THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

UFI - Q2 2016 Unifi Inc Earnings Call

EVENT DATE/TIME: JANUARY 21, 2016 / 1:30PM GMT

CORPORATE PARTICIPANTS

Roger Berrier *Unifi, Inc. - President and COO*

Sean Goodman *Unifi, Inc. - VP, CFO and CAO*

Bill Jasper *Unifi, Inc. - Chairman and CEO*

CONFERENCE CALL PARTICIPANTS

Marco Rodriguez *Stonegate Capital - Analyst*

Chris McGinnis *Sidoti & Company - Analyst*

PRESENTATION

Operator

Good morning, everyone. On the call today is Bill Jasper, Chairman and Chief Executive Officer; Roger Berrier, President and Chief Operating Officer; and Sean Goodman, Vice President and Chief Financial Officer.

During this call, management will be referencing a webcast presentation that can be found at Unifi.com. The presentation can be accessed by clicking the second-quarter conference call link found on the Unifi homepage.

Management advises you that certain statements included on today's call will be forward-looking statements within the meaning of federal securities laws. Management cautions that these statements are based on current expectations, estimates, and/or projections about the markets in which the Company operates.

These statements are not guarantees of future performance, and involve certain risks that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, forecasted or implied by these statements.

You are directed to the disclosures filed with the SEC, and the Company's Form 10-Qs and Form 10-K's 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, will be discussed on this call, and non-GAAP reconciliations can be found in the schedules to the webcast presentation.

I will now turn the call over to Roger Berrier, who will provide you with an overview of the Company's markets, raw material trends and other business updates.

Roger Berrier - *Unifi, Inc. - President and COO*

Thanks, Kailey, and good morning, everyone. The retail indicators impacting our core business once again showed year-over-year improvement, with retail sales increases of 0.6% in apparel, despite the impact of warm weather on winter apparel, and the increases of 6% in furnishings and 6.5% in automotive.

In looking at the apparel segment, demand for the Company's products continues to be driven by the fact that category growth has been coming from the production of synthetic apparel in the North and Central American regions, which grew approximately 5% in calendar year 2015 versus cotton apparel production, which remained flat.

Looking at the Company's results for the December quarter, the improvements we saw in our domestic polyester and nylon businesses were offset by the negative impact of the currency devaluation and tough economic conditions in Brazil, continued pressure from low-priced imports in our domestic business, and a loss from our equity affiliate, Parkdale America.

Domestically, our core polyester texturing business performed well in the quarter, as demand for our premier value-added yarns remains strong, and as synthetic apparel production in the North and Central American regions continues to increase at an estimated annual rate of 5%. Our portfolio of PVA products continues to grow between 10% to 15% per year, and will represent approximately one-third of our sales revenue in fiscal 2016.

The recent investments that we've made to increase capacity in the region have helped support the regional growth, and have improved our ability to deliver on our mix enrichment strategy. The lower end of our commodity business continues to be challenged by some of the lowest import prices that we've seen in years. However, only about 10% to 15% of our business competes head-to-head with Asian imports.

Prices for our raw materials declined in the December quarter, as the price of oil fell from an average of $46 per barrel at the start of the quarter to $38 at the end. The Company saw a slight recovery in margins in the December quarter compared to the September quarter, as the previous quarter was negatively impacted by higher-priced inventory stemming from raw material price increases that occurred in our fourth fiscal quarter of 2015.

We anticipate prices for our raw materials to decrease slightly in the upcoming March quarter, which should provide a short-term improvement in margin in our third fiscal quarter, before the impact of price adjustments to customers we will need to make to maintain our position in the market.

Turning to our International businesses, the strength of our domestic business was offset by the results from our operations in Brazil, which performed slightly below expectations for the December quarter on a local currency basis, as the overall consumption rate for textiles is down as a result of the economic conditions in the country. Brazil remains highly sensitive to imports, and a significant amount of low-price imported yarn from Asia has continued to drive declines in our volume at the low-end of the market.

