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EDITED TRANSCRIPT

UFI - Q3 2016 Unifi Inc Earnings Call

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Marco Rodriguez *Stonegate Capital Management - Analyst*

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PRESENTATION

Operator

Good morning, everyone. On the call today is Bill Jasper, Chairman and Chief Executive Officer, and Sean Goodman, Vice President and Chief Financial Officer. During this call, management will be referencing a webcast presentation that can be found at www.unifi.com. The presentation can be accessed by clicking the third-quarter conference call link found on the Unifi homepage.

Management advises you that certain statements included on today's call will be forward-looking statements within the meaning of federal securities laws. Management cautions that these statements are based on current expectations, estimates and/or projections about the markets in which the Company operates. These statements are not guarantees of future performance and involve certain risks that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied by these statements. You are directed to the disclosures filed with the SEC in the Company's Form 10-Qs and Form 10-Ks regarding various factors that may impact these results.

Also, please be advised that certain non-GAAP financial measures such as adjusted EBITDA, adjusted working capital, adjusted net income, and adjusted EPS will be discussed in this call. And non-GAAP reconciliations can be found in the schedules to the webcast presentation.

I will now turn the call over to Bill Jasper. You have the floor, sir.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Thanks, operator, and good morning, everyone. Roger is unable to join us today, so I will start with an overview of operational activities and general market conditions in the quarter. I will then turn the call over to Sean who will review our financial performance, and then I will close the call by discussing our strategic priorities and outlook for the remainder of the fiscal year.

In looking at the apparel segment, demand for the Company's products continues to be driven by the fact that the production of synthetic apparel in North and Central America has increased in each of the last six consecutive years, and we expect this trend to continue into the foreseeable future.

Pricing for our raw materials initially declined in the March quarter as the price of oil fell below $27 a barrel, but then increased to $38 per barrel by quarter end. This pattern was favorable to margins in the March quarter. Most forecasters do not expect the price of crude oil to increase much from its current level throughout the remainder of the year. So we would anticipate operating in a fairly stable raw materials environment over the next quarter or two, barring any supply/demand issues with either paraxylene or terephthalic acid.

The Company remains on target to complete the 2016 fiscal year capital projects that were included in our annual investor update meeting. We are on track with our plastic bottle processing operation scheduled for completion this summer, which will be capable of producing 75 million pounds of clear, polyester bottle flake per year.

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When completed, the Company will be supporting the growth of REPREVE brand with a state-of-the-art bottle processing facility in conjunction with one of the most advanced recycling plants in the world.

In addition to these investments, we will continue to explore opportunities to further increase our texturing and PVA capacities by approximately 10% over the next year to support the long-term demand for synthetic yarns in the CAFTA region, which continues to be an important part of our customers' overall sourcing strategy.

Our PVA development work with customers continues to be very strong, particularly for our REPREVE recycled yarn. REPREVE is gaining traction and a white range of end uses, including an American flag from Seasonal Designs that will be sold at Home Depot, Walmart and online. Look for these flags in corrugated displays inside stores prior to the 4th of July. They will feature a cobranded header and a package insert naming REPREVE.

REPREVE will also be in a hammock produced by Yukon Outfitters and will be sold with the REPREVE woven label bottle tag. REPREVE will also be featured in the Stair Barrier, which is a fabric gate designed to keep children and pets off stairs. The stair barrier is an innovative safety product that will be sold online, and we are excited to be a part of this program.

On the apparel side, REPREVE will be in a new T-shirt that will be available at all parks within the National Park Service. The T-shirt will feature a cobranded hang tag and an on-garment heat seal label.

In addition, Abercrombie and Fitch, which operates more than 750 stores in the US, will be expanding their in-store graphics for a women's denim program to all of their retail stores. This program will include cobranded in-store signage, hang tags and a waist tag.

With that, I will turn the call over to Sean for a financial update.

