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UFI - Q1 2018 Unifi Inc Earnings Call

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PRESENTATION

Operator

Good morning, everyone. Welcome to Unifi's first 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, 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 a webcast presentation that can be found at unifi.com and by clicking the first 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.

Kevin Hall - Unifi, Inc. - Chief Executive Officer

Thanks, A.J., and good morning, everyone. I'm pleased to report that our first quarter 2018 results were in-line with our expectations as we continue to execute on our strategic objectives. We were able to grow sales revenue by nearly 3% compared to the first quarter last year, and sales revenue of PVA products in the first quarter were up 5.5%. PVA products now account for more than 40% of our consolidated sales. We remain focused on PVA innovation to fuel our growth, and we are creating the type of portfolio necessary to succeed in the future.

Since we last spoke, we have been working on the goal of growing Unifi into a much larger PVA solutions provider. We stated that we were going to do this by: 1) investing in growth; 2) expanding our technology and innovation; 3) investing in smart strategic partnerships; and 4) investing in our people. I am happy to report that we have advanced along all four of these fronts and I will provide a few examples. First, in terms of investing in growth, our fourth line of the REPVEVE recycling center was installed in Q1 and is now ramping up. This addition will take our annual domestic recycling capacity well above our current 70 million pounds to 100 million pounds by the end of this fiscal year. We look forward to maximizing these assets, in combination with our superior technologies, to drive strong growth for REPVEVE.



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We actually hit a very exciting milestone this quarter. Unifi has now transformed more than 10 billion recycled bottles into REPREVE-based products around the globe. 10 billion is an impressive achievement, but we have much loftier aspirations. We have set a goal to reach 20 billion bottles by 2020 and over 30 billion by 2022. 30 billion will equate to roughly 10 million bottles per Unifi employee and reflects our commitment to make a difference in recycling.

Along with highlighting this success on America Recycles Day, which is November 15th, we will also be rolling out recognition programs for our customers. These programs will highlight the contributions from our valuable partnerships in helping to transform bottles into performance-based products.

One such partnership you may have read about in the media is with General Motors and the city of Flint, Michigan. The city of Flint continues to endure a water crisis that has increased the use of bottled water. Together with GM, Unifi is providing earth-friendly solutions for the discarded water bottles. Since 2015, General Motors has sent more than 2 million water bottles from nearby Flint, Michigan and other GM operations, including the Renaissance Center in Detroit, to Unifi for recycling. The bottles are shipped to our facilities in North Carolina where they are recycled into fiber that can be found in filters and insulation for a range of applications, including: the 2017 Chevrolet six-cylinder Equinox; and GMC Terrain vehicles; air filters manufactured at the Saint Luke New Life Center in Flint that are used in numerous GM operations; and insulation in coats for the homeless made by the Detroit-based Empowerment Plan. These kinds of partnerships truly make a difference and we are very proud to be part of them. We are also building new partnerships that will extend the reach of the REPREVE brand.

Two recent examples are collaborative efforts with DuPont and American & Efird. DuPont's Sorona polymer is being combined with REPREVE to create a high-performance, renewably-sourced garment insulation for cold weather products. The result is uniquely soft and extremely durable with excellent shape retention. With American & Efird, we recently announced expansion of eco-friendly sewing threads using REPREVE. This new solution, branded as Magic using REPREVE, provides an eco-friendly performance sewing thread option for environmentally-conscious customers in the sewing of activewear, athleisure and intimate apparel. REPREVE is also gaining increased media attention. Unifi and REPREVE were recently featured on an episode of the Fox television show, Xploration Earth 2050, highlighting the benefits of recycling. Viewership for the show was estimated at 10 million people. We will also be featured on a future episode of Made by Destruction on the Science Channel. It is great to see the Unifi and REPREVE brands getting more and more positive visibility across numerous media outlets.

Let's move now to our operational results. Starting with our International Segment where sales grew 7% in the first quarter versus the previous year.

In Asia, sales were again driven by our PVA business. Key global brands and retail partners benefit from our ability to develop and implement PVA programs that will drive value through the supply chain. We did see an anticipated drop in average selling price per pound as we secured new chip and staple fiber business, which carry lower pricing. Looking forward more high-value filament programs are scheduled for later this fiscal year.

