumer if they want to get Millennials and Second Wavers, you've got to have Hanes. And so after three years, our _____ [01:07:49] cracked the code and now Hanes is going in and we're just walking out, getting more successful since walking out the Champion.

Questioner

You think there'll be a bigger program --

Bill Nictakis

We love Champion brand, but Hanes is Hanes.

Gerald Evans

They totally recognize the appeal of that brand to the Millennials in particular and they did their own testing and understood the power of Hanes brand in particular as they looked at their portfolio brands.

Questioner

So to get the core positioning you had in that rendering of your slide --

Questioner

You talked about Tagless information, ComfortBlend and I think the third one you mentioned was Smart Sizes. Can you explain what that is? We've heard from years, I don't know the problem with 80 percent of women, their bra doesn't fit them right, can you explain what the innovation is and how it works.

Gerald Evans

Yes. It's really built on the concept of the theme with technology with style, simplified, it's more of a flexible fit and the bra itself you'll see more of this in the breakout session. What that does is it allows it to be more forgiving from a fit standpoint and also simplifies the fit. It typically they have both a band and a cup size, so there were more permutation to that. This makes it easier to get your sizing right because you go and you fix it in a smaller number of selection in sizes. It's a little more like a hosiery sizing where you have A, B, C or a 1, 2, 3 that is simplified down to far fewer sizes, it's much easier to find your fit. It also makes it more productive at retail. You have a few red tape used it drives higher turnovers and so forth. And that ability to take yourself and overcome these two objections is why you see the incremental purchases coming out. I mean I say don't miss that. That's a huge deal in a category where they buy three a year and buy an extra pair. That has an enormous impact on the category.

Questioner

Can you talk a little bit more, do you have a formal kind of innovation process here. How does it differentiate from like on another firms. Either a team, the work requires, the material innovation versus product innovation. So what's special about the innovation cycle?

Gerald Evans

So the question is what special about our innovation cycle. I don't know about other apparel companies and things like that. I would say we have a very structured innovation process similar to what you see from a traditional CTG, _____ [01:09:57] Procter, Pepsico kind of thing. Starting with mining consumer insights and it all start there. So what are the needs of the consumer, what are the status of buyers and then what we got testing protocol, so is this a consumer idea. Same kind and like that and what getting on that very wide in terms of technical opportunities on fabrics, on you know, type of leverage _____ [01:10:20] and things like that.

So we're grounded on the consumer but then at the same time we have a technical you know, it's about 400 people in product development and research that are constantly working _____ [01:10:31] in the world and elsewhere to find this next big technical idea.

Questioner

Okay and a couple questions. A number points with presentation you mentioned innovation having better margins. How much better are the margin is really general like that? How should we think about innovation that growing at the percent of the make benefit deals are all more than structure?

Gerald Evans

And the question is about that innovation margin. In terms, we still have the benchmark decision, we'll bring out innovation we're going to make sure that they're margin-accreted types. And we're not going to get into the specifics on X points better than the core item or anything _____ [01:11:14].

Questioner

Okay. And then question on the active wear. You mentioned internalizing skills or active wear programs. Opportunities to bring Champion into the supply chain. Can you provide a _____ [01:11:25] around that, what are some of the types of follow up activity that's not totally manufacturing yourself where you feel that maybe an opportunity.

Gerald Evans

I only say it's some on the -- we are manufacturing, they get bigger and bigger first, you know, on those to the ones right now. If you look and the seamless technology you have it runs very strongly across -- for example the sports bra, that it's driving so much above the Champion and the C9 business and they're growing leaps and bounds and that's the technology leap. We control, we sort of revolutionize and we have tremendous talent there who continues to get better and better as we got more of it. And in the case of some of the newer programs that's very well our teaser programs at C9 that we've internalized into our own factories as well and we consistently look at it as we reach certain scale, we bring in more and more of those at a minimum selling which is where we get the biggest return and were possible and then later into the textile with a significant amount of selling that we can do internally. I think you and I discussed it yesterday in the store based on tees work that changes so fast, it's better contracted but then there's a lot of sort of the basic things that certainly showed our profile.

Questioner

And is there a rule of thumb for the margin benefits from internalizing a program and taking the third party margin from the equation?

Gerald Evans

Not really. We just see it as I touched on it, the quickest return for us the internalization of selling first where we get that high labor pickup. And then when it reaches full scale it takes the entire textile into the next step.

Questioner

_____ [01:12:52] Wells Fargo Securities. At first, the business overall, is there a men's, women's, what's the mix and if there's a push to a growth launch for the other? And secondly, are there any new additional categories that you think about entering?

Gerald Evans

Question is what's the mixed men's, women's, kids and are there any other categories. I'll take care of the last one first. If we love the categories we're not looking to widen that. There's a lot of share for us left to go get and the current is done more underwear, panties, bras, socks, hosiery. So more _____ [01:13:25] stick to our knitting unintended when it comes to that. If you look at our business, I mean, one of the nice things about our overall business, we are pretty well svelte in terms of male, female. Obviously I think bra business and panties, but there are male underwear business would be the single biggest what we have. So we're pretty balanced on the male, female skew.

Questioner

Question on free trade, the trend _____ [01:13:51] where does that stand right now and if that gets passed, what does that do to competition? So it clearly helps your _____ [01:13:57] importing business, so how does that change the competitive _____ [01:14:02]?

Gerald Evans

I can answer the first part. First, it's certainly in the government's hands now and negotiated between the various parties working through and in the midst of those conversations. We really like Vietnam as a place to operate and we talked about it. It's an important part of our sort of supply chain in that area. It further releases the full power of that, that network for us. As Mike mentioned, we're the largest operator in Vietnam so we view this further as strengthening our competitive advantage.

Questioner

I'm just curious, you talked a lot about the CPG model and the intent to market research and such, it sounds like this would operate, that you're joining this in the U.S. but you're obviously selling around the world. Do you take what you do in the U.S. and save _____ [01:14:52] elsewhere or do you have to go through a research process for all these other markets and then come up with a tailored specific market approach?

Gerald Evans

You know, I'd love to do _____ [01:15:02] on that one is -- differ that one into the next group of questions because we'll talk to you something about what we're doing intentionally. And then if you'll come back to that question, I think I can reference what I'm talking about and probably give you some solid answer at that point.

Interviewer

So with that, I guess there should be more time for questions at the end but we're going to take our 15-minute break _____ [01:15:21] refreshments in the back, then we'll get back at 10:35.

Gerald Evans

Welcome back from your break and good morning. As you have heard so far this morning, Hanesbrands is an incredible consumer franchise that has a lifetime relationship with its customers, driven by our Innovate-to-Elevate strategy.

Before we end this segment, let me spend a few minutes talking about our international business where we are putting building blocks in place for it to once again become a growth driver. We have three strategies to accelerate growth of our international business. First is to implement our Innovate-to-Elevate strategy, second is to better leverage our regional scale, and third is to selectively use licensing and potentially use acquisitions to build stronger footholds in key countries.

While our international business is relatively small today at 11 percent of sales, our intention is to build leading share positions over time in our core categories in the largest economies of the Americas and Asia. Currently, about 70 percent of International sales are done in the more developed countries of Canada, Australia, Japan and Mexico while the balance of our business is done in emerging markets like China and Brazil. We have an excellent platform on which to build.

For the two years coming out of the Recession, we saw strong growth in our international businesses with a two-year compounded annual growth rate of 16 percent. But, we did see a slowdown in 2012 driven by a combination of macro issues in certain countries, and a failure to unleash our full operating potential in others.