Sean Goodman - *Unifi, Inc. - CFO*

Thank you, Bill, and good morning, everyone. Our results for the quarter show growth in both gross profit and operating income. This was achieved by a significant increase in the gross margin rate from 12.8% in the third quarter of 2015 to 14.5% this quarter.

I'd like to start the detailed financial review by providing an overview of the impact of specific items on our reported pretax income for the quarter and year-to-date periods. So turning to page 3 of our presentation, you will see a bridge between our third quarter 2015 and 2016 results. In the third quarter of fiscal 2015, we reported pretax income of $12.5 million. This was after loss on extinguishment of debt of $1 million, and we have normalized for this charge when comparing 2016 to 2015.

Parkdale America. We recorded pretax earnings of $3.6 million for the third quarter. While this does represent a significant improvement compared to Q2, it is still $1.3 million less than the prior year. Parkdale's performance this year has been adversely impacted by competitive pricing pressure, coupled with higher depreciation expenses from recent expansions.

Brazil. While the Brazilian real has recently strengthened relative to the US dollar, the average exchange rate in Q3 of fiscal 2016 was approximately 30% less than the prior year, resulting in a negative impact of around $600,000 on pretax income. And we also recorded a bad debt charge of $400,000 during the quarter.

Pretax income for the quarter would have been better than the prior-year period by $2.2 million without these specific items. Were it not for the impact of these items, our reported earnings per share would be around $0.05 more than the prior-year period as opposed to $0.01 less than the prior-year period as reported.

On page 4, we show the impact of the items just discussed on a year-to-date basis. Year-to-date pretax income before these items would have been $6.3 million better than the comparative period. Were it not for the impact of these items, our reported earnings per share for the nine-month period would be around $0.20 more than the prior-year period rather than $0.11 than the prior-year period as reported.

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Note that Parkdale's results for the first nine months of fiscal 2015 included a bargain purchase gain of $1.5 million, which we have normalized when comparing 2016 to 2015.

Turning to slide 5. You can see the sales and gross profit highlights for the third quarter. Please remember that the discussion here focuses on our core segments, which exclude ancillary operations. Please refer to slide 12 for the consolidated metrics.

Overall, the revenue decline for the quarter was attributable to price changes associated with currency devaluation in Brazil, which adversely impacted sales by around $6 million, and lower raw material costs. While overall revenue declined, our gross profit margin on a segment basis increased from 12.9% in the third quarter of 2015 to 14.7% in 2016, resulting in a gross profit increase of approximately $1.5 million for around 7%.

We achieved this significant margin increase by continuing our strategy to enrich the product mix, focusing on higher margin offerings from our premier value-added portfolio. The substantial benefits are visible, in that all segments are showing margin rate improvement. In addition, as mentioned earlier, our margin did benefit from a favorable raw material cost environment during the quarter.

Looking at the individual segments, the volume decline in Polyester and Nylon is attributable to four factors. One, customer shutdowns associated with the Easter holiday, which fell in the third quarter of this year but was in our fourth quarter last year. Two, customer inventory adjustments associated with the warmer winter season. Three, our strategy to reduce focus on high-volume but low-value product. This resulted in a volume reduction while favorably impacting profitability. And four, as we shift production towards lighter weight, or lower denier yarns, we produce fewer but higher value pounds.

The International segment enjoyed strong volume in margin gains, driven by the continued success of PVA programs in China and recent market share gains in Brazil. Our subsidiary in Brazil has been able to capitalize on its strong market position and disciplined sales and manufacturing practices, while competitors continue to struggle with many of the difficult economic issues that we have seen over the past several months.

On slide 6, we show the year-to-date segment results. For the nine-month period, the overall revenue decline was largely attributable to price changes associated with currency devaluation in Brazil, which adversely impacted sales by approximately $25 million, and lower raw material costs.

While overall revenue declined, our segment gross profit margin increased from 13% to 14%, resulting in a small increase in gross profit. This reflects the success of our mix enrichment strategy, as well as disciplined value-based pricing.