Moving to Brazil, we continue to exhibit solid performance as we capitalize on the expansion of the synthetic fiber market and growing demand for PVA products. Our performance in the region was encouraging despite a volatile economic and political operating environment, coupled with some import pressures. Looking towards future international expansion, I would like to comment briefly on our recently announced letter of intent to form a joint venture in Guatemala. We are still in the due diligence process and recognize that growth in the region is a key element to our strategy of building out REPREVE and our competitive position. We hope to provide further details in the next few months. In summary, we remain pleased with our international momentum and overall financial performance.

Let's spend a few minutes now talking about our domestic business where we continue to face market headwinds. Despite these persistent conditions we were able to generate overall revenue growth of 1.2% as Polyester grew 3.6%, but was partially offset by a 5.9% decline in the Nylon Segment. It's worth noting that the full effect of three major hurricanes in the quarter was a definite headwind that required diligence to manage through. The impacts in terms of sales and raw material pricing are varied in the first quarter and this could continue through Q2. We are tracking incremental orders relating to the restoration work and, at the same time, quantifying the impact on raw materials supply from Houston. The significant damage from Hurricane Maria has the potential to impact our Nylon business, but we don't expect this to be long-term.



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We know that millions of lives have been impacted by these storms and I want to thank all of the Unifi employees who have been working to minimize business interruption.

Before I turn the call over for our financial review, I would like to end with some great developments on our fourth strategic priority, focus on building out our leadership team and investing in our people.

We had three great new additions to our executive team across August and September which included Richard Gerstein, Executive Vice President of Global Branded PVA Products and Chief Marketing Officer. Richard brings leadership experience in the U.S. and internationally in both manufacturing and retail. He has served in executive roles for global companies, including Procter & Gamble, Alberto Culver, Hewlett Packard and Sears Holdings. He also sits on the advisory board of Motista and served on the board of Lands' End.

John Vegas has joined us as our Executive Vice President and Global Chief Human Resources Officer. John has over 20 years of global experience with his career encompassing multi-functional roles in human resources, general management, sales and retail operations for three Fortune 1000 companies.

And rounding out the executive team is Jeff Ackerman, Executive Vice President and Chief Financial Officer. Jeff brings over 25 years of experience in business and financial management at leading consumer brands and global companies. He has served in executive roles for The Fresh Market, Sealy Corporation and Frito-Lay. Jeff will be integral to advancing our strategic initiatives with significant financial and operational expertise. We are excited to have someone of Jeff's caliber and believe his experience as a leader of manufacturing and retail finance will enhance our ongoing efforts to grow shareholder value. I am happy to now turn the call over to Jeff for the financial review.

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

Thank you, Kevin, and good morning, everyone. In just under two months at Unifi, it is clear that this is a great organization. I am truly excited about the future of the Company and the growing leadership team we have here. That excitement is shared by leaders like Tom who have dedicated their careers to Unifi, as well as people like Kevin and I who are just starting. One of the main reasons I joined Unifi was to be part of such a great sustainability story, one that has decades of history and operational excellence, all of which are backed by strong momentum and fundamentals that should allow for significant growth and align perfectly with my own experience. With that, let's get into more specifics on our financial performance during the fiscal first quarter.

Throughout my discussion, I will be referencing the presentation that is available as part of the webcast, as well as published on our IR site. As Kevin noted, we are pleased with the results for the first quarter arriving in-line with our expectations. For the first quarter, we are reporting net income of \$9.0 million and diluted earnings per share of \$0.48, compared to net income of \$9.4 million and diluted earnings per share of \$0.51 in Q1 of fiscal 2017. As shown on page 3 of our presentation, during the quarter, net income decreased by \$400,000 or 4.7% compared to the prior year's first quarter. The decline was primarily driven by a \$2.1 million pretax increase in operating expenses. Although operating expenses were in-line with the most recent three quarters, the variance to Q1 a year ago is a result of the recent strategic investments being made. The benefits of increases in earnings from Parkdale America and sales volume, along with a lower effective tax rate all contributed positively to net income. Slide 4 gives you a similar story for diluted earnings per share where you can see the impact of each driver on diluted EPS.

