

The Warnaco Group, inc.

A company profile

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Introduction

Warnaco designs, manufactures and markets a broad line of women's intimate apparel, such as bras, panties and sleepwear, and men's shirts, neck- and sportswear, and underwear. Furthermore accessories and small leather goods.

All these products are sold under a variety of internationally recognized owned and licensed brand names, including the very well known Calvin Klein brand.

The products are sold in department and specialty stores and mass merchandisers throughout the US, Canada, Mexico, and Europe.

The most essential articles of Warnaco are produced in offshore sewing facilities in the Caribbean region, in Honduras and Mexico¹.

In this year, 1996, the size of the group changed due to the sale of a subsidiary, but also several acquisitions, and herewith the Group concentrated even more on its core business: intimate apparel activities.

With the recent acquisition of a 77.5% stake in Lejaby-Euralis, Warnaco wishes to strenghten its position in Europe.

In January 1996 the Warnaco Group had more than 16,200 employees, at 33 facilities around the world², but after that date some major changes took place in the number of employees. Most of them are employed in North- and Middle-America, but an estimated 10% of today's staff is employed in Europe.

THE US APPAREL INDUSTRY

Apparel manufacturers since 1994 face sharply increased raw material costs, and so far have failed to pass these costs on to retail trade. Meanwhile import keeps increasing. The industry is under siege as companies face a number of threats to their organisations and ultimate existence, more so than at any time over the last 50 years. Despite these adverse conditions the largest 37 US apparel companies experienced an over 10% sales increase in 1994, but their profits plummeted in the same year with more than 22%.

Companies in the sector have focused on achieving growth by capturing sales from competitors who have gone (or been pushed) out of business. They want to maximise market share, hoping thaty rise in profits will follow later. More sales are being generated by companies engaged in:

- manufacturing and marketing of sports logo apparel;
- retail outlet stores; and
- sourcing apparel offshore in Mexico and the Caribbean Basin.

Between 1992 and 1994 almost 50,000 people employed in the US apparel industry lost their jobs.

Imports were approximately seven times as large as exports in 1994. The effects of NAFTA (North American Free Trade Agreement) and WTO (World Trade Organisation) are beginning to appear as the industry continues to lose its competitive position to (cheaper) imports. Especially imports from Canada and Mexico increase considerably. Consumer confidence (and disposable income) has been declining, resulting in weak

¹ Le Nouvel Economiste 26 July 1996.

² Warnaco, 1995, Annual Report, p.1.

sales at retail level. Apparel manufacturers, caught in the middle, are being put under increasing pressure from their suppliers (textile companies) and their customers (retailers). However the US economy, and the European economy as well, are showing signs of recuperation. The bigger (financially sound) companies and the ones focused on production for niche markets will have the best chances. Also, branding has enabled many companies to seize the opportunity of going international and exploiting overseas markets where American logos are popular.

Speed (quick response) is one of the several factors which will be fundamental to the preservation of the US apparel industry. Furthermore a strong commitment to international marketing, and establishing overseas operations³.

In the following we will see how The Warnaco Group fits into this sector, and how its performance is.

History

The company in this profile has been on the US scene for many decades, and has undergone numerous changes of ownership during its existence.

The Warnaco Group was incorporated in Delaware on March 1986. The present operation went public in 1990 as a reconstituted company heavily committed to the intimate apparel business⁴.

In December 1993 The company sold its Checotah manufacturing facility to Autentic Fitness Corporation, and its Puritan brand name to Wal-Mart in the USA.

In March 1994 certain assets, the worldwide trademarks, rights and businesses of Calvin Klein men's underwear were acquired by Warnaco. The Calvin Klein trademark for men's accessories were licensed; and the worldwide trademarks and rights of Calvin Klein women's intimate apparel would be licensed from the first of January 1995⁵.

Late 1994 Warnaco acquired the Van Raalte trademark, for \$1 million.

In February 1996 Warnaco acquired GJM, private label maker of silk women's sleepwear and lingerie⁶.

Warnaco in June 1996 did take over the French company Lejaby-Euralis with a 77.5% stake.

18 July 1996 Warnaco Group agreed to acquire Nancy Ganz/Body Slimmers, leading manufacturer and marketer of body slimming undergarments for women⁷.

