



Delta Apparel, Inc.

Fiscal 2020 Fourth Quarter and Full Year Earnings Conference Call

November 19, 2020

Operator

Thank you, and good afternoon to everyone participating in Delta Apparel's Fiscal 2020 Fourth Quarter and Full Year Earnings Conference Call.

Joining us from Management are Bob Humphreys, Chairman and Chief Executive Officer; and Deb Merrill, Chief Financial Officer and President, 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-Qs. 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 that 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.

I would now like to turn the call over to Delta's Chairman and Chief Executive Officer, Bob Humphreys. Please go ahead.

Robert Humphreys

Good afternoon, and thank you for joining us on our Fourth Quarter and Fiscal Year 2020 Earnings Call.

On today's call, I will briefly discuss our business results with highlights that showcase how Delta Apparel successfully navigated the pandemic and has emerged as an even stronger Company, well-positioned for profitable future growth. I will then turn the call over to our CFO, Deb Merrill, for a more detailed discussion of our results.

In what remained an unprecedented period for our nation and our industry, we ended our fiscal year with growth in every business unit in the September quarter. This broad-based performance powered stellar fourth quarter results, including year-over-year sales growth of 8% and a 70% improvement in operating profit. The accelerated sales, combined with business efficiencies and outstanding manufacturing performance, including a much quicker-than-expected ramp-up in our production, fueled earnings for the

fourth quarter of \$0.71 per diluted share, significantly up from the \$0.50 per diluted share in last year's fourth quarter.

We also generated nearly \$10 million of operating cash flows this quarter even as we ramped up inventory production to support future sales growth. In our Delta Group segment, sales grew by nearly 8%, led by our digital print business, DTG2Go, which saw robust sales growth of nearly 30%. Our Activewear and Softe business units also contributed to the Delta Group growth. This was a pivotal year for the DTG2Go business as a market leader in the on-demand direct-to-garment digital print and fulfillment industry.

As we highlighted in our third quarter call, COVID-19-related disruptions in supply chains and consumers' limited ability to shop in traditional retail stores has elevated the awareness of DTG2Go's unique on-demand business model and the benefits it provides to customers. We are the only digital print supplier in the world that can offer a seamless, vertically integrated solution utilizing our proprietary software and internal supply chain to offer a fully decorated on-demand product shipped directly to the consumer. With fourth quarter unit growth of 35% and new customers representing about a third of the growth, we may have reached a tipping point in the adoption of digital print.

I'm also encouraged to see that our DTG2Go customers continue to gravitate to our Delta Catalog blanks. In the September quarter, we reached a new Delta blank utilization record of approximately 40%, up from 20% utilization in last year's fourth quarter and 30% during our June quarter. Customers are clearly seeing the benefits of the seamless supply chain of Delta garments as it reduces garment costs for our customers and reduces the risk that comes with a third-party supply chain. For us, this model eliminates non-value-added costs, creates a more efficient operation and lowers working capital needs in the business. We see this as a tremendous competitive advantage for DTG2Go.

DTG2Go is at the forefront of revolutionizing the supply chain for the retail industry with its on-demand DC service model. This solution provides retailers or brands instantaneous access to utilize DTG2Go's broad network of print and fulfillment facilities while offering the scalability to integrate digital fulfillment within the retailers' own distribution facility. With this integrated DTG2Go on-demand facility, a retailer or brand can deliver a seamless consumer experience while reducing shipping cost as on-demand digitally printed apparel is merged with inventory products for shipment to the end consumer.

This model also provides for further utilization of digital print for store level replenishments and immediate out of stock fulfillment. DTG2Go provides the full package, the technology, personnel, quality control, equipment, blank apparel and the experience and knowledge of this rapidly growing industry. We are very excited about the launch of this unique DTG2Go service model in collaboration with Hot Topic, a leading omnichannel retailer of haute culture merchandise. Since making the announcement, we have seen quite a bit of interest in this model from specialty retailers and brands, and we look forward to updating you on some of the new collaborations in the near future.

We all know that consumer shopping behaviors have changed dramatically over the last six months and the push to online shopping is here to stay. This is certainly a positive trend for the on-demand DTG2Go model, giving us confidence in the accelerated growth trends for the business. Of course, this season does bring some amount of uncertainty with it regarding the levels of consumer spending in light of the general economic conditions, higher unemployment rates and lack of government stimulus. That being said, DTG2Go is more than prepared to have a solid holiday season.

