

UNIFI INC
Form 10-K
September 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 25, 2017

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

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(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (336) 294-4410

Securities registered pursuant to Section 12(b) of the Act:

| | |
|--|---|
| Title of each class | Name of each exchange on which registered |
| Common Stock, par value \$0.10 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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 |
| | Emerging growth company |

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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.

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

As of December 23, 2016, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was approximately \$513,765,262. The registrant has no non-voting stock.

As of August 23, 2017, the number of shares of the registrant's common stock outstanding was 18,250,743.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K to the extent described herein.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 foreign 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 below in "Item 1A. Risk Factors" or the Company's other periodic reports and information filed with the Securities and Exchange Commission.

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.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED JUNE 25, 2017

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Fiscal Year

The fiscal year end for Unifi, Inc. and its subsidiary in El Salvador ends on the last Sunday in June. Unifi, Inc.'s fiscal 2017, 2016 and 2015 ended on June 25, 2017, June 26, 2016 and June 28, 2015, respectively. Unifi, Inc.'s Brazilian, Chinese, Colombian and Sri Lankan subsidiaries' fiscal years end on June 30th. There were no significant transactions or events that occurred between the fiscal year ends of Unifi, Inc. and its wholly owned subsidiaries. Unifi, Inc.'s fiscal 2017, 2016 and 2015 all consisted of 52 fiscal weeks.

Presentation

All amounts, except per share amounts, are presented in thousands (000s), unless otherwise noted.

PART I

Item 1. Business

Unifi, Inc., a New York corporation formed in 1969 (together with its subsidiaries, “UNIFI,” the “Company,” “we,” “us” or “our”), is a multi-national company that manufactures and sells innovative synthetic and recycled products made from polyester and nylon primarily to other yarn manufacturers and knitters and weavers that produce fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. UNIFI’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 varieties are made from both pre-consumer and post-consumer waste, including plastic bottles. UNIFI’s nylon products include textured, solution dyed and spandex covered yarns.

UNIFI maintains one of the textile industry’s most comprehensive yarn product offerings that include specialized yarns, premium value-added (“PVA”) yarns and commodity yarns, with principal geographic markets in the Americas and Asia.

UNIFI has manufacturing operations in four countries and participates in joint ventures in Israel and the United States, the most significant of which is a 34% non-controlling partnership interest in Parkdale America, LLC (“PAL”), a significant unconsolidated affiliate that produces cotton and synthetic yarns for sale to the global textile industry and apparel market. We believe the investment in PAL provides strategic diversification for UNIFI’s overall business in response to global textile trends. PAL is a limited liability company treated as a partnership for income tax reporting purposes.

UNIFI has three reportable segments:

- The Polyester Segment sells polyester-based products primarily to other yarn manufacturers and knitters and weavers that produce yarn and/or fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end use markets. The Polyester Segment consists of sales and manufacturing operations in the United States and El Salvador.
 - The Nylon Segment sells nylon-based products to knitters and weavers that produce fabric primarily for the apparel and hosiery markets. The Nylon Segment consists of sales and manufacturing operations in the United States and Colombia.
 - The International Segment sells polyester-based products to knitters and weavers that produce fabric for the apparel, home furnishings, automotive, industrial and other end-use markets primarily in South America and Asia. The International Segment includes a manufacturing location in Brazil and sales offices in Brazil, China and Sri Lanka.
- Other information for UNIFI’s reportable segments is provided in Note 25, “Business Segment Information,” to the accompanying consolidated financial statements. In addition to UNIFI’s reportable segments, UNIFI conducts certain ancillary operations that include for-hire transportation services, which comprise an All Other category. The ancillary operations classified within All Other are immaterial to UNIFI’s consolidated financial statements.

Operating and Strategic Overview

UNIFI reported net income of \$32,875, or \$1.81 per basic share, for fiscal 2017. Such results reflect growth in sales of PVA products, especially in the International Segment, which was partially offset by (i) a difficult domestic environment, (ii) increased selling, general and administrative (“SG&A”) expenses for strategic planning, talent acquisition and commercial expansion and (iii) lower earnings from equity affiliates. Additionally, in fiscal 2017, UNIFI faced periods of fluctuating virgin polyester raw material costs, temporarily depressing the Polyester Segment’s gross margins, but benefited from (a) the recognition of a benefit for bad debts, (b) a lower effective tax rate and (c)

favorable foreign currency exchange rates. The International Segment continued strong performance and growth due to the global success of UNIFI's PVA portfolio, along with the shutdown of a competitor in Brazil in early calendar 2016. The Polyester and Nylon Segments both experienced a difficult domestic environment, challenged by weak retail selling seasons and cautious ordering patterns from brands and retailers.

We believe UNIFI's successful performance during recent fiscal years reflects the strength of our global initiative to deliver PVA products and solutions to customers and brand partners throughout the world. Our supply chain has been developed and enhanced in multiple regions of the globe, particularly in the Americas and Asia, allowing us to deliver a diverse range of synthetic fibers and polymers to key customers in the markets we serve, especially apparel. These polyester and nylon products are supported by quality assurance, product development and other customer service teams across UNIFI's operating subsidiaries. We have developed this successful operating platform by: improving operational and business processes; enriching the product mix by growing sales of higher-margin PVA products; and deriving value from sustainability-based initiatives, including polyester and nylon recycling.

This platform has provided favorable results and growth in our core operations during recent fiscal years, and has been augmented by significant capital investments that support the production and delivery of sustainable and innovative solutions. In order to achieve further growth, UNIFI is committed to investing in four strategic and synergistic initiatives:

1. Commercial expansion;
2. Technology and innovation;
3. Strategic partnerships; and
4. People and teams.

Growth in commercial expansion involves capitalizing on the existing operational excellence and brand partnerships that underlie UNIFI's core competencies. We believe that increasing the awareness for recycled solutions in applications across fibers and polymers, particularly with performance and aesthetic characteristics, and furthering sustainability-based initiatives with like-minded brand partners will be key to our future success. With leading technology for performance yarns and recycling that satisfies today's consumers, UNIFI intends to continue to grow its commercial capabilities across global markets.

Establishing the existing portfolio of technologies and capabilities was a significant accomplishment, allowing REPREVE® to grow into a premier synthetic fiber. We believe that further commercial expansion will require a continued stream of new technology and innovation that generates products with consumer-meaningful benefits. Along with REPREVE®, the Company has significant yarn technologies that provide optimal performance characteristics for today's marketplace, including moisture management, temperature moderation, and fire retardation. To achieve further growth, UNIFI plans to invest in expanding technology and innovation, bringing to market the next wave of fibers and polymers for tomorrow's applications.

Growth will also require strategic partnerships. With a changing retail landscape and a dynamic consumer, brands are demanding fast fashion and localized supply chains. In order to capitalize on these shifts, we expect to identify, qualify and execute partnerships that expand our global footprint in strategic regions. As Central America and Asia remain significant components of the global supply chain, UNIFI will be diligent in exploring partnerships that advance our existing growth platform in these regions.

Properly executing on these initiatives will require investment in UNIFI's people and teams. With a strong culture of quality and operational excellence, UNIFI will work to further train, develop and expand its teams in order to properly support growth initiatives for future success. We expect this to result in increased SG&A expenses as we invest across the organization and global subsidiaries.

Executing on these initiatives is expected to drive expansion in gross margins and should lead to an increase in revenue and profitability.

Further discussion of the significant components of UNIFI's recent success and its capital allocation strategies is included in this Annual Report on Form 10-K (this "Annual Report").

PVA Products and REPREVE®

UNIFI remains committed to growing the business for its PVA products and believes its research and development work with brands and retailers continues to create new worldwide sales opportunities. UNIFI's goal is to continue to increase its global PVA sales by more than 10% per year to generate overall mix enrichment and margin gains. UNIFI's PVA products represented approximately 40% of consolidated net sales in fiscal 2017. The Company's strategy of enhancing its product mix through a focus on PVA products has helped establish UNIFI as an innovation leader in its core markets and provides some insulation from the pressures of low-priced commodity yarn imports.

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REPREVE[®], the flagship brand in UNIFI's PVA portfolio, is also our fastest growing PVA product line. As part of our efforts to expand consumer brand recognition of REPREVE[®], UNIFI has developed recycling-focused sponsorships with various franchises and entities that span across sporting, music and outdoor events. The increasing success and awareness of the REPREVE[®] brand continues to provide new opportunities for growth, allowing us to expand into new end-uses and markets for REPREVE[®], as well as continuing to grow the brand with current customers. UNIFI has gained traction with global brands and retailers who obtain value and lasting consumer interest from the innovation and sustainability aspects that REPREVE[®] provides.

PVA Expansion and Capital Investments

Beginning in fiscal 2015, UNIFI began a significant three-year capital investment plan to increase its PVA capabilities and capacity, expand its technological foundation and customize its asset base to improve its ability to deliver small-lot and high-value solutions.

