

Delta Apparel, Inc.

Fiscal 2023 Fourth Quarter and Full Year Earnings Conference Call



Operator:

Thank you, and good afternoon to everyone participating in Delta Apparel, Inc.'s Fiscal Year 2023 Fourth Quarter and Full Year 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.

BOB

Good afternoon. Thank you for joining us today. As always, we appreciate your interest in Delta Apparel. Before we review our results for the full year and fourth quarter, I want to take a moment to express my gratitude to our teams throughout the various countries in which we operate our business. This has been a very challenging year for our Company, with many of those challenges driven by market dynamics outside of our control. I'm proud of the decisive steps we took across our business with respect to the things within our control such as reducing working capital, controlling costs and, above all, maintaining the high service levels that have been key to our growth and success over the years. Our employees remained steadfast in their commitment to meeting our customers' needs each and every day. Thanks to their hard work and flexibility, we were able to navigate what was a truly unique operating environment and enter our 2024 fiscal year better-positioned to drive sustainable long-term growth as conditions improve.

As you saw in our press release, we registered full fiscal year sales of \$415.4 million, a contraction of 14% from our strong performance in the prior year when the apparel industry enjoyed a seller's market full of retailers looking to accumulate inventory in the wake of COVID-related supply chain delays. As I'm sure most everyone on this call knows, this year's market conditions presented a much different and more difficult picture for both the apparel industry and our Company. These conditions were driven primarily by two distinct and, thankfully, temporary trends - historically high cotton prices and extremely shallow demand due to high inventory levels across the supply chain.

When cotton prices trended above historical averages we made a strategic decision to purchase less cotton and reduce our production levels to align with what we anticipated to be a challenging demand picture in the first half of our fiscal year 2023, particularly in the mass retail supply chain. We originally

expected customer demand to stabilize and improve in the second half of the year. However, when the softness in the mass retail supply chain spread to other channels and exhibited more depth than anticipated, we decided to further curtail our production levels to maintain balance with the declining demand.

The collective impact of the elevated cotton costs and expenses incurred to reduce production throughout the year is hard for us to overstate. If you compare the average price of cotton over the last decade to what our cost was during the year, the excess amounted to a headwind of approximately \$26 million. Additive to that, we incurred roughly \$8 million in excess costs associated with our production curtailment activities, with most of that being driven by the lower absorption of our fixed costs due to less volume and the payment of temporary unemployment benefits to idled employees at our offshore locations. That's roughly \$34 million in additional cost for the year.

During the year we also embarked on a longer-term initiative designed to optimize our cost structure and better position our Company to generate higher returns on the capital we invest in our business. Many of the decisions we made in connection with this initiative were difficult, but they were the right actions to support the business for the long-term and will result in meaningful annualized savings as well as a more efficient operating structure. Among the actions we took include:

- Transitioning our Mexico sewing operations to our more efficient Central America sewing facilities;
- Absorbing the fabric production we previously had to purchase from a third party in Mexico into our textile facility in Central America;
- Transitioning our Mexico screenprint operations into our more efficient Central America screenprint operations, which we should finalize this month; and
- Closing our legacy digital print facility in Clearwater, Florida, and absorbing its capacity into our more efficient "On-Demand DC" footprint throughout the United States combining our DTG2Go and Delta Direct businesses.

We expect these actions to generate approximately \$6 million in annual run-rate savings going forward and better position us to navigate the higher interest rate environment that appears to be here for some time.

Our team has also continued to do a good job of strategically managing our working capital and costs across all aspects of the business on a day-to-day basis. We made substantial progress in reducing our inventory position throughout the year, finishing the year down approximately 18% from our most recent high in December 2022. We anticipate further reductions in fiscal year 2024 and to finish the year nearly 30% below December 2022 levels.

Let me spend a moment on our Salt Life business. As you likely saw in a press release we issued in October, we received an unsolicited offer to purchase that business and we are conducting a thorough review of our strategic options. We do not have a specific update on that review process at this time, but I want to reiterate that our Board of Directors and management team are committed to maximizing value for Delta

Apparel shareholders and taking the course of action we believe is in their best interest. We look forward to updating you once our Board of Directors has completed its process.

