Hanesbrands Inc.
Form 10-K
February 03, 2017

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 31, 2016
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	20-3552316
(State of incorporation)	(I.R.S. employer identification no.)
1000 East Hanes Mill Road Winston-Salem, North Carolina	27105
(Address of principal executive office)	(Zip code)

(336) 519-8080
(Registrant's telephone number including area code)
Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $0.01 per share
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 ý 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 x
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark 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. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of July 1, 2016, the aggregate market value of the registrant’s common stock held by non-affiliates was approximately $9,619,505,818 (based on the closing price of the common stock of $25.60 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 January 27, 2017, there were 378,721,050 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 2017 annual meeting of stockholders.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains information that may constitute “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,” “int “anticipate,” “plan,” “continue” or similar expressions. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results are forward-looking statements. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described under “Risk Factors” and elsewhere in this report and those described from time to time in our future reports filed with the Securities and Exchange Commission (“SEC”).

WHERE YOU CAN FIND MORE INFORMATION

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

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

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PART I

Item 1. Business

Company Overview

Hanesbrands Inc. (collectively with its subsidiaries, “Hanesbrands,” “we,” “us,” “our” or the “Company”) is a socially responsible leading marketer of everyday basic innerwear and activewear apparel in the Americas, Europe, Australia and Asia/Pacific under some of the world’s strongest apparel brands, including Hanes, Champion, Maidenform, DIM, Bali, Playtex, Bonds, JMS/Just My Size, Nur Die/Nur Der, L’eggs, Lovable, Wonderbra, Flexees, Gear for Sports and Berlei.

We primarily sell bras, panties, shapewear, hosiery, men’s underwear, children’s underwear, socks, T-shirts and other activewear in the Americas, Europe, Australia and Asia. In the United States, Hanes sells more units of intimate apparel, male underwear and children’s underwear than any other brand. Unlike most apparel companies, Hanesbrands primarily operates its own manufacturing facilities. More than 70 percent of the apparel units that we sell are manufactured in our own plants or those of dedicated contractors.

We have a long history of innovation, product excellence and brand recognition. We revolutionized Tagless T-shirts and underwear, we invented the sports bra and we were the first to advertise a bra on national television (Playtex). We are now using our Innovate-to-Elevate strategy to integrate our brand superiority, industry-leading innovation and low-cost global supply chain to provide higher valued products while lowering production costs. Our Tagless apparel platform, ComfortFlex Fit bra platform, ComfortBlend fabric platform, temperature-control X-Temp fabric platform and FreshIQ advanced odor protection technology fabric platform incorporate big-idea innovation to span across brands, product categories, business segments, retailer and distribution channels and geographies.

Founded in 1901, we were organized as a Maryland corporation in 2005 and spun off from Sara Lee Corporation in 2006, at which time we became an independent, publicly-traded corporation. Since then, we have used strategic acquisitions to expand our brand portfolio. In October 2013, we acquired Maidenform Brands Inc., a global intimate apparel company, including the brands Maidenform and Flexees. We acquired another portfolio of strong brands including DIM, Nur Die/Nur Der, Lovable, Shock Absorber and Abanderado through the 2014 acquisition of DBA Lux Holding S.A. (“Hanes Europe Innerwear”), a leading marketer of intimate apparel, hosiery and underwear in Europe. In 2016 we continued our international expansion through the acquisitions of Champion Europe S.p.A. (“Champion Europe”), the owner of the trademark for the Champion brand in Europe, the Middle East and Africa, and Pacific Brands Limited (“Hanes Australasia”), a leading underwear and intimate apparel company in Australia with a portfolio of strong brands including Bonds, Sheridan and Berlei. We have also expanded our activewear portfolio through the acquisitions of GearCo, Inc. (“Gear for Sports”), a leading seller of licensed logo apparel in collegiate bookstores and other channels, and Knights Holdco, Inc. (“Knights Apparel”), a leading seller of licensed collegiate logo apparel primarily in the mass retail channel, in 2010 and 2015, respectively. We believe these acquisitions will create growth and cost savings opportunities and increased scale to serve retailers.

We take great pride in our strong reputation for ethical business practices and the success of our Hanes for Good corporate responsibility program for community and environmental improvement. Hanesbrands was a U.S. Environmental Protection Agency Energy Star Sustained Excellence Award winner every year from 2012-2016 and Partner of the Year winner in 2010 and 2011. We have significant goals for reducing our energy use, carbon emissions and water use and publicly report our progress. We are also a recognized leader for our community-building, philanthropy and workplace practices. More information about our Hanes for Good corporate responsibility initiatives may be found at www.HanesForGood.com.

Our fiscal year ends on the Saturday closest to December 31. All references to “2016”, “2015” and “2014” relate to the 52 week fiscal years ended on December 31, 2016 and January 2, 2016, and the 53 week fiscal year ended on January 3, 2015, respectively. A significant subsidiary of ours, Hanes Holdings Lux S.à.r.l. (formerly named DBA Lux Holding S.A.) (“Hanes Europe Innerwear”), had a 53 week fiscal year ended on January 2, 2016 as a result of aligning Hanes Europe Innerwear’s year end with ours in the year after acquisition. The difference in reporting one additional week of financial information for Hanes Europe Innerwear did not have a material impact on our financial condition, results of operations or cash flows.

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. Each of our brands has a unique 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. Hanes is the number one selling apparel brand in the U.S. and is found in eight out of 10 U.S. households. The Hanes brand covers all of our product categories, including

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men's, women's and children's underwear, bras, socks, T-shirts, fleece, shapewear and sheer hosiery. Hanes stands for outstanding comfort, style and value.

Champion is our second-largest brand. For nearly 100 years, Champion has been outfitting athletes in authentic, high-quality athletic apparel, including high-performance sports bras, team uniforms and gym essentials like classic T-shirts, mesh shorts and fleece hoodies. Champion has also collaborated on premium apparel items through an exclusive collection with Todd Snyder, a limited edition men's apparel line for Urban Outfitters and custom specialty items for Supreme. In addition, we distribute a full line of men's, women's and children's C9 Champion products exclusively through Target Corporation ("Target") stores. In 2016, with the acquisitions of Champion Europe and the reacquisition of the rights to the Champion brand in Japan (the "Champion Japan Licensee"), we secured the rights to the Champion brand in Europe, the Middle East, Africa and Japan, creating a powerful global platform to drive Champion brand growth on every continent.

Our brand portfolio also includes a number of iconic intimate apparel brands. Maidenform is America's number one shapewear brand and has been trusted for modern, sensual style in bras, panties and shapewear since 1922. DIM is a flagship European brand and a market leader in women's underwear, hosiery and intimate apparel in France. Bali offers a range of bras, panties and shapewear sold in the department store channel and is the number one bra brand in department stores. Playtex is America's number one plus-size bra brand and is sold everywhere from mass merchandise retailers to department stores. Bonds is an iconic century-old brand that is the number one brand of men's underwear, women's underwear, children's underwear, babywear and socks in Australia.

In addition, we offer a variety of products under the following well-known brands: JMS/Just My Size, Nur Die/Nur Der, L'eggs, Sheridan, Lovable, Wonderbra, Gear for Sports and Berlei.

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

Our operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. These segments are organized principally by product category, geographic location 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.

The following table summarizes our operating segments by product category:

Segment	Primary Products	Primary Brands
	Men's underwear, women's panties, children's underwear and socks	Hanes, Champion, Maidenform, Bali, JMS/Just My Size, Polo Ralph Lauren*
Innerwear	Intimate apparel, such as bras and shapewear	Maidenform, Bali, Playtex, Hanes, JMS/Just My Size, Donna Karan,* DKNY*
	Hosiery	L'eggs, Hanes, Maidenform, JMS/Just My Size, Donna Karan,* DKNY*
Activewear	T-shirts, fleece, sport shirts, performance T-shirts and shorts, sports bras and thermals	Champion, Hanes, JMS/Just My Size, Hanes Beefy-T, Gear for Sports
Direct to Consumer	Activewear, men's underwear, children's underwear, intimate apparel, socks and hosiery	Hanes, Bali, Maidenform, Playtex, Champion, JMS/Just My Size, L'eggs
International	Activewear, men's underwear, women's panties, children's	DIM, Bonds, Champion, Hanes, Playtex, Nur Die/Nur Der, Sheridan, Lovable, Wonderbra, Maidenform, Shock Absorber, Abanderado,

underwear, intimate apparel, socks and hosiery	Berlei, Zorba, Kendall,* Sol y Oro, Polo Ralph Lauren,* Fila,* Bellinda, Donna Karan,* DKNY*

*Brand used under a license agreement.

Financial information regarding Hanesbrands' segments is included in Note, "Business Segment Information," to our financial statements included in this Annual Report on Form 10-K.

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Innerwear

The Innerwear segment focuses on core apparel products, such as intimate apparel, men's underwear, women's panties, children's underwear, socks and hosiery marketed under well-known brands that are trusted by consumers. We are the intimate apparel category leader in the United States with our Hanes, Maidenform, Bali, Playtex, JMS/Just My Size, L'eggs, Donna Karan and DKNY brands, and we are also the leading manufacturer and marketer of men's underwear and children's underwear in the United States under the Hanes, Champion and Polo Ralph Lauren brands and women's sheer hosiery under the L'eggs, Hanes, Maidenform, JMS/Just My Size, Donna Karan and DKNY brands. During 2016, net sales from our Innerwear segment were $2.6 billion, representing approximately 43% of total net sales.

Activewear

We are a leader in the activewear market through our Champion, Hanes and JMS/Just My Size 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 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 sell licensed logo apparel in the mass retail channel and in collegiate bookstores and other channels under our Gear for Sports and Champion brands. We also sell licensed collegiate logo apparel primarily in the mass retail channel under our Knights Apparel brand. We also offer a range of quality, comfortable clothing for men, women and children marketed under the Hanes and JMS/Just My Size brands. The JMS/Just My Size brand offers casual apparel designed exclusively to meet the needs of plus-size women. During 2016, net sales from our Activewear segment were $1.6 billion, representing approximately 26% of total net sales.

Direct to Consumer

Our Direct to Consumer operations include our domestic Company-operated outlet stores and website operations that sell our branded products directly to consumers in the United States. As of December 31, 2016, we had 252 outlet stores in the United States and operated websites under the Hanes, One Hanes Place, JMS/Just My Size and Champion names. During 2016, net sales from our Direct to Consumer segment were $316 million, representing approximately 5% of total net sales.

International

Our International segment includes products that primarily span across the Innerwear and Activewear reportable segments and are primarily marketed under the DIM, Bonds, Champion, Hanes, Playtex, Nur Die/Nur Der, Sheridan, Lovable, Wonderbra, Maidenform, Shock Absorber, Abanderado, Berlei, Zorba, Kendall, Sol y Oro, Polo Ralph Lauren, Fila, Bellinda, Ritmo, Donna Karan and DKNY brands. Our Innerwear brands are market leaders across Australia and Western and Central Europe. In the intimate apparel category, we hold the number one market share in Spain and the number two market share in France, Italy and Australia. We are also the category leader in men's underwear in Australia, France and Spain, and in hosiery in France and Germany. During 2016, net sales from our International segment were $1.5 billion, representing approximately 26% of total net sales and included sales in Europe, Australia, Asia, Latin America, Canada, the Middle East, Africa and the Caribbean. Our largest international markets are Europe, Australia, Japan, Canada, Mexico, and Brazil.

Customers and Distribution Channels

In 2016, approximately 74% of our net sales were to customers in the United States and approximately 26% were to customers outside the United States. Domestically, approximately 89% of our net sales were wholesale sales to retailers, 7% were direct to consumers and 4% 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") and Target, accounting for 20% and 15% respectively, of our total net sales in 2016. As is common in the basic apparel industry, we generally do not have purchase agreements that obligate our customers to purchase our products. However, the majority of our key customer relationships have been in place for 10 years or more. Wal-Mart and Target are our only customers with sales that exceed 10% of any individual segment's sales. In our Innerwear segment, Wal-Mart accounted for 34% of net sales and Target accounted for 17% of net sales during 2016. In our Activewear segment, Target accounted for 28% of net sales and Wal-Mart accounted for 19% of net sales.

Sales to the mass merchant channel in the United States accounted for approximately 35% of our total net sales in 2016. We sell all of our product categories in this channel, including our Hanes, Champion, Playtex, Maidenform and JMS/Just My Size brands, as well as licensed logo apparel. 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 and Target. Our largest mass merchant customer is Wal-Mart, which accounted for approximately 20% of our total net sales in 2016.

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Sales to the mid-tier and department stores channel in the United States accounted for approximately 10% of our total net sales in 2016. Mid-tier stores 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, J.C. 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 mid-tier stores 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 Belk, Inc. We sell products in our intimate apparel, underwear, socks, hosiery and activewear categories through department stores.

Sales in our Direct to Consumer segment accounted for approximately 5% of our total net sales in 2016. We sell our branded products directly to consumers through our 252 domestic outlet stores, as well as our websites operating under the Hanes, One Hanes Place, JMS/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 emails, address the growing e-commerce channel that characterizes today's 24/7 retail environment. Our websites recorded 36.8 million user sessions in 2016, with 6.8 million consumers receiving our emails.

Sales in our International segment represented approximately 26% of our total net sales in 2016, and included sales in Europe, Australia, Asia, Latin America and Canada. We also have offices in each of these markets, as well as the Philippines, Thailand, Argentina, South Africa and Central America. Internationally, the majority of our net sales were wholesale sales to retailers. For more information about our sales on a geographic basis, see Note, "Geographic Area Information," to our financial statements.

Sales in other channels in the United States represented approximately 24% of our total net sales in 2016. We sell T-shirts, golf and sport shirts and fleece sweatshirts to wholesalers and third party embellishers primarily under 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 DICK'S Sporting Goods. We also sell products that span across the Innerwear and Activewear reportable segments in the e-commerce environment through our owned e-commerce websites and through pure play e-commerce sites, such as Amazon. 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 Activewear segments to the U.S. military for sale to servicemen and servicewomen and through discount retailers, such as the Dollar General Corporation.

Manufacturing, Sourcing and Distribution

During 2016, approximately 72% of units sold 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 domestic and international 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 52 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.

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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 that, among other things, cover 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, many of our suppliers are certified by the Worldwide Responsible Accredited Production, or "WRAP," program. WRAP uses third-party, independent audit firms and requires factory-by-factory certification. We are also a fully accredited participating company in the Fair Labor Association.

Distribution

As of December 31, 2016, we distributed our products from 44 distribution centers. These facilities include 15 facilities located in the United States and 29 facilities located outside the United States in regions primarily where we sell our products. We internally manage and operate 32 of these facilities, and we use third party logistics providers who operate the other 12 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 key to our 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 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

A significant component of our margin-enhancing Innovate-to-Elevate strategy is our strong product research and development and innovation capabilities. From 2014 to 2016, we spent nearly $196 million on design, research and product development, including the development of new and improved products.

We use a disciplined, consumer-driven approach to direct our product innovation and marketing efforts. We seek to identify relevant consumer insights and long-term megatrends that will impact our product categories over the next five to 10 years. We focus our innovation efforts on big-idea platforms that span brands, product categories, business segments, distribution channels and geographies. In addition, we concentrate on margin accretive product innovations where we can leverage our supply chain in order to drive further economies of scale. Examples of our product innovation platforms include:

- Tagless: Over a decade ago, we launched Hanes Tagless Tees that deliver superior softness without the itch and irritation of a tag. In 2012, our consumer-driven innovation process led us to expand this platform to the male underwear bottom category where research indicated that itchy tags were the number two consumer complaint. The Tagless platform also taps into the power of our supply chain, generating significant cost savings and allowing us to expand gross margins.

