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DXYN - Q1 2019 Dixie Group Inc Earnings Call

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CORPORATE PARTICIPANTS

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Jon A. Faulkner *The Dixie Group, Inc. - VP & CFO*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to The Dixie Group, Inc. 2019 First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I would like to introduce your host for today's conference, Mr. Dan Frierson. Sir, please go ahead.

Daniel K. Frierson - *The Dixie Group, Inc. - Chairman & CEO*

Thank you, Michelle, and welcome, everyone, to our first quarter conference call. I have with me, Jon Faulkner, our CFO. Our safe harbor statement is included by reference, both to our website and press release.

For the first quarter of 2019, the company had net sales of $88.6 million as compared to $98.8 million in 2018. First quarter 2019 net sales were down 10.4%. For the first quarter of 2019, the company had a loss from continuing operations of $6.641 million or $0.42 per diluted share as compared to a loss of $2.884 million or $0.18 per diluted share in the first quarter of '18. On a non-GAAP basis, our loss was $4.545 million for the period. Our results for the first quarter were weaker than anticipated. The residential floor covering business was down for the industry as well. The early part of the quarter was impacted by poor weather conditions in much of the country and retail traffic was very slow. We believe this was also due to the uncertain economic environment at year-end and the confusion surrounding international trade issues.

Our commercial business continued to be impacted during the quarter by a restructuring, which is now complete. The restructuring was primarily brought about by the actions of a key supplier. The exclusive supplier of yarns to our Atlas contract operation has decided to dramatically reduce its supply of white dyeable yarns, which had been a major source of differentiation and supported the majority of our Atlas product line. The Atlas business model has been to make piece dyeable products on make-to-order model. The change in piece dyed yarn availability along with other product trends in the marketplace has caused us to change our business model. We have responded by merging our 2 commercial businesses, Maslin and Atlas first by consolidating the marketing, product development and support functions, followed by consolidating our sales team and the manufacturing operations. That consolidation is now complete. We're still in the process of introducing new products to replace those being phased out. And we'll continue this transition for several years.

This time, I would like to ask Jon Faulkner to review our financial results.

Jon A. Faulkner - *The Dixie Group, Inc. - VP & CFO*

Thank you, Dan. Looking at sales, for the quarter, our sales were $88.6 million, a 10% decrease over sales of $98.9 million, first quarter 2018. Our floor covering sales were down 10.5% while the industry was down low single-digits. Commercial products were off 21.3% while we believe commercial soft floor covering was flat. Our residential products were off 5.5% while the industry, we believe, was down in the mid-single digits.

Gross profit for the quarter was 21.4% of net sales as compared to 21.8% in 2018. The first quarter of 2018, our sales and costs were negatively impacted by lower sales in both our businesses, contributing to under absorbed costs in our manufacturing operations. In addition, we had significantly higher medical expenses relative to the same time period a year ago. Selling and administrative expense for the quarter was 24.4% as compared to 23.4% in 2018. Other items in the quarter included $2.1 million of facility consolidation and severance expenses.

We completed the closure of our commerce California tufting operations, all a part of our Profit Improvement Plan. Our total expense reduction from the Profit Improvement Plan, once fully implemented later in 2019, is $18.7 million on an annualized basis. An operating loss of $4.9 million for the first quarter of 2019 as compared to an operating loss of $1.5 million in 2018. Our interest expense for the first quarter of 2019 was $1.7 million versus $1.5 million a year ago.

Our diluted loss per share from continuing operations was $0.42 for the quarter.

Looking at our balance sheet at the end of the quarter. Our receivables are up to $1 million since year-end. Our inventories increased to seasonal $1.4 million during the quarter. Capital equipment acquisitions, including those funded by cash and financing, was $1 million for the quarter. Depreciation and amortization for the period is $3.1 million. We anticipate capital expenditures for 2019 to be approximately $6 million and depreciation and amortization of approximately $12.5 million.

In accordance with the new lease accounting standard, we added to the balance sheet both a right of use asset of $9 million and an operating lease obligation of $9.4 million. Outside of our operating lease liabilities, the total of our long-term debt, including the short-term portion, increased $4.6 million during the first quarter due to normal seasonal increases in working capital. Early in the quarter, we did an $11.5 million sale lease back of our Saraland facility, increasing our availability by approximately $6 million.

Our investor presentation, including our non-GAAP information, is on our website at www.thedixiegroup.com. Thank you, Dan.

Daniel K. Frierson - *The Dixie Group, Inc. - Chairman & CEO*

Thank you, Jon. Our residential product sales were down 5.5% for the quarter with the industry we estimate being down mid- to higher single digits as compared to the prior year, so we continued to outperform the market. We did see a significant pickup in order activities starting in late first quarter. And for the first 4 weeks of April, our orders in 2019 exceeded our sales as compared to the 2018 for the residential business during that period. Residential order activity in the second quarter is also benefiting from the earlier introduction of new products relative to our product introductions a year ago.

Of note is our EnVision 6,6 collection. This new program is an extension of our Dixie Home product line with beautifully styled products at moderate price points to reach a wider range of consumers. These products are made with type 6,6 nylon to ensure the highest quality and performance standards.

For 2019, we're building on the momentum we gained by tripling our residential hard surface business in 2018 with the launch of TruCor, our new solid polymer core, or SPC luxury vinyl flooring line. This latest addition to our rigid core luxury vinyl flooring offering is designed to create an extremely durable and waterproof luxury vinyl flooring product. To facilitate this growth, we're expanding our distribution of hard surface products to our West Coast distribution center to complement our East Coast service center.

Focusing on the second quarter, our residential sales for the first 4 weeks of April are 1.7% behind last year at this time. The weekly sales rate for residential products in April is 18% above the weekly sales rate in the first quarter. Our commercial backlog has increased $2.1 million or 12% since the beginning of the second quarter. Orders for the company for the first 4 weeks of the second quarter are now above sales for the same time period a year ago.

It appears the normal seasonal pattern of business started later this year but is now in motion. We continue to focus on operational improvements throughout the company and work at reducing costs. Our staffing is now down 19% from first quarter of 2018 and SG&A expenses, well below a year ago. We had $2.1 million in expenses related to our Profit Improvement Plan during the period. We have continued to add additional projects to our program, including plans to further cut administrative staff and eliminate in the third quarter of 2019 our Commerce California distribution center, better utilizing our Santa Ana, California facility and some outside resources. Combined savings on an annualized basis for our Profit Improvement Plan are now $18.7 million as compared to the beginning of 2018. We have instituted a company-wide purchasing initiative and are beginning to see resulting cost reductions there. We also increased prices on carpet products during the first quarter, which, of course, now is fully implemented.

It appears the raw material inflation we experienced last year has subsided. We're also taking action to mitigate the potential impact of higher medical costs, which we experienced in the first quarter.

At this time, we will open the meeting to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And I'm showing no lessons at this time, and I would like to turn the conference back over to Mr. Dan Frierson for any closing remarks.

Daniel K. Frierson - *The Dixie Group, Inc. - Chairman & CEO*

Michelle, thank you, and thank all of you for being with us on the conference call. Obviously, the first quarter was a difficult quarter for us, but we're looking for much better results going forward. We look forward to speaking with you after the second quarter. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.