I would like to recognize all of the hard work put in by the Salt Life team to grow the brand into the highly profitable \$60 million business it is today. It's amazing to think that Salt Life was basically a Florida brand with a small wholesale business when we acquired it ten years ago and now has a growing core of enthusiasts throughout much of the Western Hemisphere as well as a comprehensive product line offered in over 1,700 wholesale doors across the United States and direct-to-consumer customers via an eCommerce site shipping to all 50 states and branded retail stores spread across most of the U.S. coastlines.

Touching briefly on our fourth quarter performance across Delta Apparel, we saw some indications throughout the quarter that demand in the Activewear market is stabilizing and improving in some respects, but our overall business continued to be impacted by the high inventory levels across retail as well as the higher interest rate environment. Importantly, we continued to operate our manufacturing platform at reduced but more consistent levels during the quarter and, as I mentioned on our last call, the cost environment for activewear is normalizing. While we continued to see cotton in our sales that was higher-cost than the historical average, our cost is trending down and we expect to steadily move into a more favorable cotton cost picture in the second half of the new fiscal year.

Nancy will now 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 to open the call up for questions. Justin?

JUSTIN

Thanks Bob.

Before taking a closer look at our individual business units I would like to note that in addition to the steady progress across our business during the year and fourth quarter to streamline our cost structure and reduce inventory, the team also made substantial progress in managing down our debt levels. We finished the year with an approximately 17% reduction from our most recent high in February 2023 and expect to finish fiscal 2024 nearly 40% below the February levels.

We recently entered into agreements to sell and lease back several properties within our real estate portfolio, including our campus in Fayetteville, North Carolina and our distribution center in Clinton, Tennessee. The sale-leaseback of these properties is something we have seriously considered at various times throughout the years and we believe the time is optimal to monetize these valuable assets and create value for our shareholders. We expect to realize aggregate gross proceeds of approximately \$31.5 million from these transactions assuming they close in or around January 2024 as currently expected. We will simultaneously leaseback these properties from the respective purchasers and continue our operations there uninterrupted as a tenant going forward.

Now turning to our Activewear business, which is organized around three key go-to-market channels: Delta Direct, which provides blank garments on-demand to a variety of channels; Global Brands, which provides custom decorated activewear to major brands, sportswear players and the U.S. military; and

Retail Direct, which provides decorated apparel fully ready for the retail floor to brick and mortar and online retailers, bypassing layers of the traditional retail supply chain in the process.

The market dynamics and excess cost drivers Bob mentioned earlier had the most direct hit on our Activewear business. Similarly, most of the working capital optimization and cost structure enhancements Bob mentioned were executed by our Activewear team and will most directly benefit that business.

The Activewear team has also been highly instrumental to our success in reducing overall inventory levels and made substantial progress on that front in the fourth quarter. We continue to carefully manage production rates in Activewear's vertical manufacturing platform and expect continued reduction in both inventory units and dollars as we progress through fiscal year 2024. Moreover, with our cotton cost trending down and our production volumes becoming more consistent, we believe our Activewear business is poised to take advantage of market improvements and steadily level up its operating performance as we move into the spring selling season.

The two largest channels in Activewear's Delta Direct business, Retail License and Regional Screenprint, were the hardest hit by last year's demand destruction but showed signs of improvement during the fourth quarter and to start the new fiscal year. However, activity in those channels is still generally soft and inconsistent relative to pre-pandemic levels. In contrast, Delta Direct's eRetail and promotional channels continue to strengthen and we are heavily focused on growing market share in those channels. We see the promotional channel, which is a multi-billion dollar market by itself, as a strategic growth area given our unique ability to offer customers Delta Direct's blank garments and full line of branded headwear, jackets, polos, bags and other items in combination with DTG2Go's on-demand digital print services. In our Softe channel, we anticipate growth in a variety of areas in fiscal year 2024, including growth in the higher-margin sales on the softe.com eCommerce website.

