

UNIFI INC
Form 10-Q
November 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 25, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-10542

UNIFI, INC.

(Exact name of registrant as specified in its charter)

New York 11-2165495
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

7201 West Friendly Avenue
Greensboro, North Carolina 27410
(Address of principal executive offices) (Zip
Code)

(336) 294-4410

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(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 27, 2016, there were 18,046,043 shares of the registrant's common stock, par value \$0.10 per share, outstanding.

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that relate to our plans, objectives, estimates and goals. Statements expressing expectations regarding our future, or projections or estimates relating to products, sales, revenues, expenditures, costs or earnings, are typical of such statements and are made under the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management's beliefs, assumptions and expectations about our future economic performance, considering the information currently available to management. The words "believe," "may," "could," "will," "should," "would," "anticipate," "estimate," "project," "expect," "intend," "seek," "strive" and words of similar import, or the negative of such words, identify or signal the presence of forward-looking statements. These statements are not statements of historical fact; they involve risks and uncertainties that may cause our actual results, performance or financial condition to differ materially from the expectations of future results, performance or financial condition that we express or imply in any forward-looking statement. Factors that could contribute to such differences include, but are not limited to:

- the competitive nature of the textile industry and the impact of global competition;
- changes in the trade regulatory environment and governmental policies and legislation;
- the availability, sourcing and pricing of raw materials;
- general domestic and international economic and industry conditions in markets where the Company competes, including economic and political factors over which the Company has no control;
- changes in consumer spending, customer preferences, fashion trends and end-uses for products;
- the financial condition of the Company's customers;
- the loss of a significant customer;
- the success of the Company's strategic business initiatives;
- volatility of financial and credit markets;
- the ability to service indebtedness and fund capital expenditures and strategic initiatives;
- availability of and access to credit on reasonable terms;
- changes in currency exchange, interest and inflation rates;
- fluctuations in production costs;
- the ability to protect intellectual property;
- employee relations;
- the impact of environmental, health and safety regulations;
- the operating performance of joint ventures and other equity investments;
- the accurate financial reporting of information from equity method investees; and
- other factors discussed in "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended June 26, 2016 or elsewhere in this report.

All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors or to assess the impact of each such factor on the Company. Any forward-looking statement speaks only as of the date on which such statement is made, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, except as may be required by federal securities law.

In light of all the above considerations, we reiterate that forward-looking statements are not guarantees of future performance, and we caution you not to rely on them as such.

UNIFI, INC.

FORM 10-Q

FOR THE THREE MONTHS ENDED SEPTEMBER 25, 2016

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(amounts in thousands, except share and per share amounts)

	September 25, 2016	June 26, 2016
ASSETS		
Cash and cash equivalents	\$ 20,921	\$ 16,646
Receivables, net	82,912	83,422
Inventories	110,002	103,532
Income taxes receivable	6,312	3,502
Other current assets	5,632	4,790
Total current assets	225,779	211,892
Property, plant and equipment, net	194,261	185,101
Deferred income taxes	2,362	2,387
Intangible assets, net	3,385	3,741
Investments in unconsolidated affiliates	117,239	117,412
Other non-current assets	4,947	4,909
Total assets	\$ 547,973	\$ 525,442
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 44,177	\$ 41,593
Accrued expenses	17,250	18,474
Income taxes payable	2,032	1,455
Current portion of long-term debt	13,733	13,786
Total current liabilities	77,192	75,308
Long-term debt	115,821	107,805
Other long-term liabilities	10,515	10,393
Deferred income taxes	7,446	4,991
Total liabilities	210,974	198,497
Commitments and contingencies		
Common stock, \$0.10 par value (500,000,000 shares authorized; 18,018,445		
and 17,847,416 shares outstanding as of September 25, 2016 and June 26, 2016,		
respectively)	1,802	1,785
Capital in excess of par value	47,630	45,932
Retained earnings	316,468	307,065
Accumulated other comprehensive loss	(30,554)	(29,751)
Total Unifi, Inc. shareholders' equity	335,346	325,031
Non-controlling interest	1,653	1,914
Total shareholders' equity	336,999	326,945
Total liabilities and shareholders' equity	\$ 547,973	\$ 525,442

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(amounts in thousands, except per share amounts)

