



# Delta Apparel, Inc.

## Fiscal Year 2019 Third Quarter Results Earnings Conference Call

### **Operator:**

Thank you, and good afternoon to everyone participating in Delta Apparel's Fiscal 2019 Third Quarter Earnings Conference Call. Joining us from management are Bob Humphreys, Chairman and Chief Executive Officer, and Deb Merrill, Chief Financial Officer and President of Delta Group.

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

### **Robert Humphreys:**

Good afternoon, and thank you for joining us on our Fiscal 2019 Third Quarter Earnings Call. On today's call, I will briefly discuss our business results along with a few key highlights that showcase why we continue to believe that Delta Apparel remains well positioned 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 are extremely pleased with our accelerated top-line growth in the third quarter, with overall sales of nearly \$120 million, representing year-over-year increase of roughly 5%. Our Delta Group segment continued to benefit from the strong sales growth in our digital print business, DTG2Go. I'm also pleased to share that our Softe brand achieved sales growth of nearly 3% for the quarter, and helped drive overall growth in that segment.

Our Salt Life Group segment started the quarter strong with the arrival of more spring-like weather, and benefited from the later Easter holiday and spring break selling period that impacted the prior quarter. That early sales momentum continued through the quarter resulting in robust year-over-year sales growth of over 18%. Excellent quarters like this one only strengthens our belief in the Salt Life brand's exciting long-term growth potential.

Taking a look at our performance in greater detail, we delivered another quarter of solid top-line growth in our Delta Group segment registering year-over-year sales increase of 5% that was anchored in our

DTG2Go business, 63% sales growth for the quarter. The foundation of our digital print business remains strong, and we're excited about our expansion in DTG2Go and the synergies it is creating across our platform.

We recently announced the planned opening of two new digital print facilities servicing the Texas and North East Markets. These facilities, one located in Dallas and the second in Cranbury, New Jersey, will further our strategy of establishing integrated locations that combine DTG2Go, state-of-the-art on-demand platform, with our activewear business reliable supply of low-cost fashion and core basic garments. We initiated this vertical supply chain strategy for that facility in the Miami area, and it's been a highly effective differentiator for us to something our competitors cannot easily replicate. Our two new facilities will give us a total of seven digital print locations and create a truly seamless nationwide print in fulfillment networks, able to reach over half of all U.S. consumers with one-day shipping, including the important New York City and Dallas metropolitan area markets.

As we have noted in the past, the speed with which we can manufacture and deliver finished garments to the end consumer remains a key competency for us. The combination of our Western Hemisphere manufacturing base multi-facility distribution strategy and leadership position in the on-demand digital printing is unparalleled in the market, and we believe these two new facilities will only enhance our competitive advantages going forward.

We continue to view digital printing as a large and generally untapped market. Particularly when you consider the huge amount of screen print apparel sold in the U.S. and globally, they could be digitally printed on demand. We've seen and signed a number of near-term growth opportunities in this space, spanning across many sales channels.

In addition to the benefit of DTG2Go's on-demand solution to eliminate inventory risk for our customers, DTG2Go's fulfillment model also provides growth opportunities for customers by allowing them to be more aggressive with their product offerings and better leverage their intellectual property, portfolios, and creative design teams. DTG2Go continues to develop and offer value-added services such as unique UPC codes and other packaging options, which allows for a seamless retail experience with on-demand and in-store purchases. Over the past 18 months, we have clearly shown our commitment to the digital print business through a combination of multiple acquisitions and significant investments in digital print capacity, proprietary fulfillment systems, and new facilities. In addition, as I mentioned on our second quarter call, we have a first-mover advantage with our recent adoption of its first in its time polyester printing technology, delivered by Kornit Digital. I'm pleased to report that we have initiated production utilizing this new technology, and believe it has tremendous market potential given the increased demand for decorated performance polyester garments.

