Delta Apparel, Inc.
Fiscal 2022 Second Quarter Earnings Conference Call

May 3, 2022

Operator

Thank you and good afternoon to everyone participating in Delta Apparel's Fiscal 2022 Second Quarter Earnings Conference Call. Please note that today's call is being recorded. Joining us from management are Bob Humphreys, Chairman and Chief Executive Officer, and Simone Walsh, Chief Financial Officer and Treasurer.

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

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.

As a reminder, today's conference is being recorded. I'll now turn the call over to Delta's Chairman and Chief Executive Officer, Bob Humphreys.

Robert Humphreys

Thank you. Good afternoon, and thank you for your interest in Delta Apparel. We are pleased to be with you today to discuss our second quarter results, which met the high end of our expectations and are advancing us towards our revenue and earnings goals for fiscal 2022. I would like to give a special thank you to our nearly 9,000 employees throughout Mexico, Honduras, El Salvador and the United States who continue to work hard to service our customers in the many markets we serve.

As reported in our earnings release, sales for our second quarter ended April 2, 2022 were $131.7 million, our strongest ever March quarter, and represents 21% growth from the prior year March quarter. Our net income was $10.1 million, or $1.44 per diluted share, more than double our prior year March quarter results of $0.62 per diluted share.

Our strong second quarter results reflect continued broad-based demand for our products, with the Delta Group segment seeing 22% growth year over year, and the Salt Life group segment seeing 14% growth year over year. This performance is being driven by strong customer demand causing unit growth in the high single digit range, increased value adding services such as screen printing and retail packing, and higher direct to consumer sales. As we continue to invest in manufacturing capacity and print equipment we are also able to increase output, positioning ourselves for ongoing growth in future quarters. Our practice of operational discipline also continues to contribute to our success as we deliver exceptional service to our customers while leveraging our fixed cost.

Our Delta Group segment experienced 22% sales growth over the prior year second quarter, mostly driven by unit sales growth, increased value-added services and our continued ability to update our pricing in the marketplace to offset higher input cost. Within the Activewear business, we support our customers from product development to shipment of their branded products, with many products being sold fully-decorated and ready for the retail shelf. This business saw sales increase over the prior year in each reporting unit, with increased manufacturing capacity keeping up with strong customer demand across the business. We have been able to continue to combat inflationary pressures with price increases and focus on production efficiencies and are very proud of the growth in our Activewear business despite supply chain constraints. We are well positioned at this point in the year and continue to produce more garments per week than in our previous history.

Within the Delta Group segment, our digital print business, DTG2Go, saw sales growth year over year in the second quarter as a result of both higher unit sales and higher average selling prices. During the quarter we publicly disclosed our partnership with Fanatics to highlight our “on-demand” digital first solution. This digital print technology has been installed in three of our existing facilities and will allow custom orders to be produced, packaged and shipped to the end consumer within 24 hours of order placement. We are currently installing this digital print technology in a fourth facility. Our continued investment in digital print machinery and equipment, in addition to the proprietary technology that allows us to provide an improved customer experience and manage inventory planning, has driven higher unit growth and allowed us to meet the growing demand of our customers. We additionally continue to leverage our vertically integrated supply chain in our on-demand model with usage of the Delta Direct blanks which continues to create efficient operations and lower working capital needs for the business.

The Salt Life segment also registered strong growth over the prior year second quarter, with sales increasing 14%. The Salt Life branded retail footprint was further expanded with the opening of two new locations during the quarter in Sarasota and Fort Lauderdale, Florida. During April we opened an additional two stores in Foley, Alabama and Hilton Head South Carolina, bringing the number of retail doors to 18 locations across six states. Our recent Salt Life retail location openings have met our internal initial sales expectations, which continues to validate the strength of the Salt Life brand and our go-to-market strategy. Additionally, we continue to see strong wholesale demand and consumer interest in our ecommerce channel.

