Delta Apparel, Inc.

Fiscal Year 2019 Fourth Quarter and Full-Year Earnings Conference Call

Operator:

Thank you and good afternoon to everyone participating in Delta Apparel's Fiscal 2019 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 predictions 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 Form 10-K. This document identifies 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 statement, even if it becomes apparent that any projected result will not be realized.

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

Robert W. Humphreys:

Good afternoon and thank you for your interest in Delta Apparel.

On today's call I will briefly discuss our business results, along with some key highlights that showcase why we continue to believe the Delta Apparel is positioned well for profitable future growth. I will then turn the call over to our CFO, Deb Merrill, for a more detailed discussion of our financial results.

We ended our fiscal year on a very high note with a fantastic fourth quarter, including year-over-year sales growth of 16% and a 40% improvement in operating profit. Our fourth quarter success was broad-based with our Delta Group segment achieving strong double-digit sales growth of 17% and sales in our Salt Life Group segment growing 13%. The accelerated top-line performance, coupled with solid execution at the operating level, drove earnings for the fourth quarter up $0.50 per diluted share, which is up from $0.43 per diluted share in last year's fourth quarter.

Strong performance by our Delta Group during the quarter was led by our Digital Print and Fulfillment business, DTG2GO, which saw robust sales growth of 54%. The Delta Group also benefited from double-digit sales increases in our Activewear business and a second consecutive quarter of sales growth in our Soffe brand. The success in our Salt Life Group segment was led by double-digit sales growth of the Salt Life brand, driven from expansion across a number of distribution channels. The continued success we're seeing at Salt Life only deepens our confidence in the brand's growth prospects and positive consumer sentiment.

Taking a closer look at DTG2Go business in our Delta Group segment, for those of you who may not know the history of the business, it has steadily grown over the 10 years we have operated the business, and in the past 2 years has expanded rapidly, both through organic growth, as well as several acquisitions. Our investments in new locations across the country, state-of-the-art digital print equipment, and proprietary technology systems have made DTG2Go the clear industry leader in the digital print space. We remain very excited about the growth potential of this business, both on a standalone basis and as a flexible platform to generate opportunities in other areas of our Delta Group segment.

DTG2Go continues to move closely to integrate with our Activewear business through integrated distribution and fulfillment facilities, as well as multifaceted customer offerings, including Activewear products and quick-turn digital decoration capabilities. DTG2Go is the only digital print supplier in the world offering a fulfillment solution integrated with a vertical manufacturing platform like Activewear that offers a reliable supply of fashion and core basic garments, including t-shirts, shorts, and other knit garments.

DTG2Go also partners with our Soffe business to offer customers a hybrid decoration model combining DTG2Go's digital expertise with Soffe's screen print platform.

As I mentioned on our last call, we continue to expand our leadership position in digital printing this past year with the addition of two new facilities that now give us the ability to reach over half of all U.S. consumers with one-day shipping, including the key New York City and Dallas metropolitan area markets. These facilities are up and running and will be key contributors during our important holiday selling season. DTG2Go now operates a truly seamless nationwide print and fulfillment network consisting of seven Digital Print locations across the United States, and we believe we are uniquely positioned as the go-to on-demand direct-to-garment apparel printing solution for customers seeking a flexible multi-location partner that can consistently deliver high-quality products on time.

We continue to view digital printing as a large and generally untapped market with still only a very small percentage of all decorated garments sold domestically and globally being digitally printed. A key selling point for DTG2Go's on-demand model is that it can greatly reduce or even eliminate inventory risk for our customers. It also allows them to better deploy their intellectual property portfolios and creative design teams by being able to offer a wider range of products without committing to traditional supplier minimum order quantities or incurring the typical level of working capital investment required to expand a product line.

