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DXYN - Q3 2019 Dixie Group Inc Earnings Call

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Operator

Good day, and welcome to the Dixie Group, Inc. 2019 Third Quarter Earnings Conference Call. Today's call is being recorded. At this time for opening remarks and introductions, I would like to turn the call over to the Chairman and Chief Executive Officer, Daniel Frierson. Please go ahead, sir.

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

Thank you, Victor, and welcome, everyone. I have with me Jon Faulkner, our CFO, who will be making comments during the meeting.

Our safe harbor statement is included by a reference both to our website and press release.

Net sales for the third quarter were \$95,447,000 compared to \$101 million in the same period of 2018. Our sales, excluding the mass merchant channel, where we had unusually high stocking orders a year ago, were down 1.5% compared to a year ago.

For the year of 2019, the company had a loss from continuing operations of approximately \$2.5 million or \$0.16 per share. However, adjusting for costs associated with facility restructuring and related inventory impairments, the company had a loss of \$1,452,000 for the third quarter of 2019.

For the third quarter of 2018, the company reported a loss from continuing operations of \$2,922,000 or \$0.19 per share on a higher level of sales.

Unusual expenses during the period, including -- included \$1.1 million in restructuring-related expenses, including facility consolidations related to the reduction of our west -- relocation of our West Coast distribution center, inventory write-downs from Atlas white dyeable products and severance expenses. Other unusually high expenses during the period were medical costs associated with our traditional preferred provider networks. These medical plans were replaced, one in the third quarter and one in the early part of the fourth quarter.

At this time, I'm going to turn the meeting over to -- the call over to Jon Faulkner to review our financial results, after which I'll have additional comments.

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

Thank you, Dan. Looking at sales for the quarter, they were \$95.5 million, a 6% decrease over sales of \$101.6 million in the third quarter of 2018.

Gross profit for the quarter was 22.1% of net sales as compared to 21.5% in 2018.

For the third quarter of 2019, our sales and costs were negatively impacted by lower sales in our residential business. We also had \$82,000 inventory write-downs related to our restructuring.

In addition, we had a higher medical expenses relative to the same period year ago. Selling and administrative expense for the quarter was 22% as compared to 22.7% in 2018. Expenses were down largely due to the cost-cutting efforts under our Profit Improvement Plan.

Other items in the quarter included \$1 million in facility consolidation and severance expenses. We completed the closure of our Commerce, California distribution center in the third quarter. Our total expense reduction from the Profit Improvement Plan as compared to our 2017 cost structure is \$18.7 million on an annualized basis.

We had an operating loss of \$1 million in the third quarter of 2019 as compared to an operating loss of \$1.2 million in the same period in 2018.

Our interest expense for the third quarter of 2019 was \$1.6 million versus \$1.7 million in 2018. Diluted loss per share from continuing operations was \$0.16 for the quarter.

Looking at our balance sheet at the end of the quarter, our receivables were down \$2.4 million since the beginning of the quarter. Our inventories were down \$5.7 million during the quarter.

Capital acquisitions, including those funded by cash and financings, was \$3.3 million year-to-date. Depreciation and amortization year-to-date was \$8.8 million. We anticipate capital expenditures for 2019 of approximately \$4 million and depreciation and amortization of approximately \$11.8 million.

Outside of our operating lease liabilities, the total of our long-term debt, including short-term portion, decreased \$3 million during the quarter and \$3.9 million year-to-date, primarily due to decreases in our working capital.

In October, we sold our Susan Street facility for \$37.2 million and signed a lease with options for a period of up to 20 years. The gain on the sale is approximately \$25 million or over \$1.50 per share.

Our senior credit facility was paid down by \$36 million as a result of the sale. Our total debt reduction from the third quarter of 2018 through the completion of this transaction is \$55 million. Our total debt after the completion of the sale of the Susan Street facility was \$86 million. Our equity after completion of this transaction has risen by over 50%. Total accessible availability subsequent to our closing of the sale of our Susan Street facility was \$22 million.

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

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

Thank you, Jon. Our residential carpet product sales were down 10.9% for the quarter as compared to the prior year. Our residential carpet sales without our mass merchant channel were lower for the third quarter year-over-year period by 5.1%, thus, significantly stronger than our mass merchant channel.

Our EnVision 6,6 program continues to gaining traction in the market. We continue to expand this program, which brings exceptional value to the customer.