In July 1996 plans to merge with Authentic Fitness Corporation were cancelled.

August 1996 Warnaco Group Inc. reported that it has signed a letter of agreement to sell its Hathaway dress-shirt business to a Maine investor group.

³ Textile Outlook International, November 1995, p.71-81.

⁴ Textile Outlook International, November 1995, p.116.

⁵ Moody's Industrial Manual, p.6776, 1995. vol.2.

⁶ Women's Wear Daily 8 May 1996 Page 14.

⁷ PR Newswire Association, 18 July 1996.

Structure and Management

Before it took over **Lejaby** in summer 1996, Warnaco had fourteen domestic manufacturing and warehouse facilities located in different US states, and 19 international manufacturing and warehouse facilities in:

-Europe:

United Kingdom	Belgium
Spain	Germany
Ireland	

-and furthermore in:

Costa Rica	the Dominican Republic
Honduras	Mexico
Canada	

A total of 11 facilities (of which 3 in Europe) are owned by the company, the rest is leased.

Sales offices that are leased in Europe are located in Brussels, Düsseldorf, Madrid, and Paris⁸.

In Spain warehousing takes place, no production.

Activities of Warnaco are organized in three different Divisions. The main one is the: Intimate apparel division, which accounted for 75% of net revenues in 1995. Other divisions are:

Men's wear (20%);
and Retail Outlet stores (5%)⁹.

Other activities mentioned in more recent sources as being divisions are :

- Warner division
- Nancy Ganz/Body Slimmers Division (after July 1996)
- Hathaway Division (sold in 1996);

but these probably function as business units instead of divisions.

The actual precise structure of Warnaco's activities and businesses today however remains unclear.

Subsidiaries of The Warnaco Group are the following companies:

in USA:

- Warnaco Inc.
- Warnaco International Inc.
- Warmana Ltd.
- Warner's de Costa Rica Inc.
- Warnaco Men's Sportswear Inc.

⁸ Moody's Industrial Manual, 1995, vol.2, p.6776.

⁹ Textile outlook International, November 1995, p.117.

and probably also in the USA:
Nancy Ganz/Body Slimmers
GJM

outside the USA:

Lejaby-Euralis S.A., France
Warner's Aiglon S.A., France
Warner's Company Belgium S.A., Belgium
Warner's (UK) Ltd., UK
Warnaco of Canada Ltd., Canada
Olquita de Mexico S.A., Mexico
Warner's de Mexico S.A. de C.V., Mexico
Juarmex S.A. de C.V., Mexico
Warner's de Honduras S.A., Honduras¹⁰.

MANAGEMENT (Jan. 1996)

Officers:

Linda J. Wachner	Chairman, President and CEO
W.S. Finkelstein	Senior Vice President and CFO
W.H. Brooks	Vice President and Controller
S.P. Silverstein	Vice President, Gen. Counsel and Secretary
C.J. Deddens	Vice President and Treasurer

Directors:

W.S. Finkelstein	J.A. Califano, Jr.
A.G. Galef	S.A. Resnick
L.J. Wachner	R.D. Walter ¹¹

Linda Wachner is widely known as a tough, savvy negotiator. She also holds the position of Chairman and CEO of Authentic Fitness Corporation. She is the largest personal shareholder in that firm, with about 2.7 million shares, or 13.7 percent. The 50-year-old executive has widely been credited for building up Authentic's value since it was spun off from Warnaco in 1990¹².

Her multi-tier, multibrand marketing approach gives her a big edge, because: 'You can't be all things to all people with the same brand'¹³.

After acquisition of Nancy Ganz/Body Slimmers in July 1996, Nancy Ganz, the founder and President of Body Slimmers, joined Warnaco as President of the new Nancy

¹⁰ Who Owns Whom, vol.2, 1997, p.253.

¹¹ Moody's Industrial Manual, 1995, vol.2, p.6777.; Annual Report 1995.

¹² Women's Wear Daily 31 July 1996 Page 1.

¹³ Women's Wear Daily 8 May 1996 Page 14.

Ganz/Body Slimmers Division¹⁴.