We have great momentum in our DTG2Go business as we enter our final quarter of our fiscal year. With three quarters of the year now behind us, we have a clear line of sight to achieve our full-year goal of more than doubling DTG2Go's revenue to over \$60 million, and we remain very confident this business will quickly grow to \$100 million in revenue, with healthy double-digit operating margins.

Now, turning to the other part of our Delta Group segment. We executed our plans for the quarter in our core activewear business, and market conditions appear to remain solid. Demand for our catalog fashion basic line, which includes our Delta Platinum brand continues to generate double-digit growth in that more profitable piece of our business. The vast majority of our new product development continues to be focused on our fashion basics line, and is driving exciting new product innovations including fabric, color, and silhouette expansion. Our continuing emphasis on new sales channels such as direct-to-retail and e-commerce, along with cross-selling opportunities including our catalog line, the DTG2Go digital print, and Softe decoration platforms, is driving new business along with value-for-customer diversification. We anticipate more growth in activewear as we capitalize on these new go-to-market strategies, and further leverage our internal manufacturing capacity and decoration and fulfillment services.

Customer interest in our Western Hemisphere manufacturing platforms continues to be solid, and the dynamics in the private label market remain favorable to the platform like our FunTees business, that are sophisticated from a compliance standpoint, flexible in the products and retail services they can provide and importantly close to the United States market. I'm pleased to report the FunTees shipped a record number of units in our third fiscal quarter and remains on pace for record unit sales for the full year.

Finally, within the Delta Group, an update on our Softe brand. In addition to the encouraging year-over-year sales growth at Softe, it also achieved solid profitability improvements. We had a strong quarter in the military channel, and also saw wins with team dealers and specialty retailers. Softe's performance on the B2B side, which allows customers to easily place the Softe orders online continued with double-digit growth during the quarter, bringing its year-to-date growth to nearly 40%. We believe the Softe brand is gaining more attraction with consumers and benefiting from the trends favoring authentic heritage brands.

Looking at our Salt Life Group, this was another quarter of broad-based success with our Salt Life businesses achieving sales growth in excess of 18%, and solid performance across all major sales channels. As I mentioned, the later Easter holiday and spring break provided some nice early tailwinds, and the Salt Life business was able to sustain that momentum throughout the quarter. The nice growth trajectory Salt Life enjoyed with national and regional retailers in the first half of the year continued during the third quarter. We expect this momentum to continue as Salt Life grows geographically with these larger accounts, and to possibly accelerate the several potential new national opportunities on the horizon. In addition, product tests with several new regional retailers in markets outside of Salt Life's traditional strongholds had done well, and we hope to expand on that success going forward. From a product perspective, Salt Life higher-priced performance line continues to be well received across our wholesale partner base and branded retail stores, and our sales mix continues to diversify with women shoes and accessory categories gaining more traction. In addition, our expanding product line is facilitating more opportunities to gain-for-space, point-of-sale displays, and shop-in-shops and retail.

On the direct-to-consumer side still from the Salt Life, brick-and-mortar retail footprint continues to increase, and a new store is expecting to open in the Orlando, Florida market, in our fourth fiscal quarter, and another in Key West, Florida should open soon thereafter. These additional locations will bring Salt Life's total store count to eight, and we've got several other locations under development in Florida and South Carolina, with more in planning for the future. During the quarter, we converted our SaltLife.com e-commerce site to a new technology platform that improves the user experience and speed on mobile devices. Although this transaction impacted sales during the quarter, we're excited to be on a new platform and off to a good start in our fourth-quarter, with a nice rebound in site traffic and demand. One of the many interesting things about our e-commerce business is the valuable insight it provides to where our consumer base and brand awareness is growing geographically.