While we are seeing strong sales performance, we are also actively managing inflationary pressures across all areas of our business. As you can see from our bottom-line results, we have been successful in staying ahead of these rising costs, and this will be an area of focus throughout the second half of fiscal 2022. We are deploying further capital in our business, most notably by installing additional equipment in our textile and sewing facilities in Central America which have resulted in record manufacturing output. As previously mentioned, we have installed new digital print technology in three of our DTG2Go locations and are soon expanding to a fourth location. For Salt Life, we continue to open retail locations and plan to exceed our target of 20 retail stores open by the end of fiscal 2022.

Our results showcase the strong performance throughout our business, and we are excited by the many opportunities we see for continued top and bottom-line growth. Now, let me turn the call over to Simone, who will review our second quarter financial results, and then I will rejoin the call prior to our opening for questions.

Simone.

Simone Walsh

Thank you, Bob. For our fiscal 2022 second quarter we delivered sales of $131.7 million, a 21% increase over the prior year second quarter. The performance was driven by double-digit growth across both of our business segments, with the Delta Group segment up 22% and the Salt Life Group segment up 14%.

Gross margins improved from the prior year second quarter by 270 basis points to 25.5% for the second quarter of fiscal 2022. This improvement was driven by higher selling prices, manufacturing efficiencies, process improvements and leveraging fixed costs, offset by inflationary cost pressures.

Specifically, the Delta Group had a strong performance in the second quarter, with net sales growing 22% to $115.3 million compared to $94.2 million in the prior year. This growth was driven by broad-based demand for activewear apparel, particularly in our retail licensing and brand-direct sales channels, with 24% growth from prior year. DTG2Go continued to grow year over year, with a 12% increase in sales compared to prior year.
For the Delta Group net sales for the first six months of 2022 were $217.3 million, a 19% improvement over the prior year. Gross margins were 21.6% for the March 2022 quarter, an improvement from the prior year March quarter margins of 19.5%. Gross margins were positively impacted by increased selling prices to offset increasing input costs, in addition to continued production efficiencies. Margins for the first six months of fiscal 2022 improved from 19.3% in prior year to 19.9% of sales.

The Salt Life Group segment second quarter revenue grew 14% to $16.4 million compared to $14.4 million in the prior year period. The segment's growth was driven by over 20% increase in wholesale channel sale channel along with continued retail store growth. For the first six months of 2022, net sales were $25.2 million, up over $3.7 million from the prior year net sales of $21.5 million. The Salt Life Group segment gross margins improved to 52.4% compared to 44.7% in the prior year second quarter resulting from a favorable mix of sales, including increased Salt Life branded retail store sales. For the first six months of fiscal year 2022, gross margins grew to 52.7% of sales from 46.5% in prior year.

Selling, general, and administrative expenses ("SG&A") were $19.7 million, or 15.0% of sales, compared to $17.1 million, or 15.7% of sales, in the prior year second quarter. These savings are a result of leveraging fixed costs against higher sales in the second quarter as compared to the second quarter in the prior fiscal year.

Other income for the second quarter of 2022 was $0.5 million. This is mainly made up of profits related to our Honduran equity method investment of $0.3 million, valuation changes in our contingent consideration liabilities of $0.5 million, offset by a loss on disposal of assets of $0.4 million.

Interest was $1.8 million in the second quarter of fiscal 2022 consistent with the prior second fiscal quarter interest expense of $1.8million.

In the second quarter, our effective tax rate was 18.2 percent, down from 27.6 percent in the second quarter of fiscal 2021. We anticipate our tax rate for the full year to be approximately 20%.

Operating profit in the second quarter increased to $14.4 million, up from the prior year second quarter $7.7 million operating profit.

We achieved net earnings for the March 2022 quarter of $10.1 million, or $1.44 per diluted share, compared to $4.4 million, or $0.62 per diluted share, in the prior year. This was an increase of 131 percent compared to the second quarter of 2021.

