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PRESENTATION

Operator

Good morning, everyone. Welcome to Unifi's Second Quarter Conference Call. Leading today's call is A.J. Eaker, Vice President, Finance and Investor Relations. A.J.?

A.J. Eaker - *Unifi, Inc. - Vice President of Finance and Investor Relations*

Thank you, operator, and good morning, everyone. On the call today is Kevin Hall, Chairman and Chief Executive Officer; Tom Caudle, President and Chief Operating Officer; and Jeff Ackerman, Executive Vice President and Chief Financial Officer. During this call, the management will be referencing a webcast presentation that can be found at unifi.com and by clicking the second quarter conference call link.

Management advises you that certain statements included in today's call will be forward-looking statements within the meaning of the Federal Securities laws. Management cautions that these statements are based on current expectations, estimates and/or projections about the markets in which Unifi 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 on Unifi's Forms 10-Q and 10-K 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 may be discussed on this call, and non-GAAP reconciliations can be found in the schedules to the webcast presentation.

I will now turn the call over to Kevin Hall.

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

Thanks, A.J., and good morning, everyone, and thank you for joining us today. Our second quarter results reflect building sales momentum across our premium value-added portfolio, which is really driving excellent global sales growth.

In particular, Asia has been very strong over the last couple of quarters and was again this period with record revenue performance. As a result, total PVA now exceeds 45% of our consolidated sales. We are proud of this milestone, and we expect this PVA story to continue to build.

What makes our top line performance even more exciting is that we were able to deliver total net sales growth of 8% despite industry-wide pressure going into the holidays.

As we continue to grow our number of PVA relationships, our position is becoming even stronger, and our technologies are resonating with customers that need innovative solutions centered around quality, performance and sustainability.

I'd like to showcase a few examples of how Unifi's broad portfolio of innovative solutions is helping us win, retain and expand our customer relationships.

First, New Balance recently introduced the NB1-300 sneaker, which is part of its customizable footwear line and made with REPREVE. Online personalization of the classic style allows customers to design custom shoes, selecting from 20 assorted colors for the REPREVE mesh panels.

So our REPREVE offering supplements New Balance's effort to provide unique style to sustainably focused customers, boasting customization and performance characteristics. Unifi supported the sneaker's launch by producing a co-branded 30-second video that aired in the TD Garden Arena during Boston Bruins home games.

Another great example of how we're expanding our opportunity set involves our recent partnership with Williams-Sonoma, Inc. and its subsidiary brands, Pottery Barn and West Elm. Here, they have incorporated the use of REPREVE polyester staple fiber for fill and batting in pillows, quilts and throws. These stores can now offer products that customers love today made for the good of tomorrow.

The last example that I'd like to highlight is PacSun, who recently released a new line of men's denim this past fall in collaboration with Unifi to incorporate REPREVE into the product. This product line has 12 different SKUs, and REPREVE provides a solution aligning with the company's commitment to social and environmental responsibility. It also offers advanced attributes to the denim fabric, including 4-way stretch for max recovery and full range of motion.

As you can see, our list of new PVA relationships is growing nicely. Development timelines don't allow me to share everything initiated in the first half of this year. Much of this will ship in the spring and summer of 2018.

The pipeline has some exciting things I will be able to showcase over the next several quarters.

As our portfolio of relationships grows, we are getting great feedback and increasing visibility. We believe our opportunity is significant, and thus, we're also improving our branding to the broader market.

Along those lines, I'm happy to announce that earlier this month, we relaunched our repreve.com website. The new site will champion REPREVE's positioning through lifestyle images and an increased emphasis on the B2B user experience.

It shines a spotlight on our sustainable technologies through the use of lifestyle imagery and video content that highlights customer successes and the high-quality brand of products that have been made with REPREVE.

It also showcases a new bottle ticker, climbing towards our next milestones of 20 billion and then 30 billion recycled bottles.

I encourage everyone to visit repreve.com as I think you'll agree the site delivers a great way to show customers what's possible with REPREVE.