As compared to a year ago, DTG2Go is operating two additional facilities to reach customers quickly, bringing our total footprint to nine locations. Overall, we have increased our daily print capacity by more than 25%. Of course, ensuring the safety and well-being of our employees is of utmost concern, and we have continued all of our COVID-19 protocols in our facilities to promote a safe working environment.

Turning to our other businesses within the Delta Group segment:

In our Activewear business, we were very pleased to register mid-single-digit fourth quarter sales growth with strong performance in sales of our Catalog and private label products. This could not have been accomplished without the outstanding performance from our manufacturing teams, who at every step outpaced the ramp-up of production to service the demand we experienced.

The dedication of our Management team to reopen our facilities safely with enhanced protocols, as well as the enthusiasm of our associates to get back to work to produce Delta Apparel products, was truly amazing. It makes us proud of our COVID-19 safety protocols at our offshore facilities that have been recognized by local governments and our customers as best-in-class and serve as a model for other manufacturing operations in the region.

Most encouraging was the growth we saw in our private label business as we quickly brought production back online. During the fourth quarter, we saw significant new orders being placed and have a strong backlog for spring and summer deliveries. We are also encouraged by the growth we are seeing in the direct-to-retail channel. Utilizing both our offshore manufacturing and our U.S. based screen print and packaging operations, we have been able to deliver quick turn, fully stocked graphic tee pallet displays to mass retailers. These have performed very well for the retailers, resulting in additional programs for us as we progress through Fiscal 2021. We believe that our flexible full-service approach from product development to shipment of their branded product makes us an ideal supply chain partner in this industry.

In our Delta Catalog business, the solid fourth quarter performance was an inventory replenishment story as our Catalog customers experienced strong demand and our faster-than-expected production ramp-up resulted in quicker fulfillment to meet that demand.

We continue to see strong demand and acceleration of the sales mix of our fashion basic lines, which includes our Delta Platinum collections. For example, in the month of September, customers chose fashion basics products for about 22% of their sales orders, compared to 18% of sales in the same month in the prior year.

We continue to see notable strength in our other channels of Catalog business as well. Much of this has come through the retail licensing channel, but we are also seeing continuing strengthening in orders from regional screen printers. With some enhanced business technology launched this year, we are now servicing online retailers selling blank wholesale apparel, where we utilize our distribution network to fulfill their customer orders.

This is an exciting new piece of business, positioning us to further grow sales of our Delta and Softe products as well as the other nationally recognized brands that we now distribute. To continue to foster sales growth and improved operating efficiencies in the Softe business, we have now merged our Delta Catalog and Softe sales teams together, reducing redundant selling cost and bringing more visibility to the full line of products that we carry.

We also have brought together our marketing, merchandising and e-commerce teams and soon we'll be distributing Softe products from our new Phoenix distribution center. We achieved positive fourth quarter sales growth at Softe with particular strength in e-commerce channels, including our Softe website, where sales were up over 80%.

Market trends remain positive for our Delta Group business, as T-shirt sales historically are strong through recessionary times. This, coupled with the fact that more consumers are wearing activewear apparel as they work from home, should drive demand in this business in future quarters. In the coming year, we will be sharply focused on executing our multiple growth and integration strategies. Importantly, we need to continue to replenish inventory levels to support current demand and stock our U.S. distribution centers ahead of the traditionally strong spring selling season.

Turning to our Salt Life Group segment, we achieved sales growth of over 12% with expansion across all of our distribution channels, including direct-to-consumer, e-commerce, our branded retail stores and in our wholesale operations. The success we are experiencing is a true testament to the enthusiasm and emotional connection consumers have with the Salt Life brand. During these late summer months, we saw consumers flock to our Salt Life branded retail stores with particular strength coming from the stores located in drivable vacation destinations.

Sales at our retail doors reached growth of over 125% compared to the prior year, driven both by double-digit comparable same-store sales growth as well as contributions from new stores. During the last few months, we opened two new Salt Life branded stores in Estero and Tom Beach Gardens, Florida, bringing our current retail footprint to 12 stores spread through Florida, Georgia, South Carolina and California.