At the end of 1995 officers and directors, including Linda Wachner, owned 19.8 per cent of the common stock of Warnaco Group, while the **Oppenheimer Group** owned 16.6%¹⁵.

On March 1, 1996 there were 161 stockholders, according to the 1995 Annual Report.

¹⁴ PR Newswire Association, Inc., 18-07-1996.

¹⁵ Textile Outlook International, November 1995, p.116.

Activities

Warnaco's greatest asset is its portfolio of powerful consumer brands, that are well known and highly respected. The company continually seeks opportunities to expand the scope and reach of these brands.

Product innovation is an hallmark of Warnaco, and the company always focuses on introducing new product lines that leverage its design and manufacturing expertise. Sleepwear for instance, currently represents only a small percentage of the intimate apparel business, but offers great possibilities for brand expansion. The in February acquired GJM Group of Companies, a sleepwear manufacturer, will provide expertise to expand that area of business.

The Warnaco Retail Outlet Division in January 1996 consisted of 56 outlet stores, compared to 53 and 48 stores in 1994 and 1993 respectively. 41 of these stores carried intimate apparel only, and three menswear only.

In Europe products are distributed by Marks & Spencer, House of Fraser, British Home Stores, Harrods, Galeries Lafayette and Au Printemps. Products are marketed directly to consumers in Asia through the Satellite Television Asian Network ¹⁶.

In 1990 Warnaco went public, after having been reconstituted. This reconstruction took place in order to focus on specific market sectors, having sold off many branded operations that failed to produce satisfactory returns, or did not fit into the emerging company strategy¹⁷.

Warnaco's combined foundations brands have a 32 percent share at department stores in the US. That's pretty spectacular. According to an analyst at Buckingham Research, Wachner has done a masterful job of segmenting her brands by channel of distribution. She put the pieces of a puzzle together since 1986, when she led a leveraged buyout of Warnaco with a group of investors. Since then, her repertoire has grown to include an array of innerwear products targeted at the designer, basic and commodities markets, and even the sports arena with Speedo sports bras, which are made by Warner's. Wholesale volume of Speedo bras could reach Dollars 20 million this year, according to Warnaco officials.

The licensed Fruit of the Loom label in bras, which was once sold only to Wal-Mart, has now extended its reach to other discounters, including Kmart and Target.

In late 1994, Warnaco added another layer in its strategy to expand into other retail channels by acquiring the venerable Van Raalte name for distribution in Sears, Roebuck & Co. Van Raalte had been out of circulation for some 15 years. The label is expected to generate annual sales this year between Dollars 15 million and Dollars 20 million. But the Calvin Klein name is Warnaco's crown jewel. In a much-publicized deal in March 1994, Warnaco acquired the Calvin Klein men's and women's innerwear businesses in a transaction worth Dollars 62.5 million plus ongoing fees. In May 1996 Robert Mazzoli was named president of Calvin Klein underwear & men's accessories business¹⁸.

¹⁶ Warnaco, Form 10-K, Jan., 6, 1996, p.2.

¹⁷ Textile Outlook International, November 1995, p.116.

¹⁸ Daily News Record Predicasts, 15-05-1996.

The acquisition in February, 1996 of **GJM**, the Dollars 110 million private label maker of silk sleepwear and lingerie, was made specifically to increase the Calvin Klein innerwear business.

In other moves, Wachner noted that Warnaco will introduce a line of innerwear bearing the Marilyn Monroe label for fourth-quarter (Warner's) deliveries¹⁹.

Other Warnaco brand names not yet mentioned are: Olga; Valentino Intimo; Blanche; Scaasi (sleepwear); White Stag; Bob Mackie; Chaps (by Ralph Lauren); Catalina (men's sportswear); Bodyslimmers; and Lejaby (intimate apparel and swimwear). Most above-mentioned brands fall under the 'intimate apparel' business, but Chaps and Calvin Klein Underwear and accessories fall under the Men's Apparel Division. Over the past years menswear operations have been narrowed to concentrate particularly on those most profitable brands.

In a US apparel company performance comparison (93-94) Warnaco Group ranked seventh position. The comparison was based on financial and qualitative performance²⁰.

