Delta Apparel, Inc.
Fiscal 2021 Third Quarter Earnings Conference Call

August 5, 2021

Operator

Good afternoon to everyone participating in Delta Apparel's Fiscal 2021 Third Quarter Earnings Call.

Joining us from Management are Bob Humphreys, Chairman and Chief Executive Officer, Deb Merrill, Chief Financial Officer and President of Delta Group.

Before we begin, I'd like to remind everyone that during the course of this conference call, projections or other forward-looking statements may be made by Delta Apparel's Executives. Such projections and statements suggest prediction and involve risks and uncertainty, and actual results may differ materially. Please refer to the periodic reports filed with the Securities and Exchange Commission, including the Company's most recent Form 10-K and Form 10-Q filed today. These documents identify important factors that could cause actual results to differ materially from those contained in the projections or forward-looking statements.

Please note any forward-looking statements are made only as of today, and except as required by law, the Company does not commit to update or revise any forward-looking statements, even if it becomes apparent that any projected results will not be realized.

As a reminder, today's conference is being recorded.

I will now turn the call over to Delta's Chairman and Chief Executive Officer, Bob Humphreys.

BOB

Good afternoon, and thank you for joining us on our fiscal 2021 third quarter earnings call.

As you saw in our press release this afternoon, we are very pleased to have delivered record earnings for our shareholders, with diluted EPS of $1.14 per share! I want to thank all of our teams for their hard work and dedication, which has led to our continued strong performance throughout the year. I am particularly pleased with the adaptability and flexibility our teams have demonstrated as we have successfully streamlined our organization and continued to integrate new and innovative technology into our operations. Our teams overcame many challenges, including inventory constraints and U.S. labor shortages, and delivered solid top line revenue and double-digit operating margins.

Over the last several years, consumer trends have been favorable towards active apparel – from athletic wear to athleisure – and the recent pandemic has only accentuated the trend with more people working from home and enjoying the outdoors. Add to this recent tariff policies and international trade uncertainties, along with supply chain disruptions, and the result is more companies are seeking on-shore and near-shore sourcing strategies than ever before. Global and regional brands as well as retailers are looking for the full-package supply chain that we can provide with our Western Hemisphere manufacturing platform. Over the past ten years, we have continued to invest in our manufacturing platform to increase the flexibility of our manufacturing capabilities and expand our capacity, and most recently we are producing more product than ever before. As we see the market trends with demand outpacing capacity, we have already made investment commitments to further increase production capacity, and expect this new production to be online in the back half of fiscal 2022.

Our performance during the quarter highlights the benefits of our broad channels of distribution, the demand in the market for the unique products and services we offer, and the efficiencies we can achieve with our vertically-integrated operations. We believe the strong foundation we have in place, coupled with our ongoing strategic initiatives, positions us well for continued growth and strong operating margin performance going forward.

Let me now turn the call over to Deb Merrill who will review our third quarter business highlights and financial results. I will then rejoin when we open the call up to questions.

Deb.

DEB

Thank you, Bob. To echo's Bob's comments, we are certainly very proud of our third quarter results and the great strides we have made within the business to position us well for long term success.

For the third quarter we delivered growth of 65% compared to the prior year, when our operations were significantly disrupted by the COVID-19 pandemic. However, we believe it is more meaningful that our sales grew 9% compared to the March quarter and were relatively flat compared to the same June quarter in fiscal 2019, despite the supply chain and labor challenges we have faced this year. Our Salt Life business exceeded all expectations with growth of over 35% compared to the same quarter in fiscal 2019, importantly with 150% growth in our direct-to-consumer channels. This was an extraordinary quarter across many fronts, and it reflects the culmination of our multi-year strategic initiatives coming to realization. Profitability on current year sales is greatly expanded, driven by our margin-moving sales strategies, manufacturing efficiencies, and continued spending controls. We delivered diluted earnings per share of $1.14, a record quarter for Delta Apparel, representing over 60% growth in EPS compared to our 2019 June quarter with $0.7 earnings per share.