The last item relating to our strategic partnerships and our charge forward on sustainability is our inaugural Champions of Sustainability Awards.

This is highlighted in the press release later today, and we are recognizing those brands, retailers and textile partners who have excelled at offering sustainable solutions through the use of REPREVE. We have brand partnerships that have transformed millions of bottles and one that has already hit 1 billion bottles. We want to recognize these partners in sustainability. Together, we are making a difference for the good of tomorrow.

Moving onto a high-level view of our operational results during the second quarter. As I mentioned, we are very pleased to see the top-line growth that exceeded our expectations during the period.

International revenue accelerated and grew 30% in the quarter led by our performance in Asia. The investments we have made in our team and supply chain in Asia continued to show through. Many of our largest new customer partnerships source through Asia, so it is critical that we can service their volume needs as they grow with us.

We also continued to see strong growth in our Brazilian market. Brazil continues to present substantial opportunity. Our team in Brazil is performing exceptionally well.

Demand in our U.S. and Central America businesses was challenged as customers in the region were cautious heading into the December year-end. We also did not have the number of new relationships sourcing in this region as we did in the International Segment. Despite these conditions, we were able to achieve another quarter of revenue growth.

Domestic polyester sales were boosted by our recycling operations as we continued to differentiate with polyester Chip and bottle flake sales. This helped to offset some weaknesses in the Nylon business.

An important dynamic to highlight - as we connect with more customers and built relationships by leveraging the REPREVE brand and our sustainability story - we were often able to have discussions across our customers' entire product portfolio.

Discussions often start with the REPREVE platform and advance to the development of added technologies.

A switch from virgin polyester to REPREVE polyester can be low hanging fruit, and the conversion can happen quickly. This carries a good margin but lower than say performance athletic wear or footwear with added technologies for odor control and moisture management.

This quarter, we had a number of new relationships that moved quickly to the REPREVE platform, with added technology adoptions still in development. As a result, this impacted our mix, particularly in the Asia region.

The second factor impacting gross margin was a significant spike in raw material cost. In particular, the price of oil, which is a major component of our raw material base, has risen from the mid-$40 range when we built our 2018 outlook, to more than $60 in January.

Jeff will talk through this issue in a few moments, and we'll walk you through how we're addressing our pricing as a result. Obviously, this kind of rapid increase in the raw materials had a meaningful short-term impact on our margin performance during the quarter as we have a lag between costs and the pricing actions taking hold.

In summary, the quarter was highlighted by strong revenue growth.

We are adding new brands and customers and are ahead of our revenue expectations for the year as these customers are seeing the value-add of our innovative capabilities which help their products resonate with their end users.

We are investing further in our REPREVE brand and our global capabilities as we see a strong opportunity to continue to build momentum in both areas.

While we did experience mix and input cost issues, we have more exciting projects in development, and we are implementing pricing actions as cost increases demand.

The team remains focused on growing our business with customers that win through innovation and sustainability by developing new and exciting technology that commands premium pricing, and we are investing in our global supply chain partnerships.

With that, I will now turn the call over to Jeff.

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

Thank you, Kevin, and good morning, everyone. I share Kevin's excitement about our sales and volume growth, and I'll get into more specifics on our financial performance during the fiscal second quarter. Throughout my discussion, I will be referencing the presentation that is available as part of the webcast and published on our website.

For the second quarter, we are reporting net income of $11.8 million and diluted earnings per share of $0.63 compared to net income of $4.6 million and diluted earnings per share of $0.25 in Q2 of fiscal 2017. In the second quarter of this year, we saw a tax benefit of $3.8 million due to tax optimization actions, and correspondingly, the company's ability to reverse a valuation allowance on certain historical net operating losses. This was not part of H.R.1 tax reform. For last year, it is also worth noting that Q2FY2017 included a $1.7 million divestiture loss related to REPREVE Renewables. Excluding those two items, Adjusted EPS was $0.43 compared to $0.34 in the comparable period last year.