When we look at the Warnaco Group as part of the US apparel industry (as described in the introduction to this company profile), we can see that Warnaco has several elements that are considered successful in the sector. Warnaco is focused on its core activity which is intimate apparel, a niche market. Furthermore it has offshore production facilities, and is expanding its marketing and operations nationally as well as overseas, mainly through acquisitions. And last but not least, Warnaco has a very strong position in branding.

The company maintains manufacturing facilities in Mexico, Honduras, Costa Rica, the Dominican Republic, Canada, Ireland, France and the UK. Production capacity in the Caribbean Basin has been expanded, and is still going to be expanded in Mexico, due to company growth.

Production of intimate apparel takes mainly place in North- and Middle America, the UK Ireland and France. The author of this report has not found any reliable information on where production is taking place in Ireland.

The Menswear division manufactures dress shirts in North America, and sources others in the Far East and in the Caribbean Basin.

In January 1996 Warnaco said to be in talks to purchase **Strouse, Adler**. But one month later these talks were terminated²¹.

On February 9, 1996 Warnaco announced the acquisition of substantially all of the assets of **GJM** intimate apparel and sleepwear business, from Cygne Designs, Inc. (Cygne Designs, Inc. is a leading private label designer, merchandiser and manufacturer of women's apparel. The Company's products include a broad range of woven and knit career and casual clothing.)

Warnaco paid Cygne Dollars 12.5 million in cash and assumed certain liabilities of the

¹⁹ Women's Wear Daily 8 May 1996 Page 14.

²⁰ Textile Outlook International, November 1995, p.83.

²¹ Women's Wear Daily Predicasts, 16-01-1996 and 20-02-1996.

GJM business²². The deal meant a Dollars 33 million for Cygne²³.

By withdrawing in July 1996 the merger bid for **Authentic Fitness Corporation** and Warnaco Group, Linda Wachner - chairman and chief executive of both firms - added a stripe to her sleeve as a tough negotiator who simply won't be dictated to. She absolutely wouldn't up the bid of 0.82 share of Warnaco for each Authentic share - and if that wasn't enough, Authentic's shareholders could just see how their stock performed without the merger. Wachner ridiculed charges that she wanted to teach shareholders a lesson about what would happen to the value of their shares near-term, absent a merger with Warnaco. Both stocks plunged.

Back on June 6, Wachner had thought she almost had an agreement with Stephen Rubin (chairman of Pentland Group, the largest (23%) overall shareholder in Authentic) when they both agreed that a merger was a good idea. But when Pentland wanted a higher price than 0.82 Warnaco shares and the full-year estimates for fiscal '97 were lowered for Authentic Fitness, Warnaco recommended to pull the deal. There were all kinds of rumours about alleged hidden ego rifts between Mrs. Wachner and Mr. Rubin, but both executives stated that links between them are tight and all-right.

They seemed not to agree on the seriousness of the liquidation of 'Herman's Sporting Goods, Authentic's largest wholesale account. To Rubin and Pentland this liquidation was not a long-term problem, but according to Wachner a lot more was going on. She however leaves the door wide open by saying: 'Anything could be revisited'²⁴.

In Summer 1996 Warnaco took over **Lejaby S.A/Euralis S.A.**, one of the last remaining important independent trademarks in France of women's lingerie, for an estimated \$68 million (FFr.500 million). Lejaby is a better-to-premium name in bras and panties, sold to department and specialty stores in Europe, and at major specialty stores in the US. After the take-over Legaby would get a new chairman²⁵.

Linda Wachner personally came to Lejaby to tell the staff about Warnaco's stake of 77.5%, and her intention to establish in Rillieux the logistic centre of the company's European activities, but the employees feared that their production would be relocated. With 1,100 employees Lejaby is a typical exemple of a small-to-medium-sized family business, who prospered untill the eighties, but today suffers from a lack of investments, and the absents of a clear commercial strategy. In 1995 Legaby recorded a loss of FFr.6.4 million, on turnover of FFr.485 millions²⁶. The lingerie activities of Legaby recorded a result of FFr.14 million, but swimwear made a FFr.20 million loss, in 1995.

In 1994 the company had recorded a profit of FFr.15 million²⁷.

As for the foreign distribution subsidiaries of Lejaby-Euralis (consolidated turnover

²² Business Wire 12 February 1996.