Looking at the individual segments, the average price decline in Polyester and Nylon is attributable to lower raw material costs. The volume declines in Polyester and Nylon segments all occurred during the third quarter, driven by the items that I noted earlier. We are especially pleased with Nylon's gross margin increase of 190 basis points, driven by favorable product mix and manufacturing cost efficiencies.

Revenue in the International segment was adversely impacted by the exchange rate for the Brazilian real and weak economic conditions in Brazil adversely impacting volumes in the first half of the fiscal year. Note that despite the sales decline, gross profit increased as a result of product mix enhancements.

In summary, our strategy of expanding the premier value-added portfolio and overall product mix has secured strong operating results, resulting in a highly competitive environment.

PVA continues to grow as a proportion of consolidated net sales. And for the nine-month period, PVA products represent almost 35% of sales. This is up from 30% at the end of June.

Turning to page 7 and looking at our equity affiliates highlights. At the end of the quarter, the Company had approximately $118 million recorded for investments in unconsolidated affiliates. These investments consisted of our 34% ownership in Parkdale America and our 50% interest in two joint ventures that supply raw materials to our domestic Nylon operations.

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I outlined earlier the significant changes in earnings from our equity affiliates as a result of Parkdale America's results. The details for Parkdale and our Nylon joint ventures are presented on this slide for your reference. During the nine-month period, we received a total of $2.9 million in distributions from our equity affiliates.

On slide 8, we review the Company's balance sheet highlights. Adjusted working capital decreased by $8 million during the third quarter. Adjusted working capital as a percentage of annualized sales was 19.6% at the end of the third quarter, down from 23.1% at the end of the second quarter, and in line with the level at the end of June 2015.

Moving to net debt and total liquidity. The Company ended the current period with $121.8 million of total debt, and net debt of $106.5 million. Net debt increased by approximately $12.4 million from the beginning of the fiscal year, primarily due to growth-related capital projects and share repurchases.

Capital spending is in line with our previously discussed plans for the polyester and recycling businesses. The Company's anticipated total outlay for capital projects as of fiscal years 2016 and 2017 remains at around $100 million.

As of the end of the quarter, our weighted average interest rate for outstanding indebtedness was approximately 2.7%, total revolver availability and liquidity was $78 million and $93 million respectively.

I will now turn the call back to Bill.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Thanks, Sean. Overall results for the quarter were very positive, with the bright spots being the performance of our PVA yarns and the results from our international operations. Our premier value-added yarn portfolio now represents more than one-third of our revenue, putting us ahead of our fiscal goal of 30%.

Our strategy of product mix enrichment is resulting in continued growth in margins as we focus on higher value-added products. Our global footprint for these products now includes the Americas, China, Turkey, Taiwan and Sri Lanka, which means that we can supply our downstream customers anywhere in the world in which they choose to place a program.

To further extend the global availability of our PVA products, capitalize on the projected growth in the Asia region and take advantage of the pending implementation of the Trans-Pacific Partnership trade pact, we will continue to explore opportunities in Vietnam.

Our goal is to be sure we stay close to our supply chain and have REPREVE and our other PVA products available to supply fabric and apparel producers in that region.

In Brazil, we have been very successful in gaining share from one of our biggest texturing competitors which ceased operations as a result of the challenging economic conditions. Sales of our manufactured yarn, which is more profitable for the Company, grew in the March quarter. And we expect this trend to continue as we further consolidate our share gain in Brazil.

Despite challenging economic conditions in Brazil, we have seen our volume grow and expect this trend to continue in the future, which will drive ongoing improvements there. When economic conditions do improve in Brazil, we will be well-positioned to take advantage of the growth in the textile sector that should result.

Volumes and margins in China were also very strong in the March quarter, and our commitment to PVA yarns continues to allow us to stand apart from the mills that are heavily focused on commodity products. We have been experiencing real organic growth in China, and we continue to be pleased with the amount of development activity that is in the pipeline.

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In looking at our volumes, we are running more texturing machines today than we did a year ago, but the ongoing trend toward lighter-weighted fabrics means that we are producing fewer total pounds of yarn as lighter deniers. While this has little effect on revenue dollars due to the higher price of lighter-weight or lower-denier yarns, it does show up as reduced volume measured by pounds produced.

