

Hanesbrands Inc.
Form 10-K
February 06, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 29, 2012

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32891

Hanesbrands Inc.

(Exact name of registrant as specified in its charter)

Maryland
(State of incorporation)

20-3552316
(I.R.S. employer

identification no.)

1000 East Hanes Mill Road

Winston-Salem, North Carolina
(Address of principal executive office)

27105
(Zip code)

(336) 519-8080

(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

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Common Stock, par value \$0.01 per share and related

Preferred Stock Purchase Rights

Name of each exchange on which registered:

New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 29, 2012, the aggregate market value of the registrant's common stock held by non-affiliates was approximately \$2,682,745,394 (based on the closing price of the common stock of \$27.73 per share on that date, as reported on the New York Stock Exchange and, for purposes of this computation only, the assumption that all of the registrant's directors and executive officers are affiliates and that beneficial holders of 5% or more of the outstanding common stock are not affiliates).

As of February 1, 2013, there were 98,289,578 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference to portions of the registrant's proxy statement for its 2013 annual meeting of stockholders.

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Trademarks, Trade Names and Service Marks	

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that may appear in this Annual Report on Form 10-K include the *Hanes*, *Champion*, *C9 by Champion*, *Bali*, *Playtex*, *Just My Size*, *L eggs*, *barely there*, *Wonderbra*, *Gear for Sports*, *Zorba*, *Sol y Oro* and *Rinbros* marks, which may be registered in the United States and other jurisdictions. We do not own any trademark, trade name or service mark of any other company appearing in this Annual Report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as may, believe, will, expect, project, estimate, intend, anticipate, plan, continue or similar expressions. In particular, information appearing under Business, Risk Factors and Management Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements.

Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management, expressed in good faith and believed to have a reasonable basis. However, there can be no assurance that the expectation or belief will result or will be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

current economic conditions, including consumer spending levels and the price elasticity of our products;

the impact of significant fluctuations and volatility in various input costs, such as cotton and oil-related materials, utilities, freight and wages;

the highly competitive and evolving nature of the industry in which we compete;

loss of or reduction in sales to any of our top customers or groups of customers;

our ability to successfully manage social, political, economic, legal and other conditions affecting our domestic and foreign operations and our supply chain sources, such as political instability and acts of war or terrorism, natural disasters, disruption of markets, operational disruptions, changes in import and export laws, currency restrictions and currency exchange rate fluctuations;

the impact of the loss of one or more of our suppliers of finished goods or raw materials;

our ability to manage our inventory effectively and reduce inventory reserves;

our ability to optimize our global supply chain;

our ability to distribute our products effectively through our distribution network;

the risk of significant fluctuations in foreign currency exchange rates;

the impact of customers requiring products on an exclusive basis or other forms of economic support;

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our ability to keep pace with changing consumer preferences;

the impact of any inadequacy, interruption or failure with respect to our information technology or any data security breach;

our ability to protect our reputation and brand images;

our ability to protect our trademarks, copyrights and patents;

risks associated with our indebtedness, such as our debt service requirements, the financial ratios our debt instruments require us to maintain and restrictions on our operating and financial flexibility;

market returns on the plan assets of our pension plans;

the impact of a significant decline in the fair value of the intangible assets and goodwill on our balance sheet;

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unanticipated changes in our tax rates or exposure to additional income tax liabilities or a change in our ability to realize deferred tax benefits;

our ability to comply with environmental and other laws and regulations;

legal, regulatory, political and economic risks associated with our operations in international markets;

changes in our relationship with our employees and costs and adverse publicity from violations of labor or environmental laws by us or our suppliers;

our ability to attract and retain key personnel;

our ability to integrate and grow acquisitions successfully; and

anti-takeover provisions our charter and bylaws, as well as Maryland law and our stockholder rights agreement.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statements. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. You should carefully read the factors described in the **Risk Factors** section of this Annual Report on Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

All forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are expressly qualified in their entirety by the cautionary statements included in this Annual Report on Form 10-K. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the **SEC**). You can inspect, read and copy these reports, proxy statements and other information at the SEC's Public Reference Room, which is located at 100 F Street, N.E., Washington, D.C. 20549. You can obtain information regarding the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that makes available reports, proxy statements and other information that we file electronically.

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

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PART I

Item 1. Business
Company Overview

Hanesbrands Inc., a Maryland corporation (collectively with its subsidiaries, Hanesbrands, we, us, our or the Company), is a consumer goods company with a portfolio of leading apparel brands, including *Hanes*, *Champion*, *C9 by Champion*, *Bali*, *Playtex*, *Just My Size*, *L'eggs*, *barely there*, *Wonderbra*, *Gear for Sports*, *Zorba*, *Sol y Oro* and *Rinbros*. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, kids' underwear, casualwear, activewear, socks and hosiery.

Our operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Outerwear, Direct to Consumer and International. These segments are organized principally by product category, geographic location or distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms.

