THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

UFI - Q3 2018 Unifi Inc Earnings Call

EVENT DATE/TIME: APRIL 25, 2018 / 12:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

PRESENTATION

Operator

Good morning, everyone. Welcome to Unifi's Third 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, management will be referencing the webcast presentation that can be found at unifi.com, and by clicking the third 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, forecast 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 and invite you to follow along, beginning on Slide 3 of the webcast presentation.

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. During the third quarter, our revenue grew 3% year-over-year, making it our fourth consecutive quarter of sales growth.

Our sales momentum continues to be driven by the success of our premium value-added product portfolio. Total PVA sales for the quarter grew 17%.

The top line performance did not translate into increased profitability, due primarily to the acceleration of raw material costs, which moved higher at a much faster rate than our ability to take responsive pricing actions.

We continue to believe that the investments we're making to drive long-term growth across the globe are important and are working. That said, we have some work to do to navigate this complex and challenging cost environment.

Jeff will share in a few minutes more detail on several unanticipated headwinds in the quarter. A quarter where many things went against us. An unexpected and dramatic increase in raw material costs, sales mix and domestic demand challenges, unfavorable foreign currency impacts and a higher effective tax rate.

The largest of these however, and the one that is our top priority, is the pace of raw material cost increases.

As we talked about in our second quarter earnings call in January, the price of our input costs are directionally correlated with trends in the price of oil. At that time, we said that we have seen a move in raw material costs and that an increase in raw materials had a meaningful short-term impact on our gross margin performance which would continue until pricing actions could take hold. As a point of reference - the price of oil rose from mid-$40 barrel range where we first built our 2018 outlook to the mid-$50 per barrel range in Q2.

Although, we hoped to see some stabilization in these inflationary trends during our third quarter, the price of our raw materials continued to climb. The price of oil reached the mid-$60 per barrel range in the third quarter. It has been several years since polyester raw materials have also increased persistently for so many months on end. We are chasing these cost increases with price increases, but our pricing actions naturally lag cost changes.

Compounding the effects of this rising cost environment has been the continued soft demand in the domestic market, creating a difficult setting in which to implement cost-based price increases quickly. Market demand coming out of the holiday season has improved, particularly in February and March. But January remained very sluggish as improved customer confidence had not yet manifested into customer shipments.

It is difficult to predict cost and demand in the short term, but let me try to summarize the impacts I just discussed and where we are heading. As of last week, oil prices moved into the high-$60 per barrel range, a strong increase compared to when we first built our plan. We believe this difficult environment can be overcome once costs stabilize and our pricing actions catch up with the cost increases.

We have a global supply chain and will leverage it to try to adapt to the current environment. Importantly, we continue to believe that our differentiated PVA fiber strategy will allow us to grow profitably longer term. We are making good progress on building brand connections and growing with PVA products and are investing to deliver continued revenue growth behind our branded PVA business.

Now moving onto a higher-level review of our operational results during the third quarter. International top-line performance again excelled with sales growth of 23% over last year, driven primarily by brand adoption of PVA technologies in Asia. However, we did incur a mix change as we saw accelerated volume growth on lower-margin staple fiber programs.

In the domestic market, our sales efforts did not generate growth in polyester products, and we saw a continuing decline in the domestic nylon market and our Nylon business segment overall. The decline in the Polyester segment reflects the slow start to the quarter that I mentioned earlier.

On the recycling side, we are still perfecting our craft. After some necessary upgrades to our bottle processing facility in Q3, we are pleased to announce that we have begun hitting our targeted run rate on production of clean clear flake. As we have described in the past, the clean clear flake produced from our bottle processing facility is transformed in to polyester Chip in our REPREVE Recycling Center in Yadkinville.

As with virgin polyester, REPREVE Chip is also subject to raw material cost pressure. Our prices for baled plastic bottles for the year have increased 20% to 30% versus the prior year.

