



## Earnings Review: How Did Gildan Activewear Perform in Q3?

### Description

Shares of **Gildan Activewear** ([TSX:GIL](#))([NYSE:GIL](#)) are trading 7.5% higher at the time of writing today, after the Canadian retailer announced its Q3 results. The company's sales rose by 33% year over year to \$801.6 million in Q3, while adjusted earnings per share more than doubled to \$0.80 per share. Bay Street [forecast the company to post](#) revenue of \$715.5 million and adjusted earnings of \$0.55 in Q3. We can see that Gildan Activewear easily surpassed both revenue and earnings forecasts in the September quarter, which pushed its stock price higher today.

Gildan stock is now up 80% in the last year and has gained over 50% year to date. Let's see what drove the company's earnings and revenue higher in Q3.

### Gildan Activewear's top line gains pace in 2021

Gildan Activewear experienced a significant drop in sales and profits in the first half of 2020 due to the onset of COVID-19 and economic lockdowns. However, economic activity started improving towards the end of 2020, and the recovery gained pace in the first nine months of 2021 as major global economies reopened.

Gildan Activewear attributed the sales growth to a recovery in demand as well as a favourable product mix and lower promotional spending for imprints. Its gross margin also improved to 35.1% in Q3 from 22.5% in the year-ago period due to "the non-recurrence of COVID and certain Back to Basics related charges incurred primarily in the first half of 2020, cost benefits from our Back to Basics initiatives, stronger product-mix, the impact of lower promotional discounts, including a reduction in sales discount accruals of \$11 million in the third quarter this year, and lower raw material costs on a year-to-date basis."

The company's adjusted operating income more than doubled year over year to \$172.4 million in Q3, indicating a margin of 25.1%, on the back of a recovery in sales, robust gross margins, and high operating leverage. The increase in operating income was due to a \$94 million goodwill impairment charge recorded in Q1 of 2020. Higher earnings also allowed Gildan Activewear to improve its operating cash flow to \$464 million from \$123 million.

A strong performance in the first nine months of 2021 allowed Gildan Activewear to end the quarter with net debt of \$286.5 million compared to \$577.2 million at the end of 2020. This meant the company's net debt leverage ratio fell to 0.4 from 3.5 in this period.

## What's next for investors?

Gildan Activewear explained that the economic recovery and [rising consumer demand](#) will be key drivers for top-line growth in the near term. However, this will be offset by supply chain disruptions and rising inflationary pressures, that have impacted companies across sectors including retail, consumer technology, automobile, and e-commerce.

Gildan Activewear emphasized its vertically integrated manufacturing platform and pricing strategies implemented in Q4 provide the company with enough room to manage these headwinds.

While Gildan Activewear did not provide any guidance for Q4 or 2021, Bay Street expects sales to rise by 5.1% year over year to \$725 million in the December quarter. Comparatively, its adjusted earnings are forecast to rise to \$0.53 per share in Q4 from \$0.45 per share in the year-ago period.

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1. Investing

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araghunath

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