On the other hand, our focus on mix enrichment, manufacturing process control, and cost-reduction efforts have helped insulate our Brazilian operations from some of these import pressures. And we see opportunities to grow market share in Brazil based on our ability to gain business from smaller competitors that may be unable to survive the challenging economic environment. This should present some opportunities in the upcoming quarters, as we are well-positioned as a supplier of innovative value-added products in Brazil, and we are outperforming our competitors in the market, thanks to the strong management team we have in place there.

The biggest challenge for us -- and for anyone doing business in Brazil -- is the devaluation of the Brazilian real, which declined more than 30% against the US dollar in 2015. Sean will provide more information on the impact of the currency devaluation on our results for the quarter during his review of the financials.

Looking at China and Asia, we are very pleased with the ongoing success of our strategies in the region. The Company performed above expectations in China in the December quarter, as we continued to grow our volume with a major global customer that transitioned a substantial REPREVE program to China from the US.

Textile utilization rates remain extremely low in China, which has resulted in manufacturers focusing on producing cheap commodity yarns and fabrics for exports. Our commitment to producing premier value-added yarns in China has helped differentiate and insulate the Company, and remains the foundation of our value proposition to customers that choose to do business in this region.

We are also in the process of opening an office in Sri Lanka, which will be finalized during the next few months, and will be known as Unifi Textiles Colombo Private Limited. Our presence there will help grow the global supply chain for REPREVE, and will add to the collaborations that we now have with KORTEX in Turkey and Sun Chemical in Taiwan.

We expect our first commercial order from Unifi Textiles Colombo sometime in our fourth fiscal quarter, and it will likely be for a REPREVE-based product that would be a part of the anticipated growth plans for a major brand that we are working with. However, we would expect that it will take two to three years to build to a significant level of business in these new areas.

Lastly, in Asia, we will continue to explore opportunities for further growth in the global supply chain for REPREVE and other PVA products in Vietnam. Vietnam is fast becoming a major apparel supplier to Europe and the US, and we want to be sure we have REPREVE and our other PVA lines available to supply fabric and apparel producers in the region. We are currently exploring the products and capacities that will be required to supply a few customers that we are already in discussions with.

Turning to Capital Expenditures, two years ago, we laid out a three-year plan for strategic capital investments to support the growth of the Company. Since that time, we have invested in additional equipment to increase our texturing capacity to better serve the growing demand for synthetic yarns in the CAFTA region.

We installed additional equipment to add flexibility to support our mix enrichment strategy. We completed the installation of our 1 megawatt solar farm in Yadkinville, North Carolina. We are investing in a plastic bottle processing operation that will be capable of producing 75 million pounds of clear polyester bottle flake per year. And we are in the process of expanding the capacity of our REPREVE recycling center again to produce 100 million pounds of recycled material from our current capacity of 72 million pounds.

These last two investments will provide us with a state-of-the-art bottle processing facility and one of the most advanced recycling plants in the world. In addition to these investments, we are exploring opportunities to further increase our texturing and PVA capacities by approximately 10% to support the projected long-term demand for synthetic yarns in the CAFTA region, which continues to grow at around 5% annually.

The supply chain in the CAFTA region has been very stable and has been the focus of a lot of investment over the past few years. And many brands and retailers have recognized the benefits that come from this stability and these investments by making the CAFTA region a more important part of their overall sourcing strategy.

We continue to drive awareness and demand for REPREVE through our marketing activities. The success that we've had with REPREVE has led to increased willingness by brands and retailers to co-brand with us, and to call out REPREVE on product hang-tags and labels. In fact, since 2012, we have helped provide more than 50 million hang-tags or labels to our partners to help co-brand REPREVE at the point-of-sale.

Our development work with customers continues to be very strong, and there are several exciting new programs that will be launched over the next 12 months that will feature REPREVE and our other PVA products. Examples of some of these programs include a boys and girls jeans program by Levi that features both REPREVE and SORBTEK; a line of yoga-wear in the Sports Authority that will feature a custom hang-tag and in-store displays in their 450 locations; and a nationwide denim program with Abercrombie and Fitch that will be available in their nearly 800 stores in the US.