As I mentioned, when I joined the business, I believe our sustainability story is global and captivating and the timing is right. We will continue to work to be the sustainability partner of choice and a high-quality solutions provider.

From a marketing and commercial standpoint, I would like to highlight a few examples of how our commercial efforts are progressing. As you may recall, we announced our Champions of Sustainability awards in January, which recognized the contributions of our brand and textile partners that have achieved significant plastic bottle recycling milestones as a result of their use of REPREVE performance fibers.

Awards were given to 25 brand and retail partners. This is an impressive list of brands joining us on our journey to 30 billion bottles transformed by 2022. Supporting these brands is an equally impressive list of textile award-winning partners. Together, we are joining forces to make a difference for the good of tomorrow. I am thrilled with the progress and our shared sense of purpose and cooperation.

As we move forward, our ability to introduce new product innovations are important to our growth. I would like to highlight two of these. First is our XS technology, a proprietary yarn cross-sectioning technology that is able to provide excellent cushioning, resilience and wicking. Initial commercial introductions are starting to make their way to market. A new line of performance socks are now available in stores and online. You will hear more about XS technology as we move into the next fiscal year.

A second technology that is seeing significant traction is our SORBTEK 365 in bottom weights including denim, which provides thermal control keeping you warmer in the winter and cooler in the summer. In denim, this technology also provides a noticeably desirable feel to the fabric. Leading denim brands are starting to implement this new product. We look forward to sharing success stories on programs that are starting to set at retail.

I also want to highlight our recently announced acquisition of the dyed yarn business and assets of National Spinning. Once closed, this acquisition will allow us to transition that business to our state-of-the-art dye house in Reidsville, North Carolina. We plan to run Reidsville's dye house on a 7-day per week schedule, which will allow us to deliver on faster lead times and respond to our customer needs much more quickly.

We will welcome several technical and operations personnel to join the Unifi team, and believe this will position our dyed business for long-term growth in key market segments, such as sweaters, hosiery and apparel. I'm excited to bring on new employees and customers and would like to express a very warm welcome to all.

While this will be a small transaction in terms of capital on our end, we expect this business to provide incremental revenue and expand our customer base. We believe it represents another way that we can leverage our strong balance sheet and operational capabilities to complement our organic top-line growth.

Jeff will talk more about how we prioritize our cash deployment, but I am excited about any incremental opportunities that complement our existing high-quality footprint and core competencies.

With that, I'll pass the call to Jeff to go into more detail on our financial results. Jeff?

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

Thank you, Kevin, and good morning, everyone. As Kevin noted, we are disappointed in our margin and profitability performance this period and understand that we have work to do. The difficult domestic environment has weighed on our bottom-line results for several quarters and we need to work toward improved cost efficiencies, more effective pricing execution and a more profitable sales mix.

I'll get a little more granular with the drivers of our performance in my discussion today and share some of our progress to improve results. My discussion will begin on Slide 4 of the webcast presentation, where you can see a high-level overview of these results.

Net sales were $165.9 million, which was a 3.1% increase from third quarter 2017. The top-line growth was led entirely by the International Segment. Raw material cost increases and less favorable sales mix were the primary causes of the lower gross profit. Expected higher SG&A expense related to our planned strategic investments in PVA commercial capabilities also affected our profitability. I want to point out that unlike in 2017, where we experienced some FX favorability, we have not seen FX favorability during 2018. The year-on-year impact of foreign exchange changes was $1.4 million after taxes. The change in net income related to equity in affiliates relates primarily to reduced earnings at Parkdale.

Lastly, we captured tax benefits in the prior year Q3 on account of some R&D tax credits, to the tune of $1.2 million while enduring some tax unfavorability this year related to Tax Reform. As Kevin said earlier, it was a quarter full of headwinds up and down the P&L, and you see that here.

Slide 5. You can see the impact that those major net income drivers had on our diluted EPS.