In Activewear's Global Brands business we continued to see lowering demand in the second half of our fiscal year 2023, as expected, following the solid first half performance in this channel. There is still a significant amount of unutilized manufacturing capacity in this channel due to the higher inventory levels at retail and this drove more pricing pressure, particularly from Asia producers, as we closed out the year. Nonetheless, our relationships with our core brands remain strong and our business with much of that key customer base has remained relatively stable. Our business with the U.S. military has been trending favorably, with strengthening sales and a profitability profile that continues to improve as more products are authorized to be made on our lower cost offshore platform. We expect the positive top and bottom line momentum we are seeing in our military business to continue in fiscal year 2024.

The market dynamics in our Retail Direct channel were similar to those in Global Brands during the year but we saw signs of improving inventory replenishment needs during the fourth quarter among the retail customer base served in that channel. Our dollar store, off-price, and farm/fleet retail customers in this channel continue to be a bright spot and outperform relative to other areas.

Looking ahead, we expect both our Global Brands and Retail Direct businesses to steadily pick up as we move into the second half of this fiscal year and get past some of the current headwinds from lower demand and excess global manufacturing capacity. The near and long-term prospects for these businesses continue to be solid and we believe our investments in product development and decoration platforms that leverage our vertical blank garment platform and nearshore speed to the U.S. market will drive higher-margin sales growth moving forward. There are substantial barriers to entry in these businesses and only the most qualified suppliers can do business with the world's largest brands and

retailers. We have provided full-package programs to these highly sophisticated customers for almost two decades now and made the investments required to meet their needs including adding a retail packaging and readiness platform and systems to facilitate advance ship notifications and other premium logistics services. Moreover, we always prioritize compliance and ensure that we offer brands and retailers a solution that lends integrity to their supply chains.

Turning to Salt Life, the business continued to generate significant operating profitability during the year despite some recent softness at wholesale stemming from higher inventory levels. We see this softness as temporary and expect sales growth at Salt Life in fiscal year 2024, including more direct-to-consumer growth in both the branded retail and eCommerce channels.

Salt Life continues to expand its branded retail footprint with the recent opening of two new retail doors in Florida and the brand's first location in Virginia expected to open in our second fiscal quarter. Salt Life will finish the calendar year with six new retail stores and a total owned retail footprint comprising 27 stores, including 15 full-price stores and 12 outlet stores across the country and over 55,000 square feet of retail floor space. The new location in Pompano Beach, Florida will also house a multi-media content studio and broadcast platform for the Sport Fishing Championship (SFC) as part of Salt Life's new agreement to serve as its official apparel and sunglasses provider.

Same store sales among Salt Life stores for the fourth quarter were about flat with the prior year quarter and, for the year, decreased approximately 4%, with the drop due to the choppy retail traffic in the destination locales where our stores are located. As we discussed on our prior call, the less-than-ideal spring and summer weather conditions in these areas including hurricanes making landfall on the west coast of Florida were a key driver in the choppiness. Looking deeper into the numbers, we continue to see consistent gains in key performance metrics such as conversion rate and transaction value, which tells us that Salt Life's products and retail presentation are on point and same store sales will pick up commensurate with traffic returning to more normalized levels.

Salt Life's eCommerce website sales continued to outperform and year-over-year grew 41% for the quarter and 54% for the year. We feel very good about our direct-to-consumer channels at Salt Life and will continue to invest in building them out for long-term growth. We believe there is a lot of near-term white space for the eCommerce channel to grow as we develop more data analytics sophistication and build more targeted marketing strategies. We have experienced a similar dynamic in our retail strategy where we continue to utilize more refined data points to make decisions regarding new markets and locations.

Finally on Salt Life, we were pleased to see the initial market interest in Salt Life's newly licensed home furnishings line exceed expectations and we expect Salt Life's license royalty revenue stream to more than double this fiscal year as the new line sells through.

Turning to our DTG2Go business, the fourth quarter capped off what can best be described as a foundational year during which we completed a variety of key initiatives that set the stage for profitable growth for years to come. We completed the planned upgrade and recalibration of our entire Polaris fleet that drives the higher print quality products offered in our digital first business. This initiative resulted in some downtime and reduced capacity in the back half of the year, but we now have all of our digital first facilities recertified and we are already seeing the consistency and quality gains we expected coming out of this effort. We continue to remain keenly focused on driving uptime and output rate improvements in our digital first channel.