DTG2Go's new business pipeline remains healthy from both a near-term and long-term perspective and we continue to see tremendous expansion opportunities within our existing customer base and in new channels, such as traditional screen printers, promotional product providers, retail licensing, brick-and-mortar retailers, large brands, and more. DTG2Go also continues to enhance its customer offerings with value-added services, such as unique UPC codes and other packaging offerings that facilitate a seamless experience with on-demand and in-store purchases that retail customers want.

Our first-to-market adoption of a new polyester printing technology is going well. We see a tremendous opportunity to use this new technology to capitalize on the high-growth potential for personalized decorated polyester garments, which should benefit not only DTG2Go but also the uniform business operated within our Soffe Intensity brand.

To frame up the financial performance of our DTG2Go business, we ended Fiscal 2019 with revenue of roughly $60 million, achieving our goal of more than doubling the business. With a strong momentum we have entered into the new fiscal year, coupled with our expanded facility footprint, increased capacity, and value-adding service offerings, we see a clear path to reach our goals of 20% compounded sales growth and a healthy double-digit operating margin.

Turning to other parts of the Delta Group segment, in our Activewear business we also concluded the year on a high note with a double-digit increase in both sales and units sold for the fourth quarter. This strong final push at Activewear propelled it to sales growth for the year despite the expected early and midyear headwinds from production shifts with two significant customers. Momentum in retail licensing and regional screen print channels continued during the quarter, and our inventory strategies allowed us to stay in good sync with demand and to be opportunistic in the market. We saw another quarter of strong double-digit growth on our B2B site and our catalog Fashion Basic products grew by double digits once again.

The rapid expansion of our Fashion Basics line, particularly Delta Platinum, continues and we expect it to further grow across multiple sales channels. The vast majority of our new product development continues to be focused on Fashion Basics, adding product diversification and expanding colors and silhouettes.

We also continue to see more cross-selling opportunities leveraging catalog blanks and DTG2Go digital print and Fulfillment Services.

FunTees achieved another quarter of record units shipped, resulting in full-year growth of nearly 12% in units shipped. As we have previously highlighted, we on-boarded several new customers late in Fiscal 2018 that broadened our customer base with new brands and into new sales channels. This diversification impacted our Fiscal 2019 first half results due to new program startup costs involving shifts to more youth and infant garments and changes in garments fabrications, all of which lowered our average selling price.

We are pleased to be able to say that we are back on top of the growth line in this business, achieving double-digit sales growth during the fourth quarter. We expect this growth to continue in Fiscal 2020 with brands and retailers who are interested in our full-service supply chain management and technology, along with our manufacturing platform which is compliant, flexible in the products we produce, and the retail-ready services we provide, and, importantly, close to the United States market with nationwide distribution coverage.

We remain focused on building internal manufacturing capacity at Activewear to satisfy demand and better service customers with speed of delivery. To that end, we are investing in a significant expansion of our Western Hemisphere sewing capacity and are well underway with our production build. This increased capacity is within our existing facilities, allowing us to further leverage our fixed overhead costs, thereby lowering our incremental product costs. Overall, we feel very good about of our Activewear business heading into the new fiscal year and are targeting low single-digit growth in sales.

Finally within our Delta Group segment, an update on our Soffe brand. We’re very pleased to report our second consecutive quarter of year-over-year sales growth at Soffe, as well as another quarter of solid bottom line improvement. Soffe’s success during the quarter was broad-based with strength in the military channel, as well as the specialty and the e-retailer channels. The team has continued to refine the core Soffe product line and strategically developed new lines, such as channel-specific rapid tee (phon) programs. The Soffe team also continues to do a good job of increasing operating efficiencies through cost controls and inventory discipline. Soffe’s integration with other parts of our Delta Group segment, including our Activewear sales platform and DTG2Go digital printing, has created a nice growth path for Soffe.

Now for an update on our Salt Life Group segment, which, as I mentioned, also ended the fiscal year on a high note with fourth quarter sales growth of 13% at healthy margins, including growth in both sales units and average selling price. The strong performance in our Salt Life business was spread across generally all sales channels, and we were particularly pleased to see acceleration of our B2C e-commerce site with sales growth of over 20% following the successful transition to a new site platform during our third fiscal quarter.