Our products are sold through multiple distribution channels. During 2012, approximately 46% of our net sales were to mass merchants in the United States, 13% were to national chains and department stores in the United States, 11% were in our International segment, 8% were in our Direct to Consumer segment in the United States and 22% were to other retail channels in the United States such as embellishers, specialty retailers, wholesale clubs, drug stores, collegiate bookstores, discount retailers and sporting goods stores. In addition to designing and marketing basic apparel, we have a long history of operating a global supply chain that incorporates a mix of self-manufacturing, third party contractors and third party sourcing.

The basic apparel sector of the apparel industry is characterized by frequently replenished items, such as T-shirts, bras, panties, men's underwear, kids' underwear, socks and hosiery. Growth and sales in the basic apparel sector are not primarily driven by fashion, in contrast to other areas of the broader apparel industry. We focus on the core attributes of comfort, fit and value, while remaining current with regard to consumer trends. The majority of our core styles continue from year to year, with variations only in color, fabric or design details. Some products, however, such as intimate apparel, activewear and sheer hosiery, do have more of an emphasis on style and innovation. We continue to invest in our largest and strongest brands to achieve our long-term growth goals.

Hanesbrands was organized in 2005 and spun off from Sara Lee Corporation (now known as The Hillshire Brands Company) in September 2006. In November 2010, we completed our acquisition of GearCo, Inc., known as Gear for Sports, a leading seller of licensed logo apparel in collegiate bookstores and other channels. This acquisition significantly strengthened our strategy of creating stronger branded and defensible businesses in our Outerwear segment. In the second quarter of 2012, we narrowed the focus of our worldwide imagewear business, which led us to sell our European imagewear business and discontinue our private-label and Outer Banks domestic imagewear operations serving wholesalers that sell to the screen-print industry. The execution of our new worldwide imagewear strategy allows us to focus our imagewear business (now known as branded printwear) on *Hanes* and *Champion* branded products in the United States with improved operating margins. As a result of these actions, the current year and prior-year disclosures reflect these operations as discontinued operations.

Our fiscal year ends on the Saturday closest to December 31. All references to 2012, 2011 and 2010 relate to our fiscal years ended on December 29, 2012, December 31, 2011 and January 1, 2011, respectively.

Our Brands

Our portfolio of leading brands is designed to address the needs and wants of various consumer segments across a broad range of basic apparel products. According to The NPD Group/Consumer Tracking Service, or NPD, our brands held either the number one or number two U.S. market position by units sold in most product

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categories in which we compete, for the 12-month period ended November 30, 2012. Each of our brands has a particular consumer positioning that distinguishes it from its competitors and guides its advertising and product development. We discuss some of our most important brands in more detail below.

Hanes is the largest and most widely recognized brand in our portfolio. The *Hanes* brand covers all of our product categories, including men's underwear, kids' underwear, bras, panties, socks, T-shirts, fleece and sheer hosiery. *Hanes* stands for outstanding comfort, style and value. According to NPD, *Hanes* is the number one brand of total apparel in the U.S. as well as the leading brand of men's and boys' underwear, women's and girls' panties, and socks for the family by units sold for the 12-month period ended November 30, 2012.

Champion is our second-largest brand. For over 90 years, *Champion* has been outfitting athletes in authentic, high-quality athletic apparel. From high-performance sports bras and classic T-shirts to gym essentials like mesh shorts and fleece hoodies, our signature *Double Dry* fabric keeps athletes cool and dry, enhancing the workout experience. We believe that *Champion's* combination of comfort, fit and design provides athletes with mobility, durability and up-to-date styles, all product qualities that are important in the sale of athletic products. We also distribute *C9* by *Champion* products exclusively through Target stores.

Bali is the third-largest brand within our portfolio, offering a range of bras, panties and shapewear sold in the department store channel. *Playtex*, the fourth-largest brand within our portfolio, offers a line of bras, panties and shapewear, including products that offer solutions for hard to fit figures. Our brand portfolio also includes the following well-known brands: *Just My Size*, *L'eggs*, *barely there*, *Wonderbra* and *Gear for Sports*. These brands serve to round out our product offerings, allowing us to give consumers a variety of options to meet their diverse needs.

Our Segments

The following table summarizes our operating segments by product category:

Segment	Primary Products	Primary Brands
Innerwear	Intimate apparel, such as bras, panties, hosiery and shapewear Men's underwear and kids' underwear Socks	<i>Hanes</i> , <i>Bali</i> , <i>Playtex</i> , <i>L'eggs</i> , <i>barely there</i> , <i>Just My Size</i> , <i>Wonderbra</i> , <i>Donna Karan</i> , * <i>DKNY</i> * <i>Hanes</i> , <i>Champion</i> , <i>Polo Ralph Lauren</i> * <i>Hanes</i> , <i>Champion</i>
Outerwear	Activewear, such as performance T-shirts and shorts, fleece, sports bras and thermals Casualwear, such as T-shirts, fleece and sport shirts	<i>Champion</i> , <i>Gear for Sports</i> , <i>Duofold</i> <i>Hanes</i> , <i>Just My Size</i> , <i>Champion</i> , <i>Hanes Beefy-T</i>
Direct to Consumer	Activewear, men's underwear, kids' underwear, intimate apparel, socks, hosiery and casualwear	<i>Hanes</i> , <i>Bali</i> , <i>Champion</i> , <i>Playtex</i> , <i>barely there</i> , <i>Just My Size</i> , <i>L'eggs</i>
International	Activewear, men's underwear, kids' underwear, intimate apparel, socks, hosiery and casualwear	<i>Hanes</i> , <i>Champion</i> , <i>Wonderbra</i> , ** <i>Playtex</i> , ** <i>Zorba</i> , <i>Kendall</i> , * <i>Sol y Oro</i> , <i>Rinbros</i> , <i>Polo Ralph Lauren</i> , * <i>Track N Field</i> , <i>Ritmo</i>

* Brand used under a license agreement.