Recently, Illinois became one of a top 10 states for Salt Life's direct-to-consumer sales and Pennsylvania is another. This inland growth in the Midwest and North East Markets is an exciting indicator to the potential for the brand and new regions in a validation of the efforts we have made to expand geographically. Our entry into the beverage with Salt Life Lager had a nice quarter of market expansion as we entered Alabama, Tennessee, and South Carolina. We now have distribution of Salt Life Lager in five states, and we're planning entries into additional Southeastern markets in the fourth quarter and as we move into the new fiscal year. The performance of Salt Life Lager and other brand extensions like the Salt Life Food Shack restaurants continue to broaden the brand's audience and lifestyle position, while also providing us with a nice supplemental revenue stream

To summarize our view of the quarter and looking ahead, we were pleased to deliver strong top-line growth and broad-based strength across our business segments and continued out performance in our fast growing digital print business. We're also extremely encouraged by the double-digit growth of our Salt Life business and positive transit Softe. Our businesses are working together better to capitalize on opportunities to leverage the flexibility of our manufacturing decoration and distribution platforms, and we believe we're in good position to defeat in our markets going forward.

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

**Deb Merrill:**

Thank you, Bob. As Bob noted, we're pleased with our third quarter performance and the continued strength from our Delta Group and good momentum in our Salt Life Group. For the third quarter, net sales were \$119.3 million, up 6.3% from \$112.2 million in last year's third quarter. Net sales in the Delta Group's segment increased 5% over the prior year period driven by the strong growth from DTG2Go as well as improvement in our Soffe business. The growth at DTG2Go was driven not only by the recent acquisitions but also by organic growth over the prior year keeping us on pace to generate about 20% organic growth in this business. In the Salt Life Group segment net sales increased 18% with strength across all major sales channels. Gross profit for the third quarter was \$24.8 million, up 2.2% from the prior-year quarter. As expected, gross margins sequentially improved from the second quarter, increasing 240 basis points to 20.8% for the third quarter.

We look for our gross margin to continue to increase in the fourth quarter and as we progress through the upcoming fiscal year. SG&A expenses as a percentage of our overall sales was 15%, an improvement of 100 basis points versus last year driven by better leveraging of our cost structure with higher sales volumes in both our Salt Life Group and Delta Group segment. Other income in the Salt Life Group segment benefited from a discrete gain of \$1.3 million realized from the settlement of a commercial litigation matter during the quarter. Net of related expenses recorded in SG&A to gain favorably impacted operating income by about \$1 million or \$0.10 earnings per diluted share. Operating income in for the quarter was \$8.4 million compared to \$6.7 million last year with improvements in profitability across both the Delta Group and Salt Life Group segments in addition to this discrete gain recorded in the quarter. Net income for the quarter was \$4.9 million or \$0.70 per diluted share compared to net income of \$4.6 million or \$0.62 per diluted share in the prior-year period.

Now, turning to our year-to-date performance. For the first nine months of Fiscal 2019, net sales were \$323.8 million, up 7% from \$302.5 million in the comparable period last year. Net sales in our Delta Group segment increased 7% over the prior year and net sales in our Salt Life Group segment increased almost 7% over the prior year as well. Gross profit for the first nine months was \$62.3 million, down slightly from \$62.9 million in the comparable period last year with gross margins at 19.2%, down 160 basis points during the prior year. Higher cost raw material along with acquisition integration expenses and startup costs from new product launches in our private label business, impacted our first half of Fiscal 2019 results. SG&A expenses as a percentage of sales improved 40 basis points to 16% compared to 16.4% in the prior-year period. Operating income was \$11.3 million compared to \$14 million in the comparable period last year with the majority of the decrease attributable to a discrete expense of \$2.5 million taken during the first quarter in connection with the resolution of a customer bankruptcy matter within the Delta Group segments that we've previously disclosed. Net income for the period was \$4.7 million or \$0.67 per diluted share compared to the prior year period of net loss of \$1.8 million or \$0.25 per diluted share.