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- ComfortBlend: ComfortBlend, our fabric innovation that combines cotton and synthetic yarns for products that are softer, shrink less and dry faster, is an outgrowth of the performance fabric megatrend. In developing ComfortBlend, we worked through each step of the big idea process, testing the concept, the product and the advertising. We introduced Hanes men's ComfortBlend underwear in 2012 with exceptional results and have now expanded this platform to socks, children's underwear and panties.
- ComfortFlex Fit: Our ComfortFlex Fit platform is another example of our consumer-driven innovation process, where research indicated the two most significant consumer complaints in the bra category were that the consumer could not find the right size and that the consumer could not find a comfortable bra. ComfortFlex Fit effectively addresses both concerns by combining a simplified shopping system that eliminates the complicated cup-and-band combinations of traditional bra sizing systems with a more comfortable, flexible fit. We have successfully leveraged the ComfortFlex Fit platform across our Hanes, Champion, Bali, Playtex and JMS/Just My Size brands where it is driving incremental purchases in a category where consumers typically buy only a little over three bras per year.
- X-Temp: X-Temp brings a new level of technology and comfort to basic apparel. Hanes and Champion X-Temp garments are designed to keep consumers cooler and drier by increasing the rate of evaporation when body temperature rises and reducing the rate of evaporation as body temperature cools. The X-Temp platform was successfully introduced in Hanes men's underwear and men's socks in 2013 and expanded to women's socks, panties, bras, legwear, base layer and children's underwear and socks in 2014. Champion Vapor with X-Temp technology was introduced in men's and women's activewear in 2013 and expanded to team practicewear and branded printwear in 2014.
- FreshIQ: FreshIQ provides advanced odor protection through the application of an antimicrobial finish that physically inhibits bacteria growth. Hanes FreshIQ underwear and socks for men were introduced in 2016, and additional products are anticipated to be introduced through the fall of 2017.
- 3D Flex: Our revolutionary 3D Flex fabric combines cotton and elastane to create a natural material that breathes and stretches like a second skin for comfort and increased freedom of movement. 3D Flex is a cross-brand and cross-country platform that has been successfully introduced into DIM men's underwear in France.
- Activ'Skin: Activ'Skin fabric uses a modern textile technology that absorbs heat from the body to generate a natural massage to improve skin elasticity. Activ'Skin technology has been leveraged across bras sold under both our Lovable and DIM brands.

Driving innovation platforms across brands and categories is a major element of our Innovate-to-Elevate 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. Effectively marketing these innovations also accrues benefits back to our supply chain. Driving higher volume helps us to leverage scale and drive costs down even further, increasing margins while funding additional marketing support for our brands and products so we can continue to reinvest in product innovation.

In 2016, our broad-reach marketing efforts included:

- Continued marketing support for Hanes X-Temp, which included TV, digital and social media outreach, as well as a partnership with the X-Men movie franchise;
- Ongoing digital, social media and influencer campaigns in support of our key intimate apparel brands: Maidenform, Bali, Playtex and Hanes;
- The launch of an updated "Real Champions" social media campaign for the Champion brand, highlighting inspiring stories of four individuals who overcame a variety of challenges to find their own inner champion; and
- A multi-media "End the Smellfie" campaign in support of the launch of FreshIQ, letting consumers everywhere know that Hanes men's underwear and sock styles now feature advanced odor protection technology.

Competition

The basic apparel market is highly competitive and rapidly evolving. Competition generally is based upon brand, comfort, fit, style and price. Our businesses 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 and Jockey International, Inc. Other competitors in our Activewear segment include various private label and controlled brands sold by many of our customers, as well as Gildan Activewear, Inc. and Gap Inc. Large European intimate apparel distributors such as Triumph International and Calzedonia

S.p.A Group, as well as international activewear retailers such as Nike, Adidas, Puma, Under Armour and Converse, compete with us in our International segment. 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, industry-leading innovation, 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.

Intellectual Property

We market our products under hundreds of trademarks in the United States and other countries around the world, the most widely recognized of which are Hanes, Champion, C9 Champion, Maidenform, DIM, Bali, Playtex, Bonds, JMS/Just My Size, Nur Die/Nur Der, L'eggs, Sheridan, Lovable, Wonderbra, Gear for Sports, Shock Absorber, Abanderado, Berlei and Zorba. Some of our products are sold under trademarks that have been licensed from third parties, such as Polo Ralph Lauren men's underwear and Donna Karan and DKNY intimate apparel.

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, LLC, an unrelated third party, whose affiliate, Edgewell Personal Care Brands, LLC, 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 and Canada. Outside the United States and Canada, we own the Playtex trademark and perpetually license such trademark to Edgewell Personal Care Brands, LLC for non-apparel products. The Berlei trademark is owned by Berlei IP Limited, of which we own a 50% interest and which grants to us an exclusive, perpetual royalty-free license to the Berlei trademark on and in connection with the sale of apparel in Australia and New Zealand. The other 50% interest in Berlei IP Limited is owned by PD Enterprise Limited, an unrelated third party, who has an exclusive, perpetual royalty-free license to the Berlei trademark on and in connection with the sale of apparel products in Japan and China. Outside of Australia, New Zealand, Japan and China, Berlei IP Limited and its wholly owned subsidiaries have the right to use the Berlei trademark on a worldwide basis. Our trademarks are important to our marketing efforts and have substantial value. We aggressively protect these trademarks 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 a registration period of 10 years in most countries. 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. We also own a number of copyrights.

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.

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.

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 net property, see Note, "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

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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 and 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 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

Hanesbrands conducts business around the world in a highly ethical manner. We are protective of our strong reputation for corporate citizenship and social responsibility and proud of our significant achievements in the areas of environmental stewardship, workplace quality and community building.

We call our corporate social responsibility program "Hanes for Good" because adhering to responsible and sustainable business practices is good for our company, good for our employees, good for our communities and good for our investors. We own the majority of our supply chain and have more direct control over how we do business than many of our competitors. More than 70% of the apparel units that we sell is produced in facilities that we operate or control. We also have an industry-leading compliance program that helps to ensure our business partners live up to the high standards that we set for ourselves.

We have been recognized for our socially responsible business practices by such organizations as the U.S. Environmental Protection Agency Energy Star program, corporate responsibility advocate As You Sow, social compliance rating group Free2Work, the United Way, Corporate Responsibility magazine and others. In fact, Richard Noll, our Executive Chairman and former Chief Executive Officer, received the 2016 Responsible CEO of the Year award from Corporate Responsibility magazine. We are also members of the Fair Labor Association, Sustainable Apparel Coalition, The Sustainability Consortium and Corporate Eco Forum.

We have made significant progress across a range of corporate social responsibility issues, but we recognize that there is always room for improvement. We pride ourselves on listening to others outside our company and reacting quickly and responsibly if issues emerge. We hope to continue making a positive and lasting contribution to our world in the years to come. More information about our Hanes for Good corporate responsibility initiatives may be found at www.HanesForGood.com.

Employees

As of December 31, 2016, we had approximately 67,800 employees, approximately 7,800 of whom were located in the United States. As of December 31, 2016, approximately 35 employees in the United States were covered by collective bargaining agreements. A significant portion of our employees based in foreign countries are represented by works councils or unions or subject to trade-sponsored or governmental agreements. 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.

We operate in a highly competitive and rapidly evolving market, and our market share and results of operations could be adversely affected if we fail to compete effectively in the future.

The basic apparel market is highly competitive and evolving rapidly. Competition is generally based upon brand, comfort, fit, style and price. Our businesses face competition today from other large domestic and foreign corporations and

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manufacturers, as well as department stores and other retailers, including many of our customers, that market and sell basic apparel products under private labels that compete directly with our brands. Also, online retail shopping is rapidly evolving, and we expect competition in the e-commerce market to intensify in the future as the Internet facilitates competitive entry and comparison shopping. If we do not successfully develop and maintain a relevant omni-channel experience for our customers, our businesses and results of operations could be adversely impacted. Increased competition may result in a loss of or a reduction in shelf space and promotional support and reduced prices, in each case decreasing our cash flows, operating margins and profitability. Our ability to identify and capitalize on retail trends, including technology, e-commerce and other process efficiencies to gain market share and better service our customer base will, in large part, determine our future success. If we fail to compete successfully, our market share, results of operations and financial condition will be materially and adversely affected.

Any inadequacy, interruption, integration failure or security failure with respect to our information technology could harm our ability to effectively operate our business.

Our ability to effectively manage and operate our business depends significantly on information technology systems. The failure of these systems to operate effectively and support global growth and expansion, problems with integrating various data sources, challenges in transitioning to upgraded or replacement systems, difficulty in integrating new systems or systems of acquired businesses, or a breach in security of these systems could adversely impact the operations of our business.

Hackers and data thieves are increasingly sophisticated and operate large-scale and complex automated attacks. Any breach of our network may result in the loss of valuable business data, misappropriation of our consumers' or employees' personal information, or a disruption of our business, which could give rise to unwanted media attention, materially damage our customer relationships and reputation, and result in lost sales, fines or lawsuits.

Moreover, we must comply with increasingly complex and rigorous regulatory standards enacted to protect business and personal data. Any failure to comply with these regulatory standards could subject us to legal and reputational risks. Misuse of or failure to secure personal information could also result in violation of data privacy laws and regulations, proceedings against us by governmental entities or others, damage to our reputation and credibility, and could have a negative impact on revenues and profits.

Due to the extensive nature of our foreign operations, fluctuations in foreign currency exchange rates could negatively impact our results of operations.

A growing percentage of our total revenues (approximately 26% in 2016) is derived from markets outside the United States. We sell a majority of our products in transactions denominated in U.S. dollars; however, we purchase many of our raw materials, pay a portion of our wages and make other payments in our supply chain in foreign currencies. As a result, when the U.S. dollar weakens against any of these currencies, our cost of sales could increase substantially. Outside the United States, we may pay for materials or finished products in U.S. dollars, and in some cases a strengthening of the U.S. dollar could effectively increase our costs where we use foreign currency to purchase the U.S. dollars we need to make such payments. Changes on foreign currency exchange rates could have an adverse impact on our financial condition, results of operations and cash flows.

We use foreign exchange forward contracts to hedge material exposure to adverse changes in foreign exchange rates. However, no hedging strategy can completely insulate us from foreign exchange risk. We are also exposed to gains and losses resulting from the effect that fluctuations in foreign currency exchange rates have on the reported results in our financial statements due to the translation of operating results and financial position of our foreign subsidiaries.

The rapidly changing retail environment could result in the loss of or material reduction in sales to certain of our customers, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The retail environment is highly competitive. Consumers are increasingly embracing shopping online and through mobile commerce applications. As a result, a greater portion of total consumer expenditures with retailers is occurring online and through mobile commerce applications. If our brick-and-mortar retail customers fail to maintain or grow their overall market position through the integration of physical retail presence and digital retail, these customers may experience financial difficulties including store closures, bankruptcies or liquidations. This could, in turn, substantially reduce our revenues, increase our credit risk and have a material adverse effect on our results of operations, financial condition and cash flows.

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We have a complex multinational tax structure, and changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could impact our capital deployment strategy and adversely affect our results.

We have a complex multinational tax structure with multiple types of intercompany transactions, and our allocation of profits and losses among us and our subsidiaries through our intercompany transfer pricing agreements is subject to review by the Internal Revenue Service and other tax authorities. Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower statutory rates and higher than anticipated in countries where we have higher statutory rates, by changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws, regulations, accounting principles or interpretations thereof. In order to service our debt obligations, we may need to increase the portion of the income our foreign subsidiaries that we expect to remit to the United States, which may significantly increase our income tax expense. In addition, we are also subject to the continuous examination of our income tax returns and related transfer pricing documentation by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition. Additionally, changes in tax laws, regulations, future jurisdictional profitability of us and our subsidiaries, and related regulatory interpretations in the countries in which we operate may impact the taxes we pay or tax provision we record, as well as our capital deployment strategy, which could adversely affect our results of operations.

Our failure to properly manage strategic projects in order to achieve the desired results may negatively impact our business.

The implementation of our business strategy periodically involves the execution of complex projects, which places significant demands on our management, accounting, financial, information and other systems and on our business. Our ability to successfully implement such projects is dependent on management’s ability to timely and effectively anticipate and adapt to our changing business needs. We cannot assure you that our management will be able to manage these projects effectively or implement them successfully. If we miscalculate the resources or time we need to complete a project or fail to implement the project effectively, our business and operating results could be adversely affected.

Our business depends on our senior management team and other key personnel.

Our success depends upon the continued contributions of our senior management team and other key personnel, some of whom have unique talents and experience and would be difficult to replace. The loss or interruption of the services of a member of our senior management team or other key personnel could have a material adverse effect on our business during the transitional period that would be required for a successor to assume the responsibilities of the position. Our future success will also depend on our ability to develop and/or recruit employees with the core competencies needed to support our growth in global markets and in new products or services. We may not be able to attract or retain these employees, which could adversely affect our business.

Our operations in international markets, and our earnings in those markets, may be affected by legal, regulatory, political and economic risks.

During 2016, net sales from our International segment were $1.5 billion, representing approximately 26% of total net sales. In addition, a significant amount of our manufacturing and production operations are located, or our products are sourced from, outside the United States. As a result, our business is subject to risks associated with international operations. These risks include the burdens of complying with foreign laws and regulations, unexpected changes in tariffs, taxes or regulatory requirements, and political unrest and corruption.

Regulatory changes could limit the countries in which we sell, produce or source our products or significantly increase the cost of operating in or obtaining materials originating from certain countries. Restrictions imposed by such changes can have a particular impact on our business when, after we have moved our operations to a particular location, new unfavorable regulations are enacted in that area or favorable regulations currently in effect are changed. Countries in which our products are manufactured or sold may from time to time impose additional new regulations, or modify existing regulations, including:

- changes in duties, taxes, tariffs and other charges on imports;
- limitations on the quantity of goods which may be imported into the United States from a particular country;
- requirements as to where products and/or inputs are manufactured or sourced;
- creation of export licensing requirements, imposition of restrictions on export quantities or specification of minimum export pricing and/or export prices or duties;

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- limitations on foreign owned businesses; or
- government actions to cancel contracts, re-denominate the official currency, renounce or default on obligations, renegotiate terms unilaterally or expropriate assets.

In addition, political and economic changes or volatility, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, public corruption and other economic or political uncertainties could interrupt and negatively affect our business operations. All of these factors could result in increased costs or decreased revenues and could materially and adversely affect our product sales, financial condition and results of operations.

Recently, political discourse in the United States has increasingly focused on ways to discourage U.S. corporations from outsourcing manufacturing and production activities to foreign jurisdictions. Many prominent government officials have publicly addressed the need to discourage these practices through television, new publications and social media platforms, including through the possibility of imposing tariffs, border adjustments or other penalties on goods manufactured outside the United States to attempt to discourage these practices. It has also been suggested that the United States may materially modify or withdraw from some of its existing trade agreements. Any of these actions, if ultimately enacted, could adversely affect our results of operations or profitability. Further, our image, the reputation of our brands and our stock price may be adversely affected if we are publicly singled out for criticism by government officials as a result of our foreign operations.

We are also subject to the U.S. Foreign Corrupt Practices Act, in addition to the anti-corruption laws of the foreign countries in which we operate. Although we implement policies and procedures designed to promote compliance with these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. Any such violation could result in sanctions or other penalties and have an adverse effect on our business, reputation and operating results.

In addition, in June 2016, voters in the United Kingdom approved an advisory referendum to withdraw from the European Union, commonly referred to as "Brexit." This referendum has created political and economic uncertainty, particularly in the United Kingdom and the European Union, and this uncertainty may persist for years. A withdrawal could significantly disrupt the free movement of goods, services, and people between the United Kingdom and the European Union, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe. The United Kingdom's vote to exit the European Union could also result in similar referendums or votes in other European countries in which we do business. The uncertainty surrounding the terms of the United Kingdom's withdrawal and its consequences could adversely impact consumer and investor confidence, and the level of consumer purchases of discretionary items and retail products, including our products. Any of these effects, among others, could materially adversely affect our business, results of operations, and financial condition.

Significant fluctuations and volatility in the price of various input costs, such as cotton and oil-related materials, utilities, freight and wages, may have a material adverse effect on our business, results of operations, financial condition and cash flows.

Inflation can have a long-term impact on us because increasing costs of materials and labor may impact our ability to maintain satisfactory margins. For example, the cost of the materials that are used in our manufacturing process, such as oil-related commodity prices and other raw materials, such as dyes and chemicals, and other costs, such as fuel, energy and utility costs, can fluctuate as a result of inflation and other factors. Similarly, a significant portion of our products are manufactured in other countries and declines in the value of the U.S. dollar may result in higher manufacturing costs. Sudden decreases in the costs for materials, including cotton, may result in the cost of inventory exceeding the cost of new production, which could result in lower profitability, particularly if these decreases result in downward price pressure. If, in the future we incur volatility in the costs for materials, including cotton, and labor that we are unable to offset through price adjustments or improved efficiencies, or if our competitors' unwillingness to follow our price changes results in downward price pressure, our business, results of operations, financial condition and cash flows may be adversely affected.

Inability to access sufficient capital at reasonable rates or commercially reasonable terms or maintain sufficient liquidity in the amounts and at the times needed could adversely impact our business.