On slide 5, you can see the sales and gross profit highlights for the first 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 a 3% increase in revenue from \$158.5 million in the first quarter of fiscal 2017 to \$163.2 million in this quarter. This was again primarily driven by higher volumes in both the International and Polyester Segments. Offsetting stronger volumes were pricing pressures during the quarter in all three end markets. Overall, average selling price declined by roughly 5% during the period, which was mainly attributable to the expansion of our lower-priced products, as previously noted. One other quick detail I want to highlight is that, in Asia and Brazil, currency favorability benefited sales by about 1.6% in the International Segment and 0.5% for consolidated sales compared to Q1 last year.

Moving to gross profit, our segment gross profit margin overall decreased by 80 basis points in the first quarter due to the sales mix and an increase in raw material costs resulting in a gross profit decrease of approximately \$600,000. We are proud of the improvement in our Nylon and Polyester



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margins year-over-year exhibiting cost-effectiveness in the Nylon Segment and continued ramp-up of our recent capacity additions in the Polyester Segment. As expected in the International Segment, we did experience subtle cost pressures along with mix changes related to the expansion of our chip and staple fiber portfolios, which negatively impacted gross margin. Overall, another solid quarter for our segments, exhibiting strength in global execution of our supply chain solutions with continued focus on recycling and innovation.

Now, I will turn to slide 6 for a look at our equity affiliate 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. A \$2.5 million increase in Parkdale's pretax earnings for this quarter was partially offset by our Nylon joint ventures, experiencing a pretax earnings decline of \$300,000. I will highlight the distributions from our equity affiliates in a moment.

On slide 7, we review the Company's balance sheet highlights. Adjusted Working Capital of \$141 million was approximately \$10 million higher than September 2016 and approximately \$6 million above the level at the end of June. The increase from September 2016 is primarily attributable to higher inventory levels as we built strategic inventories in Brazil and ramped-up recycling operations, combined with higher virgin polyester and nylon costs. The increase from June 2017 is attributed primarily to an increase in Brazil's inventory levels due to strategic sourcing decisions and currency translation, along with seasonal impacts and higher costs for our regional operations. As a percentage of annualized sales, Adjusted Working Capital was 20.3% at the end of the first quarter and remains within our range of expectations.

Moving to net debt and total liquidity, the Company ended the current period with \$125 million of debt principal and net debt of \$83 million. The net debt decrease relates to comparably lower CapEx spend and the increased dividends received from Parkdale as presented on the previous slide. During the first quarter, we received a total of \$7.2 million in distributions from our equity affiliates compared to \$750,000 during the comparable period last year. At the end of the quarter, the Company's weighted average interest rate for its outstanding indebtedness was approximately 3.4%. Total revolver availability and liquidity was \$67 million and \$110 million respectively.

With that, I will talk briefly about our full-year guidance with some specificity around the upcoming second quarter. For the full year, we still expect volume growth, assuming a stable raw material pricing environment. That should help us drive revenue growth in the low-single digit percentage range. Despite some of the extra SG&A investments that we have forecasted, including the onboarding of several new members of our executive team and new marketing programs, we still expect to grow operating income and earnings at a higher level than sales in the mid-single digit percentage range, excluding Parkdale. CapEx should come in around \$35 million and our effective tax rate for normal operations is expected to be in the mid-20% range. Specific to the second quarter, we expect the typical seasonality of the second quarter, but are still working through the impacts of the hurricanes, as Kevin mentioned. And second quarter SG&A consistently reflects a bump up in equity-based compensation expense for annual equity grants. I will now turn the call back over to the operator for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Chris McGinnis, Sidoti.

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

Nice quarter. I guess just start maybe around where you just ended in terms of the SG&A. It's up obviously as you guys are investing, but as you called out maybe in Q2. Is this the range, a little bit higher, but maybe discuss the rate of growth year-over-year. Should we expect that throughout the year and then maybe a little bit of margin improvement or maybe gross margin when we are just thinking about the operating margin target you set?