In looking at revenue as Sean noted in his comments, the overall sales decline in the third quarter was driven by a number of factors, including lower sales prices associated with lower raw material costs, devaluation of the Brazilian real, customer inventory adjustments associated with warmer winter weather this year, and the timing of the Easter holiday which fell in the fiscal third quarter this year as opposed to fourth quarter of last year.

Most of the textile industry in the CAFTA region shut down for the Easter week, which means we lost about a week's worth of business from the region in this past quarter. That said, I'm very pleased with the growth in gross profit despite the decrease in revenue in the quarter.

We continue to achieve results like this by focusing on our four key business strategies which are: growing our PVA yarn sales globally, increasing yarn sales in growing regional markets, growing through recycling and sustainability initiatives, and driving operational excellence by controlling cost and improving flexibility through rigorous and disciplined process improvement and price management.

If we continue to execute at a high level across these four strategic initiatives, I am confident we will be in a strong position to drive future profitable growth.

We were also pleased to see improved performance from Parkdale America in the March ending quarter, after a soft December ending quarter that was partially impacted by an inventory correction in the supply chain. Parkdale is currently operating in a very competitive business environment which is reducing their margin somewhat. However, we remain committed to them and the value that they provide our Company long-term.

Turning to trade legislation, the Trans-Pacific Partnership trade agreement was signed in February and it contains strong rules on textile origin and key market access, safeguard and customs enforcement provisions, which should prevent damage to our supply chain and key trading partners here in the US and the Western Hemisphere.

Our national trade associations have come out in support of this trade pact based on its final provisions. It is certainly not a perfect agreement, but the industry worked diligently throughout the negotiations to assure our major concerns were addressed, including a yarn forward rule of origin with few exceptions and a longer duty phase-out period for most products that are considered sensitive to our supply chain in this hemisphere.

The focus of this debate now shifts to Congress. No later than May 18 of 2016, the US International Trade Commission will conclude an economic impact study on TPP. And once the study is completed, President Obama can request that Congress begin a formal review of the TPP enactment legislation.

It should be noted that time set aside for congressional members to be back in their districts during this primary election season and the scheduled political conventions will significantly reduce the number of days Congress will be in session this year. In addition, many congressional leaders have expressed their reluctance to consider a TPP bill before the November elections.

Furthermore, other TPP countries will need to ratify the agreement before it can be implemented. When considering all the prerequisites, it is estimated by many that the earliest TPP could be enacted would be January of 2018. However, at this point, an exact date for a vote in the U.S. Congress and a timeline for enactment remains uncertain.

While Vietnam's inclusion in the agreement was a concern to the textile industry, we believe the TPP legislation is structured in a way that will result in Vietnam taking share from China. Once brands and retailers completely review and understand the final structure of the agreement, we believe that the CAFTA region will remain a viable and important part of their sourcing strategy.

There is room for additional growth in the CAFTA region over the next several years if the industry continues to invest in the supply chain, and we certainly intend to do so.

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Taking a step back, I would like to welcome our two new Board members as well. As you know, the Company recently added James Mead and Paul Charron to the Board, and we are pleased to have them. Jim has been one of the premier executive recruiters in the US and brings valuable sales and marketing experience to the Company through his 14 years at Procter & Gamble.

Paul is the former President, Chairman and Chief Executive Officer of Liz Claiborne Inc., and has been an independent consultant working with major publicly-held companies in the areas of consumer products, fashion and retail.

Both of these individuals bring extensive experience and insights from years of working with leading companies on marketing and strategic growth planning and implementation, and will help provide guidance and mentoring to the management team as we continue our efforts to pilot our future growth and profitability that will enhance long-term shareholder value.

And finally, despite foreign-exchange rate pressure, our year-to-date results remain in line with our expectations at the beginning of the year. And we are reaffirming our previous outlook that adjusted EBITDA be within the high $60 million range for the 2016 fiscal year.

