



# A Platform for Consistently Positive Performance

**An Interview with Joseph R. Gromek, President and Chief Executive Officer, The Warnaco Group, Inc., New York**

**EDITORS' NOTE** *Joseph Gromek has served as president and CEO of Warnaco since April 2003. A fashion industry veteran, he served as president and CEO of Brooks Brothers, Inc., from 1996 to 2002, and held senior management positions with Saks Fifth Avenue; Limited Brands, Inc.; and Ann Taylor Stores Corporation. He is the chairman of the board of Volunteers of America and a member of the board of governors of the Parsons School of Design in New York.*



Joseph R. Gromek

**COMPANY BRIEF** *Headquartered in New York, The Warnaco Group, Inc., (NASDAQ: WRNC), is a leading apparel company engaged in the business of designing, marketing, and selling intimate apparel, menswear, jeanswear, swimwear, men's and women's sportswear, and accessories under such owned and licensed brands as Warner's®, Olga®, Lejaby®, Body Nancy Ganz™, Speedo®, Anne Cole®, Op®, Ocean Pacific®, Cole of California®, and Catalina®, as well as Chaps® sportswear and denim, J. Lo by Jennifer Lopez® lingerie, Nautica® swimwear, Michael Kors® swimwear, and Calvin Klein® men's and women's underwear, men's, women's, junior women's and children's jeans, and women's and juniors' swimwear. For fiscal 2004, the company reported net revenues of approximately \$1.42 billion and net income of \$42.5 million.*

**After a troubled patch in the company's history, are you confident that Wall Street now understands the path you have started Warnaco on?**

We have made excellent progress in assembling and developing a portfolio of powerful brands and the organization, infrastructure, and platform for consistent performance. We believe our accomplishments have been recognized by the investment community. In addition, our customer base has always been supportive, and we are now living up to their expectations by providing them with products and services that meet and/or exceed their expect-

tations. In general, our brands and our business are well positioned for continued growth.

**Are you optimistic for growth in all of your business groups?**

We believe we have organic growth opportunities in each of our business segments. Intimate apparel is a part of our company heritage, and the charge is being driven by Calvin Klein underwear. We see a steady growth in both our women's and men's Calvin Klein underwear businesses. I'm also pleased with the recent performance of the Warner's brand. It's one of the drivers of top-line revenue growth, the retailers are experiencing strong sell through, and the new launches are all doing quite nicely. Helen McCluskey, the president of the intimate apparel group, and her product people really have us going in the right direction.

In our sportswear businesses, we've seen dramatic improvement in profitability. While these brands have always had a respectable revenue base, they weren't as profitable as they could have been. However, right now, sportswear's profitability is running neck and neck with intimate apparel. Calvin Klein Jeans has come a long way, and we believe Chaps represents our single largest revenue-growth initiative and with solid profitability.

We are the largest swimwear maker in the world, with what we believe to be the best brands in the world. Our license, in perpetuity, for Speedo in North America gives us the single largest penetration in competitive swimming, with a 66 percent market share. We've added three new brands to our portfolio for 2006: Calvin Klein Swim in the U.S., Michael Kors around the world, and Ocean Pacific, a brand which we acquired in 2004. We still own two state-of-the-art manufacturing facilities in Mexico where we produce over 20 million swimsuits annually, resulting in great quality at a great value.

**When you took over as Warnaco's president and CEO in April 2003, did you make it a key initiative to put tal-**

**ented employees in key positions within the company?**

Candidly speaking, I was pleasantly surprised by the quality of people within the company. I was expecting to have to do a massive overhaul. However, once we empowered our team, by and large, they responded appropriately. Other than recruiting a few phenomenal executives from the industry, for the most part, we have been able to promote from within, and the results have been very gratifying.

**How do you define your role as the president and CEO of Warnaco?**

I spend a lot of time developing strategies for the company. Also, in order to be successful in the apparel industry, you have to get the product right. So I spend time and energy on working with our people to develop the best product. We've hired additional design staff to help us get "fashion right." Our mission is to make terrific products and make money selling them.

**What made the opportunity to lead Warnaco so appealing to you?**

I thought Warnaco's portfolio of brands was not being leveraged to its full potential. I hoped we could take the company's separate and distinct business units – intimate apparel, sportswear and swimwear – and meld them into one powerful corporation, and leverage that power to wow our retailers with our brands. To accomplish this, we moved most of our operations into our building on Seventh Avenue in New York, and now we can take our retailers through eight floors of our offices and showrooms. People are just amazed with the energy and power that we generate here. I thought if we could accomplish that unification, we would have a good chance at success. And it has worked in our favor.