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

So SG&A for the quarter was \$12.9 million and if you look at the last three quarters, this quarter compares favorably. Compared to last fiscal year though, that reflects the investments in the management team and the marketing programs that we've been talking about. So, as we also mentioned, we'll be looking at having the full management team on for the entire quarter. They joined us during the latter part of the quarter, so you would see a ramp up from that. In addition, you would see some increases as we ramp up some of our marketing programs. And Q2 always has a bit of a bump up just due to equity grants that happen every year. So we just see that stepping up in the second quarter and probably stabilizing more in about the third quarter. And I guess just one other point, we would also see an increase in our SG&A to support the terrific growth that we are seeing in our International Segment.

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

Okay, great. And I guess just touch on that real quick. You mentioned the filament coming in in the back half of the year. Obviously, the margin profile out of International is very strong, but could that grow with that new program coming online in the back half of the year?

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

Yes, we do expect our higher margin filament programs to be stronger through the rest of the year. So we would expect growth in the next three quarters.

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

Great. And I know this is maybe a little bit bigger picture, but just with all the issues around retail in terms of the move from brick-and-mortar to e-commerce, can you just talk a little bit about how you are positioned against that Amazon effect? And as they start to grow their own portfolio, just maybe how you are tackling that? I know we are a little bit longer into this, but as this becomes more and more of an issue, can you maybe just discuss your thought process around it and the impact on inventory over the next year or so?

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

Yes I'll take the first one and if anybody has any other thoughts. So, I think we touched on this the last quarter as well, but clearly there's been an impact on particularly this region when it comes to consumer buying habits and inventory. Retail capacity out there clearly has come down with that whole trend. I think for us there's a couple of applications. One is as a lot of our branded partners are working to compete in this environment, speed to market and fast fashion become even more critical. And so, they're going to be working on their inventory needs, how to get to market more quickly, how to replenish both in a traditional retail environment, but also in an e-commerce environment. So I think that's where our operational expertise comes into play where we can really help with some of that fast follow, short lead-time production requirements that they are going to need there. And so, over time, I think that's going to be something that really plays to an advantage to us once we get through these inventory headwinds. I think with this new environment there are more brands that are going to be on e-commerce. And a lot of those brands are interested in recycled. And so, we are out in conversations with those and we think that can be a really good platform for, again, the millennial consumer buying on e-commerce. We think there's clearly a demand for our REPVEVE product line and platform there, so that's something we hope to be able to leverage as well. And then the last one is more of a longer-term view, which I think through this environment more and more brands looking to win longer-term with innovation. How can they really create something that's going to be consumer meaningful in the marketplace that would work both in a retail environment as well as e-commerce. And when you start to think about e-commerce and the innovation stories, that's again, I think innovation being in the yarn, that's a place where we can play and we are partnering with brands to help them win in that environment.



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

Thanks. And then maybe just on the last question, can you maybe just touch on the balance sheet, the strength of it currently? And maybe thoughts about capital allocation with the cash flow going forward? Your balance sheet is in a really solid spot at this point.

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

Sure, it's Jeff. No, it is fantastic. The balance sheet is in a great spot. As I mentioned in my prepared comments, we have a liquidity of about \$110 million. We are probably going to continue to maintain a leverage ratio of around 1.5 times. So, our priorities for cash are really to invest in the business. We are required then every year to make some amortization payments, so we look at a little bit of deleveraging. And then any access cash then we would start to consider for returning to shareholders. But as we mentioned, we are making some significant investments with that cash that we have. We've talked about Vietnam and then potentially Guatemala, so those are absolutely great opportunities for us to put that cash to work.

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

Great. Thanks, I will jump back in queue. Thanks for taking my questions.

Operator

Daniel Moore, CJS Securities.

Daniel Moore - *CJS Securities - Analyst*

Just wanted to drill down a little bit more on the gross margin, particularly on the International side. To the extent possible, can you quantify the impact of mix as chip revenue has ticked higher relative to higher input costs in the quarter? And a follow-up or two.

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

Yes, let me take the first part of this and then, Jeff, I'll let you jump on. As we were planning out the year, we saw in the first quarter that in Asia, we had a lot of new business coming online that was in more of the lower-priced staple fiber business. So we saw this, it was kind of in the plan, and we do see the timing on the other programs coming for the rest of the year where we are going to see a rebound. So, I think you will see this thing play out. But let me hand this over to Jeff for a little bit more insight into it.

