



THE DIXIE GROUP

Non-GAAP Information

3/6/2017

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Use of Non-GAAP Financial Information:

The Company believes that non-GAAP performance measures, which management uses in evaluating the Company's business, may provide users of the Company's financial information with additional meaningful bases for comparing the Company's current results and results in a prior period, as these measures reflect factors that are unique to one period relative to the comparable period. However, the non-GAAP performance measures should be viewed in addition to, not as an alternative for, the Company's reported results under accounting principles generally accepted in the United States.

The Company defines Adjusted Gross Profit as Gross Profit plus manufacturing integration expenses of new or expanded operations, plus acquisition expense related to the fair market write up of inventories, plus one time items so defined (Note 1)

The Company defines Adjusted S,G&A as S,G&A less manufacturing integration expenses included in selling, general and administrative, less direct acquisition expenses, less one time items so defined. (Note 2)

The Company defines Adjusted Operating Income as Operating Income plus manufacturing integration expenses of new or expanded operations, plus acquisition expense related to the fair market write up of inventories, plus facility consolidation and severance expenses, plus acquisition related expenses, plus impairment of assets, plus impairment of goodwill, plus one time items so defined. (Note 3)

The company defines Adjusted Income from Continuing Operations as net income plus loss from discontinued operations net of tax, plus manufacturing integration expenses of new or expanded operations, plus facility consolidation and severance expenses, plus acquisition related expenses, plus impairment of assets, plus impairment of goodwill, plus one time items so defined , all tax effected. (Note 4)

The Company defines Adjusted EBIT as net income plus taxes and plus interest. The Company defines Adjusted EBITDA as Adjusted EBIT plus depreciation and amortization, plus manufacturing in integration expenses of new or expanded operations, plus facility consolidation and severance expenses, plus acquisition related expenses, plus impairment of assets, plus impairment of goodwill, plus one time items so defined. (Note 5)

The company defines Free Cash Flow as Net Income plus interest plus depreciation plus non-cash impairment of assets and goodwill minus the net change in working capital minus the tax shield on interest minus capital expenditures. The change in net working capital is the change in current assets less current liabilities between periods. (Note 6)

The company defines Non-GAAP Earnings per Share (EPS) as the adjusted operating income less Interest and other expense, tax adjusted at a 35% rate, and divided by the umber of fully diluted shares. (Note 7)

The Company defines Net Sales as Adjusted as net sales less the last week of sales in a 53 week fiscal year. (Note 8)

Non-GAAP Information



THE DIXIE GROUP

| <u>Non-GAAP Gross Profit</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|----------------|----------------|---------------|---------------|---------------|---------------|----------------|----------------|
| Net Sales | 203,480 | 231,322 | 270,110 | 266,372 | 344,374 | 406,588 | 422,484 | 397,453 |
| Gross Profit | 52,105 | 56,651 | 65,506 | 65,372 | 85,569 | 95,497 | 106,231 | 95,425 |
| Plus: Business integration expense | - | - | - | 1,383 | 4,738 | 445 | - | - |
| Plus: Amortization of inventory step up | - | - | - | - | 367 | 606 | - | - |
| Non-GAAP Adj. Gross Profit (Note 1) | 52,105 | 56,651 | 65,506 | 66,755 | 90,674 | 96,548 | 106,231 | 95,425 |
| Gross Profit as % of Net Sales | 25.6% | 24.5% | 24.3% | 24.5% | 24.8% | 23.5% | 25.1% | 24.0% |
| Non-GAAP Adj. Gross Profit % of Net Sales | 25.6% | 24.5% | 24.3% | 25.1% | 26.3% | 23.7% | 25.1% | 24.0% |
| <u>Non-GAAP S,G&A</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| Net Sales | 203,480 | 231,322 | 270,110 | 266,372 | 344,374 | 406,588 | 422,484 | 397,453 |
| Selling and Administrative Expense | 60,542 | 57,362 | 60,667 | 63,489 | 76,221 | 93,182 | 100,422 | 96,983 |
| Plus: Business integration expense | - | - | - | - | (1,706) | (1,429) | - | - |
| Less: Acquisition expenses | - | - | - | (318) | (350) | (789) | - | - |
| Non-GAAP Adj. Selling and Admin. Expense | 60,542 | 57,362 | 60,667 | 63,171 | 74,164 | 90,964 | 100,422 | 96,983 |
| S,G&A as % of Net Sales | 29.8% | 24.8% | 22.5% | 23.8% | 22.1% | 22.9% | 23.8% | 24.4% |
| Non-GAAP S,G&A as % of Net Sales (Note 2) | 29.8% | 24.8% | 22.5% | 23.7% | 21.5% | 22.4% | 23.8% | 24.4% |
| <u>Non-GAAP Operating Income</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| Net Sales | 203,480 | 231,322 | 270,110 | 266,372 | 344,374 | 406,588 | 422,484 | 397,453 |
| Operating income (loss) | (45,390) | (2,570) | 5,668 | 1,815 | 8,855 | (5,236) | 1,990 | (3,415) |
| Plus: Acquisition expenses | - | - | - | 318 | 350 | 789 | - | - |
| Plus: Amortization of inventory step up | - | - | - | - | 367 | 606 | - | - |
| Plus: Business integration expense | - | - | - | 1,383 | 6,616 | 1,874 | - | - |
| Plus: Facility consolidation expense | 4,091 | 1,556 | (563) | - | - | 5,514 | 2,946 | 1,456 |
| Plus: Impairment of assets | 1,459 | - | - | - | 195 | 1,133 | - | - |
| Plus: Impairment of goodwill | 31,406 | - | - | - | - | - | - | - |
| Non-GAAP Adj. Operating Income (Loss) (Note 3) | (8,434) | (1,014) | 5,105 | 3,516 | 16,384 | 4,681 | 4,936 | (1,959) |

