



# Delta Apparel, Inc.

## Fiscal 2023 Third Quarter Earnings Conference Call

### Operator:

Thank you, and good afternoon to everyone participating in Delta Apparel, Inc.'s Fiscal Year 2023 Third Quarter Earnings Conference Call. Joining us from management are Bob Humphreys, Chairman and Chief Executive Officer; Justin Grow, Executive Vice President and Chief Administrative Officer; and Nancy Bubanich, Vice President and Chief Accounting Officer. 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 risk 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 Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. 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'll now turn the call over to Mr. Humphreys.

### Robert W. Humphreys

Good afternoon. Thank you for joining us today and for your interest in Delta Apparel. Before we begin with a review of our third quarter results, I want to once again thank our teams throughout Mexico, Honduras, El Salvador and the United States. I'm extremely proud of the way they have executed on a host of cost, inventory and debt reduction strategies that have been very meaningful to our business and helped us navigate through an extremely challenging operating environment over the last several quarters. Their unwavering commitment to meeting the needs of our customers day-in and day-out is amazing.

Looking at our third quarter results, as expected, parts of our business continued to be impacted by the well-publicized rightsizing of inventory levels across the retail supply chain and our overall sales were down relative to last year's record buying activity and seller's market across the activewear industry. However, we were encouraged to see some preliminary signs that demand in the activewear market has begun to stabilize, enabling us to run our manufacturing plants closer to run rate capacities and setting the stage for improved operating performance in the fourth quarter and into fiscal 2024. I am pleased to report that we continue to see steady progress towards a more normalized cost environment for our business and we were able to work through much of the trailing impacts of last year's historically high-priced cotton flowing through our inventory and cost of sales during the quarter.

Our decision toward the end of last year to curtail production levels to match the lighter industry demand and to purchase less cotton at what were heavily inflated prices proved to be strategically sound and has put us in what we believe is a solid competitive position moving forward. However, it is hard to overstate the impacts that the high-priced cotton and muted buying activity across the activewear industry have had on our operating results. We believe it is essential to isolate these two unique impacts on our business in order to properly understand our operating results both this quarter and year-to-date as well as our positioning for sustainable improved performance going forward. In addition to the obvious margin pressure from a key raw material input like cotton escalating almost 100% above its historical averages, reduced production levels in our vertical manufacturing platform carry significant

non-cash cost impacts from unabsorbed fixed overhead expenses as well as significant cash costs from severance and temporary unemployment benefit payments required in the offshore jurisdictions where we operate. Without these unique cost drivers, our results for the third quarter and for the first nine months of our fiscal year resemble the solid operating performance we achieved in recent years. For example, our gross margins for the quarter were 13.1%, but adjusted for the cost impacts of these events, our gross margins were approximately 22%. Similarly, we reported an operating loss of \$4.5 million for the quarter, but adjusted for the cost impacts of these events, we achieved operating income of approximately \$5.5 million. The good news is that we see both of these unique trends diminishing, although we do expect some expense impacts from them in our fourth quarter results and in the first quarter of our next fiscal year as these expenses roll through cost of sales.

In addition to our decisive action to calibrate our production levels and moderate our inventory build, we also initiated a variety of strategic actions to better optimize our overall cost structure, including the transition of our more expensive production capacity in Mexico, where we have to purchase third party textile fabric. Our lower cost Central American platform served by our own textile manufacturing operations will absorb this production. This transition requires significant reductions in our offshore manufacturing workforce and associated severance benefit payments. We also consolidated the digital print capacity at a legacy facility that we assumed via an acquisition into our national footprint of hybrid print and distribution facilities. We estimate annual run rate cost savings of up to \$6 million from these restructuring activities once fully implemented, but they also carried some significant one-time costs that impacted our year-to-date results and we expect some additional one-time costs to complete certain initiatives in our fourth quarter.