During fiscal 2017, we invested approximately \$40,000 in capital projects (including amounts funded by a construction financing agreement). The most significant project was the completion of the REPREVE[®] Bottle Processing Center at UNIFI's existing facility in Reidsville, North Carolina. This bottle processing plant is expected to convert 2 billion plastic bottles into 75 million pounds of plastic bottle flake annually, to support our growing focus on recycling and sustainability, especially with the REPREVE[®] brand and its expanding portfolio. In addition to ongoing maintenance, UNIFI also made investments towards (i) completing the fourth REPREVE[®] Recycling Center production line, (ii) installing bi-component spinning machinery to produce specialized high-value yarns and (iii) additional machinery modifications to meet the ever-changing demands of the market, in support of the PVA product portfolio. These investments were primarily for the Polyester Segment.

In fiscal 2018, UNIFI expects to invest an additional \$35,000 in capital projects, which include (i) placing equipment in Asia in support of our expanding product portfolio and growth opportunities in that region, (ii) completing the fourth production line in the REPREVE[®] Recycling Center, (iii) making further improvements in production capabilities and technology enhancements in the Americas and (iv) annual maintenance capital expenditures.

UNIFI intends to ensure maintenance capital expenditures are sufficient to allow continued high-efficiency production. Our goal for the REPREVE[®] Bottle Processing Center is to continue support of REPREVE[®] by securing a stream of high-quality raw materials. This, combined with technology advancements in recycling that will be incorporated into the REPREVE[®] Recycling Center, will enhance our ability to continue to grow REPREVE[®] into other markets, such as nonwovens, carpet fiber and packaging.

In addition to UNIFI's recent three-year capital investment plan, PAL completed two business combinations in fiscal 2015, in an effort to increase its regional manufacturing capacity and expand its product offerings and customer base.

¶ In August 2014, PAL paid \$10,125 to acquire the remaining 50% ownership interest in a yarn manufacturer based in Mexico in which PAL was historically a 50% holder. PAL recorded acquired net assets of approximately \$23,600 from the transaction.

¶ In February 2015, PAL purchased two U.S. manufacturing facilities, plus inventory, for approximately \$13,000 in cash, and entered into a yarn supply agreement with the seller. PAL recorded acquired net assets of approximately \$19,400 from the transaction.

Stock Repurchases

In addition to capital investments, UNIFI may utilize excess cash for strategic stock repurchases. Pursuant to an initial \$50,000 stock repurchase program approved by UNIFI's Board of Directors (the "Board") in January 2013, UNIFI began periodic strategic repurchases of its common stock. That \$50,000 repurchase program was completed in March 2014. In April 2014, the Board approved a second \$50,000 stock repurchase program. As of June 25, 2017, UNIFI had repurchased a total of 3,147 shares, at an average price of \$23.01, under these programs, and \$27,603 remained available for repurchases under the current program. UNIFI will continue to evaluate opportunities to use excess cash flow from operations or existing borrowings to repurchase additional stock, while maintaining sufficient liquidity to support its operational needs and fund future strategic growth opportunities.

Developments in Principal Markets

Leading up to fiscal 2017, apparel production experienced multi-year growth in the regions covered by the North American Free Trade Agreement ("NAFTA") and the Dominican Republic—Central America Free Trade Agreement ("CAFTA-DR"), which comprise the principal markets for UNIFI's Polyester and Nylon Segments. The share of synthetic apparel production for these regions as a percentage of U.S. retail stabilized at approximately 17% to 18%, while retail consumption grew, especially for apparel made with synthetic yarns. The CAFTA-DR region, which continues to be a competitive alternative to Asian supply chains for textile products, maintained its share of synthetic apparel supply to U.S. retailers. The share of synthetic apparel versus cotton apparel increased and provided growth for the consumption of synthetic yarns within the CAFTA-DR region.

In fiscal 2017, UNIFI's operations in the NAFTA and CAFTA-DR regions experienced demand declines as the retail and apparel markets experienced difficult conditions characterized by reduced retail traffic, a weak winter selling season and growth in online sales channels. These factors combined to cause bankruptcies, store closures and other transformations for traditional retail enterprises. As consumers demand fast fashion, personalized experiences and omni-channel outlets, the retail market and its supply chain is expected to change. Transformational requirements for the supply chain are not yet clear but will be an integral part of UNIFI's initiatives going forward.

UNIFI's Brazilian subsidiary is primarily impacted by price pressures from imported fiber, fabric and finished goods, the inflation rate in Brazil and changes in the value of the Brazilian Real. In Brazil, UNIFI continues to (i) aggressively pursue mix enrichment by working with customers to develop programs using our differentiated products and our PVA yarns and (ii) implement process improvements and manufacturing efficiency gains to help lower per-unit costs.

UNIFI's Asian operations remain an important part of UNIFI's global PVA strategy, enhancing our ability to service customers with global supply chains. Interest and demand for UNIFI's PVA products in Asia have helped support strong sales volumes in recent years. We are encouraged by programs undertaken with key brands and retailers that benefit from the diversification and innovation of our global PVA solutions. UNIFI's operations in China and Sri Lanka experienced strong performance and growth in fiscal 2017. Looking ahead, certain brand partners have expressed additional interest in sourcing UNIFI's products in Vietnam.

As we expand our global operations, we will continue to evaluate the level of capital investment required to support the needs of our customers and intend to appropriately allocate our resources accordingly.

Industry Overview

UNIFI operates in the textile industry and, within that broad category, the respective markets for yarns, fabrics, fibers and end-use products, such as apparel and hosiery, automotive, industrial products and home furnishings. Even

though the textile industry is global, there are several distinctive regional or other geographic markets that often shape the business strategies and operations of participants in the industry. Because of free trade agreements and other trade regulations entered into by the U.S. government, the U.S. textile industry, which is otherwise a distinctive geographic market on its own, is often considered in conjunction with other geographic markets or regions in North, South and Central America, such as the regions covered by NAFTA and CAFTA-DR. The Company's principal markets for its domestic operations are in the regions covered by NAFTA and CAFTA-DR,

which together include the countries of Canada, Mexico, Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua, the Dominican Republic and the United States.

According to data compiled by PCI Xylenes & Polyesters, a global leader in research and analysis for the polyester and raw materials markets, global demand for polyester yarns, which includes both filament and staple yarns, has grown steadily since 1980, and, in calendar year 2003, polyester replaced cotton as the fiber with the largest percentage of worldwide sales. In calendar year 2016, global polyester consumption accounted for an estimated 55% of global fiber consumption, and global demand is projected to increase by approximately 3% to 4% annually through 2020. In calendar year 2016, global nylon consumption accounted for an estimated 5% of global fiber consumption. Softness in the U.S. retail markets during fiscal 2017 had an unfavorable impact on UNIFI's Nylon Segment. Additionally, due to the higher cost of nylon, the industry may transition certain products from nylon to polyester. The polyester and nylon fiber sectors together accounted for approximately 62% of North American textile consumption during calendar year 2016.

According to the National Council of Textile Organizations, the U.S. textile industry's total shipments were approximately \$61.8 billion for calendar year 2016. During that period, the U.S. textile and apparel industry exported nearly \$26.3 billion of textile and apparel products, and exports have grown by approximately 30% since 2009, an increase of over \$6.1 billion. The U.S. textile industry remains a large manufacturing employer in the United States.

Trade Regulation and Rules of Origin

The duty rate on imports into the United States of finished apparel categories that utilize polyester and nylon yarns generally range from 16% to 32%. For many years, imports of fabric and finished goods into the United States have increased significantly from countries that do not participate in free trade agreements or trade preference programs, despite duties charged on those imports. The primary drivers for that growth were lower overseas operating costs, foreign government subsidization of textile industries, increased overseas sourcing by U.S. retailers, the entry of China into the World Trade Organization and the staged elimination of all textile and apparel quotas. Although global apparel imports represent a significant percentage of the U.S. market, Regional FTAs (as defined below), which follow general "yarn forward" rules of origin, provide duty free advantages for apparel made from regional fibers, yarns and fabrics, allowing UNIFI opportunities to participate in this growing market.

A significant number of UNIFI's customers in the apparel market produce finished goods that meet the eligibility requirements for duty-free treatment in the regions covered by NAFTA, CAFTA-DR, and the Colombia and Peru free trade agreements (collectively, the "Regional FTAs"). These Regional FTAs contain rules of origin requirements in order for covered products to be eligible for duty-free treatment. In the case of textiles such as fabric, yarn (such as POY), fibers (filament and staple) and certain garments made from them, the products are generally required to be fully formed within the respective regions. UNIFI is the largest filament yarn manufacturer, and one of the few producers of qualifying synthetic yarns, in the regions covered by these agreements. On May 18, 2017, the Trump Administration formally notified Congress of its intent to renegotiate NAFTA. The United States has a positive trade balance in the textile and apparel sector in NAFTA and the Company anticipates any modifications or updates to the agreement in this sector will not significantly impact textile and apparel trade in the NAFTA region.

