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UFI - Q4 2017 Unifi Inc Earnings Call

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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.?

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 Chris Smosna, Vice President, Treasurer and Interim Chief Financial Officer. During this call, management will be referencing a webcast presentation that can be found at 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 will be discussed on this call, and non-GAAP reconciliations can be found in the schedules to the webcast presentation. I'll now turn the call over to Unifi's President, Tom Caudle.

Thomas H. Caudle - *Unifi, Inc. - President*

Thanks, A.J., and good morning. Thank you for joining us today. I will begin today's call with an operational overview. Our financial results reflect continued success and strong execution against our global initiatives to provide high-quality, innovative and sustainable products to our customers around the world. These initiatives have not only enhanced our ability to serve our customers but also provide us with valuable business diversification. During the quarter and throughout fiscal 2017, excellent results from our International operations in both Asia and Brazil have helped offset persistent headwinds in the domestic markets. We are very proud of how well our teams have executed across the world. Volume and profit growth have remained strong in Asia, where our PVA business continues to grow in both filament yarn and staple fiber. Our global customers continue to benefit from the differentiation and innovation that our REPREEVE and PVA products bring to their portfolio. Also, we continue to gain additional traction across several of our new expansion opportunities in Sri Lanka and Vietnam as we work with key global brands and retail partners to develop and implement PVA programs that will drive value throughout the supply chain.

Moving to Brazil. We are seeing similar success as our results reflect solid performance, while we continue to capitalize on the expansion of the synthetic fiber market and growing demand for PVA products, despite a volatile economic and political operating environment. In summary, we remain very pleased with our international momentum and financial performance and view the International Segment as an important component of our long-term growth. As for our U.S. regional business, the difficult retail apparel environment that we saw throughout fiscal 2017 continues

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to pressure all parts of the supply chain. Brands and retailers remain cautious with orders, as store closures and other business transformations continue to plague the industry. At the same time, consumers are demanding more personal experience in new omni-channel approaches from apparel companies with intense innovation and speed-to-market. The good news, the retail industry is reacting through transformation and capital reinvestment, which we hope will help the industry find its footing as we look forward in fiscal 2018.

When looking at the domestic markets, the headwinds that we faced in the fourth quarter were the same ones that we witnessed throughout most of the year. They include demand challenges for nylon and polyester, mostly attributable to the apparel and retail markets. Additionally, raw material pressures during the middle of the fiscal year added to the challenging domestic market conditions. In this landscape, our focus on product innovation and differentiation is even more critical than ever as we must provide increasing value to our customers. Kevin will talk in more detail about this in a few minutes.

A few innovation bright spots include: 1) in quarter 4, due to increased demand for our SORBTEK moisture management technology, we established a new polyester sock program with a significant global producer. 2) Continued adoption and market penetration of REPVEVE chip and bottle flake sold from our recycling operations, 3) aggressive expansion of REPVEVE in Asia and European markets and 4) continued pursuit of new technology and product advancements, including our new polyester cross-section currently being sampled with customers.

Expanding on our product and market development activities, we continue to produce specialized performance fibers under a partnership with Eastman Chemical Company. This is an extraordinary partnership with a leading chemical technology company that displays Unifi's prominent manufacturing capabilities and culture of innovation. From a financial perspective, we expect this project to provide a modest contribution to our top and bottom line growth, and further financial improvement may occur as volumes are expected to ramp up over time.

Now I will address how our recent investments are contributing to the business. I'm happy to say that our new bottle processing center is performing well. The quality of the output has been second to none, and with the recent Letter of No Objection from the Food and Drug Administration, we are positioned for growth with yet another product line. This is another great example of how the Unifi culture is ingrained with innovation and sustainability. We expect that this project would generate a solid EBITDA payback in less than 5 years, and as importantly, it provides the backbone to our position as an innovative leader in sustainable fibers and solution.

Lastly, our fourth production line in the REPVEVE recycling center is projected to begin service in 2018, which should take our annual domestic recycling capacity well above the current 75 million pounds as we head into fiscal '19; rounding out our recent injection of CapEx. We're excited to conclude this plan and look forward to leveraging these assets in combination with our superior technical know-how worldwide.