We also have three Salt Life pop-up stores in select markets, giving us the ability to test those markets while also providing additional outlets to sell through current inventory. We believe that the branded retail experience is an important element of making the Salt Life brand real for many consumers, and we'll continue to explore additional retail store opportunities in the upcoming fiscal year.

Engagement on the Salt Life e-commerce site has also remained very strong, with sales in Fiscal 2020 up over 50% compared to the prior year and up over 80% in the back half of the year compared to the same period last year. We are seeing promising engagement metrics, such as increased traffic to the site, duration and engagement once on the site, and increased average order value. We are always looking for ways to engage with our consumers and are adding new content weekly, focused on enthusiasts who love the ocean and all activities it has to offer.

During Fiscal Year 2020, our Salt Life subscriber list, which is comprised of consumers who opt-in to receive marketing information from the brand, grew over 130%. In fact, more consumers joined in the fourth quarter of 2020 alone than they did in all of Fiscal 2019.

In the coming year, we continue to see the growth opportunities with our Salt Life consumer e-commerce site by opening additional retail doors in select markets and continuing to partner with our wholesale customers to expand the floor space and enhance the Salt Life experience within their doors. We could not have asked for a better end to the fiscal year. We registered strong fourth quarter results with balanced growth across all of our business units, while successfully managing with an eye towards cash preservation, liquidity, and the well-being and safety of our employees and customers.

I'll now turn the call over to Deb to review our financial results in more detail.

Deborah Merrill

Thank you, Bob.

As Bob noted, our fourth quarter performance was exceptional. We delivered strong profitable growth for the period, driven by a return to sales growth across all of our businesses, benefiting in part from stronger-than-expected productivity levels as our manufacturing teams safely ramped up production quicker than we originally expected.

Our fourth quarter Fiscal 2020 sales were \$116.7 million, an increase of 8.1% compared to the prior year period. Net sales in the Delta Group segment and the Salt Life Group segment increased 7.6% and 12.5%, respectively, from the prior year period as both segments saw strong sequential improvement from our third quarter performance.

Gross profits were \$24.9 million compared to gross profit of \$22.9 million in the prior year fourth quarter. Gross margin improved by 20 basis points to 21.4% compared to 21.2% in the fourth quarter of Fiscal '19. This performance was better than anticipated as our manufacturing productivity ramped faster than

originally expected, resulting in only about \$200,000 of manufacturing start-up costs incurred in the fourth quarter compared to the expected \$2 million to \$3 million range we originally anticipated. I want to echo Bob's comments on how proud we are of our manufacturing team to expedite production levels successfully and safely.

As you are aware, two major hurricanes recently made landfall in Central America, Hurricane Ada and Hurricane Iota, which further damaged the already tight supply chain of activewear apparel for the U.S. Our thoughts and prayers go out to everyone in the region impacted by these events. Our facilities and equipment were not damaged in either of the storms, and our manufacturing team has once again demonstrated their resiliency and dedication, which has allowed us to resume production with minimal downtime.

We continue to keep a strong focus on managing our operating and SG&A expenses. SG&A expenses declined 6.5% to \$17.3 million, compared to \$18.4 million in the prior year fourth quarter. With the reduced spending and higher sales in the current year, we leveraged SG&A expenses as a percentage of sales, reducing SG&A by 230 basis points from the prior year period to 14.8% of sales this year.

Operating income was \$8.3 million compared to \$4.8 million in the prior year fourth quarter. This 70% improvement was driven by an improvement of \$3.4 million in the Delta Group segment year-over-year, reflecting manufacturing efficiencies and operational improvements achieved with the strong sales results. Net income from the quarter was \$5 million or \$0.71 per share compared to net income of \$3.5 million or \$0.50 per diluted share in the prior year period.

In addition to strong operating performance in our fourth quarter, we also improved the strength of our balance sheet. We generated \$9.8 million of operating cash flows and \$5.2 million of free cash flow in the fourth quarter even as we ramped up inventory production to support future sales growth.

Our total net debt, including capital lease financing, as of September was \$122.2 million, down about \$13 million from a year ago. Ending Fiscal 2020 with cash on hand and availability under our credit facility of \$47.1 million, an improvement of nearly \$20 million from last September, provides us strong liquidity and flexibility for Fiscal 2021.