	For the Three Months Ended	
	September 25, 2016	September 27, 2015
Net sales	\$159,969	\$162,165
Cost of sales	136,422	141,181
Gross profit	23,547	20,984
Selling, general and administrative expenses	11,410	10,830
(Benefit) provision for bad debts	(367)	613
Other operating income, net	(70)	(146)
Operating income	12,574	9,687
Interest income	(146)	(163)
Interest expense	692	984
Equity in earnings of unconsolidated affiliates	(840)	(2,860)
Income before income taxes	12,868	11,726
Provision for income taxes	3,726	3,940
Net income including non-controlling interest	9,142	7,786
Less: net loss attributable to non-controlling interest	(261)	(239)
Net income attributable to Unifi, Inc.	\$9,403	\$8,025
Net income attributable to Unifi, Inc. per common share:		
Basic	\$0.52	\$0.45
Diluted	\$0.51	\$0.43

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(amounts in thousands)

	For the Three Months Ended September	
	25, 2016	September 27, 2015
Net income including non-controlling interest	\$9,142	\$ 7,786
Other comprehensive loss:		
Foreign currency translation adjustments	(579)	(11,038)
Foreign currency translation adjustments for an unconsolidated affiliate	(243)	(399)
Reclassification adjustments on interest rate swap	19	19
Other comprehensive loss, net	(803)	(11,418)
Comprehensive income (loss) including non-controlling interest	8,339	(3,632)
Less: comprehensive loss attributable to non-controlling interest	(261)	(239)
Comprehensive income (loss) attributable to Unifi, Inc.	\$8,600	\$ (3,393)

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(amounts in thousands)

	For the Three Months Ended	
	September 25, 2016	September 27, 2015
Cash and cash equivalents at beginning of year	\$16,646	\$10,013
Operating activities:		
Net income including non-controlling interest	9,142	7,786
Adjustments to reconcile net income including non-controlling interest to net cash provided by operating activities:		
Equity in earnings of unconsolidated affiliates	(840)	(2,860)
Distributions received from unconsolidated affiliates	750	1,947
Depreciation and amortization expense	4,737	4,383
Excess tax benefit on stock-based compensation plans	(447)	—
Deferred income taxes	2,471	498
Other, net	281	381
Changes in assets and liabilities:		
Receivables, net	783	(4,276)
Inventories	(6,720)	(6,298)
Other current assets and income taxes receivable	(3,267)	1,788
Accounts payable and accrued expenses	509	(3,474)
Income taxes payable	588	839
Other, net	162	73
Net cash provided by operating activities	8,149	787
Investing activities:		
Capital expenditures	(10,135)	(15,875)
Proceeds from sale of assets	28	2,088
Other, net	(77)	(347)
Net cash used in investing activities	(10,184)	(14,134)
Financing activities:		
Proceeds from ABL Revolver	40,200	53,200
Payments on ABL Revolver	(31,700)	(30,200)
Payments on ABL Term Loan	(2,375)	(2,250)
Payments on capital lease obligations	(1,073)	(924)
Common stock repurchased and retired under publicly announced programs	—	(5,439)
Proceeds from stock option exercises	1,200	60
Excess tax benefit on stock-based compensation plans	447	—
Contributions from non-controlling interest	—	480
Other	(341)	(471)
Net cash provided by financing activities	6,358	14,456

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Effect of exchange rate changes on cash and cash equivalents	(48)	(1,168)
Net increase (decrease) in cash and cash equivalents	4,275	(59)
Cash and cash equivalents at end of period	\$20,921	\$9,954

See accompanying notes to condensed consolidated financial statements.

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements

1. Background

Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries, “we,” the “Company” or “Unifi”), is a multi-national manufacturing company that processes and sells high-volume commodity yarns, specialized yarns designed to meet certain customer specifications, and premium value-added (“PVA”) yarns with enhanced performance characteristics. The Company sells yarns made from polyester and nylon to other yarn manufacturers and knitters and weavers that produce fabric for the apparel, hosiery, home furnishings, automotive upholstery, industrial and other end-use markets. The Company’s polyester products include plastic bottle flake, polyester polymer beads (“Chip”), partially oriented yarn (“POY”), and textured, solution and package dyed, twisted, beamed and draw wound yarns. Each yarn product is available in virgin or recycled varieties, where the recycled is made from both pre-consumer yarn waste and post-consumer waste, including plastic bottles. The Company’s nylon products include textured, solution dyed and spandex covered products.

