

DELTA APPAREL, INC
Form 10-Q
February 04, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 29, 2018

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 1-15583

DELTA APPAREL, INC.

(Exact name of registrant as specified in its charter)

GEORGIA 58-2508794

(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

322 South Main Street
Greenville, SC 29601
(Address of principal executive offices) (Zip Code)
(864) 232-5200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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 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, a smaller reporting company, or an emerging growth company. See the definitions of a "large accelerated filer," "accelerated filer" , "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | | |
|--|--|--|--|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> | Emerging growth company <input type="checkbox"/> |
| (Do not check if a smaller reporting company) | | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act

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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 January 24, 2019, there were outstanding 6,945,417 shares of the registrant's common stock, par value of \$0.01 per share, which is the only class of outstanding common or voting stock of the registrant.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

Delta Apparel, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

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

(Unaudited)

| | December 29, 2018 | September 29, 2018 |
|---|----------------------|-----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 558 | \$ 460 |
| Accounts receivable, less allowances of \$483 and \$1,475, respectively | 52,952 | 46,537 |
| Other receivables | 3,905 | 342 |
| Income tax receivable | 18 | 38 |
| Inventories, net | 187,653 | 174,983 |
| Note receivable | 50 | 100 |
| Prepaid expenses and other current assets | 3,602 | 2,962 |
| Total current assets | 248,738 | 225,422 |
| Property, plant and equipment, net of accumulated depreciation of \$76,044 and \$74,018, respectively | 54,883 | 52,114 |
| Goodwill | 36,597 | 33,217 |
| Intangibles, net | 24,028 | 20,498 |
| Deferred income taxes | 1,924 | 1,374 |
| Equity method investment | 9,399 | 8,980 |
| Other assets | 1,760 | 2,004 |
| Total assets | \$ 377,329 | \$ 343,609 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 62,184 | \$ 48,008 |
| Accrued expenses | 18,811 | 16,742 |
| Current portion of contingent consideration | 638 | 638 |
| Current portion of capital lease financing | 5,106 | 3,846 |
| Current portion of long-term debt | 8,176 | 6,577 |
| Total current liabilities | 94,915 | 75,811 |
| Long-term taxes payable | 3,862 | 4,259 |
| Long-term capital lease financing, less current maturities | 11,512 | 9,302 |
| Long-term debt, less current maturities | 109,322 | 92,083 |
| Deferred income taxes | 2,404 | 2,132 |
| Contingent Consideration | 9,644 | 9,904 |
| Other non-current liabilities | 315 | — |
| Total liabilities | \$ 231,974 | \$ 193,491 |
| Shareholders' equity: | | |
| Preferred stock—\$0.01 par value, 2,000,000 shares authorized, none issued and outstanding | | — |
| Common stock —\$0.01 par value, 15,000,000 shares authorized, 9,646,972 shares issued, 96 and 6,970,770 and 6,909,446 shares outstanding as of December 29, 2018, and | | 96 |

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| | | |
|--|------------|-------------|
| September 29, 2018, respectively | | |
| Additional paid-in capital | 58,663 | 61,979 |
| Retained earnings | 127,539 | 128,695 |
| Accumulated other comprehensive income (loss) | (236 |) 136 |
| Treasury stock —2,676,202 and 2,737,526 shares as of December 29, 2018, and September 29, 2018, respectively | (40,724 |) (40,881) |
| Equity attributable to Delta Apparel, Inc. | 145,338 | 150,025 |
| Equity attributable to non-controlling interest | 17 | 93 |
| Total equity | 145,355 | 150,118 |
| Total liabilities and equity | \$ 377,329 | \$ 343,609 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

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Delta Apparel, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Amounts in thousands, except per share data)
(Unaudited)

| | Three Months Ended | |
|--|--------------------|-------------------|
| | December 2018 | December 30, 2017 |
| Net sales | \$ 101,675 | \$ 90,342 |
| Cost of goods sold | 83,105 | 73,972 |
| Gross profit | 18,570 | 16,370 |
| Selling, general and administrative expenses | 16,784 | 14,979 |
| Other expense (income), net | 1,745 | (347) |
| Operating income | 41 | 1,738 |
| Interest expense, net | 1,765 | 1,334 |
| (Loss) income before (benefit from) provision for income taxes | (1,724) | 404 |
| (Benefit from) provision for income taxes | (499) | 10,356 |
| Consolidated net loss | (1,225) | (9,952) |
| Less: Net loss attributable to non-controlling interest | (76) | — |
| Net loss attributable to shareholders | \$(1,149) | \$ (9,952) |
| Basic loss per share | \$(0.17) | \$ (1.37) |
| Diluted loss per share | \$(0.17) | \$ (1.37) |
| Weighted average number of shares outstanding | 6,924 | 7,268 |
| Dilutive effect of stock awards | — | — |
| Weighted average number of shares assuming dilution | 6,924 | 7,268 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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Delta Apparel, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