Let me first address two specific macro issues that have challenged us. First, weakening currencies in Japan, Brazil, and Argentina had a combined negative impact on international sales of approximately 4 points in 2012. In addition, a retail landscape transition underway in Canada had an additional negative impact of 2 to 3 points on total international sales in the year. While we expect these challenges will pass over time, we do see similar headwinds from both exchange rates and the Canada issue in 2013.

But it's not all about the macro issues. There are actions that we can take to more effectively implement our three growth strategies and we are doing so. To successfully accomplish this, we are focused on moving beyond our past practice of managing our international business as a

collection of companies by better leveraging the strength of our regional organizations to drive geographical execution.

So let's go a little deeper by region to give you a sense of some of the challenges and our plans to drive growth over time. Let's begin with Canada. Canada is our largest single international market and, as I touched on a minute ago, the retail landscape there is undergoing a huge transition that is affecting our overall international sales trend. This retail landscape change is being driven by Target's purchase of Zellers stores, our third largest customer in Canada.

All 277 Zeller stores, representing about 20 percent of our Canada sales were gradually closed over the second half of 2012 for remodeling. These closings had a significant impact on our second half 2012 sales, and we will continue to feel a drag on sales into 2014 as Target plans to gradually reopen these stores over 2013 and 2014. And in fact, we will see some of the greatest impact on sales in the first quarter of 2013 when we compare against sales to the full Zellers chain last year.

Now, on a positive note, these changes represent a longer term growth opportunity as we expand our strong partnership with Target across the border, including the introduction of our highly successful C9 by Champion Active wear program.

Now, turning our attention to a broader look at North America, in addition to Canada, we also have a large underwear and intimate apparel business in Mexico. Together these two businesses represent a sizable portion of the total international business, all in close proximity to our US operations. We see an opportunity to lower costs by integrating these businesses into our US infrastructure to eliminate duplicate support functions and lever our global supply chain. Now, this will also position us to drive our Tagless, ComfortBlend and Smart Size innovation platforms across all three countries simultaneously.

Turning to our third region, South America, here we operate an innerwear business anchored by a strong Brazil business with smaller operations in Argentina and Chile. And in fact, we hold the number one share position in men's underwear in Brazil and the leading share position in panties in Argentina. We entered these markets through a series of small acquisitions in the early 2000's that we have used as platforms to launch our large brands and drive our innovations. Over the last decade these companies have performed very well with sales and profits growing at a double digit compound annual growth rate.

Recently we have felt the challenge of a slowing economy in Brazil where the GDP has dropped from 7.5 percent in 2010 to 1.2 percent growth rate in 2012. In addition, currencies in both Brazil and Argentina have weakened. While we cannot control these macro issues, we know they will eventually pass, and when they do, these solid operations will return to their strong historical levels of growth.

In Asia, we have a large business in Japan with sales of approximately \$100 million operated by an experienced management team. For over two decades, this team has utilized a combination of licensing and owned operations to maximize our brand presence in the market. For example,

we've had a licensee for many years that sells Champion Active wear to the sporting goods channel while we sell more casual Champion products through traditional channels. In Hanes, we sell core basic products while a series of licensees sell complementary products like sleepwear and accessories.

We are leveraging the strength of the Japanese team and their approach to business across Asia. Several years ago, we gave them the mandate to drive growth in Korea and the small Philippines, and they delivered strongly achieving a 3-year compound annual growth rate of 49 percent. Now we are further expanding the responsibilities of our Japanese team to include our small but growing China business where we intend to utilize a combination of owned and licensed operations to maximize our penetration of this large market.

While our success in Asia is being masked in the near term by a weakening Japanese Yen, we are confident that our Asia business will drive meaningful growth over the long term as we fully deploy various business models and tap the management strength in the region.

Finally, I will discuss our Australia region where we have a strong and growing business. This is another example of an acquisition providing an operating platform for rapid market growth. We entered by purchasing our Champion licensee in 2011. The acquired company's experienced management team combined with our strong brands and global supply chain, have proven to be a winning combination as we have quickly grown to sales of over \$30 million in two years. We like this market and expect continued growth.

So to summarize the international section, we are taking decisive steps to implement three key strategies to drive accelerated international growth in the future. First, we are implementing our Innovate-to-Elevate strategy; second we are better leveraging our regional scale, and third, we'll selectively use licensing and potentially use acquisitions to gain a larger foothold in key countries of the Americas and Asia. While macro issues will dampen the results of our efforts in the short term, these will pass in time, and we believe you will see our international business get back on a growth curve in 2014 and return to double digit growth by mid-decade.

So with that, let me wrap up this section by bringing you back to the chart Rich used earlier today. There are three elements to our powerful business model. So far we have taken you through the first two. First, we are a true consumer franchise with big brands in large stable categories, and a lifelong customer base of hundreds of millions of consumers that wear our products everyday of their lives.

Second, we drive this consumer franchise with our Innovate-to-Elevate strategy that leverages our brands, innovation and supply chain to create big innovation platforms that meet the needs of consumers, both the boomers and the Second Wave. We talked about three major innovation platforms today: Tagless, ComfortBlend and Smart Sizes that will drive our business for years to come. It is the ability of our Innovate-to-Elevate strategy to drive price per unit up and cost per unit down that drives margin expansion and allows us to achieve sustainable operating margins in the 12 to 14 percent range.

And this leads to the third aspect of our business model, our strong free cash flow. So let me turn it over to Rick to talk to you about that aspect of our business model. Thanks.

Rick Moss

Thanks, Gerald.

Bill and Gerald and their team have talked to you today about how we plan to build on our powerful, category-leading brands to continue organic top line growth in the low single-digit range and drive margin expansion as we implement our Innovate-to-Elevate strategy. I'd like to talk to you today about how this business model drives our financial model, a model characterized by consistent metrics and strong free cash flow, and how we expect that strong free cash flow to continue to deliver greater shareholder returns over time.

In fact, you really see the fruits of the Innovate-to-Elevate strategy begin to materialize in 2013 as indicated by our guidance for this year. We expect sales for the year to increase about two percent, with our Innovate-to-Elevate strategy driving a 14 to 25 percent improvement in operating profit and operating profit margin of about 11 to 12 percent.

Profitability is further magnified through the P&L as our \$350 to \$450 million of free cash flow this year enables us to complete our debt prepayment program, which, in turn, further reduces interest expense and yields EPS growth of 24 to 30 percent, another great year of operating and financial performance.

Our history of consistently improving results in varying operating environments gives us confidence that we can achieve these financial results in 2013. You can see from the chart on the left how, from 2007 to 2011, our annual margins were remarkably stable, with gross margins averaging 33.6 percent and varying only about 30 basis points in any given year, even through The Great Recession. Gross margins in 2012 were impacted by the second year of unprecedented cotton inflation, and while it took about three quarters for our pricing actions to catch up, by the back half of 2012 our gross margins had returned to 33.6 percent, a short, albeit painful, blip in our financials. This stability, however, masked the real progress we've made over those years in improving our cost structure.

Going forward, we expect our Innovate-to-Elevate strategy to deliver higher prices per unit and lower costs per unit. In addition, as we continue to leverage our SG&A structure, we expect to see operating profit margins increase to the 12 to 14 percent range.

While annual margins are very consistent, greater quarterly volatility in margins is inherent in our business model. On this slide, I've overlaid margin rates to demonstrate this volatility, quarterly margin rates to demonstrate this volatility. Retailer ordering patterns are the main culprit driving this volatility as they seek to manage their short term inventory levels to meet their objectives at any given time. However, because of our strong consumer franchise in large stable categories, our shipments should always equal our annualized sell-through so all of those quarterly ups and downs eventually balance out in the end.