Fossil will also feature REPREVE in a new backpack program that will be available this summer. Based on the success and the future opportunities we have to continue to grow our REPREVE volume, we will continue to invest in strategic marketing opportunities and increase these efforts.

At this time, I would like to introduce Sean Goodman, our Vice President and Chief Financial Officer. Sean joined Unifi earlier this month, has hit the ground running, and we are excited to have him on our team. Sean?

Sean Goodman - *Unifi, Inc. - VP, CFO and CAO*

Thank you, Roger, and good morning, everyone. Before discussing the details within our presentation, I would like to provide an overview of the financial impact of the performance of Parkdale America and devaluation of the Brazilian real relative to the US dollar, as these two items noted by Roger had a significant impact on our results.

Regarding Parkdale America, GAAP earnings-per-share for the quarter was impacted by Parkdale recording a loss resulting in a decrease in GAAP earnings-per-share of almost $0.15 compared to the prior period. Similarly, in the year-to-date period, GAAP earnings-per-share from Parkdale was lower by almost $0.20 compared to the prior period.

Parkdale's performance has been adversely impacted by lower December sales volumes due to inventory adjustments in the supply chain, lower margins, higher depreciation expenses from recent expansions, and lower EAP income. Note that last year's Parkdale results included a bargain purchase gain of which the Company's share was $1.5 million.

Turning to the Brazilian operations within our International Business Segment, the devaluation of the Brazilian real relative to the US dollar adversely impacted our results. And for the quarterly comparison, Brazil's currency devaluation drove declines in net sales of around $9 million; pretax income of approximately $800,000; and net income of approximately $600,000 or around $0.03 per share.

And for the year-to-date comparison, Brazil's currency devaluation drove declines in net sales of around $19 million; in pretax income of approximately $1.6 million; and net income of approximately $1.2 million or almost $0.07 per share. Outside of the impact of Parkdale and the currency devaluation in Brazil, our performance for the second quarter and the six-month period was strong, driven by the continued success of our premier value-added products, growth in China, and the solid performance of our regional texturing business.

Now, turning to the presentation on slide number 3. Consolidated pretax income of $8.3 million is $4 million lower than the $12.3 million of pretax income generated during the prior-year's second quarter. This slide illustrates that, outside of the impact of Parkdale, currency devaluation in Brazil, and bad debt expense, the Company would have achieved an increase in pretax income of $800,000.

Slide 4 shows the same information as slide 3, but this time for the six-month period. Consolidated pretax income of $20 million is $3.1 million lower than the $23.1 million of pretax income generated during the prior period. Excluding the noted items, this slide illustrates that the Company would have achieved an increase in pretax income of $3.9 million.

Turning to slide 5, we will review the sales and gross profit highlights for the second quarter and the six-month period. Overall, the decline in revenue for the second quarter is attributable to currency devaluation and raw material pricing. However, the gross margin percentage remains strong at 14% of sales.

For the six-month period, the decrease in net sales is again associated with currency devaluation and a decline in raw material prices. This decline is partially offset by continued growth in our underlying operations indicated by the gross margin growth of 60 basis points to 13.4%.

Looking at polyester, for the three-month and six-month periods, the polyester segment benefited from an increase in volumes, driven by regional texturing demand and growth of PVA products. However, overall sales dollars declined, due to the raw material price declines noted earlier. The gross profit decline was associated with pricing pressure from low-priced imports in the commodity portion of our business, partially offset by the continued strong performance of our PVA products.

For nylon, gross profit increased for the nylon segment for the three-month and six-month periods. We are especially pleased with the gross margin increase of 190 basis points achieved in the six-month period, driven primarily by improved conversion margins and manufacturing cost efficiencies. The nylon segment continues to perform well, especially considering that we have transitioned certain PVA programs to our Chinese subsidiary within the International Segment.

Going to the International Segment, overall gross profit decreased for the International Segment for both the three-month and six-month periods, driven by the previously-noted currency devaluation. Conversely, growth of our Chinese subsidiary continues to be strong as a result of our PVA efforts. Globally, PVA continues to grow as a proportion of consolidated net sales, reaching over 33% at December, up from 30% at the end of June.

