Delta Apparel, Inc.

Fourth Quarter and Year End Earnings Conference Call

December 4, 2014

Operator: Thank you, and good afternoon to everyone participating in Delta Apparel's Fiscal 2014 Fourth Quarter and Year End Earnings Conference Call. Joining us from management are Bob Humphreys, Chairman and Chief Executive Officer; and Deb Merrill, Vice President and Chief Financial Officer.

Before we begin, I'd like to remind everyone that this call is being recorded and during the course of this conference call, projections or other forward-looking statements may be made by Delta Apparel's executives. Such statements suggest prediction and involve risks and uncertainty, and actual results may differ materially. Please refer to the periodic reports filed with the Securities and Exchange Commission, including the Company's most recent Form 10-K and 10-Q.

These documents contain and identify important factors that could cause actual results to differ materially from those contained in the projections of forward-looking statements. Please note that any forward-looking statements are made only as of today and the Company does not commit to update or revise these statements, even if it becomes apparent that any projected results will not be realized.

In addition during this call, certain non-GAAP financial measures will be discussed. In the Company's filings with the SEC, which are available on the Company's website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures.

I'll now turn the call over to Delta's CFO, Deb Merrill, who will provide the details of the Company's 2014 fourth quarter and fiscal year end results.

Deborah H. Merrill: Thank you. While Delta's products did well at retail during the fourth quarter and the full fiscal year, continuing sluggishness in the economy and an unusually harsh winter had a negative impact on the entire apparel industry. The lingering effects of management changes and related issues at several of our large customers presented additional challenges as well.

Net sales for the fiscal year ended September 27, 2014 were 452.9 million, versus 483 million in the prior twelve months. Net income, adjusted for the $4 million pretax impact of strategic initiatives was 1.5 million, or $0.19 per diluted share compared with net income in the prior year of 6.2 million or $0.74 per diluted share.

Without adjustment to the impact of our strategic initiatives the Company experienced a net loss for the year of $1 million, or $0.12 per diluted share.

Fourth quarter sales were 114.9 million, compared to 122.6 million in the prior year September quarter. Our fourth quarter adjusted net income of 1.7 million or $0.22 per diluted share was an improvement over the net income of 600,000 or $0.07 per diluted share in the prior year period. Without adjustment to the impact of our strategic initiatives, we experienced a net loss for the fourth quarter of 765,000 or $0.10 per diluted share.

As I begin discussing our results by segment, you should note that we are reclassifying Art Gun to the Basic segment to reflect its current operating characteristics in the market place, and this change is reflected in our fiscal 2014 results and corresponding comparisons. For fiscal 2014, net sales for our Basic segment declined 3.4% to 265.9 million. Demand for undecorated tees was weak throughout the first three quarters of fiscal 2014, leading to discounting and price erosion as the year progressed.

On the positive side, we experienced strong growth providing customers with decorated, full-package programs on catalog blanks. These programs increased over 80% in the fiscal 2014 year, adding incremental revenue and profits from the printing and packaging of blank tees. This success in 2014 has led us to being awarded additional programs that should provide for continued growth in these types of programs in fiscal ‘15.

Art Gun was up 23% for the year but experienced a 14% decrease in the fiscal 2014 fourth quarter due to slowness of e-retailers business in advance of the holiday season, coupled with some temporary disruption in production as we brought new equipment into the facility to support anticipated holiday growth. Art Gun is now equipped with the latest technology in digital printing equipment which should provide capacity to continue its strong growth in fiscal ‘15.

Fourth quarter net sales in the Basic segment were 61.4 million versus 65 million in the prior year period, a 5.5% decrease. The undecorated tee market appeared to strengthen in the September quarter and the Company's undecorated tee sales were up slightly from the prior year, driven by higher units and higher average prices. That improvement was offset by declines, primarily driven by one private label customer that in the prior year had success at retail with a licensed product sourced from FunTees. This business did not repeat this year as the license ran its course and declined at retail.

Sales to our core private label customers increased during the quarter, but the increase was not enough to offset the decline of this one licensed program. The Company has recently gained new programs with existing customers and added programs with major international brands, which should drive sales growth in private label for fiscal 2015.

Fiscal 2014 net sales for the Branded segment were 187 million, a 10% decrease from the prior 12 month period. Fourth quarter sales for the

Branded segment were 53.5 million compared to 57.6 million in the prior year period, a 7% decline. Salt Life continued its strong sales growth, up 31% for the quarter and nearly 26% for the year, driven by its new product lines and an increase in retail door count.

Soft retail environment and continued unsettled conditions within one of Junkfood's large retail groups were the primary reason for a 16% sales decline in the Junkfood business for the fourth quarter. Junkfood continues to grow in its other sales channels, including specialty stores and boutiques. We anticipate top line growth and improved profitability for Junkfood in fiscal '15.