²³ Women's Wear Daily Predicasts, 13-02-1996.

²⁴ Women's Wear Daily 31 July 1996 Page 1.

²⁵ Les Echos, 22-07-1996.

²⁶ Le Nouvel Economiste 26 July 1996.

²⁷ Les Echos, 3 May 1996.

Dollars 120 million), they too would be taken over by the US firm²⁸. According to newspaper 'Les Echos', Lejaby-Euralis has seven (distribution) establishments in the UK, Benelux, Germany, Austria, Switzerland, Italy and Spain, with a 1995 turnover of FFr. 320 million²⁹.

On 24 May, over 500 employees from different factories belonging to the lingerie manufacturer Lejaby-Euralis had held a demonstration in Lyon against the planned sale of their company to Warnaco. Unions (CGT and CFDT³⁰) at the French company had learned that the US group was planning to cut 450 out of the 1,100 jobs³¹. The writer of this report does not have information whether actual lay-offs at the Lejaby-Euralis company took place.

Christian Bugnon, who has a 22% stake in Lejaby-Euralis, back in February 1996 had blocked the sale of the family-owned company to Sara Lee. Sara Lee started its take-over plans already in September 1995 and offered FFr 450m for the company³².

On July 19, 1996 the Warnaco Group agreed to acquire **Nancy Ganz/Body Slimmers, Inc.** The company is a leading manufacturer and marketer of body slimming undergarments for women. Mrs. Wachner said, 'We're delighted to add Bodyslimmers as Warnaco's newest brand of intimate apparel. The company has been very successful at targeting the aging baby boomer population, as well as body conscious women in general, who want to look and feel slim and trim'. Nancy Ganz is joining Warnaco to head this division. 'Nancy is an extremely innovative and creative talent who we believe will help Warnaco enter this specialty niche market as part of our overall strategy to enhance our leadership position in the intimate apparel industry', Mrs. Wachner added³³.

Warnaco paid Dollars 6.5 million for Body Slimmers³⁴. The author of this report has no information on the number of employees involved.

On the second of August 1996 Warnaco Group Inc. signed a letter of agreement to sell its 159-year-old **Hathaway**, a men's-shirt business, to CFH Acquisition (Maine), for an undisclosed amount. Hathaway's two manufacturing facilities are in Waterville, ME and Prescott, Ontario (Canada), and 550 people are employed at these locations. CFH is committed to retaining 'substantially all' of the 550 plant employees. The completion of the transaction was expected to be September 30, 1996³⁵. The fall 1996 Hathaway

²⁸ Les Echos, 20-06-1996.

²⁹ Les Echos, 3 May 1996.

³⁰ Les Echos, 28 May 1996, FT.

³¹ Les Echos, 28 May 1996.

³² Les Echos, 27 February, 1996.

³³ PR Newswire, 18 July 1996.

³⁴ Women's Wear Daily Predicasts, 19-07-1996; Form-10Q, 6-7-'96.

³⁵ Wall Street Journal 3 Star, Eastern (Princeton, NJ) Edit. 2 August 1996, Page 11.

line is set to be the last produced by Warnaco³⁶.

Warnaco had announced in the beginning of May that it would sell or shut down the historic Hathaway factory in Waterville by the end of the summer. The announcement caught the more than 500, mostly female, employees by surprise. A 1994 labour contract had allowed the plant to increase production while decreasing product costs by more than half, according to employees and a company consultant.

Union officials denounced Warnaco's decision, charging it refused to invest in or buy advertising for the 159-year-old men's shirtmaker while making record profits and paying more than Dollars 10 million in salary and bonuses to CEO Linda Wachner in 1995.

Hillary Clinton, on the campaign trail for her husband, rallied behind the CF Hathaway Co. workers whose jobs were in jeopardy despite Warnaco's record profits.

The first lady held a closed door meeting with a delegation of workers and stated that 'businesses will succeed only if management and employees work together'.

She promised the president would do what he can to help the workers 'get through this period and come out as well as possible'³⁷.

Warnaco however denied that it neglected Hathaway and on May 23 it had a preliminary agreement with the newly formed investment group to sell the Hathaway brand name and its clothing factories. Warnaco wanted to dispose of the Hathaway division because of declining sales of men's shirts and predictions that the market would not improve in the near future³⁸.