On Slide 3 of our presentation, we show a high-level overview of these results. Here, you can see that net income for the second quarter of fiscal 2018 primarily benefited from increased sales volumes and the valuation allowance reversal.

Slightly offsetting these positive impacts were: lower gross margins driven by the mix shift and higher raw material costs that Kevin mentioned earlier; expected higher SG&A expenses stemming from our planned strategic investments in marketing and our commercial capabilities to generate and expand customer relationships; and higher interest rates now that we have fixed $75 million of our floating rate debt.

Slide 4 provides a similar walk for diluted earnings per share, where you can see the corresponding impact of each driver. Separately, year-to-date, we are reporting net income of $20.8 million and diluted earnings per share of $1.12 compared to $14 million and $0.76 per share for the first half of fiscal 2017. The drivers are fairly similar to the second quarter but do include the improved performance from Parkdale America that we saw in the most recent September quarter.

Turning to Slide 5, you can see the sales and gross profit highlights for the second quarter. Remember that the discussion here focuses on our core segments, which exclude ancillary operations. You may refer to the appendix for the consolidated metrics.

Overall, our combined segments experienced an 8.2% increase in revenue, from $153.8 million in the second quarter of fiscal 2017 to $166.5 million this quarter. This was, again, primarily driven by higher volumes, which grew 14.5% year-over-year and were especially strong in both the International and Polyester Segments, offsetting stronger volumes was the impact of mix driving average selling prices lower by roughly 6.9% during the period.

Moving to gross profit. We saw an increase from Q2 of 2017. However, gross profit margin decreased by 110 basis points in the second quarter.

In terms of performance by segment, polyester sales were up, but the impact of mix, raw materials and higher operating costs associated with our expanded recycling operations, which are still ramping up, were clearly evident here, resulting in lower gross margins. While nylon sales were down, we continued to see improvement in our nylon margins year-over-year, exhibiting improved mix and cost effectiveness. In the International Segment, we saw gross margins declined 280 basis points despite the strong top-line growth. The shift in sales mix mentioned earlier by Kevin was the primary driver of the change in margin.

As Kevin also noted, we have begun to respond to the rapid rise in our raw material cost through pricing actions starting this month.

So the remaining price increases will take a little time to work themselves through the rest of the business. As a result, the inherent lag impacted our Q2 results. In the case that raw material prices pull back, we would expect to recapture some of these lost profits as the impact of raw materials nets over the long-term.

Turning to Slide 6 and looking at our equity affiliates highlights, which consist of our 34% ownership in Parkdale America and our 50% interest in two joint ventures that supply raw materials to our domestic nylon operations, we see multiple bright spots.

Parkdale had a challenging December, but much of the headwind here relates to some unrealized derivative losses. Their pretax loss for this quarter was $376,000, but that was an improvement over the $745,000 loss last year. The year-to-date period shows a considerable increase due to Parkdale's performance in the September quarter.

The nylon joint ventures experienced a pretax earnings increase of $200,000. And I'll highlight the equity affiliate distributions in a moment.

On Slide 7, we review the Company's balance sheet highlights. Adjusted Working Capital of $148.7 million was $12.7 million higher than the same time last year and $13.8 million above the level at the end of June. As a percentage of sales, Adjusted Working Capital was 22.1% or 20 basis points less than December last year and remains in our range of expectations.

During the three-month period, we received a total of $1.5 million in distributions from our equity affiliates. While year-to-date distributions are boosted by a $6.8 million dividend that we received from Parkdale in July 2017. It's also worth noting that we received a routine distribution from Parkdale of $1.8 million after the quarter closed.

Moving to net debt and total liquidity. The Company ended the current period with $133.5 million of debt principal and net debt of $84.9 million. Net debt is down from the $106.7 million a year ago and the $94.0 million at June 2017, on account of lower capex spend and the July 2017 dividend from Parkdale. Total revolver availability and liquidity were $54.4 million and $103.0 million, respectively.