Non-GAAP Information



THE DIXIE GROUP

| <u>Non-GAAP Income from Continuing Operations</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net income (loss) as reported | (42,241) | (4,654) | 986 | (927) | 5,291 | (1,402) | (2,426) | (5,278) |
| Less: (Loss) from discontinued, net tax | (382) | (280) | (286) | (275) | (266) | (2,075) | (148) | (71) |
| Income (loss) from Continuing Operations | (41,859) | (4,374) | 1,272 | (653) | 5,557 | 673 | (2,278) | (5,207) |
| Plus: Business integration expense | - | - | - | 1,383 | 6,616 | 1,874 | - | - |
| Plus: Facility consolidation expense | 4,091 | 1,556 | (563) | - | - | 5,514 | 2,946 | 1,456 |
| Plus: Amortization of inventory step up | - | - | - | - | 367 | 606 | - | - |
| Plus: Acquisition expenses | - | - | - | 318 | 350 | 789 | - | - |
| Less: Gain on purchase of business | - | - | - | - | - | (11,110) | - | - |
| Plus: Impairment of assets | 1,459 | - | - | - | 195 | 1,133 | - | - |
| Plus: Impairment of goodwill | 31,406 | - | - | - | - | - | - | - |
| Plus: Tax effect of above | (14,043) | (591) | 214 | (646) | (2,861) | 453 | (1,119) | (553) |
| Plus: Prior years tax credits and val. allowance | - | - | - | - | - | - | - | - |
| Non-GAAP Adj. (Loss) / Inc from Cont. Op's (Note | (18,946) | (3,409) | 923 | 402 | 10,224 | (68) | (451) | (4,304) |
| Adj diluted EPS from Cont. Op's | (1.54) | (0.27) | 0.07 | 0.03 | 0.80 | (0.00) | (0.03) | (0.28) |
| Wt'd avg. common shares outstanding - diluted | 12,331 | 12,524 | 12,623 | 12,638 | 12,852 | 14,382 | 15,536 | 15,638 |