During Fiscal 2020, capital expenditures were \$13.6 million, with over half of this being spent on expanding our activewear distribution network, increasing capacity of DTG2Go digital print and enhancing our business systems and technologies to support new sales opportunities. In addition, we opened two new Salt Life retail stores, broadening our direct-to-consumer reach. In Fiscal 2021, we're planning capital expenditures to be about 50% higher with planned spending focused on the growth of our on-demand DTG2Go business, as well as additional Salt Life branded stores. This has certainly been an unprecedented year.

We're incredibly proud of the dedicated focus of our team members to reach our goals, driving our strong finish to the year. We believe Delta Apparel has emerged from the pandemic a stronger Company and more nimble than ever. So many factors that are outside of our control will influence how the upcoming year unfolds, but we are confident in our ability to successfully navigate what the future brings.

As we look at the first half of Fiscal 2021 we would expect overall revenues to be constrained driven principally from the short-term inventory constraints. Inventory availability should improve as the year progresses, as we plan to increase manufacturing output in Calendar 2021, ultimately expecting to reach record production levels for our Company.

We will continue to manage our spending tightly, but we'll be incurring certain integration and ramp-up costs within our distribution and digital print networks with the new facilities to support our growth initiatives. Putting this all together, we do expect to operate profitably in the first half of Fiscal 2021 with a sequential improvement by quarter, setting ourselves up for profitable growth in the back half of the year.

I'll now turn the call back over to Bob before we open up for questions.

Robert Humphreys

Thanks, Deb.

Our fourth quarter performance was exceptional, and we believe we are poised for a strong Fiscal 2021. Our core Activewear business is well-positioned for continued growth through both our full-service private label business and our new more expansive Delta Catalog offerings, including Delta, Softe and distributor product, all managed through a consolidated sales force. We believe the pandemic has fueled greater awareness of the on-demand supply chain model, accelerating the growth opportunities in our DTG2Go digital print business. DTG2Go is on the forefront of revolutionizing the supply chain for the apparel industry.

Finally, the momentum we experience in our Salt Life business is a true testament to the enthusiasm and emotional connection consumers have with the Salt Life brand and its authentic aspirational lifestyle that embraces those who love the ocean. Salt Life has a long runway of future growth ahead of it.

As we enter our new fiscal year, we remain confident that our diversified and uniquely positioned business model puts us on a solid path for future profitable growth.

I want to thank our Board of Directors and employees for their unwavering support and dedication through the very challenging 2020 year.

Operator, we'd be glad to open up the call to questions.

Operator

Absolutely. Thank you.

If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speaker phone, please make sure that your mute function is turned off to allow your signal to reach our equipment. Again, that is star, one if you would like to ask a question. We'll pause for a moment to allow everyone an opportunity.

We'll take our first question from Richard Evans with Mara River Capital Management.

Richard Evans

Hi, I was wondering if you could disclose the absolute dollar level of sales that you had in the digital business, both for the year and for the quarter.

Deborah Merrill

Yes. We do not disclose those absolute values that we have. That's just not something that we put those numbers out.

Richard Evans

Okay. What was the growth rate for digital over the full year rather than just for the quarter?

Deborah Merrill

I apologize, I'm having a little trouble hearing your question.

Richard Evans

Sorry, just wondering if you could let us know what the growth rate for the digital business was over the full year rather than just the quarter four.

Deborah Merrill

Yes. It was in the upper—for the full year, it was in the upper single digits.

Richard Evans

Upper single digits. Okay, and how should we think about the incremental margin drop-through as you continue to rapidly grow sales in that business? How much of additional dollar sales turns into EBITDA as the business grows?

Deborah Merrill

Speaking about DTG2Go specifically?

Richard Evans

Yes.

Deborah Merrill

Can you just repeat your question? I'm sorry, it's the question—we're not hearing you very well.

Richard Evans

Okay. Sorry about that. What's the incremental drop-through from additional—for each additional \$100 of sales from the digital business, how much of that drops through to EBITDA?

Deborah Merrill

Yes. We've not disclosed on the incremental, but overall the DTG2Go business is generating double-digit operating profits and EBITDA margins in the north of 20% EBITDA margins. So the incremental—and that's it overall. So incremental, you can know is stronger than those numbers I just quoted.

Richard Evans

Okay. Thank you.

Operator

Thank you. We'll now take our next question from Dana Telsey with Telsey Advisory Group.

Dana Telsey

Hi, good afternoon, everyone. Looking forward—

Deborah Merrill

Hi, Dana.

Dana Telsey

Hi. As we think about 2021, what are your expectations for the distributor business? How you're thinking about gross margin and the drivers there in 2021 by each division? Thank you.

Deborah Merrill

I'll kick off the answer to that, Dana.

Yes, with our distributor model business, overall, we are anticipating growth in a number of areas within that. As you remember, we launched our distributor model right before COVID hit. A lot of that business does come through the ad specialty and promotional products industry, which happens to be the channel that has been hit harder than other channels in our Activewear business. But we are relaunching the efforts on that. Some of the new business model that we talked about with e-retailers is certainly one that is driving sales in those sourced branded products as well.

We think that—while we launched that right before COVID, but we do think that there is traction happening as we speak, and we'll continue to gain traction as we go through the year. I think those products, along with the merging of the full Softe with Activewear, gives us a lot of leverage to be that full-service one-stop shop to our customers.

Margins in all of that, both from that sales channel as well as from those particular products, do elevate the overall gross margin within the Activewear business. So really, the initiatives we have for all of those sales growth areas are only going to incrementally increase gross margins in that.

Dana Telsey

Got it. And then expectations for holiday and how you're thinking about it?

Deborah Merrill

Well, we are certainly prepared for a strong holiday season within DTG2Go. Our customers are expecting to have strong business during that. We are probably the best prepared we have ever been with all nine locations, more equipment online, and personnel ready to go. Of course, there's always things that you don't know that may come up, but I would say that we think we will have a strong holiday season, and it will get kicked off exactly a week from now. we will—we shall see.

Dana Telsey

Thank you.

Operator

Thank you. We'll now take our next question from Jamie Wilen with Wilen Associates.

Jamie Wilen

Great quarter, fellows.

On the DTG2Go holiday business, last year, we were impacted by many fewer shipping days than historically we would have, and we have a few more this year. With capacity up 25% and with more shipping days, one would expect that business to show—without putting words in your mouth, at least 25% growth year-over-year in the fourth quarter.

Deborah Merrill

I would agree with your overall assessment. What we would have expected more holiday production days this year than is actually holding true based upon shipping cutoff, with all the expected and anticipated e-commerce business; certainly, the freight carriers have hedged themselves for their deliveries and pushed their cutoffs a bit sooner. All that being said, we should have at least a couple more days than we did in the prior year. I think we are poised for units going out.

I do want to remind everybody that depending on the garments chosen and coupled with much more of those garments being Delta Apparel garments, which is a wonderful thing from our profitability standpoint, but all of those factors play into the top line sales dollars. But we do believe that we will have nice strong growth during the holiday season, great opportunities to leverage all the things we have put in place, and looking forward to a successful holiday.

Jamie Wilen

Historically, you've had a little difficulty with finding sufficient employment base to staff everything. I would assume this year might be a little easier.

Deborah Merrill

That is what we would have anticipated. It is fascinating to see out there that staffing is not any easier this year, and it's probably tougher this year than it has in past years. I think that is coupled with finding these people that do actually want to be employed, but more so coupled with everybody's e-commerce business is expected to be stronger and the seasonal workforce is getting utilized across many aspects. We do have some advantages because of how strong the business has been running over the last two quarters, where we have been able to have steady staff supporting that business. We think that will be an advantage to us this year. We shall see how all of that comes through.

Jamie Wilen

Your facilities are running efficiently and ready to go for the holiday season?

Deborah Merrill

We are all planned. We have half of our facilities are now located in integrated facilities, which makes us tap even more of the inventory. They're ready to go for that season. All of our staff is dedicated and ready to come in and hit the ground running with it. We do look forward to it.

We've been pretty much experiencing some holiday business for the last six months. So, we are as prepared as ever in our people, in our inventory, as well as with our technology advancements that we have implemented during the year. We are anticipating a good holiday season.

Jamie Wilen

Your internalization rate grew steadily throughout the year. Where do you think you will end up next year—or the current fiscal year versus where we ended Fiscal '20?

Deborah Merrill

Well, the good news is, is where we ended Fiscal '20 is probably what was the goal to be at in '21 or '22. We have certainly outpaced our rate of utilization of Delta garments far more than we anticipated when we started the year. As we mentioned, we utilized about 40% of Delta products in our fourth quarter, and we would only see that expanding because of all the benefits that it offers to our customers. Couple that with the tight supply of garments in the U.S. this year, I think that also gives us an advantage because we already have that inventory there in waiting.

I think it just has opportunities to expand from the 40% mark and keep growing north of that.

Jamie Wilen

Okay, and since the Hot Topic announcement, as you seemed to allude to, other retailers have expressed an interest in doing some sort of similar type of operation with DTG2Go. Are you talking to others right now?

Deborah Merrill

We definitely are talking to other retailers and actually other brands because the same model can work for retailers or for brands on—that service, their e-commerce and their own retail stores. We look forward to being able to share some of those in coming quarters with you. A lot of interest out there as we had anticipated, and we are working hard to turn those into new customer launches.

Jamie Wilen

Okay. Shifting gears for a second, demand was much stronger than you anticipated in your basics business, I guess. There are no family reunions, nobody is to traveling to Nashville during the summer, no tournaments, no marathons, how was demand so much stronger if all those things that T-shirts are normally made for didn't exist.

Robert Humphreys

Yes. Jamie, I think if you look at Walmart's results this week and Target's results I believe today, and their talk of their apparel sales being so strong, that those were huge drivers of it. These new programs that we did with certain retailers about offering prepackaged in a cube with licensed product in there, it was a big part of it, and I think the appetite for that is really, really large out there.

I would just add one advertisement to your questions on DTG2Go, that what we've been doing so far is really just the tip of the iceberg of the economic model that makes sense for digital printing. The Hot Topic is an example of moving to a whole new level of understanding and sophistication that a retailer can then sell a product before they have any cost invested in it and can offer a much wider array of products for sale. It's been great to have these e-commerce sites sell t-shirts and thus be the supply partner on that and the technology partner on that.

But the fact of the matter is, that's a tiny bit of the decorated T-shirt and fleece market in this country and around the world. It's really encouraging to me to see some major retailers starting to understand that economic model for them, and I think it will be a huge driver of growth in the future.

Jamie Wilen

Outstanding. A couple of balance sheet items. Inventories are way down, where would you like them to be when you end next year? We can't run at that level of inventory, I assume, even though it does create nice operating margins.

Deborah Merrill

You're right. Inventory is lower than where we would like it to be. That being said, it has been driven by our rapid ramp-up in our production that then we sold right out the door as soon as we were able to manufacture that. That's a nice place to be. However, during this quarter, as we speak right now, historically, we would be building our inventory levels in anticipation of having the inventory to sell in the spring, and because we're turning that so quickly right now that is not happening.

We think that's why we have already announced that we will be further expanding our manufacturing output, because we do need to get to the point of having more inventory to service demand that we feel ultimately will be out there. I would expect to end next year with more inventory than we did this year - and quite a bit more. But that being said, we have also learned of how to turn inventory quicker and increase that.

Certain parts of our business that are growing have very high inventory turns on them. I think you'll see our inventory turns improving as we go through this upcoming year and into the future as well. But the actual total dollars of inventory, we would expect to increase, but maybe not to the level that we have seen in past prior years.

Jamie Wilen

Okay, and you're increasing sales, but you took a lot out of SG&A. Was that a permanent reduction?

Deborah Merrill

I would say there's certainly aspects of that, that are permanent reductions. I don't think you're going to see every quarter at the percentage of sales of SG&A in this fourth quarter. But we definitely have taken out certain costs that we do not anticipate coming back in, certain variable costs and variable selling costs. We'll continue to expand as we get some sales growth and return to more of the marketing aspects that we have done in the past. But I'd say you should continue to see benefits coming in SG&A.

One area, in particular, is certainly in the Delta Group as we continue to leverage together our Softe brand within the Activewear business and make that a much more efficient business and reduce those costs by utilizing a joined team with the activewear business. Those would certainly be permanent reductions in our overall cost structure.

Jamie Wilen

I just want to say what a wonderful job you've done of positioning the company for growth. Thanks.

Deborah Merrill

Thank you.

Operator

Thank you. We'll take our next question from Matt Schwarz with MAZE Investments.

Matthew Schwarz

Thanks for taking my questions. I just had a couple of follow-ups on the cost side.

One is I know you had talked about \$3 million of additional costs for the fourth quarter for startup. Can you tell me what ended up happening with that? How much additional pressure there was in the quarter?