We've talked about how stable our business is, but we want it to be even more predictable and stable in the future, so we've undertaken a number of strategies to de-risk the business. We recognized that our financial leverage together with the volatility in certain categories was driving a more risky business profile than appropriate for a company like ours. This, in turn, was depressing our P/E multiple and hampering our shareholder returns, so we undertook actions in 2012 to de-risk our business both operationally and financially.

The key tenets of our operational de-risking actions have been to drive growth in our profitable businesses by leveraging our strong brands through our Innovate-to-Elevate strategy. At the same time, we have been focused on exiting less profitable businesses where brands are less important. The actions we took in 2012 – the sale of our European Imagewear business and the exit from the private label and outer banks businesses – will improve our margins and reduce volatility going forward. In fact, with our current business mix our sales decline in 2009, during the last recession, would have been only two percent rather than eight percent. Not bad for the worst recession in decades and more than what you would have expected from an underwear company.

But, we didn't stop there. In 2009, we had \$163 million of interest expense. After we've reduced our long term bond debt to \$1 billion by the end of this year, our annualized interest expense will drop to about \$70 to \$75 million, an improvement of about \$90 million which will only enhance our profitability and free cash flow going forward.

So by driving our profitable branded businesses, exiting or de-emphasizing less profitable businesses, and de-leveraging our balance sheet, we've positioned the company to weather difficult times and have created a solid foundation for sustained, consistent profit growth and free cash flow generation going forward, which brings me to the third key theme that Rich highlighted earlier; our ability to generate strong free cash flow.

A hallmark of our financial performance since our spin-off has been our ability to generate significant free cash flow, which was rewarded last week by our Moody's credit rating upgrade. Thus far, we have deployed about \$2 billion in cash primarily to pay down debt and build our global, low cost supply chain, but also to acquire Gear For Sports and make significant contributions to our pension fund. Early on, we even buy back some stock to offset dilution. Going forward, we expect to continue to generate significant levels of free cash flow. You should expect our ongoing, normalized free cash flow to be about \$400 million or \$4 per share, with steady increases as profitability continues to improve.

Think of the opportunity that lies ahead with our free cash flow. Over the next five years, we could generate another \$2.0 billion, all of which could be deployed to ensure significant shareholder returns for the foreseeable future.

Let me illustrate the power of our free cash flow. \$400 million a year would enable us to begin to pay a meaningful dividend to our shareholders with plenty of room to spare. Remember, at a \$40 stock price, you're talking about a ten percent free cash flow yield or as Charlie pointed out, a price to free cash flow multiple well below our benchmarks. Hypothetically speaking, \$400

million a year would buy back about ten percent of our outstanding shares each and every year at the current stock price.

Finally, \$400 million per year represents about two acquisitions of roughly the same size of Gear For Sports every year. Now, the truth is that the best way for us to increase your total shareholder return over time, is to do some combination of all three of these things while we continue to drive margin expansion through our Innovate-to-Elevate strategy.

So, allow me to close, as Rich began, by celebrating our company's performance and our potential for a bright, profitable future. We've grown our top line consistently by leveraging our big, powerful brands. We've grown profits through innovation and cost savings from our global, low cost supply chain. And finally, we've used our strong free cash flow to de-leverage our balance sheet and reduce interest expense.

With that, I'll turn the time back over to Rich.

Rich Noll

Thanks, Rick.

One of the questions I'm constantly asked when I meet with investors is what are we going to do with all of that cash in 2014 and beyond? And the right strategy for us is simple. It will be a mixture of paying dividends, low-risk bolt-on acquisitions, and repurchasing shares.

Let me take them one by one. First, dividends, it wouldn't make sense for a company such as ours, with the stability provided by a consumer franchise, our strong free cash flows, and, yes, our low leverage, to continue without paying a dividend. Now, it's premature to predict exactly when or how much, but at some point, you will see a dividend. And when we do institute one, we will try to strike the right balance of retaining ample cash flows to support growth, while still making the dividend meaningful to investors.

Turning to share repurchase, Rick told you earlier that prior to The Great Recession, we did routinely repurchase shares to offset dilution. That strategy can make sense for companies that need to eek out low single-digit EPS growth, but clearly that is not us. At this point our repurchase strategy is less developed than that of dividends but it will quickly evolve over time.

Last but not least, acquisitions; bolt-on acquisitions can help us better leverage our global supply chain, our consumer expertise, and our Innovate-to-Elevate strategy. Such acquisitions can create substantial value. However, we're only are interested in acquisitions that have relatively low-risks. Therefore, we have very strict criteria to guide our efforts. Let me take you through it.

One, any acquisition would be in our core categories. We love our categories. We do not need to diversify. Two, any acquisition needs to be financially justifiable, solely based on high probability cost synergies that leverage our supply chain and/or our SG&A infrastructure. Three, revenue growth opportunities should be complementary from a consumer segment, channel, or

geographic standpoint, including international opportunities in the Americas or Asia. And four, any acquisition should provide strong returns to shareholders, and excluding short term acquisition and integration costs, be accretive in year one.

Acquisitions that meet these criteria, like Gear for Sports where we paid 7.5 times EBITDA, can create great returns. So to recap our cash deployment strategies, over time you'll see us use our cash flow to create strong returns via a mixture of paying dividends, low-risk bolt-on acquisitions, and repurchasing shares. Rest assured that we intend to be good stewards of your cash, and use it to create as much value for you as possible.

I opened this morning by highlighting three aspects of our company that I felt were the least understood. Let me recap them. First, we have a strong consumer franchise, a hallmark of any good CPG company, and it is reflected in the stability of our financial performance in very volatile times. Second, our Innovate-to-Elevate strategy allows us to leverage our most precious assets, our strong brands, our approach to consumer-driven innovation, and our great global supply chain, all of which combine to allow us to organically grow sales and to increase operating margins towards our 12 to 14 percent goal. And third, our strong free cash flow. With a price to free cash flow ratio of less than ten, our cash flow is substantial relative to our valuation. And that by itself creates many opportunities for substantially increasing shareholder returns.

Combining all three aspects will help us to continue to magnify our growth rates through the P&L. Starting with only low single-digit sales, we can expand our margins and use our cash flow to substantially increase EPS over time. As you model our future potential, it wouldn't surprise me if you projected EPS to double again, just as it did over the past four years.

So that's today's simple message; leveraging our consumer franchise, driving our margin enhancing Innovate-to-Elevate strategy, and being good stewards of your cash should allow us to drive superior shareholder returns for many years to come.

Thank you.

Interviewer

Okay. We're going to transition to the Q&A. It'll take us just a couple of moments to get setup here. While we do that, I want to remind you that there are microphones overhead. If you will, restate your name, first name, last name, and your firm name just so we get it for the transcript. And for those of you on the Webcast, I understand we may have had some audio issues in the last Q&A session, probably we'll have them again. So we'll get the transcript up as quick as possible for that. Rich is going to MC the Q&A session, Rick will be up, and we may call on some of our other key management team to answer the questions as well.

At this point, we're ready to go. So we'll take the first question. Yes.

Questioner

_____ [01:40:22]. You talked a little bit about potential international acquisitions, would they be new brands, would it be sports distribution channel. Can you talk -- and how large, potentially, what the current funnel might be?

Rich Noll

So the question is could you talk a little bit more about potential international acquisitions. Actually, let me use that as a way to talk about just acquisitions in general, and then finally talk about acquisitions, specifically, internationally.

