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UFI - Q4 2018 Unifi Inc Earnings Call

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

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**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 Fourth Quarter Conference Call. Leading today's call is A.J. Eaker, Vice President, Finance and Investor Relations. A.J.?

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**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 a webcast presentation that can be found at [unifi.com](http://unifi.com) and by clicking the fourth 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.

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**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.

Last year, our goal was to further establish Unifi as the global leader in innovative recycled and synthetic textile solutions. Throughout fiscal 2018, we diligently invested in building our brand, our technologies, our partnerships and our organization to solidify the foundation for long-term sustainable growth.

Let's start with a discussion of our fourth quarter highlights, where we see our strategy materializing. Our fourth quarter results came in as expected with excellent growth in our top line. This completed a year where we were able to deliver sales growth in each of our four quarters, something that hasn't happened in the last six years.



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For the fourth quarter, our sales growth of 5.9% from the prior year period was carried by the strength of our premium value-added product portfolio, as total PVA sales grew roughly 16% compared to the prior year period and represented approximately 45% of consolidated sales.

On an annual basis, I'm proud to add that PVA revenue exceeded \$300 million for fiscal 2018. The strong PVA performance was a key contributor to our International sales growth, which was up 19% in the fourth quarter compared to the prior year period.

This all leads to further progress against our goal of recycling 20 billion plastic bottles by 2020. On that front, I'm pleased to announce that we recently surpassed the 12 billion plastic bottle mark, a very meaningful milestone.

Given our top-line performance and initiatives to counter the recent rise and acceleration of raw material costs, we were able to make some progress on normalizing profitability, even as significantly higher raw material costs remained a substantial headwind.

Crude oil prices were 50% higher in the fourth quarter of 2018 compared to the end of fourth quarter 2017. The impact remains substantial due to the acceleration up to this level during the fiscal year. We have more work to do over the next couple of quarters for pricing to catch up to the high level of input costs. This remains a top priority.

Partnering with Unifi has provided our customers with a clear opportunity to deliver on their sustainability goals by offering REPREEVE-based premium performance products. It's been great to see the growing recognition of the REPREEVE brand.

In the fourth quarter, we were honored to receive the 2018 University of North Carolina Sustainability Award for our commitment to sustainability, innovative leadership and sustainable enterprise as well as strategic and thoughtful business practices. It is our privilege to be working with UNC on the Greater North Carolina circular economy.

We recently announced being named the Founding Sustainability Partner of Pac-12 Team Green, a partnership with the Pac-12 collegiate conference. As part of the partnership, Unifi will provide grant funding to Conference member institutions to support sustainability initiatives and increase recycling efforts, and we will work with the Pac-12 and Pac-12 networks on creating custom content and media assets to feature circular economy programs in order to ignite passion and increase understanding of the benefits of recycling plastic bottles.

We have also had a very successful launch of our new Unifi positioning - True Innovation Starts in the Fiber - which highlights our strategy of developing innovative and sustainable performance fibers.

We timed the launch to take place during last week's Outdoor Retailer Market, which continues to be a top customer show for Unifi. With our expanded presence, we displayed our REPREEVE mobile tour on the showfloor for the very first time. The event further positioned REPREEVE as the #1 branded recycled fiber in the world. It provided a great avenue to inspire and educate new performance apparel brands, product designers and retailers.

We have seen strong indications of success with the launch of our new branding and newly designed website, Unifi.com, with a 40% increase in June traffic to our website compared to last year. Engagement with our content also improved, with increases in June page views and average session duration of 50%.

Most importantly, our lead tracking has resulted in a tenfold increase in new leads generated from the Unifi.com website, when comparing 2018 to June 2017.

Our innovation focus this year is around combining new technologies with noticeable and superior consumer benefits into the REPREEVE platform. We also provide these technologies on our virgin platform, but our primary focus is recycled.

Key innovations in our product offerings being delivered this year include thermal regulation, superior cushioning and coverage and improved wicking or moisture management. These benefits are supported by consumer and technical research data being used to demonstrate the superior performance.



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Some of these technologies are now in the marketplace, like a new all-season khaki pant. The pant includes REPVE and Sorbtek365, which helps keep the wearer cool and dry in the heat and warm and comfortable in the cold. The pant is co-branded with REPVE and Sorbtek365 hangtags, and the thermal comfort benefits are featured in a promotional video created by the brand.