With that, I'm also excited to introduce our new Chief Executive Officer, Kevin Hall. Kevin joined Unifi in May, bringing many years of leadership and commercial expertise with high-quality, high-profile organizations such as Procter & Gamble and Hanesbrands. As we continue to focus on branding and partnerships while executing on a broad portfolio of differentiated products, Kevin's accolades translate well to Unifi. His experience spans multiple industries as he led marketing, commercial and branding efforts in multiple organizations throughout the country, engaging consumers, growing brands and driving excellence across a spectrum of various products teams and companies. On behalf of the Board of Directors, the management team and all of us at Unifi, Kevin, we are proud to have you here.

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

Thank you, Tom, and good morning, everyone. I'm thrilled to be here and I'm excited to help lead the next chapter at Unifi. My first 2 months here have been a strong confirmation as to why I chose to be part of this opportunity. I'm excited about Unifi's culture of sustainability and deep technical knowledge, and when combined with the strong partnerships rooted in premium value-added solutions, there's great potential for this company to grow into a much larger solutions provider for leading brands around the world. We believe we will accomplish this by 1) first investing for growth, 2) expanding our technology and innovation, 3) investing in smart strategic partnerships and 4) investing in our people. And let me expand a little bit further.

First, investing for growth. I see significant opportunity for REPVEVE and expanding our recycling and sustainability initiatives globally. We will build on our commitment to recycling and continue to build awareness of REPVEVE as the premium recycled synthetic fiber brand that can be



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reborn into everyday premier products. This transformation of recycled bottles into performance fibers is not a simple task. It requires significant technology, knowledge and continued innovation. It also requires partnerships with like-minded brands that share our passion for recycling and sustainability.

One such partnership includes one of the nation's most popular retailers, Target. This is a collaboration founded on our commitment to environmental responsibility, quality and consistency. Our REPVE earth-friendly fibers are increasingly found throughout Target's in-store brands. Brands such as Cat & Jack, offerings for all ages including swimwear and blended T-shirts, all have co-branded tags and labels featuring REPVE, as does Ellery Homestyle's curtains sold at Target.

Over the last year, REPVE was in millions of Target products and as a result, hundreds of millions of recycled bottles have been saved from landfills and been reborn into premium performance products across their brands. This outstanding partnership has plenty of room for growth and we remain very excited to be working with Target, combining fashion and lifestyle with socially responsible, earth-friendly fibers.

As we move through the year, I look forward to highlighting more examples of partnerships with like-minded brands on recycling. Several of these are in development and my goal is to share at least one success story each quarter.

These partnerships will need to be supported by a continued stream of innovation and technology that offers consumer-meaningful benefits. As a result, technology and innovation will be another pillar of investment for Unifi. REPVE is a significant innovation but we also have a portfolio of branded PVA products that can help brands differentiate in the marketplace. Technologies such as SORBTEK for moisture management and SORBTEK 365 offering enhanced wicking and thermal comfort. Both technologies are available for use across the apparel spectrum, and they will be key drivers of our success in fiscal 2018. Additional technologies are being qualified and we look forward to these gaining traction.

I'm just finishing visits with some of our major customers and discussing our technologies firsthand. One recent visit was with Hagggar. Hagggar was one of the first brands to embrace REPVE, starting back in 2009. Dress pants launched with REPVE remain the best-selling dress pants styles in America. Hagggar also takes advantage of SORBTEK and other Unifi technologies. The Hagggar team shared with me that they are one of the few apparel brands growing sales volume in this weak retail environment. A significant part of this growth is with styles that use Unifi PVA technologies. This is a great example of a winning partnership, and we look forward to more shared success in the future.

A third area of focus will be partnerships to expand our global supply chain. The changing retail landscape is dynamic and consumer shopping habits are evolving quickly. As brands are looking towards fast fashion and localized supply chains, we will be identifying smart partnerships that allow both Unifi and our brand partners to win in this environment. As Central America and Asia remain attractive regions for us and our brand partners, we will look forward to expanding our footprint to secure our position as a top-tier solutions provider.

Now finally and most importantly, being successful will require the right investments in our people and in our organization. Let me start by saying that we have great people here at Unifi and a great culture. And this goes all the way back to the founding of the company. As we position to win with leading brands around the world, we will look to add additional support in sales, marketing and innovation. Throughout my career, I've always placed priority on training and development, along with career planning. We want to ensure we have depth in excellence throughout Unifi. We will continue to strive to have the best people and the best teams in the industry.

