THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

UFI - Q4 2016 Unifi Inc Earnings Call

EVENT DATE/TIME: JULY 27, 2016 / 12:30PM GMT

CORPORATE PARTICIPANTS

Tom Caudle *Unifi, Inc. - President*

Sean Goodman *Unifi, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Chris McGinnis *Sidoti & Company - Analyst*

Marco Rodriguez *Stonegate Securities - Analyst*

PRESENTATION

Operator

Good morning everyone. On the call today is Tom Caudle, President, and Sean Goodman, Vice President and Chief Financial Officer.

During this call, management will be referencing a webcast presentation that can be found on Unifi.com. The presentation can be accessed by clicking the fourth-quarter conference call link found of 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 and 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 and such as Adjusted EBITDA, Adjusted Working Capital, Adjusted Net Income and Adjusted EPS will 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 Tom Caudle who will provide you with an overview of the Company's markets, raw material trends, and other business updates.

Tom Caudle - *Unifi, Inc. - President*

Thanks operator and good morning everyone. Thanks for joining us today.

Before I get into my remarks, I would like to take this time to thank our employees, customers and Board of Directors for supporting me as I lead this great organization. I've been a part of Unifi for more than 30 years, and it is an honor to take on the role as President. I know both the textile industry and the Company intimately. As the prior head of manufacturing for our global operations, I've helped drive and expand Unifi's unique capabilities to provide innovative textile solutions at the highest levels of quality and customer satisfaction on a global basis.

During my three decades here, the Company has transformed itself numerous times and navigated a tremendous amount of change in our industry. Our success has been driven by talented employees who remain dedicated to relentless innovation and superior customer service. In my new role, we will continue to build upon this great foundation and we look forward to growing and expanding our business across the globe over the years to come.

We spent the last several years transforming our business and shifting our sales mix to higher margin, premium value-added, or PVA products. We remain committed to producing the highest quality, innovative and sustainable products for our customers around the world. This has been the foundation of our success over the past several years, and will continue to be as we grow. We are very excited about the trajectory of our business and our global opportunities.

I'll now walk through a brief overview of the fourth quarter before turning it over to Sean, who will take you through the financial details of our performance for both the quarter and our 2016 fiscal year. I will then end with some comments on our outlook and plans for our fiscal year 2017.

Overall, the results for the fourth quarter were very positive, particularly the performance of our international operations. While our domestic business has been impacted by the recent soft retail environment, our international platform continues to expand.

Starting with Brazil, we had another outstanding quarter in the region despite the ongoing impact of currency devaluation and the economic challenges stemming from the political situation there. Our volumes in the region improved in the quarter as we continued to gain share from the texturing competitor that recently ceased operations. Further, margins in Brazil increased based on the combination of richer product mix, value-added manufactured yarns, and lower cost per unit due to improved capacity utilization.

Big picture, we are pleased with our competitive position in Brazil, and continue to believe that we have a valuable long-term position in the region.

Moving to China, volume and margin growth remained very strong in the quarter, given the success that we continue to have in selling our premium value-added yarns into the Chinese market. While producers of low-end commodity products in China are struggling, our PVA volumes continue to experience real organic growth. Again, we are excited about our opportunities to expand our presence across the continent, especially into regions we have mentioned previously, Sri Lanka and Vietnam.

Domestically, recent softness in retail sales of apparel began with the warmer winter season, resulting in excess product in the supply chain, leading to a corresponding softness in demand for the Company's products in the fourth quarter as producers and retailers manage their inventory levels. Retail sales of apparel declined 0.6% in the fourth quarter compared to the prior-year quarter, and retail inventory days stand at 77 days, an increase of three days from the year-ago period. These market conditions contributed to the lower domestic volume in the quarter, particularly for nylon, and offsets the volume gains we expected in Quarter Four due to the timing of Easter.

The decline in volume in our nylon business for the fourth quarter was primarily driven by lower consumer demand for sheer hosiery and seamless products, as well as some ongoing excess inventory in the pipeline. We expect this situation to continue into fiscal 2017. However, we also expect growth in our polyester PVA business and international operations to more than offset pressure in the nylon segment.