I think I can best do that by talking about our history as a company, most of which you -- many of you wouldn't actually know it because this was really when we were part of Sara Lee. We are a company that was actually built by acquisitions. I think we completed around 20 to 25 acquisitions in about 20 years. So when you look at Hanesbrands today, it is actually a collection of acquisitions. We are acquired Champion. We acquired Playtex. We acquired Jogbra that's why we still, today, have the number one share in women's sports bras in Champion. We actually integrated Jogbra into Champion, and we leveraged that strength but bit a bigger, broader brand.

Internationally, when you look at where we've got strong share positions, in Canada we acquired a company called Canadelle. In Mexico we acquired an underwear company called Rinbros. In Brazil we acquired Zorba. So we actually have a history of making small acquisitions in our core categories that will either expand us into -- by channel, by consumer segments or geographically, and then apply the disciplines approach that you see in here to grow those businesses over time.

I think Gerald did a great job talking about how we bought that company in Brazil many years ago. It was about \$10 or \$15 million acquisition. And now it's, you know, got the number one share. Zorba is strong, Hanes is strong. We've got many, many years of growth in front of us. And then we can leverage that to build out our other innerwear categories.

So I think that's a part of our strategy going forward that you'll see us once again employ. Gear For Sports is a great example of that. So when I -- when we look around, we're going to look for the right opportunities to give an acquisition that could help lead to easily justifiable cost synergies that can justify the acquisition but provide revenue growth opportunities that are complementary, some of which could be international.

So I can't sincerely say exactly what the criteria will be but that should give you a flavor of how we think about it, how to get a foothold and then build in around that. We're actually doing it right now in Australia too.

Questioner

One more follow up to that.

Rich Noll

Sure.

Questioner

What would be the financial impact of potential free trade agreement with Vietnam?

Rich Noll

So what would be the potential impact of free trade agreement with Vietnam? So the TPP is the government is working on trying to create this transpacific partnership was actually started by the Obama administration, and starting to build steam. Those types of things take many years to unfold. I think it would be, at least, mid-decade before you saw that type of thing actually emerge. But it can be a wonderful thing for us because we -- by the time something like that went into play, we will would have a decade of experience operating in Vietnam.

And I can tell you that you can't just show up in a country like Vietnam and start to create big infrastructure overnight. It takes many, many year to learn how to operate effectively in a country -- communist country such as Vietnam. So I think it could be a huge benefit for us over time but it would probably in the latter half of the decade, not the earlier part of the decade.

Yes.

Questioner

It would be very helpful, Rich, if you could just walk us through, since you've acquired Gear, what you've done with it, how it's grown, how your infrastructures boosted their margins, evidence of exactly what you're looking to do again going forward with a real life example.

Rich Noll

So the question is walk us through Gear and how that's been going and how that actually is creating value. So Gear For Sports, we bought it for \$223 million, I think it was up there, and their sales was just about that. We've grown their sales over time organically. More importantly though, we've actually started to help them bring some of these concepts that you've seen up here to bear. One of the most recent things were beginning to, concept shops in some of the college bookstores. And that whole concept is actually starting to show some really, really good dividends.

It's also allowed us to leverage on the backend, graphics capabilities. Graphics are a huge part of the overall market and market trend. We had graphics capabilities before but not quick-turn graphics such as Gear. So we're blending that supply chain graphics capability to have low cost that we operate in Central America with quick turn in Gear. And that's actually starting to incur benefits for the rest of our Hanes business outside of Gear. So we get those supply chain synergies.

We're also undergoing a process to continually look at how to, on the back office things, begin to integrate and lower cost. The big deal for Gear was to simply plugging into our supply chain and helping them have a lower cost of blanks and products like that. That's working. It's a little bit behind schedule but they are absolutely right on track to deliver everything that we've looked for in the synergies, I think, this year. So it's a great thing. I think we bought them for about 7.5 times EBITDA, as I said, post synergies that will be about 5.5 times. So, pretty big savings. We've talked about it going from \$30 million of operating profit, so it should be right around \$40 this year.

Erik.

Questioner

Again, Erik _____ [01:46:07], Virginia Capitol. I get the broad sort of usage of cash but maybe as we exit this year in the optimized cash structure, you know, thinking about 40 -- the actual sort of quantification percentage of that \$400 million. Again, it probably sounds like you're going to do a relatively sizable dividend out of the gain. You could -- ten percent _____ [01:46:28] yield, buyback ten percent a year to current, versus the acquisition. So how do you balance between those? What's the prior -- the dates and _____ [01:46:36]?

Rich Noll

So the question is what's the prioritization in the use of the free cash flows in 2014 and beyond as we start to approach the end of our debt pay down. And I think, first, I want to qualify what I'm going to say, is that we have not come to the final conclusions yet. So I think that's important to remember.

So let me talk about it more philosophically rather than saying "Here's exactly what we're going to do" because we haven't made those exact decisions yet, and, first, dividends. At the end of the day, you know, we've talked to a lot of different advisors and counselors on instituting a dividend and if so, what should be the magnitude and how should we think about that. And then provided us a lot of feedback on how investors think about it on what they see other companies are doing and so on.

And one of the things we constantly hear is don't just put in a token dividend, you know, don't pay a half a percent or a percent, you know, just to try and pass some screens. If you're going to do it, do it for real and start to move in a direction of what you would start to see some of our benchmarks, the S&P 400 mid-CAP being which is, I think, right around two percent, and, you know, start to move in that direction. The other way they tell you to think about is to think about your free cash flows on a normalized basis and maybe target somewhere between 20 and 25 percent of free cash flows on an ongoing basis. So that would leave ample free cash flows for us to continue to support growth.

And remember, it's free cash flows, so it's after our investment and our current business. So we're already doing it in growing net using the capital that we need. And so this would still give us a lot of ability to pay dividends as well as do other things with that cash flow.

They also talked about, you know, starting a little smaller and starting to, you know, grow it from there. I think you're going to see, as Rick said, our free cash flows should continue to grow over time as our profitability grows over time. And that dividend, once we set that strategy and as we put it out in the marketplace you'll be able to see it but you shouldn't expect it as "Here's what it's going to be in that's what it's going to be forever." I think, you know, we want to start to employ dividend strategy like a lot of other companies do.

But you'll never see us be -- the way we create most of our return for shareholders is by paying huge dividends, and that's all we do. And that leaves acquisitions, which I think as I've talked about, we've got a great track record as a company. We've done one most recently with Gear For Sports, and that will definitely be part of the mix but low-risk bolt-on, high probability cost synergies to justify what we're going to pay for them. And then we -- share we purchases, we'll think about that over time. As I said, that strategy is not as fully developed. And that's how we think about all of it.

Thanks for your question. Matt.

Questioner

Yes. Matt McClintock, _____ [01:49:21]. So you just said low risk when you're thinking about acquisition. How does the risk profile differ from a domestic acquisition like Gear For Sports versus an international acquisition given your more immerging market footprint? And then the second part of the question would be how do you think about the brand acceptance of your US brands globally? Are all US brands potentially able to export to foreign countries or would you think more of a localized strategy as you think about individual opportunities?

Rich Noll

So the question is how do we think about risk and acquisitions both domestically, but more importantly, internationally. And the second part of your -- let me answer that first and then we'll come back to the second part of your question because I've already forgotten it. Well, I should be honest, right?