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

Yes, so really the impact on gross margin is really just due to changes in the mix. So, we think that the success we are having in Asia to drive volume, we are really happy with that. There is definitely a mix impact there for the quarter. Last year, we had a large customer that was filling its pipeline with some PVA products that were higher margin, so they were filling their supply chain pipeline. We expect as we get into the second half of the year for that balance to normalize. I don't think it's a surprise as the Company ramps some capabilities around recycling that you're going to see the chip business do well, as well as the staple fiber. So, we continue to see success there. For the Brazil business, it was largely a mix difference as well as we took advantage of the stronger currency rates to go ahead and just import more product for resale, which carries a little bit lower margin and I think we've talked about that on prior calls. So, really mix. We feel great about the revenues that we are driving. And as mentioned, in the second half of the year we expect to see Asia, the PVA mix, normalize and still continuing to see strong volume growth with the staple and chip.



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Daniel Moore - *CJS Securities - Analyst*

Very helpful. As it relates to input costs, I think I heard you say that you mentioned a little input cost pressure in Brazil. Maybe anything you can elaborate on there. And then as it is shifting back to North America in terms of the hurricanes, is it possible to quantify the impact on margins in the quarter or is it just a little tough to tease out?

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

Again, I will start with and then I will hand it off to Jeff. It's interesting with the hurricane impacts. First of all I want to give a lot of credit to the Unifi organization. They have really been working through this. And so, we've worked it through the quarter and then the outlook where we think we've got our arms around it and we've really been able to minimize that. That doesn't accurately reflect everything that's gone into making that happen. If you think of the shipping disruptions and the cost input disruptions and even consumption disruptions, just a lot of work that went into it. But we feel like we've come through the first quarter in really good shape. We continue to monitor the second quarter. We do think it will be short term, if anything. There are positives and negatives. The positives are some of our customers are actually seeing restoration consumption rebounds and we are helping to facilitate that. On the other side, there are cost pressures and we are continuing to monitor and work through those. And the more short-term they are, the more we want to be able to just work through them. If they become longer-term, we'll have to take some action. So, I think when you net it all out, we made it through the first quarter, feel good about the position we are in in the second quarter, but there's still some unknowns. Jeff.

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

Maybe just a little bit of color. So on the Brazil side, again, I would just say that by far the preponderance of the shift in margin there was all due to just a mix shift. On the Poly side, again, a big shift in mix. And I think that it was a more difficult compare to the prior year quarter. In the prior year quarter we saw our prices increasing and the virgin costs were actually lower. So, it was a really favorable cycle then. This quarter for this year was a bit the opposite where we saw really a rising cost and then just the phasing and timing of our price increases which are on a lag, so we actually were out of cycle with that. So we saw some compression between the price and the cost. But overall higher virgin raw material costs and also some higher baled bottle prices. So, those things we look to see more normalized as we move through the year.

Daniel Moore - *CJS Securities - Analyst*

Helpful. Sounds like some opportunity for catch-up as those price increases come through. On the PVA side, it's still growing? Obviously healthy mid-single digit. It did decelerate a little bit. What are your expectations for growth for the remainder of the year?

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

So PVA, again, it continues right now to be driven by our REPVEVE platform. We had good growth there. We do see some strong growth continuing in the same markets that we've talked about before, particularly in Asia and some new domestic programs that we have coming on board in the second half. So, I think it's fair to say that we continually look to drive REPVEVE growth even a little bit stronger than we did in the first quarter, which would hopefully bring that PVA number up from a growth standpoint from where we were this quarter.

Daniel Moore - *CJS Securities - Analyst*

Excellent. Maybe one more. The JVs, Parkdale specifically, income obviously improved year over year. Anything in terms of profitability and were there any nonrecurring factors good or bad that we should be thinking about there?



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Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

They are a really good company; well-managed. It was good to meet them and talk about where their business is. They are positioned well from a standpoint of blended products with cotton and poly blends in the marketplace, which I think will continue to be an important part of the overall market mix. So, we look at them as great partners. And as we talk to more and more brands about REPREVE, I do believe we will be getting into conversations about REPREVE blended product. So, my hope is we can do more of that, more partnerships with REPREVE and Parkdale in the future. So, all in all it was a good quarter and they remain very, very important partners for us.

Daniel Moore - *CJS Securities - Analyst*

Okay. Appreciate the color. Look forward to meeting you in a couple weeks and thank you for the time.

Operator

Marco Rodriguez, Stonegate Capital.

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

Just a couple quick follow-ups here. I was wondering maybe if you could talk a little bit more about the price mix changes you saw in the quarter. Were these all client driven? Were there some promotional events that were happening that kind of drove this? Any sort of color there would be helpful.

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

If I look at the polyester business, the pricing just was on the normal cycle looking at virgin raw material and indexing against that, so a lot of that was we saw price increases related to that. So, overall pricing was probably flat to up slightly. The bigger impact again was mix, as I said, and you asked about price and mix, so it was clearly mix was where the pressure was. And then really on the Nylon side of the business, we saw the volume come down a little bit, but we definitely saw the mix improve, so we benefited there. The other thing that we benefited on the margin side for Nylon was just some fantastic work that our operations team has done there to take out some significant costs over the last four quarters. So, that was a big driver for the improvement in margin for nylon.

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

On the mix, particularly as we drive REPREVE, and really we are extending the reach of REPREVE across a lot of different brand partnerships. Early on, a lot of those partnerships were primarily in the filament side of the business, but as we continue to grow it we will be adding significant volume on staple fiber and on chip. So, overall the portfolio is going to be a strong one, we're going to have good margins there. I think what you see here is just kind of the ramping up of the overall portfolio as we go forward.

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

Got you. And so, is there an expectation that perhaps this fiscal year, fiscal 2018, you see some expansion on the gross margin side?

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

Yes, there is. That's what we are pushing for.



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

Got you. And then maybe if you could talk a little bit about your fourth production line for REPVEVE that just came online. If you can maybe talk about how you're thinking about the additional capacity that's going to be added per quarter and expectations as far as production off that line.

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

We are going to let Tom lead off the conversation and then I'll give you some thoughts on the commercial side. Tom.

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

Our fourth line is just coming up in Yadkinville. We fully expect that to be 100 million pounds going into fiscal 2019. As we go forward we are going to be strategically looking at how we place that product in the market. So, we are very optimistic and been very encouraged by what we've seen so far.

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

So, the only thing I'll add from a commercial standpoint on that, as we build extra capacity here, obviously it's a very high quality input that we have as we've created to go into these performance apparel product lines, and so it's being recognized. And so, part of our strategic hires is we are investing to build out a sales group that can go out and can call on different groups that we may have not called on in the past when it comes to this kind of a quality input. And you can think about that as consumer products packaging and different areas like that. So, we've made those hires, very encouraged by early conversations and I think it's going to put us in a good place.

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

Got you, that's helpful. And last quick question and I will jump back in queue. Maybe if you can just talk a little bit about the competitive landscape, just update us there and what you are seeing in your markets.

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

I will take that and then, Tom. So, from an overall standpoint it remains a very competitive environment, particularly with the inventory situations that we are looking at and the consolidation in the market. There's been pricing pressure. But I think what we are doing now is we're having a lot of conversations with our brand partners, really brands that want to win through innovation. We are seeing a great opportunity for REPVEVE. As I said, in the short-term, the window is here. I've heard of several quotes as we've been out on customer calls around "the tide is coming in on this one... this is a really important initiative for us... we want to be partnered with that." And then longer-term, as I mentioned, from an innovation standpoint, we really believe we can position ourselves as the go-to place for technology in yarns. And so, that's what we are continuing to focus on and build out our capabilities. Tom.

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

Marco, I would just say, with this market being soft here in this hemisphere, that we continue to be looking at cost and trying to control the overall competitive environment. We think agile, quick response manufacturing is going to be the wave of the future and we are well-positioned to participate in those markets as we go forward. And hopefully calendar 2018 will be a more promising year.



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

Got you. Thanks a lot, guys. I appreciate your time.

Operator

And I'm showing no further questions in queue at this time. I would like to turn the call back to Mr. Hall for any closing remarks.

Kevin Hall - *Unifi, Inc. - Chief Executive Officer*

Thank you all for joining us today. And we are going to remain focused on our growth opportunities in this fiscal and beyond and we look forward to updating you on future quarters.

Operator

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

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