And with that, I will turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Marco Rodriguez, Stonegate Capital Management.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Good morning, guys. Thank you for taking my questions. I just kind of wanted to review a little bit here the volume changes in the quarter by the segments. There is a lot of information; I wasn't sure I was able to copy everything down.

Can you kind of review again by segment what were the major changes here on the volume side?

Sean Goodman - *Unifi, Inc. - CFO*

Sure. Hi, Marco; it is Sean. If you look first at the Polyester segment, looking at the volume there, the most significant impact on the volume in that segment was the timing of Easter. I would say about 75%, three-quarters of the volume decline there is associated with the timing of Easter, the balance associated with the mix and denier changes that we spoke about.

If you look at the Nylon segment, I would say in the Nylon segment about -- just over 50% of the decline in the Nylon segment is associated with the supply chain inventory adjustments. There was more in the Nylon segment than in the Polyester segment. The remainder of the volume decline there would be from Easter and the product mix changes.

And then the International segment showing strong volume growth, that was in both China and Brazil. Brazil driven by the market share gains, that is a significant turnaround for the Brazil business. You may recall in the first six months of the year, we had quite significant negative volume pressure from Brazil, but there is a significant turnaround in that business.

And then China as well had significant volume growth, given the success of the PVA products that we are selling into the Chinese market.

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Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you. And then on the International segment, the main competitor or the major competitor out there, I think you mentioned has kind of shut down operations if I heard you correctly. Is that something temporary or are they shuttering the factory? Any more color there around that?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, this is Bill. I can be pretty specific there. Our understanding is they have shut down for good. And that business, which was quite substantial, is available to us and we are certainly being aggressive taking that share.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you, okay. And what sort of -- I mean, I guess in terms of the way you guys are thinking through things strategically here on the international side in Brazil, I mean what sort of volume growth do you think you can manage or you can see by taking that additional share from this major competitor that's left?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

I don't want to put a number on it because certainly it is going to be dependent on what the economy does there, too. It could be quite substantial. It certainly is going to be measurable and something that would be certainly very positive for us, but I don't know that I want to put a number on it.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you, okay. And then just a little bit more higher level here on your revenue expectations for next quarter. Can you just maybe talk a little bit about how you are thinking about some of the major assumptions like, for example, your expectations on an FX impact year over year and raw material pricings when you compare year over year?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Okay. I mean, from an FX standpoint I think we are probably going to be looking in the range of a $4 million or $5 million impact versus the previous year, just based on the weakened real versus what it was a year ago.

From a raw material standpoint, our expectation would be they're going to be relatively flat, and that is not a bad thing for us. We prefer our raw materials to be relatively flat. So that's certainly the expectation now.

Barring any major upset in the petroleum markets or in the markets for polyester ingredients, we anticipate that would be relatively flat, though they are certainly going to be at a lower level than they were a year ago. But not as significant as they were third quarter versus the previous third quarter.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you. Okay, that is helpful. And then kind of shifting here to the gross margin improvement you saw year over year. I know you have kind of outlined the some of those the major impacts there, but can you kind of like help us bridge the gap just kind of ranking wise and what sort of impact, if you can, that you saw through that 170 basis point improvement year over year?

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Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, I think I can answer that in very general terms. It is related to really two things. One is the growth of our higher value PVA products. We have seen significant growth there. And the second item is there was a program -- and I won't talk about the customer, but there was a program that was a very low value program that we essentially walked away from, which certainly wasn't adding any positive momentum to our gross profit.

Therefore, I would say the primary reason would be the growth of our higher value products in the mix, and then a secondary reason would be we did decide to walk away from a very low-value program.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you. And was that, that low-volume program, was that in one particular segment?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

It was in the POY business.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you. And then lastly, and I will jump back in the queue, I heard that you put out the CapEx spend for the next couple years. I was wondering if maybe you could put perhaps a little bit more detail in regard to that, just kind of laying out where you are in terms of your expectations on that recycling plant and then other capital projects, and how you kind of expect that money to be spent through those years, if you will.