As most of you know, raw material pricing has been stuck in a deflationary environment for some time now, and that has hampered our topline performance. In the fourth quarter, we finally saw some stabilization. However, prices for our raw materials declined on a year-over-year basis as they did throughout fiscal 2016, and we expect prices to remain fairly stable in fiscal 2017.

In terms of Capex, we expect our new bottle processing facility to begin operations during our first quarter of 2017, supporting our REPREVE brand with an annual capacity of 75 million pounds of clear plastic bottle flake. We are still fine-tuning the plans for our REPREVE recycling center expansion to accommodate what we have learned over the past several years and expect the new capacity to come online in the second half of our 2017 fiscal year.

Our REPREVE brand continues to do very well in the sport specialty category as the brands and retailers in this segment tend to be environmentally aligned with Unifi.

Our momentum in areas remain strong, and so I would like to highlight some of the new summer 2016 programs in which REPREVE will be available. First, PrAna, a sustainable clothing brand, will carry cobranded hangtags on a line of shorts and pants made with REPREVE. PrAna is available online as well as in PrAna and REI stores.

Next, Aqua Lung, which is a leading global designer and manufacturer of scuba diving equipment and water sports gear, will feature REPREVE in eight new swimsuits, all of which will be cobranded and can be purchased online.

Lastly, Totemmi, which makes sustainable yoga wear, will include REPREVE in several of their new leggings, shorts and tops. The products which are available online will feature the REPREVE brand in the product descriptions.

We are very pleased with the success that we've had with the REPREVE brand in fiscal 2016, both in expanding programs with current customers as well as in developing and launching programs with new customers. More and more, our partners are recognizing the value of cobranding with REPREVE, and we are excited by the awareness and visibility that these initiatives create. The growth and expansion of REPREVE continues to transform our business, and we intend to continue to expand our PVA production portfolio across the globe in fiscal 2017.

With that said, I'd like to turn the call over to Sean Goodman, our Chief Financial Officer, to walk you through our financial results.

Sean Goodman - *Unifi, Inc. - CFO*

Thank you Tom, and good morning everyone. Our results for the fourth quarter and the full year reflect the continued success of our strategy, producing the highest quality innovative and sustainable products for our customers around the world. This quarter, we grew our operating profit by 16.7% compared to the prior year, and for the fiscal year, we increased our operating profit by 9.6% compared to the prior year.

Our net income for the fourth quarter was $10.2 million, and for fiscal 2016 was $34.4 million.

Now, in looking at net income, one must consider two significant impacts -- first, our pretax earnings from our 34% interest in Parkdale America. For the fourth quarter, such pretax earnings were $5.1 million less than in 2015, and for the full year, such pretax earnings were $11.3 million less than in 2015.

Second, our effective tax rate in Q4 2016 was 33% compared to 18% in Q4 2015. And our effective tax rate in fiscal 2016 was 31% compared to 25% for fiscal 2015. This difference in tax rates was due to certain renewable energy credits and the reversal of a tax assertion in Brazil the details of which are included in the 2015 Adjusted Net Income calculation in the appendix to this presentation.

On Slide 3, we presented a bridge comparing net income in the fourth quarter of 2016 to the prior year's fourth quarter. Outside of the impact of the favorable tax rate in the prior quarter, a bargain purchase gain recorded by Parkdale in the prior quarter, the decline in Parkdale's operating results, and the impact of key employee transition costs, net income in the underlying business grew by $1.9 million, or roughly $0.10 per share.

On Slide 4, we present a very similar representation comparing net income for the 2016 fiscal year to the prior year. Outside of the full-year impact of the items noted for the fourth quarter, plus the negative impact of FX rates in Brazil, net income in the underlying business grew by $6.9 million, or almost $0.40 per share.

On Slide 5, you can see the sales and gross profit highlights for the fourth quarter. Note that the discussion here focuses on our core segments, which exclude ancillary operations.