U.S. legislation commonly referred to as the "Berry Amendment" stipulates that certain textile and apparel articles purchased by the U.S. Department of Defense must be manufactured in the United States and must consist of yarns and fibers produced in the United States. UNIFI is the largest producer of synthetic yarns for Berry Amendment compliant purchasing programs.

UNIFI refers to fibers sold with specific rules of origin requirements under the Regional FTAs and the Berry Amendment, as "Compliant Yarns." Approximately two-thirds of UNIFI's sales within the Polyester and Nylon

Segments are sold as Compliant Yarns under the terms of the Regional FTAs or the Berry Amendment.

UNIFI believes the requirements of the rules of origin and the associated duty-free cost advantages in the Regional FTAs, together with the Berry Amendment and the growing demand for supplier responsiveness and improved inventory turns, will ensure that a portion of the existing textile industry will remain based in the Americas. UNIFI

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expects that the NAFTA and CAFTA-DR regions will continue to maintain their share of apparel production as a percentage of U.S. retail. UNIFI believes the remaining synthetic apparel production within these regional markets is more specialized and defensible, and, in some cases, apparel producers are bringing programs back to the regions as part of a balanced sourcing strategy for some brands and retailers. Because UNIFI is the largest of only a few significant producers of Compliant Yarns under these Regional FTAs, one of UNIFI's business strategies is to continue to leverage its eligibility status for duty-free processing to increase its share of business with regional and domestic fabric producers who ship their products into these regions.

Over the longer term, the textile industry in the NAFTA and CAFTA-DR regions is expected to continue to be impacted by Asian supply chains where costs are much lower and regulation is limited. However, during fiscal 2017, one of the first acts of the Trump Administration was to withdraw from the Trans-Pacific Partnership Agreement, a free trade agreement that could have resulted in significant pressure on the Regional FTA supply chain.

Competition

The industry in which UNIFI operates is global and highly competitive. UNIFI competes not only as a global yarn producer, but also as part of a regional supply chain for certain textile products. For sales of Compliant Yarns, UNIFI competes with a limited number of foreign and domestic producers of polyester and nylon yarns. For sales of non-Compliant Yarns, UNIFI competes with a larger number of foreign and domestic producers of polyester and nylon yarns who can meet the required customer specifications of quality, reliability and timeliness. UNIFI is affected by imported textile, apparel and hosiery products, which adversely impact demand for UNIFI's polyester and nylon products in certain of its markets. Several foreign competitors in UNIFI's supply chain have significant competitive advantages, including lower wages, raw material costs and capital costs, and favorable foreign currency exchange rates against the U.S. Dollar, any of which could make UNIFI's products, or the related supply chains, less competitive. While competitors have traditionally focused on high-volume commodity products, they are now increasingly focused on specialty and PVA products that UNIFI historically has been able to leverage to generate higher margins.

UNIFI's major competitors for polyester yarns are O'Mara, Inc. and NanYa Plastics Corp. of America ("NanYa") in the United States; AKRA, S.A. de C.V. in the NAFTA region; and C S Central America S.A. de C.V. in the CAFTA-DR region. UNIFI's major competitor in Brazil is Avanti Industria Comercio Importacao e Exportacao Ltda., among other traders of imported yarns and fibers. UNIFI's operations in Asia face competition from multiple yarn manufacturers in that region and identification of them is not feasible. However, almost all of our portfolio in that region is advantaged by PVA products.

UNIFI's major competitors for nylon yarns are Sapona Manufacturing Company, Inc. and McMichael Mills, Inc. in the United States.

Raw Materials, Suppliers and Sourcing

The primary raw material supplier for the Polyester Segment of Chip and POY is NanYa. For the International Segment, Reliance Industries, Ltd. is the main supplier of POY. The primary suppliers of POY for the Nylon Segment are HN Fibers, Ltd., U.N.F. Industries Ltd. ("UNF"), UNF America, LLC ("UNFA"), Invista S.a.r.l. ("INVISTA"), Universal Premier Fibers, LLC and Nilit US ("Nilit"). Each of UNF and UNFA is a 50/50 joint venture between UNIFI and Nilit. Currently, there are multiple domestic and foreign suppliers available to fulfill UNIFI's sourcing requirements for its recycled products.

UNIFI produces and buys certain of its raw material fibers for Compliant Yarns from a variety of sources in both the United States and Israel. UNIFI produces a portion of its Chip requirements in its REPREEVE® Recycling Center and purchases the remainder of its requirements from external suppliers for use in its spinning facility to produce POY. In addition, UNIFI purchases nylon and polyester products for resale from various suppliers. Although UNIFI does not

generally have difficulty obtaining its raw material requirements, UNIFI has, in the past, experienced interruptions or limitations in the supply of certain raw materials.

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In addition to the expected benefits to UNIFI's financial results, the bottle processing facility in Reidsville, North Carolina now provides a high-quality source of plastic bottle flake for the REPREVE® Recycling Center as well as for sale to external parties. Combined with recent technology advancements in recycling, we believe the bottle flake produced at the bottle processing facility will enhance our ability to grow REPREVE® into other markets, such as nonwovens, carpet fiber and packaging.

The prices of the principal raw materials used by UNIFI continuously fluctuate, and it is difficult, and often impossible, to predict trends or upcoming developments. During fiscal 2017, UNIFI operated during a predominantly increasing virgin polyester raw material cost environment. During fiscal 2016, UNIFI experienced a general decline in raw material prices. UNIFI believes that polyester raw material cost fluctuations during most of fiscal 2017 were a result of volatility in the crude oil markets. The continuing volatility in global crude oil prices is likely to impact UNIFI's polyester and nylon raw material costs, but it is not possible to predict the timing or amount of the impact or whether the movement in crude oil prices will stabilize, continue or reverse. In any event, UNIFI monitors these dynamic factors closely.

Products, Technologies and Related Markets

UNIFI manufactures polyester yarn and related products in the United States, El Salvador and Brazil, and nylon yarns in the United States and Colombia, for a wide range of end-uses. In addition, UNIFI purchases certain yarns and staple fiber for resale to its customers around the globe. PVA products comprised approximately 40%, 35% and 30% of consolidated net sales for fiscal 2017, 2016 and 2015, respectively. UNIFI provides products to a variety of end-use markets, principally apparel, industrial, furnishings and automotive.

The domestic apparel market, which includes hosiery, represents approximately 61% of UNIFI's domestic sales. Apparel retail sales, supply chain inventory levels and strength of the regional supply base are vital to this market.

The domestic industrial market represents approximately 18% of UNIFI's domestic sales. This market includes medical, belting, tapes, filtration, ropes, protective fabrics and awnings.

The domestic furnishings market, which includes both contract and home furnishings, represents approximately 9% of UNIFI's domestic sales. Furnishings sales are largely dependent upon the housing market, which in turn is influenced by consumer confidence and credit availability.

The domestic automotive market represents approximately 7% of UNIFI's domestic sales and has been less susceptible to import penetration because of the exacting specifications and quality requirements often imposed on manufacturers of automotive fabrics, along with just-in-time delivery requirements. Effective customer service and prompt response to customer feedback are logistically more difficult for an importer to provide.

UNIFI also adds value to the overall supply chain for textile products, and increases consumer demand for UNIFI's own products, through the development and introduction of branded yarns and technologies that provide unique sustainability, performance, comfort and aesthetic advantages. UNIFI's branded portion of its yarn portfolio continues to provide product differentiation to brands, retailers and consumers, and it includes products such as:

REPREVE®, a family of eco-friendly products made from recycled materials. Since its introduction in 2006, REPREVE® has been UNIFI's most successful branded product. UNIFI's recycled fibers may also be enhanced, similarly to virgin products, to provide certain performance and/or functional properties to various types of fabrics and end products.

Sorbtek®, a permanent moisture management yarn primarily used in performance base-layer applications, compression apparel, athletic bras, sports apparel, socks and other non-apparel related items.

Reflexx[®], a family of stretch yarns that can be found in a wide array of end-use applications, from home furnishings to performance wear and from hosiery and socks to work wear and denim.

XS, yarns that take advantage of a non-traditional cross-section construction created during the spinning process. The cross-section is able to provide certain performance and/or functional characteristics in multiple end-uses due to its resulting chemical and physical attributes.

Cotton-like[®], a soft, lofty yarn that looks and feels like cotton, but offers the superior performance of synthetic fibers and no fading.

A.M.Y.[®], a yarn with permanent antimicrobial properties for odor control.

UNIFI's branded yarns can be found in a variety of products of well-known brands, retailers and department stores, including Ford, Haggard, Polartec, The North Face, Patagonia, Quiksilver, Roxy, Volcom, Perry Ellis, General Motors, Pottery Barn, adidas, Reebok, Nike, New Era, MJ Soffe, Abercrombie & Fitch, Levi's, H&M, TARGET, Express, Costco Wholesale, REI, Cabela's, JCPenney, Macy's, Kohl's and Belk.