** As a result of the February 2006 sale of the European branded apparel business of Sara Lee Corporation, we are not permitted to sell this brand in the member states of the European Union, several other European countries and South Africa.

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As a result of the reduced size of our sheer hosiery business and changing trends, we decided in the first quarter of 2012 to change our external segment reporting to include hosiery operations within the Innerwear segment. Hosiery had previously been reported as a separate segment. Prior-year segment sales and operating profit results, including other minor allocation changes, have been revised to conform to the current-year presentation. Financial information regarding Hanesbrands' segments is included in Note 18, Business Segment Information, to our financial statements included in this Annual Report on Form 10-K.

Innerwear

The Innerwear segment focuses on core apparel products, such as intimate apparel, men's underwear, kids' underwear and socks, marketed under well-known brands that are trusted by consumers. According to NPD, we are the intimate apparel category leader in the United States with our *Hanes*, *Bali*, *Playtex*, *L'eggs*, *barely there*, *Just My Size* and *Wonderbra* brands, and we are also the leading manufacturer and marketer of men's underwear and kids' underwear under the *Hanes*, *Champion* and *Polo Ralph Lauren* brand names and women's sheer hosiery under the *L'eggs*, *Hanes*, *Just My Size*, *Donna Karan* and *DKNY* brands (based on NPD unit share for the 12 months ending November 30, 2012). During 2012, net sales from our Innerwear segment were \$2.3 billion, representing approximately 52% of total net sales.

Outerwear

We are a leader in the activewear and casualwear markets through our *Hanes*, *Champion*, *Just My Size* and *Duofold* brands, where we sell products such as T-shirts and fleece to both retailers and wholesalers. In addition to activewear for men and women, *Champion* provides uniforms for athletic programs and includes an apparel program, *C9 by Champion*, at Target stores. We also license our *Champion* name for footwear and sports accessories. In our branded printwear category, we supply our T-shirts, sport shirts and fleece products, including brands such as *Hanes*, *Champion* and *Hanes Beefy-T*, to customers, primarily wholesalers, who then resell to screen printers and embellishers. We also sell licensed logo apparel in collegiate bookstores and other channels under our Gear for Sports business. Our casualwear lines offer a range of quality, comfortable clothing for men, women and children marketed under the *Hanes* and *Just My Size* brands. The *Just My Size* brand offers casual apparel designed exclusively to meet the needs of plus-size women. During 2012, net sales from our Outerwear segment were \$1.3 billion, representing approximately 29% of total net sales.

Direct to Consumer

Our Direct to Consumer operations include our value-based (outlet) stores and Internet operations which sell products from our portfolio of leading brands. We sell our branded products directly to consumers through our outlet stores, as well as our websites operating under the *Hanes*, *One Hanes Place*, *Just My Size* and *Champion* names. Our Internet operations are supported by our catalogs. As of December 29, 2012, we had 201 outlet stores. During 2012, net sales from our Direct to Consumer segment were \$372 million, representing approximately 8% of total net sales.

International

Our International segment includes products that span across the Innerwear and Outerwear reportable segments and are primarily marketed under the *Hanes*, *Champion*, *Wonderbra*, *Playtex*, *Zorba*, *Kendall*, *Sol y Oro*, *Rinbros*, *Polo Ralph Lauren*, *Track N Field* and *Ritmo* brands. During 2012, net sales from our International segment were \$501 million, representing approximately 11% of total net sales and included sales in Asia, Latin America, Canada and Australia. Our largest international markets are Japan, Canada, Mexico, Brazil and Australia.

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Customers and Distribution Channels

In 2012, approximately 89% of our net sales were to customers in the United States and approximately 11% were to customers outside the United States. Domestically, almost 86% of our net sales were wholesale sales to retailers, 9% were direct to consumers and 5% were wholesale sales to wholesalers and third party embellishers. We have well-established relationships with some of the largest apparel retailers in the world. Our largest customers are Wal-Mart Stores, Inc. (Wal-Mart), Target Corporation (Target) and Kohl's Corporation (Kohl's), accounting for 28%, 18% and 6%, respectively, of our total net sales in 2012. As is common in the basic apparel industry, we generally do not have purchase agreements that obligate our customers to purchase our products. However, all of our key customer relationships have been in place for 10 years or more. Wal-Mart, Target and Kohl's are our only customers with sales that exceed 10% of any individual segment's sales. In our Innerwear segment, Wal-Mart accounted for 39% of net sales, Target accounted for 18% of net sales and Kohl's accounted for 11% of net sales during 2012. In our Outerwear segment, Target accounted for 30% of net sales and Wal-Mart accounted for 20% of net sales.

