



Xcel Brands, Inc. Announces Fourth Quarter 2017 Financial Results

March 29, 2018

NEW YORK, March 29, 2018 (GLOBE NEWSWIRE) -- Xcel Brands, Inc. (NASDAQ:XELB) ("Xcel" or the "Company"), a consumer products company, today announced its financial results for the fourth quarter and full year ended December 31, 2017.

Robert W. D'Loren, Chairman and Chief Executive Officer of Xcel commented, "In 2017, we continued on our transformative path to implement our Fast-to-Market production and Integrated Technology platforms. The year was characterized by steady market share and revenue growth in our department store business. Our Interactive television business performed well, especially in our Isaac Mizrahi brand. This has built favorable momentum for us heading into 2018.

He further stated, "Xcel is well capitalized to execute its growth strategies. We continue to reinvest our operating cash flow in the business. Xcel's Fast-to-Market production and Integrated Technology platforms provide us with the ability to read and react to consumer trends. We believe this will position us as an industry leader in delivering inventory, merchandising, and planning solutions for our retail partners."

Full Year 2017 Financial Results

Total net revenues for the year ended December 31, 2017 were \$31.7 million, down approximately 3% from \$32.7 million in the prior year. The decrease was primarily attributable to lower net revenue associated with the C Wonder brand that is transitioning from interactive TV to new distribution channels, as previously reported. These decreases were partially offset by higher net revenues from the Company's ongoing interactive television business and from its wholesale department store business.

On a GAAP basis, the net loss was approximately \$(10.1) million for the year ended December 31, 2017, or \$(0.55) per basic and diluted share, which includes a one-time, non-cash charge of \$12.4 million related to the Company's goodwill, and partially off-set by a one-time net tax benefit of \$2.6 million related to the recent federal tax reform legislation. The underlying cause of the goodwill write-down was the decrease in the Company's market capitalization, as of December 31, 2017, as compared to the calculated fair value of the Company. This compares to GAAP net income of \$2.7 million, or approximately \$0.14 per diluted share in the prior year, which included a \$3.4 million gain on the reduction of contingent obligations. After adjusting for certain cash and non-cash items, non-GAAP net income for year ended December 31, 2017 was \$4.9 million, or \$0.26 per diluted share, compared with \$5.1 million, or \$0.27 per diluted share in the prior year.

Adjusted EBITDA for the year ended December 31, 2017 decreased approximately \$0.5 million to \$8.0 million, compared with \$8.5 million in the prior year.

Fourth Quarter 2017 Financial Results

Total net revenues for the fourth quarter of 2017 were \$7.0 million, up approximately 2% from \$6.9 million in the prior year quarter. This was primarily attributable to higher net revenue from the ongoing interactive television business and the wholesale department store business, which were partially offset by lower net revenues primarily due to the previously mentioned C Wonder brand transition.

On a GAAP basis, the net loss was approximately \$(10.2) million for the fourth quarter ended December 31, 2017, or \$(0.55) per basic and diluted share, which includes a one-time, non-cash charge of \$12.4 million related to the Company's goodwill, and partially off-set by a one-time net tax benefit of \$2.6 million. This compares to GAAP net income of \$2.8 million, or approximately \$0.14 per diluted share in the prior year quarter, which included a \$3.4 million gain on the reduction of contingent obligations. After adjusting for certain cash and non-cash items, non-GAAP net income for the quarter ended December 31, 2017 was \$0.7 million, or \$0.04 per diluted share, compared with \$0.5 million, or \$0.02 per diluted share in the prior year quarter.

Adjusted EBITDA for the quarters ended December 31, 2017 and December 31, 2016 was approximately \$1.4 million for each period.

See reconciliation tables below for non-GAAP metrics. These non-GAAP metrics may be inconsistent with similar measures presented by other companies and should only be used in conjunction with our results reported according to U.S. generally accepted accounting principles ("GAAP"). Any financial measure other than those prepared in accordance with GAAP should not be considered a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP.

The Company's balance sheet at December 31, 2017 remained strong, with stockholders' equity of approximately \$98 million, cash and cash equivalents of \$10.2 million, and working capital of approximately \$10.2 million. During the current year, the Company reduced its term debt by \$7.2 million to \$21.9 million.

