



Delta Apparel, Inc.

Fiscal Year 2019 Second Quarter Results Earnings Conference Call

Operator:

Thank you and good afternoon to everyone participating in Delta Apparel's Fiscal 2019 Second Quarter 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-Q and Form 10-K. 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 Delta's Chairman and Chief Executive Officer, Bob Humphreys.

Robert Humphreys:

Good afternoon and thank you for joining us on our Fiscal 2019 Second Quarter Earnings Call. I'll briefly discuss our business results along with a few key highlights that showcase while we continue to believe Delta Apparel remains positioned for more growth and then turn the call over to our CFO, Deb Merrill, for a more detailed discussion of our financial results.

We are pleased to report another quarter of top line growth with overall sales of almost \$103 million, representing a year-over-year increase of 3%. Our Delta Group segment results were once again bolstered by triple-digit sales growth in our digital print business, DTG2Go. Our Salt Life Group segment was not immune to the unfavorable cold and wet weather to start the spring season as well as this year's later Easter holiday season pushing out the spring break selling period. These factors lead to a year-over-year sales decline in this segment of 4%.

However, as expected, Salt Life sales have picked up to start our third quarter with the arrival of more spring-like weather in busy break period occurring earlier in the third quarter. We achieved 4% sales growth in our Delta Group on the strength of 177% sales growth at DTG2Go. As I mentioned on our last call, calendar 2018 was a foundational year for a digital print business, has included multiple strategic acquisitions and significant investments in new facilities, increased capacity, and technology systems.

This enabled us to further enhance our relationships with customers, thinking a flexible multiple location printing and fulfillment partner that can timely deliver high quality products. That momentum has continued into this year as more and more players in the apparel industry see the obvious benefits from our unique virtual inventory model.

We believe that digital printing is revolutionizing how garments are printed and delivered to the end consumer and DTG2Go continues to leave that trend with the most comprehensive on-demand solution in the world. DTG2Go's nationwide print and fulfillment network and state-of-the-art production capabilities currently facilitates the printing of over 70,000 unique graphics per day. That number will soon reach 90,000 graphics per day once we go live with new equipment on order. We're excited to be the first to market with a breakthrough polyester digital printing technology developed by our key equipment supplier, Kornit Digital.

Polyester-based performance apparel and activewear continue to become a larger piece of the overall apparel market, and we are seeing increasing demand for quick-turn decorated polyester garments. With this new technology, we will soon have the ability to deliver individualized and small-run prints on a variety of polyester fabrics typical of the quality levels our customers demand. We believe this can be a real game changer for both DTG2Go in the overall digital print market.

The increasing size of our DTG2Go business through both acquisitions and organic growth is allowing for more purchasing leverage and scale efficiencies, and we continue to differentiate ourselves in the market through close integration with our activewear vertical manufacturing platform. Activewear's reliable, low cost supplier of T-shirts, tanks, fleece, and shorts is a true competitive advantage for DTG2Go, and we continue to see digital print customers migrate to these garments.

A key tenant of our digital print strategy and really the overall strategy for our Delta Group segment is the speed at which we can ship finished garments to end consumers. With a planned opening of two new facilities this year, one in Dallas, Texas, and one in Cranbury, New Jersey, DTG2Go will be further increasing its speed to market and elevating its customer service levels with two-day shipping to almost all U.S. consumers and one-day shipping to about half of all U.S. consumers.

We remain extremely optimistic about the growth potential of the digital print market, both here in the U.S. and globally, and we enter the third quarter with good momentum to grow with existing customers and began ramping up with several new customers. As I mentioned on our last call, the recent success we have seen with a national brick-and-mortar retailers early adoption of the DTG2Go virtual inventory model confirms the wide space we see for digital print for both in-store and e-commerce purchases by consumers.

We're pleased to see that new channel continue to validate the DTG2Go model with our launch of another store chain during the second quarter and the expected launch of another customer in that channel in the third quarter. We see expansion opportunities across multiple sales channels outside of DTG2Go's traditional customer base, including not only brick-and-mortar retailers, but also traditional screen printers, promotional product providers, and large brands.