We rely on our cash flows generated from operations and the borrowing capacity under our Revolving Loan Facility and other external debt financings to meet the cash requirements of our business. We have significant capital requirements and will need continued access to debt capital from outside sources in order to efficiently fund the cash flow needs of our business and pursue strategic acquisitions.

Although we currently have available credit facilities to fund our current operating needs, we cannot be certain that we will be able to replace our existing credit facilities or refinance our existing or future debt at a reasonable cost when necessary. The ability to have continued access to reasonably priced credit is dependent upon our current and future capital structure, financial performance, our credit ratings and general economic conditions. If we are unable to access the capital markets at a reasonable economic cost, it could have an adverse effect on our results of operations or financial condition.

Our reputation, ability to do business and results of operations could be impaired by improper conduct by any of our employees, agents or business partners.

Our business is subject to federal, state, local and international laws, rules and regulations, such as state and local wage and hour laws, the U.S. Foreign Corrupt Practices Act, the False Claims Act, the Employee Retirement Income Security Act ("ERISA"), securities laws, import and export laws (including customs regulations), unclaimed property laws and many others. We cannot provide assurance our internal controls will always protect us from the improper conduct of our employees, agents and business partners. Any violations of law or improper conduct could damage our reputation and, depending on the circumstances, subject us to, among other things, civil and criminal penalties, material fines, equitable remedies (including profit disgorgement and injunctions on future conduct), securities litigation and a general loss of investor confidence, any one of which could have a material adverse impact on our business prospects, financial condition, results of operations, cash flows, and the market value of our stock.

The loss of one or more of our suppliers of finished goods or raw materials may interrupt our supplies and materially harm our business.

We purchase all of the raw materials used in our products and approximately 28% of the units sold derived from apparel designed by us from a limited number of third party suppliers and manufacturers. Our ability to meet our customers' needs depends on our ability to maintain an uninterrupted supply of raw materials and finished products from our third party suppliers and manufacturers. Our business, financial condition or results of operations could be adversely affected if any of our principal third party suppliers or manufacturers experience financial difficulties that they are not able to overcome resulting from worldwide economic conditions, production problems, difficulties in sourcing raw materials, lack of capacity or transportation disruptions, or if for these or other reasons they raise the prices of the raw materials or finished products we purchase from them. The magnitude of this risk depends upon the timing of any interruptions, the materials or products that the third party manufacturers provide and the volume of production.

Our dependence on third parties for raw materials and finished products subjects us to the risk of supplier failure and customer dissatisfaction with the quality of our products. Quality failures by our third party manufacturers or changes in their financial or business condition that affect their production could disrupt our ability to supply quality products to our customers and thereby materially harm our business.

Our ability to successfully integrate acquired businesses could impact our financial results.

As a leading branded apparel company, we expect to continue pursuing strategic acquisitions as part of our long-term business strategy, such as our recent acquisitions of Champion Europe and Hanes Australasia. Difficulties may arise in the integration of the business and operations of businesses that we acquire and, as a result, we may not be able to achieve the cost savings and synergies that we expect will result from such transactions. Achieving cost savings is dependent on consolidating certain operational and functional areas, eliminating duplicative positions and terminating certain agreements for outside services. Additional operational savings are dependent upon the conversion of core operating systems, data systems and products and the standardization of business practices. Complications or difficulties in the conversion of core operating systems, data systems and products may result in the loss of customers, operational problems, one-time costs currently not anticipated or reduced cost savings resulting from such acquisitions. Annual cost savings in each such transaction may be materially less than anticipated if the closing of the acquisition is delayed unexpectedly, the integration of operations is delayed beyond what is anticipated or the conversion to a single set of data systems is not accomplished on a timely basis.

Acquired businesses may not achieve expected results of operations, including expected levels of revenues, and may require unanticipated costs and expenditures. In addition, following completion of an acquisition, we may not be able to maintain the levels of revenue, earnings or operating efficiency that we and the acquired business have achieved or might achieve separately. Acquired businesses may also subject us to liabilities that we were unable to discover in the course of our due diligence, and our rights to indemnification from the sellers of such other businesses, even if obtained, may not be sufficient to offset the relevant liabilities. In addition, the integration of newly acquired businesses may be expensive and time-consuming and may not be entirely successful. Integration of the acquired businesses may also place additional pressures on our systems of internal control over financial reporting. The process of integrating the operations of acquired businesses could cause an interruption of, or loss of momentum in, the activities of one or more of our combined businesses and the possible loss of key personnel. If we are unable to successfully integrate any newly acquired business or if the acquired businesses fail to produce targeted results, it could have an adverse effect on our results of operations or financial condition.

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We may be adversely affected by unseasonal or severe weather conditions.

Our business may be adversely affected by unseasonable or severe weather conditions. Periods of unseasonably warm weather in the fall or winter, or periods of unseasonably cool and wet weather in the spring or summer, can negatively impact retail traffic and consumer spending. In addition, severe weather events such as snow storms or hurricanes typically lead to temporarily reduced retail traffic. Any of these conditions could result in negative point-of-sale trends for our merchandise and reduced replenishment shipments to our wholesale customers.

We rely on a relatively small number of customers for a significant portion of our sales, and the loss of or material reduction in sales to any of our top customers could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In 2016, our top 10 customers accounted for approximately 52% of our net sales and our top two customers, Wal-Mart and Target accounted for 20% and 15% of our net sales, respectively. We expect that these customers will continue to represent a significant portion of our net sales in the future. Moreover, our top customers are the largest market participants in our primary distribution channels across all of our product lines. We generally do not enter into purchase agreements that obligate our customers to purchase our products, and as a result, most of our sales are made on a purchase order basis. A decision by any of our top customers to significantly decrease the volume of products purchased from us could substantially reduce revenues and may have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, if any of our customers devote less selling space to apparel products, our sales to those customers could be reduced even if we maintain our share of their apparel business. Any such reduction in apparel selling space could result in lower sales and our business, results of operations, financial condition and cash flows may be adversely affected.

Our results of operations could be materially harmed if we are unable to manage our inventory effectively and accurately forecast demand for our products.

We are faced with the constant challenge of balancing our inventory with our ability to meet marketplace needs. Factors that could affect our ability to accurately forecast demand for our products include our ability to anticipate and respond effectively to evolving consumer preferences and trends and to translate these preferences and trends into marketable product offerings, as well as unanticipated changes in general economic conditions or other factors, which result in cancellations of orders or a reduction or increase in the rate of reorders placed by retailers.

Inventory reserves can result from the complexity of our supply chain, a long manufacturing process and the seasonal nature of certain products. We sell a large number of our products to a small number of customers, and these customers generally are not required by contract to purchase our goods. As a result, we often schedule internal production and place orders for products with third-party manufacturers before our customers’ orders are firm. If we fail to accurately forecast consumer demand, we may experience excess inventory levels or a shortage of product required to meet the demand. Inventory levels in excess of consumer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have an adverse effect on the image and reputation of our brands and negatively impact profitability. On the other hand, if we underestimate demand for our products, our manufacturing facilities or third-party manufacturers may not be able to produce products to meet consumer requirements, and this could result in delays in the shipment of products and lost revenues, as well as damage to our reputation and relationships. These risks could have a material adverse effect on our brand image as well as our results of operations and financial condition.

Additionally, sudden decreases in the costs for materials, including cotton, may result in the cost of inventory exceeding the cost of new production; if this occurs, it could have a material adverse effect on our business, results of operations, financial condition or cash flow, particularly if we hold a large amount of excess inventory. Excess inventory charges can reduce gross margins or result in operating losses, lowered plant and equipment utilization and lowered fixed operating cost absorption, all of which could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Our inability to successfully recover should we experience a disaster or other business continuity problem could cause material financial loss, loss of human capital, regulatory actions, reputational harm, or legal liability.

We have a complex global supply chain and distribution network that supports our ability consistently to provide our products to our customers. Should we experience a local or regional disaster or other business continuity problem, such as an earthquake, tsunami, terrorist attack, pandemic or other natural or man-made disaster, our continued success will depend, in part, on the safety and availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other systems and operations. While our operational size, the diversity of locations from which we operate, and our redundant back-up systems provide us with a strong advantage should we experience a local or regional disaster or other business continuity event, we could still experience operational challenges, in particular depending upon how a local or regional event may affect our human capital across our operations or with regard to particular aspects of our operations,

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such as key executive officers or personnel in our technology group. If we cannot respond to disruptions in our operations, for example, by finding alternative suppliers or replacing capacity at key manufacturing or distribution locations, or cannot quickly repair damage to our information, production or supply systems, we may be late in delivering, or be unable to deliver, products to our customers. These events could result in reputational damage, lost sales, cancellation charges or excessive markdowns. All of the foregoing can have an adverse effect on our business, results of operations, financial condition and cash flows.

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 us 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.

If we are unsuccessful in establishing effective advertising, marketing and promotional programs, our sales could be negatively affected.

Inadequate or ineffective advertising could inhibit our ability to maintain brand relevance and drive increased sales. Additionally, if our competitors increase their spending on advertising and promotions, if our advertising, media or marketing expenses increase, or if our advertising and promotions become less effective than those of our competitors, we could experience a material adverse effect on our business results of operations and financial condition.

Our existing customers may require products on an exclusive basis, forms of economic support and other changes that could be harmful to our business.

Customers increasingly may require us to provide them with some of our products on an exclusive basis, which could cause an increase in the number of stock keeping units, or “SKUs,” we must carry and, consequently, increase our inventory levels and working capital requirements. Moreover, our customers may increasingly seek markdown allowances, incentives and other forms of economic support, which reduce our gross margins and affect our profitability. Our financial performance is negatively affected by these pricing pressures when we are forced to reduce our prices without being able to correspondingly reduce our production costs.

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The success of our business is tied to the strength and reputation of our brands, including brands that we license to other parties. If other parties take actions that weaken, harm the reputation of or cause confusion with our brands, our business, and consequently our sales, results of operations, cash flows and financial condition, may be adversely affected.

We license some of our important trademarks to third parties. For example, we license Champion to third parties for athletic-oriented accessories. Although we make concerted efforts to protect our brands through quality control mechanisms and contractual obligations imposed on our licensees, there is a risk that some licensees may not be in full compliance with those mechanisms and obligations. In that event, or if a licensee engages in behavior with respect to the licensed marks that would cause us reputational harm, we could experience a significant downturn in that brand’s business, adversely affecting our sales, results of operations, cash flows and financial condition.

We may suffer negative publicity if we or our third party manufacturers violate labor laws or engage in practices that are viewed as unethical or illegal, which could cause a loss of business.

We cannot fully control the business and labor practices of our third party manufacturers, the majority of whom are located in Asia, Central America and the Caribbean Basin. If one of our own manufacturing operations or one of our third party manufacturers violates or is accused of violating local or international labor laws or other applicable regulations, or engages in labor or other practices that would be viewed in any market in which our products are sold as unethical, we could suffer negative publicity, which could tarnish our brands’ image or result in a loss of sales. In addition, if such negative publicity affected one of our customers, it could result in a loss of business for us.

If we fail to maintain effective internal controls, we may not be able to report our financial results accurately or timely or prevent or detect fraud, which could have a material adverse effect on our business or the market price of our securities.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to effectively prevent or detect fraud. If we cannot provide reasonable assurance with respect to our financial reports and effectively prevent or detect fraud, our brands and operating results could be harmed. Pursuant to the Sarbanes-Oxley Act of 2002, we are required to furnish a report by management on internal control over financial reporting, including management’s assessment of the effectiveness of such control. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls cannot provide absolute assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business and operating results could be harmed and we could fail to meet our reporting obligations, which could have a material adverse effect on our business or the market price of our securities.

We are subject to certain risks as a result of our indebtedness.

Our indebtedness primarily includes (i) a $1.0 billion revolving loan facility (the “Revolving Loan Facility”), a $725 million term loan a facility (the “Term Loan A”), a $425 million term loan b facility (the “Term Loan B”), a AUD$200 million Australian term a-1 loan facility (the “Australian Term A-1”), a AUD$200 million Australian term a-2 loan facility (the “Australian Term A-2”) and an AUD$65 million Australian revolving loan facility (the “Australian Revolver” and together with the Revolving Loan Facility, the Term Loan A, the Term Loan B, the Australian Term A-1, the Australian Term A-2, and the Australian Revolver, the “Senior Secured Credit Facility”), (ii) our $900 million 4.625% Senior Notes due 2024 (the “4.625% Senior Notes”) and our $900 million 4.875% Senior Notes due 2026 (the “4.875% Senior Notes”), (iii) our €500 million 3.5% Senior Notes due 2024 (the “3.5% Senior Notes”) and (iv) a $275 million accounts receivable securitization facility (the “Accounts Receivable Securitization Facility”).

The Senior Secured Credit Facility contains restrictions that affect, and in some cases significantly limit or prohibit, among other things, our ability to borrow funds, pay dividends or make other distributions, make investments, engage in transactions with affiliates, or create liens on our assets. Covenants in the Senior Secured Credit Facility and the

Accounts Receivable Securitization Facility require us to maintain a minimum interest coverage ratio and a maximum total debt to EBITDA (earnings before income taxes, depreciation expense and amortization), or leverage ratio. The indentures governing the Senior Notes also restricts our ability to incur additional secured indebtedness in an amount that exceeds the greater of (a) $3.0 billion or (b) the amount that would cause our consolidated secured net debt ratio to exceed 3.25 to 1.00, as well as certain other customary covenants and restrictions. These restrictions and covenants could limit our ability to obtain additional capital in the future to fund capital expenditures or acquisitions, meet our debt payment obligations and capital commitments, fund any operating losses or future development of our business affiliates, obtain lower borrowing costs that are available from secured lenders or engage in advantageous transactions that monetize our assets or conduct other necessary or prudent corporate

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activities. Any failure to comply with these covenants and restrictions could result in an event of default that accelerates the maturity of our indebtedness under such facilities, resulting in an adverse effect on our business.
The lenders under the Senior Secured Credit Facility have received a pledge of substantially all of our existing and future direct and indirect subsidiaries, with certain customary or agreed-upon exceptions for certain foreign subsidiaries and certain other subsidiaries. Additionally, these lenders generally have a lien on substantially all of our assets and the assets of our U.S. subsidiaries and certain other foreign subsidiaries, with certain exceptions. The financial institutions that are party to the Accounts Receivable Securitization Facility have a lien on certain of our domestic accounts receivable. As a result of these pledges and liens, if we fail to meet our payment or other obligations under the Senior Secured Credit Facility or the Accounts Receivable Securitization Facility, the lenders under those facilities will be entitled to foreclose on substantially all of our assets and, at their option, liquidate these assets, which would adversely impact the operations of our business.
Market returns could have a negative impact on the return on plan assets for our pension, which may require significant funding.
The plan assets of our pension plans, which had a return of approximately 3% during 2016 and a loss of approximately 3% during 2015, are invested mainly in domestic and international equities, bonds, hedge funds and real estate. We are unable to predict the variations in asset values or the severity or duration of any disruptions in the financial markets or adverse economic conditions in the United States, Europe and Asia. The funded status of these plans, and the related cost reflected in our financial statements, are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Under the Pension Protection Act of 2006 (the “Pension Protection Act”), losses of asset values may necessitate increased funding of the plans in the future to meet minimum federal government requirements. Under the Pension Protection Act funding rules, our U.S. qualified pension plan is approximately 94% funded as of December 31, 2016. Any downward pressure on the asset values of these plans may require us to fund obligations earlier than we had originally planned, which would have a negative impact on cash flows from operations.
If we are unable to protect our intellectual property rights, our business may be adversely affected.
Our trademarks are important to our marketing efforts and have substantial value. We aggressively protect these trademarks from infringement and dilution through appropriate measures, including court actions and administrative proceedings. We are susceptible to others imitating our products and infringing our intellectual property rights. Infringement or counterfeiting of our products could diminish the value of our brands or otherwise adversely affect our business. Actions we have taken to establish and protect our intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to invalidate our trademarks or block sales of our products as a violation of the trademarks and intellectual property rights of others. In addition, unilateral actions in the United States or other countries, such as changes to or the repeal of laws recognizing trademark or other intellectual property rights, could have an impact on our ability to enforce those rights.
The value of our intellectual property could diminish if others assert rights in, or ownership of, our trademarks and other intellectual property rights. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, there may be trademark owners who have prior rights to our trademarks because the laws of certain foreign countries may not protect intellectual property rights to the same extent as do the laws of the United States. In other cases, there may be holders who have prior rights to similar trademarks. We are from time to time involved in opposition and cancellation proceedings with respect to some items of our intellectual property.
We design, manufacture, source and sell products under trademarks that are licensed from third parties. If any licensor takes actions related to their trademarks that would cause their brands or our company reputational harm, our business may be adversely affected.
We design, manufacture, source and sell a number of our products under trademarks that are licensed from third parties, such as our Polo Ralph Lauren men’s underwear and our Donna Karan and DKNY intimate apparel. Because we do not control the brands licensed to us, our licensors could make changes to their brands or business models that could result in a significant downturn in a brand’s business, adversely affecting our sales and results of operations. If any licensor engages in behavior with respect to the licensed marks that would cause us reputational harm, or if any of

the brands licensed to us violates the trademark rights of another or are deemed to be invalid or unenforceable, we could experience a significant downturn in that brand’s business, adversely affecting our sales and results of operations, and we may be required to expend significant amounts on public relations, advertising and, possibly, legal fees.