Now, turning to the balance sheet, with regards to capex, there's total spending for the first nine months of fiscal '19 is \$10.3 million with \$6.6 million coming in the third quarter. This spend was principally related to digital printing and other equipment as well as IT system enhancements. Depreciation and amortization including non-cash compensation for the first nine months was approximately \$10.3 million with approximately \$3.4 million in the third quarter. Regarding our share repurchase activity during the quarter, we repurchased about 14,000 shares of our common stock at an average price of \$21.97 per share and a total cost of about 308,000. As of quarter-end, we had approximately \$9.5 million remaining approved for share repurchases under the program. Total debt, including capital lease financing as at the end of the quarter was \$149 million, up approximately \$33 million from last year. The majority of the increase was driven by our recent digital print acquisitions as well as investments in the digital print business coupled

with higher working capital to support our various growth initiatives. We continue to expect our debt to decrease by about \$15 to \$20 million as we progress through the fourth quarter.

Before turning the call back to Bob, I want to give some insight into our anticipated results for the remainder of the year. We expect to see more overall sales in earnings growth to finish the year driven by continued top-line strength from our DTG2Go business as well as solid performance from our Salt Life business. As mentioned before, we expect continued sequential improvement in our gross margins finishing the year with strong operating profitability driven by sales growth in our higher margin products and a better balance between selling prices and raw material costs in the active wear business.

Now, I will turn the call back to Bob for his final comments.

**Robert Humphreys:**

Thanks, Deb. Our third quarter was well executed across all of our business segments and we enter our final quarter with exciting momentum in a variety of areas. Our focus on new product development, customer diversification, sales channel expansion is driving more and more new opportunities for profitable growth and we believe the investments we've made to create a more flexible manufacturing and distribution platform will allow us to effectively leverage these strategies.

We also believe we are uniquely positioned to adapt and capitalize on whatever new products may arise at retail through our ability to internally manufacture the majority of our products and deliver them quickly with the retail customization and sophistication customers now demand.

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 8,300 associates spread across four countries and they above all else drive our growth and success as a Company.

Operator, we will be glad to open the call up for any questions.

**Operator:**

Thank you. If you'd like to ask a question, please press star, followed by the number one on your telephone keypad. If you're calling from a speakerphone, please make sure your mute function is off to ensure your signal can reach our equipment. Again, star, one to ask a question.

We'll go first to Dave King from ROTH Capital Partners. Your line is open.

**Andrew:**

Hi there, this is Andrew stepping on for Dave. Just to start off, it looks like organic growth for your Delta Group was up 2% or so. Is there anything you can share on how catalog and private label performed in the quarter? Then, what was organic growth for DTG2Go?

**Deb Merrill:**

Yes. So overall, from the catalog in the private-label business, catalog continued to have some growth. That was offset though by some sales dollars decline in our FunTees business, and as we've mentioned in prior quarters, our unit growth is up in our private-label business, but being offset by some pricing differences based off of the products that we're delivering at the request of our customers. So overall, that catalog growth really offset the private-label sales dollar decline.

As far as DTG2Go is concerned, it obviously has a strong growth. Some of that was additive from the acquisitions we have recently done. But, we had a stronger organic growth than we did in the March

quarter and are on pace to meet our 20% overall organic growth that we have—that was our goal for this year and going forward, and we're certainly on pace to achieve or exceed that this fiscal year.

**Andrew:**

Great, that's helpful. That's good color. Thank you. Then, I guess, to what extent did cost and prices still weigh on margins in the quarter, and then with cotton prices down a fair bit, should we begin to see a year-over-year increase in margins in Q4?

**Deb Merrill:**

To answer your question, the majority of those higher-priced from a cotton perspective really flush through in the March quarter, maybe a little bit still in this quarter, but for the most part, we got the highest cost cotton behind us. Certainly, there are other inflationary aspects that are still in the business. But yes, we do expect the margins in that business to be sequentially better in the fourth quarter and then I think where you really see the benefit is as we progress in the first half of next fiscal year as compared to the first half of our Fiscal '19 is where we would expect to see the big year-over-year improvement.

**Andrew:**

Great, that's helpful. Thank you. Then lastly for me, after the strong start to the quarter, it looks like Salt Life growth might have moderated a bit, do you have the growth month-by-month there, and then anything you can share about trends into July in your outlook?