Sales to the mass merchant channel in the United States accounted for approximately 46% of our net sales in 2012. We sell all of our product categories in this channel primarily under our *Hanes*, *Champion*, *Just My Size* and *Playtex* brands. Mass merchants feature high-volume, low-cost sales of basic apparel items along with a diverse variety of consumer goods products, such as grocery and drug products and other hard lines, and are characterized by large retailers, such as Wal-Mart. Our largest mass merchant customer is Wal-Mart, which accounted for approximately 28% of our net sales in 2012.

Sales to the national chains and department stores channel in the United States accounted for approximately 13% of our net sales in 2012. National chains target a higher-income consumer than mass merchants, focus more of their sales on apparel items rather than other consumer goods such as grocery and drug products and are characterized by large retailers such as Kohl's, JC Penney Company, Inc. and Sears Holdings Corporation. We sell all of our product categories in this channel. Traditional department stores target higher-income consumers and carry more high-end, fashion conscious products than national chains or mass merchants and tend to operate in higher-income areas and commercial centers. Traditional department stores are characterized by large retailers such as Macy's, Inc. and Dillard's, Inc. We sell products in our intimate apparel, underwear, socks, hosiery and activewear categories through department stores.

Sales in our Direct to Consumer segment in the United States accounted for approximately 8% of our net sales in 2012. We sell our branded products directly to consumers through our 201 outlet stores, as well as our websites operating under the *Hanes*, *One Hanes Place*, *Just My Size* and *Champion* names. Our outlet stores are value-based, offering the consumer a savings of 25% to 40% off suggested retail prices, and sell first-quality, excess, post-season, obsolete and slightly imperfect products. Our websites, supported by our catalogs, address the growing direct to consumer channel that operates in today's 24/7 retail environment, and we have an active database of approximately 4.4 million consumers receiving our catalogs and emails.

Sales in our International segment represented approximately 11% of our net sales in 2012, and included sales in Asia, Latin America, Canada and Australia. Our largest international markets are Japan, Canada, Mexico, Brazil and Australia. We also have offices in India and China and we operate in several locations in Latin America including Mexico, Argentina, Brazil and Central America. From an export business perspective, we use distributors to service customers in the Middle East and Asia, and have a limited presence in Latin America. The brands that are the primary focus of the export business include *Hanes* and *Champion* socks, *Champion* activewear, *Hanes* underwear and *Bali*, *Playtex*, *Wonderbra* and *barely there* intimate apparel. As discussed below under Intellectual Property, we are not permitted to sell *Wonderbra* and *Playtex* branded products in the member states of the EU, several other European countries and South Africa. For more information about our sales on a geographic basis, see Note 19. Geographic Area Information, to our financial statements.

Sales in other channels in the United States represented approximately 22% of our net sales in 2012. We sell T-shirts, golf and sport shirts and fleece sweatshirts to wholesalers and third party embellishers primarily under

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our *Hanes*, *Champion* and *Hanes Beefy-T* brands. We also sell a significant range of our underwear, activewear and socks products under the *Champion* brand to wholesale clubs, such as Costco Wholesale Corporation, and sporting goods stores, such as The Sports Authority, Inc. We sell primarily legwear and underwear products under the *Hanes* and *L eggs* brands to food, drug and variety stores. We also sell licensed logo apparel in collegiate bookstores. We sell products that span across our Innerwear and Outerwear segments to the U.S. military for sale to servicemen and servicewomen and through discount retailers, such as the Dollar General Corporation and Family Dollar Stores, Inc.

Manufacturing, Sourcing and Distribution

During 2012, approximately 75% of our cost of sales were from finished goods manufactured through a combination of facilities we own and operate and facilities owned and operated by third party contractors who perform some of the steps in the manufacturing process for us, such as cutting and/or sewing. We sourced the remainder of our finished goods from third party manufacturers who supply us with finished products based on our designs. In making decisions about the location of manufacturing operations and third party sources of supply, we consider a number of factors, including labor, local operating costs, quality, regional infrastructure, applicable quotas and duties and freight costs. We believe that our balanced approach to product supply, which relies on a combination of owned, contracted and sourced manufacturing located across different geographic regions, increases the efficiency of our operations, reduces product costs and offers customers a reliable source of supply.

Finished Goods That Are Manufactured by Hanesbrands

The manufacturing process for the finished goods that we manufacture begins with raw materials we obtain from suppliers. The principal raw materials in our product categories are cotton and synthetics. Cotton and synthetic materials are typically spun into yarn, which is then knitted into cotton, synthetic and blended fabrics. We source all of our yarn requirements from large-scale suppliers. To a lesser extent, we purchase fabric from several domestic and international suppliers in conjunction with scheduled production. In addition to cotton yarn and cotton-based textiles, we use thread, narrow elastic and trim for product identification, buttons, zippers, snaps and lace. These fabrics are cut and sewn into finished products, either by us or by third party contractors. We currently operate 41 manufacturing facilities. Most of our cutting and sewing operations are strategically located in Asia, Central America and the Caribbean Basin. Alternate sources of these materials and services are readily available.