Turning to slide 6 and looking at our equity affiliates highlights, at the end of the quarter, the Company had approximately $114 million recorded for investments in unconsolidated affiliates. These investments consisted of our 34% ownership in Parkdale America and our 50% interest in two joint ventures that supply raw materials to our domestic nylon operations.

I outlined earlier the significant changes in earnings from our equity affiliates as a result of Parkdale America's results. Details for Parkdale and our other equity affiliates are presented on this slide for your reference. During the current quarter, we received $1 million in disbursements from our equity affiliates, and during the six-month period, we received $2.9 million.

On slide 7, we show the Company's adjusted EBITDA results. For the second quarter, the Company is reporting adjusted EBITDA of $15.6 million, with an EBITDA margin of 10%, down $400,000 compared to $16 million at a margin of 9.7% for the second quarter of last year. The adjusted EBITDA decline can be attributable to the currency situation in Brazil.

Excluding the impact of the Brazilian currency devaluation, our adjusted EBITDA would be roughly $600,000 better than prior-year. For the six-month period, adjusted EBITDA increased $900,000 over the prior-year period. And excluding the impact of the Brazil currency devaluation, our adjusted EBITDA would be almost $3 million better than the prior-year.

On slide 8, we review the Company's reconciliations of GAAP results to adjusted results. The adjustments presented here are intended to exclude certain items which management believes are not indicative of the Company's underlying and ongoing operations. The slide shows the before-and-after-tax impact of certain GAAP transactions or amounts, as well as the approximate impact on basic earnings-per-share.

The Company is reporting earnings-per-share of $0.38 for the second quarter, down $0.12 from the prior-year period. However, if we normalize for the Brazil currency impact and Parkdale results, the adjusted earnings-per-share would be approximately $0.15 higher or $0.53 per share, which is roughly $0.03 higher than the same period last year. The Company's reporting adjusted earnings-per-share of $0.83 for the six-month period, up $0.01 against the prior year. Again, if we normalize for the Brazil currency impact and Parkdale results, adjusted earnings-per-share for the current six-month period would be approximately $0.19 higher or $1.02 per share. which is around $0.20 higher than the same period last year.

On slide 9, we review the Company's working capital highlights. The increase in the Company's second-quarter adjusted working capital versus the beginning of the fiscal year is primarily due to lower Accounts Payable and accrued expenses for variable compensation, lower raw material costs, and the timing of purchases. This is partially offset by lower inventory, due to raw material prices and Brazil's currency impact, and lower Accounts Receivable, attributable to the holiday shutdown period and also Brazil's currency impact.

Turning to slide 10, showing details for the Company's capital structure, we ended the current period with $136.9 million of total debt and net debt of $117.5 million. Net debt increased approximately $23.4 million from the beginning of the fiscal year, primarily due to growth-related capital projects and share repurchases.

The capital spending is in line with our previously discussed plans for the regional polyester and recycling businesses. The Company's anticipated total outlay for these capital projects for the fiscal years 2016 and 2017 is around $100 million, with the expectation that a portion of these projects will be funded with borrowings available under our ABL credit facility.

At the end of the quarter, the Company's weighted average interest rate for its outstanding indebtedness was approximately 2.5%. And our total revolver availability and liquidity was $65.1 million and $84.5 million, respectively.

Before I turn the call over to Bill, please note that we expect to file our Form 10-Q for the December quarter on or before the filing deadline, which is Friday, February 5.

I would now like to turn the call over to Bill. Thank you.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Thanks, Sean, and good morning, everyone. Before I begin my comments, I also would like to welcome Sean to the Unifi team. I think having someone with Sean's experience will make him a very valuable addition to the Company, as we start to strategically look at where we are going to take this Company in the next 5 to 10 years.

I believe the Company will look different in five years than it does today, just as we look much different today than we did five years ago. And I'm very excited by the contributions I know Sean will make to this effort.

Overall results for the quarter continue to highlight the continued strength of our domestic business and our growth in China. Sales volume for polyester and nylon grew in the North American region. Volume and revenue from our PVA products continued to grow, and we had a very good quarter in China, both in terms of revenue and earnings. However, these positives, as we've noted, were masked by the impact that the devaluation of the Brazilian real and lower polyester raw material pricing had on our revenue, as well as the year-over-year earnings decline from Parkdale.