I would also like to note our current interest rate position. Using swaps that terminate in May 2022, we have effectively fixed LIBOR at approximately 1.9% on $75 million of our debt principal.

Looking beyond our cash and debt positions, I'll remind you that we still have $27.6 million authorized and remaining on our share repurchase program. While we prioritize growth investments, we remain open to considering multiple levers to drive long-term value.

Let's end with an update on our financial outlook for fiscal 2018. As you saw in our earnings release today, we are fine-tuning our financial forecast for the fiscal year.

First, our volume growth and top-line have exceeded our expectations during the first half of the fiscal year, and thus, we are revising our revenue growth expectations to land in the low single-digit to mid-single digit percentage range.

However, as a result of the mix issue we saw this period, and more importantly, the rise in raw material costs through the first half of the fiscal year, we are broadening our operating income and earnings growth expectations, excluding Parkdale, to arrive broadly in line with fiscal 2017 on operating income, and flat to mid-single-digit percentage growth on earnings, excluding Parkdale America.

We are lowering our CapEx expectation from $35 million to $30 million.

And we expect our ongoing effective tax rate, excluding significant fluctuations, to continue in the mid-20% range. This mid-20% range excludes periodic impacts of tax optimization and changes associated with December's H.R. 1 tax reform.

Looking forward, we expect the enactment of H.R. 1 tax reform to have a limited impact on our ongoing overall effective tax rate. Based on our current mix of U.S.-based earnings, the lower corporate tax rate does not drive a significant change for the consolidated business.

With that said, re-measurement of our sizable deferred tax liability position did benefit from the step change in the rate, but we currently expect the go-forward impact will not be significant.

This concludes our financial review, and I'll now turn the call back over to the operator to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Chris McGinnis with Sidoti & Company.

Chris McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Good morning. Congrats on the strong quarter. Can you dig in a little bit about the International growth? Was that expected? Is that sustainable growth rate? Can you just dive into that for us in a little bit more detail?

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

This is Kevin. As we've been talking about in the last couple of calls, we've been investing in our organization, in our people in Asia, as we really look to partner with some of these larger customers. A lot of them do source through Asia. And so as the partnership begins and as we start to look at how we can really partner with them and bring products with REPREVE and PVA to the marketplace, we do see that there's considerable volume that still comes through Asia, and we do expect to continue to grow there.

Chris McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

In relation to that, was this strength that you saw which is obviously a considerable rate. Was that expected or was this a surprise to you in terms of expansion? Can you maybe just think about it that way?

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

I think when you start these conversations and you start the development, I do expect that we're going to partner with more large brands and large customers as we go forward. I think some of the adoption coming into the first half happened a little bit more quickly. That was good, however I do expect that you're going to be hearing us talk more about new brand partnerships, new programs that we're developing. And as I said, I would like to share different ones as that's particularly exciting on these calls. You will be hearing more of those as we start to ship into our spring and summer of 2018.

Chris McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay, great. Just one more question, and I'll jump back in queue. Just in relation to the revised guidance with the bottom line being impacted by the raw materials, do you expect a lot of that will be offset by stronger sales? That wasn't really revised upward, even though it were considerably strong in the quarter. Can you maybe just talk a little bit about how do you think about the rest of the year and that the bottom line playing out versus your top line?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

Chris, it's Jeff. I'd start with the gross profit margin, if you look at where we were in the quarter, the greatest impact on the gross margin was really the shift in sales mix, and Kevin talked about that and I mentioned that as well. The Polyester sales being driven by chip and flake sales, and those, are lower-margin items, and they just don't benefit from the added PVA technologies. And then as you guys were just talking about with Kevin, the mix shift in Asia. And then beyond that, it was impact related to the increased raw material costs. That probably impacted us about 70 to 80 basis points. As we look forward, you may have already seen oil prices are at $66 a barrel. This is well above what the Company had originally built its guidance around. As we see that increase coming in our fiscal third quarter, we could see a similar impact on our gross margins. With the softness and volume that we saw domestically and the increased cost that impacted our profitability, we expect revenue momentum to continue to be strong, especially in Asia; however, we are going to continue to face headwinds on the margin front.