Salt Life enjoyed strong growth across its national and regional customer footprint throughout the year, and enters the new fiscal year with solid momentum and new opportunities on the horizon that we believe should lead to further geographic growth for the brand. Salt Life has been successful in its geographic expansion strategy through retail partners spanning the West Coast, the North Central area of the country, and Midwest regions, and we expect that expansion to continue for the foreseeable future.

New product lines and categories also remain an important part of the growth for Salt Life within both our wholesale partner base, as well as our direct-to-consumer channels.

The higher price performance line continues to be well-received and the expansion of additional product lines, such as accessories, outerwear, and ladies swimwear are facilitating more opportunities to add incremental floor space, including valuable point-of-sale displays and shop-in-shops. The growth of our branded Salt Life retail store footprint continues as planned with a recently opened store in Orlando, Florida and a Key West store, which opened this past weekend. We're targeting a total of 4 new stores in Fiscal 2020, which would bring our total of 11 Salt Life branded stores that we operate.

As I mentioned, our SaltLife.com e-commerce site experienced a strong sales rebound in the fourth quarter with sales increase of over 20% on strengthening site traffic and conversions along with increasing mobile usage. We're very excited about our Salt Life site going into the holiday selling season and believe the improved speed, navigation, checkout, and other new features will drive continued strong performance.

The Salt Life Team also continues to do a good job of expanding the lifestyle DNA of the brand through innovative products, such a Salt Life lager. The branded beer currently has distribution in five states with plans to enter additional markets in the new fiscal year, driving more consumer awareness of the brand.

Overall, our businesses are working together better than ever to capitalize on the opportunities to leverage the assets in our Company and we believe we are in good shape and positioned to compete in our markets going forward.

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

Deborah H. Merrill:

Thank you, Bob.

As Bob noted, we ended the year with strong results from both our Delta Group and Salt Life Group segments. As we expected, our strong second-half performance offset a first half that was pressured by a number of factors, which are now behind us.

For the fourth quarter, net sales were $108 million, up 16.2% from the $92.9 million in last year's fourth quarter. Net sales in the Delta Group segment increased 16.6% over the prior year period, driven by gains in all the businesses. In the Salt Life Group segment, net sales increased 12.5%. Gross profit was $22.9 million, up 19.5% from the prior-year quarter. Gross margins increased 60 basis points to 21.2%, driven primarily by year-over-year improvement in both the Delta Group and Salt Life Group segments.

Gross margin expansion in our Activewear and Soffe businesses offset a margin decline in our DTG2Go business, resulting from the additional costs associated with the opening of our two new facilities in Dallas, Texas and Cranbury, New Jersey.

SG&A expenses as a percentage of overall sales was 17.1%, an improvement of 150 basis points versus last year, driven by leverage from our strong sales performance during the quarter. Operating income was $4.8 million compared to $3.5 million last year, a 40% improvement. This increase was driven principally from the improvements in the Delta Group segment.

Net income for the quarter was $3.5 million, or $0.50, per diluted share compared to $3.1 million, or 43% (phon), per diluted share in the prior-year period.

Now turning to our full-year performance, net sales were $431.7 million, up 9.2% from $395.5 million in Fiscal Year 2018. Net sales in the Delta Group segment increased 9.3% over the prior year and net sales in the Salt Life Group segment increased 8.1% over the prior year. Gross profit was $85.2 million, up 3.8% from the $82 million last year. Gross margins improved sequentially each quarter during Fiscal 2019 and for the year were 19.7% compared to 20.7% in the prior year.

SG&A expenses as a percentage of sales improved 60 basis points to 16.3% compared to 16.9% in the prior year.