Our digital first capacity was essentially sold out going into the critical holiday season and our relationships with our key partners in that channel continue to grow and solidify. In addition, we recently enhanced the profitability profile of our digital first business through revised pricing structures and increasing usage rates for Delta Direct manufactured garments. We see significant potential opportunities to expand that business through additional silhouettes and areas outside of eCommerce.

On the traditional side of the DTG2Go business where we serve eCommerce, retail, promotional, brands, content companies and a variety of other channels, we recently implemented price increases across most of that customer base and our on-quality performance remains at an all-time high. Sales in the traditional eCommerce platform channel remain dynamic and we see some significant new business development opportunities there as well as in other channels. Several of these new opportunities will utilize Delta Direct blank garments, which increases both our profitability profile and our customers' due to price point and manufacturing consistency.

We also advanced several foundational R&D initiatives on the product development side at DTG2Go in fiscal year 2023. The team developed a proprietary fabric optimized for ink reception and other aspects of digital printing that should accelerate customer usage of Delta Direct blank garments at DTG2Go beyond the approximately 55% usage rate in fiscal year 2023. We currently expect that internal blank garment usage rate to increase to as much as 70% in fiscal year 2024. The team also developed a proprietary textile manufacturing process designed to solve well-known quality challenges in the digital print process. We believe that these are potential game-changers from both quality and profitability perspectives and should result in a higher quality product for the end consumer and a greater competitive advantage for us in the market.

Looking ahead, we believe that our DTG2Go business is poised for a return to top-line growth in fiscal year 2024. With the foundational pieces put in place this year and our digital first offering uniquely able to meet even the highest customer quality requirements, DTG2Go is well-positioned to increase its share of the overall decorated apparel market. The digital disruption in decorated apparel is well underway and its hallmarks of speed to the consumer, sku customization, inventory de-risking, and sustainability are things we believe more and more apparel players will want to leverage and move some or all of their business away from traditional screenprint. DTG2Go is right there to capitalize on that market shift with its leading print capacity, nationwide network and proprietary innovations as well as Delta Direct's blank garment platform.

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

NANCY

Thank you Justin.

Please note that, as we did on our call last quarter, we will discuss a variety of financial measures that are adjusted to account for the costs impacts of the inflationary cotton and production curtailment activities as well as the strategic cost optimization initiatives Bob referenced earlier. In addition, during the fourth quarter we concluded that the goodwill associated with our DTG2Go business was impaired and we recorded a non-cash charge of \$9.2 million in fiscal year 2023. We will discuss non-GAAP measures such as adjusted gross margins, adjusted operating income, and adjusted net income, as we believe it is important to evaluate our operating results for this quarter and the full year 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.

Fourth Quarter

For the fourth quarter ended September 30, 2023, net sales were \$91.4 million compared to prior year fourth quarter net sales of \$115.5 million. Salt Life Group segment net sales were \$12.5 million compared to the prior year fourth quarter net sales of \$14 million. Net sales in the Delta Group segment were \$78.9 million compared to \$101.5 million in the prior year fourth quarter.

Gross margins were 11.2% compared to 18.7% in the prior year fourth quarter, driven primarily by production curtailments and inflationary cotton costs. Adjusting for these cost impacts, fourth quarter gross margins were 15.9%. Delta Group segment gross margins for the quarter were 4.8% compared to 14.1% in the prior year period. Adjusted for the production curtailment and cotton cost impacts, Delta Group segment gross margins were 10.3%. Salt Life Group segment gross margins for the quarter were flat at 51.7% versus 51.8% in the prior year period.

Selling, general, and administrative expenses (SG&A) decreased favorably from \$19.8 million in the prior year fourth quarter to \$17.1 million, while SG&A as a percentage of sales increased over the prior year period to 18.7%.