(Amounts in thousands)

(Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | December 2018 | December 30, 2017 |
| Net loss attributable to shareholders | \$(1,149) | \$(9,952) |
| Other comprehensive (loss) income related to unrealized (loss) gain on derivatives, net of income tax | (373) | 85 |
| Consolidated comprehensive loss | \$(1,522) | \$(9,867) |

See accompanying Notes to Condensed Consolidated Financial Statements.

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Delta Apparel, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | December 2018 | December 30, 2017 |
| Operating activities: | | |
| Consolidated net loss | \$(1,225) | \$ (9,952) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 2,919 | 2,433 |
| Amortization of deferred financing fees | 78 | 76 |
| (Benefit from) provision for deferred income taxes | (278) | 2,346 |
| Non-cash stock compensation | 662 | 437 |
| Other, net | (679) | (300) |
| Changes in operating assets and liabilities, net of effect of acquisition: | | |
| Accounts receivable, net | (8,794) | (3,453) |
| Inventories, net | (11,543) | 46 |
| Prepaid expenses and other assets | (504) | (1,252) |
| Other non-current assets | (17) | 61 |
| Accounts payable | 13,615 | (1,902) |
| Accrued expenses | 2,055 | (4,290) |
| Income taxes | (377) | 8,007 |
| Other liabilities | 122 | (71) |
| Net cash used in operating activities | (3,966) | (7,814) |
| Investing activities: | | |
| Purchases of property and equipment, net | (989) | (2,162) |
| Proceeds from sale of Junkfood assets | — | 1,000 |
| Proceeds from sale of fixed assets | — | 1 |
| Cash paid for business | (2,000) | — |
| Net cash used in investing activities | (2,989) | (1,161) |
| Financing activities: | | |
| Proceeds from long-term debt | 114,934 | 119,529 |
| Repayment of long-term debt | (102,896) | (106,424) |
| Repayment of capital financing | (1,158) | (257) |
| Repurchase of common stock | (1,714) | (2,897) |
| Payment of withholding taxes on stock awards | (2,113) | (945) |
| Net cash provided by financing activities | 7,053 | 9,006 |
| Net increase in cash and cash equivalents | 98 | 31 |
| Cash and cash equivalents at beginning of period | 460 | 572 |
| Cash and cash equivalents at end of period | \$558 | \$ 603 |
| Supplemental cash flow information: | | |
| Non-cash financing activity - capital lease agreements | \$4,628 | \$ 3,050 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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Delta Apparel, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note A—Basis of Presentation and Description of Business

We prepared the accompanying interim Condensed Consolidated Financial Statements in accordance with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. We believe these Condensed Consolidated Financial Statements include all normal recurring adjustments considered necessary for a fair presentation. Operating results for the three-month period ended December 29, 2018, are not necessarily indicative of the results that may be expected for our fiscal year ending September 28, 2019.

Although our various product lines are sold on a year-round basis, the demand for specific products or styles reflects some seasonality, with sales in our June quarter generally being the highest and sales in our December quarter generally being the lowest. For more information regarding our results of operations and financial position, refer to the Consolidated Financial Statements and footnotes included in our Annual Report on Form 10-K for our fiscal year ended September 29, 2018, filed with the United States Securities and Exchange Commission ("SEC").

"Delta Apparel", the "Company", "we", "us" and "our" are used interchangeably to refer to Delta Apparel, Inc. together with our domestic wholly-owned subsidiaries, including M.J. Soffe, LLC ("Soffe"), DTG2Go, LLC, f/k/a Art Gun, LLC ("DTG2Go"), Salt Life, LLC ("Salt Life"), Culver City Clothing Company (f/k/a Junkfood Clothing Company) ("Junkfood"), and our other domestic and international subsidiaries, as appropriate to the context. On October 8, 2018, we purchased substantially all the assets of Silk Screen Ink, Ltd. d/b/a SSI Digital Print Services. See Note D—Acquisitions, for further information on this transaction.