Under Armour incorporated our XS cushioning technology into one of their leading performance socks, which is now available through their normal retail and online channels. XS provides lightweight cushioning and resilience for more comfort as well as less wear and tear on the user.

We believe our momentum is strong, and we expect more adoptions and expansions with these and other brands.

Now I'll turn over to our segment level performance. Starting with our International Segment, the fourth quarter reflects ongoing momentum as sales grew 19% compared to the prior year period. We remain extremely proud of how well our teams have executed across the world, and we continue to see strong opportunities for global expansion.

In Asia, sales were again driven entirely by our PVA business and expansion of our supply chain. During the quarter, we saw good performance from established brand partners as well as from some new brand adopters and have opportunities remaining in the pipeline.

Moving to Brazil. Both sales and gross profit were down during the quarter compared to the prior year period, which is primarily due to the weakening of the Brazilian Real. We continue to monitor the volatility in this region, but are proud of our performance there and the opportunities that remain. Even with headwinds, we believe our position is strong, and our premium products remain in high demand.

Looking at our domestic business, we made sequential quarterly improvements despite ongoing market headwinds driven by elevated raw material costs and a highly competitive regional environment.

Even with these headwinds, we were able to produce another quarter of overall revenue growth on Polyester, which was up 3.4% compared to the prior year period. Partially offsetting that growth was a 7.8% decline in the Nylon segment sales compared to the prior year period.

I'd like to spend a brief moment to acknowledge the recently proposed duties on Chinese imported goods and the trade regulatory environment as a whole. To date, there is great uncertainty in this space, but we haven't seen strong evidence that current proposals and negotiations will have a material impact on either our overall cost structure or our competitive position. However, we are still assessing the impacts that current proposals and trade negotiations might pose on both in the short and long-term, and we are preparing to take appropriate action should any impacts materialize.

One last mention on the regional business. I would like to comment briefly on our recent announcement regarding the end of our negotiations on the proposed joint venture in Guatemala. We remain committed to the Central America region but were unable to reach a definitive agreement on this specific venture.

We will continue to look at other opportunities across the Americas that will both leverage our assets and help us expand in the most efficient manner possible, while meeting our financial requirements.

As we look forward to fiscal year 2019, we will work to build upon the progress we made against our strategic growth plan.

Our True Innovation Starts in the Fiber positioning demonstrates our commitment to taking innovation, technology and sustainability to consumers around the world through our partnerships with leading brands and mills. The commitment is evidenced by both our bottle processing plant and recycling center now reaching their target production levels as we continue our march to 30 billion bottles recycled by 2022. With this U.S. based capacity, we are positioned to more efficiently deliver on the growing demand for REPVE products as well as build out our innovation pipeline.

Our dedication to recycling and performance products proves valuable to many partners, including the expanding list of Chief Sustainability Officers being assigned to important roles in like-minded companies. Many of these companies are establishing very meaningful and impactful stretch goals for recycling around the world.



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We will focus diligently on expanding and optimizing our global supply chain - continuing to look for unique ways to expand the reach of our manufacturing assets and supply chain partnerships - which allows us to adapt to the ever-changing needs of our customers and the regulatory environment in order to be where our customers need us. The strategy is helping us drive growth. Many opportunities remain, and we will be agile, responsive and competitive.

As a result, we strive to be the world's most sought-after performance and sustainability textile partner, by igniting passion and inspiration among forward-looking designers, innovators and consumers - ultimately leading to further revenue growth and increased operating margin.

Before I turn the call over to Jeff to provide more details on the financials, I would like to highlight our latest board addition, Eva Zlotnicka from ValueAct Capital.

Eva has extensive experience within the network of sustainable companies and valuable insight into multinational environmental and social initiatives. As we continue to realize our vision of making everyday life better by transforming today's products through sustainable innovation, we welcome Eva's expertise.

I will now turn the call over to Jeff.

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

Thank you, Kevin, and good morning, everyone.

As Kevin noted, results for the quarter were in line with the expectations that we discussed on our last call. We outlined our plan to reignite our growth last year through strategic investments, and we were pleased to see those investments contribute to solid top-line growth. Further, in the fourth quarter, we were able to recapture some of the short-term profitability we had lost in Q3 due to higher raw material costs. However, the cost of raw materials still remain high, and the environment in the Region continues to be difficult. We have made progress, but achieving cost efficiencies, implementing price adjustments and enriching our sales mix to improve margin remain ongoing areas of focus.