Please refer to Slide 13 for the consolidated metrics.

Overall, the revenue decline for the quarter was largely attributable to three items: one, currency devaluation in Brazil, which adversely impacted sales by approximately $2.8 million; two, average price changes associated with the decreased proportion of nylon in our product portfolio. Recall that nylon is a higher priced product than polyester. And three, lower selling prices due to lower raw material costs. These are things that we have seen throughout the course of this year.

While overall revenue declined, our gross profit margin on a segment basis increased from 14.7% in the fourth quarter of 2015 to 17.1% in 2016, resulting in a gross profit increase of approximately $2.4 million, or 9.5%. We achieved this by continuing to enrich our product mix, focusing on higher margin PVA offerings. In addition, our margin continues to benefit from a favorable raw material cost environment.

The international segment enjoyed strong volume and margin gains. 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 in a difficult economic environment. In Asia, we have seen continued growth with increased PVA sales to global brands that continue to value the benefits of our unique and innovative product portfolio. To conclude on international, note that we expect little to no impact on our operations as a result of the UK's decision to exit the European Union.

The polyester and nylon segments represent the performance of these products in the NAFTA/CAFTA region. Overall, volumes for both nylon and polyester in this region have been adversely impacted by retail softness, as noted by Tom in his remarks.

In addition to the retail softness, the volume decline in polyester is attributable to our focus on higher value-added products. The soft retail environment impacted volume for our nylon related products more than polyester products. The price changes for both polyester and nylon are primarily attributable to lower selling prices due to lower raw material costs.

Polyester gross margins benefited from PVA portfolio growth, while nylon gross margins were adversely impacted by the volume slowdown this quarter.

On Slide 6, we have the year-to-date segment results. The story is similar to that for the fourth quarter. The overall revenue decline was largely attributable to three items: one, price changes associated with currency devaluation in Brazil, which adversely impacted sales by approximately $28 million; two, average price changes associated with the decreased proportion of nylon in our product portfolio; and three, lower selling prices due to lower raw material costs.

While overall revenue declined, our segment gross profit margin increased from 13.4% to 14.8%, driven by enhancements in the product portfolio and a favorable raw material cost environment.

We are particularly pleased with the gross margin increase in our international segment attributable to our PVA mix enrichment strategy and our success in the Brazilian market. Our PVA portfolio continues to grow as a proportion of consolidated net sales and for the 12-month period, PVA products have passed 35% of consolidated sales, up from 30% a year ago.

Turning to Slide 7 and looking at our equity affiliates, at the end of the fourth quarter, the Company had approximately $117 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.

I outlined earlier the significant changes in earnings from our equity affiliates as a result of Parkdale America's results. Details for Parkdale and our nylon joint ventures are presented on this slide for your reference. During fiscal year 2016, we received a total of $4.7 million in distributions from our equity affiliates.

On Slide 8, we review the Company's balance sheet highlights. Working capital of $136.6 million at June 2016 is essentially flat compared to Q3 and the prior year. Adjusted Working Capital decreased by $4.3 million from the third quarter to the fourth quarter. Adjusted Working Capital as a percentage of annualized sales was 19.2% at the end of the fourth quarter, down from 19.6% at the end of the third quarter, and in line with the level at June 2015.

Moving to net debt and total liquidity, the Company ended the current period with $123 million of total debt and net debt of $106 million. Net debt increased by approximately $12 million from the beginning of the fiscal year, primarily due to scheduled growth related capital projects and share repurchases.

Since February 2013, we have repurchased a total of 3 million, 147 thousand shares at an average price of $23 per share. $27.6 million remains available for repurchases under the current plan.

Capital spending is in line with our previously discussed plans for the polyester and recycling businesses. The Company's anticipated Capex for fiscal year 2017 remains at around $40 million.

At the end of the quarter, the Company's weighted average interest rate for outstanding indebtedness was approximately 2.6%. Total revolver availability and liquidity were around $69 million and $85 million, respectively.