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Our balance sheet includes a significant amount of intangible assets and goodwill. A decline in the estimated fair value of an intangible asset or of a business unit could result in an asset impairment charge, which would be recorded as a noncash expense in our Consolidated Statement of Income.

Goodwill, trademarks and other identifiable intangible assets must be tested for impairment at least annually. The fair value of the goodwill assigned to a business unit could decline if projected revenues or cash flows were to be lower in the future due to effects of the global economy or other causes. If the carrying value of intangible assets or of goodwill were to exceed its fair value, the asset would be written down to its fair value, with the impairment loss recognized as a noncash charge in the Consolidated Statement of Income.

As of December 31, 2016, we had approximately $1.1 billion of goodwill and $1.3 billion of trademarks and other identifiable intangibles on our balance sheet, which together represent 35% of our total assets. No impairment was identified in 2016. Changes in the future outlook of a business unit could result in an impairment loss, which could have a material adverse effect on our results of operations and financial condition.

Our balance sheet includes a significant amount of deferred tax assets. We must generate sufficient future taxable income to realize the deferred tax benefits.

As of December 31, 2016, we had approximately $414 million of net deferred tax assets on our balance sheet, which represents approximately 6% of our total assets. Deferred tax assets relate to temporary differences (differences between the assets and liabilities in the consolidated financial statements and the assets and liabilities in the calculation of taxable income). The recognition of deferred tax assets is reduced by a valuation allowance if it is more likely than not that the tax benefits associated with the deferred tax benefits will not be realized. If we are unable to generate sufficient future taxable income in certain jurisdictions, or if there is a significant change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowances against our deferred tax assets, which would cause an increase in our effective tax rate. A significant increase in our effective tax rate could have a material adverse effect on our financial condition or results of operations.

We had approximately 67,800 employees worldwide as of December 31, 2016, and our business operations and financial performance could be adversely affected by changes in our relationship with our employees or changes to U.S. or foreign employment regulations.

We had approximately 67,800 employees worldwide as of December 31, 2016. This means we have a significant exposure to changes in domestic and foreign laws governing our relationships with our employees, including wage and hour laws and regulations, fair labor standards, minimum wage requirements, overtime pay, unemployment tax rates, workers' compensation rates, citizenship requirements and payroll taxes, which likely would have a direct impact on our operating costs. Approximately 60,000 of those employees were outside of the United States. A significant increase in minimum wage or overtime rates in countries where we have employees could have a significant impact on our operating costs and may require that we relocate those operations or take other steps to mitigate such increases, all of which may cause us to incur additional costs, expend resources responding to such increases and lower our margins.

In addition, approximately 35 of our employees in the United States and a significant number of our international employees are members of labor organizations or are covered by collective bargaining agreements. If there were a significant increase in the number of our employees who are members of labor organizations or become parties to collective bargaining agreements, we would become vulnerable to a strike, work stoppage or other labor action by these employees that could have an adverse effect on our business.

Anti-takeover provisions of our charter and bylaws, as well as Maryland law, may reduce the likelihood of any potential change of control or unsolicited acquisition proposal that you might consider favorable.

Our charter permits our Board of Directors, with the approval of a majority of the entire Board and without stockholder approval, to amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have the authority to issue. In addition, our Board of Directors may classify or reclassify any unissued shares of common stock or preferred stock and may set the preferences, conversion or other rights, voting powers and other terms of the classified or reclassified shares. Our Board of

Directors could establish a series of preferred stock that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. Our charter also provides that a director may be removed at any time, but only for cause, as defined in our charter, and then only by the affirmative vote of at least two thirds of the votes entitled to be cast generally in the election of directors. We have also elected to be subject to certain provisions of Maryland law that provide that any and all vacancies on our Board of Directors may only be filled by the affirmative vote of a majority of our remaining directors, even if they do not constitute a quorum, and that any director elected to fill a vacancy shall

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serve for the remainder of the full term of the directorship in which the vacancy occurred. Under Maryland law, our Board of Directors also is permitted, without stockholder approval, to implement a classified board structure at any time.

Our bylaws provide that nominations of persons for election to our Board of Directors and the proposal of business to be considered at a stockholders meeting may be made only in the notice of the meeting, by or at the direction of our Board of Directors or by a stockholder who is entitled to vote at the meeting and has complied with the advance notice procedures of our bylaws. Also, under Maryland law, business combinations between us and an interested stockholder or an affiliate of an interested stockholder, including mergers, consolidations, share exchanges or, in circumstances specified in the statute, asset transfers or issuances or reclassifications of equity securities, are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. An interested stockholder includes any person who beneficially owns 10% or more of the voting power of our stock or any affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our stock. A person is not an interested stockholder under the statute if our Board of Directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, our Board of Directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by our Board. After the five-year prohibition, any business combination between us and an interested stockholder generally must be recommended by our Board of Directors and approved by two supermajority votes or our common stockholders must receive a minimum price, as defined under Maryland law, for their shares. The statute permits various exemptions from its provisions, including business combinations that are exempted by our Board of Directors prior to the time that the interested stockholder becomes an interested stockholder.

These and other provisions of Maryland law or our charter and bylaws could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for our common stock or otherwise be considered favorably by our stockholders.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 1C. Executive Officers of the Registrant

The chart below lists our executive officers and is followed by biographical information about them. Each of our executive officers is elected annually by the Board of Directors to serve until his or her successor is elected and qualifies or until his or her death, resignation or removal. No family relationship exists between any of our directors or executive officers.

Name	Age	Positions
Gerald W. Evans, Jr.	57	Chief Executive Officer
Richard D. Moss	59	Chief Financial Officer
Joia M. Johnson	56	Chief Administrative Officer, General Counsel and Corporate Secretary
W. Howard Upchurch	52	Group President, Innerwear Americas
John T. Marsh	51	Group President, Global Activewear
Michael E. Faircloth	51	President, Chief Global Supply Chain and Information Technology Officer
Elizabeth L. Burger	46	Chief Human Resources Officer
M. Scott Lewis	46	Chief Accounting Officer and Controller

Gerald W. Evans, Jr. has served as the Chief Executive Officer of the Company since October 2016. From August 2013 until October 2016, Mr. Evans served as Chief Operating Officer of the Company. From October 2011 until August 2013, Mr. Evans served as Co-Chief Operating Officer of the Company. Prior to his appointment as Co-Chief Operating Officer, Mr. Evans served as our Co-Operating Officer, President International, from November 2010 until October 2011. From February 2009 until November 2010, he was our President, International Business and Global

Supply Chain. From February 2008 until February 2009, he served as our President, Global Supply Chain and Asia Business Development. From September 2006 until February 2008, he served as Executive Vice President, Chief Supply Chain Officer. From July 2005 until September 2006, Mr. Evans served as a Vice President of Sara Lee and as Chief Supply Chain Officer of Sara Lee Branded Apparel. Mr. Evans served as President and Chief Executive Officer of Sara Lee Sportswear and Underwear from March 2003 until June 2005 and as President and Chief Executive Officer of Sara Lee Sportswear from March 1999 to February 2003.

Richard D. Moss has served as our Chief Financial Officer since October 2011. Prior to his appointment as Chief Financial Officer, Mr. Moss served as the Company’s Chief Treasury and Tax Officer since December 2010, as a Senior Vice President since September 2006 and as Treasurer since June 2006. From January 2006 until the completion of the Company’s spin off from Sara Lee, Mr. Moss served as Treasurer of Sara Lee Branded Apparel. From August 2002 to December 2005, Mr. Moss served as Vice President and Chief Financial Officer of Chattem, Inc., a leading marketer and manufacturer of branded over-the-counter health-care products, toiletries and dietary supplements. Mr. Moss currently serves on the Board of Directors of Winnebago Industries, Inc., a leading U.S. recreational vehicle manufacturer.

Joia M. Johnson has served as our Chief Administrative Officer since October 2016 and as our General Counsel and Corporate Secretary since January 2007. Since 2007, Ms. Johnson has also served as our Chief Legal Officer. From May 2000 until January 2007, Ms. Johnson served as Executive Vice President, General Counsel and Corporate Secretary of RARE Hospitality International, Inc., an owner, operator and franchisor of national chain restaurants acquired by Darden Restaurants, Inc. in October 2007. Ms. Johnson currently serves on the Board of Directors of Crawford & Company, the world's largest independent provider of claims management solutions to the risk management and insurance industry.

W. Howard Upchurch has served as our Group President, Innerwear Americas (a position previously known as President, Innerwear) since January 2011. Prior to his appointment as Group President, Innerwear Americas, Mr. Upchurch served as our Executive Vice President and General Manager, Domestic Innerwear from January 2008 until December 2010 and as our Senior Vice President and General Manager, Intimate Apparel from July 2006 until December 2007. Prior to the completion of the Company's spin off from Sara Lee, Mr. Upchurch served as President of Sara Lee Intimates and Hosiery.

John T. Marsh has served as our Group President, Global Activewear (a position previously known as President, Activewear) since May 2011. Prior to his appointment as Group President, Global Activewear, Mr. Marsh served as our Activewear Group General Manager during April 2011, as our Senior Vice President and General Manager, Casualwear from January 2008 to March 2011, as our Vice President and General Manager, Casualwear from September 2007 to December 2007 and as our Vice President and General Manager, Imagewear from July 2006 to September 2007. Prior to the completion of the Company's spin off from Sara Lee, Mr. Marsh served as Vice President of Hanes Printables.

Michael E. Faircloth has served as our President, Chief Global Supply Chain and Information Technology Officer since 2014. From 2010 to 2014, he served as our Chief Global Operations Officer (a position previously known as President, Chief Global Supply Chain Officer). Prior to his appointment as Chief Global Operations Officer, Mr. Faircloth served as our Senior Vice President, Supply Chain Support from October 2009 to November 2010, as our Vice President, Supply Chain Support from March 2009 to September 2009 and as our Vice President of Engineering & Quality from July 2006 to March 2009. Prior to the completion of the Company's spin off from Sara Lee, Mr. Faircloth served as Vice President, Industrialization of Sara Lee.

Elizabeth L. Burger has served as our Chief Human Resources Officer since July 2013. Prior to joining the Company, Ms. Burger was Vice President, Global Business Operations for Monsanto Company, a global agricultural products company, since 2007. From 2006 to 2007, she was Vice President, Corporate Human Resources, and Chief of Staff to the Executive Vice President of Human Resources of Monsanto Company. She also served as Vice President, Compensation, from 2005 to 2006, and Vice President, Global Manufacturing, from 2002 to 2004, both at Monsanto Company. Ms. Burger held other human resource positions from 1994 to 2002.

M. Scott Lewis has served as the Company's Chief Accounting Officer and Controller since May 2015. Mr. Lewis joined the Company in 2006 as Director, External Reporting and was promoted in 2011 to Vice President, External Reporting, promoted in 2013 to Vice President, Financial Reporting and Accounting, and promoted in December 2013 to Vice President, Tax. Prior to joining the Company, Mr. Lewis served as senior manager with the accounting, audit and tax consulting firm KPMG.

Item 2. Properties

We own and lease properties supporting our administrative, manufacturing, distribution and direct outlet activities. As of December 31, 2016, we owned and leased properties in 42 countries, including 52 manufacturing facilities and 44 distribution centers, as well as office facilities. The leases for these properties expire between 2017 and 2057, with the exception of some seasonal warehouses that we lease on a month-by-month basis. As of December 31, 2016, we also operated 252 direct outlet stores in the United States and the Commonwealth of Puerto Rico and 460 retail and outlet stores internationally, most of which are leased under five-year, renewable lease agreements and several of which are leased under 10-year agreements. We believe that our facilities, as well as equipment, are in good condition and meet our current business needs.

We own our approximately 470,000 square-foot headquarters located in Winston-Salem, North Carolina, which houses our various sales, marketing and corporate business functions. Research and development as well as certain product-design functions also are located in Winston-Salem, while other design functions are located in a mix of leased and owned facilities in New York City and Lenexa, Kansas.

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Our products are 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 source the remainder of our finished goods from third party manufacturers who supply us with finished products based on our designs. Our most significant manufacturing facilities include an approximately 1.1 million square-foot owned facility located in San Juan Opico, El Salvador, an approximately 1.1 million square-foot owned facility located in Nanjing, China and an approximately 600,000 square-foot owned facility located in Bonao, Dominican Republic. We distribute our products from 44 distribution centers. These facilities include 15 facilities located in the United States and 29 facilities located outside the United States in regions where we manufacture our products. Our most significant distribution facilities include an approximately 1.3 million square-foot leased facility located in Perris, California, an approximately 900,000 square-foot leased facility located in Rural Hall, North Carolina and an approximately 700,000 square-foot owned facility located in Martinsville, Virginia.

The following table summarizes the properties primarily used by our segments as of December 31, 2016:

	Owned Square Feet	Leased Square Feet	Total
Properties by Segment (1)			
Innerwear	3,629,813	5,397,377	9,027,190
Activewear	2,458,519	2,812,656	5,271,175
Direct to Consumer	—	1,867,633	1,867,633
International	2,807,568	3,763,995	6,571,563
Totals	8,895,900	13,841,661	22,737,561

(1) Excludes vacant land, facilities under construction, facilities no longer in operation intended for disposal, facilities associated with discontinued operations, sourcing offices not associated with a particular segment, and office buildings housing corporate functions.

Item 3. Legal Proceedings

Although we are subject to various claims and legal actions that occur from time to time in the ordinary course of our business, we are not party to any pending legal proceedings that we believe could have a material adverse effect on our business, results of operations, financial condition or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for our Common Stock

Our common stock currently is traded on the New York Stock Exchange, or the "NYSE," under the symbol "HBI." We have not made any unregistered sales of our equity securities.

The following table sets forth the high and low sales prices for our common stock as reported by the NYSE for each quarter during the last two fiscal years. All per share amounts and number of shares presented below reflect the four-for-one stock split that was effected in the first quarter of fiscal 2015.

	High	Low
2016		
Quarter Ended April 2, 2016	$31.36	$23.25
Quarter Ended July 2, 2016	$30.42	$24.96
Quarter Ended October 1, 2016	$28.24	$24.14
Quarter Ended December 31, 2016	$27.07	$21.40
2015		
Quarter Ended April 4, 2015	$34.80	$26.28
Quarter Ended July 4, 2015	$34.78	$30.42
Quarter Ended October 3, 2015	$34.67	$26.32
Quarter Ended January 2, 2016	$33.24	$25.92

Holders of Record

On January 27, 2017, there were 17,940 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we are unable to determine the exact number of beneficial stockholders represented by these record holders, but we believe that there were approximately 150,211 beneficial owners of our common stock as of January 27, 2017.

Dividends

In 2014, our Board of Directors authorized regular quarterly cash dividends of $0.075 per share, which were paid in 2014.

In 2015, our Board of Directors increased our regular quarterly dividend rate to $0.10 per share on outstanding common stock, which were paid in 2015. In addition, we effected a four-for-one stock split in the form of a stock dividend to stockholders of record as of the close of business on February 9, 2015.

In January 2016, our Board of Directors increased our regular quarterly dividend rate to $0.11 per share on outstanding common stock. During the fiscal year, regular quarterly cash dividends of $0.11 per share were paid March 8, 2016, June 7, 2016, September 7, 2016 and December 6, 2016.

In January 2017, our Board of Directors declared a regular quarterly cash dividend of $0.15 per share on outstanding common stock to be paid on March 7, 2017 to stockholders of record at the close of business on February 14, 2017.

We intend to pay regular quarterly dividends on our outstanding common stock. However, there can be no assurance that future dividends will be declared and paid. The declaration and payment of future dividends, the amount of any such dividends, and the establishment of record and payment dates for dividends, if any, are subject to final determination by our Board of Directors after its review of general business conditions, our financial condition and results of operations, our capital requirements, our prospects and such other factors as our Board of Directors may deem relevant.