As a reminder, we ended Fiscal 2018 with DTG2Go revenues of approximately \$27 million. Year-to-date in Fiscal 2019, we had more than double the business, which places us well on track to achieving our full year goal of nearly \$60 million in revenue. We remain confident of this business and expect it to quickly grow to \$100 million in revenue with healthy double-digit operating margins. We have added valuable debt to our organizational structure and management team at DTG2Go to support this growth.

Turning to the other parts of our Delta Group segment, at activewear, we delivered another quarter of growth in our catalog business. We feel good about the overall market conditions in that core business, and customer inventory levels appear to be in good sync with overall market demand. We experienced another strong quarter in the regional screen print channel, and we're pleased to see continued momentum on our B2B site with another quarter of double-digit growth in this highly profitable channel of our activewear business.

The successes we are seeing with new product development in our activewear business and really across our Company as a whole continues. We achieved another quarter of double-digit growth in our catalog fashion basics products driven from expansion of our Delta Platinum collection. To better frame

this, in Fiscal 2016, fashion basics represented about 8% of our catalog business. That percentage jumped to 21% in Fiscal 2018, that's a compound annual growth rate over the last two years of 63% in our highest margin garment category. This growth continues in Fiscal 2019 with fashion basics representing about 27% of the catalog business today.

Our activewear business vertical manufacturing platform continues to make steady costs and efficiency gains and realizing the benefits of the various quality initiatives we've implemented. We also recently increased our selling capacity to meet the healthy demand we are seeing for our products and expect to leverage our fixed costs in connection with the production ramp up as we move through the year. On the distribution side, we're planning to expand the activewear distribution footprint this year with another integrated facility combining our digital print business with our catalog blank garments similar to the combined facility in the Miami area with which we've had great success.

Turning now to our FunTees business. We highlighted on our last call that we've been broadening our customer base and with this customer expansion, as well as shifts and preferences within our existing customer base with respect to garment fabrication sizes and silhouettes, we are seeing a markedly different average selling price per garment. We were pleased to FunTees achieved double-digit growth in unit cell during our second quarter and we anticipate a record number of units sold in our third and fourth fiscal quarter.

As we discussed on prior calls, during the first half of this year, we began shipping to several new private label customers that were onboarded in late Fiscal 2018, and those launches carried startup costs associated with the new fabrications and silhouettes. These startup costs are now principally behind us and we expect to benefit from expanding programs with these customers and more new customers as the year progresses.

We also continue to see opportunities for FunTees to expand into new private label channels including retail direct, which could further leverage other parts of the Delta Group platform such as catalog's fashion basics products, DTG2Go's digital print capabilities, and Soffe's screen print platform.

From a longer-term perspective, we believe that dynamics in the private label market will continue to remain favorable to platforms like FunTees that are compliant, flexible and the product and retail ready services they can provide and importantly close to the United States market with nationwide distribution coverage.

Finally, within the Delta Group an update on our Soffe brand, similar to my other earlier comments on Salt Life, Soffe was also not immune to the unseasonably early spring weather, which particularly impacted Soffe shorts programs. We were very pleased to see another quarter of strong e-commerce performance across Soffe's B2B and B2C site resulting in double-digit growth in both channels year-to-date.

Soffe's e-commerce growth shows the brands continue consumer awareness, and we believe general market trends favor heritage brands like Soffe. Soffe continues to capitalize on it strength in providing core athletic wear and is off to a good start in the third quarter with solid momentum into strategic sporting good, department store chains and has some exciting new opportunities in the military channel.

Soffe's domestic screen print platform continues to play a valuable role in our ability to win decorated retail programs, and we continue to see interest from the market and the decoration solutions Soffe's screen print platform, DTG2Go's digital printing capabilities, and a hybrid technology combining screen print and digital print offer from our Fayetteville, North Carolina campus. We also continued to make progress, integrating Soffe into our lower cost structure of our activewear business and remain optimistic that we will grow the Soffe business as this year unfolds.

