



Xcel Brands, Inc. Announces Third Quarter and First Nine Months of 2019 Results

November 13, 2019 at 4:05 PM EST

- **Nine Month Net Revenues of \$30.4 Million, up 19% from the Prior Year Period**
- **Nine Month GAAP Net Income of \$1.9 million, Diluted EPS of \$0.10**
- **Nine Month Non-GAAP Diluted EPS of \$0.20, Adjusted EBITDA \$5.6 million**

NEW YORK, Nov. 13, 2019 (GLOBE NEWSWIRE) -- Xcel Brands, Inc. (NASDAQ: XELB) ("Xcel" or the "Company"), a media and consumer products company, today announced its financial results for the third quarter and nine months ended September 30, 2019.

Robert W. D'Loren, Chairman and Chief Executive Officer of Xcel commented, "We continue to grow our top-line revenue driven by improvements made in our products. Although our third quarter results were not in line with our expectations, we expect to achieve our financial goals for the full year. Overall, I am pleased with our product direction and operating results".

Third Quarter 2019 Financial Results

Net revenue increased to \$10.9 million, a net increase of approximately \$2.7 million, or 32% over the prior year quarter, primarily driven by sales from the apparel and jewelry wholesale and e-commerce operations. Gross profit remained flat at approximately \$8.0 million for the current and the prior year quarters.

GAAP net loss was approximately (\$0.1) million, or (\$0.01), per share, compared with a GAAP net income of \$1.0 million, or \$0.05 per share, for the prior year quarter. After adjusting for certain cash and non-cash items, non-GAAP net income for the current quarter and prior year quarter was approximately \$1.2 million or \$0.06 per diluted share, and approximately \$1.9 million or \$0.10 per diluted share, respectively. Adjusted EBITDA was approximately \$1.8 million, compared with approximately \$2.3 million in the prior year quarter.

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.

First Nine Months of Fiscal 2019 Financial Results

Net revenue increased to \$30.4 million, a net increase of approximately \$4.9 million, or 19% over the prior year nine-month period, primarily driven by sales from the apparel and jewelry wholesale and e-commerce operations. Gross profit decreased \$1.1 million to \$23.8 million from \$24.9 million in the prior year nine months, primarily attributable to lower net licensing revenue.

GAAP net income was approximately \$1.9 million for the nine months ended September 30, 2019, or \$0.10 per diluted share, an increase of \$0.5 million, or \$0.03 per diluted share from the prior year nine months, representing an increase of approximately 38% in GAAP net income and earnings per share from the prior year period. After adjusting for certain cash and non-cash items, non-GAAP net income for the nine months ended September 30, 2019 was approximately \$3.8 million, or \$0.20 per diluted share, compared with \$5.3 million, or \$0.29 per diluted share in the prior year nine months.

Adjusted EBITDA for the nine months ended September 30, 2019 was approximately \$5.6 million, a decrease of \$1.1 million from the prior year 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 September 30, 2019 remained strong, with stockholders' equity of approximately \$103 million, cash and cash equivalents of approximately \$5.9 million, and working capital, exclusive of current portion of operating lease liability, of approximately \$8.7 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 5:00 p.m. Eastern Time on Wednesday, November 13, 2019. 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 1-855-327-6837. A replay of the conference call will be available on the Company website for 14 days following the event and can be accessed at 844-512-2921 using replay pin number 10007966.

About Xcel Brands

Xcel Brands, Inc. (NASDAQ:XELB) is a media and consumer products company engaged in the design, production, marketing, wholesale, 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. The

Company owns and manages the Isaac Mizrahi brands (the "Isaac Mizrahi Brand"), the Judith Ripka brands (the "Ripka Brand"), the Halston brands ("Halston Brand"), the C Wonder brands (the "C Wonder Brand"), and other proprietary brands, pioneering a ubiquitous sales strategy which includes the promotion and sales of products under its brands through interactive television, internet, brick-and-mortar retail, and e-commerce channels. Headquartered in New York City, Xcel 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 product companies. With an experienced team of 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. 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, 2018 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)

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,890	\$ 8,837
Accounts receivable, net	9,972	11,010
Inventory	2,075	1,988
Prepaid expenses and other current assets	1,293	2,040
Total current assets	19,230	23,875
Property and equipment, net	3,613	3,202
Operating lease right-of-use assets	9,583	-
Trademarks and other intangibles, net	117,347	108,989
Restricted cash	1,109	1,482
Other assets	571	511
Total non-current assets	132,223	114,184
Total Assets	\$ 151,453	\$ 138,059
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 4,527	\$ 5,140
Accrued payroll	1,232	2,011
Current portion of accrued rent liability	-	690
Current portion of operating lease obligation	1,732	-
Current portion of long-term debt	4,750	5,325
Current portion of long-term debt, contingent obligations	-	2,950
Total current liabilities	12,241	16,116
Long-Term Liabilities:		
Long-term portion of accrued rent liability	-	2,202
Long-term portion of operating lease obligation	10,221	-