Nancy will provide more detail on our reported and adjusted results in a moment but let me now turn the call over to Justin to walk you through our business highlights in more detail. I'll join them at the end of the call to open things up for questions. Justin?

**Justin Grow**

Thanks Bob.

As Bob mentioned, our teams have admirably executed on a variety of cost, inventory and debt reduction strategies intended to counteract the challenging operating environment we've seen in recent periods and the results of their hard work are evident in our third quarter results. We ended the quarter with an approximately 13% reduction in our inventory from only six months ago in December and expect further reductions as we move through the fourth quarter that should position us to enter the new fiscal year with appropriately balanced inventories. We also ended the quarter with a significant reduction in our long-term debt, which was down 15% from our most recent high, and expect to reduce debt further in our fourth quarter. The cost structure optimization initiatives Bob mentioned, along with our very disciplined spending including less than \$2 million in capital expenditures during the quarter, drove a 16% year-over-year decrease in SG&A expenses for the quarter.

Now turning to our individual business units, our Salt Life business continues to expand its direct-to-consumer footprint, recently opening its first two retail stores in New York and its 24<sup>th</sup> and 25<sup>th</sup> locations across the country. We now operate four Salt Life stores in the Northeast market, including our Rehoboth Beach, Delaware store opened last year and our recently opened location in Long Branch, New Jersey, and see a tremendous runway for growth there. Salt Life's branded retail footprint now extends across nine states including California, Texas, Alabama, Georgia, Florida, South Carolina, Delaware, New Jersey and now New York. Same store sales for the quarter among our stores open at least a full year decreased approximately 3.5%, with the drop due to lower travel to the heavy tourist destinations where we target our retail strategy as well as the suboptimal spring and summer weather conditions in these areas. Our key retail performance metrics such as conversion rate are generally holding steady and we look for our same store sales to return to growth when customer foot traffic picks up.

Salt Life eCommerce sales continued their strong trajectory during the quarter, with over 100% sales growth versus the prior year. In addition, we saw significant double-digit growth in key eCommerce performance metrics such as site traffic, conversion rate, average order value, and units per transaction. Along with Salt Life's growing license

royalty revenue stream, which includes a new home furnishing partnership that we are extremely excited about, the eCommerce channel remains one of the most profitable distribution channels across our entire business. The eCommerce channel also continues to give us great visibility into the Salt Life brand's geographic appeal, which is extremely valuable in planning future retail site locations. Our new retail locations in the Northeast market are an excellent example of our data-driven approach to site selection. In recent years, the eCommerce purchasing activity in New Jersey and New York was consistently among the most active on our saltlife.com site and we look for these store openings to contribute to a market halo effect further driving eCommerce traffic among those visiting these high tourist traffic areas.

As we noted on our last call, we expected the inventory overhang across the retail landscape and the ongoing U.S. consumer uncertainty to impact Salt Life's wholesale channel during the quarter, which they ultimately did. Much like our branded retail footprint, many of our wholesale accounts were also impacted by lower domestic travel activity in the late spring and early summer, particularly Salt Life's dealer base in heavier tourist destinations. All of these factors, coupled with last year's supply chain delays concentrating more shipments and sales in the third quarter, created a challenging third quarter wholesale comp for the Salt Life business. However, for the full year, we anticipate overall sales growth at Salt Life and continued sales growth going forward.

As a final note on the Salt Life business, we were very pleased to see the brand recently featured in the New York Times. The work the team has done to grow this powerful lifestyle brand across the United States and internationally, and to do so profitably, is something we are extremely proud of.

Turning to our DTG2Go business, the team continued to make significant progress on a variety of production efficiency and quality initiatives during the quarter. We completed our goal of standardizing the operating software, ink and humidification systems across our entire fleet of Polaris digital first equipment. This initiative resulted in some necessary downtime and reduced capacity across the locations in our network where we operate this higher print quality equipment, but the consistency and quality gains coming out of this effort should significantly enhance our operating advantages and our go-forward service platform for our digital first customer base.