Moving to the Salt Life Group, on the heels of a strong double-digit sales growth in the first quarter and a good start to the year, we fell short of our expectations in the second quarter with sales declining 4% year-over-year. The cold spring weather in key markets and the late Easter holiday and spring break selling period that we previously mentioned directly impacted the quarter's results. However, spring order

replenishments and overall sales at Salt Life have picked up across the entire business to start the third quarter, and we believe the good velocity we are seeing will continue and we'll achieve our full year plans for double-digit sales growth at Salt Life.

During the quarter, Salt Life continued to see more encouraging growth with new national retailers as they expanded into additional product categories. The Salt Life team is focused on acquiring retail floor space and point-of-sale displays within key accounts as well as growing independent account base. We remain encouraged by the successful product tests with several large regional retailers outside of Salt Life's traditional markets and look for that channel to become a larger piece of the overall Salt Life business. Salt Life's recent destination is Ron Jon Surf Shop Lifestyle/Surf Vendor of the Year for 2018 is a testament to the team's ability to successfully partner with key retailers. Awards of this nature or some of the highest praise we can receive from a customer, and we believe it speaks both to the Salt Life product offerings and its overall approach to customer service.

We were again pleased to see continued strong growth of higher price points of Salt Life performance product during the quarter both in our own branded retail stores and across our wholesale partner base. We are also happy with the continued diversification of Salt Life sales mix with women's products and accessories gaining traction and growing as the overall percentage of the sales mix.

Salt Life like continues to prioritize its branded brick-and-mortar retail strategy and currently operates six stores. The two most recent scores in Daytona Beach and Tampa, Florida are performing well, and a new branded Salt Life store should open in the Orlando, Florida market this summer. We also have plans to open several additional stores in the South Florida market later this year, and the team remains focused on executing our plan to expand the Salt Life retail footprint over the next three years in a controlled manner.

Our saltlife.com e-commerce site was also impacted by unseasonably cold weather this spring and the later spring break selling period. However, similar to the balance of the Salt Life business, we've seen a nice pickup in store traffic and demand during the third quarter. Last week, we converted saltlife.com to a platform that is more mobile-friendly, much faster, and it will deliver an enhanced customer experience. We expect these investments to drive increases on the Salt Life site, and we are confident we can deliver on our goal to grow in this part of the business by nearly 20% in Fiscal 2019.

The expansion of Salt Life Lager, the brand's craft beer, continues with its entry into the Georgia market during the quarter. Salt Life Lager will soon be in additional southeastern markets from the market response we've seen to-date, we believe Salt Life Lager is on target to grow well beyond its current retail footprint. We see that growth in distribution serving as a valuable driver of consumer brand awareness as well as a nice revenue enhancer. We're also encouraged by the market response to the new Salt Life ladies swimwear line and successful expansion of the Salt Life licensed restaurant with the business in the new Salt Life Food Shack recently opened in Fernandina Beach, Florida.

To summarize, we are pleased to deliver top-line growth in the second quarter and see continued strength in our fast growing digital print business, DTG2Go. We were also encouraged by the trends in our activewear business favoring our expanding line of higher margin fashion garments, the strong sales growth in our B2B side, and the double-digit unit growth of our FunTees private label business during the second quarter, all of which we see as strong indicators of future success. While our Salt Life business was challenged in the quarter, we are on track for a successful third quarter and are highly optimistic in the long-term growth path for the Salt Life brand.

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

Deborah Merrill:

Thank you, Bob. As Bob noted, despite challenges from weather conditions and the later spring breaks selling season, we are pleased to have delivered another quarter of solid sales performance led by our Delta Group segment and more specifically, our DTG2Go business. As we anticipated, our gross margins

expanded sequentially from the first quarter, but as expected, we did experience some year-over-year retraction and profitability due to the higher cost raw materials flowing through our cost of sales and the increased costs from changes in our private label product mix.

In addition, we also encouraged some unplanned expenses associated with the integration of our recent digital print acquisitions. These costs impacted both our gross margin and bottom line performance, which I'll discuss in a moment. We feel confident, however, that the majority of these excess costs are now behind us, and we are pleased with what we're seeing on the cost side of the business so far in the third quarter.