All right. So in terms of risk. Clearly, because we've got such a large infrastructure here, you know, you're going to sit there and say, "Well, acquisitions domestically are going to be lower risk than an acquisition internally." Yet we bought TNF in Australia a few years ago. It cost us about \$9 million, about \$25 million in sales, and it's what has actually allowed us to build, already starting to grow to be a \$30 to \$40 million business on Australia.

So risk is relative to its size. Getting a foothold into an area or especially one that we're actually familiar with dealing with -- I've had Australia, multiple Australia businesses report to me. Gerald actually worked in Australia for a number of years. So that's a place that went in. We wanted to reenter and get a foothold in that market, and did what we considered a relatively low-risk acquisition from which we can build upon.

So when you think about acquisitions, you don't want to always think of them as the same size, you know, because, clearly, doing a multi-hundred million dollar acquisition in a country we don't have any experience in is pretty darn risky. But that's not how we're going to think. It's going to be how do we start to round up and build our footprint in a market where we may already have some capabilities but we don't have enough critical mass in a new category in that market that we're already familiar with.

For example, we've talked about being number one in men's underwear in certain markets but don't really have a broad business. You could see small bra acquisitions done in those markets to help round up the product portfolio management expertise locally to leverage that to actually grow.

There are also a lot of domestic acquisitions. So I don't want you to walk up or walk away from here thinking that "Oh, they're going to do a bunch of international acquisitions." That is not the message, right? Acquisitions will be part of our growth strategy long term and we want to make sure they're low risk because we're just a little underwear company from North Carolina so we don't like taking on a low risk. There are a lot of domestic acquisitions that are available. And no, I won't speculate on any one if that's going to be your follow-up.

But we wanted to also communicate one of the strategies that we've had successful with over time internationally is have a licensee, build a relationship, TNF was one, and then possibly do an acquisition to continue to build out that footprint as well as grow it organically.

Did you have a follow-up? What was the follow-up?

Questioner

Yes. The second part is could you maybe help us understand how you think about the global acceptance of your U.S. brand given their size and potentially maybe localization necessary for individual markets with local brand _____ [01:52:43]?

Rich Noll

So what's the global acceptance of our brands in some of these international markets? And it's really going to vary depending upon the brand. What you should really do is -- I want to talk about three that have worked internationally. One is Hanes. As you saw -- again, use -- Brazil is a great example, or Mexico. We actually bought -- in both of those cases, a local underwear company, Zorba in Brazil, Rinbros in Mexico. And then over time, use that infrastructure and that management expertise to bring Hanes into the market. And so you can actually -- and then build a much larger share than you would have with just the local brand.

So Hanes actually can be transported. Japan, we sold Hanes for decades in that market and it works fairly well. Champion is another brand that has a lot of ability to be expanded internationally. It's already pretty strong in Japan market. And we see opportunities for a combination of continuing to build it ourselves, license it and, over time, maybe actually acquire some of those licensees but that would be a very long term strategy.

Champion works well because, actually, the word for Champion in a lot of different languages is Champion. And so it one of those few brands that transcends languages. Playtex is the other one that does have opportunity internationally and it's because that business had been international for, I think, probably four or five decades. Those would be the three brands and the only three brands that we would look towards using in international market. The rest of them really don't have any equity.

Yes, in the far back and then Davis.

Questioner

So I know your free cash flow gains for this year includes the payment or it's after a payment for pension. Do you expect to continue to make a payment to your pension? And then on your CapEx, you're getting those nice run rates but you don't have a lot of investments. When do you expect to have to begin investing it, in CapEx again?

Rich Noll

Let me hit the first part of that. And then, Rick, you can hit the second part, I'm sure. And the question that I'll turn over to Rick is pension in free cash flow. And the other part of the question is CAPX and when -- how should we think of that on a normalized basis.

So you want to really think of our company as needing -- you know, I look at it and say, "Well, we can generate, oh, eight to ten percent of free cash flow, eight to ten percent of sales on free cash flow." And historically, we need between one and two percent of sales to support that supply chain long term.

We just recapitalized our entire supply chain in 2005 through about 2011 or '12, so it's all relatively new when we were spending substantially above depreciation. Now we're a little bit below that \$50 million level. You can easily see that in place for the next three or four years. After that, it will probably start to normalize up to maybe that \$70 or \$80 million level. And that's how you'd want to think about it long term.

Rick.

Rick Moss

Sure. On the pension side, our expectation for '13 is -- pension contribution in the mid 30's, I think as we've said. And you're right, Scott, it's actually already in the cash flow from operations. So it's not a deduction from -- it's not a use of free cash flow. It's already in there.

As we look out, folks, ladies telling me what the interest rates are going to be in about two or three years, and I'll tell you what our pension contribution will be during -- at that point. Right now I would say that's a pretty good benchmark for the foreseeable future that, you know, mid-ish 30's type as a number.

Questioner

Excuse me. David Buck, Buckingham Research Group. You all had mentioned kind of the volatility that's inherent in your business from quarter to quarter. And I asked this question because I'm getting a lot from investors. You know, the current environment is kind of mixed, you've got the macro getting, you know, solely better but consumers are facing a lot of new term headwinds which a lot of the major customers have decided recently as effecting their business in I guess late January and into February. So how does that -- how do you see it impacting your business this year? And does it change how you think about how your revenues may flow? Obviously you've already -- you've reaffirmed your guidance today but is there anything different that you see today than maybe when you issued your guidance not that a long, about a month ago or so?

Rich Noll

So the question is you've talked about long term annual stability of your business but short term fluctuations -- and we've recently heard about some other retailers, some of which are fairly large for us that had their own short term fluctuations, a lot of it driven by tax refund delays and things like that. Let's talk about that first and then talk about -- we'll talk a little bit about how that may impact our business overall in a quarterly basis. And the answer for that was we don't give quarterly guidance but anyhow let me start with the first one.

So remember -- and I'm going to keep using men's underwear here for an example. But do you remember the slide that you saw earlier on per capita purchases from 2000 through 2012 and we have the 2009 year there? And in our categories they were rock solid, one thing. And that's an important thing to remember about our business. We sell needs, not wants. And so over time, in good times and in huge recessions like in 2009, we sell needs so people ultimately buy our products.

What we did learn in the Recession that in the very short term, consumers stopped going to store. In that last quarter of 2008, first quarter of 2009, they stopped shopping, and it impacted everybody's sales, including ours in the short term. But what's interesting is while we started to see declines in a quarter two, by the end of the year -- men's underwear, for example, was up in both 2008 and 2009, because we sell needs on a replenishment basis. And eventually, people start to go back to the store to buy products such as ours.

So from an annual stability standpoint, we've got a lot of staying power because of that. We do because retailers can move their short-term inventories up and down. It's a fact of life for us that we've got short term volatility. But it all smooths out within a quarter, a couple of quarters or so, and definitely by the year.

So there's been a lot of press about what's the impact on tax increases on working class Americans that are getting hit with payroll tax increases and a delay of refunds? The data we've been looking at is really clear. I think it was the end of January, for 18 days while the government was not sending out refund checks, it radically impacted some of the working class

families in America because they actually use, they over withhold, and they wait for those checks. To them it's like payroll savings. And when they get those checks, they go out and spend.

And for 16 or 18 of those days that it was impacting our TOS, once this check started to go out, you started to see that sell through recover very, very quickly. There's only been one week that the government's actually matched or send more checks out than they have last year at this time. On that week you saw a corresponding impact on TOS. I think they've been about \$30 billion or so behind, and they vowed to eventually catch up. And so there's a short term fluctuations that happen in our business all the time but they have virtually no impact on our overall annualized sales rates.

Questioner

A quick follow-up. Last year, you talked a lot about some good _____ [02:00:40] of being a challenge yet, you know, this year you have J.C. Penney being more promotional in basics. You had _____ [02:00:49] on their call this morning talk about more emphasize on national brand. Do you see a turning point this year and maybe the mid-tier is less of a headwind than in 2012?

Rich Noll

So the question is mid-tier seems to be focusing more on brands. We had some pressures last year from Penney's and things like that, and do we expect -- do you think we've sort of turned the corner with mid-tier.

You know, there's no question in our categories, people want brand. And I think you've seen that demonstrated here. It's what people gravitate towards. And retailers understand that because at the end of day when they try a lot of things that aren't national branded, those things tend not work. They don't live up to their sales per linear foot or margin per linear foot goals because people come in and want the brands that they trust, not something you're just trying to put a different label on and make more margin on. And so there has been a big trend across mass mid-tier and department store towards driving national brand. And that's good for us because we are the best brands in the industry.

In terms of mid-tier in particular, I think -- hopefully last year with the decline in Penney's, we've probably seen the worst of it. And I think, you know, we would like -- we'd like to believe that we've got good opportunity in mid-tier going forward. However, we're being relatively conservative in our planning.

Omar.

Questioner

Thanks. Omar _____ [02:02:12] Group. Probably it's really helpful when you guys spend a lot of time talking about CPG companies and how Hanesbrands has an CPG DNA element to it

to a research, giant brands, _____ [02:02:24] share. You kind of say that CPG companies went _____ [02:02:28] showing a little bit short from where they are, it's probably on the overall profitability of the business. And also just the global footprint standpoint. We haven't really seen these few CPG companies that have global brands just _____ [02:02:43] markets. They're big in Europe, they're big in Asia, they're big in developed market, they're big in emerging markets. Can you talk about some of the maybe nuances whether it's the apparel industry or the company distribution dynamics where you see perhaps the opportunity to overcome some of those kind of spread, because it's obviously very exciting as Hanes has really established itself as a global, high-margin, successful CPG-type company.

Rich Noll

So the question is you've seen a lot of similarities in how we approach -- a way of a disciplined approach like a lot of the CPG companies. But in Omar's observations where we fall short is in the profitability and the global footprint of some of those CPS companies. And so could I comment on that?

So first of all, I think if you look at the overall operating margins of innerwear, you'll see that they compare pretty favorably with virtually any CPG company in the world, whether it's in Procter & Gamble or some that you might be, you know, a little bit closer to in the apparel side. And what our challenge is -- so those approaches work and they work really, really well in those categories. What we're focused on is now applying those same kind of strategies to our -- what newly named active wear business to try and get our margins in that category up to what I would call world class levels. And I'm confident that over time we will. So I think you're already seeing it works and pay dividends.

In terms of global footprint, there are some, what I would call, truly global categories where everybody in the world knows the brand and then buy them because of it. But reality, most companies and most brands really have to deal with things on a country by country basis. You know, interestingly, Apple, global brand, right, but they're talking about how they sort of struggled in India because they don't have the same kind of strength in marketing power or go-to market approach in India that they do in other places in the world. Another one is Google, global brand, right, yet in China they can't really make any headway. There are local companies that have really gotten in their own the search market, not advertising market, in China.

So I'm not really sure that there is this really true global brand. You want to manage the business internationally. In fact, I think that's a failed strategy, at least it is for us. What you really need to do is to build your brand on a country by country basis using techniques that you learned and coned in big developed markets like the US and applying them into those other markets, and then through those efforts, leveraging regional scale to accomplish that. You can build your brand over time.

At the end of the day we're behind some of those other companies are, like the P& has been working internationally for decades. Coca Cola has been out there for 50 to 60 years. So we have a little bit of catch up to do but that just says we got more opportunity in front of us rather than behind us.

Questioner

Can you just mention Europe specifically because these global companies, none of them succeed globally without also at least having a pretty decent size in Europe?

Rich Noll

So the question is could you mention Europe because none of these global franchises are successful without Europe, and you're not really focused on Europe at all. So as my son would say, "What's up with that?" He's 13. So I think that's pretty simple. I think a lot of those brands were built when the demographics and the income trends and the macro environment in Europe were really, really good and really, really strong. That's not the situation today. You've got a situation where the macro environments in Europe are going to be, I think, headwinds for many, many years and decades to come. Why go spend precious resources of dollars to try and build brands there, in countries, when the headwinds are just going to be really, really hard to overcome?

And again, I don't buy into the premise that these truly global brands that needs to be managed, it's really brands -- our global brands are really brands that are strong in lots of countries. And that's our focus. Americas and Asia, that's our footprint is where the macro trends is going to be in our favor for many, many decades to come. And that's where we want to put our precious resources.

Yes.

Questioner

_____ [02:07:08] Davidson. Could you expand a little on your 12 to 14 percent margin target, what the key factors are really getting to the high end of that range than the 12 percent into the function of revenue growth, sales mix, pricing?

Rich Noll

So can I comment a little bit on what are the primary drivers to get us to the higher end of our 12 to 14 percent operating margin range? And I really think it's simple, right? It's the Innovate-to-Elevate strategy. By driving our brands' innovation and reinforcing our low cost supply chain, that's what allows us to expand those margins.

We've talked about it mainly as a gross margin driver but you'll also see some of the benefits accrued of SG&A. We've talked about it over time being maybe --

Questioner

Half of the _____ [02:07:57] half the rate of the top line there?

Rich Noll

Right. So you'll probably get at least a third just from overall SG&A leverage because innovate-to-elevate doesn't just expand margins. It's what helps us continually grow sales organically in that low single-digit range where I've talked personally about our goal is _____ [02:08:15] always being that three to four percent range. And so really, it's a combination of all those things.

To get to the higher end, I think it's really just making sure we execute all of these strategies really, really well and make sure we put some good, strong emphasis on getting the active wear business from a profitability perspective where it needs to be which I'm confident we've got the abilities to do.

Susan? And then we'll go --

Questioner

I guess on top of that, can you maybe talk about maybe, you know, where, what makes the business that's right now it's like the higher priced, more premium product and where do you think that _____ [02:08:50]?

Rich Noll

So the question is what makes us the higher priced premium products and where do you think that can go. So I don't want you to think about our Innovate-to-Elevate strategy as sort of we're introducing a bunch of new niche products, and that those are the better products and the core is not really good. That's not the strategy.

In fact, what you really want to do is apply this innovation to the core. Core is core for a reason. It's the products people want to buy. Niche products aren't what you want to do because they're not going to have the leverage in this scale. Think of Tagless. That was an innovation to the core. It's something that allows us to help support the higher priced per units there in the marketplace, some of which were actually driven by cotton but now that we provide better innovation to consumers, they're now willing to pay a little bit more for it.

And so you've talked about "Well, how do you keep some of the price increases that you've done?" We have adjusted price but you innovate the core. I love to use Tide as an example. Tide has been the number one in the detergent market for well over 60 years but the Tide of 1960 is different than the Tide of 2012. And sure, they introduced new products but they innovated the core. That's what we do.

ComfortBlend I think is one of those long term mega-trends that in two decades it will probably be the new core where that's going to be -- it could be sooner than that -- but where 100 percent cotton may not be as preferred. It doesn't mean that cotton is going away but we go after big platforms, not niche products. And so when you think about it, I want you to think about it as supporting our overall price per unit increases not just that the new stuff I a lot better with higher

margins. Actually we make -- you know, our margins are good in our core business. Our margins are good on these new products. And we really want to drive this innovation on core.

SmartSizes one day will be core. It'll be in -- at some high point in the future, it will be rare that you will go in and buy a bra based on band size and cup size, unless it's a specialty bra. We've finally tuned this new product, and I think it's one day going to be a huge portion of the overall bra market.

Yes.

Questioner

You know, you've talked -- when we had the cotton increase situation _____ [02:11:11] and there hasn't been much pushback. Do you think that we're going to eventually reach a point where the consumers are pushed back and not want to pay in your core markets or the product in terms of the innovation? How does that play going forward?

Rich Noll

So the question is could we be driving innovation too hard, too fast and get our prices up, you know, way above where consumers can afford. And I think you've got to remember, at the end of the day even though we've talked about all of these innovation at our price per units, our products are relatively inexpensive for a household's income. You're still talking about today where if you buy a men's underwear t-shirt, it's about \$2.50 at retail -- \$2.30 at retail, and that would up from a number of years ago of \$2. And ComfortBlend would be about 25 percent above that and about a little under \$3 -- yes, a little over \$3 retail.

So you're talking about relatively inexpensive price points. I think one of the things that the cotton inflation bubble taught us and retailers is that there was a lot of room to push the price point for a great quality product with great brands. And that's what the data is telling us. One day will it run out? It certainly may but I think that is decades in the future. As long as we understand what consumers' needs are, deliver on what they're willing to pay for and giving them great value at a great price based on the features they get.

Questioner

_____ [02:12:44] just to follow up on that question. How do you think about blended price increase over the next call it five years, even one percent, is it less than that? How does that, you know, assuming that spread has been _____ [02:12:55] versus your competition, assuming that they're not innovating to the same degree that you are?

Rich Noll

All right. So the question is what do we -- how do we think about price increased over the longer term over the next five years or so. And are you concerned that your GAAP is going to widen? And I think the most important thing here is that -- I want to start with this GAAP part

first. This is not a strategy to simply raise price and increase the GAAPs. All right. This is really a segmentation strategy.

So for example, and I'm keep using the ComfortBlend product as an example because it's going to be top of mind, you know, our GAAPs on the basic 100 percent cotton t-shirt is still what they have been historically. We're not just raising the prices there because we're innovating ComfortBlend. Consumers like ComfortBlend and there's a segment of those consumers that are willing to pay more for it. So yes, that price goes up but it doesn't actually widen the GAAP with us versus our competition because we still have the traditional product out there as well. And so you're not going to see this as being a GAAP changing event.

In terms of overall inflation, the era in our category, the era of deflation is over because the supply chains are now starting to feel cost pressure, wage pressure, and you're going to see that. And I think you're going to see a return to what I saw in the late 80's and through the 90's where apparel prices tended to go up, not necessarily each and every year but about half the three quarters of the rate, of the overall CPI in the United States. And I think you're going to see that.

So yes, you could probably see on average over the next five years or so using that logic of percent or so because of price but it won't come each and every year. It tends to step function a little bit because it's hard to just put in a price increase for one percent or so. You usually do it two or three percent every other year or something along those lines. So I think everybody is going to be faced with that over time.

Questioner

Just to follow up on that. As you effectively raised rate, do you feel like that makes you more vulnerable in upper economic times given, you know, perceived vulnerability to trade down?

Rich Noll

Right. So the question as we effectively raise price per unit, does that make us more vulnerable to trade down in tougher economic times. And so our first one is to communicate. When we talk about these innovations, we have quantitative research that says consumers are willing to pay more for these products with these features than the products that don't have them.

So when you think about price per unit, think of it as you're buying a car. And when you go and you buy a car, you can buy the basic version or deluxe version. And there's a certain segment of the consumer that's willing to pay more for deluxe version because they want those features. So when you think of some of these platforms, think of it from that perspective.

In terms of trade down overall, if we had a huge differential in margins between our core and some of these other products, you'd be concern about that, but at the end of the day, we make great money on all of our products. And one of the reason is when something is core, we make a lot of it the same thing over and over and over again which means we have a really fine tune supply chain that can produce that stuff at a very, very low cost. And so if you see that kind of trade down, sure, it would put a little bit of pressure but at the end of the day, we've got a pretty

stable franchise, people are buying our products each and every day. And so I feel good about our ability to manage volatility as we've shown in 2008 and 2009, and then with hyperinflation in '11 and '12.

Yes.

Questioner

Tom Rawler with James Capital. In your free cash flow guidance, you had an assumption of no cash use for working capital increases. Can you just talk a little bit about maybe -- I assume the inherent supply chain business use to keep that inventory flat while you're growing sales?

Rich Noll

Yes. If you look back at last year and this year, one of the key drivers of our free cash flow has been the reduction in inventories. Last year that reduction came -- actually if you take this continued operations, about half of it came from unit reductions and about half of it came from input cost reduction, primarily cotton. So we continue to believe that we can drive better turns in our inventory. And so this year we expect inventory to also be a use of -- pardon me -- a source of cash. Of course, not as large as it was last year but still be a source of cash. So as we continue to do that, we shouldn't see a lot of pressure on working capital. And we probably shouldn't say working capital on other, as there are some other things that helped us. For example, our cash taxes are generally well below our taxes. And so that's a positive cash item for us.

So given that, we believe that working capital should be relatively stable to actually a source of cash for a lot of -- and even after that, we won't need a lot of working capital investment to support our top line growth which is small.

Yes.

Questioner

Doug Thomas, JET Investment Research. It strikes me that the tie between compensation and performance has worked pretty well. I'm just wondering, maybe from your perspective, if you could sort of reflect on, you know, how you think it's worked. And then, you know -- and turning to page on this chapter moving forward, if in fact you think you can really double earnings again over the next five years, let's say. You know, what do you -- how do you -- how do you envision that that particular tie because, clearly, I mean that's a huge deal as far as you know, investors are concerned? How do you think that -- what's worked and what hasn't worked and how do you -- how do you think it's going to look going future -- going forward?

Rich Noll

So the question is it looks like some spin, the tie between performance and compensation has worked pretty well, so what are thoughts and comments about that. Using my son's, Michael's

terms, "What's up with that?" right? And the second question is in terms of our EPS potential going forward, you know, what your thoughts overall especially as it related to driving the business.

And so the first one is, you know, we have a pretty disciplined approach on how we set our overall performance targets and our compensation is tied -- it's mainly variable only less than -- substantially less than 20 percent of my compensation is based on salary. So in terms of performance, it's sales growth, EPS growth, and free cash flow. And so we are very focused on those metrics throughout our organization. And not only do we use those metrics at the top of the organization for the total company. As you go down within each business unit, they have similar metrics for their performance on their business units as well as some performance metrics for the company in total.

So we've got the organization focused on driving their pieces of it so that we can also all say collectively focus on driving the top. So for example, as you go down and you talk to somebody who runs the men's underwear business, they will have not only sales and margin and operating profit objectives, they'll also have inventory turn objectives for their particular business which for us the big controllable variable for them to drive free cash flow. So we've got, I think, all orchestrated throughout the entire organization and allows us to all have the same kind of goals and everybody -- by getting rewarded on the performance for the part that they play in it.