Our initiative to improve the within-spec production rates on our Polaris equipment also progressed well during the quarter and we continue to achieve record on-quality rates on the Kornit equipment we use outside of our digital first customer base. The increasing usage of Delta Direct blanks by our customer base, which is now on a path for acceleration as we develop more proprietary fabrics and products optimized for digital printing, and the consistency advantages they bring compared to third party garments are key drivers of our improvement in this area.

Our recent initiative to concentrate our digital first strategies primarily on high-usage product sizes and colors has been successful in achieving our consumer satisfaction targets to date. We now serve digital first customers from three of our seven locations across the United States and are working towards re-engaging a fourth location and reincorporating additional sizes and colors into our service offering as we move closer to the holiday season. We also intend to expand the usage rate on our fleece, youth, and big and tall products within our digital first customer base going forward.

Looking at our digital first strategy from a broader perspective, the DTG2Go team's efforts over the last two years to incorporate an entire fleet of state-of-the-art printing technology, which we believe to be the largest and most advanced of its kind in the market, across multiple locations to serve a make-to-order customer base with the highest quality requirements in the industry, and to advance all of the operational and technical initiatives inherent in a strategy of that magnitude, have been exemplary. The scaled multi-technology solutions DTG2Go now offers provide it with another unique competitive advantage in the market as well as another driver in attracting more players across the decorated apparel space to digital, including more retailers, brands and content companies.

DTG2Go also reached an exciting milestone during the quarter by going live with a new proprietary online portal designed to facilitate customer orders for quick turnaround, lower-unit volumes not suited for traditional screenprint and decoration platforms. The new portal allows our wholesale customers to simply log-in, upload an image file, and select desired colors and sizes – which can take only a matter of minutes. From there DTG2Go does

all of the work and delivers within 2 to 3 days. We believe our portal solution is tailor-made for the ad specialty and promotional markets, which is a huge and somewhat untapped market for DTG2Go, as well as small and mid-size customers who do not have enough volume to devote resources to build a dedicated API with DTG2Go as larger customers do. The new portal is also ideal for traditional screenprinters who have orders that they either can't fulfill due to time constraints or don't want to fulfill due to lack of profitability on smaller orders. We anticipate substantial near-term demand creation opportunities among these groups and plan to devote marketing resources to this area in the near term. More broadly, we believe the portal can be another accelerating factor for industry migration to digital print, fueling our overall growth and market share gains.

From a macro-perspective, we continue to strongly believe that the multi-billion dollar decorated apparel market will gravitate to the speed-to-consumer, sku customization, inventory efficiency and other benefits of on-demand digital. DTG2Go, with its unique advantages including market-leading print capacity, a nationwide fulfillment network, proprietary technology and processes developed over 15 years in the digital space, and vertical blank supply through Delta Direct, is best-positioned to capitalize on this digital disruption trend. Given these dynamics and DTG2Go's recent productivity gains and solidifying operating picture, we expect a healthy double-digit sales growth trend and improved profitability at DTG2Go in fiscal year 2024.

Now turning to our Activewear business, which, as a reminder, is organized around three key go-to-market channels: Delta Direct, which provides primarily blank garments to the screenprint, promotional and eRetailer markets as well as retail licensing customers that sell into mass retail supply chains; Global Brands, which provides custom, decorated, retail-floor ready activewear to major brands, sportswear players and the U.S. military; and Retail Direct, which provides decorated apparel to brick and mortar and online retailers. This business has experienced the vast majority of the impacts over the last several quarters from the cotton pricing and production curtailment trends Bob referenced earlier, primarily because it houses our entire vertical manufacturing platform outside of DTG2Go's digital print fulfillment network and serves the channels hit hardest by the over-inventoried environment among mass and mid-tier retailers. However, as Bob indicated, we are now in an improving cost environment and our Activewear business's vertical manufacturing platform is running at levels much closer to capacity. We are encouraged to see more signs that demand in the activewear market, including the retail license channel, may be stabilizing. With our decision last year to minimize our purchases of the high-cost cotton and more quickly get to the point where we are now steadily seeing more normalized cotton cost in our inventory, we believe our Activewear business is well-positioned to take advantage of market improvements and close out our fourth quarter and move into fiscal year 2024 with steadily improving operating performance.