In addition to the above brands and products, UNIFI combines its research and development efforts with the demands of customers and markets to develop innovative technologies that enhance yarn characteristics. Application of these technologies allows for various, separate benefits, including, among other things, water repellency, flame retardation, thermal regulation, enhanced color-fastness achieved with less water use and protection from ultra-violet rays.

Customers

UNIFI's Polyester Segment has approximately 350 customers, its Nylon Segment has approximately 140 customers and its International Segment has approximately 700 customers, all in a variety of geographic markets. UNIFI's products are manufactured according to customer specifications and are shipped based upon customer order requirements. Customer payment terms are generally consistent across the segments and are based on prevailing industry practices for the sale of yarn domestically or internationally.

UNIFI's consolidated net sales are not materially dependent on a single customer and no single customer accounts for 10% or more of UNIFI's consolidated net sales. UNIFI's top 10 customers accounted for approximately 32% of consolidated net sales for fiscal 2017 and approximately 32% of receivables as of June 25, 2017. UNIFI's net sales within its Nylon Segment are materially dependent upon a domestic customer that accounted for approximately 35% of the Nylon Segment's net sales for fiscal 2017.

Sales and Marketing

UNIFI employs an internal sales force of approximately 50 persons operating out of sales offices in the United States, Brazil, China, Sri Lanka, El Salvador, Colombia and Switzerland. UNIFI relies on independent sales agents for sales in several other countries. UNIFI seeks to create strong customer relationships and to build and strengthen those relationships throughout the supply chain. Through frequent communications with customers, partnering with customers in product development and engaging key downstream brands and retailers, UNIFI has created significant pull-through sales and brand recognition for its products. For example, UNIFI works with brands and retailers to educate and create demand for its PVA products, such as recent engagements involving REPREEVE[®] at multiple events and venues in the United States. UNIFI then works with key fabric mill partners to develop specific fabrics for those brands and retailers utilizing its PVA products. In many of these regards, UNIFI draws upon and integrates the resources of its research and development personnel. In addition, UNIFI is enhancing co-branding activations with integrated point-of-sale and online marketing with popular brands and retailers to further enable consumers to find REPREEVE[®] and other PVA brands in multiple retail channels. Based on the establishment of many commercial and branded programs, this strategy has been successful for UNIFI.

Product Customization and Manufacturing Processes

UNIFI uses advanced production processes to manufacture its high-quality products cost-effectively in North America, Central America and South America. UNIFI believes that its flexibility and know-how in producing specialty polyester and nylon products provides important development and commercialization advantages, in addition

to the recent ability to vertically integrate with post-industrial and post-consumer materials.

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UNIFI produces plastic bottle flake, polyester Chip and polyester POY using recycled materials. In addition to its yarns manufactured from virgin polyester and nylon, UNIFI sells its recycled products externally or further processes them internally to add value for customers seeking recycled components. The REPREVE® Bottle Processing Center in Reidsville, North Carolina produces plastic bottle flake that can be sold externally, or further processed internally using our REPREVE® Recycling Center in Yadkinville, North Carolina. Recycled polyester Chip output from the REPREVE® Recycling Center can be sold externally, or further processed internally into polyester POY.

Additional processing of UNIFI's polyester yarn products includes texturing, package dyeing, twisting, beaming and draw winding. The texturing process, which is common to both polyester and nylon, involves the use of high-speed machines to draw, heat and false-twist POY to produce yarn with different physical characteristics, depending on its ultimate end-use. Texturing gives the yarn greater bulk, strength, stretch, consistent dye-ability and a softer feel, thereby making it suitable for use in the knitting and weaving of fabric. Package dyeing allows for matching of customer-specific color requirements for yarns sold into the automotive fabrics, home furnishings and apparel markets. Twisting incorporates real twist into filament yarns, which can be sold for a variety of uses, such as sewing thread, home furnishings and apparel. Beaming places both textured and covered yarns onto beams to be used by customers in warp knitting and weaving applications. The draw winding process utilizes heat and draws POY to produce mid-tenacity, flat yarns.

Additional processing of UNIFI's nylon yarn products primarily includes covering and texturing. Covering involves the wrapping or air entangling of filament or spun yarn around a core yarn, primarily spandex. This process enhances a fabric's ability to stretch, recover its original shape and resist wrinkles while maintaining a softer feel.

UNIFI's subsidiaries in Asia offer the same high-quality and innovative PVA products and technologies through contract manufacturing arrangements with local manufacturers. This asset-light model allows for seamless integration of our products into the global supply chain of our customers. As we expand our Asian operations to meet the needs of our global customers, we will continue to leverage the asset-light model where the existing Asian infrastructure can accommodate our highly technical processes, while continually evaluating the need for additional UNIFI assets in response to ever-changing market dynamics.

Research and Development

UNIFI employs approximately 90 persons who work closely with UNIFI's customers and others to develop a variety of new yarns as well as improvements to the performance properties of existing yarns and fabrics. Among other things, UNIFI evaluates trends and uses the latest technology to create innovative specialty and PVA yarns that meet the needs of evolving consumer preferences. Most of UNIFI's branded yarns discussed above, including its flagship REPREVE® brand, were derived from its research and development initiatives.

UNIFI also includes, as part of its research and development initiatives, the use of continuous improvement methodologies to increase its manufacturing and other operational efficiencies, both to enhance product quality and to derive cost savings.

For fiscal 2017, 2016 and 2015, UNIFI incurred \$7,177, \$6,907 and \$8,113, respectively, in costs for research and development (including salaries and benefits of the personnel involved in those efforts). In fiscal 2016, a portion of the activities traditionally attributed to research and development were allocated to certain of the significant, highly technical capital projects undertaken during that fiscal year.

Intellectual Property

UNIFI has numerous U.S. registered trademarks. Due to its current brand recognition and potential growth opportunities, UNIFI believes that REPREVE® is its most significant trademark. Ownership rights in U.S. registered trademarks do not expire if the trademarks are continued in use and properly protected.

UNIFI licenses certain trademarks, including Dacron® and Softec™, from INVISTA.

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Employees

As of June 25, 2017, UNIFI had approximately 3,000 employees, along with approximately 150 individuals working under temporary labor contracts. The number of employees in the Polyester Segment, Nylon Segment, International Segment and corporate office were approximately 1,800, 600, 500 and 100, respectively, at June 25, 2017. While employees of UNIFI's Brazilian operations are unionized, none of the labor force employed by UNIFI's domestic or other foreign subsidiaries is currently covered by a collective bargaining agreement. UNIFI believes that it has a good relationship with its employees.

Geographic Data

Geographic information reported in conformance with generally accepted accounting principles is included in Note 25, "Business Segment Information," to the accompanying consolidated financial statements. Information regarding risks attendant to UNIFI's foreign operations is included in "Item 1A. Risk Factors" in this Annual Report.

Seasonality

UNIFI is not significantly impacted by seasonality; however, UNIFI typically experiences (i) its highest sales volumes in the third and fourth quarters of its fiscal years and (ii) its lowest gross margins in the first quarter of its fiscal years. Excluding the effects of fiscal years with 53 weeks rather than 52 weeks, the most significant effects on UNIFI's results of operations for particular periods during a year are due to planned manufacturing shutdowns by either UNIFI or its customers for certain holiday or traditional shutdown periods, which are not concentrated in any one particular season.

Backlog

UNIFI's level of unfilled orders is affected by many factors, including the timing of specific orders and the delivery time for specific products, as well as a customer's ability or inability to cancel the related order. As such, UNIFI does not consider the amount of unfilled orders, or backlog, to be a meaningful indicator of expected levels of future sales or to be material to an understanding of UNIFI's business as a whole.

Working Capital

UNIFI funds its working capital requirements through cash flows generated from operations, which it supplements with short-term borrowings, as needed. For more detailed information, see "Liquidity and Capital Resources" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report.

Inflation

UNIFI expects costs to continue to rise for certain consumables used to produce and ship its products, as well as for its utilities and certain employee costs and benefits. While UNIFI attempts to mitigate the impacts of such rising costs through increased operational efficiencies and increased selling prices, inflation could become a factor that negatively impacts UNIFI's profitability.

Environmental Matters

UNIFI is subject to various federal, state and local environmental laws and regulations limiting the use, storage, handling, release, discharge and disposal of a variety of hazardous substances and wastes used in or resulting from its operations (and to potential remediation obligations thereunder). These laws include the Federal Water Pollution Control Act, the Clean Air Act, the Resource Conservation and Recovery Act (including provisions relating to underground storage tanks) and the Comprehensive Environmental Response, Compensation, and Liability Act,

commonly referred to as “Superfund” or “CERCLA,” and various state counterparts to such laws. UNIFI’s operations are also governed by laws and regulations relating to workplace safety and worker health, principally the Occupational Safety and Health Act and regulations issued thereunder, which, among other things, establish

exposure standards regarding hazardous materials and noise standards, and regulate the use of hazardous chemicals in the workplace.