Deborah Merrill

Yes, that's what I had mentioned on earlier that, that, yes, we had anticipated that being about \$2 million to \$3 million. But because we were able to start up those manufacturing operations so rapidly and ahead of our expectations, we actually only took about \$200,000 of it. All of the numbers that we have said in our call and in our press release are reported numbers. The additional \$200,000 of start-up costs are already included in that. They're not adjusted out. But it was a nice improvement compared to where we thought, because we didn't have to incur those additional costs that we originally thought might happen.

Matthew Schwarz

Okay, thanks. Then seeing that DTG2Go is such a big piece of your growth engine on a go-forward basis. I know you haven't given the incremental flow-through related to that question earlier. But can you just talk about how much SG&A there is associated with that business? Because, it seems like we're at this inflection point where now you're starting to generate SG&A leverage, at least you did in the fourth quarter. I'm trying to gauge if that's going to be a big driver for operating leverage as we move forward.

Deborah Merrill

Yes, and let me maybe give a little bit more commentary around that. First of all, the DTG2Go business has very low SG&A costs, as you can see. We've talked about the gross margins in that business being about where we are on an overall gross margin level within the Company, but there's next to no SG&A costs in it, which is why it can generate double-digit operating profits. The major portion of the cost that we have in that business outside of the variable labor costs is really the equipment.

When you think about us being able to leverage that and have less of a seasonal business and a stronger fourth quarter where we're utilizing that equipment during the whole year, you can then inherently determine that the incremental profit from that are very, very strong.

Matthew Schwarz

Thank you very much.

Operator

Thank you. Once again that's star, one if you'd like to ask a question.

We'll hear next from Phillip Fogel with DV Advisors.

Phillip Fogel

This is Philip Fogel. How is it going, Deb?

Deborah Merrill

Very good. Thank you.

Phillip Fogel

Can you hear me okay?

Deborah Merrill

Yes, I can.

Phillip Fogel

Okay. Great. Yes, I just want to ask a couple of questions. Congratulations, a phenomenal quarter, if not the best, one of the best you've had.

I just wanted to push you just a little bit, and if you could give us more color on revenues and earnings next year. I mean you guys have a very small stock with not that many people covering it. It'd very helpful to Investors and the broader community to give us a little more color. Because, I've put some very simple

assumptions for next year, and I've come up with EPS of \$2.50 to \$3, not that I'm expecting a comment on that, but if you could at least give us some flow-through on what we're expecting on revenues and some commentary at least. So it's not a complete mystery.

Robert Humphreys

Yes. I think the big question is the big unknowns as we sit here today with the pandemic still going on and weather events around the world that have disrupted manufacturing and people's normal lifestyles. I think right this minute, we don't know what normal is, which makes us hesitant to project how results will be.

I would say, from my standpoint, if you looked at the course of the next 12 months or really even say through Calendar '21, so the next five quarters, we see strong demand for basic activewear apparel in general, with a limited supply chain that is not up to the levels it was a year ago. We feel good about—very good, in fact, about what our manufacturing teams have done, the speed they were able to start back up, and the efficiencies they were running before the countries forced us to shut down.

We were very, very pleasantly surprised at the efficiency that they started up and the enthusiasm for our workforce in Honduras and El Salvador and Mexico, who wanted to return to work. It was obvious because of a lot of different reasons. Normally, when they come back, there is a start-up period of four to six weeks to regain their productivity. But they virtually came back and operated at full productivity week one. So that gives us a lot of confidence that we'll be able to ramp up our manufacturing output to all-time record levels in Delta Apparel over the course of the next 10 to 12 months.

We think the demand will be there in general, and we think it will specifically be there for how we operate and the various value-adding services that we can supply with offshore and domestic screen printing, with retail put up, and of course, with the DTG2Go digital print business. We see that demand strong. I think we will generally be limited in revenue by what we can produce and deliver to customers, short of some huge economic downfall through whatever reason it might be.

Then last one would be—yes, I think the same thing for Salt Life. We saw consumers really flock to doing outdoor activities. Obviously, a number of our wholesale customers who are retailers have been damaged by the pandemic and the impact on their business, and we'll have to see how all that plays out. But the demand for our brand, just as evidence, people coming to our sites, buying through our sites, wanting to engage with us is at a level that's been unprecedented. Anyway, we feel real good about the fundamentals. I just think we'll just have to see quarter-by-quarter what the opportunities are, but we're ready to take advantage of it.