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Issuer Repurchases of Equity Securities

On April 27, 2016, the Company’s Board of Directors approved a new share repurchase program for up to 40 million shares to be repurchased in open market transactions, subject to market conditions, legal requirements and other factors. The new program replaces the Company’s previous share repurchase program for up to 40 million shares that was originally approved in 2007. During the year ended December 31, 2016, we repurchased 14.2 million shares under the previous share repurchase program at an average price of $26.65 per share, for a total cost of $380 million (none of which were purchased in the fourth quarter). At December 31, 2016, there remained 40 million shares available for future share repurchases under the new share repurchase program approved in 2016.

Performance Graph

The following graph compares the cumulative total stockholder return on our common stock with the comparable cumulative return of the S&P 500 Index and the S&P 1500 Apparel, Accessories & Luxury Goods Index. The graph assumes that $100 was invested in our common stock and each index on December 31, 2011. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

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Equity Compensation Plan Information

The following table provides information about our equity compensation plans as of December 31, 2016:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (1)
	(amounts in thousands, except per share data)		
Equity compensation plans approved by security holders	6,026	$ 15.61	17,544
Equity compensation plans not approved by security holders	—	—	—
Total	6,026	$ 15.61	17,544

(1) The amount appearing under "Number of securities remaining available for future issuance under equity compensation plans" includes 10,677 shares available under the Hanesbrands Inc. Omnibus Incentive Plan (As Amended and Restated) and 6,867 shares available under the Hanesbrands Inc. Employee Stock Purchase Plan of 2006.

Item 6. Selected Financial Data

The following table presents our selected historical financial data. The statement of income data for the years ended December 31, 2016, January 2, 2016 and January 3, 2015 and the balance sheet data as of December 31, 2016 and January 2, 2016 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The statement of income data for the years ended December 28, 2013 and December 29, 2012 and the balance sheet data as of January 3, 2015, December 28, 2013 and December 29, 2012 has been derived from our financial statements not included in this Annual Report on Form 10-K.

The data should be read in conjunction with our historical financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

	Years Ended				
	December 31, 2016	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012
	(amounts in thousands, except per share data)				
Statement of Income Data:					
Net sales	$6,028,199	$5,731,549	$5,324,746	$ 4,627,802	$ 4,525,721
Operating profit	775,649	595,118	563,954	515,186	440,115
Income from continuing operations	536,927	428,855	404,519	330,494	232,443
Income from discontinued operations, net of tax	2,455	—	—	—	(67,762)
Net income	$539,382	$428,855	$404,519	$ 330,494	$ 164,681
Earnings per share — basic:					

Continuing operations	$1.41	$1.07	$1.01	$ 0.83	$ 0.59
Discontinued operations	0.01	—	—	—	(0.17)
Net income	$1.41	$1.07	$1.01	$ 0.83	$ 0.42
Earnings per share — diluted:					
Continuing operations	$1.40	$1.06	$0.99	$ 0.81	$ 0.58
Discontinued operations	0.01	—	—	—	(0.17)
Net income	$1.40	$1.06	$0.99	$ 0.81	$ 0.41
Dividends per share	$0.44	$0.40	$0.30	$ 0.15	$ —

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	December 31, 2016 (in thousands)	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012
Balance Sheet Data:					
Cash and cash equivalents	$460,245	$319,169	$239,855	$ 115,863	$ 42,796
Working capital	1,695,498	1,413,958	1,067,753	1,047,625	986,169
Total assets	6,907,734	5,597,590	5,187,891	4,072,176	3,605,173
Noncurrent liabilities:					
Long-term debt	3,507,685	2,232,712	1,593,695	1,449,155	1,290,794
Other noncurrent liabilities	573,213	585,078	725,010	393,617	552,346
Total stockholders’ equity	1,223,914	1,275,891	1,386,772	1,230,623	886,866

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations, or MD&A, contains forward-looking statements that involve risks and uncertainties. Please see "Forward-Looking Statements" and "Risk Factors" in this Annual Report on Form 10-K for a discussion of the uncertainties, risks and assumptions associated with these statements. This discussion should be read in conjunction with our historical financial statements and related notes thereto and the other disclosures contained elsewhere in this Annual Report on Form 10-K. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods, and our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those listed under "Risk Factors" in this Annual Report on Form 10-K and included elsewhere in this Annual Report on Form 10-K.

This MD&A is a supplement to our financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K, and is provided to enhance your understanding of our results of operations and financial condition. Our MD&A is organized as follows:

- Overview. This section provides a general description of our Company and operating segments, business and industry trends, our key business strategies and background information on other matters discussed in this MD&A.
- 2016 Highlights. This section discusses some of the highlights of our performance and activities during 2016.
- Consolidated Results of Operations and Operating Results by Business Segment. These sections provide our analysis and outlook for the significant line items on our statements of income, as well as other information that we deem meaningful to an understanding of our results of operations on both a consolidated basis and a business segment basis.
- Liquidity and Capital Resources. This section provides an analysis of trends and uncertainties affecting liquidity, cash requirements for our business, sources and uses of our cash and our financing arrangements.
- Critical Accounting Policies and Estimates. This section discusses the accounting policies that we consider important to the evaluation and reporting of our financial condition and results of operations, and whose application requires significant judgments or a complex estimation process.
- Recently Issued Accounting Pronouncements. This section provides a summary of the most recent authoritative accounting pronouncements that we will be required to adopt in a future period.

Overview

Our Company

We are a consumer goods company with a portfolio of leading apparel brands, including Hanes, Champion, Maidenform, DIM, Bali, Playtex, Bonds, JMS/Just My Size, Nur Die/Nur Der, L'eggs, Lovable, Wonderbra, Flexees, Gear for Sports and Berlei. We design, manufacture, source and sell a broad range of basic apparel such as T-shirts, bras, panties, men's underwear, children's underwear, activewear, socks and hosiery. Our brands hold either the number one or number two market position by units sold in many product categories and geographies in which we compete.

Acquisitions

On June 30, 2016, we acquired Champion Europe S.p.A ("Champion Europe"), which owns the trademark for the Champion brand in Europe, the Middle East and Africa, from certain individual shareholders. The acquisition was an all-cash transaction valued at approximately €221 million on an enterprise value basis less working capital adjustments as defined in the agreement, which includes €41 million in estimated contingent consideration. The contingent consideration is based on 10 times Champion Europe's earnings before interest, taxes, depreciation and amortization ("EBITDA") for the calendar year 2016 and is payable in 2017. We funded the acquisition through a combination of cash on hand and borrowing under the 3.5% Senior Notes issued in June 2016. We believe combining the Champion business will create a unified platform to benefit from the global consumer growth trend for active apparel. The operating results of Champion Europe from the date of acquisition are included in the International segment.

On July 14, 2016, we acquired Pacific Brands Limited ("Hanes Australasia"), a leading underwear and intimate apparel company in Australia with a portfolio of strong brands including Bonds, Australia's top brand of Underwear, babywear and socks, and Berlei, a leading sports bra brand and leading seller of premium bras in departments stores, for a total purchase price of AUD$1,049 million (approximately $801 million based on acquisition date exchange rates). The acquisition was funded through a combination of cash on hand, a portion of the net proceeds from the 3.5% Senior Notes issued in June 2016 and borrowings under the Australian Term A-1 Loan Facility and the Australian Term A-2 Loan Facility. We believe the acquisition will create growth opportunities by adding to our portfolio of leading innerwear brands supported by our global low-cost supply chain and manufacturing network. The operating results of Hanes Australasia from the date of acquisition are included in the International segment.

In September 2016, we completed two immaterial acquisitions of It's Greek to Me, Inc. and GTM Retail, Inc. ("GTM") and Universo Sport S.p.A ("Universo"). The acquisitions will extend our domestic presence in the custom decorated teamwear and fanware apparel space into the high school channel and expand our retail platform in Italy, respectively. Total consideration paid for both acquisitions totaled approximately $24 million and was funded with cash on hand and short term borrowings under the Revolving Loan Facility.

We incurred $186 million of charges in 2016 related to acquisition, integration and other action related costs. Our current estimate for pretax charges in 2017 for acquisition, integration and other actions is approximately $80 million to $90 million.

Our Segments

Our operations are managed and reported in four operating segments, each of which is a reportable segment for financial reporting purposes: Innerwear, Activewear, Direct to Consumer and International. These segments are organized principally by product category, geographic location and distribution channel. Each segment has its own management that is responsible for the operations of the segment's businesses, but the segments share a common supply chain and media and marketing platforms. As a result of a shift in management responsibilities, we decided in the first quarter of 2016 to move our wholesale e-commerce business, which sells products directly to retailers, from our Direct to Consumer segment into the respective Innerwear and Activewear segments. Prior year segment sales and operating profit results have been revised to conform to the current year presentation. The reportable segments are as follows:

- Innerwear sells basic branded products that are replenishment in nature under the product categories of intimate apparel, men's underwear, panties, children's underwear, socks and hosiery.
- Activewear sells basic branded products that are primarily seasonal in nature to both retailers and wholesalers, as well as licensed sports apparel and licensed logo apparel in collegiate bookstores, mass retailers and other channels.
- Direct to Consumer includes our Company-operated outlet stores and website operations that sell our branded products directly to consumers.
- International primarily relates to the Europe, Australia, Asia, Latin America and Canada geographic locations that sell products that span across the Innerwear and Activewear reportable segments.

Outlook for 2017

We expect 2017 net sales of $6.45 billion to $6.55 billion.

Interest and other expenses are expected to be approximately $175 million, combined.

We estimate our 2017 full-year tax rate to be comparable with 2016, assuming no changes to U.S. tax law and policy.

We expect cash flow from operations to be in the range of $625 million to $725 million. We expect capital expenditures of approximately $90 million to $100 million. We expect share repurchases of approximately $300 million.

Business and Industry Trends

Inflation and Changing Prices

Cotton is the primary raw material used in manufacturing many of our products. While we do not own yarn operations, we are still exposed to fluctuations in the cost of cotton. Increases in the cost of cotton can result in higher costs in the price we pay for yarn from our large-scale yarn suppliers and may result in the need to implement future price increases in order to maintain our margins. Decreases in cotton prices can lead to lower margins for inventory and products produced from cotton we have already purchased, particularly if there is downward price pressure as a result of consumer demand, competition or other factors.

Our costs for cotton yarn and cotton-based textiles vary based upon the fluctuating cost of cotton, which is affected by, among other factors, weather, consumer demand, speculation on the commodities market, the relative valuations and fluctuations of the currencies of producer versus consumer countries and other factors that are generally unpredictable and beyond our control. We are able to lock in the cost of cotton reflected in the price we pay for yarn from our primary yarn suppliers in an attempt to protect our business from the volatility of the market price of cotton.

Under our agreements with these suppliers, we have the ability to periodically fix the cotton cost component of our yarn purchases. When we elect to fix the cotton cost component under these agreements, interim fluctuations in the price of cotton do not impact the price we pay for the specified volume of yarn. The yarn suppliers bear the risk of cotton fluctuations for the yarn volume specified and it is their responsibility to procure the cotton at the agreed upon pricing through arrangements they make with their cotton suppliers. However, our business can be affected by dramatic movements in cotton prices. The cost of cotton used in goods manufactured by us represented only approximately 4% of our cost of sales in 2016. Costs incurred today for materials and labor, including cotton, typically do not impact our results until the inventory is sold approximately six to nine months later.

Inflation can have a long-term impact on us because increasing costs of materials and labor may impact our ability to maintain satisfactory margins. For example, the cost of the materials that are used in our manufacturing process, such as oil-related commodities and other raw materials, such as dyes and chemicals, and other costs, such as fuel, energy and utility costs, can fluctuate as a result of inflation and other factors. Costs incurred for materials and labor are capitalized into inventory and impact our results as the inventory is sold. In addition, a significant portion of our products are manufactured in countries other than the United States and declines in the value of the U.S. dollar may result in higher manufacturing costs. Increases in inflation may not be matched by rises in consumer income, which also could have a negative impact on spending.

Other Business and Industry Trends

The basic apparel market is highly competitive and evolving rapidly. Competition is generally based upon brand name recognition, price, product quality, selection, service and purchasing convenience. 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. Our businesses face competition from other large corporations and foreign manufacturers, as well as smaller companies, department stores, specialty stores and other retailers that market and sell basic apparel products under private labels that compete directly with our brands.

Our top 10 customers accounted for 52% of our net sales. Our largest customers in 2016 were Wal-Mart and Target, which accounted for 20% and 15% of total sales, respectively. The increasing bargaining power of retailers can create pricing pressures as our customers grow larger and seek greater concessions in their purchase of our products, while also demanding exclusivity of some of our products. To counteract these effects, it has become increasingly important to leverage our national brands through investment in our largest and strongest brands as our customers strive to maximize their performance especially in today's challenging economic environment. Brands are important in our core categories to drive traffic and project the quality and value our customers demand.

Consumers are increasingly embracing shopping online and through mobile commerce applications. As a result, an increasing portion of our revenue across all channels is being generated online and through mobile commerce applications. We are continuing to develop and expand our omnichannel capabilities to allow a consumer to use more than one channel when making a purchase, including in-store, at one of our retail or outlet stores or those of our retail partners, online or with a mobile device, through one of our branded websites, the website of one of our retail partners, or an online pureplay, such as Amazon. In addition to broadening our assortment of product offerings across all online channels, we are also increasing the proportion of our media budget dedicated to digital marketing.

Foreign Exchange Rates

Changes in exchange rates between the U.S. Dollar and other currencies can impact our financial results in two ways; a translation impact and a transaction impact. The translation impact refers to the impact that changes in exchange rates can have on our published financial results. Similar to many multi-national corporations that publish financial results in U.S. Dollars, our revenue and profit earned in local foreign currencies is translated back into U.S. Dollars using an average exchange rate over the representative period. A period of strengthening in the U.S. Dollar results in a negative impact to our published financial results (because it would take more units of a local currency to convert into a dollar). The opposite is true during a period of weakening in the U.S. Dollar. Our biggest foreign currency exposure is the euro.

The transaction impact on financial results is common for apparel companies that source goods because these goods are purchased in U.S. Dollars. The transaction impact from a strengthening dollar would be negative to our financial results (because the U.S. Dollar-based costs would convert into a higher amount of local currency units, which means a higher local-currency cost of goods, and in turn, a lower local-currency gross profit). The transaction impact from exchange rates is typically recovered over time with price increases. However, during periods of rapid change in exchange rates; pricing is unable to change quickly enough, therefore we hedge against our sourcing costs to minimize our exposure to fluctuating exchange rates.

Our Key Business Strategies

Our Innovate-to-Elevate strategy integrates our brand superiority, industry-leading innovation and low-cost supply chain to provide higher valued products while lowering production costs.

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The first element of our Innovate-to-Elevate strategy is our brand power. We seek to drive modest sales growth by consistently offering consumers brands they trust and products with unsurpassed value. Our brands have a strong heritage in the basic apparel industry. Our brands hold either the number one or number two U.S. market position by units sold in most product categories in which we compete. Internationally, our commercial markets include Europe, Australia, Japan, Canada, Mexico and Brazil, where a substantial amount of gross domestic product growth outside the United States will be concentrated over the next decade. 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 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. We also support our key brands with targeted, effective advertising and marketing campaigns.

The second element of our Innovate-to-Elevate strategy is platform 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. Once we have identified these trends, we utilize a disciplined big-idea process to put more science into the art of apparel. Our approach to innovation is to focus on big platforms. Our Tagless apparel platform, ComfortFlex Fit bra platform, ComfortBlend fabric platform, temperature-control X-Temp fabric platform and FreshIQ advanced odor protection technology fabric platform incorporate big-idea innovation to span brands, product categories, business segments, retailer and distribution channels and geographies. We are focused on driving innovation that is margin accretive and that can leverage our supply chain in order to drive further economies of scale.

The third element of our Innovate-to-Elevate strategy is our low-cost global supply chain. We seek to expand margins through optimizing our low-cost global supply chain and streamlining our operations to reduce costs. We believe that we are able to leverage our significant scale of operations to provide us with greater manufacturing efficiencies, purchasing power and product design, marketing and customer management resources than our smaller competitors. Our global supply chain spans across both the Western and Eastern hemispheres and provides us with a 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. Our global supply chain enables us to expand and leverage our production scale as we balance our supply chain across hemispheres, thereby diversifying our production risks. We have generated significant cost savings, margin expansion and contributions to cash flow and should continue to do so as we further optimize our size, scale and production capability.