Delta Apparel, Inc. is an international apparel design, marketing, manufacturing and sourcing company that features a diverse portfolio of core activewear and lifestyle apparel products. We specialize in selling casual and athletic products through a variety of distribution channels and distribution tiers, including department stores, mid and mass channels, e-retailers, sporting goods and outdoor retailers, independent and specialty stores, and the U.S. military. Our products are also made available direct-to-consumer on our websites and in our branded retail stores. We believe this diversified distribution allows us to capitalize on our strengths to provide casual activewear to a broad and evolving customer base whose shopping preferences may span multiple retail channels.

As a vertically-integrated manufacturer, we design and internally manufacture the majority of our products, which allows us to offer a high degree of consistency and quality, leverage scale efficiencies, and react quickly to changes in trends within the marketplace. We have manufacturing operations located in the United States, El Salvador, Honduras and Mexico, and use domestic and foreign contractors as additional sources of production. Our distribution facilities are strategically located throughout the United States to better serve our customers with same-day shipping on our catalog products and weekly replenishments to retailers.

We were incorporated in Georgia in 1999 and our headquarters is located at 322 South Main Street, Greenville, South Carolina 29601 (telephone number: 864-232-5200). Our common stock trades on the NYSE American exchange under the symbol "DLA". We operate on a 52-53 week fiscal year ending on the Saturday closest to September 30. Our 2019 fiscal year is a 52-week year and will end on September 28, 2019. Our 2018 fiscal year was a 52-week year and ended on September 29, 2018.

Note B—Accounting Policies

Our accounting policies are consistent with those described in our Significant Accounting Policies in our Annual Report on Form 10-K for the fiscal year ended September 29, 2018, filed with the SEC.

Note C—New Accounting Standards

Recently Adopted Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09"). This new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 is effective for annual periods beginning after December

15, 2017, for public business entities and permits the use of either the retrospective or cumulative effect transition method. Early application is permitted only for annual reporting periods beginning after December 15, 2016. ASU 2014-09 was adopted in our fiscal year beginning September 30, 2018. We adopted the new standard using the modified retrospective transition method. In accordance with the adoption of ASU 2014-09, sales returns reserves, estimated chargebacks and markdowns, and other provisions for customer refunds are now presented in accrued liabilities rather than netted with accounts receivable. In addition, the estimated cost of inventory associated with sales returns reserves are now presented within other current assets. We applied the provisions of ASU 2014-09 to all contracts at the date of adoption.

Our revenue streams consist of wholesale, direct-to-consumer and ecommerce sales which are included in our Condensed Consolidated Statements of Operations. The table below identifies the amount of net sales by distribution channel and percentage of net sales (in thousands):

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| | Three Months Ended | | | |
|-----------|----------------------|-------|----------------------|-------|
| | December 29, 2018 | | December 30, 2017 | |
| | \$ | % | \$ | % |
| Retail | \$1,012 | 1 % | \$884 | 1 % |
| Ecommerce | 6,826 | 7 % | 5,450 | 6 % |
| Wholesale | 93,837 | 92 % | 84,008 | 93 % |
| Net Sales | \$101,675 | 100 % | \$90,342 | 100 % |

The table below provides net sales by reportable segment (in thousands) and the percentage of net sales by distribution channel for each reportable segment:

| | First Quarter Fiscal Year 2019 | | | | | |
|-----------------|--------------------------------|-----------|--------|-----------|--|--|
| | Net Sales | Wholesale | Retail | Ecommerce | | |
| Delta Group | \$94,391 | 94.0 % | 0.5 % | 5.5 % | | |
| Salt Life Group | 7,284 | 73.0 % | 10.0 % | 17.0 % | | |
| Total | \$101,675 | | | | | |

| | First Quarter Fiscal Year 2018 | | | | | |
|-----------------|--------------------------------|-----------|--------|-----------|--|--|
| | Net Sales | Wholesale | Retail | Ecommerce | | |
| Delta Group | \$83,924 | 94.0 % | 0.4 % | 5.6 % | | |
| Salt Life Group | 6,418 | 73.0 % | | | | |