This rounds out the key themes as I see them in the coming months: diligently investing in growth, technology, partnerships and our people.

With that as a backdrop, Chris Smosna, our interim CFO will provide some additional detail surrounding our fiscal 2017 results.

Christopher A. Smosna - *Unifi, Inc. - Interim Chief Financial Officer, Treasurer & Vice President*

Thank you, Kevin and good morning, everyone. For the fourth quarter, we are reporting net income of \$9.7 million and basic earnings per share of \$0.53, compared to net income of \$10.2 million and basic earnings per share of \$0.57 in Q4 fiscal 2016. In comparing the results for Q4 of fiscal 2017 to the prior year period, I would like to point out 3 specific items. These are shown in the bridge that we have prepared on Page 3 of our presentation. First, net income for the fourth quarter of fiscal 2016 included an expense of around \$800,000 associated with key employee transition



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costs. Second, in Q4 of this year, Parkdale America's performance was comparatively better by approximately \$600,000. And third, strengthening of the Brazilian real drove foreign currency benefit of approximately \$250,000 this quarter. Adjusting for these items, net income for Q4 is approximately \$2.2 million less than the prior year period.

Slide 4 of the presentation shows a similar analysis for the full fiscal year. For fiscal 2017, we are reporting net income of \$32.9 million and basic earnings per share of \$1.81 compared to net income of \$34.4 million and basic earnings per share of \$1.93 in the prior year period. Specific items to note are: we had key employee transition costs incurred in fiscal 2016; we had a loss on the sale of Repreve Renewables that occurred in Q2 of fiscal 2017; Parkdale America's performance was a drag throughout most of 2017; and our bottle processing facility incurred startup costs. These were partially offset by foreign exchange benefits associated with strengthening of the Brazilian real, as well as certain tax rate favorability that occurred in Q3. Adjusting for these items, net income for the year-to-date period is approximately \$1.2 million less than the prior fiscal year.

Turning to Slide 5 of the presentation, we can see the drivers of segment performance for the fourth quarter. As a quick reminder, the discussion here focuses on our core segments which exclude ancillary operations. Refer to Slide 12 for the consolidated metrics. Total revenue of \$171 million was a substantial improvement from the prior year quarter. Consolidated sales volume, as measured by pounds of products sold, increased by 13%. This was partially offset by a decrease in average selling price per pound. The overall decrease in average selling price is largely attributable to changes in our product mix. As Tom noted, our international business with sales growth of over 25% was partially offset by the soft domestic results. Overall gross profit was mostly flat as a lower gross margin rate in the domestic Polyester Segment was offset by higher margins achieved in the Nylon and International Segments.

Looking at the individual segments, starting with Polyester. The decline in average selling price for Polyester was largely attributable to product mix. Specifically, we experienced volume declines of around 5% in the textured yarn business associated with the market conditions mentioned earlier. However, this volume decline was more than offset by continued demand and associated volume growth in our recycled polyester chip, bottle flake and POY products. Each of these products is relatively early in the value chain and carry a lower average sales price per pound than textured yarn products. This impacted our mix, leading to a decrease in the average selling price for the Polyester segment. The margin rate decline in the Polyester Segment was also primarily due to a weaker sales mix. However, our bottle processing facility performed well in the fourth quarter and did not significantly dampen our results as in previous quarters.

Looking at the Nylon Segment. The business appears to be leveling out with a year-over-year volume decline of less than 4%, while pricing remained relatively flat. Gross profit and gross margin for Nylon benefited from an improved product mix along with cost efficiency gains in manufacturing.

Moving to the International Segment, I'll remind you that the prior year fourth quarter was exceptional. Asia and Brazil continued to perform very well this year driven by the success of our PVA portfolio. The average selling price decrease in the fourth quarter is primarily associated with the expansion of our staple fiber portfolio in Asia. International gross profit remained strong due to substantial sales growth, compounded by a strong margin rate driven by the PVA product mix. Foreign currency translation improved net sales and gross profit in the International Segment by \$1.9 million and \$500,000, respectively from Q4 of fiscal 2016 to Q4 of fiscal 2017.