Operating income was $15.9 million compared to $17.4 million last year. Operating income decreased by $4.6 million in the first half of the fiscal year, primarily due to acquisition integration expense, cost associated with product changes in the FunTees business and investments in new and expanded distributions facilities. In addition, in the first half we took a discreet expense of $2.5 million in connection with the resolution of litigation stemming from a 2016 customer bankruptcy. With these things behind us, we were able to achieve operating income expansion of $3.1 million in the second half of the year. The improved operating margin was principally from increased sales volume and improved selling price and product mix, along with a discreet net gain of $1 million from the settlement of the commercial litigation matter.

Net income was $8.2 million or $1.17 per diluted share compared to net income of $1.3 million or $0.18 last year. Excluding the $0.31 per diluted share impact of the customer bankruptcy matter, as well as the $0.10 per diluted share benefit from the favorable litigation settlement, net income was $1.38 per diluted share in Fiscal 2019.

Now turning to the balance sheet, with regards to cap ex, our spending for Fiscal 2019 was $16.2 million with $5.9 million coming in the fourth quarter. This spend was principally related to distribution initiatives and facility upgrades, retail and direct-to-consumer initiatives, additional printing and other manufacturing equipment, and IT system enhancements. Depreciation and amortization, including non-cash comps for Fiscal 2019, was approximately $13.6 million, but approximately $3.3 million in the fourth quarter.

Regarding our share purchase activity, for the year we repurchased 141,501 shares of our common stock at an average price of $19.33 per share and a total cost of about $2.7 million. We did not have any share repurchase activity in our fourth quarter. As of year-end we had approximately $9.5 million authorized for share repurchases under our program.

Total inventory at the end of Fiscal 2019 was $179.1 million compared with $175 million a year ago with slightly higher units to support the business growth and higher costs per unit, principally driven by product mix with more Performance, Fashion Basics, and Fleece products in inventory.

Total debt, including capital lease financing, as of the end of Fiscal 2019 was $135.1 million, up about $23 million from the end of Fiscal 2018, due principally to the Company's Digital Print acquisition and new facilities, along with our distribution expansions and investments in our direct-to-consumer initiatives.

To summarize, we ended this fiscal year in strong fashion with success across our entire business in the fourth quarter. We achieved double-digit sales growth in both of our business segments for the fourth quarter and finished with high single-digit growth for the year. Our fast-growing Digital Print business once again outperformed and we look for that trend to continue as we add new integrated facilities and further increase our capabilities and fulfillment capacity. We're happy with the momentum in our Salt Life business and we remain encouraged by the positive turn we're seeing in our Soffe business.

Delta Apparel now has multiple areas for growth across this platform and, as you read in our recent press release, we are extremely excited to be adding another leg into our growth story with the launch of a full-service vertical distributor offering in our Activewear business in 2020. This new model will allow us to reach a significant new customer channel with our own products, as well as a broad offering of nationally recognized branded products comprised of polos, outerwear, headwear, bags, and other accessories.

We're excited to be the exclusive distributor of the popular Penguin, Callaway, and Jack Nicklaus lines of polos and outerwear. Other brands will include Dry Dock, Burnside, Ciara (phon), Outdoor Cap, and Liberty Bags. Enhancing our Delta product line with these other branded categories allows us to be a full-service provider for the fast-growing add-specialty and promotional market, as well as better service the screen print and retail channels that we believe can drive notable long-term growth for us.

In addition, our DTG2Go Digital Print platform should provide us with a unique competitive advantage in the full-service distributor space that further enhances our opportunity to gain market share. We believe this new initiative can be a real game changer for our Company and our shareholders as it grows over time.

Before turning the call back to Bob I wanted to give some insight into our anticipated results for Fiscal 2020. Looking at the first quarter, I'm sure everyone is well aware that the holiday shopping season is the shortest possible this year, six days shorter than last year, and there is a lot of commentary about what the impact of this may be on December results. Overall, we feel good about the quarter, but also recognize the impact that this nearly 20% shorter holiday season may have on the DTG2Go business, which operates at full capacity 24/7 from Thanksgiving to Christmas.

With the additional capacity we have in place this year, we believe we will still see solid growth at DTG2Go, but this growth is expected to be somewhat hindered by the shorter holiday season.

Looking at our overall DLA performance, we would expect to see sales growth in the mid-single digits for the December quarter with gross margin and operating profit expansion from the prior-year December quarter. For the full year, we continue to expect DTG2Go to grow its top line by 20% with double-digit operating margins. Our Salt Life business, through its expanded geography and product extensions, coupled with our direct-to-consumer initiatives, should see the full-year double-digit sales growth with continued double-digit operating margins. Our remaining business units should collectively contribute mid-single-digit growth with improving profitability.

We expect gross margin improvement in each of our quarters, which, coupled with the solid sales growth, should result in strong profitability improvement throughout the fiscal year. To support the anticipated growth in our business, we have decided to further expand the distribution facility we own in Clayton, Tennessee, which is strategically located to reach a broad geographic area. During this quarter we are breaking ground to nearly double the size of this facility, with the expansion allowing us to service our expanded product line within the facility.

In addition, we'll be adding retail-packaging operations to service our growing direct-to-retail business and plan to integrate DTG2Go Digital Print and Fulfillment Services as well. The project is expected to take about a year to complete and the building expansion is expected to cost approximately $15 million.

With this distribution expansion, we expect our capital expenditures in Fiscal 2020 to be approximately $25 million to $28 million. We will continue to invest in expanding our capacity in Digital Print and our direct-to-consumer initiatives within Salt Life, as well as in our manufacturing operations and our business system.

To support our anticipated growth and secure our financing for the future, on Tuesday we amended our U.S. credit facility. The amendment increased our credit facility from $145 million to $170 million, extended our term for another five years, and lowered our interest rate by 25 basis points, among other things. We are pleased to have the continued support of Wells Fargo, Regions Bank, and PNC Bank as we continue the growth of Delta Apparel.

I'll now turn the call back to Bob for his final comments.

Robert W. Humphreys:

Thanks, Deb. Delta Apparel remains uniquely positioned to compete and thrive in today's evolving retail environment, and we will continue to focus on serving our customers and investing in the multiple areas of our business where we see long-term growth potential. The diversification of our customer base and expansion of our sales channels, including the exciting full-service distributor market we are now poised to enter in 2020, remains key to our success and the growth we see ahead of our Company.

We are now offering the most comprehensive on-demand direct-to-garment apparel printing solution in the world, and we couple it with a vertical blank garment manufacturing platform which gives us a tremendous opportunity to capitalize on what we continue to see as significant untapped demand.

We also enter the new fiscal year with strong momentum with our Salt Life brand which continues to benefit from incrementally broader consumer awareness and has what we believe is significant prospects for future growth. We look forward to seeing all of this and for an exciting Fiscal Year 2020.

Before I close, I'd like to thank all of our teams for their hard work and dedication to Delta Apparel. We now have approximately 8,500 associates spread across four countries and, above all else, they drive our success and business results as a Company.

Now Deb and I will be glad to answer any questions so, Operator, you can open up the call for questions.

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question.

Our first question comes from Dave King of ROTH Capital Partners. Please go ahead.

Gus:

Hi. This is Gus stepping on for Dave. Thank you for taking our questions. Within the Delta Group, could you provide a bit more color on growth between catalog and private label in the quarter?

Deborah H. Merrill:

We're pleased to announce that, as you all would remember, FunTees had lower sales throughout the first three quarters with the changes in our product line and customer base and changes within that business. We are pleased to report that in our fourth quarter, FunTees returned to growth in that business. Our catalog business had growth throughout all of those quarters to end the year with growth overall for our Activewear business. From the Soffe standpoint we ended up with sales growth in our back half of the year, which was good strong momentum to head into Fiscal Year 2020 and then, of course, we had very strong growth across DTG2Go in each of the quarters.