Operating income declined year-over-year from \$2.2 million, or 1.9% of sales, to an operating loss of \$17 million, or (18.6%) of sales. Adjusting for the production curtailment and cotton cost impacts as well as the non-cash impairment charge on the goodwill in the DTG2Go business, fourth quarter operating loss was \$2.1 million, or (2.3%) of sales. Delta Group segment operating income for the quarter declined from \$4.8 million to a loss of \$15.2 million. Adjusted for the production curtailment and cotton cost impacts and the non-cash impairment charge, Delta Group segment operating income was a loss of \$295 thousand, or (0.4)% of sales. The Salt Life Group segment experienced an operating loss for the quarter of \$400 thousand, compared to operating income of \$1.2 million in the prior year period.

Net income declined to a loss of \$16.4 million, or (\$2.34) per share, from a loss of \$281 thousand, or (\$0.04) per share. Adjusting for the production curtailment and cotton cost impacts as well as the non-cash impairment charge, fourth quarter net loss was \$5 million, or (\$0.72) per share. Net income for the quarter was 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 September 30, 2023, was \$212.4 million, a sequential decrease of almost \$47 million, or 18%, from December 2022 and a year-over-year decrease from inventory of \$248.5 million at September 2022. The inventory decrease was a product of our team's excellent execution on a high-priority working capital efficiency initiative.

Total net debt, including capital lease financing and cash on hand, was \$165.3 million as of September 30, 2023, an approximate 15% reduction from \$194.3 million at March 2023 and a year-over-year decrease from \$170.6 million at September 2022. Cash on hand and availability under our U.S. revolving credit facility totaled \$14.2 million as of September 30, 2023, a decrease of \$13.0 million from December 2022

and \$20.4 million from September 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 had no capital spending during the fourth quarter compared to \$2.1 million during the prior year fourth quarter.

Full Year

For the full year ended September 30, 2023, net sales were \$415.4 million compared to prior year net sales of \$484.9 million. Salt Life Group segment net sales were \$59.0 million compared to prior year net sales of \$60 million. Net sales in the Delta Group segment were \$356.3 million compared to \$424.8 million in the prior year.

Gross margins were 13.0% compared to 22.4% in the prior year, 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 21.2%. Delta Group segment gross margins were 6.1% compared to 18.3% in the prior year. Adjusted for the collective cost impacts of the production curtailment, cotton, and strategic actions, Delta Group segment gross margins were 15.6%. Salt Life Group segment gross margins increased to 54.6% from 51.6% in the prior year period, with the increase driven primarily by a more favorable mix of higher-margin direct-to-consumer sales.

Selling, general, and administrative expenses (SG&A) decreased favorably from \$79.5 million in the prior year to \$73.7 million, while SG&A as a percentage of sales increased from 16.4% to 17.8%.

Our equity investment in the Green Valley Industrial Park in Honduras where our textiles facility is located provided dividends during the year of approximately \$1.6 million and continues to generate profits recorded in other income that provide an excellent return on our investment there.

Operating income declined year-over-year from \$31.8 million, or 6.6% of sales, to an operating loss of \$29.4 million, or (7.1%) of sales. Adjusting for the collective cost impacts of the production curtailment, cotton, and strategic actions as well as the non-cash impairment charges, operating income was \$18.4 million, or 4.4% of sales. Delta Group segment operating income declined from \$37.5 million to a loss of \$26.2 million. Adjusted for the collective cost impacts of the production curtailment, cotton, and strategic actions as well as the non-cash impairment charge, Delta Group segment operating income was \$21.7 million, or 6.1% of sales. Salt Life Group segment operating income was \$6.2 million, or 10.4% of sales, compared to \$8.2 million, or 13.6% of sales, in the prior year.

Net income declined from \$19.7 million, or \$2.80 per diluted share, to a loss of \$33.2 million, or (\$4.75) per share. Adjusting for the collective cost impacts of the production curtailment, cotton, and strategic actions as well as the non-cash impairment charge, net income was \$3.3 million, or \$0.47 per diluted share, for the full year. Net income for the full year was also significantly impacted by the elevated interest rate environment, with our interest expense for the period essentially doubling over the prior year.

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

BOB

Thanks Nancy.