UNIFI believes that it has obtained, and is in compliance in all material respects with, all significant permits required to be issued by federal, state or local law in connection with the operation of its business. UNIFI also believes that the operation of its production facilities and its disposal of waste materials are substantially in compliance with applicable federal, state and local laws and regulations, and that there are no material ongoing or anticipated capital expenditures associated with environmental control facilities necessary to remain in compliance with such provisions. UNIFI incurs normal operating costs associated with the discharge of materials into the environment, but does not believe that these costs are material or inconsistent with those of its domestic competitors.

On September 30, 2004, UNIFI completed its acquisition of polyester filament manufacturing assets located in Kinston, North Carolina from INVISTA. The land for the Kinston site was leased pursuant to a 99-year ground lease (the "Ground Lease") with E.I. DuPont de Nemours ("DuPont"). Since 1993, DuPont has been investigating and cleaning up the Kinston site under the supervision of the U.S. Environmental Protection Agency and the North Carolina Department of Environmental Quality ("DEQ") pursuant to the Resource Conservation and Recovery Act Corrective Action program. The program requires DuPont to identify all potential areas of environmental concern ("AOCs"), assess the extent of containment at the identified AOCs and remediate the AOCs to comply with applicable regulatory standards. Effective March 20, 2008, UNIFI entered into a lease termination agreement associated with conveyance of certain assets at the Kinston site to DuPont. This agreement terminated the Ground Lease and relieved UNIFI of any future responsibility for environmental remediation, other than participation with DuPont, if so called upon, with regard to UNIFI's period of operation of the Kinston site, which was from 2004 to 2008. At this time, UNIFI has no basis to determine if or when it will have any responsibility or obligation with respect to the AOCs or the extent of any potential liability for the same.

UNIFI continues to own property acquired in the 2004 transaction with INVISTA that has contamination from DuPont's operations and is monitored by DEQ. This site has been remediated by DuPont, and DuPont has received authority from DEQ to discontinue further remediation, other than natural attenuation. Prior to transfer of responsibility to UNIFI, DuPont has a duty to monitor and report the environmental status of the site to DEQ. UNIFI expects to assume that responsibility in fiscal 2018 and will be entitled to receive from DuPont seven years of monitoring and reporting costs, less certain adjustments. At that time, UNIFI expects to assume responsibility for any future remediation of the site. At this time, UNIFI has no basis to determine if or when it will have any obligation to perform further remediation or the potential cost thereof.

Joint Ventures and Unconsolidated Affiliates

In addition to its 34% ownership in PAL, UNIFI participates in two joint ventures that supply raw materials to the Nylon Segment, with one located in the United States and one in Israel. As of June 25, 2017, UNIFI had \$119,513 recorded for these investments in unconsolidated affiliates. For fiscal 2017, \$4,230 of UNIFI's \$43,275 of income before income taxes was generated from its investments in these unconsolidated affiliates, of which \$2,723 was attributable to PAL. Other information regarding UNIFI's unconsolidated affiliates is provided in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note 22, "Investments in Unconsolidated Affiliates and Variable Interest Entities," to the accompanying consolidated financial statements in this Annual Report.

On December 23, 2016, UNIFI, through a wholly owned foreign subsidiary, sold its 60% equity ownership interest in Repeve Renewables, LLC ("Renewables"), an entity focused on the development, production and commercialization of miscanthus grass for use in multiple potential markets, to its existing third-party joint venture partner for \$500 in cash and release of certain debt obligations. UNIFI had no continuing involvement in the operations of Renewables subsequent to December 23, 2016. The corresponding results of Renewables, up through the date of sale, are reflected in continuing operations within the accompanying consolidated financial statements.

Available Information

UNIFI's website is www.unifi.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as well as proxy statements and other information we file with, or furnish to, the Securities and Exchange Commission (the "SEC") are available free of charge on our website. We make these documents available as soon as reasonably practicable after we electronically transmit them to the SEC. Except as otherwise stated in these documents, the information on our website is not a part of this Annual Report and is not incorporated by reference in this Annual Report or any of our other filings with the SEC. In addition, many of our corporate governance documents are available on our website, including our Audit Committee Charter, Compensation Committee Charter, Corporate Governance and Nominating Committee Charter, Corporate Governance Guidelines, Code of Business Conduct and Ethics, and Ethical Business Conduct Policy Statement. Copies of such materials, as well as any of our SEC reports, may also be obtained without charge by writing to Unifi, Inc., 7201 West Friendly Avenue, Greensboro, North Carolina 27410, Attention: Office of the Secretary.

Item 1A. Risk Factors

Many of the factors that affect UNIFI's business and operations involve risk and uncertainty. The factors described below are some of the risks that could materially negatively affect UNIFI's business, financial condition, results of operations and cash flows. You should consider all such risks in evaluating UNIFI or making any investment decision involving UNIFI.

UNIFI faces intense competition from a number of domestic and foreign yarn producers and importers of textile and apparel products. Because UNIFI and the supply chains in which UNIFI operates do not typically operate on the basis of long-term contracts with textile and apparel customers, these competitive factors could cause UNIFI's customers to shift rapidly to other producers.

UNIFI competes not only against domestic and foreign yarn producers, but also against importers of foreign-sourced fabric and apparel into the United States and other countries in which UNIFI does business (particularly in Brazil with respect to commodity yarn products). The primary competitive factors in the textile industry include price, quality, product styling and differentiation, brand reputation, flexibility of production and finishing, delivery time and customer service. The needs of certain customers and the characteristics of particular products determine the relative importance of these various factors. A large number of UNIFI's foreign competitors have significant competitive advantages that may include lower labor and raw materials costs, government subsidies and favorable foreign currency exchange rates against the U.S. Dollar. If any of these advantages increase, or if new and/or larger competitors emerge in the future, or if UNIFI's brand reputation is detrimentally impacted, then UNIFI's products could become less competitive, and its sales and profits may decrease as a result. In particular, devaluation of the Chinese currency against the U.S. Dollar could result in UNIFI's products becoming less competitive from a pricing standpoint and/or could result in the regions covered by NAFTA and CAFTA-DR losing market share to Chinese imports, thereby adversely impacting UNIFI's sales and profits. Also, while these foreign competitors have traditionally

focused on commodity production, they are now increasingly focused on PVA products, where UNIFI has been able to generate higher margins. UNIFI may not be able to continue to compete effectively with imported foreign-made textile and apparel products, which would materially adversely affect its business, financial condition, results of operations or cash flows.

Significant price volatility of UNIFI's raw materials and rising energy costs may result in increased production costs, which UNIFI may not be able to pass on to its customers or may only be able to pass on with a time lag that adversely affects UNIFI during one or more periods.

A significant portion of UNIFI's raw materials are derived from petroleum-based chemicals. The prices for petroleum and petroleum-related products and energy costs are volatile and dependent on global supply and demand dynamics, including geo-political risks. While UNIFI enters into raw material supply agreements from time to time, these agreements typically provide index pricing based on quoted market prices. Therefore, supply agreements provide only limited protection against price volatility. While UNIFI has, at times in the past, been able to increase

sales prices in response to increased raw material costs, UNIFI has not always been able to do so. UNIFI has lost in the past (and expects that it may lose in the future) customers to its competitors as a result of price increases. In addition, competitors may be able to obtain raw materials at a lower cost due to market regulations that favor local producers in certain foreign locations where UNIFI operates, and certain other market regulations that favor UNIFI over other producers may be amended or repealed. Additionally, inflation can have a long-term impact by increasing the costs of materials, labor and/or energy, any of which costs may adversely impact UNIFI's ability to maintain satisfactory margins. If UNIFI is not able to fully pass on such cost increases to customers in a timely manner (or if it loses a large number of customers to competitors as a result of price increases), the result could be material and adverse to its business, financial condition, results of operations or cash flows.

Depending on the price volatility of UNIFI's petroleum-based raw materials, the price gap between virgin raw materials and recycled bottle flake could make virgin raw materials more cost-effective than recycled raw materials, which could result in an adverse effect on UNIFI's ability to sell its REPREVE® brand recycled products profitably.

UNIFI depends upon limited sources for certain of its raw materials, and interruptions in supply could increase its costs of production, cause production inefficiencies or lead to a halt in production.

UNIFI depends on a limited number of third parties for certain raw material supplies, such as POY, Chip and recycled plastic bottles. Although alternative sources of raw materials exist, UNIFI may not be able to obtain adequate supplies of such materials on acceptable terms, or at all, from other sources. UNIFI is dependent on NAFTA, CAFTA-DR and Berry Amendment qualified suppliers of raw materials for the production of Compliant Yarns. These suppliers are also at risk with their raw material supply chains. Any significant disruption or curtailment in the supply of any of its raw materials could cause UNIFI to reduce or cease its production for an extended period, or require UNIFI to increase its pricing, any of which could have a material adverse effect on its business, financial condition, results of operations or cash flows.

UNIFI has significant foreign operations, and its consolidated results of operations may be adversely affected by the risks associated with doing business in foreign locations, including the risk of fluctuations in foreign currency exchange rates.