Gus:

Thank you. That's helpful. I guess following up, what is driving growth within Salt Life within the quarter; was it doors, was it new specialty businesses, accounts, the B2C channel? If you could you give some (cross-talking).

Robert W. Humphreys:

Yes. It was really broad-based throughout the year at Salt Life. Our independent customers grew nicely during the year. Our larger big box retailers continued to add doors and expanded their product offerings. Of course, we opened several new direct-to-consumer stores and had some nice growth on our e-commerce site too. The good news was it was broad-based. People buy more; people buying at a higher price point as well, so more units and higher average selling price. So we really feel good about the momentum, particularly ending the fiscal year at Salt Life.

Gus:

Thank you. Lastly, just thinking about gross margins, what weighed on DTG2Go in the quarter? When do you guys see that picking up? How do you see the potential for sequential improvements in gross margin for overall?

Deborah H. Merrill:

Yes. In our fourth quarter, particularly, we were opening our two new facilities, one in Dallas and one in Cranbury, and that certainly weighed on the gross margins in that business. Overall, as we continue to grow that top line and now have our facilities set, we would expect now to be able to leverage what we have and be improving those gross margins as that business grows.

Operator:

If you find your question has been answered, you may remove yourself from the queue by pressing star, two. Once again, if you'd like to ask a question, please signal by pressing star, one.

Our next question comes from Dana Telsey of Telsey Advisory Group. Please go ahead.

Dana Telsey:

Good afternoon, everyone. Just to unpack the margins a little bit more, as you think about the gross margin rate and the SG&A rate and by division, how are you planning for it for this upcoming fiscal year? Lastly, when you think about the top line, what are you seeing in terms of pricing and demand from accounts? Because it's exciting about the new business that you're entering, how do you see that contributing to top line as we move forward into this upcoming fiscal year? Thank you.

Deborah H. Merrill:

Hey, Dana; appreciate you being on the call. To kind of go through your questions a little bit, on a gross margin basis, as we look to 2020 we would expect to have gross margin improvement year-over-year in each of those quarters and are looking at, as a full-year basis, that hopefully each of our businesses will be able to see some gross margin improvement as we go through 2020. That's good news overall on our gross margins.

Of course, then we would be leveraging some of those SG&A costs. We will be, as we mentioned, putting some additional costs in our distribution facilities to support some of the new growth that we have or the growth initiatives we have in Activewear. From that standpoint, those might be up a little bit, but, overall, from a Company standpoint we would expect to see some further leverage on our SG&A as we go through Fiscal 2020 as well.

I would say from a pricing standpoint in some of these new initiatives, what is exciting about the Activewear new initiatives, and we've continued—we really didn't mention it on the call as detailed as we have in the past, but our Fashion Basics line continues to grow very strong and has for the last several years. We continue to see that expanding and new products being added into our Delta Platinum line. Those carry higher margins than our core Basics. In our new distributor model, with the new brands that we're carrying, those would be higher margins as well than our core Basics line. We think that initiative will allow us to further expand our margins overall in our Activewear business.

As Bob mentioned, across Salt Life we are selling more performance-type products. Those come at higher average selling prices and stronger margins than some of our other products, so that should allow us to expand there, as well as the nice strong direct-to-consumer growth that we are anticipating in that business for the year. Overall, I think that that bodes well for our top line, as well as leveraging and expanding gross margins and leveraging our cost structure throughout the year.

Dana Telsey:

Thank you.

Operator:

Our next question comes from Jamie Wilen of Wilen Management. Please go ahead.

Jamie Wilen:

Hi. On the DTG2Go business, where's the growth coming from; are you getting individual accounts; are you getting retail stores using you as your backside; are screen printers adding some additional volume; or where is it all coming from?

Deborah H. Merrill:

Sure. I would say during the quarter we did add some new partners to the business. It's interesting how things come up, both in the existing channels we have and new people that are using software capabilities and other things like that to drive new business opportunities.