Sean Goodman - *Unifi, Inc. - CFO*

It is Sean, Marco. So the capital projects for 2016 are on track. That is around $60 million that we are spending in fiscal 2016. We are expecting to spend around $40 million in 2017 on CapEx. The bottle recycling plant is on schedule for completion by the end of this fiscal year, and so we expect that to be up and running by the beginning of the 2017 fiscal year.

Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you. And the other general CapEx spend that you mentioned earlier in terms of just supporting the PVA growth, et cetera, how is that kind of looking? Where is that going to be spent? How should we be thinking about the spend there over the next couple years?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

This is Bill. Our anticipation, I think, as we have stated before is to spend somewhere in the $30 million to million range next fiscal year. A portion of that is going to be an additional expansion of our REPREVE recycle center as opposed to the bottle washing, and that will be some time mid next fiscal year.

In addition to that, we will be spending it on the potential expansion of texturing, to some extent, which we have talked about. I think the way to think about our capital spending is typically $10 million to $12 million a year is going to be for general maintenance capital.

And I think the additional capital, you should view that having somewhere in the three- to five-year payback. So if you wanted to put some numbers on it as to how it might affect our earnings in EBITDA. We typically would look at a three- to five-year payback on those projects.

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Marco Rodriguez - *Stonegate Capital Management - Analyst*

Got you, perfect. Appreciate it, guys.

Operator

Chris McGinnis, Sidoti & Company.

Chris McGinnis - *Sidoti & Company - Analyst*

Good morning, thanks for taking my call, and nice quarter.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Thanks, Chris.

Chris McGinnis - *Sidoti & Company - Analyst*

So I'm going to jump around a little bit, but I was just going to start with maybe can we walk through PVA and maybe touch on REPREVE; maybe any new customers on the REPREVE side that are notable. And then second, maybe the growth rates of REPREVE and PVA in the quarter on a year-over-year basis.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, I will give you some general numbers, Chris. First of all, as far as new customers, I mentioned a few in my script there, and they are relatively small programs. But I think what we are seeing is we are seeing an expansion of REPREVE into a lot of different segments now.

We are also seeing growth as some of our existing customers, I mean -- certainly with Ford, we are in almost everything that they produce now that has cloth interior. So we are seeing growth there.

I think in general, our PVA is growing about 15% this year, and I think you could assume that REPREVE is growing at about the same rate. I mean we typically are seeing that. So I think that answers your question.

Chris McGinnis - *Sidoti & Company - Analyst*

No, that is perfect. I appreciate it. Just touching on Parkdale, it sounds like -- I think you said a little something about a competitive environment, more competitive environment. Can you maybe just talk about the annual outlook that you think of what the Company can produce or at least generate for you on the equity affiliates line?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, let's talk. It is a little difficult to project, but I think what you saw in this past quarter is probably going to be what you see for the next couple quarters pretty much. A little bit less than maybe we have seen in the past from an earnings standpoint, but not significantly different.

And basically what is happening there is there has been some new capacity in cotton spinning that has come online, and I think Parkdale has taken the position that they are going to hold their share and they're not going to give any share up, which I think is the right thing to do. And I would expect there would be probably no loss in volume, though there may be some squeeze on the margin side for the next couple quarters.

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But that said, I think what we saw this past quarter is probably indicative of what we should see in the next couple quarters, though I certainly can't predict that with certainty.

Chris McGinnis - *Sidoti & Company - Analyst*

Sure. No, I understand. Thanks for the color on that, Bill. Just touching on the margin profile, especially in the International operations, is that kind of a run rate that we should think about, Sean, I think going forward? And I think it is one of the strongest that I have seen in quite a while, just on the International operations.

And can you maybe talk -- is that because of the China business -- the base business? Maybe just dig into that improvement a little bit more.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

I will start with Brazil. I mean, certainly as we gain share in Brazil, the mix of products that we would be picking up is going to be driving what our margins are going to be like there. But I think they should be fairly consistent with what you saw for the past quarter.