Operator

And our next question comes from the line of Daniel Moore with CJS Securities.

Daniel Moore - *CJS Securities, Inc. - Director of Research*

I wanted to see how granular we can get, just in terms of different pieces of the business that impacted gross margin, mix was a little greater on one side and rising raw materials on the other. Can you maybe break out overall of that 80 basis points, how much was rising input costs? And then secondarily, if you can give us a sense for what total sales were of chip and flake this year versus last year to get a little better sense of what's going on?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

Sure. Let me breakdown the gross margin for you. As you mentioned, we saw a decline in gross margin at about 80 basis points, going from 14.3% to 13.5%. If you think about that, there were two primary factors. The largest one was sales mix, and there were 2 pieces to that. I'll break that down a little bit for you. The polyester business in the U.S., we mentioned that chip and flake sales were really what drove the sales volume there and that does not have the margin benefit of the added PVA technology. Kevin mentioned that in the U.S. businesses, there was some conservatism. We saw a little bit of lighter demand on some of the textured yarns. In the International business, we had great success, and again, that was getting people to adopt the REPREVE platform. We have expectations that will develop further into them adopting some of the PVA technologies, which carry higher margins. So those drivers impacted margin the greatest. The second impact was our rising raw material costs and that alone was about 70 to 80 basis points of impact. We were expecting probably in the third quarter raw materials to rise a similar amount. Does that help?

Daniel Moore - *CJS Securities, Inc. - Director of Research*

It does. I don't want to get too granular. But rising raw materials, 70 to 80 basis points of overall? I mean, that sounds like that in and of itself was essentially the entirety of the decline in gross margin or is that in one piece of your business?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

So the rising raw material cost primarily impacted the U.S. polyester business.

Daniel Moore - *CJS Securities, Inc. - Director of Research*

Got it. So 70 to 80 bps in the U.S. poly.

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

Right. Then you can look at our webcast, right, and you look at what happened with the international margins, and that was completely driven by a mix shift.

Daniel Moore - *CJS Securities, Inc. - Director of Research*

Got it. Okay, that does help very much. And then just the magnitude. I don't know if you would want to break that out of kind of what chip and flake sales look like on a year-over-year basis?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

No, we're not going to disclose that.

Daniel Moore - *CJS Securities, Inc. - Director of Research*

Okay. No worries. Shifting gears. I just wanted to talk a little bit about the adoption curve, Kevin, and maybe elaborate a little bit more. You gave us some nice examples in terms of customers, but what you're seeing in the marketplace, a little bit more color about the level of dialogue with new customers. And then lastly for Jeff, maybe just SG&A. Do we think about Q2 as being a good run rate? Or do we have some more incremental spend to go?

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

I'll take the first part of that, Jeff, then I'll hand off. So yes, we continue to have great discussions. I will tell you that one of the things I'm encouraged by is that there continues to be more and more people stepping up to want to make a difference on recycled and sustainability and, really, even part of a circular economy. Even in this last quarter, you've seen some of our major partners' state sustainability goals. When you have that, then you get into a really good conversation about how can we help on delivering that, where can we go. As I said, the early part of the adoption, it's really around what is currently in the line, how do we move from virgin over to REPREVE and recycled. Then as you start to think of longer term, you get into now where can Unifi then step in and help with more technology, more added benefit to really help differentiate. So I feel great about the increased desire to be part of the circular economy in recycling globally. I hope more and more continue to move there because that's just a good thing. And then I think that as we continue those dialogues, we're building some terrific partnerships.