I'll get into more details on the drivers of our performance in my discussion today and share some of our progress on improving results. Throughout my discussion, I will be referencing the presentation that is available as part of the webcast and published on our website. Please turn to Slide 3, where we have provided a bridge for net income and diluted EPS.

Consolidated net sales were \$181.3 million, a solid 5.9% increase from Q4 2017. Sales were driven by an overall increase in volume, led by worldwide PVA product sales. Gross margin came in at 13.2%, which was down from 16% in Q4 2017.

In the prior year fourth quarter, our margins experienced the benefit of a declining raw materials cost environment -- where in this quarter - our margins remain pressured by high raw material costs - which in combination with a highly competitive regional environment - puts pressure on our customer pricing. Consistent with our outlook on last quarter's call, gross margin did increase more than 300 basis points sequentially from Q3 '18.

We talked last quarter about our customer pricing mechanisms for Index-based and Non-Index customers. For non-indexed customers, we've historically been able to recapture margin following an increase in the price of raw materials within a couple of quarters of raw material costs stabilizing. As a reminder, a good portion of our customers that are on our index pricing model received automatic quarterly price adjustments to account for shifts in raw material costs, allowing for pricing to remedy itself over time.

Our non-index customers are in a more fluid position, where we have to balance the raw material cost environment with the competitive dynamics in the market.

We've been negotiating and implementing responsive price adjustments with our non-index customers, but we see pricing as a challenge that will require constant attention to account for the dynamic raw materials cost environment.



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Looking at operating expenses, incremental SG&A drove an increase in operating expenses compared to Q4 2017, stemming from our planned strategic investments in our expanded international and domestic commercial capabilities.

The year-on-year impact of foreign exchange was a favorable \$600,000 on an after-tax basis, primarily driven by the Chinese Renminbi.

The change in net income related to equity affiliates compared to Q4 2017 relates primarily to reduced quarterly earnings at Parkdale. Parkdale continues to be impacted by similar domestic challenges that we've experienced, and they also spent time chasing prices in an inflationary environment, which adversely impacted their earnings this quarter.

Lastly, during the quarter, we experienced a reversal of an uncertain tax position related to foreign exchange income recognized in fiscal 2015 amounting to \$3.4 million.

In summary, we saw net income grow to \$10.8 million, up from \$9.7 million the same time last year.

When evaluating the business using our adjusted non-GAAP measures, Adjusted Net Income declined from \$9.7 million in Q4 2017 to \$7.4 million in Q4 of 2018, which we attribute to the higher operating expenses discussed earlier, partially offset by a more favorable tax rate on an adjusted basis. Similarly, Adjusted EBITDA declined from \$18.8 million in Q4 2017 to \$15.3 million in Q4 2018, adversely impacted by higher operating expenses.

Slide 4 shows the components of sales and gross profit for the fourth quarter. Segment net sales grew 5.9% from the prior year on 11% higher volume, while gross margin declined 280 basis points due to the headwinds that I mentioned.

Sales in our International and Polyester segments continued to grow, while Nylon continued to be pressured by a secular decline. More specifically,

Polyester volumes for the quarter increased 5% over the same period last year, driven by growing sales of plastic bottle flake and REPVEVE chip. We are pleased with this sales growth, but recognize that the associated margin profile is lower on the value chain. We will continue to push for product sales that carry higher margins, utilizing the innovation strategies that we've outlined.

Nylon sales performance reflects the ongoing decline in the category. We are investing in our commercial capabilities to improve sales volume trends and working to identify efficiencies in our cost structure.

Internationally, we have seen excellent performance across a broad sales mix, including significant expansion of REPVEVE staple fiber, capturing share in the large market for blended apparel products.

Now let's look at gross margin performance for the quarter. We were pleased with the sequential improvement in performance compared to the third quarter. However, we have more work to do.

We faced a difficult comparison, as the prior year quarter benefited from a declining raw material cost environment. For Q4 '18, instead of a declining raw material cost environment, we experienced an uptick in average polyester raw material costs from Q3 '18. This differential, combined with disproportionate growth in some lower-margin products, depressed our gross margins when compared to Q4 2017.