We seek to effectively generate strong cash flow through optimizing our capital structure and managing working capital levels. Our capital allocation strategy is to effectively deploy our significant, consistent cash flow to generate the best long-term returns for our shareholders. Our goal is to use our cash flow to fund capital investments and dividends, leverage debt for acquisitions and use excess cash flow for share repurchases.

Seasonality and Other Factors

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

Although the majority of our products are replenishment in nature and tend to be purchased by consumers on a planned, rather than on an impulse, basis, our sales are impacted by discretionary spending by consumers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, taxation, gasoline prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside our control. Consumers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. These consumers may choose to purchase fewer of our products or to purchase lower-priced products of our competitors in response to higher prices for our products, or may choose not to purchase our products at prices that reflect our price increases that become effective from time to time.

Changes in product sales mix can impact our gross profit as the percentage of our sales attributable to higher margin products, such as intimate apparel and men's underwear, and lower margin products, such as activewear, fluctuate from time to time. In addition, sales attributable to higher and lower margin products within the same product category fluctuate from time

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to time. Our customers may change the mix of products ordered with minimal notice to us, which makes trends in product sales mix difficult to predict. However, certain changes in product sales mix are seasonal in nature, as sales of socks, hosiery and fleece products generally have higher sales during the last two quarters (July to December) of each fiscal year as a result of cooler weather, back-to-school shopping and holidays, while other changes in product mix may be attributable to customers' preferences and discretionary spending.

Tax Expense

As a global company, we are subject to income taxes and file income tax returns in more than 100 U.S. and foreign jurisdictions each year. Almost every foreign jurisdiction in which we operate has a lower effective income tax rate than the U.S. For the year ended December 31, 2016, a substantial majority of our foreign income was earned by our manufacturing and sourcing operations in El Salvador, Hong Kong, Dominican Republic and Thailand. The relatively lower effective tax rates in these jurisdictions as a result of favorable local tax regimes and various free trade zone agreements significantly reduced our consolidated effective tax rate. While we are not currently aware of any material trends in these jurisdictions that are likely to impact our current or future tax expense, our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries where we have lower effective tax rates and higher than anticipated in countries where we have higher effective tax rates, or by changes in tax laws or regulations.

In addition, future acquisitions may affect the proportion of our pre-tax income from foreign jurisdictions, both due to external sales and also increased volume in our self-owned supply chain. At the same time, a significant amount of the acquisition and integration costs (such as legal fees, bank fees and consulting fees) associated with these acquisitions is generally incurred in the U.S., which may decrease domestic taxable income. We follow a disciplined acquisition strategy focused on acquisitions that meet strict criteria for strong likely returns with relatively low risk. It is difficult to predict whether or when such acquisitions will occur and whether the acquisition targets will be foreign or domestic. Therefore, it is also difficult to predict the effect of acquisitions on the future distribution of our pre-tax income.

We maintain intercompany transfer pricing agreements governing sales within our self-owned supply chain, which can impact the amount of pre-tax income we recognize in foreign jurisdictions. In compliance with applicable tax laws, we regularly review the terms of these agreements utilizing independent third-party transfer pricing studies to ensure that intercompany pricing is consistent with what a seller would charge an independent, arm's length customer, or what a buyer would pay an independent, arm's length supplier. Therefore, changes in intercompany pricing are often driven by market conditions, which are also difficult to predict.

We regularly assess any significant exposure associated with increases in effective tax rates, and adjustments are made as events occur that warrant adjustment to our tax provisions. See "Risk Factors - We have a complex multinational tax structure, and changes in effective tax rates or adverse outcomes resulting from examination of our income tax returns could impact our capital deployment strategy and adversely affect our results."

2016 Highlights

- Net sales in 2016 were $6.0 billion, compared with $5.7 billion in 2015, representing a 5% increase.
- Operating profit was $776 million in 2016 compared with $595 million in 2015, representing a 30% increase. As a percent of sales, operating profit was 12.9% in 2016 compared to 10.4% in 2015. Included within operating profit were acquisition, integration and other action related charges of $139 million and $266 million in 2016 and 2015, respectively.
- Diluted earnings per share was $1.40 in 2016, compared with $1.06 in 2015, representing a 32% increase.
- Operating cash flows were $606 million in 2016 compared to $227 million in 2015.
- Our Board of Directors approved a new share repurchase program which authorizes us to purchase up to 40 million shares of our common stock. The new program replaces the previous share repurchase authorization for up to 40 million that was originally approved in 2007. During 2016, we purchased, as part of our cash deployment strategy, approximately 14.2 million shares of our common stock under the previous program for approximately $380 million at a weighted average cost per share of $26.65.

- We refinanced our debt structure during the second quarter of 2016 by redeeming our $1.0 billion 6.375% Senior Notes and issuing $900 million in each of two series of Senior Notes at 4.625% and 4.875% due in 2024 and 2026, respectively. In addition, we issued €500 million in Senior Notes at 3.5% due in 2024. The refinancing reduced interest rates, increased our borrowing capacity, shifted our capital structure towards more fixed rate debt and helped to fund acquisitions.

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- We acquired Champion Europe on June 30, 2016. The acquisition, combined with Champion brand rights previously owned, unites the Champion brand globally and gives us a powerful platform for growth on every continent.
- We acquired Hanes Australasia on July 14, 2016. Hanes Australasia is a leading underwear and intimate apparel company in Australia with a portfolio of strong brands including Bonds, Australia's top brand of underwear, babywear and socks, and Berlei, a leading sports bra brand and leading seller of premium bras in department stores.
- As part of our acquisition of Hanes Australasia, we acquired the Dunlop Flooring and Tontine Pillow businesses. These businesses were deemed by management to not be a strategic fit and therefore, the decision was made to divest of the businesses. On December 15, 2016, we entered into two definitive agreements to sell the Dunlop Flooring and Tontine Pillow businesses as planned. On February 1, 2017, we completed the sale of the Dunlop Flooring business. The sale of the Tontine Pillow business is expected to be completed in the first quarter of 2017. The aforementioned businesses are classified as assets held for sale and presented as discontinued operations.
- As part of our cash deployment strategy, we initiated four quarterly dividends, in March, June, September and December, of $0.11 per share.

Consolidated Results of Operations — Year Ended December 31, 2016 ("2016") Compared with Year Ended January 2, 2016 ("2015")

	Years Ended			
	December 31, 2016	January 2, 2016	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$6,028,199	$5,731,549	$296,650	5.2 %
Cost of sales	3,752,151	3,595,217	156,934	4.4
Gross profit	2,276,048	2,136,332	139,716	6.5
Selling, general and administrative expenses	1,500,399	1,541,214	(40,815)	(2.6)
Operating profit	775,649	595,118	180,531	30.3
Other expenses	51,758	3,210	48,548	NM
Interest expense, net	152,692	118,035	34,657	29.4
Income from continuing operations before income tax expense	571,199	473,873	97,326	20.5
Income tax expense	34,272	45,018	(10,746)	(23.9)
Income from continuing operations	536,927	428,855	108,072	25.2
Income from discontinued operations, net of tax	2,455	—	2,455	NM
Net income	$539,382	$428,855	$110,527	25.8 %

Net Sales

Higher net sales primarily due to the following:

- Incremental net sales of approximately $435 million from businesses acquired in 2016, primarily Hanes Australasia and Champion Europe;
- Acquisition of Knights Apparel in April 2015, which added an incremental $21 million of net sales in 2016; and
- Continued growth in the Activewear segment within our college bookstore business and Champion sales within the mass merchant channel.

Partially offset by:

- Lower sales in the Innerwear segment due to a slower than expected retail environment and continued decline in Hosiery sales;
- Lower net sales in our Activewear segment in the sporting goods and mid-tier department store channels, primarily due to certain sporting goods retailer bankruptcies; and
- Lower net sales in our Direct to Consumer segment due to slower traffic at our outlet stores and the planned exit of our legacy catalog business and removal of non-core product offerings to a more focused branded store and Internet strategy.

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Gross Profit

The increase in gross profit was attributable to results obtained from our recent acquisitions of Hanes Australasia and Champion Europe in 2016, as well as supply chain efficiencies, reduced acquisition, integration and other action related costs, and synergies recognized from the integration of our acquisitions, partially offset by costs associated with our inventory reduction related efforts and unfavorable product sales mix within the Activewear segment. Included within gross profit are charges of approximately $39 million and $63 million related to acquisition, integration and other action related costs in 2016 and 2015, respectively.

Selling, General and Administrative Expenses

As a percentage of net sales, our selling, general and administrative expenses were 24.9% in 2016 compared to 26.9% in 2015. Included in selling, general and administrative expenses were charges of $99 million and $203 million of acquisition, integration and other action related costs in 2016 and 2015, respectively. The lower selling, general and administrative expenses, as a percentage of sales, resulted from the decrease in acquisition, integration and other action related costs, synergy benefits from the integration of prior acquisitions, planned reduction of our catalog distribution and continued cost control, partially offset by higher proportion of selling, general and administrative expenses for the recently acquired entities, primarily Hanes Australasia and Champion Europe.

Other Highlights

Other Expense – higher by $49 million in 2016 compared to 2015 primarily due to costs associated with the redemption of our 6.375% Senior Notes, which included a call premium and write-off of unamortized costs.

Interest Expense – higher by $35 million in 2016 compared to 2015 primarily due to higher debt balances to help fund acquisitions and share repurchases, partially offset by a lower average interest rate. Our weighted average interest rate on our outstanding debt was 3.64% during 2016, compared to 3.75% during 2015.

Income Tax Expense – our effective income tax rate was 6.0% and 9.5% in 2016 and 2015, respectively. The lower effective income tax rate was primarily attributable to a lower proportion of earnings attributed to domestic subsidiaries, which are taxed at rates higher than foreign subsidiaries. Income tax expense also benefited from the adoption of new accounting rules related to accounting for stock compensation, which required excess tax benefits and deficiencies to be recognized in income as they occur.

Discontinued Operations – the results of our discontinued operations include the operations of two businesses, Dunlop Flooring and Tontine Pillow, purchased in the Hanes Australasia acquisition.

Operating Results by Business Segment — Year Ended December 31, 2016 (“2016”) Compared with Year Ended January 2, 2016 (“2015”)

	Net Sales		Operating Profit	
	Years Ended		Years Ended	
	December 31, 2016	January 2, 2016	December 31, 2016	January 2, 2016
	(dollars in thousands)			
Innerwear	$2,609,754	$2,680,981	$588,265	$623,412
Activewear	1,570,972	1,576,724	227,535	246,508
Direct to Consumer	315,560	341,207	5,564	15,859
International	1,531,913	1,132,637	179,917	105,515
Corporate	—	—	(225,632)	(396,176)
Total	$6,028,199	$5,731,549	$775,649	$595,118

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Innerwear

	Years Ended December 31, 2016	January 2, 2016	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$2,609,754	$2,680,981	$(71,227)	(2.7)%
Segment operating profit	588,265	623,412	(35,147)	(5.6)

The lower net sales in our Innerwear segment primarily resulted from lower sales volume driven by a soft retail environment, inventory reductions at a large mass retailer and continued declines in Hosiery sales.

Decreased operating profit was driven by sales volume and costs associated with our inventory reduction related efforts, offset by continued cost control.

Activewear

	Years Ended December 31, 2016	January 2, 2016	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$1,570,972	$1,576,724	$(5,752)	(0.4)%
Segment operating profit	227,535	246,508	(18,973)	(7.7)

Activewear net sales decreased due to the following:

- Lower sales in the sporting goods and mid-tier department store channels primarily due to certain retailer bankruptcies;
- Lower sales in our Hanes Activewear business due to an expected loss of certain seasonal programs; and
- Lower Champion sales within the mid-tier channel in 2016, due to larger pipes to support space gains in 2015, which were not repeated in 2016.

Offset by:

- The acquisition of Knights Apparel in April 2015, which added an incremental $21 million of net sales in 2016;
- The acquisition of GTM in September 2016, which added an incremental $13 million of net sales;
- Champion growth within the mass retail channel; and
- Continued growth in our college bookstore business.

Operating profit decreased primarily as a result of unfavorable product sales mix and lower sales volume.

Direct to Consumer

	Years Ended December 31, 2016	January 2, 2016	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$315,560	$341,207	$(25,647)	(7.5)%
Segment operating profit	5,564	15,859	(10,295)	(64.9)

Direct to Consumer segment net sales were lower as a result of slower traffic at our outlet stores and the planned exit from our legacy catalog business and non-core product offerings in both our stores and Internet businesses. Operating profit decreased as a result of lower sales volume, partially offset by a reduction of reserves from the elimination of our customer rewards program and decreased catalog distribution costs.

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International

	Years Ended December 31, 2016	January 2, 2016	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$1,531,913	$1,132,637	$399,276	35.3 %
Segment operating profit	179,917	105,515	74,402	70.5

Net sales in the International segment were higher as a result of the following:

- Acquisitions of Hanes Australasia, Champion Europe and Champion Japan licensee; and
- Continued space gains in Asia within our Activewear product category.

Partially offset by:

- Unfavorable impact of foreign currency exchange rates of approximately $12 million; and
- The planned exit of small, low performing brands in Hanes Europe Innerwear.

International segment operating profit increased primarily due to the current year acquisitions, higher sales volume in Asia and cost synergies in our Hanes Europe Innerwear business, partially offset by foreign currency exchange rates.

Corporate

Corporate expenses were comprised primarily of certain administrative costs and acquisition, integration and other action related charges. Corporate expenses decreased in 2016 primarily from the reduction of acquisition, integration and other action related charges in 2016 compared to 2015. Acquisition and integration costs are expenses directly related to an acquisition and its integration into the organization. These costs include legal fees, consulting fees, bank fees, severance costs, certain purchase accounting items, facility closures, inventory write-offs, information technology costs and similar charges. Acquisition related currency transactions represent the foreign exchange gain from financing activities related to the Champion Europe and Hanes Australasia acquisitions. Foundational costs are expenses associated with building and realigning our enterprise-wide infrastructure to support global growth and future acquisitions, primarily consisting of technology spending. Other costs relate to other items not included in the aforementioned categories, primarily consisting of non-cash items related to the exit of the commercial sales organization in the China market in 2015. Maidenform acquisition and integration costs and Foundational costs were completed in 2015.

	Years Ended December 31, 2016	January 2, 2016
	(dollars in thousands)	
Acquisition and integration costs:		
Hanes Europe Innerwear	$79,003	$138,116
Hanes Australasia	30,783	—
Knights Apparel	29,056	14,789
Champion Europe	10,972	—
Other acquisitions	4,344	—
Maidenform	—	31,114
Acquisition related currency transactions	(15,639)	—
Total acquisition and integration costs	138,519	184,019
Foundational costs	—	47,786
Other costs	—	34,255
	$138,519	$266,060

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Consolidated Results of Operations — Year Ended January 2, 2016 (“2015”) Compared with Year Ended January 3, 2015 (“2014”)

	Years Ended January 2, 2016	January 3, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$5,731,549	$5,324,746	$406,803	7.6 %
Cost of sales	3,595,217	3,420,339	174,878	5.1
Gross profit	2,136,332	1,904,407	231,925	12.2
Selling, general and administrative expenses	1,541,214	1,340,453	200,761	15.0
Operating profit	595,118	563,954	31,164	5.5
Other expenses	3,210	2,599	611	23.5
Interest expense, net	118,035	96,387	21,648	22.5
Income from continuing operations before income tax expense	473,873	464,968	8,905	1.9
Income tax expense	45,018	60,449	(15,431)	(25.5)
Net income	$428,855	$404,519	$24,336	6.0 %

Net Sales

Higher net sales primarily due to the following:

- Incremental net sales of $445 million and $160 million, from our acquisitions of Hanes Europe Innerwear in August 2014 and Knights Apparel in April 2015, respectively;
- Growth in our Gear For Sports business within the college bookstore channel and Champion products in mid-tier, department and sporting goods stores; and
- Price increases and strong performance from our ComfortBlend, X-Temp and ComfortFlex Fit innovative platforms.

Offset by lower net sales resulting from:

- Impact from the 53rd week in 2014;
- The exit of a significant retailer in Canada;
- Lower shipments in our basics products driven by inventory adjustments at a major mass retailer;
- The impact of weather on retail traffic and seasonal product lines;
- The planned exit of certain acquired private label programs; and
- Unfavorable foreign currency exchange rates. Excluding this impact, consolidated net sales and International segment net sales increased 9% and 54%, respectively.