Conference Call and Webcast

The Company will host a conference call with members of the executive management team to discuss these results with additional comments and details at 5:30 p.m. Eastern Time on Thursday, March 29, 2018. A webcast of the conference call will be available live on the Investor Relations section of Xcel's website at www.xcelbrands.com. Interested parties unable to access the conference call via the webcast may dial 800-289-0517. A replay of the conference call will be available on the Company website for 30 days following the event and can be accessed at 844-512-2921 using replay pin number 8688308.

About Xcel Brands

Xcel Brands, Inc. (NASDAQ:XELB) is a consumer products company engaged in the design, production, licensing, marketing, and direct-to-consumer

sales of branded apparel, footwear, accessories, jewelry, home goods, and other consumer products, and the acquisition of dynamic consumer lifestyle brands. Xcel was founded by Robert W. D'Loren in 2011 with a vision to reimagine shopping, entertainment, and social as one. Xcel owns and manages the Isaac Mizrahi, Judith Ripka, H Halston, C. Wonder, and Highline Collective brands, pioneering a ubiquitous sales strategy which includes the promotion and sale of products under its brands through interactive television, internet, bricks and mortar retail, and e-commerce channels. Headquartered in New York City, Xcel Brands is led by an executive team with significant production, merchandising, design, marketing, retailing, and licensing experience, and a proven track record of success in elevating branded consumer products companies. With a team of over 100 professionals focused on design, production, and digital marketing, Xcel maintains control of product quality and promotion across all of its product categories and distribution channels. Xcel differentiates by design. www.xcelbrands.com

Forward Looking Statements

This press release contains forward-looking statements. All statements other than statements of historical fact contained in this press release, including statements regarding future events, our future financial performance, business strategy and plans and objectives of management for future operations, are forward-looking statements. We have attempted to identify forward-looking statements by terminology including "anticipates," "believes," "can," "continue," "ongoing," "could," "estimates," "expects," "intends," "may," "appears," "suggests," "future," "likely," "goal," "plans," "potential," "projects," "predicts," "seeks," "should," "would," "guidance," "confident" or "will" or the negative of these terms or other comparable terminology. These forward-looking statements include, but are not limited to, statements regarding our anticipated revenue, expenses, profitability, strategic plans and capital needs. These statements are based on information available to us on the date hereof and our current expectations, estimates and projections and are not guarantees of future performance. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors, including, without limitation, the risks discussed in the "Risk Factors" section and elsewhere in the Company's Annual Report on form 10-K for the year ended December 31, 2016 and its other filings with the SEC, which may cause our or our industry's actual results, levels of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for us to predict all risk factors, nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause our actual results to differ materially from those contained in any forward-looking statements. You should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

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Xcel Brands, Inc. and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share and per share data)

| | December 31, 2017 (Unaudited) | December 31, 2016 |
|--|----------------------------------|-------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,185 | \$ 14,127 |
| Accounts receivable, net | 8,528 | 6,969 |
| Prepaid expenses and other current assets | 592 | 807 |
| Total current assets | 19,305 | 21,903 |
| Property and equipment, net | 2,376 | 2,600 |
| Trademarks and other intangibles, net | 110,120 | 111,220 |
| Goodwill | - | 12,371 |
| Restricted cash | 1,509 | 1,509 |
| Other assets | 1,708 | 1,517 |
| Total non-current assets | 115,713 | 129,217 |
| Total Assets | \$ 135,018 | \$ 151,120 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Accounts payable, accrued expenses and other current liabilities | \$ 1,260 | \$ 1,523 |
| Accrued payroll | 2,270 | 2,185 |
| Deferred revenue | 16 | 234 |
| Current portion of long-term debt | 5,459 | 6,427 |
| Current portion of long-term debt, contingent obligations | 100 | - |
| Total current liabilities | 9,105 | 10,369 |
| Long-Term Liabilities: | | |
| Long-term debt, less current portion | 19,389 | 25,495 |

| | | |
|-------------------------------|--------|--------|
| Deferred tax liabilities, net | 6,375 | 6,901 |
| Other long-term liabilities | 2,455 | 2,181 |
| Total long-term liabilities | 28,219 | 34,577 |
| Total Liabilities | 37,324 | 44,946 |