Non-GAAP Information



THE DIXIE GROUP

| <u>Non-GAAP EBIT and EBITDA</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|-----------------|----------------|----------------|-----------------|-----------------|-----------------|---------------|----------------|
| Net income (loss) as reported | (42,241) | (4,654) | 986 | (927) | 5,291 | (1,402) | (2,426) | (5,278) |
| Less: (Loss) from discontinued, net tax | (382) | (280) | (286) | (275) | (266) | (2,075) | (148) | (71) |
| Plus: Taxes | (8,870) | (2,604) | 684 | (401) | (576) | 1,055 | (714) | (3,622) |
| Plus: Interest | 5,521 | 4,124 | 3,470 | 3,146 | 3,756 | 4,301 | 4,935 | 5,392 |
| Non-GAAP Adjusted EBIT (Note 5) | (45,208) | (2,854) | 5,426 | 2,092 | 8,737 | 6,029 | 1,943 | (3,437) |
| Plus: Depreciation and amortization | 13,504 | 11,575 | 9,650 | 9,396 | 10,263 | 12,908 | 14,120 | 13,515 |
| Non-GAAP EBITDA from Cont Op | (31,704) | 8,721 | 15,075 | 11,488 | 18,999 | 18,937 | 16,063 | 10,078 |
| Plus: Acquisition expenses | - | - | - | 318 | 350 | 789 | - | - |
| Plus: Amortization of inventory step up | - | - | - | - | 367 | 606 | - | - |
| Less: Gain on purchase of business | - | - | - | - | - | (11,110) | - | - |
| Plus: Business integration expense | - | - | - | 1,383 | 6,616 | 1,874 | - | - |
| Plus: Facility consolidation expense | 4,091 | 1,556 | (563) | - | - | 5,514 | 2,946 | 1,456 |
| Plus: Impairment of assets | 1,459 | - | - | - | 195 | 1,133 | - | - |
| Non-GAAP Adj. EBITDA (Note 5) | 5,252 | 10,277 | 14,512 | 13,189 | 26,528 | 17,743 | 19,009 | 11,534 |
| Non-GAAP Adj. EBITDA as % of Net Sales | 2.6% | 4.4% | 5.4% | 5.0% | 7.7% | 4.4% | 4.5% | 2.9% |
| <u>Non-GAAP Free Cash Flow</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| Non-GAAP Adjusted EBIT (from above) | (45,208) | (2,854) | 5,426 | 2,092 | 8,737 | 6,029 | 1,943 | (3,437) |
| Times: 1 - Tax Rate = EBIAT | (28,029) | (1,769) | 3,364 | 1,297 | 5,417 | 3,738 | 1,205 | (2,131) |
| Plus: Depreciation and amortization | 13,504 | 11,575 | 9,650 | 9,396 | 10,263 | 12,908 | 14,120 | 13,515 |
| Plus: Non Cash Impairment of Assets, Goodwill | 32,865 | - | - | - | 195 | 1,133 | - | - |
| Minus: Net change in Working Capital | (23,975) | 996 | 9,589 | 10,786 | 17,714 | 11,546 | (1,970) | (16,905) |
| Non-GAAP Cash from Operations | 42,315 | 8,810 | 3,425 | (93) | (1,839) | 6,234 | 17,295 | 28,289 |
| Minus: Capital Expenditures | 511 | 1,761 | 6,735 | 4,052 | 13,257 | 32,825 | 12,230 | 5,331 |
| Minus: Business / Capital acquisitions | - | - | - | 6,961 | 1,863 | 9,331 | - | - |
| Non-GAAP Free Cash Flow (Note 6) | 41,804 | 7,049 | (3,310) | (11,106) | (16,959) | (35,922) | 5,065 | 22,958 |

Additional Information



THE DIXIE GROUP

| <u>Facility Consolidation Plan Summary</u> | <u>Q1 2016</u> | <u>Q2 2016</u> | <u>Q3 2016</u> | <u>Q4 2016</u> | <u>2016</u> |
|---|----------------|----------------|----------------|----------------|--------------|
| Colormaster dryer write off | - | - | - | - | - |
| West Coast Facility consolidation | - | - | - | - | - |
| East Coast Facility consolidation | 1,342 | 398 | (1) | (359) | 1,380 |
| East Coast Asset write off | - | - | - | - | - |
| Corporate Office consolidation | 71 | 5 | - | - | 76 |
| Total facility consolidation and asset write off | 1,413 | 403 | (1) | (359) | 1,456 |

| | December 31, 2016 | Extra Week | Net Sales as Adjusted December 31, 2016 | December 26, 2015 | Difference | Net Sales As Adjusted % Change |
|-----------------------|----------------------|---------------|--|----------------------|-------------|--------------------------------------|
| Net Sales as Adjusted | \$ 397,453 | \$ (5,380) | \$ 392,073 | \$ 422,483 | \$ (30,410) | -7.2% |

The Company defines Net Sales as Adjusted as net sales less the last week of sales in a 53 week fiscal year. (Note 8)