Finished Goods That Are Manufactured by Third Parties

In addition to our manufacturing capabilities, we also source finished goods we design from third party manufacturers, also referred to as turnkey products. Many of these turnkey products are sourced from international suppliers by our strategic sourcing hubs in Asia.

All contracted and sourced manufacturing must meet our high quality standards. Further, all contractors and third party manufacturers must be preaudited and adhere to our strict supplier and business practices guidelines. These requirements provide strict standards covering hours of work, age of workers, health and safety conditions and conformity with local laws and Hanesbrands standards. Each new supplier must be inspected and agree to comprehensive compliance terms prior to performance of any production on our behalf. We audit compliance with these standards and maintain strict compliance performance records. In addition to our audit procedures, we require certain of our suppliers to be Worldwide Responsible Accredited Production, or WRAP, certified. WRAP is a recognized apparel certification program that independently monitors and certifies compliance with certain specified manufacturing standards that are intended to ensure that a given factory produces sewn goods under lawful, humane and ethical conditions. WRAP uses third party, independent certification firms and requires factory-by-factory certification.

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Distribution

As of December 29, 2012, we distributed our products from 31 distribution centers. These facilities include 13 facilities located in the United States and 18 facilities located outside the United States in regions where we manufacture our products. We internally manage and operate 18 of these facilities, and we use third party logistics providers who operate the other 13 facilities on our behalf. International distribution operations use a combination of third party logistics providers, as well as owned and operated distribution operations, to distribute goods to our various international markets.

Inventory

Effective inventory management is a key component of our future success. Because our customers generally do not purchase our products under long-term supply contracts, but rather on a purchase order basis, effective inventory management requires close coordination with the customer base. We seek to ensure that products are available to meet customer demands while effectively managing inventory levels. We employ various types of inventory management techniques that include collaborative forecasting and planning, supplier-managed inventory, key event management and various forms of replenishment management processes. Our supplier-managed inventory initiative is intended to shift raw material ownership and management to our suppliers until consumption, freeing up cash and improving response time. We have demand management planners in our customer management group who work closely with customers to develop demand forecasts that are passed to the supply chain. We also have professionals within the customer management group who coordinate daily with our larger customers to help ensure that our customers' planned inventory levels are in fact available at their individual retail outlets. Additionally, within our supply chain organization we have dedicated professionals who translate the demand forecast into our inventory strategy and specific production plans. These individuals work closely with our customer management team to balance inventory investment/exposure with customer service targets.

Seasonality and Other Factors

Our operating results are subject to some variability due to seasonality and other factors. For instance, we generally have higher sales during the back-to-school and holiday shopping seasons and during periods of cooler weather which benefits certain product categories such as fleece. Our diverse range of product offerings, however, provides some mitigation to the impact of seasonal changes in demand for certain items. Sales levels in any period are also impacted by customers' decisions to increase or decrease their inventory levels in response to anticipated consumer demand. Our customers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice to us. Media, advertising and promotion expenses (MAP) may vary from period to period during a fiscal year depending on the timing of our advertising campaigns for retail selling seasons and product introductions.

Product Innovation and Marketing

At the core of our design, research and product development capabilities is an integrated team of approximately 190 professionals. A facility located in Winston-Salem, North Carolina, is the center of our research, technical design and product development efforts. We also employ creative design and product development personnel in our design center in New York City and design personnel at the Gear for Sports facility in Lenexa, Kansas. In 2012, 2011 and 2010, we spent approximately \$48 million, \$47 million and \$47 million, respectively, on design, research and product development, including the development of new and improved products.

Our ability to react to changing customer needs and industry trends is key to our success. Our design, research and product development teams, in partnership with our marketing teams, drive our efforts to bring innovations to market. We seek to leverage our insights into consumer demand in the basic apparel industry to

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develop new products within our existing lines and to modify our existing core products in ways that make them more appealing, addressing changing customer needs and industry trends. Examples of our recent product innovations include:

Hanes ComfortBlend undershirts and underwear bottoms that feature a 50/50 cotton/poly blend fabric that delivers superior softness with less shrinkage after washing.

Hanes Tagless underwear bottoms that deliver a new level of comfort with superior softness without the itch and irritation of a tag.

Hanes, *Playtex*, *Bali* and *barely there* bras with our Smart Sizes feature that eliminates the complicated cup-and-band combinations of traditional bra sizing systems and takes the guess work out of finding the right size through its innovative shape-to-fit technology.

The *Champion* sweetheart compression sports bra that represents a significant departure from the design of traditional compression sports bras by narrowing the straps and lowering the neckline to be more attractive all without compromising exceptional support and fit.

The *Champion Smoothie* sports bra with sleek, lightweight fabrics and innovative features designed to deliver ultra-comfortable high support up to D-cup sizes.