At the end of the quarter, inventories were $197.7 million, up $36.0 million from September 2021 and $49.2 million from the prior March quarter end. Inventory turns were 1.8 times, down from 2.2 times last year. We have increased our manufacturing output and are now producing at record manufacturing levels. Our increased inventory value is also a reflection of increasing input costs resulting from raw material, transportation and labor costs.

Total net debt increased $31.6 million from September 2021 to $153.3 million at March 2022. Cash on hand and availability under our U.S. revolving credit facility totaled $35.1 million at March 2022, a $10.2 million decrease from September 2021. This decrease in availability is principally driven by investments in the business to increase our manufacturing output, expand our digital print technology and working capital needs. Overall, we are positioned well financially to further invest in our growth while providing cash-flow for other strategic initiatives.

I will turn now to capital allocation. Our long-term strategy remains unchanged in how we think about deploying capital.

First and foremost, we will invest in our business. During the second quarter, we invested approximately $10.5 million back into our business in the form of capital expenditures. This capital spending has been mainly focused on print equipment to support our DTG2Go business, in addition to expansion of manufacturing capacity for our Activewear business and continued retail store openings to support achieving our target of at least 20 Salt Life retail stores open by the end of fiscal 2022.

And second, we continue to repurchased shares.

In the second quarter of fiscal 2022 under the previously announced share repurchase program, the Company purchased 28,015 shares for $0.8 million, bringing the total amount repurchased to $55.5 million. At the end of the second quarter of fiscal 2022, the Company had $4.5 million of remaining repurchase capacity under its existing authorization.

As we reflect on the first half of fiscal 2022, we are pleased with our strong sales and bottom-line performance, demonstrating ongoing emphasis on meeting customer demand and operating excellence. We additionally are encouraged with the consistent strong performance across both segments of our business, reflecting the success of the breadth of our diverse market offerings. Importantly, we continue to manage our bottom line as we face inflationary pressures across our business.

We plan to further invest in digital print, manufacturing expansion, and Salt Life retail location openings, and anticipate spending approximately $20 million in capital spending for fiscal 2022.

Robert Humphreys

Thanks, Simone.

I continue to be impressed by the resiliency of our organization and the strong financial performance we have seen as a company despite labor shortages, inflationary pressures and supply chain disruption. We have started the year meeting internal expectations and are well positioned to deliver on our full year targets.

Our five focused go-to-market strategies, Delta Direct, Retail Direct, Global Brands, and DTG2Go in the Delta segment, complemented by the Salt Life segment and supported by our vertical supply chain are enjoying strong demand across all the channels we serve, and we continue to see the results of our investments through both increased manufacturing capacity and consumer demand. Throughout the entire company we have been able to manage the current economic environment through price increases, production efficiencies, and cost controls that have led to strong bottom line results.

Looking out into the second half of fiscal 2022, we are well placed for further top-line growth and profitability. On our last earnings call we discussed our anticipated double-digit revenue growth and record earnings for the full year. After our strong first half fiscal 2022 results, we feel that we are well positioned to reach our full year objectives. And now Operator, you can open up the call for questions.

Operator

Thank you. Our first question comes from Dana Telsey with Telsey Advisory Group. Please proceed with your question.

Dana Telsey

Good afternoon and congratulations on the nice progress.

Would love to get some more color, as you think about the Delta Group, price increases, unit growth, where are you in terms of the order trends and being able to satisfy demand? What are you looking for as we move through the balance of the year in terms of price increases?

Then some more color on Salt Life in terms of the product sell-through there, price increases, and how you're thinking of store openings? Thank you.