We continue to grow with our retail partner that we had and are in some discussions that we believe that that retail growth should continue in 2020. I think as far as the screen printer model, that's really going to come along with how we're going to use DTG2Go with our Activewear business and our distributor model to be offering an integrated one-stop buying through our Delta Activewear business where now they can no longer just buy blank and then go have it decorated somewhere else, but they will actually be able to buy that decorated, using and kind of powered by DTG2Go to buy a directly decorated garment from us. We think that should really jumpstart the expansion to get screen printers to create new business in these small run, high color count print.

Jamie Wilen:

As you've grown the percentage of Delta product, what was it last year and what is it this year, the percentage of DTG2Go business that are Delta products and what is your ultimate goal for what that business will be?

Deborah H. Merrill:

Sure. As you guys may recall, back before the acquisitions we were running at about 25%-plus as Delta garments. Certainly, when we then acquired the two acquisitions who were not using the Delta products as much that lowered that down closer to about an 8%. Throughout this year we have been able to increase that and launch new customers onto the Delta products. I would anticipate from the outlook that we should be back to north of 20% using the Delta garments as we go through Fiscal 2020, and our goal is certainly to get back to that 30% number in the near future.

Jamie Wilen:

Okay. You mentioned that with your new capabilities with new machinery you'll be able to integrate more with Intensity and with Soffe. Could you talk about the opportunity there; what's the game plan?

Deborah H. Merrill:

Sure. Yes. That's with our polyester printing and with our Intensity brand to be able to support teams by decorating, whether that's name and numbers on them or whatever their decorations are on uniforms and other polyester. That is being launched as we speak and we think that'll be a nice growth avenue on that Intensity brands. We're also using both our digital print, as well as some hybrid printing capabilities, to do and expand that business, again, in smaller run or midsize run, high color count decorations, offering more graphic tee programs across the specialty channels. We're excited about, again, integrating Soffe in with decoration capabilities to service a broader market and open up some new channels.

Jamie Wilen:

Okay. Moving over to Salt Life, I guess the objectives of running the business, it was always more toward the coasts—Southeast, Southwest. How successful have you been able to take the brand and move it into kind of more northern inland markets?

Robert W. Humphreys:

Well, we're all the way up the East Coast as far as you want to go, really, and so that's gone well. We have some really nice business in the Midwest in the outdoor retailer space and we continue to be amazed at our e-commerce business, really in the heartland of the U.S. It seems like really in the last 12 to 18 months we've really seen acceleration in that part of the country.

Jamie Wilen:

What percentage of your business goes online on Salt Life?

Robert W. Humphreys:

Well, it depends on how you do the math, like everything, but if you look at our overall business, it's about 10% of it. But, if you look at how that gets sold to the consumer, most of our wholesale business is sold basically at twice the wholesale. You've got to kind of set aside our retail, which is already marked up. Once you do all that, it's in the 6% or 7% of overall sales on a consumer dollar basis.

Jamie Wilen:

Okay. You said online you grew 20% this quarter (cross-talking)?

Robert W. Humphreys:

I think it was up 7% or 8% during the year. Second quarter we turned off all of our marketing dollars in anticipation of changing to a new platform, basically at the beginning of the third quarter, which we did kind of have flat sales in the third quarter as we implemented all that and had, not all of it but a lot of the new techniques and marketing capabilities and how a consumer engaged live by the time we got to the fourth quarter. We continue to use more sophisticated marketing systems and techniques on that Salt Life site now.

Jamie Wilen:

Got you. Nice job. Looks like you have a lot of avenues for growth in the years ahead. Thanks.

Robert W. Humphreys:
Yes. Thank you.

Deborah H. Merrill:

Thank you.

Operator:

It appears there are no further questions at this time. I'd like to turn the conference back to you for your final comments.

Robert W. Humphreys:

Okay. Well, thank you all for your interest in our Company. Appreciate the questions and we look forward to talking to you in a few months about our first quarter. Thank you.

Operator:

This concludes today's call. Thank you for your participation. You may now disconnect.