Hanes and *L eggs* hosiery made with run-resistant technology for beauty that lasts.

Hanes Convert-A-Tight, a patent pending tight that has a toe pocket that completely envelopes the toe or that may be folded back to neatly form a legging.

Our strategy is to bring consumer-driven innovation to market in a compelling way. Our approach is to build targeted, effective multimedia advertising and marketing campaigns to increase awareness of our key brands. Driving growth platforms across categories is a major element of our strategy as it enables us to meet key consumer needs and leverage advertising dollars. We believe that the strength of our consumer insights, our distinctive brand propositions and our focus on integrated marketing give us a competitive advantage in the fragmented apparel marketplace. Examples of our recent advertising and marketing initiatives include:

Hanes launched new national television ads starring Michael Jordan in support of *Hanes* Tagless underwear bottoms and tops and *Hanes ComfortBlend* underwear. The campaign included a new series of television commercials showing that *Hanes* Tagless underwear bottoms do not contain annoying tags like other underwear and highlighting the superior softness of *Hanes ComfortBlend* undershirts.

Champion formally announced a partnership with LXM PRO for the 2012 professional lacrosse tour, allowing us to reach lacrosse fans and elite players across the U.S. *Champion* is the provider of uniforms and sideline apparel for LXM PRO events as well as the presenting sponsor for the event series.

We continued to reach out to our consumers through social media, where *Hanes* and *Champion* have over 4.7 million and 730,000 Facebook fans, respectively.

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We continued our commitment to cause marketing across multiple brands, including: the *Hanes* partnership with Box Tops for Education that will enable schools across the U.S. to earn valuable Box Tops when they order *Hanes* products or apparel; the fourth annual *Hanes* Holiday Sock Drive to bring comfort in the form of half a million socks to those who need it most; the *L eggs* partnership with Dress for Success, an international not-for-profit organization that promotes the economic independence of disadvantaged women by providing professional attire, a network of support and career development tools; and the *Bali* partnership with The Breast Cancer Research Foundation, which plays a critical role in helping women with breast cancer.

Competition

The basic apparel market is highly competitive and rapidly evolving. Competition generally is based upon brand name recognition, price, product quality, selection, service and purchasing convenience. Our businesses

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face competition today from other large corporations and foreign manufacturers. Fruit of the Loom, Inc., a subsidiary of Berkshire Hathaway Inc., competes with us across most of our segments through its own offerings and those of its Russell Corporation and Vanity Fair Intimates offerings. Other competitors in our Innerwear segment include Limited Brands, Inc.'s Victoria's Secret brand, Jockey International, Inc., Warnaco Group Inc. and Maidenform Brands, Inc. Other competitors in our Outerwear segment include various private label and controlled brands sold by many of our customers, Gildan Activewear, Inc. and Gap Inc. We also compete with many small manufacturers across all of our business segments, including our International segment. Additionally, department stores and other retailers, including many of our customers, market and sell basic apparel products under private labels that compete directly with our brands. Our competitive strengths include our strong brands with leading market positions, our high-volume, core products focus, our significant scale of operations, our global supply chain and our strong customer relationships. We continually strive to improve in each of these areas. According to NPD, we are the largest seller of basic apparel in the United States as measured by units sold for the 12-month period ended November 30, 2012 and our brands held either the number one or number two U.S. market position by units sold in most product categories in which we compete.

Intellectual Property

Overview

We market our products under hundreds of trademarks and service marks in the United States and other countries around the world, the most widely recognized of which are *Hanes*, *Champion*, *C9 by Champion*, *Bali*, *Playtex*, *Just My Size*, *L'eggs*, *barely there*, *Wonderbra*, *Gear for Sports*, *Zorba*, *Sol y Oro* and *Rinbros*. Some of our products are sold under trademarks that have been licensed from third parties, such as *Polo Ralph Lauren* men's underwear, and we also hold licenses from various toy and media companies giving us the right to use certain of their proprietary characters, names and trademarks.

Some of our own trademarks are licensed to third parties, such as *Champion* for athletic-oriented accessories. In the United States and Canada, the *Playtex* trademark is owned by Playtex Marketing Corporation, of which we own a 50% interest and which grants to us a perpetual royalty-free license to the *Playtex* trademark on and in connection with the sale of apparel in the United States and Canada. The other 50% interest in Playtex Marketing Corporation is owned by Playtex Products, Inc., an unrelated third party, who has a perpetual royalty-free license to the *Playtex* trademark on and in connection with the sale of non-apparel products in the United States. Outside the United States and Canada, we own the *Playtex* trademark and perpetually license such trademark to Playtex Products, Inc. for non-apparel products. In addition, as described below, an affiliate of Sun Capital Partners, Inc., or Sun Capital, has an exclusive, perpetual, royalty-free license to manufacture, sell and distribute apparel products under the *Wonderbra* and *Playtex* trademarks in the member states of the European Union, as well as several other European nations and South Africa. We also own a number of copyrights. Our trademarks and copyrights are important to our marketing efforts and have substantial value. We aggressively protect these trademarks and copyrights from infringement and dilution through appropriate measures, including court actions and administrative proceedings.