Now, turning to Slide 9, in an effort to continue to enhance transparency and consistency in our financial reporting, we have decided that, going forward, we will reduce the number of adjustments that we make to GAAP numbers to arrive at Adjusted EBITDA and Adjusted Net Income. The non-GAAP reconciliations provided in the appendix to this slide presentation show both our new revised approach and the historical approach for comparability.

Slide 9 summarizes both our historically reported Adjusted EBITDA calculation, which includes adjustments for both non-cash compensation expense and other items, alongside the newly revised Adjusted EBITDA with no adjustments for non-cash compensation expense or other nonspecific items.

For the 2016 fiscal year, we achieved Adjusted EBITDA of $68.6 million, as historically presented, and Adjusted EBITDA of $65.4 million under our new approach. During our last investor day conference, we stated our goal of achieving an Adjusted EBITDA target for fiscal year 2018 of $80 million under our historical approach. Under the new approach, simply with the elimination of the adjustment for non-cash compensation, this amount would change to $77 million, which we remain on track to achieve.

In summary, our 2016 results reflect the continued success of our strategy of providing the highest-quality, innovative, and sustainable products for our customers throughout the world. I will now turn the call back over to Tom.

Tom Caudle - *Unifi, Inc. - President*

Thanks Sean. I'd like to take a few minutes to recap some of what we consider to be our major achievements for fiscal 2016.

We've grown our share of PVA product sales to surpass 35% of our consolidated annual net sales, meeting our 10% to 15% annual PVA growth goal. Our success in executing our mix enrichment strategy in both our domestic and international operations has resulted in margin improvement and provided a real competitive advantage for the Company, both domestically and internationally.

We have significantly improved our year-over-year operating results in Brazil and China despite the challenging conditions in both of these markets. We see opportunities in both regions to win competitively and grow our footprint.

We expanded the global availability of REPREVE and other PVA products into Sri Lanka through our new entity, Unifi Textiles Colombo Private Limited. We are finalizing construction of the state-of-the-art bottle processing plant in Reidsville, North Carolina to support the production of REPREVE. Coupled with our REPREVE Recycling Center, Unifi is home to some of the most advanced recycling operations in the world.

Our commitment to sustainability is what makes us a trusted resource to many of the world's largest brands and retailers. We drove solid cash flows to fund our investments in Capex programs, enhancing the Company's ability to support the strategic capital projects that will drive our future success.

We also remain committed to driving operational excellence across our business. Dedicated process improvement initiatives have helped us control downtimes and improve efficiencies in a highly technical manufacturing environment. We recognize that it's critical for these core competencies to remain part of the lifeblood of our culture as we maintain costs and look for continuous improvement on a regular basis.

I'll wrap up with some comments on our outlook moving forward. We remain committed to producing the highest quality, innovative, and sustainable products for our customers around the world. This has been the foundation for our success over the past several years and will continue to be as we grow.

Generally speaking, we remain on target with our fiscal 2018 financial goals that we outlined at our investor day in December 2015. We've spent the last several years transforming our business, which, again, has included a shift to globally supplied PVA products. We are excited about the progress and potential impact on our business of the capital investments we have made over the last two years.

While the economic environment remains somewhat fragile, we expect to begin to see the fruits of our labor in fiscal 2017 with the real impact in fiscal 2018 and beyond. For 2017, we anticipate a revenue increase in the low single-digit range. While we expect our margins in 2017 fiscal year to be adversely impacted by initial startup costs for our bottle processing operation and recycle center expansions, we expect the benefits of these investments will be realized in fiscal 2018 and beyond. Therefore, we are projecting that Adjusted EBITDA will also grow in the low single-digit range in fiscal 2017.

Regarding Parkdale, we expect a continuing difficult environment, and therefore expect only a modest uptick in performance over fiscal 2016.

Strengthening free cash flows will continue to support our organic growth plans for the future. We continue to explore opportunities to expand the global availability of our PVA products and to capitalize on the projected growth in the Asia region. We anticipate having a more defined plan for our strategic Capex for fiscal year 2018 and beyond in place by the fourth quarter of fiscal 2017.