Although our year-over-year results for the quarter were negatively impacted by a small loss from Parkdale America, we anticipate the red ink will be temporary, as Parkdale's earnings were partially impacted by a business slowdown in December related to an inventory correction in the supply chain. We expect Parkdale will return to profitability this current quarter. It's important to note that our equity share in Parkdale America has contributed positive annual net income to the Company over the past five fiscal years.

We are fortunate to have a 34% equity stake in one of the most efficient and well-run cotton spinners in the world, and the diversity of fiber choices they offer provide the Company with a more balanced portfolio. We continue to view them as a valuable part of our Company's long-term strategy.

Despite the negative impact that currency devaluation in Brazil has had on our results on a US dollar basis, we view the current conditions in Brazil as a potential opportunity for the Company over the long-term. We will look to use our strong market position and excellent management team to identify and execute on opportunities to add market share, as competitors exit the market due to extremely challenging conditions.

When the economy turns around in Brazil, as it eventually will, we believe that we will be one of the strongest players in the market -- stronger than we are today. Historically, Brazil has been a great performer for the Company, and it continues to perform well on a local currency basis. We believe the long-term prospects for the Company in Brazil are strong, particularly as we capitalize on potential opportunities to grow share.

China continues to be a strong performer for us. In our presence there, it gives us the ability to offer our PVA products in a key apparel-producing region. We continue to see growth opportunities for our PVA products in China. And many customers that we are working with are asking us to have that same model and same availability of REPREVE and other PVA products in other parts of the world.

Expanding the availability of our PVA products to Turkey, Taiwan, and now Sri Lanka, allows us to supply our customers anywhere in the world in which they choose to place a program. So, not only has China been a strong contributor to our results, it has also provided an excellent roadmap for us to follow as we expand the global footprint for our PVA products.

Turning to trade legislation, the US completed negotiations on the Trans-Pacific Partnership Trade Agreement with 11 other Pacific Rim countries in the last quarter of 2015 annual year. This was one of the priorities of the Obama administration, and of course, they would like Congress to pass the TPP before he leaves office. However, given the political climate in Washington, and this being an election year, we believe the earliest Congress will consider TPP will likely be during the lame-duck session in late November or December.

Vietnam's inclusion in the agreement was of major concern to the textile industry. Their apparel exports to the US market are growing at a significant rate, even at full duty. In light of this, we are pleased that, as a result of rigorous and productive consultations of industry leaders with the Administration, most textile industry concerns were addressed. And the Trade pact, when eventually implemented, should have little impact on the growth of apparel sourcing from this region for many years.

Two of the provisions of greatest importance to Unifi were included in the agreement -- a yarn forward rule of origin with few exceptions, and a longer duty phase-out period for most products that are considered sensitive to our supply chain in this hemisphere. These two provisions should help minimize the impact of this major trade deal and give the industry sufficient time to adapt to the changes.

Once all of the TPP countries pass this legislation through their governing bodies, and the agreement actually enters into force, we do anticipate increased imports, especially from Vietnam. We do believe the majority of Vietnam share gain will come from -- will come at the expense of other non-TPP countries now exporting to the US. In any case, global competition is not new to this industry. And with time to adjust, we expect our investments, innovation, and growing premium value-added portfolio will be the keys to continuing our earnings growth despite any challenges down the road.

THOMSON REUTERS

Before I finish, I'd like to thank everyone who attended our annual Investor Day in December, either live or virtually. If you missed the update, I encourage you to go to the Investor Relations tab on our Unifi.com website, and there you will find both the transcript and the presentation.

The presentation provides updates on our four key business strategies, which are: growing our PVA sales yarn globally; increasing yarn sales in growing regional markets; growing through recycling and sustainability initiatives, including REPREVE polyester and nylon sales, as well as Repreve renewables; and driving operational excellence by controlling costs and improving flexibility through rigorous and disciplined process improvement and price management.