Although the laws vary by jurisdiction, trademarks generally remain valid as long as they are in use and/or their registrations are properly maintained. Most of the trademarks in our portfolio, including our core brands, are covered by trademark registrations in the countries of the world in which we do business, in addition to many other jurisdictions around the world, with registration periods generally ranging between seven and 10 years depending on the country. Generally, trademark registrations can be renewed indefinitely as long as the trademarks are in use. We have an active program designed to ensure that our trademarks are registered, renewed, protected and maintained. We plan to continue to use all of our core trademarks and plan to renew the registrations for such trademarks as needed. Most of our copyrights are unregistered, although we have a sizable portfolio of copyrighted lace designs that are the subject of a number of registrations at the U.S. Copyright Office.

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We place high importance on product innovation and design, and a number of these innovations and designs are the subject of patents. However, we do not regard any segment of our business as being dependent upon any single patent or group of related patents. In addition, we own proprietary trade secrets, technology and know-how that we have not patented.

Shared Trademark Relationship with Sun Capital

In February 2006, our former parent company, Sara Lee Corporation, sold its European branded apparel business to an affiliate of Sun Capital. In connection with the sale, Sun Capital received an exclusive, perpetual, royalty-free license to manufacture, sell and distribute apparel products under the *Wonderbra* and *Playtex* trademarks in the member states of the European Union, as well as Belarus, Bosnia-Herzegovina, Croatia, Macedonia, Moldova, Morocco, Norway, Russia, Serbia-Montenegro, South Africa, Switzerland, Ukraine, Andorra, Albania, Channel Islands, Lichtenstein, Monaco, Gibraltar, Guadeloupe, Martinique, Reunion and French Guyana, which we refer to as the Covered Nations. We are not permitted to sell *Wonderbra* and *Playtex* branded products in the Covered Nations, and Sun Capital is not permitted to sell *Wonderbra* and *Playtex* branded products outside of the Covered Nations. In connection with the sale, we also have received an exclusive, perpetual royalty-free license to sell *DIM* and *UNNO* branded products in Panama, Honduras, El Salvador, Costa Rica, Nicaragua, Belize, Guatemala, Mexico, Puerto Rico, the United States, Canada and, for *DIM* products, Japan. We are not permitted to sell *DIM* or *UNNO* branded apparel products outside of these countries and Sun Capital is not permitted to sell *DIM* or *UNNO* branded apparel products inside these countries. In addition, the rights to certain European-originated brands previously part of Sara Lee Corporation's branded apparel portfolio were transferred to Sun Capital and are not included in our brand portfolio.

Geographic Financial Summary

For a summary of our operations by geographic area for each of the three most recent fiscal years, including revenues from external customers and long-lived assets, see Note 19, Geographic Area Information, to our financial statements included in this Annual Report on Form 10-K.

Governmental Regulation and Environmental Matters

We are subject to U.S. federal, state and local laws and regulations that could affect our business, including those promulgated under the Occupational Safety and Health Act, the Consumer Product Safety Act, the Flammable Fabrics Act, the Textile Fiber Product Identification Act, the rules and regulations of the Consumer Products Safety Commission and various environmental laws and regulations. Some of our international businesses are subject to similar laws and regulations in the countries in which they operate. Our operations also are subject to various international trade agreements and regulations. While we believe that we are in compliance in all material respects with all applicable governmental regulations, current governmental regulations may change or become more stringent or unforeseen events may occur, any of which could have a material adverse effect on our financial position or results of operations.

We are subject to various federal, state, local and foreign laws and regulations that govern our activities, operations and products that may have adverse environmental, health and safety effects, including laws and regulations relating to generating emissions, water discharges, waste, product and packaging content and workplace safety. Noncompliance with these laws and regulations may result in substantial monetary penalties and criminal sanctions. We are aware of hazardous substances or petroleum releases at certain of our facilities and are working with the relevant environmental authorities to investigate and address such releases. We also have been identified as a potentially responsible party at certain waste disposal sites undergoing investigation and cleanup under the federal Comprehensive Environmental Response, Compensation and Liability Act (commonly known as Superfund) or state Superfund equivalent programs. Where we have determined that a liability has been incurred and the amount of the loss can reasonably be estimated, we have accrued amounts in our balance sheet for losses related to these sites. Compliance with environmental laws and regulations and our

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remedial environmental obligations historically have not had a material impact on our operations, and we are not aware of any proposed regulations or remedial obligations that could trigger significant costs or capital expenditures in connection with such compliance.

Corporate Social Responsibility

We have a formal corporate social responsibility (CSR) program that consists of five core initiatives: a global ethics program for all employees worldwide; a facility compliance program that seeks to ensure that company and supplier plants meet our labor and social compliance standards; a product safety program; global environmental management and energy management systems that seek to reduce the environmental impact of our operations; and a commitment to corporate philanthropy which seeks to meet the fundamental needs of the communities in which we live and work. We employ more than 15 full-time CSR personnel across the world to manage our program.