We are excited about the course of our business and our global opportunities. I look forward to meeting with many of our shareholders as the year unfolds.

I will now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Chris McGinnis, Sidoti.

Chris McGinnis - *Sidoti & Company - Analyst*

Good morning. Thanks for taking my questions. I just want to start off maybe with the international operations, the margin improvement there. Maybe can we talk a little bit about, I guess as that division becomes larger, the margin expansion you're seeing there, can you just maybe compare it to the rest of the Company and why it's so strong?

Tom Caudle - *Unifi, Inc. - President*

Our global footprint, especially in Asia and South America, is all based on PVA. And we continue to try and grow and expand in those regions. We are very -- we are looking forward to continuing to grow those products over there, and as our customers expand and grow in those regions, we intend to grow and expand with them.

Chris McGinnis - *Sidoti & Company - Analyst*

But the margin -- I guess to specifically talk about the margin profile of that business, almost 28%. Is that because of I guess the licensing of the nature of that business in China, or is it really the strength of Brazil, I guess?

Tom Caudle - *Unifi, Inc. - President*

I think, in Asia, it's specifically associated with the mix and the products we are producing there. If we go to Brazil, I think the overall market conditions there with the exit of one of our competitors, and we have enriched the mix, we've increased our utilization of our assets, so we have a lower cost basis of production, which has certainly enhanced our operating performance there.

Chris McGinnis - *Sidoti & Company - Analyst*

Okay, great. And then just I guess just the opportunity with the exit of a competitor in Brazil, how large is that for you for the full year? I guess maybe a dollar amount if you could, or --

Sean Goodman - *Unifi, Inc. - CFO*

This is Sean. So, just two other points on Brazil and your question as well. One is the Brazil markets. As you may be aware, we sell two types of products in Brazil. One is the product that we manufacture, and one where we import product and then resell it. The product that we manufacture tends to be the higher value-added product, than the product that we resell. And one of the other drivers of margin enhancement in Brazil during the fourth quarter was the mix of the manufactured versus the resold product.

To your question on the opportunity, with the exit of one of the major competitors there, we've seen a significant growth from that. We would estimate about half of the growth that we have seen in the second half of the year has been due to that competitor exiting. Going into 2017, we expect to continue to keep that additional volume, although there might be some additional pressure as well, but we do expect to keep most of that additional volume.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. I guess just quickly on the Capex program, where you're at, can you just give an update? I think maybe Tom said you will be finished by the end of 2017. Maybe just touch on, specifically after the program, how much of the business can be PVA following the completion of that?

Tom Caudle - *Unifi, Inc. - President*

As we said in the script, we expect to spend about $40 million in fiscal 2017. We are winding up on some of the major expenditures that we've spelled out over the last three years. We are working through our plan going forward, and as we said earlier, we will define exactly where we think our Capex plan will evolve later on in this fiscal year.

And we do have the bottle processing plant getting ready to start up. We are in the process of finalizing our REPREVE expansion that will take us to 100 million annual pounds, and look forward to bringing those two major Capex programs to fruition.

Chris McGinnis - *Sidoti & Company - Analyst*

Sure. And then I guess 35%, a little bit better in terms of PVA, of the overall business. Once it's complete, I guess just a rough estimate of where you think that number could be.

Tom Caudle - *Unifi, Inc. - President*

We continue to talk about and project that we are going to continue with a 10% to 15% rate going forward. So, I don't think there's any change in those numbers at this particular time.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. And then just one last question on Parkdale. You may have said it, so I apologize. But maybe just talk a little bit about the change in the business, what's happening. I thought they would be in a better position for growth because of some of the acquisitions they made.

Sean Goodman - *Unifi, Inc. - CFO*

It's Sean. Regarding Parkdale, I think there's two factors here. One is the factor that we've spoken about earlier this year, and additional cotton capacity coming in to the market as Parkdale has worked to maintain their market share. That has led to some margin pressure in the business.