Gross Profit

The increase in gross profit was attributable to results obtained from our acquisitions of Hanes Europe Innerwear and Knights Apparel combined with our supply chain efficiencies, product pricing within our intimates business and favorable product mix within our Activewear segment. Included within gross profit are charges of approximately $63 million and $73 million related to acquisition, integration and other action related costs in 2015 and 2014, respectively.

Selling, General and Administrative Expenses

As a percentage of net sales, our selling, general and administrative expenses were 26.9% in 2015 compared to 25.2% in 2014. The higher selling, general and administrative expenses were attributable to charges of approximately $203 million related to acquisition, integration and other action related costs in 2015, compared to $126 million of acquisition, integration and other action related costs in 2014. Also included in 2015 were incremental selling, general and administrative costs of $190 million and $21 million related to Hanes Europe Innerwear and Knights Apparel, respectively. Exclusive of the impact of higher acquisition, integration and other action related costs and the purchase of Hanes Europe Innerwear and Knights Apparel, selling, general and administrative expenses were lower due to tight cost control and synergies gained from the Maidenform acquisition.

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Other Highlights

Interest Expense – higher by $22 million in 2015 compared to 2014 primarily due to higher debt balances related to the acquisition of Knights Apparel and our investment in working capital. Our weighted average interest rate on our outstanding debt was 3.75% during 2015 compared to 4.05% in 2014.

Income Tax Expense – our effective income tax rate was 9.5% and 13.0% for 2015 and 2014, respectively. The lower effective income tax rate was primarily attributable to income tax benefits of approximately $56 million recognized in 2015 resulting from the completion of the Internal Revenue Service audit examination of the 2011 and 2012 tax years and the remeasurement of certain unrecognized tax benefits. Offsetting these tax benefits, we elected to repatriate approximately $124 million of foreign earnings in 2015. In 2014, there were net discrete tax benefits of approximately $10 million primarily related to the realization of unrecognized tax benefits resulting from the lapsing of domestic and foreign statutes of limitations.

Operating Results by Business Segment — Year Ended January 2, 2016 (“2015”) Compared with Year Ended January 3, 2015 (“2014”)

	Net Sales Years Ended		Operating Profit Years Ended	
	January 2, 2016	January 3, 2015	January 2, 2016	January 3, 2015
	(dollars in thousands)			
Innerwear	$2,680,981	$2,735,268	$623,412	$579,882
Activewear	1,576,724	1,423,068	246,508	197,218
Direct to Consumer	341,207	368,202	15,859	28,468
International	1,132,637	798,208	105,515	92,496
Corporate	—	—	(396,176)	(334,110)
Total	$5,731,549	$5,324,746	$595,118	$563,954

Innerwear

	Years Ended			
	January 2, 2016	January 3, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$2,680,981	$2,735,268	$(54,287)	(2.0)%
Segment operating profit	623,412	579,882	43,530	7.5

The lower net sales in our Innerwear segment primarily resulted from the following:

- Lower shipments of basics products due to inventory adjustments at a major mass retailer;
- The 53rd week in 2014;
- Impact of weather resulting in weaker holiday traffic at stores; and
- The planned exit of certain acquired private label programs;

Offset by:

- Price increases and strong performance from our ComfortBlend, X-Temp and ComfortFlex Fit innovation platforms.

Margin expansion was driven by product pricing and favorable product mix driven by our innovative platforms.

Selling, general and administrative costs were lower in 2015 primarily due to tight cost control and continued synergies gained from the Maidenform acquisition.

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Activewear

	Years Ended			
	January 2, 2016	January 3, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$1,576,724	$1,423,068	$153,656	10.8 %
Segment operating profit	246,508	197,218	49,290	25.0

Activewear sales increased due to the following:

- Growth in our sports apparel business resulting from our acquisition of Knights Apparel in April 2015 and higher net sales by Gear for Sports in the college bookstore channel; and
- Higher net sales in our Champion branded product in the mid-tier and department stores channel and sporting goods stores;

Offset by:

- Lower net sales from the impact of weather on retail traffic and seasonal product lines.

Increase in operating profit was driven by our Knights Apparel acquisition, reduced costs as we insource certain products into our supply chain, favorable product mix and cost control.

Direct to Consumer

	Years Ended			
	January 2, 2016	January 3, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$341,207	$368,202	$(26,995)	(7.3)%
Segment operating profit	15,859	28,468	(12,609)	(44.3)

Direct to Consumer segment had lower net sales resulting from the 53rd week in 2014 and reduced consumer traffic in our outlet stores.

Direct to Consumer segment operating profit decreased primarily due to lower sales.

International

	Years Ended			
	January 2, 2016	January 3, 2015	Higher (Lower)	Percent Change
	(dollars in thousands)			
Net sales	$1,132,637	$798,208	$334,429	41.9 %
Segment operating profit	105,515	92,496	13,019	14.1

Sales in the International segment were higher as a result of the following:

- Incremental sales of Hanes Europe Innerwear products as a result of its acquisition in August 2014;
- Higher sales volume in Asia due to net space gains;

Offset by:

- $95 million unfavorable impact of foreign currency exchange rates; and
- The exit of a significant retailer in Canada.

International segment operating margin decreased primarily due to higher selling, general and administrative expenses associated with Hanes Europe Innerwear and unfavorable foreign currency exchange rates.

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Corporate

Corporate expenses were comprised primarily of certain administrative costs and acquisition, integration and other action related charges. Corporate expenses increased in 2015, primarily from higher acquisition, integration and other action related charges in 2015 compared to 2014. Acquisition and integration costs are expenses related directly to an acquisition and its integration into the organization. These costs include legal fees, consulting fees, bank fees, severance costs, certain purchase accounting items, facility closures, inventory write-offs, information technology costs and similar charges. Maidenform acquisition and integration costs were completed in 2015. Foundational costs are expenses associated with building and realigning our enterprise-wide infrastructure to support global growth and future acquisitions, primarily consisting of information technology spending. Foundational costs were completed in 2015. A significant majority of Other costs are non-cash and relate to the exit of our commercial sales organization in the China market. The main factors that drove the decision to exit the China market were primarily related to the fragmented underwear market and business practices for innerwear and activewear in China that were not conducive to our wholesale business model. Exiting China is immaterial to our consolidated financial results and to the International business.

	Years Ended	
	January 2, 2016	January 3, 2015
	(dollars in thousands)	
Acquisition and integration costs:		
Hanes Europe Innerwear	$138,116	$65,576
Maidenform	31,114	96,315
Knights Apparel	14,789	—
Total acquisition and integration costs	184,019	161,891
Foundational costs	47,786	5,110
Other costs	34,255	31,932
	$266,060	$198,933

Liquidity and Capital Resources

Trends and Uncertainties Affecting Liquidity

Our primary sources of liquidity are cash generated from global operations and cash available under our $1.0 billion Revolving Loan Facility, our $275 million Accounts Receivable Securitization Facility and our international loan facilities. Because we are a global company with diversified international operations, a significant portion of our revenues are generated by foreign subsidiaries whose associated earnings are expected to be permanently reinvested abroad. As of December 31, 2016, approximately $424 million of cash and cash equivalents on our consolidated balance sheet was held by foreign subsidiaries. Given the substantial nature of our foreign operations, we are able to use these undistributed foreign earnings abroad to fund capital expenditures and debt service costs for our international businesses. We also plan to use these undistributed earnings to fund future foreign acquisitions. Our domestic operations, together with the Revolving Loan Facility and the Accounts Receivable Securitization facility, provide sufficient cash flow to fund our cash needs domestically. Cash residing offshore is generally not needed to fund domestic needs. As of December 31, 2016, we had $994 million of borrowing availability under our Revolving Loan Facility (after taking into account outstanding letters of credit), $230 million of borrowing availability under our Accounts Receivable Securitization Facility, $189 million of borrowing availability under our international loan facilities, which includes our European Revolving Loan Facility, our Australian Revolving Loan Facility and other international notes payable and debt facilities, and $460 million in cash and cash equivalents. We currently believe that our existing cash balances and cash generated by operations, together with our available credit capacity, will enable us to comply with the terms of our indebtedness and meet foreseeable liquidity requirements.

The following have impacted or are expected to impact liquidity:

- we have principal and interest obligations under our debt;
- we acquired Knights Apparel in April 2015, Champion Europe in June 2016, Hanes Australasia in July 2016, and we may pursue strategic acquisitions in the future;
- we expect to continue to invest in efforts to improve operating efficiencies and lower costs;
- we made a $100 million contribution to our pension plans in January 2015 and a $40 million contribution in January 2016;
- we may increase or decrease the portion of the current-year income of our foreign subsidiaries that we remit to the United States, which could significantly impact our effective income tax rate;

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- our Board of Directors has authorized a regular quarterly dividend; and
- our Board of Directors has authorized the repurchase of up to 40 million shares under our newly authorized share repurchase program approved in 2016. Under our former share repurchase program originally approved in 2007, we repurchased 14.2 million shares in 2016 at a cost of $380 million and 12.1 million shares in 2015 for a cost of $352 million.

We typically use cash during the first half of the year and generate most of our cash flow in the second half of the year. We expect our cash deployment strategy in the future will include a mix of dividends, acquisitions and share repurchases.

Cash Requirements for Our Business

We rely on our cash flows generated from operations and the borrowing capacity under our credit facilities to meet the cash requirements of our business. The primary cash requirements of our business are payments to vendors in the normal course of business, capital expenditures, maturities of debt and related interest payments, business acquisitions, contributions to our pension plans, repurchases of our stock and regular quarterly dividend payments. We believe we have sufficient cash and available borrowings for our foreseeable liquidity needs.

Pension Plans

In January 2016, we made a voluntary contribution of $40 million to our pension plans. As a result of this contribution, our U.S. qualified pension plan is approximately 94% funded as of December 31, 2016 compared to 104% funded as of January 2, 2016, under the Pension Protection Act funding rules. We are not required to make any additional cash contributions to our pension plans in 2017 based on a preliminary calculation by our actuary. We may elect to make additional voluntary contributions during 2017 to maintain certain funded levels. See Note, “Defined Pension Benefit Plans,” to our financial statements for more information on the plan asset and pension expense components.

Share Repurchase Program

In April 2016, our Board of Directors approved a new share repurchase program for up to 40 million shares to be repurchased in open market transactions, subject to market conditions, legal requirements and other factors. The new program replaces our previous share repurchase program for up to 40 million shares that was originally approved in 2007. During 2016, we repurchased 14.2 million shares of our common stock under the previous program at a cost of $380 million (average price of $26.65). During 2015, we purchased 12.1 million shares of our common stock under the previous program at a cost of $352 million (average price of $28.91). At December 31, 2016, the remaining repurchase authorization totaled 40 million shares under the new share repurchase program approved in 2016.

The primary objective of our share repurchase program is to utilize excess cash flow to generate shareholder value. While we may repurchase additional stock under the program, we may choose not to repurchase any stock and focus more on other uses of cash in the next 12 months.

Dividends

In 2014, our Board of Directors declared dividends of $0.075 per share on outstanding common stock which were paid in 2014.

In January 2015, April 2015, July 2015 and October 2015, our Board of Directors declared dividends of $0.10 per share on outstanding common stock which were paid in 2015. In addition, the Board of Directors authorized a four-for-one stock split in the form of a 300% stock dividend, which was implemented on March 3, 2015 to stockholders of record at the close of business on February 9, 2015.

In January 2016, our Board of Directors increased our regular quarterly dividend rate to $0.11 per share on outstanding common stock. During our 2016 fiscal year, regular quarterly cash dividends of $0.11 per share were paid on March 8, 2016, June 7, 2016, September 7, 2016 and December 6, 2016.

In January 2017, our Board of Directors declared a regular quarterly cash dividend of $0.15 per share on outstanding common stock to be paid on March 7, 2017 to stockholders of record at the close of business on February 14, 2017.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements within the meaning of Item 303(a)(4) of SEC Regulation S-K.

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Future Contractual Obligations and Commitments

The following table contains information on our contractual obligations and commitments as of December 31, 2016, and their expected timing on future cash flows and liquidity.

	Payments Due by Period				
	At December 31, 2016	Fiscal 2017	Fiscal 2018-2019	Fiscal 2020-2021	Fiscal 2022 and Thereafter
	(dollars in thousands)				
Operating activities:					
Interest on debt obligations (1)	$759,158	$141,647	$270,931	$239,462	$107,118
Inventory purchase obligations	352,370	349,565	2,805	—	—
Operating lease obligations	561,688	130,971	210,806	112,293	107,618
Marketing and advertising obligations	34,428	28,256	6,172	—	—
Other long-term obligations (2)	375,284	117,246	173,256	62,115	22,667
Investing activities:					
Capital expenditures	12,250	12,250	—	—	—
Financing activities:					
Debt	3,732,583	178,364	356,121	558,857	2,639,241
Notes payable	56,396	56,396	—	—	—
Total	$5,884,157	$1,014,695	$1,020,091	$972,727	$2,876,644

(1) Interest obligations on floating rate debt instruments are calculated for future periods using interest rates in effect at December 31, 2016.

(2) Represents the projected payment for long-term liabilities recorded on the Consolidated Balance Sheet for certain employee benefit claims, royalty-bearing license agreement payments, deferred compensation and uncertain tax positions.

Funding contributions to our defined benefit pension plans are not included in the table above because it is uncertain whether or when further contributions will be required. We are not required to make any additional cash contributions to our pension plans in 2017 based on a preliminary calculation by our actuary. We may elect to make additional voluntary contributions during 2017 to maintain certain funded levels.

Sources and Uses of Our Cash

The information presented below regarding the sources and uses of our cash flows for the years ended December 31, 2016 and January 2, 2016 was derived from our financial statements.

	Years Ended	
	December 31, 2016	January 2, 2016
	(dollars in thousands)	
Operating activities	$605,607	$227,007
Investing activities	(966,641)	(276,800)
Financing activities	511,054	132,982
Effect of changes in foreign currency exchange rates on cash	(8,944)	(3,875)
Change in cash and cash equivalents	141,076	79,314
Cash and cash equivalents at beginning of year	319,169	239,855
Cash and cash equivalents at end of year	$460,245	$319,169

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Operating Activities

Our overall liquidity is primarily driven by our strong cash flow provided by operating activities, which is dependent on net income and changes in working capital. As compared to prior year, our operating cash increased in 2016 due to our increased profitability and changes in working capital, specifically related to our inventory reduction efforts and a smaller voluntary pension contribution in 2016 of $40 million compared to $100 million in 2015.

Investing Activities

The higher net cash used for investing activities was primarily the result of our acquisitions of Hanes Australasia and Champion Europe, partially offset by lower capital spending and increased cash proceeds from sale of assets in 2016 compared to 2015, which is primarily the result of cash receipts of $66 million towards an anticipated sale leaseback transaction of one of our manufacturing facilities.

Financing Activities

The higher net cash from financing activities was primarily the result of the issuance of our three Senior Notes in 2016 and incurrence of debt under our Australia term loan facilities, offset by lower net borrowing on our other credit facilities and higher share repurchases in 2016.

Financing Arrangements

We believe our financing structure provides a secure base to support our operations and key business strategies. As of December 31, 2016, we were in compliance with all financial covenants under our credit facilities and other outstanding indebtedness discussed below. We continue to monitor our covenant compliance carefully in this difficult economic environment. We expect to maintain compliance with our covenants during 2017, however economic conditions or the occurrence of events discussed above under “Risk Factors” could cause noncompliance.

We have significant liquidity from our available cash balances and credit facilities. We maintain a senior secured credit facility (the “Senior Secured Credit Facility”), which includes a Revolving Loan Facility of $1.0 billion and an AUD$65 million Australian revolving loan facility (the “Australian Revolver”). Our Accounts Receivable Securitization Facility provides additional funding (varying availability throughout the year) accounted for as a secured borrowing, limited to the availability of eligible receivables, and is secured by certain domestic trade receivables. We have also established a €100 million European revolving loan facility (the “European Revolver”). As of December 31, 2016, we had $994 million of borrowing availability under of our Revolving Loan Facility (after taking into account outstanding letters of credit), $230 million of borrowing availability under our Accounts Receivable Securitization Facility, $42 million of borrowing availability under our Australian Revolver, $42 million of borrowing availability under our European Revolver and $25 million of borrowing availability under other international debt facilities. Refer to Note, “Debt”, for a complete overview of our credit facilities.

Notes Payable

Notes payable were $56 million at December 31, 2016 and $118 million at January 2, 2016. At December 31, 2016, we had $80 million of borrowing availability under our international notes payable facilities.