Looking forward, the Company expects that adjusted EBITDA for the third quarter of fiscal 2016 will be around $16 million, and that adjusted EBITDA will be within the high $60 million range for the 2016 fiscal year.

And with that, I will turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Marco Rodriguez, Stonegate Capital.

Marco Rodriguez - *Stonegate Capital - Analyst*

Thank you for taking my questions. I was wondering if you could talk a little bit more about -- China first. Obviously, you're talking about continued strong growth there. And I wonder if you could kind of help us understand a little bit more? If we're taking a look at that one specific client that is transitioned over there, how is the rest of the business performing in terms of a growth perspective? If you can kind of talk a little bit about that.

Roger Berrier - *Unifi, Inc. - President and COO*

Yes. This is Roger. I'll expand a little bit on that question for you. We've been anticipating and working with multiple customers, with our PVA platform and programs in China. And as we've been working with one significant customer for about two years, we had an agreement that, as they started that program in the US, they would move that program over to China.

We've been anticipating that move for about six to nine months and it's started to really kick in, some in the first quarter but really in the second quarter. So that was part of our projection and plan. I made the comment that we're above expectations. And that's because of some other programs that we've been working on in addition to that one customer.

We've had several other programs that we have been working on to come across the finish line that we are excited about. So, couple those two together, we exceeded expectations in China for the first six months.

Marco Rodriguez - *Stonegate Capital - Analyst*

Got you. And then in terms of the growth on PVA, I'm not sure if I missed this on the call, but what was your total sales in the quarter for PVA? If you can kind of give a percentage. And how does that kind of compare to last year's quarter and the September quarter?

Roger Berrier - *Unifi, Inc. - President and COO*

Yes. So we stayed consistent with around a third of our sales revenue tracking on PVA. And last year, it was around 30%. So I think we've grown from roughly from 30% to 33%. And that's been consistent through this fiscal year, not only just the quarter but year-to-date.

Marco Rodriguez - *Stonegate Capital - Analyst*

Got you. Understood there. And then another kind of housekeeping item on the Brazilian impact on the real devaluation, what is the average exchange rate you guys saw in the quarter? And then if you could also provide what percentage of the international sales were Brazilian?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes. This is Bill. The average exchange rate we had during the quarter was about BRL3.85 to the dollar. And the international percentage of our sales -- is that in the numbers?

Sean Goodman - *Unifi, Inc. - VP, CFO and CAO*

this is Sean. It's in the slide presentation on page 13. It breaks down the various segments, so you can see the International segment there.

Sean Goodman - *Unifi, Inc. - VP, CFO and CAO*

Yes, you can see the total sales, and then it's broken down between polyester, nylon, and international. You will see about on page 13 of the presentation.

Marco Rodriguez - *Stonegate Capital - Analyst*

Right. Yes, let me rephrase this. What I was trying to figure out was, of that International revenue, which is just shy of $25 million, what was Brazil's total piece of that pie, if you will?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes. we haven't broken out Brazil and China in that International segment in our reporting segments.

Roger Berrier - *Unifi, Inc. - President and COO*

But I think it's safe to say Brazil is quite a bit larger than China.

Marco Rodriguez - *Stonegate Capital - Analyst*

Got you. Okay. And then just keeping on the topic of Brazil, you made some comments in regard to, obviously, there's some negative impact on the low-end on the commodity side from competitors, and that your expectation is some of the smaller players out there will be leaving here, and you expect to kind of gain some market share.

Can you talk a little bit about those dynamics there and what you are kind of seeing at the competitive level compared to these people? And then how do you kind of think through the timeline when that market share starts to accrue to you guys? And how you expect that to impact your revenue growth rate on the International business going forward?

Roger Berrier - *Unifi, Inc. - President and COO*

Yes, I guess to put that simply is about two-thirds of our business there is product that we texture ourselves. And that typically goes into more high-value, more competitive or areas where we have competitive advantage.

The other third of our business, we typically buy DTY or textured yarn, import it, and then we resell it. That's typically the part of our business that's put under pressure by low-end commodity imports where other people will be importing it also.