Bob Humphreys

Okay. We are seeing units go up in the high-single digits in the Delta Group, units sold. Then higher selling prices through the things we talked about, value-adding processes, higher costs being passed along in the supply chain. We obviously had strong demand during the quarter, and we're able to ship that. I'd say, the service levels are improving for us in the industry as a whole. I think that's probably true. That's processing along well. Our higher output has certainly helped, and we've got new equipment really being in a final installation and going live this week and next week. We should be able to continue to slightly increase our manufacturing output.

We still are not fully in stock. For example, we might not have black extra-large basic t-shirts or something like that. It still takes more work and more planning and more execution to be fully in-stock where we can support our customers in their everyday at-once business like we would like to.

You can see from Salt Life's margins that I think we've done a nice job of managing input cost sourcing. Being vertical on about 50% of the units that we sell in Salt Life has all helped. We have taken some price increases at Salt Life. It's reflected in the resulting retail price, and we'll be making more decisions on that in the next week or so in future seasons. But anyway, so far, so good on those fronts. I'd say the other thing in Salt Life, you can see the leverage that we're getting by more units going through that business and how that helps drive margins and lowers our SG&A cost.

Dana Telsey

Got it. Then inventory levels, where do you see inventory levels going forward? What do you see as the appropriate levels as we move into this back half of the fiscal year?

Bob Humphreys

On a units basis, we're probably getting close to what we would consider our peak inventories, might go up another period or two, and we're in the strong shipping time of year for undecorated tees. Those will be starting to contract as we get through the rest of this calendar year, and then we'll start rebuilding for next fiscal year. We have a very strong business in our Delta brands and our Retail Direct. Those businesses are growing, and we'll be growing some inventory levels that ship out once we have orders completed.

Dana Telsey

Just lastly, the strength of the Delta Group wholesale business is particularly impressive. New customers or existing customers, where are you seeing the strength coming from?

Bob Humphreys

We look at that as a number of different channels within that business. What we're seeing now really for the first time, I would say, this quarter is all those channels are back to the demand level they were pre-pandemic. Coming out of the pandemic, there were some channels that really came back first, and it was very helpful for us to get things restarted in our manufacturing. Some, like corporate spending, were laggards, but those are coming back strong now. We really are back to a very balanced business there.

Dana Telsey

Got it. Then just as I look at the operating margin, in particular, for the Delta Group, which I think this quarter sat here at around 12.5% level, which is certainly a very nice uptick. What is sustainable in that operating margin? What do you see as some of the key drivers?

Bob Humphreys

There's two or three key drivers of why it's that high right now. One is leveraging our fixed cost. You can see that on our SG&A line. You can see it on our gross margin line where we're getting more product through a fixed overhead cost, and it just helps drop to the bottom line. Our higher units going through are helping.

I think in some cases we've gotten higher input costs in our pricing prior to it hitting our cost of goods sold. We'll continue to be working on that as we get through the balance of the quarters in this fiscal year because input costs continue to rise.

We, in Delta Apparel, and I think the apparel business in general and probably the country, is not finished with that yet of seeing higher costs, higher labor costs, higher transportation costs coming into cost of goods sold and not yet to roll out.

Dana Telsey

With the uptick in the operating margin at Salt Life, any of the key drivers there that you see as sustainable there?

Bob Humphreys

Yes. I think they are sustainable. A couple of key things are some price increases, but they'll really affect us more in the back half of the year of our selling prices, but higher unit growth in that business is the same thing. It's leveraging our fixed costs, our sourcing costs, our planning costs, our accounting costs, our distribution costs. All of those things have been really nice to see how that ultimate gross margin and operating margin in Salt Life continues to improve.

Dana Telsey

Thank you.

Operator

Our next question comes from Paul Johnson, a Private Investor. Please proceed with your question.

Male Speaker

Congratulation on the results. Just want to understand your competitive positioning in the DTG2Go area. Who would you say out there has the technology and the capability and also capacity at your level? I think didn't Kornit used to supply you guys with some of the technology? Are they no longer a supplier? Are they a direct competitor? Who else is out there?