September of this year (1996) a settlement of Peseta 730 million was paid by VF Spain Investments, the Spanish subsidiary of Vanity Fair Corporation, to Warnaco following a legal case surrounding the distribution of Warner products in Spain and Portugal. VF Spain is the owner of the Vives Vidal (Vivesa) lingerie manufacturer, which had a license to distribute Warner products until the contract was cancelled in 1992³⁹.

STRATEGY

Wachner's merchandising strategy has been to distribute a low-to-high price range of apparel through a wide variety of outlets, including Avon Products, Victoria's Secret and even Wal-Mart. By means of this strategy, Warnaco has grown 16% annually every year since 1989⁴⁰.

Warnaco's strategy can be characterized as maintaining its leadership position as one of the most important intimate apparel manufacturers. The company wants to strengthen its position in Europe, and therefore recently acquired the French lingerie company Lejaby-Euralis, and other companies.

Loss-making subsidiaries, like Hathaway, are divested or sold.

³⁶ Internet, 08-10-1996.

³⁷ Reuter News Service - USA, 18-05-1996.

³⁸ Reuters News Service, USA, 18 July 1996.

³⁹ Expansion, 11 Sep 1996, p.5.

⁴⁰ US News & World Report 6 November 1995 Page 75.

Pushing an aggressive multibrand marketing strategy is paying off for The Warnaco Group. The company is acquiring an increasingly bigger share of the foundations business in the US with a sharply focused arsenal of top brands.

So, Warnaco is poised to expand its marketing presence in Europe, in order to grow the Calvin Klein and Warner's businesses globally⁴¹.

The company's business strategy with respect to its Retail Outlet Stores Division is to provide for a channel for disposing of the excess and irregular inventory, and to shift to more profitable intimate apparel stores to improve its margins.

And Warnaco wants to expand the accessories business, which on a consistent basis generates higher margins than other menswear products.

⁴¹ Women's Wear Daily 8 May 1996 Page 14.

Financial data

Consolidated Income years 1992-1995*

(in \$ million)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Net sales	625.1	703.8	788.8	916.2
Operat. Income	89.8	92.2	99.2	125.6
Net income	(20.2)	24.1	63.3 ⁴²	46.5

* Actually the Warnaco Financial years end in January of the following year, so for instance the above information on financial performance of 1992, actually concerns the year ending January 1993.

Sales in 1990 and 1991 amounted to respectively: \$548.1 million and \$ 562.5 million⁴³.

Net earning posted losses in 1990 (\$ -7.9 million) and in 1991 (\$ -19.5 million), but since then they have returned to robust profits. In 1994 net profits represented 8.4% of sales. The company is highly leveraged, and its net sales per employee (in 1994: \$53,300 and in 1995 about \$62,000) are smaller than average⁴⁴.

1995

Overall, Warnaco's Intimate Apparel Division had sales of Dollars 689.2 million in the year ended January 6, 1996, up 21.9% from Dollars 565.4 million in 1994 (Jan. 1995). International sales of this division amounted to \$100 million, or 14.5% of total division sales.

The Calvin Klein label - powered by a Dollars 10 million annual advertising and marketing budget - has been a key brand in Warnaco's stable of brands⁴⁵. Calvin Klein underwear, which added a women's collection this year to the men's line Warnaco acquired in 1994, was a star performer, with a 162 percent sales increase for the year 1995, to Dollars 160 million from Dollars 61 million in 1994.

Net sales in the Menswear Division for fiscal 1995 were \$185.7 million (20.3% of total revenues), compared to \$183.7 million in fiscal 1994. International sales accounted for approximately 5% of net revenues of the Menswear division in 1995 (\$8.8 million).

The Retail Outlet Division generated a 4.3% increase in sales to \$41.3 million, up from \$39.7 million in 1994⁴⁶.

Intimate apparel generated 75.2% of total revenues, but even 83.7% of gross profits in 1995.

⁴² Moody's Industrial Manual, 1995, vol.2, p.6777.

⁴³ Textile Outlook International, November 1995, p.91.