On Slide 6, the full year comparative results show similar trends to the three-month results. Revenue increased by approximately 1% with strength in the International Segment partially offset by relative weakness in the domestic Polyester and Nylon Segments. Total gross profit increased similarly on account of our global PVA portfolio. The overall gross margin rate remained strong at 14.8%. For the full year, the bottle processing facility adversely impacted the Polyester gross margin rate by around 50 basis points and the total gross margin rate by around 20 basis points. For fiscal 2017, foreign currency fluctuations improved net sales and gross profit in the International Segment by \$9.6 million and \$1.7 million. We're also proud to report that global PVA sales reached 40% of consolidated sales for fiscal 2017.

Before moving into the equity affiliates discussion, I would like to provide an update on the raw material tariff situation in Brazil. During the fourth quarter, the South American Trade Association, Mercosur, approved the reduction in POY import tariffs from 18% to 2% on a specific volume of imports. We are pleased with this approval but are not expecting significant upside as we still foresee some competitive pressure from imports and upcoming inflation in Brazil.



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Turning to Slide 7 and looking at our equity affiliates. At the end of fiscal 2017, the company had approximately \$120 million recorded for investments in unconsolidated affiliates. These investments consist of our 34% ownership in Parkdale America and our 50% interest in two joint ventures that supply raw material to our domestic Nylon operations. Our pre-tax share of Parkdale America's income for the fourth quarter of fiscal 2017 was \$1.8 million, almost \$1 million more than the same period last year. For fiscal 2017, our pre-tax share of Parkdale America's results was \$2.7 million, approximately \$3.4 million less than the prior fiscal year. The Nylon joint ventures experienced pre-tax earnings declines in both the three-month and twelve-month periods associated with higher raw material costs and the soft Nylon business conditions. During fiscal 2017, we received a total of \$2.3 million in distributions from our equity affiliates.

On Slide 8, we review the company's balance sheet highlights. Adjusted Working Capital of \$135 million was approximately \$3 million less than March 2017 and approximately \$8 million above the level at the end of June 2016. As a percentage of annualized sales, Adjusted Working Capital was 19.4% and generally consistent with the prior periods shown. The decrease from March is primarily related to lower days-sales-outstanding for receivables, while the increase from June 2016 is primarily related to higher inventory levels at our foreign subsidiaries on account of their increased sales activity.

Moving to net debt and total liquidity. We ended the fourth quarter with around \$130 million of debt principal and net debt of roughly \$94 million, below net debt at the beginning of fiscal 2017. As of the end of the fourth quarter, our weighted average interest rate for outstanding indebtedness was approximately 3.2%. Total revolver availability and liquidity were \$65 million and \$100 million, respectively. I will now turn the call back over to Kevin.

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

Thank you, Chris. Before we open up for Q&A, I'd like to provide a little color around our expectations for fiscal 2018. We expect continued strength from our International operations and increased contributions from our strategic investments to drive profitable growth. Despite the domestic headwinds, we expect to deliver low single-digit revenue growth and mid-single-digit earnings growth. This is exclusive of Parkdale.

Assumptions for our outlook include 1) no major fluctuations in the price of oil, 2) an effective tax rate in the mid-20% range and 3) successful growth investments that follow the themes I outlined earlier.

Looking at our capital projects, our current expectations land us around \$35 million. This reflects consideration for footprint requirements in Asia, along with ongoing investments in maintenance and technology in the Americas.

We will be diligent in vetting out additional opportunities as they arise. We will stay mindful of maintaining a strong balance sheet and generating cash, while keeping our leverage ratio consistent with recent years. And we continue to have \$27 million of authority under the existing share repurchase plan.

Outside of our core operations, when we think about Parkdale in fiscal 2018, we understand the market challenges but appreciate their strong team and abilities to operate well and generate cash. On that note, we are happy to report that we received a onetime \$6.8 million dividend from Parkdale in July, which will be reflected in Q1 2018.

To conclude, I'm truly excited to be here at Unifi and believe that our capabilities and reach provide a tremendous opportunity to do great things. I'm looking forward to meeting many of you over the coming year, and I will now turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Marco Rodriguez with Stonegate Capital Markets.

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

Kevin, welcome, and thanks for providing some of the details in your prepared remarks there. I was wondering if maybe you could perhaps talk a little bit more about the 4 pillars you're taking a look at as far as investing. Are any particular items more important than the other? Are there areas there of those 4 that you're focusing more on in the interim? If you can just maybe perhaps provide a little more color surrounding that?