Soffe sales declined 15% in the 2014 fourth quarter from the prior year quarter, but started regaining shelf space with key retailers and won additional military programs, which we believe should drive top line growth for Soffe in fiscal '15.

Throughout the year, we continued our focus on expense reduction and leveraging our back office function. The benefits of these efforts are seen in the reduced general and administrative expenses, with SG&A expenses as a percentage of sales at 21% in the fourth quarter compared to 21.7% in the prior year. For the full year, SG&A costs were 19% of sales compared to 19.8% in the prior year. We anticipate continued improvement in our SG&A cost as a percentage of sales in fiscal '15.

Capital spending during the September quarter was 2 million which brings the total to 9.7 million for the full year. Depreciation and amortization, including non-cash compensation was 2.3 million in the quarter and 9.7 million for the full year. We did not make any stock repurchases during the September quarter but during fiscal '14 we repurchased almost 79,000 shares of our common stock for a total cost of 1.2 million.

Total debt at September was approximately 130 million, a reduction of nearly 5 million from the prior year September. We expect further debt reductions in the upcoming year from improved earnings, limited capital spending, reductions in underperforming assets and lower inventory investments driven by lower inventory units and a reduction in cost from lower raw material prices.

I'll now turn the call over to our Chairman and CEO, Bob Humphreys for his comments on the previous year and how things are shaping up for fiscal '15.

Robert W. Humphreys: Thanks, Deb, and thank you all for being on this call with us.

Despite our disappointing financial results, we completed a number of key initiatives during the year, which we believe makes Delta Apparel a stronger, more agile Company as we move forward. We have streamlined our administrative workforce and with minor exceptions have completed our planned headcount reductions, effectively delayering the management structure across all of our business units. We recorded the $2.2 million of severance-related expenses associated with this initiative in the fourth quarter of fiscal 2014 and anticipate recognizing nearly $6 million of the expected $7 million in annualized savings. Of this recognition $6 million will occur in fiscal 2015.

In fiscal 2014, we made important improvements to our manufacturing platforms. We completed the current phase of expansion for Ceiba Textiles, our textile facility in Honduras. Output from this facility is expected to increase using this new expansion capacity as we progress through 2015. In addition, we improved our sewing and screen printing facilities in Honduras and El Salvador, which is allowing us to increase our internal production of garments in these low cost plants. Our domestic screen print operation located in Fayetteville, North Carolina was also modernized which expands its capacity, enhanced its capability and reduces its cost.

We also began a comprehensive rationalization analysis of all our business units, product lines and sales channels in order to refocus our capital and other resources on the areas we believe are strategic to our business. Although we are not yet prepared to go into details regarding all of these initiatives we anticipate that a number of them will be completed as we progress through fiscal 2015 and should have further positive results on our business both in the short term and long term. Based on the action items currently under consideration, we don't expect to take additional charges to complete these plans.

Soffe is being revitalized on several levels. We have rebuilt the Soffe leadership team with experienced apparel industry executives. Most recently, we added to that team a proven highly effective Vice President of Sales. The Soffe team recently kicked off a new marketing program designed to build consumer brand recognition and drive our targeted customer to retail to purchase Soffe products. Regional and national retailers are supporting the Soffe brand and have increased the buy-in of Soffe spring merchandise. We have won new military issue programs, which will begin shipping this quarter. We are also growing in the military PX space and are seeing a growing interest in our unique ability to provide Made in America products on our vertical manufacturing platform. We are optimistic that Soffe can start regaining lost revenue and return to profitability as fiscal year 2015 unfolds.

We are also very pleased with our new Junkfood store on the iconic Abbot Kinney Boulevard in Venice, California. It is not only meeting our financial expectations but has attracted numerous national retailers who are able to witness the most effective ways to merchandize Junkfood products. Some of these business have already led to new retail programs that Junkfood will begin shipping in fiscal 2015.

Sales of Salt Life products grew nicely during the quarter and we further expanded the geographic footprint of the brand. Our acquisition of Salt Life in August of 2013 changed our status from a licensee to a brand owner. This has allowed us to further expand the product line and make long-term investments in point of sales fixtures, marketing and the building of social media touch points. Our licensed Salt Life restaurant in Saint Augustine is exceeding expectations by virtue of the high number consumers who had the opportunity to experience the Salt Life brand as they patronized the restaurant. While there is a good revenue stream from royalties, we are most pleased that the restaurant has become an effective marketing tool for Salt Life's exciting lifestyle products.

We have a number of new Salt Life marketing initiatives underway. In conjunction with the January surf show, we will be announcing additional professional brand ambassadors who are primarily West Coast based. We also recently engaged a digital media firm, which will soon launch a Salt Life YouTube channel. The extensive Salt Life consumer survey we recently completed confirmed that our consumer think of Salt Life products as their go to lifestyle brand. The survey indicates that Salt Life consumers are split 50:50 male and female. They also span a broad age range and have disposable income to spend on apparel. The best news is they are excited about Salt Life and want more products from us.