Looking at our competitors, many of our competitors do texturing also, but they typically sell into the low-end of the market. So that's really where we are expecting to see some competitors have issues, because they are typically not making very much money under the best of conditions. And we think, under these conditions, we're going to start seeing some of them come out.

And I would say reasonably we can expect to see some of that in the next three to six months. And we are certainly positioned to take some of that share.

Marco Rodriguez - *Stonegate Capital - Analyst*

Got it. And last quick question and I'll jump back in the queue. You talked a little bit about gross margins doing fairly well here, and your expectation is, is that that kind of continues into Q3. But if I heard you correctly, you'll need to make some pricing adjustments in Q4.

First off, did I hear that correctly? And then also number two, if you can kind of provide some color in terms of your expectations on the price give-back that you expect in Q4.

Roger Berrier - *Unifi, Inc. - President and COO*

Yes. This is Roger. We did indicate that our raw materials looks like they are going to continue to decline in the third quarter and going into the fourth quarter. From a market competitive standpoint, we will adjust prices during the third quarter, and currently continue to evaluate the raw material, our market position and what our price positions are.

So as we are looking at raw materials, we are having to adjust some prices. And that will start during the third quarter.

Marco Rodriguez - *Stonegate Capital - Analyst*

Okay. And so are you expecting a sequential increase in gross margins? Or relatively flat, assuming your guidance or your expectations?

Roger Berrier - *Unifi, Inc. - President and COO*

Well, around the commodity business, it's flat. The improvements in gross margins that we've been seeing is coming from the growth of our PVA business, and the emphasis that we put on our investments with the recycling center, and getting those up and running in that capacity, and growing that PVA percentage from 30% to 33%. You know, as we continue that, that's certainly lifting the gross margin.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

I think another way to look at it possibly is, when we have raw materials moving like they have over the last few quarters, we tend to see ups and downs in our gross profit, driven by that and delays in passing either increases or decreases through, I think. But if you look at it over a longer period of time, our expectation would be that you are going to continue to see growth in our gross margins because of the growth of our PVA products versus some of the lower-end products.

So I think it's hard to look at it quarter-over-quarter sometimes. But if you look at a general trend, I think you'll find in the past, and I think you are going to find going into the future, that our gross margins are going to continue to grow on a long-term basis because of the growth of PVA.

Marco Rodriguez - *Stonegate Capital - Analyst*

Got it. Thanks a lot, guys. I appreciate it.

Operator

(Operator Instructions) Chris McGinnis, Sidoti & Company.

Chris McGinnis - *Sidoti & Company - Analyst*

Thanks for taking my questions and nice quarter. So I guess just to maybe just touch on Parkdale a little bit, I know you made some comments, but do you see a dramatic change? You know, I know this happens every once in a while, you have a weak quarter, but it sounded a little bit more about the business itself. Maybe could you just walk us through maybe the confidence that that comes back? Or maybe what level you still feel comfortable on an annual basis that that could generate for you?

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, Chris, this is Bill. I think basically -- first of all, this is the first red ink quarter we've had for Parkdale in an awfully long time. And I think a part of that was there was some inventory adjusting in the supply chain. So their volumes fell off quite a bit in December.

Looking forward, it's difficult to say. Certainly, we expect they are going to return to profitability. Whether it's the same profitability they had in previous quarters is hard to say, but I'm very confident that they are the lowest cost producer of cotton yarns in this region. There is continued growth in this region of apparel production, so I would anticipate they are going to hold their share, if not grow it a little bit, and continue to do well.

But I'm reluctant to give any kind of guidance on Parkdale, because I'm not that close to their business. But certainly, the projections they've been giving to us show that they are returning to profitability. And I have very little concern about their business going forward.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. Thank you very much for that. Can you maybe just talk, with the price of raw materials coming down, is that changed -- you know, any kind of conversations you are having with your customers in terms of using the REPREVE or the PVA, maybe to the virgin? Does that make sense to you?

Roger Berrier - *Unifi, Inc. - President and COO*

Yes. Yes. This is Roger. And we talked a little bit about that in New York at our Annual Investor Day. Certainly, we monitor the price of virgin and also, with the REPREVE, one thing to keep in mind is REPREVE is fed from industrial waste and also from bottle collection and bottles. So, the price of those input ingredients has also decreased.