Bob Humphreys

Kornit supplies digital print equipment, and we have a good bit of it and we run it every day. There's some additional technology that we've deployed in the last 12 months that is better on some types of product, we believe, in today's marketplace. We use it for specific types of products and specific customer request in their go-to-market strategies.

I think as we sit here today, we're the only supplier that has both of those in this marketplace. We have some specialized internal technology that helps us manage the processes and manage the quality and manage the R&D on that. There'll be more of different types of equipment out there, but I think we're ahead of the game right now for the markets that we serve.

Male Speaker

Some of the equipment is from Kornit and some of the equipment you've developed on your own more recently?

Bob Humphreys

We didn't develop the equipment necessarily. We were the R&D side for the development of the equipment, and we have installed a significant amount of that over the last nine months and have some more on site being installed today.

Male Speaker

Okay. Thank you.

Regarding the margins, certainly a nice uptick there, although some of that may be due to your FIFO accounting. Can you talk about that? Also, whether you hedge cotton? I think it's like $1.60 a pound or something, crazy like that. How do you manage the hedging of that?

Bob Humphreys

Well, cotton is always an interesting journey. We do hedge cotton. We consume cotton in the future. In theory, we're always short cotton. But we really don't disclose our hedging strategies because once you do, you're really not hedging anymore.

Male Speaker

Okay. What about the margins relating to the way you're FIFO accounting?

Simone Walsh

Well, I think if you think about margins for the current quarter and then you think about the rest of the year, we've been active in taking price increases across the first six months of the year. You would expect that there will be some price increases and some costs that will have slight timing differences across the quarters. You would expect to see that impact margins in the quarters following.

Male Speaker

Okay. Okay. Then finally, it's impressive what you're doing in terms of the sales growth and the margins and all that, but you still have a fair amount of debt. What is the plan to—first of all, what is that debt costing you in terms of an interest rate right now roughly? What is the plan to pay that down?

Bob Humphreys

Well, if you've watched us for long, we've got decades of having debt. Some people think not enough, some think too much. It's relatively low-cost debt and pretty flexible, probably average cost today in the maybe 4%, 4.5% range. We have a little bit of offshore debt that the parent does not guarantee. But we're generating north of 10%

return on every dollar we use in the Company. If we can borrow probably today 30% of what we're using, 35%, 40% at 4.5%, it helps lever the overall return on capital employed. That's really earning money for shareholders.

Male Speaker

Fair enough. Then finally, on Fanatics, can you talk a little bit more about that business? By the way, does that include the new printing technology that you've helped develop more recently?

Bob Humphreys

Yes, we can. Fanatics was side-by-side with us developing that technology. Most importantly, the quality and expectations that they have for their customer base is high and they set high standards for what they want, and it's fun to work with them. They're energetic, and they know what they're talking about. That was the basis behind a lot of that development and how we went about it and it's ongoing as we speak, and that's the only equipment we use to make Fanatics product.

Male Speaker

That's great. Thank you so much.

Operator

Our next question comes from Sam Douglas with Mara River Capital. Please proceed with your question.

Sam Douglas

Hi. Congratulations on the quarter.

Just had a quick question around the digital business. Just wanted to see if you could give any more metrics around the new digital business. Then also, if you could give any additional information to help us scope how big the new retail business can get over the next couple of years.

Bob Humphreys

Yes, I'm just—I'm trying to think of something that would frame some information for you. We're going to have basically a third more equipment deployed here in the next 60 days, so that will increase our capacity. We've grown our output, and we expect that to continue to grow in the ensuing quarters this fiscal year. Because of the nature of the business, it's going to make our DTG2Go business less seasonal and not rely as heavy on the holiday shipping season. That will still be the strongest time of year, but we'll have more year-round business there. We would expect this business to continue to grow at least double-digit rate for quarters to come just based on the demand that's sitting there today that we have to get to.