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

Yes. Marco, it's great to meet you and it's terrific to be here. As we look at investing in growth and really getting behind our technologies and looking for partnerships and then investing in people, it is difficult to prioritize those versus each other. I think all 4 of them are very important and are going to be great opportunities as we move forward. I think the growth opportunities that I see within the PVA portfolio are terrific and we're particularly excited about REPVE and where we can go with that. I've been very pleased to find the pipeline of technology that's being worked on within the company. And so that's very encouraging as well. And I think it always starts with the people though, and that is something I believe in as my background, bringing my different experience as I come into the company, investing in our people, investing in training and development. And I think you're going to see we're going to be bringing in some expertise within areas of the commercial operation to really help us grow there. So they all kind of work together, difficult to prioritize them across those 4, very excited about the potential.

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

Got you. That's helpful. And do you think that in regard to just your couple of months here reviewing the company and your investment priorities here, do you think that you need to ramp-up spending a little bit higher than what has historically been done? Or do you think it's just small little areas that need perhaps a little bit more improvement?

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

Yes. So it's been great to come on board and have a chance to meet the folks and really go through the portfolio of PVA opportunities that we have. We've got a really strong platform. I think the timing is right on REPVE and it's an opportunity that we really need to move on. I don't want to miss this window of opportunity. So I think as we look at this year, there's more of an increase, a step change increase in the commercial functions of the business in really getting behind the REPVE opportunity. But as we look to the future, it's all going to be dependent on how much success we generate from those investments this year.

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

Got you. And you guys talked a little bit about the CapEx spend for this fiscal year at roughly \$35 million and if I heard you guys correctly in prepared remarks, Asia and then some maintenance CapEx, I believe, what you guys kind of pointed out as far as major components of that \$35 million is the Asia expansion or is this the supply chain aspects there? If you can maybe perhaps provide some color if you're going to be adding plants or perhaps maybe doing joint ventures or anything of that nature?

Thomas H. Caudle - Unifi, Inc. - President

Marco, this is Tom. For 2018, between 30% and 40% of our CapEx is going to be spent on maintenance CapEx globally. The remainder of it is going to be production capabilities and technology enhancements. And some of it's going to be in strategic investments specifically in Vietnam. So that's the color of where we're going in 2018 anyway.



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

Got you. That's helpful. And then just real quick here if I can just ask couple of questions on the segments and their performance specifically on the International, continued to have a really strong volume growth and year-over-year growth. These 30% to 40% growth rates that you've experienced on the topline, can you talk a little bit as far as your expectations are for fiscal 2018? I know you've drawn out some potential headwinds on the International side, but it still seems as if growth is expanding there. If you can, just maybe talk a little bit about that as far as your expectations in 2018?

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

Sure. Tom, I'll take that first one. So I think, Marco, as I've come in, I've been very impressed with the growth in the International business and the teams that we have there. So as we look at the segment in the year coming up, we'll be a little bit cautious on Brazil. I think we expect some volatility there. So it's been a terrific driver of success. I just think we need to be a little bit cautious on our assumptions into next year. As you've pointed out, Asia has been a nice success story and we continue to believe that that's going to continue to deliver growth as we go into 2018.

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

Got you. And do you guys expect to have some gross margin expansion on the International side? Or should it stay kind of steady?

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

Yes. I think we're looking at more steady as we go into this next year. That's what we've got planned right now.

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

Got you. Okay. And then just last quick question on the Poly side. Maybe you can talk a little bit more as far as your expectation on volume growth there for the Poly side. And then if you could also hit on the raw material price increases, has that sort of worked its way through your contracts with your end customers? Or you're still working on that?

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

Yes. Tom, let me take the Polyester and I'll let you do the raw materials. So yes, on the Polyester side, I mean, clearly we still see some domestic market issues, some challenges there. But Tom highlighted the contributions we're starting to see from our recycling operations and the investments there. So when we put those two together, we do see some positive trends on the revenue side of Polyester. It's great to have that Recycling Center coming online. Again, this assumes no wild fluctuations in raw material pricing. So I'll hand that one over to Tom.

Thomas H. Caudle - Unifi, Inc. - President

Yes. As you guys are well aware, during the third and fourth quarters, especially the third quarter, we saw pretty substantial increases in raw materials, which took almost all of the fourth quarter to work its way through the chain. It has flattened out now. We're starting to see some decreases, but for the most part, it's our view that going forward, it's going to be pretty flat.