The Company maintains one of the textile industry’s most comprehensive yarn product offerings, and has manufacturing operations in four countries and participates in joint ventures in Israel and the United States. The Company’s principal geographic markets for its products are in North America, Central America, South America and Asia.

In addition to the Company’s operations described above, the Company’s investments include, but are not limited to, (i) a 34% non-controlling partnership interest in Parkdale America, LLC (“PAL”), a producer of cotton and synthetic yarns for sale to the textile industry and apparel market, both foreign and domestic; and (ii) a 60% controlling membership interest in Repreve Renewables, LLC (“Renewables”), an agricultural company focused on the development, production and commercialization of dedicated miscanthus grass for use in the animal bedding, bio-energy and other bio-based product markets.

2. Basis of Presentation; Condensed Notes

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information. As contemplated by the instructions of the Securities and Exchange Commission (the “SEC”) to Form 10-Q, the following notes have been condensed and, therefore, do not contain all disclosures required in connection with annual financial statements. Reference should be made to the Company’s year-end audited consolidated financial statements and related notes thereto contained in its Annual Report on Form 10-K for the fiscal year ended June 26, 2016 (the “2016 Form 10-K”).

The financial information included in this report has been prepared by the Company, without audit. In the opinion of management, all adjustments, which consist of normal, recurring adjustments, considered necessary for a fair statement of the results for interim periods have been included. Nevertheless, the results shown for interim periods are not necessarily indicative of results to be expected for the full year. The preparation of financial statements in

conformity with GAAP requires management to make use of estimates and assumptions that affect the amounts reported and certain financial statement disclosures. Actual results may vary from these estimates.

All dollar and other currency amounts and share amounts, except per share amounts, are presented in thousands (000s), except as otherwise noted.

The fiscal quarter for the Company and its Chinese subsidiary ended on September 25, 2016, the last Sunday in September. The fiscal quarter for the Company's Brazilian and Colombian subsidiaries ended on September 30, 2016. There were no significant transactions or events that occurred between the Company's fiscal quarter end and its subsidiaries' fiscal quarter end. The three months ended September 25, 2016 and September 27, 2015 each consisted of thirteen fiscal weeks.

Reclassifications

Certain reclassifications of prior years' data have been made to conform to the current year presentation.

As of the fourth quarter of fiscal 2016, the Company updated the composition of its Polyester and Nylon Segments, intending to better reflect downstream sales for the respective product lines. In connection with such update, for the three months ended September 27, 2015, the Company has reclassified net sales and cost of sales amounts for the respective segments, as reflected in Note 20, "Business Segment Information."

Unifi, Inc.

Notes to Condensed Consolidated Financial Statements (Continued)

The Company adopted Accounting Standards Update (“ASU”) 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”) during the first quarter of fiscal 2017, along with the clarifying guidance in ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements—Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting.

As shown in the table below, unamortized debt issuance costs associated with outstanding debt have been reclassified to conform to the new presentation requirements as of September 25, 2016 as follows:

	June 26, 2016	Adjustments Due	June 26, 2016
	As Previously Reported	to Adoption of ASU 2015-03	As Adjusted
Debt issuance costs (within other non-current assets)	\$ 1,421	\$ (1,421)	\$—
Total assets	526,863	(1,421)	525,442
Long-term debt	109,226	(1,421)	107,805
Total liabilities	199,918	(1,421)	198,497

3. Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to reduce the diversity in practice arising from inconsistent presentation of certain components of the statement of cash flows. The guidance will be effective for the Company’s fiscal 2019.

The Company is evaluating the effect the new guidance will have on its consolidated financial statements and related disclosures.

In the first quarter of fiscal 2017, the Company adopted ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, that eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The Company has no measurement period adjustments in the current or comparative periods.

There have been no other newly issued or newly applicable accounting pronouncements that have, or are expected to have, a significant impact on the Company’s financial statements.

4. Receivables, Net

Receivables, net consists of the following:

	September 25, 2016	June 26, 2016
Customer receivables	\$ 84,757	\$ 86,361
Allowance for uncollectible accounts		