Commitments and Contingencies

Stockholders' Equity:

| | | |
|---|-------------------|-------------------|
| Preferred stock, \$.001 par value, 1,000,000 shares authorized, none issued and outstanding | - | - |
| Common stock, \$.001 par value, 50,000,000 and 35,000,000 shares authorized at December 31, 2017 and December 31, 2016, respectively, and 18,318,961 and 18,644,982 issued and outstanding at December 31, 2017 and December 31, 2016, respectively | 18 | 19 |
| Paid-in capital | 98,997 | 97,354 |
| (Accumulated deficit) retained earnings | (1,321) | 8,801 |
| Total Stockholders' Equity | 97,694 | 106,174 |
| Total Liabilities and Stockholders' Equity | \$ 135,018 | \$ 151,120 |

Xcel Brands, Inc. and Subsidiaries

Consolidated Statements of Operations

(in thousands, except share and per share data)

| | For the Quarter Ended | | For the Year Ended | |
|--|-------------------------------------|---------------------|-------------------------------------|-----------|
| | December 31, 2017 (Unaudited) | 2016 (Unaudited) | December 31, 2017 (Unaudited) | 2016 |
| Net revenues | \$ 7,016 | \$ 6,899 | \$ 31,706 | \$ 32,692 |
| Operating costs and expenses | | | | |
| Salaries, benefits and employment taxes | 3,954 | 3,601 | 16,760 | 16,082 |
| Other design and marketing costs | 549 | 742 | 2,352 | 3,181 |
| Other selling, general and administrative expenses | 1,097 | 1,145 | 4,699 | 5,685 |
| Stock-based compensation | 688 | 973 | 3,184 | 4,727 |
| Depreciation and amortization | 389 | 388 | 1,562 | 1,560 |
| Goodwill impairment | 12,371 | - | 12,371 | - |
| Total operating costs and expenses | 19,048 | 6,849 | 40,928 | 31,235 |
| Other income | | | | |
| Gain on reduction of contingent obligation | - | 3,409 | - | 3,409 |
| Total other income | - | 3,409 | - | 3,409 |
| Operating (loss) income | (12,032) | 3,459 | (9,222) | 4,866 |
| Interest and finance expense | | | | |
| Interest expense - term debt | 266 | 330 | 1,171 | 1,333 |
| Other interest and finance charges | 41 | 91 | 176 | 515 |
| Total interest and finance expense | 307 | 421 | 1,347 | 1,848 |
| (Loss) income from continuing operations before income taxes | (12,339) | 3,038 | (10,569) | 3,018 |
| Income tax (benefit) provision | (2,151) | 318 | (447) | 315 |
| Income from continuing operations | (10,188) | 2,720 | (10,122) | 2,703 |
| Income from discontinued operations, net | - | 34 | - | 34 |
| Net (loss) income | \$ (10,188) | \$ 2,754 | \$ (10,122) | \$ 2,737 |

Basic net (loss) income per share

| | | | | | | |
|------------------------------|----------|---|---------|----------|---|---------|
| Continuing operations | \$ (0.55 |) | \$ 0.15 | \$ (0.55 |) | \$ 0.15 |
| Discontinued operations, net | - | | 0.00 | - | | 0.00 |
| Net (loss) income | \$ (0.55 |) | \$ 0.15 | \$ (0.55 |) | \$ 0.15 |

Diluted net (loss) income per share

| | | | | | | |
|------------------------------|----------|---|---------|----------|---|---------|
| Continuing operations | \$ (0.55 |) | \$ 0.14 | \$ (0.55 |) | \$ 0.14 |
| Discontinued operations, net | - | | 0.00 | - | | 0.00 |
| Net (loss) income | \$ (0.55 |) | \$ 0.14 | \$ (0.55 |) | \$ 0.14 |

| | | | | |
|--|------------|------------|------------|------------|
| Basic weighted average common shares outstanding | 18,416,683 | 18,673,760 | 18,502,158 | 18,625,670 |
| Diluted weighted average common shares outstanding | 18,416,683 | 19,042,615 | 18,502,158 | 19,044,749 |