The other factor impacting Parkdale specifically this quarter is that Parkdale has suffered from some of the same retail softness that we have seen in our nylon business. And that has impacted Parkdale more than it would impact us, because Parkdale is primarily a commodity cotton producer. They are one of the best in the world, and they have state-of-the-art facilities, but that has impacted them, that slowdown on the retail side. So that has impacted them this quarter, and that is the primary reason for the decline in Parkdale performance. It's both the margin pressure and the volume pressure.

Chris McGinnis - *Sidoti & Company - Analyst*

Okay, all right. Thank you again for taking my calls. Nice quarter. Congratulations Tom and thanks again Sean.

Operator

(Operator Instructions). Marco Rodriguez, Stonegate Capital Markets.

Marco Rodriguez - *Stonegate Securities - Analyst*

Good morning guys. Thank you for taking my questions. I wanted to kind of discuss a little bit the nylon business and your commentary on the retail sales environment. It seems like you really kind of called that out in today's script. And I'm just kind of wondering if things have progressively gotten worse from your particular standpoint. Perhaps it's one of your big clients. Any other sort of trends that we should be kind of also thinking about that and how you are trying to kind of basically manage your business as you go through fiscal 2017 for that particular slice of your overall Company?

Sean Goodman - *Unifi, Inc. - CFO*

It's Sean. In the nylon business, we have a number of relatively large customers in the nylon business. And what we have seen in the fourth quarter is really across the board a decline, a quite significant decline, as you've seen in our financial presentation in the volumes for the fourth quarter.

We do see that the supply chain is pretty clogged up at the moment at the retail level. We do anticipate that should hopefully clear out later in the 2017 fiscal year to probably more in the second half of the year. So we do anticipate the volumes to remain relatively soft in the first half of 2017, and then pick up to more sort of normal levels in the second half of fiscal 2017. The decline in volume has obviously impacted our margins, just given the capacity implications for us.

Marco Rodriguez - *Stonegate Securities - Analyst*

Got you. And then in terms of the guidance you guys had, I was expecting a little bit more leverage on the operating margin side in fiscal 2017. Can you just kind of talk about the assumptions that you have in there that are perhaps bringing the operating income margin, the EBITDA margins down to that kind of low single-digit percentage range growth year-over-year? Is it that gross margin impact you were talking about earlier, or are there other factors associated with that?

Sean Goodman - *Unifi, Inc. - CFO*

So, normally, in our business, and as you know, as we've seen over the last few years, one would expect gross margin growth each year as percentage of PVA and our portfolio increases because PVA is clearly growing faster than the rest of the business.

What we expect for 2017 is two things. One is we're going to have some initial startup costs for the bottle processing facility that will occur early in fiscal 2017. We're going to have some initial startup costs for the recycling center facility, and that will be towards the end of fiscal 2017. Both of those two factors will put pressure on our margins.

In addition, in 2016, we have benefited from a favorable raw material price environment. Not a significant impact but it has benefited us during fiscal 2016. So when we look at 2017, we're going to get this pressure from the startup costs. We are not going to get the benefits from a favorable raw material pricing environment, at least in our assumptions, because we are assuming that raw material prices remain constant at the level that they are at today. Those two items put pressure on our margins. This is partially offset by the continued growth of PVA, which we continue to expect to grow in line with our expectations and in line with previous years. That's why we don't expect the margin accretion that one has seen in previous years.

Marco Rodriguez - *Stonegate Securities - Analyst*

Got it, very helpful. And to kind of follow up there, on the expenses that you're going to be incurring upfront here for the bottle manufacturing and the recycling side, it sounds like you're going to have pressure the entire year quarter-on-quarter. You ended fiscal 2016 at about a 14.5% gross margin. Should we be thinking about 100 basis points, 200 basis points, or is it going to be offset somewhat by the PVA growth? Can you kind of help me think through that?

Sean Goodman - *Unifi, Inc. - CFO*

Yes, I think two things to consider. One is the pressure for the bottle processing will be more in the first half of the year. Towards the second half the year, there will not be the pressure on margins from bottle processing. So we will have some timing impact there. However, in Q4, you're going to start to see a little bit of pressure from the recycling center coming online.