Just in addition to that, I would say, besides Fanatics, there's a number of other household brands of people with IP or branded apparel that are coming on to this platform. They're doing it at a slower pace than what Fanatics is just by the nature of their business and how they're positioning that in their overall offering to consumers. But we do see this business maturing into a new level of business where we're supporting major retailers, major brands and major IP holders unlike historically, and we'll still support this, but the majority of the business was really in the e-retailer where people were putting art and graphics on sites and collecting consumers directly to buy that versus having the brand go to market.

Sam Douglas

Okay. Then, just margins on this business, the digital retail business compared to the Delta Group overall, do you expect that to be fairly accretive to the overall group?

Bob Humphreys

Yes. I think it will over time. In the last six months, we've spent a lot of money on development and R&D. We actually closed a small facility this past quarter that had older equipment in at the Reno. It was not within one of our distribution centers and the lease was up. We disposed of some equipment there. We'll keep our equipment modern and up with current leading-edge technology. But anyway, we do expect it to generate low double-digit operating margins at least in that business when it's running full.

Sam Douglas

Okay. Thank you.

Operator

Our next question is from Jamie Wilen with Wilen Management. Please proceed with your question.

Jamie Wilen

Wonderful quarter. Adding to the questions on Fanatics, how much of—you announced that they were coming on in the middle of the quarter. How much of the increase in this quarter was due to Fanatics? Or are they rolling in relatively gradually, or do they come out full force in your first quarter?

Bob Humphreys

Well, I don't like to speak for our customers, but I will say because it's public information, Fanatics had a fairly large digital print facility of their own in Jacksonville, Florida that had Kornits in it. During the quarter, they closed that facility down. Because they were still running that facility, obviously, they were running some of their own. Now really all of that type of product we're running in our facility on the new equipment. It was a ramp-up since really the holiday season and continued on and it continues on as we speak today. Really, we're expecting that to just grow sequentially during the quarters coming up, peaking during the December quarter with holiday. But we'll be strong before then.

Jamie Wilen

Okay. You've talked about the increasing inventory. You now have increased capacity, but can you keep up with demand everywhere? Are you able to have as high an internalization rate given the growth in the digital business? Can you satisfy all customer demand for T-shirts in the various businesses?

Bob Humphreys

Well, not in all the businesses. That's a good question. As we've talked about for several years now, actually, but certainly a lot post-pandemic is, there's a growing demand for product made in this hemisphere, and we make it across a number of channels of distribution. But particularly with our Brand Direct and Retail Direct businesses, that demand is strong and people are asking for more, and we can't make that right now.

We have to figure out over time how to make more and how we manage that versus having our at-once T-shirt business fully stocked and available to sell too, because we have seen, over time, having all those channels and servicing them well allows us flexibility in different economic times or shocks to the system.

We want to keep servicing all of that, but we have just, as we speak, reached new record outputs in production. We have new equipment starting up in our textile plant in Honduras, as we speak today. We have additional sewing and screen print equipment being installed in our sewing and screen plants in El Salvador. Anyway, we are increasing our output and evaluating ways to increase it further.

Jamie Wilen

Got you. Bob, as far as increasing prices, I am sure you're not the only one doing it out on a limb. I assume you're following the industry or are you leading the industry? Are your price increases similar to other people?

Bob Humphreys

Yes. I would say if you went back maybe three or four quarters ago, we led some price increases, and it probably got us a little bit ahead there. But obviously, everybody is selling product for reasonably similar price if they have it in stock in that at-once business.

Jamie Wilen

Got you. Lastly, Bob, on the new Salt Life stores, you had some existing ones that were incredibly productive. How would you rate the new ones that have come out? Are they similar to your historical numbers within the new stores?