**Robert Humphreys:**

No, we're not going to start that second, just by month or by week, You got to look at the big picture trend that say we're on pace to have a 10% growth rate for Salt Life as we've communicated is our expectation and what we're working for. So far in our fourth quarter, we're seeing those trends continue.

**Andrew:**

Great, that's helpful. Thank you.

**Operator:**

Again, if you'd like to ask a question, please press star, one at this time. Next we'll go to Jamie Wilen from Wilen Management. Your line is open.

**Jamie Wilen:**

Hi fellas. Nice quarter. I wanted to ask you about the capacity additions of the DTG2Go. Are they now up and running in New Jersey and Dallas, and are they running efficiently, or are there more integration expenses to go, and how will this impact your ability as you get to the holiday season when you run 24/7? Do you have more capacity this year than you did last year?

**Deb Merrill:**

Yes, those are good questions, Jamie. The two locations will really be opening as we end out this summer. So right towards the end of the fiscal year is when we expect to get those open, and then obviously into the first quarter to have them up running full speed for the holiday season. There will be some start-up expenses in the first quarter of next year from that, but we don't expect that to be a significant impact to the overall results. We definitely will have more capacity for this upcoming holiday season than we did last year, to support the expected strong, again, 20% plus of growth rate that we

expect to see in this business, so that will certainly help that. We also think we'll get some benefits just from being able to ship one day into those key markets of New York City and in Dallas, and we think for our customers, that should allow them to see some stronger growth than maybe they've seen in the past as well. So, we think it will be good for our customers and good for us.

**Jamie Wilen:**

The 20% organic growth, where is that coming from? Are you picking up additional brick-and-mortar retailers or what type of business is generating that type of consistent growth?

**Deb Merrill:**

Yes, the exciting thing is that we are seeing new customer growth in a lot of areas. We're seeing growth within our existing customers, so that's good in and of itself, but we continue to see more and more interest from what we would call traditional retailers, and the interest there, I think people are really realizing the benefits that we can provide with a no-inventory commitment and growth opportunity for them, as well as the other sales channels that we've been talking about in the promotional products areas and across those different sales channels. So, that's what's exciting for us, as it's not coming from just one place but really a broad spectrum of different customers that we're really reaching at this point in time.

**Jamie Wilen:**

Okay. You now have the digital printing capability on polyester. Is that ready-to-go, and will that have an impact on your business in the holiday season?

**Deb Merrill:**

It will. We were actually excited, we are now selling off of that new piece of equipment as we speak. So it has been launched by a customer, and more to be launched in that of getting those products up online with our other customers. So yes, we think that that will continue to add value, and certainly we will be using that during the holiday season as well this year for the first time.

**Jamie Wilen:**

Okay. Then lastly, on the vertical supply chain that you have. Obviously, if you have the inventory in hand, that won't be out-of-stocks for your customers when an order is placed for them. The acquisitions you've made obviously had a very small percentage of using your vertical supply capabilities, and your existing business was more fully integrated. How do you expect to progress on that side and increase the vertical supply penetration to the existing and new accounts?

**Deb Merrill:**

I would say, we are very pleased with the progress that's making we had during the quarter, a couple of customers that did switch over to pick up the Delta products that were previously not using the Delta products, so it's a big initiative and we're having success already during the quarter, and we expect more and more to actually convert over. Even more exciting than that, I think, is as the new customers are coming online now, we're selling it to start on our products, rather than having to have other products come in and then convert them. We are really selling the platform as a vertical supply-chain to them, and they are seeing the benefits of having that rate there under the same roof. So, I think it's some really good trends happening there.

**Robert Humphrey:**

Jamie, just to add a little bit to that, this is a compelling economic model to use our product, it eliminates duplication of distribution cost that adds no value, it eliminates another layer of potential profit in the process, and in actually some of these key markets like the Northeast, we're really just limiting the vast majority of this to our clients because we have limited amount of space for pick-pack, and so obviously we want to control that market with products that we manufacture and already have in stock. So, we've got a lot of leverage, and it's generally a pretty easy sale overtime as we progress.