UNIFI has operations in Brazil, China, Colombia, El Salvador and Sri Lanka, and participates in a joint venture located in Israel. UNIFI serves customers throughout the Americas and Asia, as well as various countries in Europe. UNIFI's foreign operations are subject to certain political, tax, economic and other uncertainties not encountered by its domestic operations that can materially impact UNIFI's supply chains or other aspects of its foreign operations. The risks of international operations include trade barriers, duties, exchange controls, national and regional labor strikes, social and political unrest, general economic risks, compliance with a variety of foreign laws (including tax laws), the difficulty of enforcing agreements and collecting receivables through foreign legal systems, taxes on distributions or deemed distributions to UNIFI or any of its U.S. subsidiaries, maintenance of minimum capital requirements, and import and export controls. UNIFI's results of operations and business could be adversely affected as a result of a significant adverse development with respect to any of these risks.

Through its foreign operations, UNIFI is also exposed to foreign currency exchange rate fluctuations. Fluctuations in foreign currency exchange rates will impact period-to-period comparisons of UNIFI's reported results. Additionally, UNIFI operates in countries with foreign exchange controls. These controls may limit UNIFI's ability to transfer funds from its international operations and joint venture or otherwise to convert local currencies into U.S. Dollars. These limitations could adversely affect UNIFI's ability to access cash from these operations.

In addition, due to its foreign operations, a risk exists that UNIFI's employees, contractors or agents could engage in business practices prohibited by U.S. laws applicable to the Company, such as the Foreign Corrupt Practices Act, or the laws and regulations of other countries, such as the Brazilian Clean Companies Act. UNIFI maintains policies prohibiting these practices, but it remains subject to the risk that one or more of its employees, contractors or agents, specifically ones based in or from countries where such practices are customary, will engage in business practices in violation of these laws and regulations. Any such violations, even if in breach of UNIFI's policies, could adversely affect its business or financial performance.

UNIFI's future success will depend in part on its ability to protect its intellectual property rights, and UNIFI's inability to enforce these rights could cause it to lose sales, reduce any competitive advantage it has developed or otherwise harm its business.

UNIFI's success depends in part upon its ability to protect and preserve its rights in the trademarks and other intellectual property it owns or licenses, including its proprietary know-how, methods and processes, and the intellectual property related to its REPREVE® brand. UNIFI relies on the trademark, copyright and trade secret laws of the United States and other countries, as well as nondisclosure and confidentiality agreements, to protect its intellectual property rights. However, UNIFI may be unable to prevent third parties, employees or contractors from using its intellectual property without authorization, breaching nondisclosure or confidentiality agreements, or independently developing technology that is similar to UNIFI's. The use of UNIFI's intellectual property by others without authorization may reduce any competitive advantage UNIFI has developed, cause it to lose sales or otherwise harm its business.

UNIFI has investments in less than 100% owned affiliates that it does not control, which subjects UNIFI to uncertainties about the operating performance and quality of financial reporting of these affiliates.

The most significant of these investments is UNIFI's 34% minority interest in PAL. While this investment is designed to provide industry diversity for UNIFI, UNIFI does not have majority voting control of PAL or the ability otherwise to control PAL's policies, management or affairs. The interests of persons who control PAL may differ from UNIFI's, and those persons may cause PAL to take actions that are not in UNIFI's best interest. Among other things, UNIFI's inability to control PAL may adversely affect its ability to receive distributions from PAL or to fully implement its business plan. The incurrence of debt or entry into other agreements by PAL may result in restrictions or prohibitions on PAL's ability to make distributions to UNIFI. Even where PAL is not restricted by contract or by law from making distributions, UNIFI may not be able to influence the timing or amount of such distributions. In addition, if the controlling investor in PAL fails to observe its commitments, PAL may not be able to operate according to its business plan, or UNIFI may need to increase its level of investment commitment. If any of these events were to occur, UNIFI's business, financial condition, results of operations or cash flows could be materially adversely affected.

UNIFI also relies on accurate financial reporting from PAL for preparation of UNIFI's quarterly and annual consolidated financial statements. Errors in the financial information reported by PAL could be material to UNIFI and may require us to restate past financial statements. Any such restatements could have a material adverse effect on UNIFI or the market price of our common stock.

PAL receives economic adjustment payments from the Commodity Credit Corporation under the Economic Adjustment Assistance to Users of Upland Cotton. The economic assistance received under this program must be used to acquire, construct, install, modernize, develop, convert or expand land, plant, buildings, equipment or machinery directly attributable to the purpose of manufacturing upland cotton into eligible cotton products in the United States. Should PAL no longer meet the criteria to receive economic assistance under the program, or should the program be discontinued, PAL's business and profitability could be significantly impacted, which would adversely affect UNIFI.

UNIFI requires cash to service its indebtedness and fund capital expenditures and strategic initiatives, and its ability to generate sufficient cash for those purposes depends on many factors beyond its control.

UNIFI's principal sources of liquidity are cash flows generated from operations and borrowings under its credit facility. UNIFI's ability to make payments on its indebtedness and to fund planned capital expenditures and strategic initiatives will depend on its ability to generate future cash flows from operations. This ability, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond UNIFI's control. The business may not generate sufficient cash flows from operations, and future borrowings may not be available to UNIFI in amounts sufficient, to enable UNIFI to pay its indebtedness and to fund its other liquidity needs. Any such development would have a material adverse effect on UNIFI.

A decline in general economic or political conditions, and changes in consumer spending, could cause a decline in demand for textile products, including UNIFI's products.

UNIFI's products are used in the production of fabric primarily for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. Demand for furniture and other durable goods is often affected significantly by economic conditions that have global or regional industry-wide consequences. Demand for a number of categories of apparel also tends to be tied to economic cycles and customer preferences that affect the textile industry in general. Demand for textile products, therefore, tends to vary with the business cycles of the United States and other economies, as well as changes in global trade flows, and economic and political conditions. Additionally, prolonged economic downturns that negatively impact UNIFI's results of operations and cash flows could result in future material impairment charges to write-down the carrying value of certain assets, including amortizable intangible assets and equity affiliates.

Changes in consumer spending, customer preferences, fashion trends and end-uses for UNIFI's products could weaken UNIFI's competitive position and cause UNIFI's products to become less competitive, and its sales and profits may decrease as a result. Additionally, the end-consumer retail and apparel markets may continue to experience difficult conditions characterized by reduced retail traffic and growth in online sales channels, which may cause bankruptcies, store closures and other transformations for traditional retail enterprises, which could have an adverse effect on UNIFI's business and financial condition.

Historic trends indicate weakening performance in the nylon sector on a global basis. If the decline is significant in any one year, the impact could have a material adverse effect on UNIFI's business, financial condition, results of operations or cash flows.

Unfavorable changes in trade policies and/or violations of existing trade policies could weaken UNIFI's competitive position significantly and have a material adverse effect on its business.

A number of markets within the textile industry in which UNIFI sells its products, particularly the apparel, hosiery and home furnishings markets, are subject to intense foreign competition. Other markets within the textile industry in which UNIFI sells its products may in the future become subject to more intense foreign competition. There are currently a number of trade regulations and duties in place to protect the U.S. textile industry against competition from low-priced foreign producers, such as those in China and Vietnam. Changes in such trade regulations or duties may make the price of UNIFI's products less attractive than the goods of its competitors or the finished products of a competitor in the supply chain, which could have a material adverse effect on UNIFI's business, financial condition, results of operations or cash flows.

According to industry experts and trade associations, there has been a significant amount of illegal transshipments of apparel products into the United States and into certain other countries in the NAFTA and CAFTA-DR regions in which UNIFI competes. Illegal transshipment involves circumventing duties by falsely claiming that textiles and

apparel are products of a particular country of origin (or include yarn of a particular country of origin) to avoid paying higher duties or to receive benefits from regional free trade agreements, such as NAFTA and CAFTA-DR. If illegal transshipments are not monitored, and if enforcement is not effective to limit them, these shipments could have a material adverse effect on UNIFI's business, financial condition, results of operations or cash flows.

In January 2017, the United States withdrew from the Trans-Pacific Partnership Agreement, an evolving trade agreement that included Vietnam, a major textile and apparel exporting country whose duty-free benefits under the agreement could have had an adverse effect on UNIFI's business in the long term. In May 2017, the Trump administration formally notified Congress of its intent to renegotiate NAFTA. The United States has a positive trade balance in the textile and apparel sector in NAFTA and UNIFI anticipates any modifications to the agreement in this sector will not significantly impact textile and apparel trade in the region.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table contains information about the principal properties owned or leased by UNIFI as of June 25, 2017:

| Location | Description |
|---|--|
| Polyester Segment | |
| Domestic | |
| Yadkinville, North Carolina | Five plants ⁽¹⁾ and five warehouses ⁽²⁾ |
| Reidsville, North Carolina | Two plants ⁽¹⁾ |
| Foreign | |
| Ciudad Arce, El Salvador | One plant ⁽¹⁾ and one warehouse ⁽³⁾ |
| Nylon Segment | |
| Domestic | |
| Madison, North Carolina | One plant ⁽¹⁾ and one warehouse ⁽¹⁾ |
| Foreign | |
| Bogota, Colombia | One plant ⁽¹⁾ |
| International Segment | |
| Foreign | |
| Alfnas, Brazil | One plant ⁽¹⁾ and one warehouse ⁽¹⁾ |
| Sao Paulo, Americana and Blumenau, Brazil | One corporate office ⁽³⁾ and two sales offices ⁽³⁾ |
| Suzhou, China | One sales office ⁽³⁾ and one warehouse ⁽³⁾ |
| Colombo, Sri Lanka | One sales office ⁽³⁾ |

(1) Owned in fee simple.