One other thing I would like to highlight, it wasn't part of the question - but I'll take the opportunity to jump in here - is that we also announced yesterday that Al Carey was going to be joining our board. Al Carey, he comes here with great experience on the commercial side of the business starting at P&G and then Frito and now Pepsi. He's going to really help us from a standpoint of how to think about commercializing this business globally. I think the added guidance that we'll get there is fantastic. He also comes from a space of CPG experience. So I think as we look at how we extend this business into CPG, that helps quite a bit as well. And finally, he has a shared value and the company does, too, that comes around recycling and where we can go. I think he's going to be a great addition and those things are really going to help as well. I know that was a little added onto the question there, but I wanted to make sure that I was able to highlight that. I'm very excited about Al joining the board. Jeff?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

Yes. So then, Dan, just to follow-up on your question about the SG&A and the run rate that we saw in Q2. As we talked about, I think, on the last call, we were still in the process of building the senior team during the first quarter, so the full team was on board in the second quarter, we're starting to make some progress on some marketing initiatives that we talked about. We're improving our commercial capabilities. I think at this point, probably, the second quarter is fairly represented. We're getting pretty close to a run rate on SG&A.

Operator

(Operator Instructions) And our next question comes from the line of Marco Rodriguez with Stonegate Capital Markets.

Marco Rodriguez - *Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst*

I was wondering if I could follow up on a prior question here. Just kind of talking a little bit about the mix shift that you guys saw on poly, if perhaps you can talk a little bit about what's kind of driving the higher chip and flake sales versus PVA?

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

Yes, let me start, and then Jeff could fill in as well. As I look at the mix impact, I do think it's helpful to take it a little bit different geographically. In Asia, as our new partnerships are building, as we're really bringing on new programs, a lot of the early adoption is on REPREVE as a platform. Later on, it will be more added technologies into that REPREVE platform, so that's all I would think of natural progression, and so we just had a larger part of the overall. I mean, the overall pie was bigger, and the larger part of that pie was just people in the early phase of adoption, which I feel good about. Domestically, I would characterize this a little bit differently. On a domestic front, it's hard to think back to what it was like going into holiday. People were very cautious here going into the holiday season. It was a tough environment. We continue to have downward pressures on the overall market. I think as you really think through the mix impact in the domestic business, there were a lot of people who also were being very cautious on what they were buying and what they were putting out there. I will tell you coming out of that as we've gone into the post-holiday, much more positive conversations happening. There's more confidence. We're still waiting for that positive feedback to translate into orders and orders on premium part of our mix. However there's a different feel in the marketplace, and I think it's almost hard for us to remember that was just weeks ago when we were kind of going through that environment, where it was just so tough. Hopefully, that's encouraging for the future. Jeff, anything else?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

No, I think that sums it up pretty well.

Marco Rodriguez - *Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst*

Got you. Now kind of shifting here to Asia. Obviously, a prior call called out the pretty good growth you guys saw there in the sales volumes. And I know you guys mentioned Asia's up, doing pretty well, and Brazil is pretty strong. Just wondering if on at least on the Asia side, were these new client wins? Or were these just like kind of existing clients that were ramping up more of your business? And then also if you could maybe talk a little bit about Brazil. I know in the prior calls, you guys had mentioned some increase in competition levels there, if you could just talk a little bit about those two factors.

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

Yes. Let me start with Asia, and then, Tom, I'll let you talk a little bit about Brazil. So in Asia, this is why I feel decent about the adoption curve. We had some customers who have been in the pipeline, have been already moving onto the REPREVE platform and we saw them grow. Then we've had many new customers come on board and what you've seen in our Q2 shipments is a reflection of both the growth in that, but plus new programs that will ship in spring and summer. We're already beginning to make some of that and to ship it. I can't talk about it yet though, because it's not on the open marketplace. But as soon as I can, I'm looking forward to sharing that. So again, in Asia, you were seeing a blend of both. Tom?

Tom Caudle - *Unifi, Inc. - President and Chief Operating Officer*

Marco, this is Tom. In Brazil, we continue to be pleased with our performance. The major competition down there are the imports coming into the country. There have been some discussion about the Petrosuape assets, a major petrochemical complex, with a lot of textiles associated with it up in the northern part of Brazil. That asset has been bought by another entity. We don't see that as being a major competitor in the near term, however we are monitoring the situation to see how it evolves.