Now, obviously, whatever the currency does is going to have an impact on how that reflects back on our numbers. But I think you could assume that the margins that you see in Brazil are going to stay fairly consistent.

In China, we are growing pretty significantly in China, and it is in a mix of products that have varying levels of margin. So I think what you saw this past quarter, it's probably indicative of what you are going to see going forward; though if we were to pick up a larger program there with lower margins, it may affect that a little bit. It is not a huge business right now, so any substantial new pieces of business we pick up are going to have a pretty substantial impact on what the gross margin is on the average there.

So it is hard to say whether it is going to stay exactly that way. I think what I can say is that everything we do in China pretty much is PVA. So you should expect to see better margin performance there than you would through the average of the rest of the Company.

Chris McGinnis - *Sidoti & Company - Analyst*

Sure. No, I understand, that is -- over 500 basis points is pretty good improvement just on that. Let me just check on anything else here. Oh, just on the Brazil business that you were talking about. With the size of the loss of the competitor and that opportunity, can you maybe just talk about maybe your capacity right now, where you are at and if you did knock it out of the park, would you have to expand or are you comfortable with that, kind of your current set of operations there?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes. If we knocked it out of the park, we would probably have to add a few texturing machines down there, and we are certainly in a position to do that if necessary. It is business that would certainly justify that.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. And then one -- I guess one last question on the margin profile. And I know you went through this, Bill, so I apologize. You mentioned the PVA being the biggest kind of portion of the business. How much is raw material benefiting the current gross margin?

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Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Not a lot because raw materials, even though they dropped over the first half of this fiscal year, they went down a little bit and then back up. So they were fairly steady in this past quarter. So not a big impact from the raw materials on our margins this past quarter.

The majority of the impact we saw was really increases in high-value product and a lesser decrease in a very low-value product.

Chris McGinnis - *Sidoti & Company - Analyst*

Okay, awesome. Thanks again, and great quarter.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Thanks.

Operator

Eric Pisauro, Regency Group.

Eric Pisauro - *Regency Group - Analyst*

Good morning, gentlemen. Nice job on the gross margin improvement. It looks to me that the Company didn't buy back any stock in the third quarter. Can you please explain that and provide an update on the buyback program?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, I will tell you what, I will give you the reason and then maybe Sean can give you an update. Basically, we have got places to put our cash which are, in our opinion, more valuable in terms of shareholder return than buying back stock. Simply, we make strategic decisions all the time about how to deploy our cash, and right now we are essentially deploying all of our cash into capital improvements which we feel will have a better return than buying back stock at this time.

And we certainly make those kind of judgments all the time and that could change in the future, but that is where we are right now.

Sean Goodman - *Unifi, Inc. - CFO*

It is Sean here. So we bought back $6.2 million in the first quarter of the year. We haven't bought back any additional shares since that. We do still have available another $27.6 million on our buyback authorization. So we would be looking at that as one option for cash deployment. But as Bill said, we have very good opportunities to deploy our cash to grow and to better the business at this point.

Eric Pisauro - *Regency Group - Analyst*

And when you think about your cash that is available, are you considering your revolver as well?

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Sean Goodman - *Unifi, Inc. - CFO*

The $27 million I quoted to you was the authorization that we have for buybacks. But yes, when we consider our cash available, we would consider all of the availability including the credit facilities.

Eric Pisauro - *Regency Group - Analyst*

All right, thank you.

Operator

(Operator Instructions) It looks like we have no other questioners in the queue at this time. So I would like to turn the call back over to management.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Okay, In conclusion, we feel like we had a very good quarter. We anticipate our fourth quarter is going to be very strong, and certainly we look forward to significant improvement over the next couple of years as our capital investments come online and begin to provide benefit to the Company. And with that, I think you all and have a good day.

Operator

Ladies and gentlemen, thank you again for your participation in today's conference call. This now concludes the program and you may all disconnect your telephone lines at this time. Everyone, have a great day.

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