We are entering fiscal 2022 a streamlined organization, with the Delta Group segment operating as a fully integrated Activewear business, powered by our DTG2Go digital fulfillment solutions. Our Activewear business is now organized around our key customer channels, operating as Delta Direct (formerly our Catalog business) and Global Brands & Retail Direct (formerly discussed as our private label, or FunTees, business).

Customers seeking our portfolio of Delta, Delta Platinum, Soffe, and sourced branded products can purchase them directly from our Delta Direct business. In Delta Direct, we cater to a broad range of distribution channels, spanning regional screenprinters, ad specialty and promotional, eRetailers, and resort/team dealers. Delta Direct also services the retail license channel, where our customers are servicing mid-tier and mass retailers, with this channel driving strong sales in the June quarter as well as earlier in the year.

As a reminder, our June quarter is typically our seasonally strongest quarter for Delta Direct. We entered the season with $49 million, or about 25%, less inventory than in the prior year, which constrained our ability to service the strong demand we saw in the market. However, even with 25% less inventory, our sales results were only slightly below our 2019 June quarter results. Although we remain inventory constrained in the near term in this at-once business, we are working diligently to serve our customers' needs and ultimately rebuild our inventory levels for future opportunities. As discussed on previous calls, our manufacturing teams have done an amazing job in increasing production output, and we continue to produce at record levels within our manufacturing platform. As we progress through fiscal 2022, we are planning capital investments to further increase production capacity but also provide additional capabilities to further expand the flexibility of our manufacturing operations, allowing us to offer more innovative products to our customers.

In our Global Brands & Retail Direct business, we are a supply chain partner to global brands, from development of custom garments to shipment of their branded products, with the majority of products being sold with value-added services. We also serve global retailers by providing our portfolio of Delta, Delta Platinum, and Soffe products directly to their retail stores and through their ecommerce channels. The strength of our Global Brands & Retail Direct business is demonstrated by the growth in sales compared to the pre-pandemic June 2019 quarter, and are on-track to deliver all-time record sales in this business in fiscal 2021!

This refreshed organizational structure, which includes the integration of our Soffe business into Activewear, has led to a more customer-centric sales and support team; a more proactive manufacturing, inventory planning, and distribution network; and a streamlined back-office support function. While we incurred one-time costs this year to facilitate this integration of approximately $0.08, of which $0.03 was incurred during the June quarter, we anticipate annual benefits from this integration initiative in the range of $0.12 to $0.15 per diluted share beginning in fiscal 2022.

Our digital print business, DTG2Go, remains a competitive force in the digital print and fulfillment market which is poised to expand rapidly in the coming years. We believe we are differentiated in this market, considering our vertically integrated supply chain, broad geographic network for fulfillment and distribution, proprietary technology, and broad and diverse customer relationships. We continue to see the interest of retailers and brands, many of whom are current Delta Group customers, to move to an on-demand digital fulfillment model. In fact, DTG2Go saw growth in the June quarter of over 70% in the traditional retail channel compared to prior year.

As a testament to the strategic advantage of DTG2Go being a vertically-integrated apparel supplier, we fulfilled 56% of digitally printed orders utilizing a Delta garment. This is significantly above the 30% Delta blank fulfillment in the prior year third quarter, and ahead of the 50% Delta utilization in the March 2021 quarter. This trend is promising as it creates a more efficient operation, reduces garment costs for our customers, and lowers working capital needs in the business.

DTG2Go started the quarter strong with new customers coming onboard to the platform and increased production from existing customers. We experienced temporary disruptions as the result of labor shortages to meet the surge in orders received, resulting in a 4% decrease in units produced compared to the June quarter of fiscal 2019. Following the implementation of additional incentive pay programs during the quarter, we anticipate a better balance of production labor to service the demand we see in the market. We also continue to add more technology tools to streamline the fulfillment process, increase efficiencies and better serve our customers. With these tools and the additional equipment we plan to add, we anticipate being able to service about 30% more orders than a year ago.