(2) Three warehouses are owned in fee simple and two warehouses are leased.

(3) Leased.

In addition to the above properties, UNIFI owns property located at 7201 West Friendly Avenue in Greensboro, North Carolina, which includes a building that serves as UNIFI's corporate headquarters and administrative offices for all of its segments and a sales office. Such property consists of a tract of land containing approximately nine acres, and the building contains approximately 120,000 square feet.

As of June 25, 2017, UNIFI owned approximately 4.8 million square feet of manufacturing, warehouse and office space. Management believes all of UNIFI's operating properties are well-maintained and in good condition. In fiscal 2017, UNIFI's plants in the Polyester, Nylon and International Segments operated below capacity. Management does not perceive any capacity constraints in the foreseeable future.

Item 3. Legal Proceedings

We are from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to all such lawsuits, claims and proceedings, we record reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. We do not believe that any of these

proceedings, individually or in the aggregate, would be expected to have a material adverse effect on our results of operations, financial position or cash flows. We maintain liability insurance for certain risks that is subject to certain self-insurance limits.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

UNIFI’s common stock is listed for trading on the New York Stock Exchange (“NYSE”) under the symbol “UFI.” The following table sets forth the closing, high and low sales prices of the common stock for UNIFI’s two most recent fiscal years.

| | Close | High | Low |
|--|---------|---------|---------|
| Fiscal 2017: | | | |
| Fourth quarter ended June 25, 2017 | \$28.92 | \$30.74 | \$26.38 |
| Third quarter ended March 26, 2017 | 26.99 | 33.78 | 26.03 |
| Second quarter ended December 25, 2016 | 32.85 | 34.70 | 26.55 |
| First quarter ended September 25, 2016 | 29.20 | 29.69 | 24.82 |
| Fiscal 2016: | | | |
| Fourth quarter ended June 26, 2016 | \$26.29 | \$27.99 | \$20.71 |
| Third quarter ended March 27, 2016 | 22.74 | 28.96 | 20.85 |
| Second quarter ended December 27, 2015 | 28.66 | 32.99 | 25.76 |
| First quarter ended September 27, 2015 | 29.35 | 34.80 | 25.75 |

As of August 23, 2017, there were 141 record holders of UNIFI’s common stock. A significant number of the outstanding shares of common stock that are beneficially owned by individuals and entities are registered in the name of Cede & Co. Cede & Co. is a nominee of The Depository Trust Company, a securities depository for banks and brokerage firms. UNIFI estimates that there are approximately 5,000 beneficial owners of its common stock.

No dividends were paid in the past two fiscal years, and UNIFI does not intend to pay cash dividends in the foreseeable future. UNIFI’s current debt obligations contain certain restricted payment and restricted investment provisions, including a restriction on the payment of dividends and share repurchases should the borrowing capacity fall below certain thresholds. Information regarding UNIFI’s debt obligations is provided in Note 12, “Long-Term Debt,” to the accompanying consolidated financial statements.

Purchases of Equity Securities

On January 22, 2013, UNIFI announced a stock repurchase program (the “2013 SRP”) to acquire up to \$50,000 of its common stock. UNIFI completed its repurchase of shares under the 2013 SRP in March 2014.

On April 23, 2014, UNIFI announced a new stock repurchase program (the “2014 SRP”) to acquire up to an additional \$50,000 of UNIFI’s common stock with no expiration. Under the 2014 SRP (as was the case under the 2013 SRP), purchases may be completed in accordance with SEC regulations at prevailing market prices, through open market purchases or privately negotiated transactions, at such times and prices and in such manner as determined by management, subject to market conditions, applicable legal requirements, contractual obligations and other factors. Repurchases, if any, are expected to be financed through cash generated from operations and borrowings, and are subject to applicable limitations and restrictions as set forth in the credit agreement governing UNIFI’s debt obligations. UNIFI may discontinue repurchases at any time that management determines additional purchases are not

beneficial or advisable.

Through June 25, 2017, UNIFI had repurchased 3,147 shares of its common stock at a total cost of \$72,438, including all associated commission costs, since the inception of the 2013 SRP and the 2014 SRP.

UNIFI did not purchase any of its common stock during fiscal 2017. As of June 25, 2017, \$27,603 remained available for repurchases under the 2014 SRP.

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PERFORMANCE GRAPH - SHAREHOLDER RETURN ON COMMON STOCK

The below graphic comparison assumes the investment of \$100 in each of UNIFI common stock, the S&P SmallCap 600 Index (a benchmark index containing inclusion characteristics closely associated with UNIFI) and the NYSE Composite Index (a broad equity market index), all at June 22, 2012. The resulting cumulative total return assumes that dividends, if any, were reinvested. Past performance is not indicative of future performance.

| | June 22, 2012 | June 28, 2013 | June 27, 2014 | June 26, 2015 | June 24, 2016 | June 23, 2017 |
|------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Unifi, Inc. | \$ 100.00 | \$ 172.39 | \$ 228.52 | \$ 283.07 | \$ 219.27 | \$ 241.20 |
| S&P SmallCap 600 | 100.00 | 129.07 | 158.37 | 172.41 | 162.67 | 200.32 |
| NYSE Composite | 100.00 | 123.54 | 151.21 | 156.13 | 147.78 | 174.67 |

Item 6. Selected Financial Data

The following table presents selected historical consolidated financial data. The data should be read in conjunction with UNIFI's historical consolidated financial statements for each of the fiscal years presented, as well as "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report.

| | For the Fiscal Year Ended | | | | |
|--|---------------------------|---------------|---------------|---------------|---------------|
| | June 25, 2017 | June 26, 2016 | June 28, 2015 | June 29, 2014 | June 30, 2013 |
| Number of fiscal weeks | 52 | 52 | 52 | 52 | 53 |
| Operations Data: | | | | | |
| Net sales | \$ 647,270 | \$ 643,637 | \$ 687,121 | \$ 687,902 | \$ 713,962 |
| Gross profit | 94,164 | 93,632 | 90,705 | 83,262 | 73,104 |
| Selling, general and administrative expenses | 50,829 | 47,502 | 49,672 | 46,203 | 47,386 |
| Operating income | 43,768 | 42,198 | 38,486 | 31,483 | 22,463 |
| Interest expense | 3,578 | 3,528 | 4,025 | 4,329 | 4,489 |
| Equity in earnings of unconsolidated affiliates ⁽¹⁾ | (4,230) | (8,963) | (19,475) | (19,063) | (11,444) |
| Income from continuing operations before income taxes | | | | | |
| | 43,275 | 48,243 | 53,812 | 47,881 | 29,014 |
| Provision for income taxes ⁽²⁾ | 10,898 | 15,073 | 13,346 | 20,161 | 13,344 |
| Income from continuing operations, net of tax | | | | | |
| | 32,377 | 33,170 | 40,466 | 27,720 | 15,670 |
| Net income attributable to Unifi, Inc. ⁽³⁾ | 32,875 | 34,415 | 42,151 | 28,823 | 16,635 |
| Per common share: | | | | | |
| Net income attributable to Unifi, Inc. | | | | | |
| Basic | \$ 1.81 | \$ 1.93 | \$ 2.32 | \$ 1.52 | \$ 0.84 |
| Diluted | \$ 1.78 | \$ 1.87 | \$ 2.24 | \$ 1.47 | \$ 0.80 |
| Cash Flow Data: | | | | | |
| Net cash provided by operating activities | \$ 46,062 | \$ 55,975 | \$ 38,903 | \$ 56,357 | \$ 50,509 |
| Depreciation and amortization expenses | 20,368 | 17,528 | 18,043 | 17,896 | 24,584 |
| Capital expenditures | 33,190 | 52,337 | 25,966 | 19,091 | 8,809 |
| Distributions received from unconsolidated affiliates | | | | | |
| | 2,322 | 4,732 | 3,718 | 13,214 | 14,940 |
| Cash paid for share repurchases | — | 6,211 | 10,360 | 36,551 | 19,315 |
| Cash dividends declared per common share | \$ — | \$ — | \$ — | \$ — | \$ — |

| | June 25, 2017 | June 26, 2016 | June 28, 2015 | June 29, 2014 | June 30, 2013 |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Balance Sheet Data: | | | | | |
| Cash and cash equivalents | \$ 35,425 | \$ 16,646 | \$ 10,013 | \$ 15,907 | \$ 8,755 |
| Property, plant and equipment, net | 203,388 | 185,101 | 136,222 | 123,802 | 115,164 |
| Total assets | 571,503 | 525,442 | 474,761 | 466,588 | 452,909 |
| Total debt ⁽⁴⁾ | 128,442 | 121,591 | 102,499 | 97,394 | 95,635 |
| Total shareholders' equity | 360,806 | 326,945 | 299,093 | 286,738 | 286,480 |

(1)

Equity in earnings of unconsolidated affiliates for fiscal 2015 includes two bargain purchase gains recognized by PAL for a combined benefit to UNIFI of \$4,696.