Fiscal 2023 was a transition year for us in many respects, particularly for our Delta Group segment, but it was also very productive if you look across our Company and see what we did to streamline our cost structure and better position ourselves and our businesses for the long-term. Our Activewear business is leaner from a fixed cost and working capital perspective and DTG2Go has completed the work necessary to take another step forward in its progression with technology, quality and service offerings that are quite unique in the marketplace. We see those businesses continuing to capitalize on the growing synergies they share and for both to grow and gain market share in fiscal year 2024. We also see Salt Life taking another step forward in fiscal year 2024 and believe that business is poised for continued revenue growth driven by direct-to-consumer channels.

We will continue to closely manage our costs, working capital and debt levels and focus our investments in areas that should return the most value for shareholders. These efforts, along with the structural changes we've made across our business, position us for steady operating improvement as we move ahead and market conditions continue to level out. Based on our current view, for fiscal year 2024 we anticipate net sales in a range of \$400 to \$415 million and operating profit margins between approximately 2% and 3.5%, with gross margins sequentially increasing into the low-to-mid 20's, improving operating profit margins beginning in the second quarter, and revenue growth in the back half of the year.

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

Operator

Thank you.

Our first question comes from the line of Dana Telsey with Telsey Advisory Group. Please proceed.

Dana Telsey

Hi. Good afternoon, everyone. Bob, and Justin and Nancy, as you think about this year and how the fourth quarter ended, can you at all give some contextualization as to what the level of demand is going forward, even as we go through the first and second quarter, from the customer base of Delta Group and how that's shifting or changing?

Then, unpacking the gross margin, given the production curtailment and the cotton costs; when do we see some normalization, or should the magnitude of what the gross margin impact was this quarter, does it continue? How do you think of it moving forward?

Then lastly, as you looked at the expense structure of the business and the changes you've made, as we go through 2024, how do you see that operating income and operating margin develop? Thank you.

Robert W. Humphreys

On a demand standpoint, in the fourth quarter, our business remained choppy, depending on the particular market segment. We're seeing some areas that are still strong, like our ad-specialty business and our e-retailer business, and our basic Activewear group. Our specialty business is strong and growing, and there are other channels that are slower. That would include regional screen print and retail licensing. Now having

said that, our business meetings with our retail licensing customers have indicated that their business is improving over time and that we will be receiving more business as we go into the new fiscal year.

As you saw in our Salt Life business, our wholesale business slowed down in the fourth quarter, like we've seen with many of their competitors as well, so it does seem like the consumer is getting a little bit fatigued in buying. Where we have customers in our stores, obviously we have a lot of data. The purchase, once a customer is there, is more product and higher average selling price, but less foot traffic in those retail doors.

As we look into our first quarter, which is well underway now, in general, we're seeing the same conditions continue. We are off to a good start in our DTG2Go business in the quarter and the important holiday season. Our output is high; our quality is good, very good, and our labor utilization rates are some of the best that we've ever seen in that business. We've got some more to go, but are encouraged with our progress in our DTG2Go business as we go into the first quarter.

Dana Telsey

Got it.

Nancy P. Bubanich

Hi, Dana, I believe you asked about the cotton as well, and if we're...

Dana Telsey

Yes.

Nancy P. Bubanich

...through that. We are through most of our higher-price cotton, and we'll start seeing that impact on our P&L as we move into FY24, with lower-price cotton flowing through our cost of sales.

As far as, I think you also asked about production curtailment and operating margins?

Dana Telsey

Yes, yes.

Robert W. Humphreys

Yes, so the operating margin will sequentially improve as we go through the fiscal year. We still have some excess cost on our balance sheet that will roll out in the first quarter, some in the second quarter, and that will be behind us. We've expensed those where we can, through GAAP, and the things that have to follow the inventory, obviously we'll do so.

As Nancy spoke to on cotton, the cotton that we've been bringing into our business for the last several months is what we would call market-price cotton, but it still has to roll through cost of sales, which we'll start seeing the benefit of that in the second quarter, and on out through the rest of the fiscal year.

Dana Telsey

Thank you.

Operator

Our next question comes from Jamie Wilen with Wilen Management. Please proceed.