Long-term debt, less current portion	15,939	11,300
Deferred tax liabilities, net	9,419	8,139
Other long-term liabilities	224	420
Total long-term liabilities	35,803	22,061
Total Liabilities	48,044	38,177

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 shares authorized at September 30, 2019 and December 31, 2018, respectively, and 18,958,247 and 18,138,616 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	19	18
Paid-in capital	101,739	100,097
Retained earnings (accumulated deficit)	1,651	(233)
Total Stockholders' Equity	103,409	99,882

Total Liabilities and Stockholders' Equity	\$ 151,453	\$ 138,059
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Xcel Brands, Inc. and Subsidiaries

Unaudited Condensed Consolidated Statements of Operations (in thousands, except share and per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues				
Net licensing revenue	\$ 6,428	\$ 7,823	\$ 21,094	\$ 24,445
Net sales	4,504	444	9,277	1,075
Net revenue	10,932	8,267	30,371	25,520
Cost of goods sold (sales)	2,950	231	6,549	640
Gross Profit	7,982	8,036	23,822	24,880
Operating costs and expenses				
Salaries, benefits and employment taxes	4,045	3,815	12,038	12,361
Other design and marketing costs	797	639	2,352	2,194
Other selling, general and administrative expenses	1,356	1,281	4,014	3,691
Costs in connection with potential acquisition	126	-	231	-
Stock-based compensation	295	447	777	1,415
Depreciation and amortization	991	456	2,939	1,323
Total operating costs and expenses	7,610	6,638	22,351	20,984
Other Income				
Gain on reduction of contingent obligation	-	-	2,850	-
Total other income	-	-	2,850	-
Operating income	372	1,398	4,321	3,896
Interest and finance expense				
Interest expense - term debt	317	224	907	706
Other interest and finance charges	13	34	61	104
Loss on extinguishment of debt	-	-	189	-
Total interest and finance expense	330	258	1,157	810
Income before income taxes	42	1,140	3,164	3,086
Income tax provision	137	158	1,280	1,717
Net (loss) income	\$ (95)	\$ 982	\$ 1,884	\$ 1,369

Basic net (loss) income per share:	\$ (0.01	) \$ 0.05	\$ 0.10	\$ 0.07
Diluted net (loss) income per share:	\$ (0.01	) \$ 0.05	\$ 0.10	\$ 0.07
Basic weighted average common shares outstanding	18,975,265	18,266,202	18,839,424	18,304,608
Diluted weighted average common shares outstanding	18,975,265	18,267,043	18,840,149	18,310,654

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

For the Nine Months Ended September 30,
2019 **2018**

Cash flows from operating activities

Net income	\$	1,884		\$	1,369	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization expense		2,939			1,323	
Amortization of deferred finance costs		114			129	
Stock-based compensation		777			1,415	
Amortization of note discount		16			31	
Allowance for doubtful accounts		(144	)		-	
Loss on extinguishment of debt		189			-	
Deferred income tax provision		1,280			1,717	
Gain on reduction of contingent obligation		(2,850	)		-	
Changes in operating assets and liabilities:						
Accounts receivable		1,182			(1,112	)
Inventory		(87	)		(924	)
Prepaid expenses and other assets		(14	)		(51	)
Accounts payable, accrued expenses and other current liabilities		(1,744	)		964	
Cash paid in excess of rent expense		(337	)		-	
Other liabilities		(196	)		(148	)
Net cash provided by operating activities		3,009			4,713	

Cash flows from investing activities

Cash consideration for acquisition of Halston Heritage assets		(8,830	)		-	
Purchase of property and equipment		(918	)		(1,099	)
Net cash used in investing activities		(9,748	)		(1,099	)

Cash flows from financing activities

Shares repurchased including vested restricted stock in exchange for withholding taxes		(24	)		(702	)
Payment of deferred finance costs		(315	)		-	
Proceeds from long-term debt		7,500			-	
Payment of long-term debt		(3,742	)		(4,459	)
Net cash provided by (used in) financing activities		3,419			(5,161	)

Net decrease in cash, cash equivalents, and restricted cash

		(3,320	)		(1,547	)
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Cash, cash equivalents, and restricted cash at beginning of period		10,319			11,694	
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Cash, cash equivalents, and restricted cash at end of period	\$	6,999		\$	10,147	
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Reconciliation to amounts on consolidated balance sheets:

Cash and cash equivalents	\$	5,890		\$	8,638	
Restricted cash		1,109			1,509	
Total cash, cash equivalents, and restricted cash	\$	6,999		\$	10,147	

Supplemental disclosure of non-cash activities:

Operating lease right-of-use asset	\$ 10,409	\$ -
Operating lease obligation	\$ 13,210	\$ -
Accrued rent offset to operating lease right-of-use assets	\$ 2,801	\$ -
Settlement of seller note through offset to receivable	\$ 600	\$ -
Settlement of contingent obligation through offset to note receivable	\$ 100	\$ 100
Issuance of common stock in connection with Halston Heritage assets acquisition	\$ 1,058	\$ -
Contingent obligation related to acquisition of Halston Heritage assets at fair value	\$ 900	\$ -
Liability for equity-based bonuses	\$ 168	\$ (345)