Looking at Polyester margins. Volumes grew 5% but were slightly offset by raw material pricing challenges and disproportionate growth of chip and flake sales. These impacts equated to a 440 basis point reduction in gross margin.

Moving to Nylon margins. Nylon's volume decline and less favorable mix drove challenges in fixed cost absorption, comprising a 220 basis point gross margin decline.



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International gross margins continued to outpace those of our Regional segments and the higher growth of the International Segment also helped offset some of the headwinds in our regional businesses. Gross margin for the fourth quarter was 150 basis points lower than Q4 2017, primarily due to a lower margin sales mix and higher costs in Asia.

Slide 5 shows equity affiliates. Parkdale also experienced a difficult regional environment, in combination with rising cotton prices, which resulted in a decline of \$233,000 from Q4 2017.

Total distributions from equity affiliates were \$1 million in the quarter and \$12.2 million for the fiscal year.

Slide 6 covers balance sheet highlights, including non-GAAP measures, working capital and Adjusted Working Capital presented on the slide. Working capital was \$189.3 million, and Adjusted Working Capital was \$145.9 million. Adjusted Working Capital as a percentage of sales remained in our range of expectations, and below 20%.

We ended the period with \$131.2 million of debt principal and net debt of \$86.3 million, both in our range of expectations. Total liquidity and revolver availability were at \$98.1 million and \$53.2 million, respectively.

Our total debt to Adjusted EBITDA leverage ratio ended the year around 2.5x, which leaves us with a strong balance sheet to continue to support our future growth objectives.

We still have \$27.6 million authorized and remaining on our share repurchase program. While we prioritize growth investments, we remain open to considering multiple levers to drive long-term shareholder value.

Lastly, I'd like to close with some thoughts around our outlook for fiscal 2019.

We anticipate continued strength from our international operations and increased contributions from our strategic investments to drive profitable growth.

Despite the regional headwinds, we expect to deliver mid-single-digit percentage growth over fiscal 2018 for revenue and mid- to high-single-digit growth in operating income and Adjusted EBITDA, but these are exclusive of Parkdale.

For revenue, we expect Polyester growth rates to be in line with fiscal 2018 levels and to benefit from continued expansion of our chip and flake businesses. For Nylon, the decline in the category is ongoing, but we expect the commercial investments we made in 2018 to begin stabilizing the business. The strong growth rate in our international markets in fiscal 2018 will prove difficult to match, but we remain excited about what we have in the pipeline and our opportunities to grow in fiscal 2019.

We expect operating income to grow from the additional revenue and some cost improvements. Notable assumptions for our outlook include no major fluctuations in the price of raw materials or changes in the regulatory environment. Also, fiscal 2019 will contain 53 fiscal weeks, with the additional week occurring in the first quarter ending September 30.

Looking at our capital projects, we expect CapEx to remain around \$25 million for fiscal 2019, consistent with the level and types of investments we made in fiscal 2018.

On the tax front, the changes included in the Tax Act are broad and complex, including the provision related to the Global Intangible Low-taxed Income - or GILTI - tax. GILTI is currently expected to negatively impact full year earnings, although it is not expected to impact cash flow.

Given the complexities and pending interpretations relating to the 2017 tax reform legislation, our initial expectations are for an effective tax rate in the low 30% range, but we are making it a priority to improve this rate. As we receive more clarity on the regulations, we will factor that into our expectations and update you accordingly.



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With that, I will now turn the call over to Kevin for closing remarks.

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

Thanks, Jeff.

For fiscal 2018, we set fairly aggressive goals for a company that hadn't seen strong top-line growth in several years. We added talent to our high-performance team around the globe and are driving a culture focused on profitable growth.

I am more excited today about our global opportunity than when I started a year ago, as I can see the differences we are making. Our current products and those that we are developing can provide our customers with innovative solutions that today's consumers desire, which, in turn, will help them improve their own results and impacts.

We will remain focused on positioning our business for long-term profitable growth by executing on our strategic growth plan, while also further developing our productivity initiatives.

I am also pleased to announce that we will be hosting an Investor Day on November 15th in New York City, where we will have the opportunity to talk long-term targets and share more detail on our strategic plan. We hope to see many of you there in person. Please keep an eye out for more information to come.

With that, we'll open the lines up for your questions. Operator?

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question comes from Chris McGinnis from Sidoti.