Hanesbrands' global social compliance program is fully accredited by the Fair Labor Association (the FLA), a leading independent nongovernmental international workers' rights organization. The FLA works with industry, civil society organizations and colleges and universities to protect workers' rights and improve working conditions in factories around the world. A representative of Hanesbrands sits on the FLA governing board. Participating companies in the FLA are required to fulfill 10 comprehensive obligations to protect workers' rights, including conducting internal monitoring of facilities, submitting to independent monitoring audits and verification, and managing and reporting information on their compliance efforts. The FLA conducts unannounced, independent external monitoring audits of a sample of a participating company's plants and suppliers and publishes the results of those audits for the public to review. As You Sow, a San Francisco-based shareholder advocacy organization, issued a report on apparel supply chain compliance programs and awarded Hanesbrands' program with the third-highest grade of the 15 companies studied. In 2012, Free 2 Work, an organization working in conjunction with the International Labor Rights Forum, gave Hanesbrands an overall grade of A for our compliance program well ahead of most of our competitors.

We are committed to reducing our greenhouse gas footprint, and we have implemented a comprehensive corporate energy policy to minimize energy consumption, reduce operating costs, and continually reduce emissions to the environment. We manage this commitment by reducing our energy consumption as much as possible, exploring better supply chain management to reduce our use of energy-intensive transportation, adopting cleaner technologies where possible and actively tracking our energy metrics. We have also worked closely with Energy Star, a program of the U.S. Environmental Protection Agency that helps save money and protect the environment through energy efficient products and practices. Hanesbrands earned the U.S. EPA Energy Star Partner of the Year Award in 2010 and 2011 for energy efficiency progress and the Sustained Excellence in Energy Management Award in 2012. In Newsweek's latest annual list of the 500 greenest companies in America, Hanesbrands ranks second in the Textile, Apparel and Luxury Companies Category.

We also incorporate Leadership in Energy and Environmental Design (LEED) practices into many remodeling and new construction projects for our facilities around the world, including sales offices, retail stores, headquarters buildings, distribution centers and manufacturing facilities. Our more than one million-square-foot fabric production plant in Nanjing, China, is one of the few manufacturing facilities with LEED certification in that country, and our 1.3 million-square-foot distribution center in Perris, California, is one of the largest LEED-certified distribution centers in the world. Sustainable features of the LEED-certified facilities include reduction of energy usage through extensive use of natural skylighting, motion-detection lighting, advanced climate control technology, reduction of water usage through low-water bathroom fixtures and low-water landscaping, innovative site grading techniques and use of locally produced concrete.

Our corporate philanthropic efforts are focused on meeting the fundamental needs of the communities in which we live and work. In 2012, we were again the largest corporate giver to our local United Way in Forsyth County, N.C., with our corporate and employee gifts totaling more than \$2.2 million. We were recently

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recognized with the United Way of Forsyth County's Decade of Excellence Award. In Central America and the Caribbean basin, we have instituted the unique Green For Good program (Viviendo Verde), in which we use a large portion of the proceeds from recycling waste materials in our manufacturing operations for community improvement projects, such as school and health-clinic renovations, that also are supported through extensive employee volunteerism.

Employees

As of December 29, 2012, we had approximately 51,500 employees, approximately 7,600 of whom were located in the United States. Of the employees located in the United States, approximately 2,100 were full or part-time employees in our stores within our direct to consumer channel. As of December 29, 2012, in the United States, approximately 30 employees were covered by collective bargaining agreements. Some of our international employees were also covered by collective bargaining agreements. We believe our relationships with our employees are good.

Item 1A. Risk Factors

This section describes circumstances or events that could have a negative effect on our financial results or operations or that could change, for the worse, existing trends in our businesses. The occurrence of one or more of the circumstances or events described below could have a material adverse effect on our financial condition, results of operations and cash flows or on the trading prices of our common stock. The risks and uncertainties described in this Annual Report on Form 10-K are not the only ones facing us. Additional risks and uncertainties that currently are not known to us or that we currently believe are immaterial also may adversely affect our businesses and operations.

Economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers, suppliers and other business partners to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse, basis, our sales are impacted by discretionary spending by consumers. Discretionary spending is affected by many factors that are outside of our control, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, currency exchange rates, taxation, energy prices, unemployment trends and other matters that influence consumer confidence and spending. Reduced sales at our wholesale customers may lead to lower retail inventory levels, reduced orders to Hanesbrands, or order cancellations. These lower sales volumes, along with the possibility of restrictions on access to the credit markets, may result in our customers experiencing financial difficulties including store closures, bankruptcies or liquidations. This may result in higher credit risk relating to receivables from our customers who are experiencing these financial difficulties. Any of these occurrences could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our suppliers of raw materials and finished goods, logistics and other service providers and financial institutions which are counterparties to our credit facilities and derivatives transactions. In addition, the inability of these third parties to overcome these difficulties may increase. If third parties on which we rely for raw materials, finished goods or services are unable to overcome financial difficulties and provide us with the materials and services we need, or if counterparties to our credit facilities or derivatives transactions do not perform their obligations, our business, results of operations, financial condition and cash flows could be adversely affected.