⁴⁴ Textile Outlook International, November 1995, p.117.

⁴⁵ Women's Wear Daily 8 May 1996 Page 14.

⁴⁶ Warnaco, Annual Report, 1995, p.3.

Net Revenues per Division 1992 - 1995

(in \$ million)

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Intimate Apparel	348.8	423.2	565.3	689.2
Menswear	200.0	243.2	183.8	185.7
Retail Outlet	40.3	37.4	39.7	41.3

The Warnaco Group reported income before nonrecurring items jumped 38.9 percent in the fourth quarter and 37.5 percent in the year. The sales and earnings gains were driven by continued growth in the intimate apparel businesses, including Warner's, Olga and Calvin Klein underwear and intimate apparel brands, as well as significant increases in operating margins.

After special items, Warnaco's 1995 net income was Dollars 46.5 million, against Dollars 63.3 million, a year earlier. Sales rose 16.2 percent to Dollars 916.2 million from Dollars 788.8 million. International operations generated \$108.7 million of net revenues, or 11.9% of the total net revenues of 1995.

Warnaco's total debt at year-end 1995 was \$265.9 million, compared to \$378.8 million at year-end 1994.

Financial performance Q4 1995 - 1994

(\$ million)

	<u>Q4 1995</u>	<u>Q4 1994</u>
Intimate apparel	206.7	172.0
Total net income	8.5	23.5*
Total sales	271.1	232.8

*1994 Q4 included Dollars 9.9 million tax credit.

Calvin Klein underwear sales grew 115 percent in the fourth quarter, while combined sales of Warner's and Olga were up 29 percent⁴⁷.

At the end of financial year 1995 the average number of shares was: 45,278 (41,285)⁴⁸.

1996

The growing demand for Calvin Klein innerwear was cited in Warnaco's 1996 first-quarter results. Earnings in the quarter ended April 6, 1996 jumped 43.3 percent to Dollars 15.2 million on a 5.8 percent sales gain.

Financial results of Q1 + Q2 and Q2 1996

(in \$ millions)

	<u>3 months ended</u> <u>July 6, 1996</u>	<u>6 months ended</u> <u>July 6, 1996</u>
Net revenues	222.8	429.3
Net income/loss	(55.5)	(40.3)

⁴⁷ Women's Wear Daily 23 February 1996 Page 2.

⁴⁸ Reuter News Service - USA, 22 February, 1996.

In the second quarter Warnaco reported a 30% decrease in net revenues of the Hathaway division, and agreed to sell Hathaway⁴⁹.

Sales of the intimate apparel division in the second quarter of fiscal 1996 rose 4.1 percent to Dollars 165.5 million from Dollars 159.0 million in the same period of 1995. Net revenues for the six months ended July 6, 1996 increased 5.5% in this division, compared to the same period in 1995.

Menswear division net revenues increased 11.5% to \$45.5 million in the second quarter of 1996, from \$40.8 million in 1995. This increase was attributable to an increase in sales of Chaps and Calvin Klein⁵⁰.

Wholesale sales of Calvin Klein women's innerwear, as reported, are expected to almost double in 1996 to Dollars 80 million, buoyed by the addition of sleepwear, which began shipments May 25. Wholesale sales of the men's underwear business the first full year of distribution by Warnaco jumped to Dollars 103 million in 1995 from Dollars 61 million.

Wholesale volume of Speedo bras could reach Dollars 20 million this year, according to Warnaco officials⁵¹.

Warnaco will spend Dollars 15 to 20 million this year in advertising intimate apparel brands, in media and TV time⁵².

Warnaco has recorded an expected fiscal second-quarter loss related to its divestment of the Hathaway unit. For the quarter ending July 6, 1996, Warnaco reported a Dollars 55.5 million loss⁵³.

Before the take-over of Legaby-Euralis, Warnaco generated turnover barely reaching Dollars 50 million from its European operations. By taking over the French lingerie firm Warnaco wished to strengthen its position in Europe. The company planned to shift its European headquarters from Nottingham to Lyon, 'hence developing employment opportunities in the region', said Warnaco's financial director William Finkelstein. At the time of the take-over Legaby-Euralis employed 1,100 staff in France⁵⁴.