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

Just touching on the price increases for 2019. I would have thought that you would have seen a little bit more pricing benefit in Q4. Is that just timing-related? And, when you think about the expectation for next year, how much price is built into that forecast?

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

Thanks, Chris. This is Kevin. I'll take the beginning of that, then hand it off to Jeff. So, first of all, I would say that through the quarter, we're really proud of our teams, because getting pricing is never easy, but they've been out working aggressively on it, and we actually made some good progress in the quarter. We have more work to do and as Jeff has talked in the past, with our index pricing, it lags a little bit. We see ourselves still working and focused on this over the next quarter or two, but we're making good progress on it. I would say, overall, the one thing that is a benefit is that more people are, I think, recognizing the challenge of rising costs across the different conversations. The overall environment is a little bit better, but we're making really good progress. Jeff?

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

Yes, Chris, it's Jeff. Just on top of what Kevin said, I think as we looked at going through the quarter, we definitely saw an uptick in our raw material costs from Q3. You saw that probably just in the rising price of oil. And as Kevin mentioned, we're still chasing after that a little bit. We did make





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the sequential improvement as we talked about and our assumptions now are that those raw material costs will, albeit at an elevated price, will start to stabilize because it's just hard to predict anything other than that. And if it stays fairly close to the current levels, we should be able to deliver on the guidance that I mentioned.

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

Okay. And then, just thinking about the operating margin targets for the next year. I would have thought that would be a little bit higher. I'm just wondering, is the gross margin still maybe a little lower? Or is there more investment on the SG&A side? I know you've been doing a little bit of work there as well.

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

Yes, Chris. Let me just touch on kind of the key points around our guidance. So our objective is always to try and grow the earnings faster than the sales. As I mentioned, we're expecting mid-single-digit sales growth and earnings growth in the mid- to high single digits. Here's something you might not be thinking about, on the revenue side, we are going to be facing an 8% to 10% headwind on the International business, and that's because of how much the Renminbi and the Brazilian Real had weakened, so that's about an 8% to 10% headwind just on the international business. So still strong growth, U.S. dollars, but even stronger growth on a local currency basis. On the gross profit, we expect slight expansion in the Poly business as we get more efficient and raw material costs start to stabilize. That will be partially offset by some continued pressure on Nylon. Then we're facing a 100 basis point headwind on the International business due to a loss of some import credits associated with the weakening in the Brazilian Real. So that was 90 days ago and was not something that was anticipated. Then thinking about SG&A, if you look at the fourth quarter and consider that more or less the run rate, that's kind of how you get to the SG&A numbers. Those are the building blocks for our guidance.

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**Operator**

And our next question comes from Dan Moore from CJS Securities.

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

Congrats on the UNC Sustainability Award, and go, Tar Heels. Gross margin, if you look at sequentially, Q3 to Q4 improved 300 bps. Is it possible just to break that out between volume, fixed cost absorption, price increases flowing through and mix?

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

Sure. Let me just tick through those for you, Dan. Sequentially, from the third quarter of this year, our Polyester margins improved about 360 basis points. If I just tick through the items in, really, order of significance, the largest, for sure, was the improved leverage on just the higher sales and better efficiencies that we saw. The next point would be the cost that we incurred in the third quarter associated with the holiday startup and some upgrade costs that we talked about on the last call that totaled \$1.2 million, that was probably the second factor that we didn't have to anniversary that or we didn't see those types of expenses in the quarter. So we benefited from that. And then finally, some progress on pricing, but as I was just mentioning, that was an item where we're still chasing a bit because of the rising raw material costs. Nylon was really improvement on our mix and a little bit of improvement on higher volumes. International was up 70 basis points sequentially. That was primarily better mix in Asia and a little bit of a headwind in Brazil on our currency exchange rates.

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

That's great. Perfect. Next, the fiscal '19 guide, a little bit of margin improvement. Is it fair to assume that is somewhat back second half-weighted if we think about the tenor of the year given oil and PET prices have continued to move higher here?



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

Yes, for sure. Thanks, Dan, for bringing that up. The first quarter is going to be a very difficult comp for us. We had, as you said, the lowest oil prices of the year and then after that, we were really chasing things, so things will definitely be more back-end loaded.