We have seen growth in our West Coast offering through both our Masland California Classics and the Dixie Home Pacific Living Quick ship collection. Both of these programs are serviced out of our Santa Ana, California facility, providing shorter delivery times for our West Coast marketplace.

Sales of our new eNergy collection of main street commercial products sold by our Masland residential sales force continued to increase as more displays are activated in the marketplace.

We are also developing additional wool products manufactured on new technology, which will be introduced next year and should expand our wool carpet offering.

Our residential luxury vinyl flooring and wood sales experienced a greater than 40% increase in sales in the third quarter of the fiscal year as compared to the same period in the prior year.

During the third quarter of 2019, we had great traction with our new TRUCOR SPC offering, including placement over -- of over 2,000 displays in the retail community. And by the end of the quarter, TRUCOR represented a significant percentage of our luxury vinyl sales.

During the fourth quarter of 2019, we are expanding our TRUCOR line with the addition of TRUCOR Prime, a WPC construction offered by our Dixie Home and Masland sales forces. By the end of 2019, we anticipate having over 4,800 TRUCOR and TRUCOR Prime displays in the market. During the first quarter of 2020, we're expanding our TRUCOR rigid core offering with 47 new innovative products in the SPC and WPC constructions.

To further drive growth in this segment, during the fourth quarter of this year and the first quarter of 2020, we're making investments in talent by adding hard surface salespeople in key markets. These investments in product and talent will accelerate our hard surface growth going forward. Our commercial carpet product sales in the third quarter were down less than 1%, while the industry, we believe, was down in the low single digits as compared to the same period in the prior year.

Our commercial luxury vinyl flooring sales were up over 40% comparing to the third quarter of 2019 -- comparing the third quarter of 2019 with the same quarter of 2018. Our commercial division has launched a number of new offerings for 2019 with particular emphasis on modular carpet tile. We are especially excited about the launch of our Sustaina modular tile backing system. This system is a PVC and polyurethane-free cushion modular carpet tile backing with very high recycled content.

The product is breathable and able to be installed in environments up to 99% relative humidity and up to a pH of 12 when utilizing our custom formulated Sustaina 99 adhesive.

The product provides the cushion backing benefits of increased underfoot comfort, appearance retention and sound absorption. We have just launched Crafted with our Sustaina backing system. This product has a 81.5% total recycled content, the highest available in the market today. These unique products, differentiating us in the marketplace and fulfilling the needs of our discerning, environmentally conscious customers, will accelerate our growth.

In summary, during this year, we have consolidated our 2 commercial brands into Atlas | Masland Contract under one management, sharing operations and marketing, product development, manufacturing and with a consolidated sales force.

We launched Sustaina with over 80% post-consumer recycled material, PVC and polyurethane free. We launched TRUCOR and TRUCOR Prime. We saw great traction with our TRUCOR SPC offering.

By the end of 2019, as I stated earlier, we will have over 4,800 displays in the market, and we're adding hard surface salespeople in certain territories to enhance growth of sales -- of the sales we are already experiencing.

We began shipment of our new EnVision 6,6 soft floor covering collection. This production line consists of beautifully styled products at moderate price points to reach to wider range of customers.

We're progressing with our Profit Improvement Plan, as Jon pointed out. We have now reduced costs -- annualized costs by over \$18 million. Operationally, we continue to improve. Our service levels have improved significantly in the commercial business, and we've made changes in the residential operations to shorten delivery times.

Our plant operations have shown improvement, as our turnover has improved in most of our operations. The cost of quality has continued to decline and is at levels that are near our long-term goals. We have continued to experience higher-than-anticipated medical costs, but we have recently replaced both of our traditional preferred provider network plans and are beginning to see the impact -- the positive impact.

We anticipate capital expenditures will be in the \$4 million range this year and depreciation and amortization in excess of \$11 million. The gain in sale of our Susan Street plant represents a major improvement of our balance sheet, with a significant reduction of debt and over 50% increase in equity.

Since the end of the third quarter last year to now, we have reduced debt by approximately \$55 million.

At this time, we would like to open up the call to any of your questions.

Operator

(Operator Instructions) With no questions in the queue, I will turn the call back to Dan Frierson for any additional or closing remarks.

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

Victor, thank you very much, and we thank all of you for joining us today. We look forward visiting with you at the end of next quarter. We continue to work at improving our operations and investing in the areas of the marketplace that are growing. Thank you.

Operator

Ladies and gentlemen, that will conclude today's conference. Thank you again for your participation.

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