Jamie Wilen

Hey fellas. When you gave out that forecast for revenues for next year, prior to that, you've talked about you're expecting growth in Salt Life, you're expecting growth in DTG2Go. But when those overall numbers come out, it doesn't look like a major increase for this year. Can you explain that dichotomy?

Robert W. Humphreys

Well, we're not expecting strong overall growth at Salt Life with the current wholesale business environment; growth, but not strong growth.

DTG2Go, we'll have growth sequentially in the second, third and fourth quarter. Our first quarter last year was a large DTG2Go revenue quarter that we did not operate efficiently, and so we took a different stance this year and are not operating as many shifts as we have in prior years, but we think a lot more efficiently. We'll have a strong rebound in operating profit, EBITDA, in DTG2Go this fiscal year compared to last year.

Jamie Wilen

Okay. On the Salt Life wholesale side, have you gained or lost any major customers there?

Robert W. Humphreys

We have not gained or lost any major customers. There are accounts that we chose to quit shipping last year when their margin requirements changed, or other give-backs that they wanted, we just didn't feel like it was a business that was additive to the brand. We see more and more lifestyle brands doing that; so, as retailers get under pressure, they ask for more and more, and if we're not going to make money at it to keep our brand integrity, then we walk away from that business.

Jamie Wilen

Got you. The curtailment costs that you have detailed of \$8 million, how much of that has already been expensed, and how much will go into 2024?

Nancy P. Bubanich

Yes, those all have been expensed.

Jamie Wilen

Okay, but there's still a little bit more to come?

Robert W. Humphreys

Yes. Well, there's more stuff to roll out in the first quarter.

Jamie Wilen

Okay. On the inventory side of the business, when you're looking at \$400 million of revenues, what is the optimal inventory that you should carry to operate efficiently?

Robert W. Humphreys

We should turn our inventory 2.5x a year. We expect to be at about a 2x by the end of this fiscal year. In fiscal '22, I believe, we turned our inventory about 2.4x.

Jamie Wilen

Got you.

Robert W. Humphreys

Obviously, that deteriorated dramatically as business slowed down, and we've taken steps to improve that, and it has been improving. Obviously, with our manufacturing reset and eliminating facilities in Mexico, that will allow us to better manage that and we should be able to operate with less inventories, both in-process and finished goods.

Jamie Wilen

Okay. On the sale and leaseback transaction, I assume it will close prior to year-end. How much of a gain are you looking to record from that?

Justin M. Grow

Hey Jamie, this is Justin. On the sale leaseback, we're looking at January for both of those transactions, so a second quarter event for both of those properties, hopefully, and looking at aggregate proceeds coming in of about \$30 million to \$31 million; \$31 million, \$31.5 million, in terms of how much gain.

Jamie Wilen

Without much tax leakage? Yes.

Justin M. Grow

Without much tax leakage, that's correct. We do not have those on the books for much at all, so not looking at a big tax leakage there.

Jamie Wilen

Okay. Lastly, on Salt Life, what is the outlook for new store openings over the next 12 months?

Robert W. Humphreys

We have one more that will be opened in Virginia in our second quarter. We don't have any other leases signed. We always are looking at locations and negotiating on locations, but there are no other leases signed at this time.

Jamie Wilen

Okay. One last on Salt Life, from the royalty payments you're going to get, you said they're going to be double in 2024 what they were in 2023. What other royalty arrangements do you have that you're receiving income on Salt Life?

Robert W. Humphreys

We have the restaurants, and we have Tervis, and then now we have the home furnishings.

Jamie Wilen

Okay, and they'll be first to be recorded in the December or March quarter? When do they begin?

Robert W. Humphreys

Yes, so we record them each quarter as they come in.

Jamie Wilen

Okay, and they're starting now, they have begun?

Robert W. Humphreys

Well, yes, they've been ongoing, but the new ones will be starting this fiscal year.

Jamie Wilen

All right. Okay, thanks, fellas.

Operator

Thank you. There are no further questions at this time. I would like to turn the call back over to Management for closing remarks.

Robert W. Humphreys

Well, thank you for your time and attention today, and we'll look forward to speak in just a few months and report on our first quarter results.

Operator

This concludes today's conference. You may now disconnect your lines at this time. Thank you for your participation.