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

Got you. And have you been able to push through those price increases to customers? Or are you still kind of working through that issue?



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Thomas H. Caudle - *Unifi, Inc. - President*

It is pretty much done now.

Operator

And our next question comes from the line of Chris McGinnis with Sidoti & Company.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Congratulations, Kevin. So I guess, just quickly start with maybe the payoffs or the special dividend. Can you just maybe give a little bit of color on, was that just a one-time? Was it for maybe tax purposes or was it just that the business is improving? Maybe just talk a little bit about the special dividend.

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

Yes. Well, first of all, nice to meet you and I look forward to working with you in the future. I had the chance to meet with the folks at Parkdale, they let us know about the dividend. Not a lot of other background on it, we're really pleased with it. Obviously, it's a cash distribution that came in July; it flows through our balance sheet and doesn't impact our P&L or our ownership position, so it was nice to receive and don't have much background other than that.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay. And then, I guess, just thinking about Parkdale in fiscal 2018 versus 2017, I know that you can't model it or anything but maybe just your thoughts about trends and directionally maybe more so.

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

Yes, I think in our conversations they are facing some of the same market challenges that we are. I was really impressed with the team there though and the people that we met. So I continue to think that they're going to generate cash. And I know they're going to operate well. So as we look forward, there is more work happening with them in blended products. And I think as we start to reach out to our branded partners and we start to have conversations, there will be opportunities to look at partnering on some of those cotton polyester blends together. So hopefully the partnership is going to be able to grow and we'll be able to create some new opportunities there.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay. And then just to touch on the CapEx one more time. Tom, I think you may have gone through the numbers a little bit but can you just maybe parse out what is growth CapEx and then what is maintenance CapEx, again? I apologize I missed that one.

Thomas H. Caudle - *Unifi, Inc. - President*

Chris, between 30% and 40% of our CapEx spend of the \$35 million is going to be global maintenance CapEx, and the rest of it is going to be for production capabilities and technology enhancements. And then, in that \$35 million is also some strategic investment for Vietnam.



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Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

And this is outside of the large CapEx plans? We're finished with that now? Is that correct?

Thomas H. Caudle - *Unifi, Inc. - President*

That's pretty much complete. There may be a little spillover, but not much at all.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay. So this is additional kind of growth CapEx...

Thomas H. Caudle - *Unifi, Inc. - President*

Yes.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay. And then maybe just to touch on the quarter. One thing that was a little surprising was just the SG&A spend. Can you maybe just talk about a little bit what's happening there? And is there any onetime spend in the quarter itself? Or should we look at a higher rate going forward as we start to think about next year? Seemingly with the guidance, SG&A may be up a little bit in 2018?

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

Yes. I'll take that one. So Chris, I think as I've come in, the PVA platform we have and with REPVEVE, it's a good opportunity for growth here, and we want to invest in that. And I think as we start to look and work with our brand partners and really look to take that to the next level, we will want to continue to build out our commercial expertise and our commercial investments behind that. So that's going to mean expanding our talent, and as I mentioned on the call, I really see an opportunity to increase our talent and add-on to sales, marketing and innovation. We're going to do that prudently and do it based on getting a return on that investment as we grow. But I really do think this is a window that we have here and we wanted to get out in front of it and to really expand and invest for the long term.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Totally understand. And then, I guess, just on the bottom line, the mid-20% that you referenced in terms of tax rate for 2018 versus 2017, when you talk about the EPS, you're backing out the Parkdale, you're just doing it off the straight kind of core operations?

Christopher A. Smosna - *Unifi, Inc. - Interim Chief Financial Officer, Treasurer & Vice President*

Yes, this is Chris. Yes, you've got that exactly right, Chris.

Christopher P. McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Okay. So that's the main driver of EPS in 2018 is that growth you talked about and the lower tax rate versus the prior year, where everything else will be up, core?



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Christopher A. Smosna - *Unifi, Inc. - Interim Chief Financial Officer, Treasurer & Vice President*

Yes. I agree with that.

Operator

I'm showing no further questions at this time. So I'd like to return the call to Mr. Kevin Hall.

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

I want to thank everyone for joining us today. I'm looking forward to meeting you and to working with you over the coming months.

Operator

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

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