Supplemental disclosure of cash flow information:

Cash paid during the period for income taxes	\$ 91	\$ 258
Cash paid during the period for interest	\$ 1,108	\$ 754

The following table is a reconciliation of net income (loss) (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP net income:

(\$ in thousands)	Three Months Ended September 30,	
	2019 (Unaudited)	2018 (Unaudited)
Net income (loss)	\$ (95)	\$ 982
Amortization of trademarks	786	257
Non-cash interest and finance expense	—	11
Stock-based compensation	295	447
Costs in connection with potential acquisition	126	—
Deferred income tax provision	137	158
Non-GAAP net income	\$ 1,249	\$ 1,855

The following table is a reconciliation of diluted earnings (loss) per share (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP diluted EPS:

	Three Months Ended September 30,	
	2019 (Unaudited)	2018 (Unaudited)
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.05
Amortization of trademarks	0.04	0.01
Non-cash interest and finance expense	—	—
Stock-based compensation	0.01	0.03
Costs in connection with potential acquisition	0.01	—
Deferred income tax provision	0.01	0.01
Non-GAAP diluted EPS	\$ 0.06	\$ 0.10
Non-GAAP weighted average diluted shares	19,559,816	18,267,043

The following table is a reconciliation of net income (loss) (our most directly comparable financial measure presented in accordance with GAAP) to Adjusted EBITDA:

(\$ in thousands)	Three Months Ended September 30,	
	2019 (Unaudited)	2018 (Unaudited)
Net income	\$ (95)	\$ 982
Depreciation and amortization	991	456
Interest and finance expense	330	258
Income tax provision	137	158
State and local franchise taxes	38	33
Costs in connection with potential acquisition	126	—
Stock-based compensation	295	447
Adjusted EBITDA	\$ 1,822	\$ 2,334

The following table is a reconciliation of net income (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP net income:

(\$ in thousands)	Nine Months Ended	
	September 30, 2019 (Unaudited)	2018 (Unaudited)
Net income	\$ 1,884	\$ 1,369
Amortization of trademarks	2,309	772
Non-cash interest and finance expense	16	31
Stock-based compensation	777	1,415
Loss on extinguishment of debt	189	—
Gain on reduction of contingent obligation	(2,850)	—
Costs in connection with potential acquisition	231	—
Deferred income tax provision	1,280	1,717
Non-GAAP net income	\$ 3,836	\$ 5,304

The following table is a reconciliation of diluted earnings per share (our most directly comparable financial measure presented in accordance with GAAP) to non-GAAP diluted EPS:

	Nine Months Ended	
	September 30, 2019 (Unaudited)	2018 (Unaudited)
Diluted earnings per share	\$ 0.10	\$ 0.07
Amortization of trademarks	0.12	0.04
Non-cash interest and finance expense	—	—
Stock-based compensation	0.04	0.08
Loss on extinguishment of debt	0.01	—
Gain on reduction of contingent obligation	(0.15)	—
Costs in connection with potential acquisition	0.01	—
Deferred income tax provision	0.07	0.10
Non-GAAP diluted EPS	\$ 0.20	\$ 0.29
Non-GAAP weighted average diluted shares	18,840,149	18,310,654

The following table is a reconciliation of net income (our most directly comparable financial measure presented in accordance with GAAP) to Adjusted EBITDA:

(\$ in thousands)	Nine Months Ended	
	September 30, 2019 (Unaudited)	2018 (Unaudited)
Net income	\$ 1,884	\$ 1,369
Depreciation and amortization	2,939	1,323
Interest and finance expense	968	810
Income tax provision	1,280	1,717
State and local franchise taxes	159	80
Costs in connection with potential acquisition	231	—
Stock-based compensation	777	1,415
Loss on extinguishment of debt	189	—
Gain on reduction of contingent obligation	(2,850)	—
Adjusted EBITDA	\$ 5,577	\$ 6,714

Non-GAAP net income and non-GAAP diluted EPS are non-GAAP unaudited terms. We define non-GAAP net income, exclusive of amortization of trademarks, stock-based compensation, non-cash interest and finance expense from discounted debt related to acquired assets, loss on extinguishment of debt, gain on the reduction of contingent obligations, costs in connection with potential acquisitions and deferred tax provision. 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. Prior to 2019, the Company did not adjust non-GAAP net income and non-GAAP EPS for the amortization of trademarks or costs in connection with potential acquisitions.

Adjusted EBITDA is a non-GAAP unaudited measure, which we define as net income before stock-based compensation, costs in connection with potential acquisitions, interest and finance expense, loss on extinguishment of debt, gain on the reduction of contingent obligations, income taxes,

other state and local franchise taxes, and depreciation and amortization. Prior to 2019, the Company did not adjust non-GAAP net income and non-GAAP EPS for the amortization of trademarks or costs in connection with potential acquisitions.

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.



Source: Xcel Brands, Inc