**Jamie Wilen:**

Excellent. Now, lastly on Salt Life, the growth you're achieving, is it from more doors, new specialty business, national accounts, online? Where would you say your greatest opportunities have been, and where in the past were your greatest opportunities in the future?

**Robert Humphrey:**

Yes. It was really encouraging this past quarter. We really had strong growth across all of our channels of distribution, and what has typically been a leader force of e-commerce, we turned off all of our marketing on e-commerce for about five or six weeks of the quarter while we were going through this transition of our side. We didn't want to frustrate consumers, so we turned our marketing way down, and so with that it was about flat. For the quarter, we're seeing that growth rebound. So, setting that aside, really our major customers we saw a growth, we saw a growth in the independents which was nice to see compared to the prior year, and of course we had a couple of more retail stores open on our own. So, it's a nice balanced growth quarter for Salt Life.

**Jamie Wilen:**

Have the National Accounts expanded their number of doors or the depth of merchandise that they're carrying for you?

**Robert Humphrey:**

A little bit of both. Some of them are expanding doors and some of them are contracting doors as they see, where our product is selling for them at retail. I think there's a few things that are going on with competitors that's going to be helpful for Salt Life going forward. We're booking spring of next year now, and getting really strong response to what we presented, and our pre-orders are up and our ability to pre-sell products before we source it is encouraging, and so lots of things going on in that marketplace. Over the last few years, there has been a lot of players. New players come in partially because of the success of Salt Life, and I think we're seeing some of that wane a little bit. There's a lot to do to be able to properly service these major retailers, and we do an excellent job on customer service, and I think that's winning us some more space, and we expect a broader percentage of our product offering to be displayed in these retailers. We are in a lot of doors, we're proud of the doors we're in, and we have a great opportunity to get these retailers to carry a bigger percent of our offer, and we can show them where they do in most markets. You know, their sales will increase, sales per square foot will increase.

**Jamie Wilen:**

Great. I've got some more but I'll hop back in the queue. Let someone else go.



**Operator:**

Again, if you have a question, please press star, one at this time. Star one, and I will pause for a moment to give everyone a chance to signal. All right. We'll take our next question from Chris Colvin from BICM. Your line is open.

**Chris Colvin:**

Hey, thanks for taking my question, and I apologize if I missed this. I heard some great growth stats on Salt Life and DTG2Go. But can you provide any of the gross metrics on the other businesses such as Soffe, Delta Activewear, catalog, which you may have mentioned, private label?

**Deb Merrill:**

Certainly. So again, I think as Bob mentioned during the call, Soffe, we were excited to see some growth. Soffe achieved about a 3% growth during the quarter this quarter, certainly driven by some strong military, but also some wins that we've been seeing in team dealer in specialty retailers. So that was a nice quarter for Soffe, both on the top line growth and some significantly improved profitability in that business for the quarter.

Then I mentioned earlier on the Activewear business, our catalog business grew but that really offset then the sales decline that we saw in our private label business, to end up with Activewear being about flat for the quarter. Just as a reminder in that private label business, we've got record units flowing through there, but due to a shift in the mix of products that we're selling through both in more children's wear, flowing through there that come at an average—a lower average selling price, I guess from the garment and some fabrication changes that our customers asked us to make on the selling the average selling price in that FunTees business is lower, significantly lower than it was previously. So, while we're achieving record units in that, the sales dollars are down.

**Chris Colvin:**

Got it. Okay. Thank you.

**Operator:**

Next, we'll take a follow-up from Jamie Wilen from Wilen Management. Your line is open.

**Jamie Wilen:**

Just a few more on Salt Life. So, you took down your online presence for five to six weeks. I believe in the past many quarters it had been growing 25% to 30% per year, and you mentioned it's relatively flat. What is your outlook there now that you're back online?