Bob Humphreys

They're not all incredibly productive, and I would say that's true for the new ones, too. But we are seeing some that look like they're going to be incredibly productive. Hilton Head has just opened recently and is off to a really strong start. Most of the others are off to a very good start. Our Texas store has been a little bit slow to our expectations, but we've had some weather issues there and cruise ship issues. Anyway, we're excited about all the new locations. We got a couple more that have just recently opened up and feel good about it.

Jamie Wilen

Okay. What's the objective over time? How many stores would you like to open each year?

Bob Humphreys

Well, we're going to take pause at different levels and see how this is going and can we find the right productive locations just to your point. But certainly feel like we ought to be able to do four to six stores a year for the next number of years.

Jamie Wilen

Great. Excellent. Nice job, fellas. Thanks.

Bob Humphreys

Thank you.

Operator

Our next question comes from Bill Fogel with DV Advisors. Please proceed with your question.

Bill Fogel

Hello. Can you hear me?

Simone Walsh

Yes, Bill.

Simone Walsh

Okay. Great job. I don't think we could have hoped for more than you guys put, and now we just have to hope the market starts to pay attention a little bit. But I wanted to try to frame the DTG2Go opportunity at Fanatics and some of the other potential players. For instance, I think it would be useful if you guys broke it out going forward because, obviously, we're hoping for hundreds of millions eventually in revenues from this business. But now I was reading that Fanatics expects something like $5 billion in revenues this year. How much of those revenues are addressable to your solution?

Bob Humphreys

I don't know that I can speak to that for Fanatics, but it's a significant amount that could be addressed, and there's some real service matrix that they're expecting and we're working on and making really good progress on. You can just see when you can sell a product and you haven't invested in it yet, and you're going to get paid immediately and your partner is going to print it and package it and all the labelling that's required for whichever sports league, and put it in a container to ship to a customer within 24 to 30 hours, that's a pretty good business model.

I think as long as we can continue to demonstrate success in doing that and expand our capabilities to the type of products that we can make and ship that meet their quality standards and washability and long-term care, then we can continue to gain more of that market share of what they do sell. Again, it's just a great economic model for us and for them when we can make that work together.

Bill Fogel

Great. In terms of other potential big customers that you talked about that you're in conversations with, what's the timing on that? Do you have capacity for them? Are you going to have to start opening new joint facilities or independent facilities? How should we think about that?

Bob Humphreys

We have started production with a number of new household names. Some of them have chosen to start at a slower pace than others and some at a different pace obviously than Fanatics. We have capacity in place to serve them today and through the next quarter or two, but we'll have to continue to invest in digital print equipment to satisfy the demand that we think will be out there.

We'll continue to look at our distribution footprint and where we have equipment, where we might want equipment, and continue to manage that to service, certainly, the U.S. market in one and two-day deliveries, and there's opportunities to go into other markets as well with these partners.

Bill Fogel

How fast can you grow revenues in DTG2Go based on your capacity and buildout? What's the maximum trajectory, assuming all these players are ordering in size?

Bob Humphreys

Yes. No, I don't know that there's a maximum. It's a matter of capital and time. We're still right now...

Bill Fogel

Yes, I mean for this year and for next, how quick can you ramp up production?

Bob Humphreys

Yes. I think we'll continue to grow at probably about a 15% rate in the next quarter or two with that accelerating the following fiscal year.

Bill Fogel

Okay. From everything I'm gathering, the 14% growth rate was good this quarter, but that wasn't incorporating Fanatics or any of these new players in any meaningful way, so we should see tremendous growth going forward.

Bob Humphreys

It began the incorporation of the Fanatics business.

Bill Fogel

Okay. Okay. Great. I look forward to see further progress. Then thank you very much for your time.

Bob Humphreys

Okay. Thank you.

Operator

We have reached the end of the question-and-answer session. I'd now like to turn the call back over to Bob Humphreys for closing comments.

Bob Humphreys

Well, thanks for your interest in Delta Apparel. I appreciate the questions and feedback, and we look forward to talking to you in about three months on another quarter. Thank you.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation.