Delta Apparel, Inc.
Fiscal 2022 Fourth Quarter & Full Year Earnings Conference Call

Operator:

Thank you, and good afternoon to everyone participating in Delta Apparel's Fiscal 2022 Fourth Quarter and Full Year Earnings Conference Call. Joining us from management are Bob Humphreys, Chairman and Chief Executive Officer, and Simone Walsh, Chief Financial 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.

Robert Humphreys

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

We are extremely pleased with our performance in fiscal year 2022. As you saw in our press release this afternoon, we delivered full-year sales of $484.9 million and an operating margin of 6.6%, resulting in $2.80 of earnings per diluted share. Our ability to navigate the dynamic economic conditions and consumer environment throughout the year and achieve both double-digit sales growth of 11% and solid bottom-line results for our shareholders is a testament to the resiliency and reach of our diversified go-to-market strategies and, of course, our people. I am incredibly proud of our entire organization's ability to quickly adapt to change throughout the year yet remain focused on the execution of our business goals and strategic initiatives.

All five of our primary market channels, Delta Direct, Global Brands, Retail Direct, DTG2Go, and Salt Life, delivered year-over-year sales growth in fiscal year 2022. The growth was driven by higher units sold in most product categories as well as price increases across product lines. Within our Delta Group segment, demand between its various market channels shifted as the U.S. economy continued to evolve in the post-pandemic environment, with strong early overall demand for our products moderating as the year progressed. We continue to see strong demand in our DTG2Go channel and in our Delta Direct channel's regional screen print and ad specialty businesses. Moreover, the strategic investments we've made in our vertical manufacturing platform immediately adjacent to the U.S. market and our distribution network across the U.S. market continue to generate increased demand in our Global Brands and Retail Direct channels. Brand and retailer interest in the near-shore and domestic sourcing and fulfillment strategies our platform offers is accelerating due not only to U.S. market proximity and speed, but also to better risk management associated with evolving U.S. trade relations; social, environmental, and sustainability priorities; inflationary pressures; and supply chain disruptions. These favorable dynamics, coupled with new investment in screenprint production and other value-adding ancillary services as well as higher selling prices from our pass through of rising input costs, manifested in solid sales growth in our Delta Group segment.

We were heavily impacted by strong inflationary pressures throughout our fiscal year like the rest of our industry, but we were able to move quickly to capitalize on the flexibility of our vertically integrated platform and re-calibrate our production to manage inventory levels and mitigate higher input costs. Our team did a great job of responding to the fluid environment and navigating the challenges brought on by the volatility in raw material pricing. The price of cotton, one of our key inputs, increased by almost 50% in a five-month period and reached a high of over $1.50 in our third quarter. We started reducing our forward cotton purchase commitments as futures prices escalated beyond a level that we believed would be accepted at retail, and when we saw declines in overall demand for basic tees in the fourth quarter, we began reducing manufacturing output to level off our finished goods inventory. These inflationary input costs, of course, increase the value of our inventory and put pressure on our gross margin as inventory is sold. We saw this margin impact in the second half of fiscal 2022 and expect it to continue in the first half of fiscal 2023. We currently expect to operate some of our production facilities below full capacity until inventories become better aligned with market demand in fiscal year 2023.

We've seen our retail partners encounter similar challenges in managing their inventory levels to the fluctuations in consumer demand. The overall economic uncertainty going into the holiday season caused by the inflationary environment has dampened replenishment orders for activewear from our mass retail partners, but we continue to stay close to our partners and will be prepared to support demand as we progress through the first half of fiscal 2023.

Our DTG2Go business continues to grow and solidify its leadership position in make-on-demand digital printing and fulfillment through its "digital first" strategy, achieving year-over-year increases in both units sold and sales revenue. We ended the fiscal year with eight digital print locations, six of which also operate as blank garment distribution centers, and the latest technology to support DTG2Go's digital first strategy is now in four locations.

More and more customers see the clear benefits of our digital make-on-demand model versus the traditional, inventory-heavy make-to-forecast model, particularly when coupled with our unique ability to vertically supply blank Delta garments on-demand. Our seamless blank supply reduces not only our customers' garment costs, but also risks associated with adding another third-party layer to their supply chains. For us, this model eliminates nonvalue-added costs, creates a more efficient operation, and lowers working capital needs.

While we experienced additional costs and some production delays in fiscal year 2022 as we brought new print equipment online and worked through challenges from the tight U.S. labor environment, which depressed our margins, we see both sales and margin growth potential at DTG2Go going forward as selling prices continue to grow. We also expect to increase output through productivity gains, additional staffing, and extended operating schedules to meet demand in this high-growth channel for our Company.

We saw great success with our lifestyle brand, Salt Life, in fiscal year 2022, with over 20% sales growth from the prior year. We are pleased with the continued demand for the Salt Life brand across all three legs of our omni-channel go-to-market strategy. Our Salt Life branded retail doors continue to serve as valuable brand awareness tools and drivers of accretive revenue. We ended the year with 21 branded retail doors spread along the U.S. coastline and reached a milestone of eight new doors opened during the year. Our new location in Rehoboth Beach, Delaware is exceeding expectations and we are excited to open another six to eight Salt Life owned and operated stores in fiscal 2023, including an additional store in Long Branch, New Jersey to give Salt Life even more visibility in the northeast.

Salt Life's eCommerce business was challenged by supply chain shortages in the first half of the year but was able to work through them to drive organic growth in this important market segment during the fourth quarter. In addition, our wholesale customers continued to promote Salt Life and devote more floor space and valuable "shop-in-shop" opportunities to drive incremental sales and increased brand awareness.

Our other efforts to elevate the Salt Life brand's profile and appeal and to drive increased consumer engagement are also paying off. The Salt Life YouTube channel reached 7.1 million views in fiscal 2022, a 37% increase compared to FY21, largely driven by the success of YouTube "Shorts". These short segment videos are designed to appeal to a broader audience, and we target producing 2 to 3 shows per week. Beyond YouTube, Salt Life's social channel net audience grew nearly 85% in fiscal 2022, spanning Facebook, Instagram, Twitter, LinkedIn and Pinterest. We also continue to interact with our customers through Salt Life's online content portal, The Daily Salt, which includes published articles featuring reviews of the best gear in the industry, how-to articles, team member travel articles, and other content. Additionally, we continue to produce our Salt Life podcast, Above and Below, hosted by professional surfer and Salt Life team member, Kieran Anderson.

Overall, fiscal 2022 was another excellent year for both our Delta Group and Salt Life Group segments and a year of robust overall organic growth for our Company. We have built a strong foundation across our business segments and our full-year performance highlights the range of our five distinct go-to-market strategies, the widespread demand for the unique products and services we offer, the flexibility and efficiencies of our vertically integrated operations and first-mover advantages in digital printing and fulfillment, and the emotional connection our lifestyle brand, Salt Life, has with a broad range of consumers.

Let me now turn the call over to Simone Walsh who will review our fourth-quarter and full-year business highlights and financial results. I will then join back when we open the call up to questions. Simone

Simone Walsh

Thank you, Bob. For both our Delta Group and Salt Life Group, fiscal 2022 was another strong year and we are entering fiscal 2023 with positive momentum across many areas of our business. We delivered strong top-line growth of 11% year over year, including 9.8% growth in the Delta Group and over 20% growth in the Salt Life Group over the prior year.

Within the Delta Group, our three key sales channels in Activewear - Delta Direct, Retail Direct, and Global Brands - all experienced year-over-year sales growth. While Delta Direct was challenged in the second half of fiscal 2022 as a result of scaled-back orders, particularly from mass channel activewear at large retailers, we were pleased with our ability to maintain year-over-year sales growth in that channel and to achieve double-digit sales growth in both the Retail Direct and Brand Direct sales channels on increased units and higher selling prices. As a reminder, in our Retail Direct and Global Brands sales channels, we serve as a supply chain partner to global brands including the development of custom branded garments, the provision of ancillary value-adding retail-ready services, and shipping logistics. These sales channels also serve retailers by providing our portfolio of Delta, Delta Platinum and Soffe products directly to retail locations and their e-commerce fulfillment centers.

Also within the Delta Group, our DTG2Go make-on-demand business experienced both unit and selling price growth year over year, and order flow for our digital first strategy exceeds our current capacity. We are excited to continue to expand our digital first initiative across our markets and plan additional investments in the latest digital print equipment to meet the growing customer demand in this sales channel.

Bob shared a lot regarding Salt Life's engagement with consumers, which drives strong direct-to-consumer sales for Salt Life and also enhances its wholesale business as consumers seek out the brand while shopping at department stores, outdoor retailers, resort shops, specialty stores, and other retail outlets. With the strength of the Salt Life brand and growth we are experiencing in our direct-to-consumer channels, we remain extremely excited about Salt Life's potential in fiscal 2023 and beyond.

Our business is significantly influenced by the price of cotton used in our manufacturing operations. During the fiscal year, the elevated price and volatility negatively impacted the gross margins in our business. We expect our margins to continue to be depressed in the first half of fiscal year 2023 as we sell through the inventory we produced in the latter half of fiscal 2022 which was impacted by both the higher-priced cotton and other elevated input costs. Although we took action to use less of the higher priced cotton by reducing our production, we do expense additional unabsorbed fixed costs from these measures.. The fourth quarter reduction resulted in $1.1 million of unabsorbed expense, which impacted gross margins by approximately 90 basis points for the quarter. In addition, we expect to take additional targeted production shutdowns and continue to operate some of our facilities below full capacity until inventories are better aligned with overall demand. These adjustments are expected to result in approximately $2 million and $775 thousand of additional unabsorbed expense in the first and second quarters of fiscal year 2023, respectively.

Currently, with the price of cotton declining and stabilizing recently from the volatility and peak price in last year's third quarter, we anticipate we will return to margin expansion in the fourth quarter of fiscal 2023.

Additionally, we note that our inventory on hand has increased from the prior year. This increase is a result of the price of inventory escalating due to rising input and labor costs as a result of inflationary pressures, coupled with an increase in units on hand. We are closely monitoring inventory levels and will continue to monitor our manufacturing output and make adjustments as necessary to align with market conditions. The vast majority of our inventory consists of basic Delta blank garments that we fully expect to sell-through our various channels as demand arises.

Now, I'll go through a more detailed review of our fourth quarter and full-year financial results.

For the fourth quarter, net sales were $115.5 million compared to $114.7 million in the prior year fourth quarter, with Delta Group sales decreasing 1% and Salt Life Group sales up nearly 16% over the prior year fourth quarter

During the fourth quarter, Delta Group net sales declined to $101.5 million compared to $102.6 million in the prior year fourth quarter., Global Brands growth helped to offset with softness in our Retail Direct channel.

The Salt Life Group fourth-quarter revenue grew 16% to $14.0 million compared to $12.1 million in the fourth quarter of 2021. The segment's growth was driven by organic growth across all three of its markets – wholesale, retail and eCommerce.

Gross margins were 18.7% overall for the quarter compared to 23.1% in the prior year fourth quarter. The 440-basis point decline was driven by higher input costs in both our Activewear and DTG2Go businesses as well as unbudgeted production curtailments, offset by an improvement in the Salt Life Group segment.

In the Delta Group, gross margins were 14.1% for the fourth quarter, a decline from the prior fourth quarter's margins of 20.2%. Gross margins were most negatively impacted by higher cost inventory flowing through cost of sales, including elevated cotton, energy, dyes and chemicals, freight and labor costs.

As Bob mentioned, we started reducing production of basic tees in the September quarter, which resulted in $1.1 million of unabsorbed fixed cost, expensed in our fourth quarter. Our plan to reduce production further in the first half of fiscal 2023 until inventories get in better alignment will result in additional unabsorbed fixed costs impacting our gross margin.

The Salt Life Group segment's gross margins improved to 51.8% in the fourth quarter of fiscal 2022 compared to 48.0% in the prior year fourth quarter resulting from a favorable mix of sales, including increased Salt Life branded retail store sales.

Selling, general, and administrative expenses ("SG&A") were $19.8 million in the quarter, increasing 170 basis points to 17.2% of sales. This increase was primarily driven by a higher percentage of our sales coming through the Salt Life retail stores and increased distribution labor costs across all of our business operations.

As a result, operating profits were $2.2 million, or 1.9% of sales, declining from $10.1 million, or 8.8% of sales, in the prior year quarter.

Other income for the fourth quarter of 2022 was $0.5 million. This is substantially made up of valuation changes in our contingent consideration liabilities of $0.6 million associated with the acquisition of DTG2Go. In the prior fiscal fourth quarter other income was $1.3 million, driven primarily by a valuation change in the DTG2Go contingent consideration liability of $1.2 million.

Interest expense was $2.4 million in the fourth quarter of fiscal 2022, up from the prior year fourth fiscal quarter expense of $1.6 million due primarily to higher debt levels.

Overall, we incurred a net loss for the September 2022 quarter of $0.3 million, or $0.04 per diluted share, as compared to net income of $6.8 million, or $0.96 per diluted share, in the prior year.

Now turning to our full fiscal year results.

For the full 2022 fiscal year, net sales increased 11% to $484.9 million, with almost 10% growth in the Delta Group and approximately 21% growth in the Salt Life Group over the prior year

For the Delta Group, net sales for fiscal 2022 were $424.8 million, up from $387.0 million in the prior year. For Salt Life, net sales were $60.1 million, up $10.3 million from the prior year net sales of $49.7 million in the comparable period.

Gross profit increased 6.8% to $108.8 million, with gross margins contracting 90 basis points to 22.4% of sales driven by a decrease in the Delta Group segment of 190 basis points that was partially offset by an improvement of 370 basis points in the Salt Life Group.

Within the Delta Group, gross margins were 18.3% compared to 20.2% in the prior year with the decline driven by increasing input and labor costs as well as production curtailments.

In the Salt Life segment, gross margins grew to 51.6% of sales from 47.9% in the prior year, driven by sales channel mix and higher selling prices.

SG&A expenses were $79.5 million in fiscal year 2022, or 16.4% of sales, a decline of 20 basis points from the prior year.

Overall, the increased input costs coupled with slightly increased SG&A expenses resulted in $31.8 million in operating profit, or a 6.6% operating margin. In the prior year, operating profit was $32.7 million, or a 7.5% operating margin.

Other income of $2.4 million in 2022 included $0.9 million in profits related to our Honduran equity method investment, as well as $1.9 million in income from the net reduction in contingent consideration liabilities, offset by a loss on the disposal of fixed assets of $0.4 million. In the prior year, other income of $1.6 million included $0.5 million of profits related to our Honduran equity method investment as well as $2.4 million of income from the net reduction in contingent consideration liabilities, partially offset by $1.3 million of expenses related to the two hurricanes that disrupted our Honduran manufacturing facilities in the prior year December quarter.

Interest expense was $7.7 million in fiscal 2022, up from the prior year interest expense of $6.8 million due primarily to higher debt levels.

Our effective tax rate for fiscal 2022 was 17.9%, down from the prior year effective tax rate of 21.9%.

As a result, our net income for fiscal 2022 was $19.7 million. On just under 7.1 million shares, these earnings translated to $2.80 per diluted share, compared to prior year net income of $20.3 million or $2.86 per diluted share.

Net debt, including capital lease financing and cash on hand, was $170.6 million at year end. Cash on hand and availability under our U.S. revolving credit facility totaled $34.6 million.

Total inventory at year-end was $248.5 million, compared to $161.7 million a year ago when the market was generally in a low inventory position. The year-over-year inventory expansion reflects both higher input costs impacting materials, transportation and labor and an increase in units on hand. We continue to work across the Delta Group to balance our manufacturing output with demand and appropriately manage on-hand inventory.

During the fiscal year, we invested approximately $20 million in capital expenditures. This capital spending was mainly focused on digital print equipment to support our DTG2Go business, retail store openings, and information technology initiatives. We have completed our planned manufacturing expansion projects for our Delta Group. In fiscal 2023, we plan to further invest in Salt Life retail location openings and continue to focus on improving manufacturing efficiency. We will also continue to invest in additional digital print capacity.

In fiscal 2022, the Company purchased 136,181 shares for $4.0 million under the previously announced share repurchase program, bringing the total amount repurchased to $56.4 million over the life of the program. At the end of fiscal 2022, the Company had $3.6 million of remaining repurchase capacity under its existing Board authorization.

Looking forward to 2023, we expect to see continued growth in our Retail Direct and Global Brands channels, which should be moderated by slower sales in our Delta Direct channel in the first half of the year due primarily to a rebalancing of replenishment orders for activewear from large mass retailers. As inventories continue to work their way through the channel we expect the Activewear business to achieve sales in the first half of 2023 comparable to the prior year and anticipate growth in the back half of the year as mass market demand strengthens.

As we head into the all-important holiday season, we expect to see another year of strong year-over-year sales growth for DTG2Go.

At Salt Life we expect the growth in our direct-to-consumer channels to continue and anticipate another year of overall double-digit sales growth in fiscal 2023.

As referenced earlier, with the price of cotton declining and stabilizing recently from the volatility and peak price in Q3 of fiscal 22, we currently anticipate a return to margin expansion in the fourth quarter of fiscal 2023.

SG&A cost drivers are expected to remain consistent in the first half of fiscal year 2023 commensurate with our sales expectations, and we expect to have greater SG&A leverage in the second half of the year.

We look forward to updating you as the year progresses.

I will now turn the call back over to Bob for some final remarks.

We are moving into fiscal year 2023 with positive momentum across many aspects of our business, but also with uncertainty across the apparel industry and the economy at-large. We will continue to leverage the flexibility our vertical manufacturing platform gives us to adjust production levels to meet demand and expect to manage our working capital and capital expenditures similarly as the year progresses. We have successfully operated through periods of economic ambiguity in the past and believe that our diversified distribution channels and wide range of customer touchpoints should position us well to take advantage of market opportunities as they arise. We will be ready to move quickly, decisively, and in the best interest of all of our stakeholders.

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

Operator

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

Dana Telsey

Good afternoon, Bob and Simone.

As you think about the market trajectory going (audio interference) the fourth quarter, (audio interference) what the tailwinds and headwinds could be to potentially (audio interference), whether it's from raw material costs or the costs from freight costs, and can you bucket (audio interference) gross margin and SG&A tailwinds and headwinds, and frankly, going into 20—the following year, do we get back to the previous level margins, or what do you think the trajectory could be?

Thank you.

Robert Humphreys

Dana, we were getting about every other word there. Would you mind repeating that slowly?

Dana Telsey

Sure. Just wondering on the margin trajectory as we go through the year, what would be the tailwinds and headwinds, and as you look forward past next fiscal year, would you be able to attain what your previous year's operating margins were? What are the hindrances and the opportunities to meet or exceed that?

Thank you.

Robert Humphreys

I think as we go through Fiscal '23, the headwinds are going to be higher-priced raw materials and other input costs that will be flowing through our cost of sales, and particularly cotton and higher labor cost in particularly our distribution centers, DTG2Go's domestic operations, and I think the tailwinds are strong consumer demand for many parts of our business and demand for our service levels that we can provide on blank T-shirts and also on decorated T-shirts.

Our DTG2Go business is continuing to grow strongly, both in unit growth and average selling price out the door, and I would expect this first quarter of Fiscal '23 to be an all-time record of revenue for a quarter in our DTG2Go business, and, of course, we saw strong growth in our Salt Life business last year and expect that to continue into this year. I think both of those two things will be tailwinds for our Company and our revenue and profitability in the years to come.

We do think another headwind this year, as we are taking production time down in our manufacturing facilities and we expense that as we go, we did that in the fourth quarter, as we just mentioned, and we'll do more in the second quarter, and in all likelihood in our third quarter, and then get back to running our manufacturing facilities more full and absorbing more fixed cost and leveraging that fixed cost, anyway, I think those are the main drivers of those.

Simone, you got anything else you want to add there?

Simone Walsh

I'll just add, then, I think in terms of the supply chain overall, we are seeing those fuel surcharges have gone away, that is helpful. I think if you look, though, at freight, northbound and southbound from the U.S. into Central America, there are still elevated freight costs that we have in the supply chain. Encouragingly, out of Asia, those freight costs have come down, that is also helpful.

You referenced SG&A as well. I think that you will see over the course of the year, the biggest driver of dollar cost in our SG&A expense is opening retail stores, we opened eight stores during the year, and those store costs, operating costs, lease expenses are all in SG&A, you'll see that also.

Dana Telsey

Thank you.

Operator

Our next question comes from the line of Peter Johnson (phon), a Private Investor. Please proceed with your question.

Peter Johnson

Yes. Good afternoon.

Can you give us a little bit of an update on the Fanatics opportunity?

Robert Humphreys

Sure, we're in our—I think, our fifth quarter now, the beginnings of that, with Fanatics on board on our digital-first strategy. I think we've made good sequential progress each quarter in producing more product and getting it out the door. We have more equipment running on that now than we ever have in our history, and our output, as we speak, is the best that it's been in our history, and we see that continuing to grow, and then Black Friday will come in about a week, and by then, we will have additional shifts running to maximize what we can do in that business, but I think our third—our fourth quarter output was up over 30% from the prior year, and we expect strong unit and selling price growth in that business. This quarter, our average unit price out the door, that's what we're getting paid to deliver the garment and the print work, is the highest it's ever been, we're seeing some appreciation in that driven by number of prints on garments and garment pricing as well.

Peter Johnson

We are the exclusive provider to Fanatics by contract for these digitally-produced garments, correct?

Robert Humphreys

Well, I wouldn't say that broadly. They certainly have other vendors that were a part of things that we can't or don't want to make. I think long term, their demand and geographic footprint may be beyond what we can or want to do, but right now, on this type of equipment, we're the only provider.

Peter Johnson

Okay, and we have—are we adding—do we need to add a substantial amount of capacity still to meet their demand, or are we mostly there at this point?

Robert Humphreys

No, we have additional equipment on order that we'll be installing early next calendar year, you get to be—in this time of the year, going back 60 days, it's hard to install new equipment and get it started up and get it staffed to make a meaningful effort during the holiday period. We've tried that a number of times over the years and have learned to cut off earlier when we will take on installing additional equipment.

Peter Johnson

Simone—go ahead.

Robert Humphreys

Let me just say, I mean we're—this equipment—we got the first prototype, and we got the prototype from the manufacturer out of their facility, brought it into our facility just about five quarters ago, and we've gone from one prototype five quarters ago to 13 machines running in four different locations. Through holiday, we'll run two shifts in three of those locations, one shift in the other, and we're running them seven days a week, and Fanatics can sell a lot of product, and we're cheering them on, but we're also working very hard to make product in a fast start-up environment that's very dynamic.

Peter Johnson

Yes, it’s very exciting.

Simone, I might have missed this when you're talking about the financials, but what is roughly the gross margin for that kind of business?

Simone Walsh

For that business, historically, we have had higher levels of gross margin over the last 12 months. As we have installed that print equipment, as we have said, that has depressed our margins. We expect going forward to take margins back to those historic levels.

Peter Johnson

But you're talking about overall. I was just trying to understand for the Fanatics business.

Simone Walsh

I haven't spoken specifically about the Fanatics business. I'm sorry. I was referencing DTG2Go as a whole as part of our Delta Group.

Peter Johnson

Okay, and what were the overall DTG margins?

Robert Humphreys

We don't disclose the different margins within a segment—and I would just say, again, our average selling prices are the highest they've been, but DTG2Go is not necessarily a high-margin business, but there's just very little selling and other costs associated with it, and it has margins similar when it's running well to our basic activewear business, maybe slightly lower, but then it has a much lower SG&A component.

Peter Johnson

Understood. Thank you.

Just one more question. With companies presumably seeing the attractiveness of on-shoring and faster turn times and less stepping out and buying a lot of inventory, is there—are you seeing a shift from some of the major customers that could absorb some of that capacity that isn't being filled right now?

Robert Humphreys

Well, yes, one thing that's interesting to think about and understand about this business is it’s still a fairly seasonal business. You've got a big component of it that's driven from seasonal merchandise around the holiday period. Our strategy for years has been to work on building this out into a more level business, and we've tended to make pretty good progress as the years have gone, and that is one of the beauties of the Fanatics business is while—it definitely peaks in holidays, but the sports events that they support and the leagues run year-round, so it is much more of a year-round business. I think you'll see us be more strategic in what types of businesses that we do want to take on where we can continue to work on building our year-round business versus just installing more equipment for a peak period of time.

Peter Johnson

Great. Thank you very much for that.

Simone Walsh

Thank you.

Operator

Our next question comes from the line of Jamie Willin (phon) with Willin Management. Please proceed with your question.

Jamie Wilen

Hi, (inaudible).

Seasonality-wise, I assume the Christmas quarter, the current quarter, you'll be starting to run flat out at full capacity, certainly between Thanksgiving and Christmas.

Robert Humphreys

Yes, we've already, really, been running flat out for several weeks now, but I think in the last four weeks or five weeks, we've made some progress on productivity gains, on training and adding more people so that we can get more run hours out of the same equipment.

Jamie Wilen

Then seasonality-wise, the Fanatics business will obviously lessen the seasonality, but what percentage of capacity do you think you'll be able to achieve throughout the remainder of the year, not just the Christmas quarter?

Robert Humphreys

I don't have a good answer for you in front of me, to be honest with you, and how you define capacity is fluid. It depends on how many shifts you're going to run and how many days a week you're going to run, and I think we'll have plenty of capacity once we get past probably into January, February. I think we'll still be running very full on our digital-first strategy through that period of time, and then we'll start slowing up a little bit on output until we start gearing back up for the fall.

Jamie Wilen

The cap ex that you're going to spend in the business in this fiscal year, I assume that's just on machinery and not additional bricks and mortar.

Robert Humphreys

Exactly.

Jamie Wilen

Okay.

Then moving over to Salt Life, we've opened up a whole bunch of stores in the past year. Were they all profitable, and then could you comment on the same-store sales of the existing stores that already achieved a very decent level of volume and profitability, and are you actually able to increase the sales of those stores as well?

Simone Walsh

Thank you, Jamie.

Certainly, the same-store sales have increased, and if you think about some of our flagship stores such as Destin and Estero, we've spoken before about there being over $1 million in sales. That has certainly increased as well, which is very pleasing to see. Florida as a whole, as you know, has been hit with some weather challenges. We have opened eight stores in a year, they are still in growth mode, but of the stores that have been opened, we have seen that growth continue.

Robert Humphreys

Jamie, I would say if you wanted to look for a disappointment, in my mind, is our store in Texas has not yet met our goals, and there's some road and work construction around that store that perhaps is part of it.

I would say, in general, we see stores start out strong and remain strong or they start out weak and they stay kind of weak. Now we've seen places like Daytona that have had steady, long-term, five-year, six-year growth as the area around them has been built out. If people get there and shop, we do very well. Being just a destination to attract people is not our cup of tea or retailers like that. The most encouraging one to me has been Rehoboth, Delaware that still exceeds every week our goal for the store, that's been nice to see, and we're looking forward to seeing what happens for the North in New Jersey.

Jamie Wilen

Are you tweaking the model at all now that you have a bunch of different geographic locations and some with an outlet, some freestanding? As you move forward, how does the model change from how you've historically grown the store business?

Robert Humphreys

Yes. I think we like the model of about 2,000 square feet, and we want to remain a mix between outlet and what we consider more branding stores. From a profitability standpoint, right now, the outlets are more profitable for us. We tend to get more revenue through those stores, but we'll remain having a mix there.

Jamie Wilen

The online business, we were struggling with the ability to have inventory and the right merchandise there. Are we there now, and what type of growth are you seeing in that business or do you expect to see now that you'll have full merchandise within—on the website?

Simone Walsh

Thank you, Jamie.

Certainly, yes. If you recall, we, at the start of the year, were under inventory in our ability to fulfill on the e-commerce website, as our wholesale sales came through much stronger than expected and we're directing inventory to that wholesale business. We have now, within the distribution centers, identified a separate area in terms of e-commerce and have that available, and we have rectified that.

Very pleasingly, in Q4, we saw year-over-year growth in the e-commerce channel as well, as well as in retail and wholesale, and we're very encouraged by the future of our e-commerce platform. We have refreshed the website and continue to see healthy traffic.

Jamie Wilen

Fast forward to the end of this fiscal year, where would you like your inventory level to be?

Simone Walsh

Certainly, we have an anticipation of our inventory levels falling through the year. If you think about our inventory and the composition of our inventory, those Delta Direct unadorned T-shirts, a significant proportion of our inventory, about 75% of that inventory is evergreen, and we do expect to sell through that inventory over time and have those elevated inventory levels come down, as well as the Delta Direct evergreen inventory. We also have more Salt Life inventory just by having more stores now. That Salt Life inventory, as we keep increasing the store footprint, we will see a small piece of our inventory increase in line there, but that Delta Direct blank evergreen inventory we do expect to fall over the course of the year.

Jamie Wilen

Could you comment about what your competitors have in the evergreen inventory and how they are addressing their problems that everyone has with too much inventory and at a higher cost of cotton?

Robert Humphreys

I think it varies by a competitor. There's a significant amount of production that is currently sitting idle in Central America, as we've seen happen in the past, and they will be reducing inventory, I'm sure, both in units and the value in that inventory. We went into the beginning of this fiscal year under-inventoried as an industry. You'll recall the first—our first couple of quarters of the fiscal year, we were scrambling to fulfill orders, and in general, the industry was. It doesn't take too long to start shutting down this production that these inventories get into shape pretty darn quickly, and hopefully, we'll do that and have a smooth takeoff and landing where we have the right inventories at the right time and don't have too few or too many to service our customers, we'll remain mindful of that.

Jamie Wilen

Is finishing the year with $50 million less inventory a reasonable objective?

Robert Humphreys

Yes.

Simone Walsh

Yes.

Robert Humphreys

Combination of, obviously, lower investment in raw material costs, along with less units investment.

I wanted to just circle back around with you, Jamie, on the e-commerce piece of Salt Life. As we said a little bit in our prepared remarks, Salt Life has had an outsized e-commerce following—maybe not e-commerce, but social media following for many years now, and it gets pointed out in different types of reports and what have you, and that really accelerated even further over the last 12 months. I think our marketing people and the brand and brand awareness and some of the television shows that we're supporting have really done a great job of even further building the Salt Life brand value. It’s certainly got a broader geographic footprint. I think one of the great untapped opportunities in Delta Apparel is our Salt Life e-commerce business. It should be many times the size it is over the course of the next several years based on the brand awareness and the social media interaction that we have, and it’s our highest margin piece of that business as well.

Jamie Wilen

Right. Your stores are going to grow. Your e-commerce is going to grow. What about the wholesale business in Salt Life? Has that been able to maintain a higher trajectory?

Robert Humphreys

Yes. We had, by far, our best year ever last year, and that was really one of the things that Simone was pointing out that hurt our e-commerce business. Those orders come in, they get self populated, so it sucks up our inventory to ship those orders, and then we didn't have the inventory to support e-commerce. That has been good. We remain getting good feedback and doors being added at a regular pace, and we would expect to have another good year in our regular wholesale business.

Jamie Wilen

Okay. Thanks, fellows. Appreciate it.

Simone Walsh

Thank you so much.

Operator

We have reached the end of our question-and-answer session, and I'll now turn the call back over to the Management for closing remarks.

Robert Humphreys

All right. Thank you for your interest in Delta Apparel, as always, and we'll look forward to updating you on our first quarter results here in just a couple of months. Hope everyone has a great holiday season.

Operator

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