Let me now pass it over to Nancy for a review of our financial results.

**Nancy Bubanich**

Thanks Justin.

Before we get into our financial results, please note that we will discuss a variety of financial measures that are adjusted to account for the costs impacts of the production curtailment activities, inflationary cotton, and strategic initiatives Bob referenced earlier, including non-GAAP measures such as adjusted gross margins, adjusted operating income, and adjusted net income. We believe it is important to evaluate our operating results this quarter and year-to-date in light of the impacts of these unique events. Listeners may access a reconciliation of those measures to gross margin, operating income and net income, the most directly comparable GAAP measures, on the investor relations page of our website at [www.deltaapparelinc.com](http://www.deltaapparelinc.com).

For the third quarter ended July 1, 2023, net sales were \$106.3 million compared to prior year third quarter net sales of \$126.9 million. Salt Life Group segment net sales were \$17.2 million compared to prior year third quarter net sales of \$20.9 million, with the year-over-year comparison skewed by significant sales occurring in the prior year third quarter due to transportation delays. Net sales in the Delta Group segment were \$89.1 million compared to \$106 million in the prior year third quarter.

Gross margins were 13.1% compared to 24.2% in the prior year period, driven primarily by the production curtailments and inflationary cotton costs. Adjusting for these production curtailment and cotton cost impacts, third quarter gross margins were 22.7%. Delta Group segment gross margins for the quarter were 5.9% compared to 19.1% in the prior year period; however, adjusted for the production curtailment and cotton cost impacts, Delta Group segment gross margins were 17.4%. Salt Life Group segment gross margins for the quarter increased 30 basis points to 50.5% from 50.2% in the prior year period.

SG&A expenses declined favorably to \$18.5 million from \$22.4 million in the prior year third quarter, while SG&A as a percentage of sales was down favorably to the prior year period at 17.4%.

Operating income declined year-over-year from \$9.3 million, or 7.3% of sales, to an operating loss of \$4.5 million, or (4.2%) of sales. However, adjusting for the production curtailment and cotton cost impacts, third quarter operating income was \$5.8 million, or 5.5% of sales. Delta Group segment operating income for the quarter declined from \$10.7 million to a loss of \$3.6 million; however, adjusted for the production curtailment and cotton cost impacts, Delta Group segment operating income was \$6.7 million, or 7.5% of sales. Salt Life Group segment operating income for the quarter was \$1.6 million, or 9.6% of sales, compared to \$3.5 million and 17.2% of sales in the prior year period.

Net income declined from \$6.2 million, or \$.88 per diluted share, to a loss of \$6.3 million, or (\$0.90) per diluted share. However, adjusting for the production curtailment and cotton cost impacts, third quarter net income was \$1.2 million, or \$0.17 per diluted share. Net income for the quarter was also significantly impacted by the elevated interest rate environment, with our interest expense for the quarter essentially doubling over the prior year quarter.

Net inventory as of July 1, 2023, was \$226.2 million, a sequential decrease of almost \$30 million from December 2022 and generally flat year-over-year with inventory of \$227.6 million at June 2022. Our inventory decrease was a product of our team's excellent execution on a high-priority reduction initiative.

Total net debt, including capital lease financing and cash on hand, was \$166.2 million as of July 1, 2023, an approximately 15% reduction from \$194.3 million at March 2023 and a slight increase from \$162.4 million at June 2022. Cash on hand and availability under our U.S. revolving credit facility totaled \$14.3 million as of June 2023, a decrease of \$12.9 million from December 2022 and \$16.5 million from June 2022, with the decrease from December 2022 principally driven by investments in the business to support working capital needs as well as higher interest expense.

We spent approximately \$1.5 million on capital expenditures during the third quarter compared to \$5.5 million during the prior year third quarter, with the expenditures focused on Salt Life retail store buildouts as well as facility and information technology enhancements.

For the nine-month period ended July 1, 2023, net sales were \$323.9 million compared to prior year period net sales of \$369 million. Salt Life Group segment net sales were \$46.5 million compared to prior year period net sales of \$46 million. Net sales in the Delta Group segment were \$277.5 million compared to \$323 million in the prior year period.

Gross margins were 13.5% compared to 23.6% in the prior year period, driven primarily by the production curtailment and cotton cost impacts coupled with the impacts of the strategic actions we undertook to better optimize our overall cost structure. Adjusting for the collective cost impacts of the production curtailment, cotton, and strategic actions, gross margins were 22.7%. Delta Group segment gross margins were 6.5% compared to 19.6% in the prior year period; however, adjusted for the collective cost impacts of the production curtailment, cotton, and strategic actions, Delta Group segment gross margins were 17.2%. Salt Life Group segment gross margins increased to 55.4% from 51.6% in the prior year period.

SG&A expenses declined favorably to \$56.7 million from \$59.6 million in the prior year period, while SG&A as a percentage of sales increased from 16.1% to 17.5%.

Operating income declined year-over-year from \$29.5 million, or 8% of sales, to an operating loss of \$12.4 million, or (3.8%) of sales. However, adjusting for the collective cost impacts of the production curtailment, cotton, and strategic actions, operating income was \$20.5 million, or 6.3% of sales. Delta Group segment operating income declined from \$33.6 million to a loss of \$11.0 million; however, adjusted for the collective cost impacts of the production curtailment, cotton, and strategic actions, Delta Group segment operating income was \$22.0 million, or 7.9% of sales. Salt Life Group segment operating income was \$6.6 million, or 14.1% of sales, compared to \$7 million, or 15.3% of sales, in the prior year period.

Net income declined from \$20 million, or \$2.84 per diluted share, to a loss of \$16.8 million, or (\$2.41) per share. However, adjusting for the collective cost impacts of the production curtailment, cotton, and strategic actions, net income was \$7.2 million, or \$1.02 per diluted share, for the nine-month period. Net income for the first nine months was also significantly impacted by the elevated interest rate environment, with our interest expense for the period essentially doubling over the prior year period.

Now I'll turn the call back over to Bob.

**Robert W. Humphreys**

Thanks Nancy.

With the two broad-based cost trends materially impacting our business over the last several quarters now more in our rearview mirror and our manufacturing platform running closer to capacity, we believe we are well-positioned to capitalize on the early signals we are seeing of improving market conditions. The decisive and strategic actions we have taken to right-size our cost structure, manage our inventory to the current demand environment, and reduce debt should provide significant benefits going forward. We expect to see steady improvement in our operating results as we close out our fourth quarter and move into our next fiscal year. For fiscal year 2024, we currently anticipate net sales in a range of \$410 to \$425 million generating operating profit margins of 3.25% to 4.25%, with gross margins sequentially increasing into the low-to-mid 20's and improving operating profit margins beginning in the second quarter as well as revenue growth in the back half of the year.

Delta Apparel remains in excellent position to take advantage of favorable changes in demand as they arise across our five go-to-market channels and we will look to further expand our customer and channel reach as we seize on the many opportunities created by our highly diversified operating model. Our balance sheet is steadily improving and we remain keenly focused on growth, profitability, and above all, creating value for shareholders for many years to come.

And now operator, you can open up the call for any questions we may have.

**Operator**

Thank you. (Operator Instructions).

Your first question comes from the line of Dana Telsey from Telsey Advisory Group. Please go ahead.

**Dana Telsey**

Hi, good afternoon, everyone. Nice to see the progress. A couple of questions. As you think about the business, excluding the production curtailment and cotton costs, does this go on for the next three quarters? When do you anniversary it? How do you think of when it's a steady state?

When you talked about the—next question about when you think about 2024, you just mentioned gross margins in the low to mid-20s. The operating margin, obviously, low-single digits. Given that, how are you thinking about SG&A? Or is there some variability so that there can be room for more leverage to maybe get that operating margin higher? Would it be unreasonable to think that if all things went well, could it be a mid-single digit operating margin? Thank you.

**Robert W. Humphreys**

Yes. Certainly, in looking into next year, we're looking at where we have cotton fixed, and where we see that marketplace going. We also look to see at what rates we expect to run our manufacturing facilities while continuing to reduce inventory. Obviously, we continue to comb our Company and look for savings and efficiency gains, and SG&A costs. We'll continue to work on that as the year progresses and certainly don't think mid-single digit operating profits as we progress through the year are out of the question.

**Dana Telsey**

Thank you. Then when do you anniversary the product costs that we talked about and the changes there, the production durtailment, and the cotton costs, when does that normalize? How are you planning interest expenses going forward?

**Robert W. Humphreys**

Each really month now, we're getting to lower cost production, lower cost raw materials—it will be into our second quarter before what we would say is more completely normalized raw material costs flowing through our cost of sales. We are receiving and starting to process materially lower priced cotton in our manufacturing operations. That will continue as the year goes on.

**Dana Telsey**

Got it. Just lastly, can you expand on the demand improvement that you're seeing, particularly in activewear, which customer bases, how you're thinking about holidays right now? At what capacity are the facilities now running? Thank you.

**Robert W. Humphreys**

We'll be running our facilities as we go into our first fiscal quarter and the remainder of our fourth quarter at probably about 90% of what we consider normal manufacturing output. We expect to continue to decrease inventories as we progress through fiscal 2024. I would say most of our channels are showing improvement in demand with the exception of our global brands where that customer base—their demand held because we had pre-booked business and they took the orders that were on the books with us. But they're, as you hear all of their calls, obviously working on reducing their inventory levels. That business is slower, and we expect it to be slower through most of fiscal '24.

**Dana Telsey**

Thank you.

**Operator**

Thank you. (Operator Instructions).

Your next question comes from the line of Samuel Johnson from Johnson Investments. Please go ahead.

**Samuel Johnson**

Yes, good afternoon. Can you, first of all, give us an update on the Fanatics business?

**Robert W. Humphreys**

Yes. Happy to do that. As I'm sure you're probably aware, during the last quarter, we went through all of our production facilities that house our new Polaris equipment and reset all of that. We received that equipment. There's 13 unique pieces of production equipment over a period of probably 2.5 quarters, and they were not all exactly the same. We needed them to be all exactly the same to meet the production requirements that we needed to meet, and Fanatics was asking us to meet. That process went well, and we completed that on time and feel very good about how that equipment is now set up and everyone on the same art system and everyone on the same ink system and everyone on the same version of software that's running the various pieces of equipment.

Our consistency and quality has improved dramatically. We have also limited what types of products that we will print on as we work on customer satisfaction, our customer being Fanatics and their end customer as well. That has progressed well. We started that production back up a little ahead of schedule. We never completely shut down manufacturing output at our Phoenix facility. We next started up our Cranberry, New Jersey facility. We are now starting up our Dallas, Texas facility. In the coming months, we'll be starting up our Fayetteville, North Carolina facility and would expect to go into next holiday season running all of our equipment at the pace that we so choose to do with labor availability and order demand.

**Samuel Johnson**

That's great. Are we looking at the substantial demand from Fanatics taking until the second half of 2024 or even 2025? Or could it be sooner than that?