I'll now provide details on our second quarter performance. Net sales were \$102.8 million, up almost 3% from \$100 million in last year's second quarter. This growth was driven by an approximately 4% increase in our Delta Group segment, which was led by the continued strong triple-digit growth in the DTG2Go business and was partially offset by a 4% decrease in our Salt Life Group segment. Notably, the growth at DTG2Go was driven not only by the recent acquisitions but also by organic growth in excess of 15% over the prior year.

Gross profit for the second quarter was \$18.9 million, down \$3.3 million from the prior-year quarter to 18.4% of sales, a slight sequential improvement from 18.3% in the first quarter. As I mentioned, we anticipated some additional cost this quarter as we work through the private label product transitions and the higher cost raw materials running through our cost of sales.

We did, however, experienced some unanticipated excess costs associated with a digital print business, stemming from operating all of the new facilities post-holiday and the shutdown of one of the non-strategic facilities. In addition, the lower than anticipated sales in the higher margin branded businesses also hurt our overall gross margins. We believe we have absorbed the majority of these relatively unique cost drivers and expect to see gross margins back above 20% in the second half of the year.

SG&A expenses as a percentage of overall sales was 16.6%, an improvement of 10 basis points versus last year. Operating income was \$2.8 million, compared to \$5.6 million in the prior-year's second quarter with the decrease attributable to the higher cost drivers I mentioned, as well as the lower sales in the Salt Life Group segment. We expect to see increased profitability in the back half of the year as we enter our stronger selling season with an even more robust product line and what we think will be a better balance between selling prices and raw material costs.

Delta Group segment operating income declined \$2.4 million over the prior year, and Salt Life Group segment operating income declined \$100,000 over the prior year. Net income for the quarter was \$0.9 million or \$0.13 per diluted share, compared to \$3.6 million or \$0.48 per diluted share in the prior-year period.

Now, turning to our year-to-date performance, for the first six months of Fiscal 2019, net sales were \$204.5 million, up 7.4% from \$190.3 million in the first six months of Fiscal 2018. This growth was driven by an 8.2% increase in our Delta Group and 1.5% increase in our Salt Life Group.

Gross profit for the first six months was \$37.5 million, down \$1.1 million from the comparable period last year and gross margins declined to 18.3%, compared to 20.3%, with the declines largely driven by the factors I discussed regarding our second quarter results.

SG&A expenses as a percentage of overall sales was 16.5%, an improvement of 20 basis points versus last year. Our team continues to do a good job managing costs in this area, and we like the trends we are seeing in SG&A.

Operating income was \$2.9 million, compared to \$7.4 million in the first six months of Fiscal 2018, with a decrease attributable to the higher cost in the second quarter we already discussed, along with a discreet expense of \$2.5 million taken in the first quarter in connection with the resolution of litigation stemming from The Sports Authority's March 2016 bankruptcy.

Delta Group segment operating income was impacted by the litigation expense and declined \$4.1 million over the prior year, while Salt Life Group segment operating income was relatively flat compared to the prior year. We experienced a net loss for the period of \$209,000 or \$0.03 per diluted share, an improvement over the prior-year period loss of \$6.3 million or \$0.87 per diluted share. However, excluding The Sports Authority bankruptcy litigation expense, the Company achieved net income of \$1.9 million or \$0.27 per diluted share for the first six months.

Now, turning to the balance sheet. With regards to cap ex, our total spending for the first six months of Fiscal 2019 was \$3.7 million, with \$1.9 million coming in the second quarter. This spend was principally related to additional printing and other equipment, direct-to-consumer and distribution initiatives, and IT system enhancements.

Depreciation and amortization including non-cash comp for the first six months of Fiscal 2019 was approximately \$7 million, with approximately \$3.4 million in the second quarter. Regarding our share repurchase activity during the quarter, we repurchased about 35,000 shares of our common stock at an average price of \$20.27 per share for a total cost of about \$717,000. As of quarter-end, we had approximately \$9.9 million remaining approved for share repurchases under our program.

