GILDAN ACTIVEWEAR INC
Form 6-K
June 01, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 under
the Securities Exchange Act of 1934

For the month of: **June, 2004** Commission File Number: **1-14830**

GILDAN ACTIVEWEAR INC.
(Translation of Registrant's name into English)

725 Montée de Liesse
Ville Saint-Laurent, Quebec
Canada H4T 1P5
(Address of principal executive offices)

Indicate by check mark whether the Registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ___ Form 40-F **_X_**

Indicate by check mark whether the Registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No **_X_**

If "Yes" is marked, indicate below the file number assigned to the Registrant in connection with Rule 12g3-2(b):

82-_**N/A**_.

Quarterly Report to Shareholders
Second quarter ended April 4, 2004

MESSAGE TO SHAREHOLDERS

On behalf of the Board of Directors, we are pleased to provide results for the six months ended April 4, 2004.

The Company reported record second quarter net earnings of U.S. $14.3 million, or U.S. $0.48 per diluted share, up 6.7% from U.S. $13.4 million or U.S. $0.45 per diluted share in the second quarter of fiscal 2003. Analyst expectations for the quarter were in the range of U.S. $0.45 - U.S. $0.49 per diluted share.
The Company s results for the quarter include increases in cost of sales and depreciation expense due to the upward revaluation of opening inventories and fixed assets required under U.S. and Canadian GAAP to give effect to the change to U.S. functional currency. The gain on revaluation of opening assets was reflected directly in opening shareholders equity. Net earnings for the second quarter of fiscal 2004 were U.S. $15.9 million, or U.S. $0.53 per diluted share, before reflecting the accounting treatment of these adjustments resulting from the change to U.S. functional currency, up 18.7% and 17.8% respectively from the second quarter of fiscal 2003.

Compared to last year, the higher second quarter earnings reflected higher unit sales, further manufacturing efficiencies and more favourable product-mix. These factors were partially offset by increased cotton costs, lower selling prices, higher SG&A costs due to the Company s sales growth and higher depreciation expense as a result of the Company s capital investment program.

Sales in the quarter were U.S. $141.4 million, up 24.5% from U.S. $113.6 million in the second quarter of fiscal 2003. The higher sales were due to a 24.6% increase in unit shipments combined with a higher valued product-mix, partially offset by lower selling prices. The higher unit sales reflected continuing market share penetration in all target market segments, together with strong overall industry demand growth in the U.S. wholesale distributor channel.

With effect from the beginning of calendar 2004, the Company s largest customer decided to discontinue its participation in the S.T.A.R.S. report by ACNielsen Market Decisions. This report is the basis for market and market share data provided by the Company for the U.S. wholesale distributor channel. As a result, the S.T.A.R.S. market share sales through our largest customer. On this basis, Gildan s share in the T-shirt segment of the U.S. wholesale distributor market increased to 31.2% from 29.1% in the second quarter of fiscal 2003, even though the Company focussed on higher-valued product-lines within the T-shirt category, and continued to not fully participate in highly discounted white T-shirt promotions. During the second quarter, Gildan s share of the sport shirt segment increased to 24.4% from 18.4% in the corresponding quarter of last year. Gildan became the leading brand within the sport shirt category during the quarter. Gildan s share of the fleece category was 14.3% in the second quarter, up from 10.7% in the second quarter a year ago.

The table below summarizes the unit sales growth for the calendar quarter ended March 31, 2004 compared to the quarter ended March 31, 2003 for Gildan and for the industry overall through the U.S. wholesale distributor channel, as reported by S.T.A.R.S. after adjusting the prior period comparatives to exclude sales through our largest customer:

	Gildan Unit growth	**Industry Unit growth**
T-shirts	30.3%	11.6%
Sport shirts	34.7%	1.1%
Fleece	39.2%	13.8%

Gildan noted that, in addition to the strong overall industry growth for T-shirts and fleece, the sport shirt category also showed positive growth, indicating that the steady decline in demand in this segment since 2001 may have ceased, reflecting a recovery in corporate promotional spending.
In parallel with the growth realized by Gildan with the S.T.A.R.S. distributors as per the table above, the Company also achieved a comparable rate of growth in its unit sales to its largest distributor during the second fiscal quarter, versus the corresponding quarter of fiscal 2003.

Gildan s unit shipments in Europe increased by 38.9% over the second quarter last year, and shipments in Canada were up by 10.2%. Selling prices in the Canadian market were negatively impacted as a result of the lower landed selling prices for U.S. competitors in the Canadian market, due to the decline in the relative value of the U.S. dollar.

data for the second quarter of fiscal 2004 excludes the effect of

Gross margins in the second quarter were 26.6%, compared with 29.6% in the second quarter of fiscal

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Quarterly Report to Shareholders
Second quarter ended April 4, 2004

2003. Before the adjustments due to the change to U.S. functional currency, gross margins in the second quarter of fiscal 2004 were 27.3%. The favourable impact on percentage gross margins of the higher-valued product-mix, continuing manufacturing efficiencies and the non-recurrence of a prior year special charge (the closure of the Montreal sewing plant) was more than offset by the negative effect of higher cotton costs and lower industry selling prices. Promotional pricing activity during the quarter included additional discounts resulting from the higher than projected unit sales growth.

Six Months Earnings

Net earnings for the first six months of fiscal 2004 were $17.2 million or U.S. $0.58 per diluted share, essentially the same as the first six months of fiscal 2003 when the Company generated net earnings of U.S. $17.1 million or U.S. $0.58 per diluted share. Before the adjustments due to the change to U.S. functional currency, net earnings for the first six months of fiscal 2004 were U.S. $21.4 million, or U.S. $0.72 per share, up 25.1% and 24.1% respectively from the first six months of fiscal 2003.

Earnings Outlook

The Company has previously indicated that it expects its EPS for the full fiscal year to be in the range of U.S. $2.25 U.S. $2.30, up 25.7% 28.5% from fiscal 2003 before the adjustments due to the change to U.S. functional currency. After reflecting the adjustments resulting from the transition to

channel being in reasonable balance, and higher raw material costs for both cotton and polyester appear to support higher pricing in the second half of the fiscal year. However, it is difficult to predict the outlook for industry pricing with any degree of certainty. Therefore, while the Company is projecting some gross margin improvement in the third and fourth quarter due to reduced promotional activity and a higher proportion of fleece sales in the balance of the year, the Company believes that, based on its short-term capacity constraints in the third quarter and the assumed continuation of aggressive industry pricing competition, it is more realistic to lower its projected EPS growth in the second half of the fiscal year. On this basis, the Company is now projecting EPS for the full fiscal year to be in the range of U.S. $2.05 U.S. $2.15 per diluted share before the U.S. functional currency adjustments, up approximately 15% 20% from fiscal 2003. After reflecting the adjustments resulting from the transition to U.S. functional currency, the Company s revised EPS forecast for fiscal 2004 is U.S. $1.90 $2.00, up approximately 6% 12% from fiscal 2003.

The Company now expects to achieve diluted EPS of U.S. $0.80 U.S. $0.85 in the third quarter before functional currency adjustments, up approximately 10% 16% from the third quarter of fiscal 2003, which included an extra week due to the Company s floating fiscal year-end. In the fourth quarter, Gildan now expects diluted EPS of U.S. $0.55 U.S. $0.60 before functional currency adjustments, up approximately 15% 25% from fiscal 2003. The functional currency adjustments in the third and fourth quarter of the fiscal year will be limited to the impact on depreciation expense, and will therefore not be material.
Going forward, Gildan expects to achieve its objective of minimum 15% EPS growth beyond fiscal 2004, in addition to achieving 15% 20% EPS growth in the current fiscal year, even if industry pricing continues to decline. Gildan is slightly ahead of schedule with its timetable for construction of its Dominican Republic textile

U.S functional currency, the Company s EPS guidance range for fiscal 2004 was U.S. $2.10-$2.15, up 17.3% 20.1% from fiscal 2003. This guidance was based on 15% projected growth in unit sales volumes and modest selling price increases to partially pass through the higher cost of cotton.

In the first and second fiscal quarters, the Company has achieved its EPS growth projections by offsetting higher than anticipated promotional pricing activity with higher than projected unit sales volumes. Due to the higher unit sales in the first two quarters, and its resulting lower than planned inventory levels at the second quarter-end, the Company expects to have insufficient capacity in the third quarter to fully satisfy the projected growth in sales reflected in its prior forecast. Therefore, achievement of its original EPS guidance for the full year will depend upon improved selling prices being realized. Many industry fundamentals including strong industry demand, overall inventories within the distributor facility. As the Company brings this facility on stream, it expects to continue to lower its manufacturing costs and to have capacity available to further accelerate its market share penetration in the wholesale distributor channel in fiscal 2005, as well as to implement its plans to enter the retail channel.

Cash Flow

In the second fiscal quarter, the Company used U.S. $16.7 million of cash, defined as cash flow from operating activities less cash used in investing activities, due to the seasonal financing of trade receivables (which reflected days sales outstanding of 45 days compared with 48 days a year ago) and the ongoing capital expenditure requirements to implement the Company s continuing offshore capacity expansion plans.

The Company ended the quarter with surplus cash of U.S. $21.4 million. The Company intends to utilize U.S. $17.5 million of its surplus cash to meet the first scheduled instalment of its senior note repayment on June 10, 2004. Also, the Company now expects to invest approximately U.S. $65 million in capital expenditures for the full fiscal year, up from the previous estimate of approximately U.S. $60 million, due mainly to the accelerated timing for the Dominican Republic facility.

As of April 30, 2004, there were 29,627,619 Class A subordinate shares issued and outstanding along with 679,635 options outstanding.

On behalf of the Board of Directors, we wish to take this opportunity to thank our shareholders for their continued confidence and support.

(s) H. Greg Chamandy

H.Greg Chamandy
Chairman of the Board,
Chairman of the Executive Committee and
Co-Chief Executive Officer

(s) Glenn J. Chamandy

Glenn J. Chamandy
President,
Co-Chief Executive Officer and
Chief Operating Officer

Gildan Activewear Inc.

Consolidated Balance Sheets

(In thousands of U.S. dollars)

	April 4, 2004	October 5, 2003	March 30, 2003
	(unaudited)	(audited)	(unaudited)
Current assets:			
Cash and cash equivalents	$ 21,413	$ 69,340	$ 22,995
Accounts receivable	85,386	64,260	70,180
Inventories	130,108	103,503	97,618
Prepaid expenses and deposits	6,677	3,849	4,481
Future income taxes	6,294	4,682	3,448
	249,878	245,634	198,722
Fixed assets	195,577	180,349	155,034
Other assets	3,426	3,681	3,122
Total assets	$ 448,881	$ 429,664	$ 356,878
Current liabilities:			
Accounts payable and accrued liabilities	$ 63,270	$ 67,278	$ 60,333
Income taxes payable	2,175	3,909	675
Current portion of long-term debt	19,098	19,481	3,567
	84,543	90,668	64,575
Long-term debt	57,029	54,077	71,696
Future income taxes	24,195	20,716	15,788
Shareholders' equity:			
Share capital (note 4)	77,012	75,490	73,311
Contributed surplus	404	220	220
Retained earnings	179,450	162,245	126,191
Cumulative translation adjustment	26,248	26,248	5,097

	283,114	264,203	204,819
Total liabilities and shareholders' equity	$ 448,881	$ 429,664	$ 356,878

See accompanying notes to interim consolidated financial statements.

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Gildan Activewear Inc.
Consolidated Statements of Earnings
(In thousands of U.S. dollars, except per share data)

	Three months ended		Six months ended	
	April 4, 2004	March 30, 2003	April 4, 2004	March 30, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$ 141,369	$ 113,615	$ 219,328	$ 178,615
Cost of sales	103,832	80,031	160,691	125,946
Gross profit	37,537	33,584	58,637	52,669
Selling, general and administrative expenses	15,151	13,528	26,548	23,612
Earnings before interest, income taxes, depreciation and amortization	22,386	20,056	32,089	29,057
Depreciation and amortization	5,249	3,704	10,181	7,200
Interest	1,755	1,713	3,344	3,158
Earnings before income taxes	15,382	14,639	18,564	18,699
Income taxes	1,049	1,228	1,359	1,597
Net earnings	$ 14,333	$ 13,411	$ 17,205	$ 17,102
Basic EPS (note 5)	$ 0.48	$ 0.46	$ 0.58	$ 0.59
Diluted EPS (note 5)	$ 0.48	$ 0.45	$ 0.58	$ 0.58

Consolidated Statements of Retained Earnings
(In thousands of U.S. dollars)

	Three months ended		Six months ended	
	April 4, 2004	March 30, 2003	April 4, 2004	March 30, 2003

	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Retained earnings, beginning of the period	$ 165,117	$ 112,780	$ 162,245	$ 109,089
Net earnings	14,333	13,411	17,205	17,102
Retained earnings, end of the period	$ 179,450	$ 126,191	$ 179,450	$ 126,191

See accompanying notes to interim consolidated financial statements.

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Gildan Activewear Inc.

Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

	Three months ended		Six months ended	
	April 4, 2004	March 30, 2003	April 4, 2004	March 30, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities:				
Net earnings	14,333	13,411	17,205	17,102
Adjustments for:				
Depreciation and amortization	5,249	3,704	10,181	7,200
Future income taxes	1,339	1,727	1,461	1,871
Stock-based compensation expense	184	—	184	—
Other	(68)	16	(61)	(159)
	21,037	18,858	28,970	26,014
Net changes in non-cash working capital balances:				
Accounts receivable	(39,820)	(33,657)	(20,619)	(13,665)
Inventories	9,140	4,505	(26,605)	(18,817)
Prepaid expenses and deposits	(1,710)	(1,551)	(2,828)	(1,933)
Accounts payable and accrued liabilities	6,963	5,554	(3,015)	8,116
Income taxes payable	(1,786)	(1,213)	(1,765)	(1,409)
	(6,176)	(7,504)	(25,862)	(1,694)
Cash flows from financing activities:				
Repayment of capital leases and other long-term debt	(453)	(1,103)	(1,624)	(2,109)
Increase in secured debt	—	—	4,125	96
Proceeds from the issuance of shares	1,259	1,511	1,522	2,308
	806	408	4,023	295
Cash flows from investing activities:				
Purchase of fixed assets, net of disposals	(10,450)	(9,533)	(26,573)	(20,973)

(Increase) decrease in other assets	(91)	131	(72)	157
	(10,541)	(9,402)	(26,645)	(20,816)
Effect of exchange rate changes on cash and cash equivalents	(166)	(372)	557	200
Net decrease in cash and cash equivalents during the period	(16,077)	(16,870)	(47,927)	(22,015)
Cash and cash equivalents, beginning of period	$ 37,490	$ 39,865	$ 69,340	$ 45,010
Cash, end of period	$ 21,413	$ 22,995	$ 21,413	$ 22,995

See accompanying notes to interim consolidated financial statements.

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Quarterly Report to Shareholders
Second quarter ended April 4, 2004

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(For the period ended April 4, 2004)
(Tabular amounts in thousands of U.S. dollars, except per share data)
(unaudited)

1. Basis of presentation:
The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by Canadian generally accepted accounting principles for complete financial statements, and should be read in conjunction with the Company s annual consolidated financial statements.

The Company s revenues and income are subject to seasonal variations. Consequently, the results of operations for the second quarter ended April 4, 2004 are not traditionally indicative of the results to be expected for the full year.
All amounts in the attached notes are unaudited unless specifically identified.

2. Change in functional and reporting currency:
As a result of a significant portion of its revenues, expenses, assets and liabilities being denominated in U.S. dollars and the increasing international scope of its sales and manufacturing operations, the Company adopted the U.S dollar as its functional and reporting currency effective October 6, 2003, the commencement of fiscal 2004. All opening assets and liabilities were translated into U.S. dollars using the exchange rate in effect on October 6, 2003. For comparative purposes, historical financial statements and notes thereto up to an including October 5, 2003 have been restated into U.S dollars in accordance with generally accepted accounting principles.

The change in the functional currency for the prior periods resulted in a positive currency translation adjustment of $26.2 million as at October 5, 2003, which is reflected as a separate component of shareholders equity.

3. Significant accounting policies:

The Company applied the same accounting policies in the preparation of the interim consolidated financial statements, as disclosed in Note 1 of its audited consolidated financial statements in the Company s annual report for the year ended October 5, 2003.
The following policies have been applied for the first time in fiscal 2004:

(a) Stock-Based Compensation and Other Stock-Based Payments:

In November 2003, the Canadian Institute of Chartered Accountants (CICA) revised Handbook Section 3870, with respect to the accounting for stock-based compensation and other stock-based payments. The revised recommendations require that beginning January 1, 2004, the fair value-based method be used to account for all transactions whereby goods and services are received in exchange for stock-based compensation and other stock-based payments. The revised standard no longer permits the use of the settlement method for stock-based employee compensation awards. Under the settlement method, any consideration paid by employees on the exercise of stock options is credited to share capital and no compensation expense is recognized. Under the fair value method, compensation cost is measured at fair value at the date of grant and is expensed over the award s vesting periods.

During the second quarter of fiscal 2004, $184,000 (2003 nil) was expensed as compensation expense, with an offset to contributed surplus, due to the issuance of 60,000 Restricted Share Units and a modification to the vesting period of certain options.

In accordance with the transitional options permitted under Section 3870, the Company has elected to early adopt the new recommendations effective the commencement of our 2004 fiscal year and prospectively apply the standard for employee stock awards granted after October 6, 2003. There were no options granted during the three months and six months ended April 4, 2004. Previously, the Company applied the settlement method of accounting to employee stock options. As required under the standard, the following disclosure is required to report the pro forma net earnings and earnings per share as if the fair value-based method had been used to account for employee stock options granted during our 2003 fiscal year.

3. Significant accounting policies (continued):

(a) Stock-Based Compensation and Other Stock-Based Payments (continued):

	Three months ended		Six months ended	
	April 4, 2004	March 30, 2003	April 4, 2004	March 30, 2003
Net earnings, as reported	$ 14,333	13,411	17,205	17,102
Add (deduct):				
Total stock-based employee compensation (expense) recovery determined under fair value based method for all awards granted in fiscal 2003	107	(64)	24	(85)
Pro forma net earnings	$ 14,440	13,347	17,229	17,017
Earnings per share:				
Basic:				
As reported	$ 0.48	$ 0.46	$ 0.58	$ 0.59
Pro forma	0.49	0.46	0.58	0.58
Diluted:				
As reported	$ 0.48	$ 0.45	$ 0.58	$ 0.58
Pro forma	0.48	0.45	0.58	