**Robert W. Humphreys**

Well, I think it can be sooner than that. I think Fanatics has demand, and they work with us about restarting equipment and the pace that we want to do that and that they want us to do that. But I think Fanatics has solid demand, its seasonal. The summer is really the slowest period of time. But as the NFL kicks off, particularly regular season, then their demand starts picking up and runs through, obviously, NBA basketball playoffs and that sort of thing.

**Samuel Johnson**

Great, and obviously, you will have the capacity to meet the demand should it come, right?

**Robert W. Humphreys**

I think Fanatics will have more demand than we have capacity. They have a great site and a lot of content out there, and we'll manage that together about what types of products and the capacity that we can run that and meet the other criteria of time to delivery to their end consumer and quality and what have you.

**Samuel Johnson**

Then talking also about capacity, there's been obviously a lot of angst build about the whole reshoring effect. If there is a substantial reshoring that really happens, especially from garment manufacturing in China, do you expect that—or I should start with—do you see that trend happening or is it still more conversation at this point, and companies wanted to hedge their bets but not actually move into production yet?



**Robert W. Humphreys**

I'd say a year to 18 months ago, we actually saw companies moving production to this hemisphere. We've seen that slow up a good bit with just the effects of business in the last three or four quarters. I'd say pricing out of Asia has dropped pretty dramatically. It will be interesting to see exactly where this trend goes in the ensuing quarters when raw material pricing around the world gets back to a more normalized level, and hopefully, demand gets back to a more normalized level.

**Samuel Johnson**

Great. Then finally, just on the balance sheet, obviously, you're lowering your inventory, and we talked about the SG&A. No need I assume, to be raising cash at this point?

**Robert W. Humphreys**

That's correct.

**Samuel Johnson**

Okay. Thank you.

**Robert W. Humphreys**

Thank you.

**Operator**

Thank you. Your next question comes from the line of Lynn Perry from Wilen Management. Please go ahead.

**Lynn Perry**

Hi, how are you doing?

**Robert W. Humphreys**

We are good. Hope you are.

**Lynn Parry**

I am. Thank you very much. I have a couple of Salt Life questions. You opened a few stores up north, Rehoboth last year, in New York and New Jersey this year. I was wondering how these stores are doing relative to your other stores. How it impacts your future strategy and the new store locations?

**Robert W. Humphreys**

Sure. We've been extremely pleased with those four stores. We are now anniversarying a year in Rehoboth Beach and are seeing continued growth out of that location, which has again performed very well. One of our New York stores, actually, we did a soft open on a Saturday, and it was our largest single-store sale day in our history. There's been a lot of demand in the New York area. We had good shipping data from our e-commerce sites about the New Jersey and New York population gravitating to Salt Life and buying our products. We've been really happy in all four of those locations as they started out.

**Lynn Parry**

Okay. Well, Salt Life's a great lifestyle brand and so many want to tag along with you. You announced a partnership with Furniture Manufacturers. Given that royalty income is a 100% profit, it would be exciting to see these partnerships in the future. Is it easy to envision a Salt Life sunscreen and other products within the fishing and clothing industries? Can you talk about the possible other industries targeting you?

**Robert W. Humphreys**

We get a lot of inquiries about partnering with us, and people want to leverage the Salt Life brand. We're extremely careful in that arena. A, it needs to move the needle for us. B, we need to understand what the distribution will be and probably most importantly, we need to think about how our consumers will resonate with that product or not. Our mantra there is do no harm. Not taking on the license might defer a little bit of royalty income. But what we certainly don't want to do is end up associating with a product or a brand that really doesn't resonate with the Salt Life customer and maybe turns them off on our product or lifestyle approach.

**Lynn Parry**

Okay, all right. Thank you very much.

**Operator**

Thank you. Mr. Humphreys, there are no further questions at this time. Please proceed.

**Robert W. Humphreys**

Okay. Well, thank you all for joining the call today, and we look forward to a further update at our year end and certainly going into the next fiscal year. Thank you.

**Operator**

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may all disconnect.