Cash used for operations during the first six months was about \$8.3 million, compared to \$5.5 million in the prior year. Total inventory at March was \$186.5 million, compared to \$172.2 million a year ago. The increase was primarily due to the increased units on hand from our recent digital print acquisitions and broadened fashion basics line, as well as higher cost per unit driven by our product mix and the inflationary costs environment. We anticipate our inventory to decrease over the next two quarters and to end the fiscal year lower than the prior year-end.

Total debt including capital lease financing at March was \$143.9 million, up \$32 million from September, due principally to our recent digital print acquisition, capital expenditures, share repurchases, and our seasonal build in inventory. We expect debt to decrease as the year progresses into end of the year with total debt including capital lease financing of about \$125 million.

Before turning the call back to Bob, I wanted to give some insight into our anticipated results for our third quarter and second half of the year. We look for more top line growth on the strength of DTG2Go's continued expansion and a strong second half at Salt Life. We also look for profitability to accelerate as we progress through the second half and to finish the year with strong bottom line growth driven by the sales growth in our higher margin products and a better balance between selling prices and raw material costs in the activewear business.

Now, I'll turn the call back to Bob for his final comment.

Robert Humphreys:

Thanks, Deb. While parts of our business were challenged during the second quarter, we continued to believe that we are uniquely positioned to compete and grow in today's dynamic retail environment. We're off to a good start in our third quarter and believe we are poised for more growth during the year on the strength of our diversifying customer base in the expanding sales channels.

We're also excited about the advantages we are creating to investments in technology, direct-to-consumer initiatives, and our unique end-to-end manufacturing and distribution platform. In addition, our core activewear business continues to gain market share and provide a steady profitable platform to support our higher growth businesses, and we have further solidified our leading position in the digital print and lifestyle spaces with our DTG2Go and Salt Life businesses.

Before I close, I'd like to thank all of our teams for their hard work and dedication to Delta Apparel and our mission to build value for our shareholders. We now have about 8,000 associates spread across four countries, and they continue to drive our success as a Company as we focus on quality products, exceptional service, and speed to market.

Justin, you can now open up the call to any questions we may have.

Operator:

Thank you. If you would like to signal with questions, please press star, one on your touchtone telephone. If you joining us today using a speaker phone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that will be star, one if you would like to ask questions, star, one.

Our first question today will come from Dave King with ROTH Capital Partners.

Dave King:

Thanks. Good afternoon, Bob and Deb.

Deborah Merrill:

Hey, good afternoon.

Robert Humphreys:

Hey, Dave.

Dave King:

Hey. First off, maybe on the guidance for the increased profitability in the second half, is that an increase versus the first half of this year, or is that on a year-over-year basis, and then by when should we start to expect you to be able to work through the drag from the higher cotton prices?

Deborah Merrill:

I would say the increased profitability should be certainly over the first half, which seasonally it usually is, but also improved profitability over the prior year in the back half of the year. As we had talked about as far as the higher raw material cost, our highest cost flowed through our P&L in the March quarter. We still have slightly higher that we'll still have to work through, but the biggest impact of that was really hitting us in the March quarter that we've just completed. So, the back half, we should see a better balance of our costs with our selling prices and not be impacted on the gross margin like we were in the March quarter.

Dave King:

Okay, and then to be clear then, do you expect to get that profitability improvement on a year-over-year basis in the June quarter as well, or is it just for the full second half?

Deborah Merrill:

We would look to see it coming in the June quarter already certainly over the course of the back half, but I would say that there's certainly opportunity B2B seeing that already in the June quarter.

Dave King:

Great. Then for the quarter, Deb, do you have with the dollar or the gross margin or the EPS impact was from the one-time integration costs they experienced kind of side somehow?

Deborah Merrill:

Yes. It's slightly under about—under 1% on the gross margin line. Not quite that high, but in that range.

Dave King:

Okay. That helps. And then I'm coming up with sort of a mid-single-digit organic revenue decline for Delta Group. I guess, first, is that accurate? Then is there anything you can share on how the catalog and private label businesses performed in the quarter?

Deborah Merrill:

Yes, so the Delta Group segment was up 4% during the quarter. If you look at activewear, activewear itself was down, the catalog business was up, but overall it was down driven by the private label, which as we noted the sales dollars we knew were going to be down, but we did then see the double-digit unit increase in that private label business.

Dave King:

Okay. So, then how should we be thinking about the trajectory for that business going forward then in terms of the private label, or are you feeling better now then, after that transition, or where do things stand with that?

Deborah Merrill:

Yes, I think from the sales dollar standpoint, that business is going to be off on sales dollars as we progress through the year, but certainly we're going to have record units and be up significantly in the units on the private label business, but equating that to sales dollars, we're probably looking at that business still being down in the second half of the year as well.

Dave King:

Okay. And then one more from me, and I'll step back. Looks like Salt Life just got a new relationship with a national team focus specialty retailer. Anything you can share there on size of that relationship. Is it just a test for now? Is it just online? Are you going to be in a certain number of doors? Any thoughts?

Robert Humphreys:

It will be online, and indoors it's a primarily ladies and swim right now, and I would still call it in a test environment, but they're reordering product through the normal course of business right now.

Dave King:

Great. Good to hear. All right. Thanks for taking all my questions, and good luck with the rest of the year.

Robert Humphreys:

Thank you.

Deborah Merrill:

Thank you.

Operator:

Once again, if you would like to signal with questions, please press star, one. Again, star, one if you would like to ask questions.

Our next question comes from Jamie Wilen with Wilen Management.

Jamie Wilen:

Hi there. Could you talk a little bit about DTG2Go the polyester garment printing? Who else is doing it in the world, is it a different margin business? How different is it than your existing business in digital printing?

Deborah Merrill:

Yes, I'll take that one Jamie. It is a brand new technology that literally was just launched in the March quarter. We were the first one out there. We tested that machine and actually did purchase one of those. So, the first to take it to market. We are still very early on in the stages of getting that off the ground with the customers, obviously it's been the thing that's been long awaited for about the last five years, it's brand new out there. The cost structure of it is higher than regular digital print, but so is screen printing on polyester. We think it's going to get some nice traction in the marketplace as we continue throughout the end of this year. We have a lot of customers. I'm really looking at that to launch either new customers that just want it for polyester as well as existing customers that want to add polyester to their product line. We're highly encouraged with where this could go over the next couple of quarters.

Jamie Wilen:

The machine is now cranking at volume, or you're still in the test phase?

Deborah Merrill:

It is still in the test phase where we are doing sampling for new customers and getting it all launched and integrated.

Jamie Wilen:

Okay. Obviously, this is your slowest quarter for DTG2Go. I think the question was this, how much was the integration expense? And I don't know exactly if you said the answer, but what was the expense and what's the expected benefit? What were you doing to consolidate operations there?

Deborah Merrill:

Yes, a lot of that, Jamie, there is the integration of getting on the similar platforms across the network as well as just some excess costs and integration cost of operating going from our highest quarter down to operating—at the time it was six locations post-holiday with a dramatic decrease in production needs that happens very quickly after the holiday season. In addition, we did close down one of the geographically not strategic locations that we had, so that had some cost in there. As I mentioned, today that had not quite a 100 basis points impact on our overall gross margins from those excess and integration cost.

Jamie Wilen:

Okay. You always talk about, we could do this business whether it's a virtual inventory business for a lot of our companies, but for us it's real inventory because I think we've got—we're right there to service the business, that's why we can deliver so quickly. But how are we going to reduce our inventories, which we, now and the end of the year, such that we're going to end with lower inventories even though we're going to have sales growth in volume in units and all our businesses?

Deborah Merrill:

A lot of that has to do, I mean, from where we are in March as we go through the year, we seasonally do have see a big decrease in our inventory, and the comment that we'll end the year with less overall inventory dollars than we had in the prior year, some amount of that is having less units in nonstrategic inventory, that we had in places that we're working through as well as there are some lower costs inventory from raw material prices that should be in our inventory at the end of this September as compared to a year ago September.

Jamie Wilen:

Got you, and then obviously you were dealing with colder weather later Easter, etc., and you've kind of alluded to April being much stronger. Could you give us a percentage change in your volume in April versus year ago?

Robert Humphreys:

Probably the most obvious and interesting to people on this call is Salt Life and so, overall Salt Life's sales in April were up about 25%. Our retail stores were up 50% with one new store addition, that's our Tampa store, which is off to a strong start. But we're obviously having good growth in other existing stores. Swim, our licensee for swim has shipped almost \$500,000, most of which was in that quarter, of course that's not in our revenue numbers, but we will ultimately receive a royalty off of that, we've added about 425 of beer stores in Georgia now, mostly in the northeastern part of Georgia, Greater Savannah area. So, anyway, as we've talked about, we were slower in the March quarter a good bit of that spilled over into the April month for Salt Life, and we're looking forward to seeing how that progresses through the year.

Jamie Wilen:

Lastly, as far as, you've been expanding with some national department store retailers as well as some larger regional. Could you tell us about the progress or lack thereof, or what's in the hopper as you move down the pipe?

Robert Humphreys:

Yes. As we sit here today, we think we have a good footprint of national retailers, and as far as having a business relationship and having at least parts of the Salt Life product line in doors and our real work today is to expand our product offering in those doors and get more in store shops. We've got commitments from a number of these retailers, start putting some shops in during this year, but they're not there yet. And so, what we would like to do is have really good relationships with the right number of retailers and not have small businesses with too many competing in the same malls. So far, I think, so good on that strategy. We're also seeing some nice growth in our independent channel, which is really accelerated some here this spring, and with orders to be shipped for the rest of the year, we're opening a few accounts in Hawaii. We've opened a few more accounts in California of late. No one of those things will move the needle for us, but it is additional doors and gets additional consumer eyeballs on our brand.

Jamie Wilen:

Okay. And just the seasonality wise for Salt Life, how would you rate the June and the September quarters for that brand?

Robert Humphreys:

The business starts slowing down mid-summer. We are introducing another line through the Salt Life calendar, so where we've had two offerings per year, going into next year, we'll have three offerings, and that's to work on seasonality and to have new product, particularly for the northeast, where our business

is growing nicely, but obviously they have a later start to summer and most of the new product in their doors for that. I think that's another key initiative we have for continuing to grow Salt Life and really mature the brand as it grows out geographically.

Jamie Wilen:

Okay. Lastly, one or more to DTG2Go. Capital expenditure wise and capacity wise, this year you're looking at \$60 million of revenue. Is that running that business flat out, or what do you have equipment wise, the capability to do right now and how much do you see capital expenditures in that business this year and next?

Deborah Merrill:

Yes, I would say right now the sales target that we have, it's not running the business full-out year round on it, which it's got a large seasonality in our first fiscal quarter. The equipment that we're bringing in that increases our overall capacity to the 90,000 unique graphics a day, that should carry us through the holiday season of next year, and we think we should be in a good shape. The exciting thing is the customers that we're launching with now have less of a seasonality than our historical customer base. So, we feel like we'll be able to add additional sales growth to the business without always having to add as much equipment by just utilizing the equipment that we have that doesn't get utilized during the rest of the year.

It's going to be a business that we're always going to have to be adding capital to. This year, there were some major technology breakthroughs in digital print equipment that we certainly were on the forefront of and wanted to take advantage of, and we're committed to doing that on a go-forward basis and staying up with technology. But as far as that goes, it's more technology and less about just having to add capacity as we expand these sales channels.

Jamie Wilen:

Okay. Excellent. Thanks, Bob and Deb. Appreciate it.

Deborah Merrill:

Thank you.

Operator:

At this time, there are no further questions. I'll now turn the conference back over to you for any additional or closing remarks.

Robert Humphreys:

Okay. Well, thank you very much for joining us and your interest in our Company, and we'll look forward to updating you on our June quarter here in just a few months. Thank you.

Deborah Merrill:

Thanks.

Operator:

Thank you. That does conclude today's conference. We do thank you for your participation. Have a wonderful day.