Marco Rodriguez - *Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst*

Got you. And then just kind of a housekeeping item here. On the valuation allowance that you reversed in the quarter, is that a function of the new tax law? And then if maybe you could talk about where you guys are, I'm assuming you're analyzing the impact and how that might look in terms of your tax rate going forward.

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

First part of your question, no. The valuation allowance that was reversed related to the NOL, was not part of H.R. 1 tax reform. You're absolutely right, we're working hard. The tax department is putting in a lot of long hours, trying to catch up with all the tax reform and working through what all the impacts of that are going to be. We'll be able to communicate that to you as we move through the quarter. Again, just on the NOL and being able to recognize the valuation allowance, that was really just more of a tax strategy move that our group did internally, so it's completely independent of the H.R. 1 tax reform.

Marco Rodriguez - *Stonegate Capital Markets, Inc., Research Division - Director of Research & Senior Research Analyst*

Got you. And is there a possible estimate as far as where you think your tax rate may lie? And then also, in that same kind of line of questioning, are there any other valuation allowances that might need to be reversed because of the tax law changes?

Jeff Ackerman - *Unifi, Inc. - Executive Vice President & Chief Financial Officer*

So two parts to that. Let me just say that as we look forward on our ongoing effective tax rate, excluding any kind of adjustments like we experienced in the second quarter plus others associated with the adoption of tax reform, we really expect our tax rate to remain in the mid-20% range. Now, separate from that and completely unrelated to tax reform is just the work that our tax team is doing to optimize our tax structure. We will definitely be scouring the books, working really hard to take advantage of any NOLs that we can. I would expect that may happen and probably will happen periodically as the team works on optimizing our tax structure.

Operator

And we have a follow-up question from the line of Chris McGinnis with Sidoti & Company.

Chris McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

This may not be a great question, but I apologize if this has been updated, and I didn't catch it. Could you talk about the joint venture in Guatemala? And is there any update to that offhand?

Tom Caudle - *Unifi, Inc. - President and Chief Operating Officer*

Yes, Chris. This is Tom. Our efforts are continuing on the due diligence on our potential JV in Guatemala. We look at it as progressing normally, but our focus is truly on doing it right as well. As this evolves, if anything happens, we will report it back to you. At this time, we really don't have anything further to say about it.

Chris McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay. I don't know if that progressed at all and if I may have missed it. And then second, could you just maybe talk a little bit about Parkdale and kind of their outlook and how they're being impacted? If they should see better volumes because of the higher prices of oil here and the impact of raw materials for the synthetic market? Can you maybe, just how you guys are working together? I think you've maybe have mentioned some partnerships or trying to work with them. Can you maybe just expand on that relationship?

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

Actually, we just had a great discussion with them earlier in the week. I would characterize their business overall as very much like ours. I think it was a good, but tough end of the year. Same kind of things around just the overall feeling in the marketplace. I think they're seeing the same positive feedback. I think, like us, they're waiting for that positive feedback to translate to firm orders. But there's a different feel. I think they're experiencing their own kind of cost increases. As you know, cotton is up right now. So they're working through just some of that as well. Yes, there are more interested parties in blended products, cotton and polyester blends in this environment. We continue to have dialogue, and I continue to believe there will be opportunity for a partnership in the future.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn the call back to Mr. Kevin Hall for closing remarks.

Kevin Hall - *Unifi, Inc. - Chairman of the Board and Chief Executive Officer*

Well, thank you, everyone. PVA is growing nicely. We're now at 45% of sales. We feel good about that. REPREVE is being well received, and we are focusing our efforts on further expansion of REPREVE, so we look forward to sharing more of that in the second half of our fiscal. Thank you very much.

Operator

Ladies and gentlemen, thank you for participating on today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.