**What are your other key priorities for Warnaco in the future?**

We have to continue to develop and ensure the continuity of our leadership. We need to have an infrastructure of people and processes in place to support our growth. We will continue to recruit the necessary people in order to maximize our business opportunities in the future. ●

# Marrying Functionality and Design

**An Interview with Frank Tworecke, President, Sportswear Group, The Warnaco Group, Inc., New York**

**EDITORS' NOTE** A 30-year veteran of the retail and apparel industries, Frank Tworecke assumed his current post in May 2004. From 1999 to April 2004, Tworecke served as president and COO of Bon-Ton Stores, and he has also served as president and COO of Jos. A. Bank. In addition, he has held senior management positions with MGR, Inc.; Rich's Lazarus Goldsmith; and John Wanamaker.



Frank Tworecke

**Are you pleased with the performance of Warnaco's sportswear brands?**

Yes, we've made great strides in a number of different brand-positioning initiatives. First and foremost, the management team is clearly focused on delivering the best quality product, with the aesthetics that support brand image, supported by multi-faceted marketing campaigns. Second, we have built an exceptional group of senior executives that support and lead their teams in the implementation of these initiatives.

**Did you have to bring on many new people when you took up your current position with Warnaco?**

We had a strong talent pool of executives at Warnaco when I arrived. Where necessary, we supplemented the existing management team with new personnel.

**Where does Warnaco distribute its sportswear brands?**

Calvin Klein Jeans are sold in department stores and specialty stores in North and South America. Chaps Sportswear is distributed in both the department store and mid-tier channel in North and Central America. We own the Calvin Klein trademark for underwear, intimate apparel, and sleepwear, which is sold globally in department stores, specialty stores, and direct to the consumer through owned and licensed retail stores as well as through our e-commerce site CKU.com.

**How do you position your brands in a competitive sportswear market?**

A brand with good DNA – one that has, over time, consistently delivered quality product that supports the brand

image in the appropriate channels of distribution – has a significant opportunity to grow its business. Both Calvin Klein and Chaps have a good heritage. We believe we have a significant opportunity to build these two brands in the marketplace.

**What demographics do your brands target?**

We appeal to a broad customer base in both Calvin Klein Jeans and Underwear, as well as Chaps Sportswear. In Calvin Klein, we focus on the 25- to 40-year-old fashion customer who has a modern, sexy viewpoint. In Chaps, our target is also on the 25- to 40-year-old but one whose fashion quotient is traditional with a current, updated point of view.

**What are your key initiatives for the sportswear division for the near future?**

To move forward and gain market share and to continue to grow our business to maximize the opportunities that exist worldwide. We are in a competitive business – we can't become complacent with design, distribution, marketing, or sourcing. Specifically, we are focusing on growth and market share gains in our existing distribution channels and expanding our owned retail store initiative by providing innovative, fashion-right product.

**Since you joined Warnaco in May 2004, have things progressed the way you expected they would?**

Retail is a business of change. The progress made met my initial expectations and we also responded successfully to the unexpected shifts in the marketplace, such as department store consolidation. We have shifted our perspective to the design function. We don't just make "pretty" things. The more we marry functionality with design, the more powerful the product line and the easier it is to communicate to our customer that our products have substance. As a result, we've altered our processes to make sure that we include function with design.



**Do you think Wall Street now has an effective understanding of where Warnaco is headed?**

Our management has communicated timely and effectively with Wall Street. We have consistently outlined our strategic initiatives with the street and have consistently delivered on results. We are getting recognition today for our current market position, as well as our potential.

**Is it a challenge for you to keep your eyes on the big picture, and not become heavily immersed in the details of running the business?**

My role is not to pick the color of a T-shirt to be put in our line. Rather, I have a much more strategic role, determining how to position the brand and market our products. On the other hand, retail is detail, and I get involved to levels that are necessary to accomplish our objectives. My goal is to keep an appropriate balance between tactics and strategy.