In terms of opportunities to increase EPS, I am not committing to doubling EPS is I think the way that you phrased the question. I think what you really wanted to say is that as you're sitting there modeling our opportunities and looking at our free cash flow and projecting low single-digit growth and operating margin increases into that 12 to 14 percent range, you can see a similar type of thing happen to that in the future, just as it looks like it's happening over the last four years. And we're not sitting here -- and I'm not sitting here committing to we're going to drive this level of EPS X number of years. Your follow-ups are going to be "well, why not." And to tell you the truth, I think we need to stay focused on executing the business each and every quarter and each and every year. And if we do that successfully, the long term will take care of itself. You obviously need to figure out what our long term potential is if you're a long term investor. And that's why we're trying to provide this backdrop on what our long term goals are for operating margin and help you think about how we can use our free cash flow to drive value.

Yes.

Questioner

_____ [02:21:38] Wells Fargo. Other than Macy's launch, do you think you can talk a little bit more about that? I'm new to the story. Is this a big deal? Are there more department stores to come? And how do your maybe other customers feel about that? Is it a different product?

Rich Noll

You know, we have a -- in terms of -- talk a little bit more about Macy's launch and you know -- I think it's a great testament to the strength of our brand. There are very few brands that have the ability to expand with the same brand name from dollar stores through department stores. And those that do expand from master department stores, it's usually because they started in department stores and as their brand equity is wearing out, they continually take it downstream to try and drive sales, and then they ultimately end up in a graveyard somewhere, a brand graveyard. That's not us.

Our brands are so strong, they actually have the ability to go upscale, not just the way the traditional brands operate. So it's a huge statement on our brand because at the end of the day Macy's looked at it and they said, "All right. If we want to -- if we want to be good in the basics department we need to, at the end of the day, have the number one brand that consumers desire or we are walking customers.

We've got a great strategy to be able to actually differentiate the product across channels. And so when you look at what we call red label, and that would be the basic product that you might find at Mass and you look at classics and what you will ultimately see in the department stores, you'll see a tiered version of the -- the quality of the product is better. In a lot of cases it'll be heavier, some pieces it will use better yarns and better cottons for a softer feel. And we also and Macy's are going to have a much broader range of things like slim fits and things like that that you'll hear more at the breakouts to round up that line to make sure it's interesting to a second waiver as it is for an old bloomer. And so I think that's what the real benefit is.

At the end of the day, department stores -- were in a number of other department stores around the United States but they are not very large from a dollar share perspective in the underwear market. And so you shouldn't expect it's going to have an outsized impact on our overall business but we're thrilled to be there.

Yes.

Questioner

Hi. I'm Erika for _____ [02:23:57] Wells Fargo. To build on _____ [02:23:58]'s question, looking at Mass, at the Mass. You've got Wal-Mart and Target is a sizeable portion of your business. What feedback are you getting from their senior management in terms of your performance last year? What are the things that they're looking for this year? And when you share your innovation plans with them, how are they receiving that?

Rich Noll

So the question is -- I'll let Bill talk to this. The question is so Mass is a big portion of our business, what are their thoughts on your performance in helping them drive their business in 2012 and what are their thoughts about this whole innovation platform. And I'll turn it over to Bill.

Bill Nictakis

Yes. I think the best catch into what they think of our innovation, our performances, that we got rewarded with 18 percent more shelf space in men's underwear, for example. So we typically drive their categories. If their categories are going to do well, they need Hanes to do well. And we've deliver the goods and we had it in our biggest customer, men's underwear, we're picking up 18 percent more space than all sat in six or eight weeks.

Rich Noll

I think the reaction for a lot of this newness in innovation across all channels has been equally positive.

Yes.

Questioner

Rich, we heard that outerwear has a goal to get double-digit margins, direct to consumer and international, both used to be double-digit margins. They've all _____ [02:25:21] that but the assumption that they can recover it, it's not a big gap to get there. Is the 12 to 14 percent overall margin needs to be reset or expanded from here? I mean, we're closing in on it. Certainly, the numbers say all four of your businesses are doing double-digits and you're not going to give up what you've been achieving on the innerwear side, and then it may be time to set a higher bar longer term.

Rich Noll

So the question is based on where you are with innerwear and all the great plans you have to improve the overall profitability of outerwear, newly renamed active wear, and some of the other businesses, is the 12 to 15 operating margin goal too low. And my answer is really simple. Let's get into that on a sustainable basis first and then we can assess where it should go long term.

I think having a great business that can sustainably have those kind of operating margins year end and year out, when there are good times and when there are recessions which were going to come again, is a great goal for us to have once we get in there on a sustainable basis. I think your question has some merit but let's tackle that when it happens.

Questioner

Let me twist the question.

Rich Noll

Okay. So you want to try again. Go ahead. He wants to ask in a different way.

Questioner

From the standpoint of, you know, innerwear, you know, jumped up this part year to 17 percent margin level. When you talk about businesses and all the issues, do you look at that and say, you know, that's clearly an operation at the high end and that's not a sustainable number or have we gone to a new plateau in that business because if you bring the lower performers up and that one comes down, they're obligated. That's the _____ [02:27:11] --

Rich Noll

So I think the question is, okay, innerwear had a pretty good year from an operating margin standpoint. Is that more of an aberration or is it sustainable? And how does that relate to some of the other businesses going up and down?

And I think the -- I'm going to give you a general answer to that. First of all, you should not be looking for innerwear to continue to grow their operating margins from that standpoint. That's a pretty darn high number. And it's not that we're trying to get into the 20's or things like that. You are going to be business segments, operating margins ebb and flow over time whether it's because we love some of the newness and some of these platforms and they're really working strongly and we want to invest in media behind them. You know, you can see fluctuations from that perspective. You're going to see the active wear margins continually increase over time. And I think our goal is to have a blended rate in that of operating margins in that 12 to 14 percent.

Remember the 12 to 14 percent is after an allocated corporate. So part of the mass that you need to do is to take that, and that's at least a couple hundred basis points at this point. So you got to mentally subtract that from every segment operating margin that you have to relate it to the blended rate. But I feel really good about our strategies to help us get there as a company. I don't want to sit here and try to give guidance on each and every individual segment. What we did want to highlight though is active wear is low in that single-digit level and needs to be in the double-digit level.

Yes.

Questioner

Within active wear, which are the lowest margin businesses? And do you have a good portion of that segment operating already at that percent?

Rich Noll

So the question is within the active wear segment, what are the lowest margins versus higher margin business. And that's the type of level of detail that we actually don't want to provide for a whole host of reasons. I think the important thing is to focus on the fact that we've got a goal to get active wear into that double-digit operating margin level, and it's going to be by driving Innovate-to-Elevate across all of our different brands.

Jim.

Questioner

Jim Duffy, _____ [02:29:17]. Rich, in the past you've highlighted the graphics opportunity at retail as a potential growth area. And there was no mention of that in this presentation. Have you changed your thoughts with respect to that opportunity?

Rich Noll

So the question is in the past we've talked a lot about graphics as being part of our growth strategy. We didn't really call it out here as data change. And the answer is no. It's still a very big part of the overall growth part of the business not only with Gear For Sports but also driving graphics in the rest of a more traditional business. I think what we wanted to do is keep this message simple or what _____ [02:29:52] talk about how Innovate-to-Elevate is going to help us drive margins into double-digit level. Graphics is a part of that strategy. Not a strategy sort of strategic plan by itself.

Questioner

Can you speak to some of the opportunities that you see in that area? For Hanes?

Rich Noll

Yes. I think you've got -- you know, we're talking about a lot of different opportunities from a graphics and non-graphics capabilities in terms of growing the Hanes business mainly at Mass. And I think you'll see some of those products when we do the breakout session.

Interviewer

We have time for one more after this. And if not, we can end the day and go to lunch.

Well, thank you all for coming. We really appreciate it.