(2) Provision for income taxes for fiscal 2017 includes, among other items, a \$1,500 benefit for the recognition of research and development credits relating to previously filed tax returns that were amended in fiscal 2017.

Provision for income taxes for fiscal 2015 includes, among other items, the reversal of \$7,639 for the deferred tax liability related to UNIFI's indefinite reinvestment assertion, a \$3,008 impact related to certain intercompany foreign currency transactions that originated in prior fiscal years and were settled in fiscal 2015, the release of \$3,009 from the valuation allowance primarily in connection with an unconsolidated affiliate, renewable energy credits of \$1,036 and net expense recognized for uncertain tax positions of \$2,879.

During fiscal 2014, UNIFI increased the valuation allowance for certain deferred tax assets, generating additional tax expense of \$1,925.

During fiscal 2013, UNIFI increased the valuation allowance for certain deferred tax assets, generating additional tax expense of \$3,243.

(3) Net income attributable to Unifi, Inc. ("Net Income"):

- for fiscal 2017 includes a loss on the divestiture of a non-core business of \$1,662, after tax;
- for fiscal 2016 includes key employee transition costs of \$1,493, after tax; and
for fiscal 2015 includes a loss on extinguishment of debt of \$676, after tax.

(4) Total debt reflects principal outstanding less unamortized debt issuance costs.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's discussion and analysis of certain significant factors that have affected UNIFI's operations, along with material changes in financial condition, during the periods included in the accompanying consolidated financial statements. Management's discussion and analysis should be read in conjunction with the remainder of this Annual Report, with the understanding that "forward-looking statements" may be present. A reference to a "note" refers to the accompanying notes to consolidated financial statements.

Overview

UNIFI sells polyester-based and nylon-based products primarily to other yarn manufacturers and knitters and weavers that produce fabric for the apparel, hosiery, home furnishings, automotive, industrial and other end-use markets. Polyester yarns include POY, textured, solution and package dyed, twisted, beamed and draw wound yarns, and each is available in virgin or recycled varieties. Recycled solutions, made from both pre-consumer and post-consumer waste, include plastic bottle flake and Chip. Nylon products include textured, solution dyed and spandex covered yarns.

UNIFI maintains one of the textile industry's most comprehensive yarn product offerings that include specialized yarns, PVA yarns and commodity yarns, with principal geographic markets in the Americas and Asia.

UNIFI has manufacturing operations in four countries and participates in joint ventures in Israel and the United States, the most significant of which is a 34% non-controlling partnership interest in PAL, a significant unconsolidated affiliate that produces cotton and synthetic yarns for sale to the global textile industry and apparel market. We believe the investment in PAL provides strategic diversification for our overall business in response to global textile trends.

UNIFI has three reportable segments - the Polyester Segment, the Nylon Segment and the International Segment – as well as certain ancillary operations that include for-hire transportation services, which comprise an All Other category. The ancillary operations classified within All Other are insignificant for all periods presented; therefore, our discussion and analysis of those activities is generally limited to their impact on consolidated results, where appropriate.

UNIFI reported net income of \$32,875, or \$1.81 per basic share, for fiscal 2017. Such results reflect growth in sales of PVA products, especially in the International Segment, which was partially offset by (i) a difficult domestic environment, (ii) increased SG&A expenses for strategic planning, talent acquisition and commercial expansion and (iii) lower earnings from equity affiliates. Additionally, in fiscal 2017, UNIFI faced periods of fluctuating virgin polyester raw material costs, temporarily depressing the Polyester Segment's gross margins, but benefited from (a) the recognition of a benefit for bad debts, (b) a lower effective tax rate and (c) favorable foreign currency exchange rates. The International Segment continued strong performance and growth due to the global success of UNIFI's PVA portfolio, along with the shutdown of a competitor in Brazil in early calendar 2016. The Polyester and Nylon Segments both experienced a difficult domestic environment, challenged by weak retail selling seasons and cautious ordering patterns from brands and retailers.

Significant Developments and Trends

UNIFI's operations in fiscal 2017 were focused on enhancing the global supply chain, growing the market for its PVA products and using cash flow from operations to fund select capital projects and strategic growth opportunities. This focus led to the continuing increase in UNIFI's PVA sales as a percentage of its overall sales, with net sales from PVA products representing approximately 40% of consolidated net sales for fiscal 2017. This continues a growth trend of between 10% and 15% over the past several fiscal years. UNIFI's strategy of enriching its product mix through a focus on PVA products helps insulate it from the pressures of low-priced commodity yarn imports and helps to establish UNIFI as an innovation leader in its core markets. UNIFI's innovative and sustainable products achieved growth in overseas markets, continuing to meet the demands of premier brands and retailers worldwide.

UNIFI's flagship REPREVE® brand continued as our fastest growing PVA solution during fiscal 2017. The increasing success and awareness of the REPREVE® brand continues to provide new opportunities for growth, allowing for expansion into new end-uses and markets for REPREVE®, as well as continuing to grow the brand with current customers. Both brands and consumers are demanding more sustainable solutions that provide better performance characteristics, and REPREVE® is positioned to benefit from this trend.

Fiscal 2017 marked the third year of a three-year \$135,000 capital investment plan. Beginning with fiscal 2015, UNIFI invested approximately \$35,000 in capital projects, adding machinery to support expansion of its draw-textured and air-jet textured businesses, launching its third production line in the REPREVE® Recycling Center and installing a 1-megawatt capacity solar farm. In fiscal 2016, UNIFI invested approximately \$60,000 in capital projects, including the bottle processing facility, commencing another REPREVE® Recycling Center expansion and enhancing automation systems and existing machinery to handle the increasingly complex product mix. UNIFI invested approximately \$40,000 in capital projects in fiscal 2017, completing construction of its bottle processing facility, nearing completion of the fourth production line in the REPREVE® Recycling Center, and completing construction of assets for production of specialized fibers in partnership with Eastman Chemical Company, along with additional enhancements to existing assets for customized and small-lot solutions.

To appropriately leverage the significant investments made in machinery and equipment in recent years, UNIFI expects to make additional investments in certain growth initiatives, including commercial expansion; technology and innovation; strategic partnerships; and people and teams. When executed with synergy, these initiatives are expected to increase the returns from UNIFI's core competencies by utilizing a premier supply chain and state-of-the-art equipment to deliver technology-driven solutions backed by innovation and sustainability to like-minded customers worldwide. These initiatives are expected to increase net sales, gross margins and operating income while causing SG&A expenses to increase correspondingly.

Raw material components represent a significant portion of UNIFI's manufactured products. The prices for the principal raw materials used by UNIFI continually fluctuate, and it is difficult, and often impossible, to predict trends or upcoming developments. During fiscal 2017, UNIFI operated in a predominantly increasing virgin polyester raw material cost environment. UNIFI believes those costs were a result of volatility in the crude oil markets. During fiscal 2016 and 2015, UNIFI operated in a predominantly declining virgin polyester raw material cost environment. UNIFI believes that costs during most of that two-year period were impacted by lower crude oil values, a lack of major unplanned raw material capacity outages and soft global demand for polyester raw materials. The continuing volatility in global crude oil prices is likely to impact UNIFI's polyester and nylon raw material costs. While it is not possible to predict the timing or amount of the impact or whether the decline in crude oil prices will stabilize, continue or reverse, UNIFI monitors these dynamic factors closely.

UNIFI is also impacted by significant fluctuations in the value of the Brazilian Real, the local currency for our largest foreign operation. In fiscal 2017, the Brazilian Real strengthened versus the U.S. Dollar. Such appreciation of the Brazilian Real improves our net sales and other performance metrics when the results of our Brazilian subsidiary are translated into U.S. Dollars at comparatively favorable rates. During fiscal 2016 and 2015, UNIFI was negatively impacted by relative weakening of the Brazilian Real. Specifically, the Brazilian Real declined approximately 40% in relation to the U.S. Dollar in fiscal 2015. UNIFI expects continued volatility in the value of the Brazilian Real to impact our key performance metrics, although the magnitude of the impact is dependent upon the significance of the volatility.

Results of Operations

Fiscal 2017, 2016 and 2015 all consisted of 52 weeks. The following table presents a summary of Net Income:

| | For the Fiscal Year Ended | | |
|--------------|------------------------------|------|------|
| | June | June | June |
| | 25, | 26, | 28, |
| | 2017 | 2016 | 2015 |
| Net sales \$ | | | |