Legaby was acquired in July 1996 for an estimated amount of FFr.500 million. Turnover of Legaby in 1995 had amounted to FFr.485 million, but the company recorded a FFr.6.4 million loss in that year.

⁴⁹ Wall Street Journal 3 Star, Eastern edition Predicasts, 02-08-1996.

⁵⁰ The Warnaco Group, Form 10-Q, July 6, 1996.

⁵¹ Women's Wear Daily 8 May 1996 Page 14.

⁵² Women's Wear Daily 2 February 1996 Page 8.

⁵³ Wall Street Journal 3 Star, Eastern (Princeton, NJ) Edit. 2 August 1996, Page 11.

⁵⁴ Les Echos, 20-06-1996.

Employment

On January 6, 1996 the Warnaco company had approximately 16,200 employees. This figure is excluding the Lejaby and Euralis employees. Of these employees about 18% were represented by labor unions.

The take-over of Lejaby-Euralis added 1,100 employees to the group total. However the sale of Hathaway lowered the total staff number again with 550.

The writer of this report has no information on the employee numbers of GJM and Nancy Ganz Body Slimmers, two companies that were also recently acquired, but assumes that both companies are only based in the US. Therefore their staff numbers are not important to decide on EWC-obligations of the Warnaco Group.

The estimated total number of employees of the Warnaco Group at this moment is between 16,000 and 17,000 people, depending on the fact whether or not layoffs have taken place at the Lejaby-Euralis company after its take-over. And also depending on the staff numbers of GJM and Bodyslimmers.

Of this estimated Group total probably between 1350 and 1800 are employed in Europe.

These figures do point out that Warnaco is required to apply to the directive of European Works Councils. The total amount of employees within the EU is more than 1000, and there are at least two countries with more than 150 people employed by the company, France and the UK.

In the Belgium subsidiary only 19 persons were employed in 1995.

Annex I List of available addresses, Europe + HQ

The Warnaco Group, Inc. Headquarter
90 Park Avenue,
New York
NY 10016
USA

tel.: 1-212-661 1300
fax.: 1-212 687 0480

total number of employees: 16,200 (Jan.'96)

Belgium

Warner's Company Belgium SA
Rue Henri Wafelaerts 47
1060 Brussels

tel.: 32-2-5344400
fax.: 32-2 5394004

number of employees: 19 ('95)

UK

Warners (UK) Ltd.
35 Wigman Road
Bilborough, Nottingham
NG8 3HY

tel.: 0602 293034
fax.: 0602 295760

number of employees: 650 ('92)

France

Warner's Aiglon
66 rue du Faubourg St.Honoré
75008 Paris

tel.: 1 47428132
fax.: 1 42661415

Number of employees: 50 ('95)

Lejaby

Ave du Loup Pendu
69140 Rillieux-La-Pape

tel.: 72 01 55 00
fax.: 78 88 55 14

number of employees: on this address: 200
total company: 700

Lejaby Rasurel

address: idem

Lejaby

37, Ave Marmoz
01000 Bourg-en-Bresse

tel.: 74232724
fax.: 74232973

Lejaby

route de Thil Beynost
01700 Miribel

tel.: 78552816
fax.: 72258083

Lejaby

5, rue Jean Jaures
01202 Bellegarde sur Valserine

tel.: 50480268
fax.: 50480069

Lejaby

Route de Levau
38200 Vienne

tel.: 74850535
fax.: 74780581

Lejaby

3, rue de l'Alcazar
42700 Firminy

tel.: 77563310

fax.: 77566376

Lejaby

9,rue du Faubourg St.Honoré
75008 Paris

tel.: 1-42652266

fax.: 1-42650131

Euralis

Avenue du Loup Pendu
B.P. 117
69142 Rillieux La Pape Cedex

tel.: 78881030

fax.: 78885514

number of employees: 450 (total company, '92)

Euralys

Avenue du Loup Pendu
69140 Rillieux La Pape

tel.: 72015500

fax.: idem

number of employees: 400

Euralis

Le Teil
07400 Le Teil D'Ardeche

tel.: 75490391

fax.: 75522725

Euralis

La Guide
43200 Yssingeaux

tel.: 71591260

fax.: 71651595