**Robert Humphreys:**

Jamie, we didn't take down our website for four to six weeks, we took down our marketing, our online marketing keywords, so we still—I think we actually took it down for four days, a long weekend. So no, we put, you know, I'd say e-commerce sales growth across the whole platform are slowing in general. So as they slow, people are spending more money to get the consumers there. Their profitability is declining further or, in many cases their losses are growing in the marketplace. So, we remain committed to having our e-commerce distribution channel nicely profitable across all of our sites. So, some of that stuff we are not choosing to chase, and so we'll have to see as things progress, but I would guess, based on what I'm seeing today, a 10% to 15% organic sales growth on e-commerce sites is going to be pretty good. Not

just on the Salt Life side but on most sides, unless you are willing to continue to discount more free returns and those sorts of things that really hurt profitability of online sales.

**Jamie Wilen:**

Okay. On the Salt Life business, obviously the reorder sell through is so important in this quarter, and just how has your sell through been? How would you look at inventory levels in the field for Salt Life and your expectation for where it should be as we finish the season?

**Robert Humphreys:**

Well, I think we're off to a good start in the quarter, we're in the reorder mode. Obviously, all the spring merchandise has been shipped. Next year we will be going to three deliveries from two, and that's really to help our business I'd say north of North Carolina where these—the season is a little bit different and people requested more new product to be delivered later there. So, we're addressing some of that. So it's really, at this stage of the game, what sells every day at retail and we get reorders. The good news is, we're extremely good about replenishment on that, and we expect Salt Life inventories at the end of the season in good shape, as they traditionally do. We do pre-sell our performance in fashion items, and we don't speculate much other than what we have hard orders for. So, we generally sell through that and then we're stuck with a vertical owned, which is basically the cotton graphic tees and some poly cotton graphic tees. We can make those and replenish them quickly. So, we've got a nice overall supply chain for Salt Life. We were bringing some fall goods in a little bit early, considering what could happen on tariffs that got backed off. We will be in a good inventory position to start shipping fall on time and earlier this year, as we traditionally do.

**Jamie Wilen:**

Okay. Great job, fellas. Thanks.

**Deb Merrill:**

Thanks.

**Operator:**

Again, if you have a question, please press star, one. Next we'll take Joe Furst, from Furst Associates.

**Joe Furst:**

Good afternoon, ladies and gentlemen. Given the weakness in your stock price and the fact that you're doing so well, what are your current thoughts on the stock buyback?

**Robert Humphreys:**

Well, we've been buying back stock for just about every year that we've been a public Company. We have authorization left, and our ability to buy back stock, we do it under a Safe Harbor provisions. So, I think I've said before, anytime our stock price is trading below our book value is a pretty easy decision for us. We think that's a great investment. So, that's all good stuff. I'd say at this time, maybe, as a shareholder, I'm even more excited that we have a lot of good opportunities to use our money to grow our business. There has been times for us and all companies, where you look around and you think, I don't really know what to do with my excess cash flow, so I'll buyback our stock. Well, we still are in the market to buy back our stock. As a shareholder, I'm particularly excited for the opportunities that we have at hand, and in some years I hadn't seen to organically grow our business or grow it in higher margin items, both from the gross margin and operating lines. So, we'll keep the focus and balance on those two

strategies to grow our business organically, acquisitions when we think they are strategic to what we're trying to do and are fairly priced, and balance that with share repurchases.

**Joe Furst:**

Great. We appreciate the good work. Thanks a lot.

**Robert Humphreys:**

Okay. Thank you.

**Deb Merrill:**

Thank you.

**Operator:**

We have no further questions in the queue at this time. I'll turn it back to Management for any closing remarks.

**Robert Humphreys:**

Okay. Well, thanks for your time and interest in our Company. We'll look forward to updating you further on the full year here in just a few months. So, thanks again.

**Operator:**

That concludes our call for today. Thank you for your participation. You may now disconnect.