Slide 6. This shows the sales and gross profit highlights for the third quarter.

Before I go through the numbers, let me take a moment to shed some more light on our pricing strategy and abilities. I know many of you have questions in this volatile raw materials environment. Customers that are on our index pricing model receive price adjustments approximately every three months based on changes in input costs during the preceding quarter. Therefore, index pricing adjustments are neutral to our profitability over the long term. However, as we have seen this fiscal year, with costs rising almost every single month, index pricing adjustments do not maintain pace and profitability is negatively impacted. For our non-index customers, we see similar timing dynamics, coupled with the added difficulty of negotiating incremental price increases on a one-on-one basis in a very competitive and cost-conscious market.

While NAFTA/CAFTA suppliers such as Unifi have the advantage of greater speed to market in the U.S., inflationary cost pressures increase competition from Asian and other low-cost imports. On commodity products, no one has pricing power, which makes it extremely difficult to take responsive pricing actions very quickly. Instead, we find ourselves chasing cost increases with subsequent price adjustments, creating a profit gap. We often have to go back to our non-index customers several times to secure penny-at-a-time price increases.

With that in mind, let me walk through the sales and gross profit performance.

Total segment net sales were up 3.3% from the prior year on 9.8% higher volume, while gross margin declined 320 basis points. Sales results in our International Segment continued to be a bright spot, and drive overall revenue growth. Sales of recycled staple fiber continue to grow in Asia, and these sales are a key component to long-term relationships based on sustainable solutions. The International PVA portfolio remains significant and strong as our strategy continues to be validated.

In our Polyester Segment, we saw growth in our REPREVE yarn and chip sales, while declines in certain other yarn volumes continued in the quarter. Overall, polyester volumes were nearly flat due to the increased sales from our Recycling operations.

Nylon sales performance reflects the ongoing decline in the category. We are investing in our commercial capabilities to improve sales volumes and working to improve our cost structure in this segment.

Now let's look at gross margin performance, which declined 320 basis points.

Rising and elevated raw material costs generated pressure on nearly every portion of our portfolio. We estimate the total gross profit impact from raw material cost increases was in the neighborhood of $3 million and therefore 180 basis points to consolidated gross margin.

We also incurred some negative mix and volume changes. On a consolidated basis, we estimate the gross profit impact related to lower volume and less favorable mix to be in the range of 140 basis points. I also want to point out that despite the decline in International gross margin, this segment was accretive to overall company gross margin in the quarter.

The last item that impacted gross profit this quarter relates to some cost pressures in our domestic manufacturing operations. In our polyester plant, the January start-up was more difficult than expected and led to some incremental costs.

While our Bottle Processing operations have demonstrated the ability to achieve our targeted production levels of 75 million pounds of flake annually, this achievement comes after a week of unplanned downtime to make upgrades. In total, these events had a $1.2 million effect on our gross profit this quarter.

As we exited the quarter, we have seen significantly improved manufacturing performance and believe those challenges are largely behind us.

Slide 7 shows equity affiliates. Earnings from equity affiliates declined approximately $1.1 million. Parkdale also experienced a difficult regional environment, in combination with rising cotton prices, which resulted in an earnings drop of nearly $900,000. Nylon joint ventures experienced a profitability decline due to lower volumes.

Distributions in the quarter totaled $2.5 million, while the year-to-date amount is $11.2 million.

Slide 8 covers balance sheet highlights. Working capital was $190.6 million and Adjusted Working Capital was $151.7 million. Adjusted Working Capital as a percentage of sales remained in our range of expectations at 20.9%.

Increased inventory levels are primarily due to higher raw material costs and strategic inventory purchases in Brazil due to the timing of favorable tariffs.

We ended the period at $126.4 million in debt principal and net debt was $85.8 million, also in our range of expectations. Total liquidity and revolver availability were at $100 million and $60 million, respectively. In addition, using swaps that terminate in May 2022, we have effectively fixed LIBOR at approximately 1.9% on $75 million of our debt principal.

Our weighted average interest rate was 3.6%.

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

In closing, we are adjusting our fiscal 2018 outlook to account for the unanticipated results from the third quarter and the fluid macro environment we are still experiencing. While oil prices do not have an exact correlation with our raw material and other input costs, it tends to be a good directional indicator. With oil approaching $70 per barrel, we expect to see further cost increases in Q4, which will put pressure on gross margin and necessitate further pricing actions. In a more stable cost environment, we would expect revenues to grow in the low- to mid-single digit percentage range for the fourth quarter. However, in this environment where we are taking pricing actions, we may experience volume pressures. In Q2, PET raw material costs increased in the mid-single digits sequentially from Q1. In Q3, PET raw material costs increased mid- to high-single digit percentages sequentially from Q2. If oil continues to remain at or above current prices, we could experience another mid- to high-single digit percentage increase in PET raw material costs in Q4.

So, while we believe our strategy is the right one and will deliver profitable growth as the raw material and demand environments stabilize, our best estimates now, are for revenues to still finish the year in the low to mid-single digit percentage range. However, many of the challenges that impacted the third quarter's profitability remain ongoing. So, while fourth quarter profitability is expected to improve sequentially over the third quarter results, we expect fiscal 2018 operating income and Adjusted EBITDA to be below fiscal 2017 levels. We are also lowering our CapEx guidance to $28 million for the year, but our tax rate expectations remain the same, a mid-20% range.

With that, I'll now pass the call back to Kevin for closing remarks. Kevin?

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

The third quarter involved a number of very complex issues. Some of these were outside of our control, while others were things we have to fix and will improve. We know we can do better and believe we will do better as we move forward. From an investor's point of view, I think it's critical to again reiterate that our PVA programs are working. Our current products, and those that we are developing, can help our customers innovate with solutions that today's consumers desire, which in turn, will help them improve their own top-line opportunities.

We need to remain focused on positioning our business for long-term growth and executing our strategy while simultaneously improving our short-term returns. With that, we'll open the lines for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

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

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

On the raw materials and the index pricing, can you maybe just talk about how much is on the index? And then, is there any way to change that to better get through periods like this?

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

Chris, it's Jeff. Thanks for the question. So it's a meaningful portion. We haven't ever publicly disclosed what portion of our business is on index pricing, but it's a meaningful portion. And I was interpreting from your question and correct me if I'm wrong, were you asking whether we would want to shift more people or less people? I wasn't quite sure about the second half of your question there.

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

Is there any way to mitigate these periods in a volatile raw material environment where you can maybe get pricing a little sooner.

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

We've demonstrated that we've been able to get the margin back over time, so there we are going to lag. We feel like that as we continue to push forward with the services that we have, offering greater services and leveraging our domestic and international global supply chain, we can try and mitigate some of those costs. And again, I think that points to our strategy around developing great partnerships, pushing on sustainability, those that are interested in that, who value that and driving PVA, which we think are products that we feel like are more defensible.

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

Okay, great. And then second, and if I missed this I apologize, but I think last quarter, you mentioned maybe some higher-margin contracts coming in from the International that you were excited about. Did those come through or did I miss that in the commentary? I apologize.

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

Chris, this is Kevin. So, what we were talking about is how we've been establishing the brand connections. We've been getting them into sustainable products and then starting to work on innovation that will drive growth and profitability into the future. There are new programs in development. There are new programs that are starting to shift now. One of the unfortunate things about what I said is that, because we're on the lead of some of these things going to market, I can't really showcase what the brands are doing. I wish I could. If I do, then they give me a call right away, but I think you're starting to see the beginning of those programs going into market, and you'll see more of those as we go into next year.

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 shift gears away from raw materials and just to the general weakness in the North American market conditions. You mentioned, I believe, Kevin, January was soft. Is it just continued kind of compression in inventory chains? Maybe talk a little bit more about the macro there and what's driving the general declines in PVA and poly volumes in North America?

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

Okay, Dan. Will be glad to. Yes, so it is interesting to step back and put ourselves back into Q2. Going into holiday, the retail environment was really tough, and back then, there were a lot of store closings. There were a lot of unknowns around consumer demand, a lot of unknowns going into holiday. It was a very difficult macro time and people were clamping down on inventory positions and how much risk they were going to take into holiday. As we said on the earnings call last time, coming out of holiday, there was a pleasant surprise of the strength of the consumer. I think several brands and retailers started to get a little bit of confidence back about how to compete more in this environment where there is more e-commerce and actually started to see some positives with that. We had said at that time that the confidence hadn't yet translated to orders, but we were hopeful that it would. As we went through the quarter, we did start to see that confidence translate to orders, so you do see February and March getting back on their footing if you will. There's more conversations and dialogue out there about how to compete in the market, and I would just classify it as more confidence around that. I think with that as a backdrop, you still have to look at this globally. So, what you see is a lot of our brand partners manufacture out of Asia. The domestic market here is still tough. Through these partnerships, one of the things we want to leverage is our global supply chain and to be able to really connect the dots between Asia and Central America and be where these brand partners are. That's still the plan for the long term. I think, in the short term, the manufacturing here in North America, I think, will continue to be challenged a little bit, but we continue to push forward.

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

Okay. Shifting gears a little. You mentioned bottle pricing has ticked up considerably. What are the key factors there? Is it transport costs? Would it just be purely supply and demand and what does your, I guess, crystal ball, say for the next 12, 18, 24 months?

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

Dan, this is Tom. We've seen baled bottle prices go up over time. The primary reason for those increases have been increased demand and increased freight cost and also some associations to crude, but we do not see that environment changing anytime in the near future.

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

Got it and I guess just lastly again coming back to the gross margins. On the international side and more generally, talk about on the non-index portion of your business, how long it typically takes to recover and obviously, this hasn't been a normal environment. What should we expect? Is it a 2-quarter event from here, if oil prices level off in the high-$60s? Is it 4 quarters? Just help us think about on the non-index piece. How long it would take to recover the lion's share of those increases?

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

Sure. It's Jeff. As you said, it depends on the environment a little bit, but I would say we're more in the 2-quarter range than the 4 quarter that you referenced before we would be able to feel like we can fully recover those.

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

That's really helpful. And then lastly, I know it's a lot, but on the price mix or the mix part of the pressure, what steps or levers can you pull or are you thinking about pulling if current trends continue?

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

Yes, so on the mix, it's the strategy that we've talked about, so we're adhering to that. We're confident in it, that is the right strategy. We're executing against that and again, that is to drive more PVA volume, to bring innovation to the market, to partner with the right customers and leverage our global supply chain. Those are the things that we believe will continue to help us out and those will be the things that allow us to stabilize those margins and improve the mix.

Operator

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

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

Just wanted to follow up with some prior questions here. Just to make sure I'm understanding correctly here, your expectations as far as gross margins and then your index pricing versus non-index pricing. If I'm understanding things correctly here, the non-index, you're not expecting to really recapture if you will, the gross margin there to a normalized environment for a couple of quarters, and then the index pricing might take you at least a quarter assuming you have stable oil environment, am I catching all that?

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

I think that's right, Marco. As we said, on the index pricing, it just lags behind by a quarter and in a stable environment then we'll catch up with it. In a rising environment, we will continue to lag. On the non-index pricing, it's really account-by-account, negotiation-by-negotiation and that takes a little bit longer and so that can take maybe, as I said before, more like 2 quarters in kind of a normal environment.

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

Got you. And then shifting here to the volumes on the poly side. I'm not sure if I caught this in your prepared remarks, so I apologize if you've already gone through this, but I did hear that you were discussing the fact that obviously when you're trying to push through some of this pricing that the volumes will be affected, but I'm also trying to understand the negative volume growth you saw year-over-year and kind of parse that through with the strength you say that you have in the PVA market. If you can maybe talk a little bit more about that and what the kind of the main drivers are there for the decline in sales volume.

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

Yes, I'll take the first part of that and we'll have Jeff fill in from there. So, what we were saying on the Polyester business is, as we were coming out of holiday, there was renewed confidence with a lot of our brand partners and retailers. It didn't manifest itself yet into January orders, but we did see the orders start to come through into February and March, so there was good trend build there if you will. That was a part of what we were looking at. Jeff.

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

Yes. Marco, so talking about the volume growth a little bit. It's what Kevin mentioned and as you picked up on, the PVA was growing, so again that's where we feel like we have a differentiated fiber strategy that we can continue to grow. We're going to keep pushing that. The other thing that is starting to take a little bit of affect in terms of like the absolute volume is that we're starting to cycle on higher production levels out of our Recycling operations.

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

Okay. So is that a weight issue that impacts the volumes? I'm not sure I'm following that part.

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

Yes, the volume is tonnage.

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

Got you. Okay, and in terms of the Nylon Segment, maybe if you can talk a little bit. I know that area has been challenged for quite some time. Maybe if you can just kind of paint what your expectations might be for the next 12 months or so.

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

Yes, I'll start that and Jeff, you can add in there. So it's interesting, the Nylon business goes back to my days at HBI. We watched the nylon market shrink every year. It is a challenging market, and it continues to be so. So yes, we look at that. As Jeff has mentioned, we are bringing in some new commercial folks who can really do a deep dive on the strategy there to look at how we can capture share and how we can grow that business over time so we are committed to the category. We want to stay there, our brand partners are in nylon, so we want to be able to offer that, and it's something that we continue to work on, but it's a difficult overall category trend.

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

I would just add, that as Kevin said, just building on, it is a difficult trend that we're dealing with, and in addition to looking at the top-line side and kind of those commercial aspects and making the investments in the team, we're also really focused on how do we make sure that we have the right cost structure there.

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

Yes, that's helpful. And last quick question, then I'll jump back in the queue. Just any kind of additional metrics you can possibly provide for National Spinning acquisition. What sort of revenues are we talking about as far as impacting the top line and margin structure, if you can?

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

Marco, this is Tom. We really can't disclose the particulars of the acquisition. As Kevin said earlier, it is going to be positive to our dyed yarn business. We're going to be able to integrate all of that production in to our existing assets, and we'll be building that affect out in our '19, so you'll see the effects of it in our '19 guidance.

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

The only other thing I'd want to highlight is that, what I like about this is strategically is that dyed business actually is something we don't talk about a lot, but it is a nice differentiator for the company. It's a really important part of our PVA strategy and so having the added business to what will be already existing, it's really going to be, I think, a real positive for us.

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

And I think it's another example as well, Marco, that we can leverage our strong balance sheet to take advantage of these opportunities in the marketplace as they present themselves. So, we are excited about this opportunity.

Operator

And we do have a follow-up question from the line of Daniel Moore with CJS Securities.

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

Just a clarification on the JV front on Parkdale. Did I hear right, the rising cotton prices were about $900,000 impact year-on-year?

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

Dan, it's Jeff. I would not attribute it all to that. It was a combination of lower volumes and the rising prices. In the region, they faced a lot of the same challenges that we did.

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

Got it. And just lastly, are those typically on index pricing, in other words they pass through on a similar quarter dynamics to Unifi?

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

Dan, I don't know. I don't know how their pricing works.

Operator

Thank you, and that does conclude today's Q&A session. Ladies and gentlemen, thank you for participating in today's conference call. This does conclude the program, and you may all disconnect. Everyone, have a great day.