The other thing to consider is there is some seasonality in our business. You may recall that Q4 tends to be our highest margin quarter and Q1 tends to be our lowest margin quarter. So that's just something to bear in mind in thinking about the margins through the course of the year.

Specifically if you look at our margin for 2016, about 14.5%, the sort of margin pressure that we are thinking about for 2017 is less than 1 percentage point. It's not going to be more than 1 percentage point, it should be less than 1 percentage point because we do have the benefit of the continued growth of the PVA.

Marco Rodriguez - *Stonegate Securities - Analyst*

Got you, very helpful. Last quick question and I'll jump back into queue. Just wondering if you could maybe highlight some trends you might be seeing on the PVA side, if there any new trends emerging or if it's kind of just the status quo, if you will. Thanks.

Tom Caudle - *Unifi, Inc. - President*

This is Tom. I think we are getting continued recognition with REPREVE and our PVA brands. And you know, we expect a 10% to 15% growth rate on into the future that we talked about. And I think there are more and more people, more companies recognizing REPREVE. We are continually trying to develop new products to introduce to the market as well.

Marco Rodriguez - *Stonegate Securities - Analyst*

Got you. I appreciate your guys' time.

Sean Goodman - *Unifi, Inc. - CFO*

I'd like to just come back to one point regarding the outlook, and specifically our 2018 fiscal year targets. During both Tom and my remarks, we referenced the fiscal 2018 targets that were set at our investor day presentation in December. I want to just remind everyone what these targets are. They were $80 million for Adjusted EBITDA and $735 million for sales. On Adjusted EBITDA, as mentioned in my remarks, that $80 million is based on our historical methodology of calculating Adjusted EBITDA. And the relevant amount using our new methodology, which simply excludes the addback of non-cash compensation in this particular case, will be $77 million. Looking at the sales number of $735 million, that does assume a Brazil exchange rate to the US dollar of around $3.80, which is a little bit weaker than the Real is at the moment. And it assumes raw material prices roughly in line with what they were in 2015 fiscal year, which is roughly 15% higher than the levels, right now.

Operator

Chris McGinnis, Sidoti.

Chris McGinnis - *Sidoti & Company - Analyst*

Thanks again. Just quickly, can you talk about the borrowing needs for 2017 and how you think you see the balance sheet playing out and ending up by year-end in terms of maybe leverage and leverage ratio, or what's your peak throughout the year? Thanks.

Sean Goodman - *Unifi, Inc. - CFO*

This is Sean. We expect to be able to maintain our net debt position at the level it is today or at the end of the 2016 fiscal year. We expect that level to remain about the same at the end of fiscal 2017. This means all of our CapEx expenditures would be covered by internally generated cash flow.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. And then just maybe a little bit longer term, but once you're completed with all the CapEx programs, what do you think the maintenance CapEx to run the business is following that, pending another round of growth initiatives?

Sean Goodman - *Unifi, Inc. - CFO*

Our maintenance CapEx is running at about $10 million to $12 million a year. Clearly, over the last year or two and going into fiscal 2017, our level of CapEx spend has been relatively heavy. With the investments that we have made, we expect to generate very attractive returns from those investments.

Looking forward into 2018, as Tom mentioned, we are finalizing our plan for 2018 CapEx. One would expect that to be a little bit lower than the levels that we've seen averaged over the last two years just because the level has been fairly high recently. But again, we are finalizing those plans and that would depend on the attractive opportunities that we find available to add value to the business.

Tom Caudle - *Unifi, Inc. - President*

But Chris, we would expect our maintenance CapEx to remain in those same levels.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. All right. Thank you very much for your time today.

Operator

That does conclude today's question-and-answer session. I'd like to turn the call back to management for closing remarks.

Tom Caudle - *Unifi, Inc. - President*

We'd like to thank everyone for participating in the call today. We've had a good year and look forward to another good year in 2017.

Operator

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