Undistributed Earnings from Foreign Subsidiaries

Our primary sources of liquidity are cash generated from global operations and cash available under our $1.0 billion Revolving Loan Facility, our Accounts Receivable Securitization Facility and our international loan facilities. Because we are a global company with diversified international operations, a significant portion of our revenues are generated by foreign subsidiaries whose associated earnings are expected to be permanently reinvested abroad. As of December 31, 2016, the cumulative amount of undistributed earnings from our foreign subsidiaries was approximately $3.3 billion, of which $410 million of cash and cash equivalents was held by foreign subsidiaries whose undistributed earnings are considered permanently reinvested and $14 million of cash and cash equivalents was held by foreign subsidiaries whose undistributed earnings are not considered permanently reinvested. Given the substantial nature of our foreign operations, we are able to use these undistributed foreign earnings abroad to fund capital expenditures and debt service costs for our international businesses. We also plan to use these undistributed earnings to fund future foreign acquisitions. Our domestic operations, together with the Revolving Loan Facility and the Accounts Receivable Securitization facility, provide sufficient cash flow to fund our cash needs domestically. Cash residing offshore is generally not needed to fund our cash needs domestically. As of December 31, 2016, we had $994 million of borrowing availability under the Revolving Loan Facility, $230 million of borrowing availability under the Accounts Receivable Securitization Facility and $189 million of borrowing availability under our international loan

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facilities. We reassess our reinvestment assertions each reporting period and currently believe that we have sufficient other sources of liquidity to support our assertion that such undistributed earnings held by foreign subsidiaries may be considered to be reinvested permanently.

We repatriated $174 million, $124 million and $15 million in 2016, 2015 and 2014, respectively, from earnings generated in such years. The amount of the current year foreign earnings that we have repatriated in the past has been determined, and the amount that we expect to repatriate during 2017 will be determined, based upon a variety of factors including current year earnings of the foreign subsidiaries, foreign investment needs and the cash flow needs we have in the U.S., such as for the repayment of debt and other domestic obligations. The majority of our repatriation of the earnings of foreign subsidiaries has historically occurred at year-end, although we may always repatriate funds earlier in the year based on the needs of our business. When we repatriate funds to the U.S., we are required to pay taxes on these amounts based on applicable U.S. tax rates, net of any foreign tax that would be allowed to be deducted or taken as a credit against U.S. income tax. There was a cost of $56 million, $43 million and $1 million in additional U.S. federal income taxes in 2016, 2015 and 2014, respectively, as a result of repatriation of foreign earnings generated in such years.

Critical Accounting Policies and Estimates

We have chosen accounting policies that we believe are appropriate to accurately and fairly report our operating results and financial condition in conformity with accounting principles generally accepted in the United States. We apply these accounting policies in a consistent manner. Our significant accounting policies are discussed in Note, “Summary of Significant Accounting Policies,” to our financial statements.

The application of critical accounting policies requires that we make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. These estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. We evaluate these estimates and assumptions on an ongoing basis and may retain outside consultants to assist in our evaluation. If actual results ultimately differ from previous estimates, the revisions are included in results of operations in the period in which the actual amounts become known. The critical accounting policies that involve the most significant management judgments and estimates used in preparation of our financial statements, or are the most sensitive to change from outside factors, are described below:

Sales Recognition and Incentives

We recognize revenue when (i) there is persuasive evidence of an arrangement, (ii) the sales price is fixed or determinable, (iii) title and the risks of ownership have been transferred to the customer and (iv) collection of the receivable is reasonably assured, which occurs primarily upon shipment. We record provisions for any uncollectible amounts based upon our historical collection statistics and current customer information. Our management reviews these estimates each quarter and makes adjustments based upon actual experience.

Note, “Summary of Significant Accounting Policies” (d), “Summary of Significant Accounting Policies — Sales Recognition and Incentives,” to our financial statements describes a variety of sales incentives that we offer to resellers and consumers of our products. Measuring the cost of these incentives requires, in many cases, estimating future customer utilization and redemption rates. We use historical data for similar transactions to estimate the cost of current incentive programs. Our management reviews these estimates each quarter and makes adjustments based upon actual experience and other available information. We classify the costs associated with cooperative advertising as a reduction of “Net sales” in our Consolidated Statements of Income.

Accounts Receivable Valuation

Accounts receivable consist primarily of amounts due from customers. We carry our accounts receivable at their net realizable value. In determining the appropriate allowance for doubtful accounts, we consider a combination of factors, such as the aging of trade receivables, industry trends, and our customers’ financial strength, credit standing and payment and default history. Changes in the aforementioned factors, among others, may lead to adjustments in our allowance for doubtful accounts. The calculation of the required allowance requires judgment by our management as to the impact of these and other factors on the ultimate realization of our trade receivables. Charges to the allowance for doubtful accounts are reflected in the “Selling, general and administrative expenses” line and charges to the allowance for customer chargebacks and other customer deductions are primarily reflected as a reduction in the “Net sales” line of our Consolidated Statements of Income. Our management reviews these estimates each quarter and makes adjustments based upon actual experience. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a large reserve might be required. The amount of actual historical losses has not varied materially from our estimates for bad debts.

Inventory Valuation

We carry inventory on our balance sheet at the estimated lower of cost or market. Cost is determined by the first-in, first-out, or "FIFO," method for our inventories. We carry obsolete, damaged and excess inventory at the net realizable value, which we determine by assessing historical recovery rates, current market conditions and our future marketing and sales plans. Because our assessment of net realizable value is made at a point in time, there are inherent uncertainties related to our value determination. Market factors and other conditions underlying the net realizable value may change, resulting in further reserve requirements. A reduction in the carrying amount of an inventory item from cost to market value creates a new cost basis for the item that cannot be reversed at a later period. While we believe that adequate write-downs for inventory obsolescence have been provided in the financial statements, consumer tastes and preferences will continue to change and we could experience additional inventory write-downs in the future.

Rebates, discounts and other cash consideration received from a vendor related to inventory purchases are reflected as reductions in the cost of the related inventory item, and are therefore reflected in cost of sales when the related inventory item is sold.

Income Taxes

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the income tax basis of our assets and liabilities, as well as for realizable operating loss and tax credit carryforwards, at tax rates in effect for the years in which the differences are expected to reverse. Realization of deferred tax assets is dependent on future taxable income in specific jurisdictions, the amount and timing of which are uncertain, and on possible changes in tax laws and tax planning strategies. If in our judgment it appears that it is more likely than not that all or some portion of the asset will not be realized, valuation allowances are established against our deferred tax assets, which increase income tax expense in the period when such determination is made.

We have not provided federal income taxes on that portion of our foreign subsidiaries' undistributed earnings that is permanently reinvested in their respective foreign jurisdictions. If we decided to remit those earnings to the U.S. in a future period due to anticipated cash flow or other business requirements, our federal income tax provision and effective tax rate could be impacted.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. These assessments of uncertain tax positions contain judgments related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, expiration of statutes of limitations, as well as changes to, or further interpretations of, tax laws and regulations. Income tax expense is adjusted in our Consolidated Statements of Income in the period in which these events occur.

Stock Compensation

We established the Hanesbrands Inc. Omnibus Incentive Plan (As Amended and Restated) (the "Omnibus Incentive Plan") to award stock options, stock appreciation rights, restricted stock, restricted stock units, deferred stock units, performance shares and cash to our employees, non-employee directors and employees of our subsidiaries to promote the interest of our company and incent performance and retention of employees. Stock-based compensation is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period. We estimate forfeitures for stock-based awards granted that are not expected to vest. If any of these inputs or assumptions changes significantly, our stock-based compensation expense could be materially different in the future.

Defined Benefit Pension Plans

For a discussion of our net periodic benefit cost, plan obligations, plan assets and how we measure the amount of these costs, see Note, "Defined Benefit Pension Plans," to our consolidated financial statements. The funded status of our defined benefit pension plans are recognized on our balance sheet. Differences between actual results in a given year and the actuarially determined assumed results for that year are deferred as unrecognized actuarial gains or losses in comprehensive income. We measure the funded status of our plans as of the date of our fiscal year end.

The net periodic cost of the pension plans is determined using projections and actuarial assumptions, the most significant of which are the discount rate and the long-term rate of asset return. The net periodic pension income or expense is recognized in the year incurred. Gains and losses, which occur when actual experience differs from actuarial assumptions, are amortized over the average future expected life of participants. As benefits under the Hanesbrands Inc. Pension Plan are frozen, year over

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year fluctuations in our pension expense are not expected to be material and not expected to have a material impact on our Consolidated Statements of Income.

Our policies regarding the establishment of pension assumptions are as follows:

- In determining the discount rate, we utilized the Aon Hewitt AA Above Median Curve (rounded to the nearest 10 basis points) in order to determine a unique interest rate for each plan and match the expected cash flows for each plan. Beginning in 2016, we began utilizing specific spot rates along the full yield curve in our determination of discount rates, for our U.S. defined benefit plans, in order to determine our interest rate and match to the relevant cash flows for the plans. This change improves the correlation between projected benefit cash flows and the corresponding yield curve spot rates and to provide a more precise measurement of interest costs.
- Salary increase assumptions were based on historical experience and anticipated future management actions. The salary increase assumption only applies to the Canadian plans, certain Hanes Europe Innerwear plans and portions of the Hanesbrands nonqualified retirement plans, as benefits under these plans are not frozen. The benefits under the Hanesbrands Inc. Pension Plan were frozen as of December 31, 2005.
- In determining the long-term rate of return on plan assets we applied a proportionally weighted blend between assuming the historical long-term compound growth rate of the plan portfolio would predict the future returns of similar investments, and the utilization of forward-looking assumptions.
- Retirement rates were based primarily on actual experience while standard actuarial tables were used to estimate mortality. In 2016, the tables used as a basis for the mortality assumption were from the RP-2014 table with Scale MP-2015.

The sensitivity of changes in actuarial assumptions on our annual pension expense and on our plans' benefit obligations, all other factors being equal, is illustrated by the following:

	Increase (Decrease) in Pension Expense	Benefit Obligation
	(in millions)	
1% decrease in discount rate	$(1)	$ 155
1% increase in discount rate	1	(125)
1% decrease in expected investment return	8	N/A
1% increase in expected investment return	(8)	N/A

Trademarks and Other Identifiable Intangibles

Trademarks, license agreements, customer and distributor relationships and computer software are our primary identifiable intangible assets. We amortize identifiable intangibles with finite lives over their estimated useful lives, and we do not amortize identifiable intangibles with indefinite lives. We base the estimated useful life of an identifiable intangible asset upon a number of factors, including the effects of demand, competition, expected changes in distribution channels and the level of maintenance expenditures required to obtain future cash flows. As of December 31, 2016, the net book value of trademarks and other identifiable intangible assets was $1.3 billion, of which we are amortizing a balance of $218 million. We anticipate that our amortization expense for 2017 will be $26 million.

We evaluate identifiable intangible assets subject to amortization for impairment using a process similar to that used to evaluate asset amortization described below under "— Depreciation and Impairment of Property, Plant and Equipment." We assess identifiable intangible assets not subject to amortization for impairment at least annually, as of the first day of the third fiscal quarter, and more often as triggering events occur. In order to determine the impairment of identifiable intangible assets, we compare the fair value of the intangible asset to its carrying amount. Fair values of intangible assets are primarily based on future cash flows projected to be generated from that asset. We recognize an impairment loss for the amount by which an identifiable intangible asset's carrying value exceeds its fair value.

Goodwill

As of December 31, 2016, we had $1.1 billion of goodwill. We do not amortize goodwill, but we assess for impairment at least annually and more often as triggering events occur. The timing of our annual goodwill impairment testing is the first day of the third fiscal quarter. The estimated fair values significantly exceeded the carrying values of each of our reporting units as of the first day of the third fiscal quarter, and no impairment of goodwill was identified as a result of the testing conducted in 2016.

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In evaluating the recoverability of goodwill in 2016, we estimated the fair value of our reporting units. We relied on a number of factors to determine the fair value of our reporting units and evaluate various factors to discount anticipated future cash flows, including operating results, business plans and present value techniques. As discussed above under "Trademarks and Other Identifiable Intangibles," there are inherent uncertainties related to these factors, and our judgment in applying them and the assumptions underlying the impairment analysis may change in such a manner that impairment in value may occur in the future. Such impairment will be recognized in the period in which it becomes known.

Assets and Liabilities Acquired in Business Combinations

We account for business combinations using the purchase method, which requires us to allocate the cost of an acquired business to the acquired assets and liabilities based on their estimated fair values at the acquisition date. We recognize the excess of an acquired business' cost over the fair value of acquired assets and liabilities as goodwill. We use a variety of information sources to determine the fair value of acquired assets and liabilities. We generally use third party appraisers to assist management in determination of the fair value and lives of property and identifiable intangibles, consulting actuaries to assist management in determining the fair value of obligations associated with defined benefit pension plans and legal counsel to assist management in assessing obligations associated with legal and environmental claims.

Depreciation and Impairment of Property, Plant and Equipment

We state property, plant and equipment at its historical cost, and we compute depreciation using the straight-line method over the asset's life. We estimate an asset's life based on historical experience, manufacturers' estimates, engineering or appraisal evaluations, our future business plans and the period over which the asset will economically benefit us, which may be the same as or shorter than its physical life. Our policies require that we periodically review our assets' remaining depreciable lives based upon actual experience and expected future utilization. A change in the depreciable life is treated as a change in accounting estimate and the accelerated depreciation is accounted for in the period of change and future periods.

We test an asset for recoverability whenever events or changes in circumstances indicate that its carrying value may not be recoverable. Such events include significant adverse changes in business climate, several periods of operating or cash flow losses, forecasted continuing losses or a current expectation that an asset or asset group will be disposed of before the end of its useful life. We evaluate an asset's recoverability by comparing the asset or asset group's net carrying amount to the future net undiscounted cash flows we expect such asset or asset group will generate. If we determine that an asset is not recoverable, we recognize an impairment loss in the amount by which the asset's carrying amount exceeds its estimated fair value.

When we recognize an impairment loss for an asset held for use, we depreciate the asset's adjusted carrying amount over its remaining useful life. We do not restore previously recognized impairment losses if circumstances change.

Recently Issued Accounting Pronouncements

For a summary of recently issued accounting pronouncements, see Note, "Summary of Significant Accounting Policies" to our financial statements included in this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign exchange rates, interest rates and commodity prices. Our risk management control system uses analytical techniques including market value, sensitivity analysis and value at risk estimations.

Foreign Exchange Risk

We sell the majority of our products in transactions denominated in U.S. dollars; however, we purchase some raw materials, pay a portion of our wages and make other payments in our supply chain in foreign currencies. With our international commercial presence, we also have foreign entities that purchase raw materials and finished goods in U.S. dollars. Our exposure to foreign exchange rates exists primarily with respect to the Euro, Australian dollar, Canadian dollar, Mexican peso and Japanese yen against the U.S. dollar. We use foreign exchange forward contracts to hedge material exposure to adverse changes in foreign exchange rates. A sensitivity analysis technique has been used to evaluate the effect that changes in the market value of foreign exchange currencies will have on our forward and option contracts. At December 31, 2016, the potential change in fair value of foreign currency derivative instruments, assuming a 10% adverse change in the underlying currency price, was $53 million.

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Interest Rates

Our debt under the Revolving Loan Facility, Accounts Receivable Securitization Facility, Term Loan A, Term Loan B, Australian Term A-1, Australian Term A-2, Australian Revolver, European Revolver and Other International Debt bears interest at variable rates. As a result, we are exposed to changes in market interest rates that could impact the cost of servicing our debt. Approximately 60% of our total debt outstanding at December 31, 2016 is at a fixed rate. A 25-basis point movement in the annual interest rate charged on the outstanding debt balances as of December 31, 2016 would only result in a change in annual interest expense of approximately $4 million.

Commodities

We are exposed to commodity price fluctuations primarily as a result of the cost of materials that are used in our manufacturing process. Cotton is the primary raw material used in manufacturing many of our products. Under our current agreements with our primary yarn suppliers, we have the ability to periodically fix the cotton cost component of our yarn purchases so that the suppliers bear the risk of cotton price fluctuation for the specified yarn volume and interim fluctuations in the price of cotton do not impact our costs. However, our business can be affected by sustained dramatic movements in cotton prices.

In addition, fluctuations in crude oil or petroleum prices may influence the prices of other raw materials we use to manufacture our products, such as chemicals, dyestuffs, polyester yarn and foam, as well as affect our transportation and utility costs. We generally purchase raw materials at market prices.

Item 8. Financial Statements and Supplementary Data

Our financial statements required by this item are contained on pages F-1 through F-49 of this Annual Report on Form 10-K. See Item 15(a)(1) for a listing of financial statements provided.