Turning to Salt Life, enthusiasts continue to actively engage with our brand. Showing Salt Life's true omni-channel strength, sales grew over 35% compared to the 2019 June quarter with at least double-digit growth for each of our wholesale, retail, and ecommerce channels. Direct-to-consumer sales now make up approximately one-third of total sales, making great progress to our goal of two-thirds top-line contributions from direct-to-consumer channels.

Sales at our branded Salt Life retail doors grew over 250% compared to the 2019 June quarter with particular strength in key vacation destinations. This is even more impressive considering in certain locations we are having to reduce the hours the stores are open because of labor shortages. With such positive momentum in our retail performance, we will soon be opening our new Salt Life stores in Myrtle Beach, South Carolina, as well as our first store in Texas, which will be near Galveston. We are excited to be accelerating our retail strategic initiatives, with plans to now open at least five new Salt Life retail locations in 2022!

Salt Life enthusiasts also were actively engaged with the brand through all our online channels during the quarter. We have harnessed not just the capabilities of our internal marketing team but also the authentic experiences of our Salt Life Team members, who are some of the best fishing, diving, and surfing athletes who truly live the Salt Life every day. We produce new content for social media for our 1.5 million-strong followers. Viewership of Salt Life content on our YouTube channel increased about 30% for the June quarter this year compared to the March quarter, with minutes watched increasing 40% as we have extended our video lengths while growing viewership. Following the launch of "The Daily Salt" online publication in March on our Salt Life website, we have since increased the frequency of content publications as well as launched a weekly podcast, "Above and Below". This engaging social, email, and web content ecosystem helped drive over 65% growth of ecommerce sales in the June quarter compared to fiscal 2019.

Now I will go through a more detailed review of our third quarter financial results.

For our fiscal 2021 June quarter we delivered sales of $118.7 million, an increase of 65% compared to our third quarter of fiscal 2020. Given the impact of COVID-19 on our business in fiscal 2020, I will focus my discussion on our results compared to the 2019 third fiscal quarter. June 2021 quarter sales were relatively flat compared to the June 2019 quarter, driven by a 36% increase in net sales in the Salt Life Group which was partially offset by a 5% decline in net sales in the Delta Group segment, with both segments exceeding sales expectations.

Gross profit for the period was $30.2 million, a 22% increase from $24.8 million in the third quarter of fiscal 2019. Gross margin increased 470 basis points to 25.5% versus 20.8% in 2019, driven by the stronger mix of direct to consumer sales in Salt Life and the benefit of higher selling prices in advance of higher product costs flowing through cost of sales.

Selling, general and administrative expenses were $19.9 million, or 16.8% of sales, compared to $17.9 million in the third quarter fiscal 2019, or 15.0% of sales. The increase in SG&A primarily relates to higher incentive pay expenses consistent with increases in profitability.

Operating income for the quarter increased 42.8% to $11.9 million, or 10.0% of sales, compared to $8.3 million, or 7.0% of sales, in the third quarter of fiscal 2019. The third quarter fiscal 2021 results included $1.2 million of income related to the reduction of fair value of the contingent earnout liability from the DTG2Go acquisition. The third quarter fiscal 2019 results included a gain of $1.3 million related to the settlement of a commercial litigation matter.

Net income for the quarter was $8.2 million, or $1.14 per diluted share, compared to $4.9 million, or $0.70 per share, in the third quarter of fiscal 2019. Adjusted earnings per diluted share for the third quarter fiscal 2021 was $1.01, an increase of 68%, compared to adjusted EPS of $0.60 in the third quarter of fiscal 2019.

Our balance sheet remains strong, with total inventory of $152.3 million as of June 2021, down $5.7 million from a year ago and up $3.8 million from March 2021. As previously noted, we are manufacturing at all-time record levels to build the inventory to service the market demand for our products. With the inventory constraints, we have learned over the last several quarters how to operate more efficiently and with less inventory. With that said, with our increased production we see our inventory position improving each quarter and expect to reach our new normalized levels by spring 2022.

Total net debt, including capital lease financing and cash on hand, was $132.3 million as of June 2021, representing a $4.8 million increase from net debt levels a year ago, and a $2.9 million decrease from net debt levels in March 2021. We spent approximately $3.2 million on capital expenditures during the third quarter of fiscal 2021 and continue to expect total capital expenditures in fiscal 2021 to be about $20 million.

Looking to our September quarter, as a reminder, the prior year September quarter had an additional week as 2020 was a 53-week fiscal year. After adjusting for the prior year additional week of sales, we would anticipate our 2021 September quarter to see growth of mid-single digits. We believe demand for our products will be much higher, but inventory will not be available to meet these demands.. As mentioned in prior calls, our September quarter will have higher product costs flowing through cost of sales. While this will put pressure on grow margins compared to our recent quarter, we believe that our margin enhancing strategies coupled with being a more efficient company, should allow operating margins to remain strong and approximate that of the March 2021 quarter.

In summary, we are very pleased with our performance to date, and believe, despite ongoing macro headwinds, that we continue to be well positioned for growth and improved profitability in fiscal 2022 and beyond.

And now, we will be glad to open up the call for any questions.

Operator

We'll take a question from Dana Telsey with Telsey Group. Please go ahead.

Dana Telsey

Hi, good afternoon, everyone, and nice to see the solid progress on Salt Life.

Just wanted to unpack the Delta Group a little bit more. It sounds like inventory shortages are leading to the inability to meet demand. When do you see inventory right sizing itself, so you will be able to? I just want to make sure I understand it clearly. Are you saying that the operating margin in the September quarter will be similar to the 7% operating margin of March second quarter 2021?

Deb Merrill

Dana, I'll take those two questions. Yes, on your second question, that's exactly what we're saying, is that the September should approximate the March, which was 7%. You're right on that.

Then as far as inventory is concerned, yes, we would be saying exactly that, that we think throughout this fiscal year inventory has constrained the ability to grow sales in the Delta Group stronger than we have been able to achieve because of that. We are now producing at all-time record production levels, but of course that has to flow back in to the U.S. and then be available for sale.

We've had strong sales despite having 25% less inventory to just maintain the sales that we've been doing. We're hoping to be gaining on our inventory levels and replenishing those each quarter. Hopefully each quarter that passes, we will be on better inventory position with the goal of being back to a normalized, which would be our new normalized level to start this Spring 2022 selling season, which means really having that inventory in place by March to begin that spring selling season.

Dana Telsey

Got it. Could you just give us an update on what you're seeing on the inflationary cycle? How you're thinking about pricing and how that's changing?

Bob Humphreys

Yes. Like most every business right now, I'm sure in America, we're seeing inflation. It really started before the pandemic, and we talked about that with wages and transportation costs. We're seeing in all areas of our business slowdowns in shipping time, time on the water, and what have you. We have had a number of price increases in the last six months and we would expect to see further increases in our selling prices if these trends continue.

Dana Telsey

Got it. Any color by channel, what you're seeing wholesale? It sounds like Salt Life in their own retail stores has been doing very well. Any further update there on the channel performance?

Bob Humphreys

The Salt Life business channel performance has been strong in all three channels, wholesale e-commerce, and retail. The demand for the brand is really strong. I think we have enough retail stores now that people are seeing. The product being really well merchandized, our same store sales are growing rapidly over the prior year. It's really been nice to see to have our product out there and telling our story, and see how the omnichannels really work.

Our wholesale bookings for spring are up about 50% from what we saw this year. Still really strong demand in the wholesale market too.

Dana Telsey

Thank you.

Operator

We have a question from Jamie Wilen with Wilen Management.

James Wilen

Hey fellows. Heck of a quarter.

A couple different areas, when you mentioned Soffe that it was going to be $0.08 of costs, have we already—we hit $0.03 cents in this quarter, have we taken the other $0.05 or is that coming in the fourth quarter?

Deb Merrill

No, that's already been incurred in the first and second quarter. We have now completed that initiative and should be having some amount of benefit in the fourth quarter, but really starting to flow all the way through starting in Fiscal 2022 with that $0.12 to $0.15 increase in profitability from that initiative.

James Wilen

That's going to start flowing through $0.03 to $0.04 quarter beginning with the first quarter, or is that back-end loaded?

Deb Merrill

Correct, a little bit we'll be back-end, because of course, some of it relates to distribution and the distribution costs. But there will be increases each quarter.

James Wilen

Okay, the inventory shortage that you have. Basically, most of this product is made in the Honduras, is that correct?

Bob Humphreys

Well, yes. Mexico, Honduras and to some extent, El Salvador. Although most of that goes directly to retailer or brand. There's not at-once inventory there.

James Wilen

It seems like people were having difficulty in getting inventory from China, but how does this flow through to the United States to get to you? Why do you indeed have a shortage?

Bob Humphreys

Now, so none of that comes from China, of what we're talking about. We are manufacturing over 90% of all the garments that we sell. We're making more than we ever have. It's just we can sell more than we ever have. It's a demand-driven shortage to some degree, but then the supply chain to us, yarn for example, is in very tight supply, driven by lack of workers in the U.S. but things like labels, sewing threads, boxes, everything that you can think of that ultimately comes into this are in high supplies. Then the shipping time from Central America to the U.S. has about doubled over the last eight weeks or so.

While we have made more product, we have a bubble going through our shipping, that will be coming in and it has been coming in, but that is extra inventory stagnant that we can't get out to our consumers with the same velocity that we have come to know,

James Wilen

Do you have the capability of increasing the manufacturing production in Central America, and by how much? Will that be enough to satisfy your needs as you look at 2022 and 2023?

Bob Humphreys

Yes, we will be able to—as Deb talked about, we already have commitments for additional equipment coming in, going to probably add 5% to 7% unit production in basic tees and fleece, and that sort of thing. I think we got to see what post-pandemic, whenever that is, and whenever we figure we're in post-pandemic, what that demand is. But I think we have seen some structural changes in the marketplace and consumer behavior. I'm probably more bullish now than I've ever been about the forward-looking demand for the type of products that we make and for our supply chain to major retailers and major brands and the fact that, while we're very tight on product we have stayed in production, we've stayed being able to service our customers and our direct to brands and retailer service has been very high. I think it's differentiated us in the marketplace to some degree. As we've been saying, really, for a couple years now these trends started before. Major brands, major retailers, were trying to bring more production into this hemisphere. We started that, and we're the leader with a lot of really name brands in apparel - this is only accelerating that. Then you add on top of it the various concerns over a lot of areas in Asia, whether it's the pandemic or work rules or human rights or what have you, I think this is a trend that is going to be with us for some time. A small trend is a big wave when it gets to us.

James Wilen

Gotcha. DTG2Go. Now that you've have under Autoscale under your wing. Could you describe a little bit more about what opportunities you see that it can bring to the business?

Deb Merrill

Yes. As you said, we've got it fully integrated in with our DTG2Go business and are out marketing that. We expect to launch some customers on it this fourth quarter and then into the next year. Really what it is, is to provide a tool for them to be able to monetize the graphics that they have in their art libraries, by giving them the tools to bring those graphics to consumers.

A lot of times people are interested in that, but then they don't know how to get their art libraries to market. This will allow them and give them the technology to be able to do that seamlessly and then have that seamlessly integrated into our DTG2Go production so that we can service those sales that they generate.

We're excited to get that launched in in this fourth quarter and then to continue to see that grow and bring new opportunities to DTG2Go.

James Wilen

Got you. You mentioned you brought on some additional traditional retail chains. Could you quantify how many chains of respectable size you've brought on?

Deb Merrill

Yes. As far as servicing different retailers, we've probably doubled what we are servicing. We probably doubled the quantity, which is then what generated that 70%, not just the increase but the increase in the existing ones, plus the new ones that have now generated that 70% increase.

James Wilen

Okay, and the relationship with Hot Topic. Can you talk about the evolution there and where it now stands?

Deb Merrill

Absolutely, that continues to grow and in and of itself is supporting that growth that we mentioned on their own business. We are in the process of doubling the capacity that we have in that integrated site, based upon the performance that they're seeing and the initiatives that they have to utilize that. As a reminder, they not only utilize the capacity that we put in the integrated facility, but then they also take advantage of the other—the network of facilities that we have across the country, so they get the benefits of the full network plus the benefits of the integrated facility that we have with them

James Wilen

Are the other traditional retailers looking to copy that model? I'm sorry, go ahead Bob.

Bob Humphreys

I would just add to what Deb was saying there on the Hot Topic model. When we first started with what's now DTG2Go about 10 years ago, that was really our vision is these retailers, both e-commerce business, which was starting to grow at the time, and then for in-store fulfilment, in-store shipments. That was our vision for the future. With both businesses, along with e-retailers and other types of vendors, as we were working on getting these big box players on board, because they sell decorated tees, we are now seeing these channels really start to be integrated, Deb talked about the growth we saw in this quarter, but I think there's a lot more of that to come. It's really the market that is selling an awful lot of t-shirts so we're excited to have that coming along.

James Wilen

The other traditional retailers are moving through the same path, the same kind of model that Hot Topic is utilizing now?

Bob Humphreys

I don't know that anyone copies one exact model. Sometimes it's their systems, their strategy, where their distribution centers are located, but I think most major retailers are either already or starting to embark on selling product, particularly through their e-commerce channel, that are produced on digital printing. There's more and more conversations and some additional technology that we have in R&D that we have done that we think will lead to more in-store replenishment of a digital printing as well.

James Wilen

Fantastic. Great quarter, guys.

Deb Merrill

Thank you.

Operator

We will take our next question from Shawn Boyd with Next Mark Capital.

Shawn Boyd

Thanks for taking the question. Can you hear me okay?

Bob Humphreys

Yes sir.

Shawn Boyd

Just want to get back to one of the comments. I think one of the last comments in the script, as we're talking about the inventory shortages and the quarter we are now in. You talked about growth of mid-single digits. Is that sequential or is that versus September 2019 quarter?

Deb Merrill

Yes, you've got to take our Fiscal 2020 quarter, just this past year's year-over-year quarter, and adjust to that quarter for it having an additional week in the quarter, and then from that, we would have mid-single digit growth.

Then as a reminder as well, Fiscal 2020 quarter for the September quarter was much stronger than our Fiscal 2019 quarter. We saw a nice strong growth in that quarter last year. That would then, of course, put, even adjusting for that week, will put our Fiscal 2021 September quarter stronger than our 2019 quarter.

Shawn Boyd

Okay, so it's adjusted for that week of production, for that one extra week last year, in a year-over-year comparison.

Deb Merrill

That is correct.

Shawn Boyd

Okay, got it. Now, we are working through this inventory shortage or the inventory constraints, I should say, into December and—through the December quarter. Can you give us a preliminary look as to what this looks like out into FY22? I think in the past we've talked about high-single digit growth, 7% to 10% annual growth from the Company on an overall basis. Could you speak to that a little bit or maybe even pull out Salt Life and just talk about Delta Group given that that's where the shortages or the constraints seem to be occurring?

Deb Merrill

Yes, and as opposed to breaking that out, we would just say that we would expect to see growth, at least in that range that you mentioned each quarter, but we do expect as we go through Fiscal 2022, that every quarter we will be able to see growth as compared to Fiscal 2021 in those upper-single to low-double digit growth rates.

Shawn Boyd

Got it. Okay, very helpful. On the labor shortages or excuse me, the tight labor issues that you hit, is that something that you've pretty much resolved at this point, and that's where we've got the lower margin for this quarter? Then we progress from there, or is that something that sticks around for a little while?

Bob Humphreys

Yes, well, it's not resolved yet for sure. It's a little bit hard to tell. We see it in our distribution centers in the U.S., we see it in our retail stores where they're really being held back. Most of our retail stores are not being able to open seven days a week, because we can't get them staffed for seven days a week, even with that having really strong growth.