Xcel Brands, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

For the Year Ended December 31,
2017 (Unaudited) 2016

Cash flows from operating activities

| | | | | | |
|--|--------------|---------|---|--------------|-------|
| Net (loss) income | \$ | (10,122 |) | \$ | 2,737 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | | | |
| Income from discontinued operations, net | - | | | (34 |) |
| Depreciation and amortization expense | 1,562 | | | 1,560 | |
| Goodwill impairment | 12,371 | | | - | |
| Amortization of deferred finance costs | 193 | | | 205 | |
| Stock-based compensation | 3,184 | | | 4,727 | |
| Allowance for doubtful accounts | 13 | | | - | |
| Amortization of note discount | 38 | | | 245 | |
| Deferred income tax | (526 |) | | 168 | |
| Non-cash property exit charge | - | | | 648 | |
| Gain on reduction of contingent obligation | - | | | (3,409 |) |
| Changes in operating assets and liabilities: | | | | | |
| Accounts receivable | (1,572 |) | | 625 | |
| Prepaid expenses and other assets | 4 | | | (131 |) |
| Accounts payable, accrued expenses and other current liabilities | (524 |) | | 258 | |
| Deferred revenue | (218 |) | | (363 |) |
| Other liabilities | 274 | | | 680 | |
| Net cash provided by operating activities | 4,677 | | | 7,916 | |

Cash flows from investing activities

| | | | | | |
|---|-------------|----------|--|---------------|----------|
| Cost to acquire intangible assets | (30 |) | | (26 |) |
| Security deposit received related to sublease of former office | - | | | 400 | |
| Investment in unconsolidated affiliate | - | | | (100 |) |
| Disbursement for loan made in exchange for promissory note receivable | - | | | (877 |) |
| Purchase of property and equipment | (208 |) | | (2,160 |) |
| Net cash used in investing activities | (238 |) | | (2,763 |) |

Cash flows from financing activities

| | | | | | |
|--|--------|---|--|--------|---|
| Proceeds from exercise of stock options | - | | | 20 | |
| Shares repurchased including vested restricted stock in exchange for withholding taxes | (1,197 |) | | (1,429 |) |
| Payment of deferred finance costs | (7 |) | | (152 |) |
| Payment of long-term debt | (7,177 |) | | (5,500 |) |
| Payment of QVC earnout obligation | - | | | (425 |) |

| | | | | |
|---|-----------|---|-----------|---|
| Net cash used in financing activities | (8,381 |) | (7,486 |) |
| Net decrease in cash, cash equivalents and restricted cash | (3,942 |) | (2,333 |) |
| Cash, cash equivalents, and restricted cash at beginning of year | 15,636 | | 17,969 | |
| Cash, cash equivalents, and restricted cash at end of year | \$ 11,694 | | \$ 15,636 | |
| Reconciliation to amounts on consolidated balance sheets: | | | | |
| Cash and cash equivalents | \$ 10,185 | | \$ 14,127 | |
| Restricted cash | 1,509 | | 1,509 | |
| Total cash, cash equivalents, and restricted cash | \$ 11,694 | | \$ 15,636 | |
| Supplemental disclosure of non-cash activities: | | | | |
| Financing of certain insurance obligations | \$ - | | \$ 294 | |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for income taxes | \$ 167 | | \$ 230 | |
| Cash paid during the period for interest | \$ 1,253 | | \$ 1,256 | |

Xcel Brands, Inc. and Subsidiaries

Reconciliation of Non-GAAP measures (Unaudited)

Non-GAAP net income:

| (amounts in thousands) | Quarter Ended December 31, | | Year Ended December 31, | | |
|---|----------------------------|------------|-------------------------|------------|---|
| | 2017 | 2016 | 2017 | 2016 | |
| Net (loss) income | \$ (10,188 |) \$ 2,754 | \$ (10,122 |) \$ 2,737 | |
| Goodwill impairment | 12,371 | - | 12,371 | - | |
| Non-cash interest and finance expense | 10 | 9 | 38 | 245 | |
| Stock-based compensation | 688 | 973 | 3,184 | 4,727 | |
| Gain on reduction of contingent obligations | - | (3,409 |) | (3,409 |) |
| Non-recurring facility exit charges | - | - | - | 670 | |
| Deferred income tax (benefit) provision | (2,230 |) | 171 | (526 |) |
| Income from discontinued operations, net | - | (34 |) | (34 |) |
| Non-GAAP net income | \$ 651 | \$ 464 | \$ 4,945 | \$ 5,104 | |