**Are you ever satisfied?**

Yes, at times. For instance, with a project well executed, an individual promoted from within, a creative marketing promotion effectively implemented, delivering bottom line numbers, etc. There are many times when I'm satisfied with great tactical implementation and results. But having said that, we have not reached our full potential and, until then, I won't be satisfied. ●

# Intimate Apparel's Three-Level Strategy

**An Interview with Helen McCluskey, President, Intimate Apparel Group, The Warnaco Group, Inc., New York**

**EDITORS' NOTE** *In her current post as president of the intimate apparel group since July 2004, Helen McCluskey previously served as group president of the moderate women's sportswear division of Liz Claiborne Corporation and president of Playtex Apparel, among other marketing, operations, and general management positions with that company. She spent 18 years in Sara Lee Corporation's intimate apparel divisions.*



Helen McCluskey

**What are Warnaco's key intimate apparel brands?**

We have a portfolio of brands. Other than Calvin Klein underwear, which today is managed out of our sportswear group, Warner's is our largest domestic intimate apparel brand. It is part of the foundation of the company and is experiencing a good deal of growth right now. We also have Olga, a figure enhancement brand, and Body Nancy Ganz Shapewear, which round out the U.S. core intimate apparel business. We also own Lejaby, a French fashion brand. It is currently the number-two premium-priced brand in France and enjoys worldwide distribution. While Lejaby is largely concentrated in Europe we have recently expanded it to Asia.

**So the growth of Warnaco's intimate apparel brands will occur on a global basis.**

Yes. We have a three-level strategy for the intimate apparel group. First, we need to fully leverage our portfolio to broaden our reach and appeal to consumers. Currently, we're competing in about 17 percent of the U.S. market. So there are still segments within U.S. intimate apparel where we can be competing in a bigger way. Second, we will focus on channel diversification within the U.S., looking for mass market and specialty retailer opportunities. Third, we are looking at geographic expansion. As mentioned, we're bringing Lejaby to the Asian market, and have set up an office in Taiwan. Among our U.S. brands, Warner's

is the most likely to expand globally.

**How do you demonstrate to retailers and consumers what makes Warnaco brands different in the marketplace?**

Over the course of the last 10 years, it has certainly become more difficult to differentiate. There are more brands competing for space with fewer retailers, and retailers are allocating less space to

intimate apparel. Fortunately, Warnaco's brands have a strong heritage.

Warner's is one of the oldest intimate apparel brands in the market. We can capitalize on our heritage while contemporizing it to make our products relevant to today's consumer. That's what has been working for Warner's specifically. We are also repositioning Olga, our full figure heritage brand. The combination of heritage, which gives us credibility, and innovative fashion is how we can differentiate our brands.

**Do Warnaco's intimate apparel brands target a specific market?**

We have a very diverse portfolio of brands. Lejaby has a high-end niche market. Warner's and Olga appeal to a much broader percentage of the population. We have a mixture of brands that appeal to different consumers, and that's what is great about our intimate apparel group. It's just up to us, as the keeper of the brands, to make sure that we keep each brand focused and distinct.

**When you joined the company in July 2004, you had already had a successful career with many well-known, well-thought-of brands. What excited you about the opportunity? And, looking back now that you've been here some time, has it been what you expected?**

What excited me about joining Warnaco was the opportunity to become part of a new management team whose objective was to transform the company both organizationally and operationally. It has proven to be a very enriching experience so far.



**How do you define your role as the leader of Warnaco's intimate apparel division?**

A year ago, my job was to roll up my shirtsleeves, dig in, determine the condition of the business and solve problems. Today, now that we are headed in a better direction, I have more of an oversight role. I have to make sure that we continue to have the right people in the right roles and that they are focusing on the right things and making progress. I also spend a lot of time communicating with the broader scale organization about our division's status versus our objectives and our future plans. So, in the past year, I have seen my role evolve from one that was focused on managing the specifics of the business into one that is focused on managing people and communications.

**In the coming years, what will be your key priorities for Warnaco's intimate apparel brands?**

Well, now that we have stabilized the business and stopped the decline, we absolutely have to generate top-line growth. We all have to stay completely focused on delivering the absolute best product in the marketplace and then support that with great marketing. Secondly, we have to continue to focus on internal disciplines and execution in our cost-control measures. We made incredible progress in 2005, and we cannot lose that focus as we strive to grow the topline. So we have to stay buttoned up, improve our profitability, and drive top-line growth, continuing on the path we're traveling today. ●



# Building and Capitalizing on Strong Brands

An Interview with Roger A. Williams, President, Swimwear Group, The Warnaco Group, Inc., New York

**EDITORS' NOTE** Roger Williams first served the Warnaco Group as COO of Olga intimate apparel, group president of Warnaco retail, and EVP and CFO of Warnaco from 1982 to 1990. Prior to assuming his current post in May 2002, Williams owned his own consulting firm, which he founded in 1998. From 1994 to 1997, he served as executive vice president of Guess?, and prior to that as executive vice president of Donna Karan from 1992 to 1994 and COO of Authentic Fitness Corporation from 1990 to 1992.