Our next big step for Salt Life will be a Salt Life retail store based in Southern California. We will continue our search for a site after the beginning of the new calendar year and have the store build out in our capital plans for fiscal 2015. As we see the upcoming year, we can expect that the markets we participate in will continue to be challenged. Cotton costs and other raw material and energy costs remain volatile. Overall, we expect these costs to ease over the next several months, which we believe will have a favorable impact on our cost of sales in the second half of the year. At this point, we are assured on forward cotton commitments as any time I can remember.

We believe our brands are gaining in consumer awareness driven by our branded retail stores, e-commerce sites, in-store shops, and (audio interference) sales growth in our base (audio interference). All of our business units (audio interference) operating efficiencies. The initiatives that we have implemented over the past month should position us well to improve our overall profitability and allow us to build market share in a competitive environment.

Finally, although we will continue to refrain from providing revenue and earnings guidance, we believe that our accomplishments during fiscal ‘14 and the benefits from the strategic initiatives should allow Delta Apparel to experience top line growth and should be decisively profitable in 2015.

At this time, Deb and I will be glad to answer any questions you may have.

Operator: If you would like to ask a question, please press star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again that is star, one if you would like to ask a question. Our first question is from Buzz Heidtke from Heidtke and Company.

Buzz Heidtke: Yes, could you tell me little bit about your cotton, I guess your buy program, I guess in the commodity market, I guess you probably lost money on that.

Robert W. Humphreys: Not at all, I don't think so.

Buzz Heidtke: I mean, I know cotton dropped but you are (inaudible), are you in hedging right now or what are you doing right now with cotton?

Deborah H. Merrill: We do our hedging programs at various times and when we get in options and when we get out of options are just depending on what our view of the market place is and where we are with our expectations. So no, I mean what Bob said is exactly right. We did not lose money on our hedging strategy. We were able to make that a positive move for us and overall lower our cotton cost for the yarns that we are bringing in.

Buzz Heidtke: Okay, then thank you.

Operator: Once again that is star, one if you would like to ask a question. Our next question comes from James Fronda with Sidoti & Company.

James Fronda: Hey, guys. How are you?

Deborah H. Merrill: Good.
James Fronda: But on the flip side of that, I mean, do your customers negotiate in terms of the cotton price on the other side of that, in terms of sales?

Robert W. Humphreys: Well, yes. It obviously depends on what sales channel we are ultimately selling the products through, and whether they are branded or unbranded. It is most sensitive in the commodity undecorated tee shirt market.

James Fronda: Right.

Robert W. Humphreys: So, replacement cotton is cheaper than what's in the market places' inventory, but we will soon be getting to lower cost cotton and we feel good about our position on that because we have leaner imports (ph) than we did this time last year, I think probably leaner than the market place. We did have a hedging strategy in place. So, we did not really chase the December's futures down. We waited and were able to take advantage when they got closer to their lows and are in very good position, I think to take advantage of March (ph) base cotton.

James Fronda: Okay, and I hopped on the call a little late, will there be ability for SG&A savings in 2015?

Robert W. Humphreys: Yes, so fiscal ‘15 SG&A dollar savings, and this is our delayering which is almost all SG&A related is about $6 million, and so we expect SG&A cost to be around 18.5% for the full fiscal ‘15.

James Fronda: Okay, all right, thank you guys.

Operator: Our next question is from James Clement with Macquarie.

James Clement: Hey guys, good afternoon.

Robert W. Humphreys: Hi, there.

James Clement: All right. I was just curious. I know we are perhaps only about six days in, but any sense from your customers how retail store traffic might be doing as it relates to t-shirt sales early on in the holiday season?

Robert W. Humphreys: Yes, from a macro standpoint, if you look at what November retail sales were in totality, the numbers I have seen are okay. There is a little bit of—maybe there was more discounting early. I think the Thanksgiving sales period was probably a little bit below people's expectations. But, so I don't think a disaster or anything like that at this stage of the game.

James Clement: Okay, and just changing gears, the new retail store in Southern California, would you expect the all-in cost to be somewhat similar to the Venice location?

Robert W. Humphreys: Yes.

James Clement: Okay, great. Thanks very much.

Operator: Once again that is star, one if you would like to ask a question. As a reminder, if you are using a speakerphone, please make sure to pick up your handset to disengage the mute function prior to signaling. As we have no further questions, I will turn the call back over to our speakers for any further comments.

Robert W. Humphreys: Okay. Thank you all again for joining us, and we will look forward to reporting on our first quarter results here in just a few weeks. Thank you.

Operator: That does conclude our call. We appreciate your participation.