Now they haven't decreased at the same rate as Virgin, so it has opened up the spread a little bit more. But we still feel confident that if you look at our REPREVE placements, you look at our REPREVE partners, we are able to compete with that small premium of REPREVE versus virgin and continue to drive the growth. We've not seen anything yet that would give us caution or give us any pause to what we see the future of REPREVE being.

Chris McGinnis - *Sidoti & Company - Analyst*

Great. Great. And has the competitive landscape changed at all with the China devaluing here? Has that concerned you at all maybe in the near-term? You talked a little bit about the competitive landscape. I was just wondering if you could maybe just share your insights or how you are feeling about the kind of the near-term aspect of that.

Roger Berrier - *Unifi, Inc. - President and COO*

Yes, well, it's two-fold. If you look at the exchange rate in China, and certainly, they are focused on commodities. And they are producing just a lot of commodity product and they're looking all over the world. It's not just the US, but it's Brazil, it's Europe. They are trying to move that production all over the world.

But it's all commodity type products. When you look at sort of our strategy, what we implemented four and five years ago, and sort of getting into the innovation and the specialty, and certainly our PVA products, all of our business in China is focused on the PVA products, the specialty products. It keeps us somewhat insulated from that commodity sector.

So, while a lot of people are struggling in China today, our business is actually growing because we are playing in that niche market, but we are bringing value and premium product to help brands and retailers differentiate. So, one of the things that brands and retailers continue to ask for and strive for is, how do they differentiate themselves from their competitor?

And they look to Unifi for innovative yarns, and develop new fabrics and develop new garments. And so we are part of that solution provider. And that's sort of the way we've positioned ourselves. And we've been rewarded with some nice programs, and the pipeline is still very full, in our opinion.

Chris McGinnis - *Sidoti & Company - Analyst*

Sure. No, that's great. And maybe could you -- what's that? Sorry about that Bill.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

I guess one thing I'd add, I think Roger made a really good point in his discussion points earlier that when you look at our business, only about 15% of our business actually competes with the low-end commodity yarns that are coming into the US. I think if you look five years ago, that was probably 25%, 30%.

And my expectation is, as we move forward, that 15% is going to become less and less also. So, I mean, part of our strategy is to become less dependent on any yarns that have to compete with these imported Chinese commodity yarns because they are so predatory from time to time.

Chris McGinnis - *Sidoti & Company - Analyst*

Sure. No, that makes sense. Thanks for that color. Lastly, I guess just quickly on the guidance of the high 60s in EBITDA. With the forecast for next quarter, it seems like Q4 is going to be a lot stronger. Can you maybe just walk us through what you are thinking to reach the full-year guidance? And is there something in the back-half of the year that's a little bit stronger than what you've been seeing, I guess?

THOMSON REUTERS

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Yes, Chris, it's Bill. If you look at the last few years, our third quarter tends to be a very good quarter. Our fourth quarter tends to be the best quarter of our fiscal year. And it certainly was last year and the year before. And we have the same expectation this year.

That tends to be when our volumes are the strongest. And we don't view that being any different this year. So yes, I think if you do the math, you are looking at probably around $19 million or $20 million for the fourth quarter. I'm not giving guidance here right now, but I'm just doing the same math you're doing. And that's kind of consistent with what we've done in the last couple of years.

Chris McGinnis - *Sidoti & Company - Analyst*

Sure.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Maybe a little better. But, you know.

Chris McGinnis - *Sidoti & Company - Analyst*

(laughter) Right. No, that was what I was getting to. Pretty decent improvement actually in Q4. Thank you very much for the time today. And again, nice quarter.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Thanks, Chris.

Operator

Thank you. And I'm showing no further questions at this time. I'd like to turn the call back to Bill Jasper for closing remarks.

Bill Jasper - *Unifi, Inc. - Chairman and CEO*

Okay. Thank you, operator, and thank you all for listening into our call. We are certainly still very optimistic about the second half of this year, and very pleased with the way things are going. Thank you.

Operator

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