Phillip Fogel

Yes, I see that. I mean you guys are basically sold out at DTG2Go and everything is firing similarly on all cylinders, and that's great. I think it would be useful to give the market more commentary. I guess, specifically, going into next quarter, you said you're basically capacity constrained. So, is it outrageous to assume continued DTG2Go growth in the current sort of range, as well as the rest of the group on a year-over-year basis, 5% to 10% plus range for the total company? Or is that too far—am I pushing you too far?

Robert Humphreys

I think it's just too soon for us to tell, quite frankly, about production rates and exactly how the holiday season will play out. But if you look at over the course of the year, we certainly would expect growth in the back half of the year to be at those levels or higher.

Phillip Fogel

At the front end of the year, you're saying you don't—do you have the ability to have that sort of growth? Or you're still capacity constrained, your growth is constrained at a certain level, I don't know?

Robert Humphreys

Yes. We're definitely capacity constrained right now. It will just be how we can match up our production rates with customer needs and all, to see if we're flat or up or a little bit or down a little bit. But we certainly expect, as Deb was saying earlier, to have a solid—our first quarter is our weakest quarter typically in sales and earnings and it starts growing in the second quarter. But anyway, we think we'll get the year off to a solid start, short of some major impact of either the pandemic or other manufacturing.

Phillip Fogel

That's great. Everything is moving in your favor. Capacity constrained with margins dramatically increasing. I think we all can agree that your stock is dramatically undervalued because just looking at private values of DTG2Go, probably arguably worth twice the value of your stock alone. That being said, if the value isn't realized in the stock, would you be willing to sell or spin-off or do some sort of financial restructuring to realize that value? Whether it's selling off—maybe you sell off the rest of the company, to—I don't know, but I'm just wondering if that's on the table currently.

Robert Humphreys

We are always focused on doing what's best for Shareholders, and I doubt there's any two individuals who have more of their personal net worth tied up in Delta stock than Deb Merrill and Bob Humphreys. So trust me, we pay attention to that.

Phillip Fogel

I'm getting there myself, too. But great job this quarter. Thank you very much, and we'll be in touch.

Robert Humphreys

Okay.

Deborah Merrill

Thank you.

Operator

Thank you. We'll take our next question from Chris Reynolds with Neuberger Berman.

Chris Reynolds

Good evening and congratulations on a terrific quarter.

Deborah Merrill

Thank you.

Chris Reynolds

I have a question about the Salt Life retail expansion. It seems like this will be a good opportunity to step up the pace of that. I think if someone like a Tanger or rather retail owners that—there's a lot of capacity

out there. Could you really ramp that retail exposure up faster than what you've articulated on this call over the next year?

Robert Humphreys

Well, it is a little tricky. We don't have deep expertise in retail operations like we do in some of our manufacturing operations and what have you. They are interesting in that they have high fixed costs, high gross margins; but once you cover that fixed cost then they are highly profitable operations. We get that basic math. If you pick bad locations, they're not profitable and you're stuck with it for a while. So far, we've been a little bit surprised at these mall owners' and outlet owners' willingness to negotiate better rent deals so far.

Now so we're having those conversations. But our Salt Life team does a great job of building out a gorgeous store that's well merchandised for not a lot of capital, if you look at what our competitors are spending to do a store. So from a flexibility standpoint, if we can get locations that have the right lease, we could ramp up quicker. We opened a store just a few weeks ago in this fiscal year. That was actually planned last year, but the mall had been shut down some. We've got a couple of budgeted this year, and we'll just have to see how the year goes through.

I have to say, in Delta Apparel we do multiple year budgets. We do quarterly budgets. We do annual budgets. But when we see an opportunity that we think we can take advantage of, we don't wait until the next year to get here to do it. We'll certainly take advantage of that, and continue to be very encouraged at the consumer engagement at Salt Life and how that's expanding regionally, really across the country. The more that expands, the more opportunity we have for expansion of the geographic footprint that we can put a store location in.

Chris Reynolds

Thank you.

Operator

Thank you. At this time it appears there are no questions in the queue.

Robert Humphreys

Okay. Well, thank you very much. We appreciate your interest in our Company, joining the call and your questions. We look forward to talking to you in a few months about our first quarter results.

Thank you very much.

Operator

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