Non-GAAP diluted EPS:

| | Quarter Ended December 31, | | Year Ended December 31, | | |
|---|----------------------------|-----------|-------------------------|-----------|---|
| | 2017 | 2016 | 2017 | 2016 | |
| Diluted (loss) earnings per share | \$ (0.54 |) \$ 0.14 | \$ (0.54 |) \$ 0.14 | |
| Goodwill impairment | 0.66 | - | 0.66 | - | |
| Non-cash interest and finance expense | 0.00 | 0.00 | 0.00 | 0.01 | |
| Stock-based compensation | 0.04 | 0.05 | 0.17 | 0.25 | |
| Gain on reduction of contingent obligations | - | (0.18 |) | (0.18 |) |
| Non-recurring facility exit charges | - | - | - | 0.04 | |
| Deferred income tax (benefit) provision | (0.12 |) | 0.01 | (0.03 |) |
| Income from discontinued operations, net | - | (0.00 |) | (0.00 |) |
| Non-GAAP diluted EPS | \$ 0.04 | \$ 0.02 | \$ 0.26 | \$ 0.27 | |

Weighted average shares - Non-GAAP diluted:

| | Quarter Ended December 31, | | Year Ended December 31, | |
|------------------------------------|----------------------------|------------|-------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Basic weighted average shares | 18,416,683 | 18,673,760 | 18,502,158 | 18,625,670 |
| Effect of exercising warrants | 364,084 | 364,631 | 364,209 | 414,131 |
| Effect of exercising stock options | - | 4,224 | 805 | 4,948 |

| | | | | |
|--|------------|------------|------------|------------|
| Non-GAAP weighted average diluted shares | 18,780,767 | 19,042,615 | 18,867,172 | 19,044,749 |
|--|------------|------------|------------|------------|

Adjusted EBITDA:

| (amounts in thousands) | Quarter Ended December 31, | | Year Ended December 31, | |
|---|----------------------------|----------|-------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net (loss) income | \$ (10,188) | \$ 2,754 | \$ (10,122) | \$ 2,737 |
| Goodwill impairment | 12,371 | - | 12,371 | - |
| Depreciation and amortization | 389 | 388 | 1,562 | 1,560 |
| Interest and finance expense | 307 | 421 | 1,347 | 1,848 |
| Income tax (benefit) provision | (2,151) | 318 | (447) | 315 |
| State and local franchise taxes | 26 | 27 | 107 | 102 |
| Stock-based compensation | 688 | 973 | 3,184 | 4,727 |
| Gain on reduction of contingent obligations | - | (3,409) | - | (3,409) |
| Non-recurring facility exit charges | - | - | - | 670 |
| Income from discontinued operations, net | - | (34) | - | (34) |
| Adjusted EBITDA | \$ 1,442 | \$ 1,438 | \$ 8,002 | \$ 8,516 |

Non-GAAP net income and non-GAAP diluted EPS are non-GAAP unaudited terms. We define non-GAAP net income as net income, exclusive of stock-based compensation, non-cash interest expense from discounted debt related to acquired assets, gain on the reduction of contingent obligations, loss on extinguishment of debt, non-recurring facility exit charges, certain discrete tax items related to vesting or exercise of stock-based awards, and net income or loss from discontinued operations. Non-GAAP net income and non-GAAP diluted EPS measures do not include the tax effect of the aforementioned adjusting items, due to the nature of these items and the Company's tax strategy.

Adjusted EBITDA is a non-GAAP unaudited measure, which we define as net income before stock-based compensation, interest and other financing costs, loss on extinguishment of debt, gain on the reduction of contingent obligations, income taxes, other state and local franchise taxes, depreciation and amortization, non-recurring facility exit charges, and net income or loss from discontinued operations.

Management uses non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA as measures of operating performance to assist in comparing performance from period to period on a consistent basis and to identify business trends relating to our results of operations. Management believes non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA are also useful because they provide supplemental information to assist investors in evaluating our financial results. Non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA should not be considered in isolation or as alternatives to net income, earnings per share, or any other measure of financial performance calculated and presented in accordance with GAAP. Given that non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA are financial measures not deemed to be in accordance with GAAP and are susceptible to varying calculations, our non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA may not be comparable to similarly titled measures of other companies, including companies in our industry, because other companies may calculate non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA in a different manner than we calculate these measures. In evaluating non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA, you should be aware that in the future we may or may not incur expenses similar to some of the adjustments in this document. Our presentation of non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA does not imply that our future results will be unaffected by these expenses or any unusual or non-recurring items. When evaluating our performance, you should consider non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA alongside other financial performance measures, including our net income and other GAAP results, and not rely on any single financial measure.

 [Primary Logo](#)

Source: Xcel Brands, Inc