We're being held back by just people to operate our DCs, people to operate our DTG2Go equipment and our retails stores. We're hoping in the fall as kids get back in school hopefully, and stimulus checks run out and extra unemployment, people will be more motivated to go back to work.

It's really not affecting the gross margins. Although, if we had more product, we'd be levered in our costs that would ultimately help that a little bit. But gross margins are a function of higher cost products starting to flow through inventory and the timing of price increases in different channels of distribution. But still strong gross margins for us, but not quite as strong as we'd achieved this past quarter.

Shawn Boyd

Got it. Okay. Last one for me is just focusing on Salt Life for a second. This is really breaking out a little bit. The business was—I don't know, high-30s last year, and that was a pandemic year. Maybe we need to back up to 2019, $43 million business. You're going to be exceeding that substantially here this year. Where are we going? How big does this look to you all a couple years down the road? How big is it in terms of retail stores? What percentage of the business would be direct-to-consumer e-commerce? Just trying to understand a little bit more on Salt Life in particular.

Bob Humphreys

If you look back two years and we had about 35% growth, slightly above that rate that we've been saying our goal was to grow Salt Life 10% a year and obviously we had a pandemic year in there, but looking back, we've obviously done that.

I think the most exciting thing or a very exciting thing is we've got the proof of concept now of our retail store rollout. Our first few stores were marketing pieces. We did a store in Jacksonville, Florida, which is where the brand started as a part of our original acquisition, that's a nice store; it's growing and making money, but it's not like our big branded stores that we're doing now.

We've got a good model and we've got a team to roll them out. In the last three or four months, we've gotten a pace behind us now of finding locations and signing leases. We'll open, we believe, at least five stores next fiscal year. If we got one more that will get open this fiscal year, we would expect a pace like that, which adds probably on average for us now $800,000 a year per store. We've got some performing well in excess of $1 million.

That would be a big driver of Salt Life growth. But as I mentioned earlier, our prebook business of Salt Life runs on a prebook, wholesale business. We go to our customers, we show our lines and we take orders ahead of time and bring that inventory in. We're not bringing inventory in a big way just to go try to sell. Anyway, that prebook business is up about 50% from this time last year. We service that well, we serviced it well through the pandemic and same thing, customers are going in there and looking for Salt Life product. Our Salt Life e-commerce is doing well, obviously, the pandemic quarter we had a big spike last year, we won't have that spike this year, we take that quarter out. We're still growing that business nicely. What's really exciting is our social media channels are growing even faster and really punching above the weight of Salt Life sales today, which just goes to show the consumer engagement and their desire for living the Salt Life. As we say, if they're not at the beach thinking, they want to be at the beach.

We do feel good about that. It does seem like we're getting to a pace of growth now that's getting it to the next level.

Deb Merrill

I would just throw that all together to say, as Bob mentioned, we had targeted this business to be at a compounded double-digit, so 10% top-line growth with the new doors that we're adding in 2022 already. That should allow us to even exceed that in 2022 Fiscal Year. Then to equate all of the strong growth in the retail direct-to-consumer channel, both e-com and at the retail doors, that also nicely expands the gross margins in that business as well and then obviously drops to the bottom line and operating margins.

All of those things added up certainly allows us to get to that goal of the 10% top-line, and even exceed that in Fiscal 2022.

Shawn Boyd

Got it. Well, thank you very much for the color and congrats on the great results in a very difficult operating environment.

Bob Humphreys

Thank you.

Operator

There are no further questions at this time. I would like to turn the call over to Bob Humphreys for any additional closing remarks.

Bob Humphreys

Okay, well, thank you very much for your time and interest in Delta Apparel. We only got about eight weeks to go to finish the fiscal year, so hard to believe how fast they click by. But we'll look forward to updating you in a few months on the full year results in our fourth quarter. Thanks for your interest.

Operator

That does conclude today's presentation. Thank you for your participation. You may now disconnect.