Roger A. Williams

## What brands fall under the Warnaco swimwear umbrella?

The Warnaco swimwear group is the largest swimwear company in the market, with distribution in all channels – from Wal-Mart and Target to mid-tier retailers like Kohl's, Sears, and JCPenney, and from sporting goods and specialty stores to high-end department stores. Our biggest brand is Speedo – an iconic name and number one in the sports swimwear field. With men's, women's, and children's lines, Speedo has a tremendous amount of brand recognition and visibility in the market. It's the number-one swimwear brand in the world, with a 40 percent market share in the women's and a 50 percent market share in the men's sporting-goods channels.

In the department store channel we have Anne Cole, Nautica, Michael Kors, and Calvin Klein. Our Calvin Klein license is worldwide, as is our license with Michael Kors. We also manufacture private brands like Apartment Nine for Kohl's, Bijou Bijou for JCPenney, and Merona for Target. Further, in the mass channel we own the Catalina brand, which sells at Wal-Mart. In August of 2004, Warnaco acquired Ocean Pacific [OP], a brand that offers swimwear and apparel that is sold in department stores, specialty stores, and surf shops.

## Which of those brands present the strongest growth opportunities?

We have several growth opportunities. Calvin Klein and Michael Kors should

grow because they are new licenses with worldwide reach. Speedo and OP both enjoy strong brand recognition. Historically we have grown Speedo through product extensions, adding men's water shorts, women's aquatic fashion swimwear, and children's swimwear to the core performance swimwear business. In the equipment area, Speedo has grown to a 65 percent share of the goggle and other related water-exercise equipment markets in North America. While Speedo continues to grow in the swim categories, we are also expanding beyond the pool and beach. We continue to expand the \$40 million-dollar footwear business we started three years ago. Activewear is another area we are expanding and it should also be a key driver of growth for us. We're leveraging the performance and fashion elements of the Speedo brand to extend our range of products. OP offers growth for us in swimwear as well as young men's and juniors apparel both domestically and internationally.

## Does Warnaco distribute the Speedo brand globally?

Warnaco has the license rights for Speedo in North America and the Caribbean Islands in perpetuity, handling all the design, manufacturing, distribution, and sales. We also collaborate with Pentland International, which owns Speedo International, on worldwide sports marketing and product technology. The fun part of our involvement with the Speedo brand is our sponsorship of the world's top swimmers and volleyball players. At the last Olympics, more than 25 percent of all of the medals won by Team USA were won by Warnaco-sponsored athletes.

## Do you sell any of your brands to the consumer via the Internet?

We have an e-commerce site for Speedo, www.speedousa.com, which has been in existence for a number of years, and represents a profitable segment of our business. We are exploring e-commerce opportunities for our other brands, as well as other direct-to-consumer alter-

natives, such as retail outlets, but that is not on the immediate horizon.

## How are your brands differentiated in the marketplace?

Each of our brands has unique characteristics that are obvious to their ultimate consumers. For instance, the Anne Cole line targets a female customer who wants both a sexy suit to wear on vacation with her husband and a more modest, yet very attractive suit that she can wear at the pool with her kids. The Michael Kors line is very fashionable and shows Michael Kors' influence in its design, while Speedo is a sports-oriented brand. We do not buy or license brands that compete directly with one another, insuring they each have different design characteristics that distinguish them from their competitors.

## How does technology affect the design of your swimsuits?

Technology has led to innovations, most notably in the design of our fabrics. For instance, the Speedo line for the last Olympics was constructed of what we call Fast Skin, which creates less drag in the water than the human body. The construction of the Fast Skin suits is also aerodynamic and the suits themselves are made specifically for the stroke the swimmer is using. Speedo XD suits, introduced this year, are coated with a substance that doesn't absorb water. So they dry a lot quicker, move faster in the water and keep the swimmers warmer. In our Anne Cole line, we have Suddenly Slim suits, which are constructed in a way to enhance a woman's figure. Those are highly engineered garments.

## What are Warnaco swimwear's key priorities for the years ahead?

To continue capitalizing on our growth opportunities with Speedo, Calvin Klein, and Michael Kors worldwide. Ocean Pacific also presents significant opportunities. We bought that brand specifically because of its brand recognition. It was a tremendous asset with tremendous growth potential. We have strategic growth opportunities domestically and internationally that fit well within the Warnaco strategy of building and capitalizing on strong brands. ●