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

Got it. And then shifting gears, really interested in, Kevin, your comments around the new khaki pant having SORBTEK and REPREEVE right on the tag. In conversations with Under Armour, for example, using the cushioning technology, are you making any progress with customers like that in terms of getting Unifi right out on the tag? And maybe just a little bit of color about your ability and the company's ability to really push branding up front and center in front of the consumers' mind?

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

Yes, thanks, Dan. Well, you can see with a really strong growth in the International in Q4, there's a lot of programs making their way to market. What you will see on several of those programs is more branding in-store. Once it's on the shelf, I will be able to direct attention more to it, but there are really good co-marketing efforts going on. I think a broader recognition of the reach that you can get with the REPREEVE brand as well as calling out the benefits of the technology around thermal or the wicking or the cushioning. So, yes, there's more to come there, and that is definitely a focus for us.

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

Got it. Look forward to seeing those. And then lastly, you talked about trade and tariff. You're prepared to take appropriate actions, and I know it's putting the cart ahead of the horse a little bit, but what type of levers can you pull and what type of actions might be appropriate if we do experience a little bit more pressure vis-à-vis China on the trade and tariff front?

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

Yes, this has really been kind of an interesting one for us to go through, and we're doing the math on this. So far, with the things that are in place, we really aren't seeing a material impact. Now with the announcements in the last 24 hours, we're doing more math, we're taking a look at it. So far, we don't see anything that would be a negative, but we've got to do more math on that. We'll continue to watch it.

**Operator**

And our next question comes from Marco Rodriguez from Stonegate Capital Management.

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

Most of my questions have actually been asked and answered here, but just a couple of quick follow-ups. Just first on the pricing aspects, talking about the non-index contracts kind of sounds like, obviously, a little bit more pressure there in terms of pushing through, but am I interpreting your comments that, that's starting to become an easier conversation now just as far as realization where the prices are?



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

Yes, Marco, I would say I would never classify the pricing conversations as easy or easier, but they're always tough. But what I would say is I think there's a growing recognition in the conversations that costs have gone up. And when we were first out, there was, I think, a real desire to just push back on that and for that not to be true. But I think now, everybody sees that it's a higher cost environment. So everybody is working through this now, and I think that's part of our partnership role, is to really work with our customers and figure out how to navigate our higher cost environment.

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

Got you. And if you could maybe talk about the contracts that are indexed. Has the pricing all been pushed through for those types of contracts and those customers?

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

Yes, Marco, it's Jeff. So the index pricing takes place on a one-quarter lag so it continues to chase after any kind of changes in costs. As I said, it's ongoing and we saw an increase in costs during the quarter, so we'll be a little bit on a lag. And if things stabilize, then starting next quarter, we should be all caught up.

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

Okay. Understood. Then in terms of the press release you guys had the other day or earlier this week in terms of just kind of the rebranding for your Outdoor Retail Summer Market, I guess, I think is what the headline was, if you can just maybe talk a little bit about that, the genesis of that and what your expectations are in terms of the rebranding.

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

Yes. So the rebranding is consistent with what we have been talking about, by bringing innovation into the marketplace and particularly around sustainability but just improving and offering superior consumer benefits through the yarn. We really believe that the whole idea of True Innovation Starts in the Fiber really captures that. If you want to deliver the superior benefits, it's really important to start at the fiber level, and what Unifi can offer are some technology approaches to that, that have some data around them that shows the benefit delivery. And so those are the kinds of things that we want to do with the new branding is really be able to put out the superior benefit delivery and to be able to help communicate that all the way through to the consumer.

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

Got you. And, perhaps the elevated costs, I'm not sure if there are elevated costs for marketing or what have you to push this new branding out. That's already part of your new SG&A run rate at that Q4 number? Or are there other expectations there?

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

That's all part of it. I mean, obviously, as we grow the PVA business and these programs are successful, we might invest if we see an ROI, but that's where we're at right now. We think we're in a good place.

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

Got you. And last quick question. The CapEx guidance, if you can maybe talk to how you look at the way that's going to be spent throughout fiscal 19 by quarter.

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

Yes. At this point, Marco, we're expecting it to be fairly evenly spent, and as we said, it's \$25 million, so basically in line with what we saw in 18 and the types of spending will be very similar to what we did in 2018.

**Operator**

And that does conclude today's question-and-answer session on today's conference. Ladies and gentlemen, thank you for participating on today's call. This does conclude the program. You may all disconnect. Everyone, have a wonderful day.

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