XCEL BRANDS, INC.

FOURTH QUARTER AND FULL YEAR 2015 EARNINGS CONFERENCE CALL

MARCH 15, 2016

CORPORATE PARTICIPANTS

Robert D'Loren, *Chairman, Chief Executive Officer*

James Haran, *Chief Financial Officer*

Seth Burroughs, *Executive Vice President, Business Development and Treasury*

Hunter Wells, *ICR Investor Relations*

CONFERENCE CALL PARTICIPANTS

Eric Beder, *Wunderlich Securities*

Liz Pierce, *Brean Capital*

PRESENTATION

Operator:

Good day and welcome to the Xcel Brands Fourth Quarter and Full Year 2015 Earnings conference call. Please be advised that reproduction of this call in whole or in part is not permitted without prior written authorization of Xcel Brands, and as a reminder, this conference call is being recorded.

I would now like to turn the conference over to Hunter Wells of ICR. Thank you, Hunter, you may now begin.

Hunter Wells:

Thank you, Operator. Good afternoon everyone and thank you for joining us. We appreciate your participation and interest. With us on the call today are Chairman and Chief Executive Officer, Robert D'Loren; Chief Financial Officer, Jim Haran; and EVP of Business Development and Treasury, Seth Burroughs.

By now, everyone should have access to the earnings release for the fourth quarter and full year ended December 31, 2015, which went out today at approximately 4:05 pm Eastern time, and in addition, the Company shall file with the Securities and Exchange Commission its Annual Report on Form 10-K for the year ended December 31, 2015 no later than March 30, 2016. The release and the Annual Report shall be available on the Company's website at www.xcelbrands.com. This call is being webcast and a replay will be available on the Company's Investor Relations website.

Before we begin, please keep in mind that this call will contain forward-looking statements. All forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from certain expectations discussed here today. These risk factors are explained in detail in the Company's SEC filings. Xcel does not undertake any obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

Finally, please note that on today's call, Management will refer to certain non-GAAP financial measures such as non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA. The Company uses these non-GAAP metrics 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 the Company's results of operations. The Company believes these financial performance measurements are also useful because they provide supplemental information to assist investors in evaluating the Company's financial results. These should not be considered in isolation or as an alternative to net income, earnings per share, or any other measure of financial performance calculated and presented in accordance with US GAAP. You may refer to the attachment to the Company's earnings release or to Item 7 in the Form 10-K for a reconciliation of non-GAAP measures.

Now, I'm pleased to introduce Robert D'Loren, Chairman and Chief Executive Officer. Bob, please go ahead.

Robert D'Loren:

Thank you, Hunter, and good evening everyone, and thank you for joining us on today's call. I'm going to begin tonight's call with an overview of our business performance in fiscal '15 and provide some thoughts on our future outlook, then Jim Haran, our CFO will discuss our financial results in more detail. Finally, Jim, Seth and I will open up the line for Q&A.

So I'll kick this off by saying 2015 was a year of significant milestones and great achievements for Xcel Brands. The successful execution of our key initiatives across our multi-brand portfolio and omnichannel distribution platform contributed to our strong financial results. Jim will cover our financial results in more detail, but I'm proud to say that in fiscal '15, we achieved double-digit revenue growth of 34%, up approximately $7 million to $27.7 million compared to last year. We also achieved an increase in EBITDA. Adjusted EBITDA increased 33%, up $2.3 million to the end of the year at $9.3 million, and our non-GAAP net income increased 21% compared to the prior year. These results were on track with plan and demonstrate our ability to successfully execute on our key initiatives, strengthen our business, generate improved financial performance, and better position Xcel for long-term growth and increased shareholder value.

Now I'd like to briefly highlight some of our recent notable achievements. First, as many of you are aware, in 2015 we began our first day of trading on the NASDAQ Global Market and completed a public offering in which we raised $16 million. This was an important milestone for Xcel which, in addition to moving to the national stock exchange, strengthened our balance sheet and positioned us for future growth.

Second, earlier this month, we also announced the refinancing of our senior credit facility with Bank Hapoalim. We believe the new facility, which provides for simplified terms, amortization relief, a fixed five-year interest rate of just over 5%, the ability to issue dividends and increased flexibility will provide us with a long-term financing solution as we continue to grow our business and execute on future initiatives.

Third, in July of last year, we announced the completed acquisition of the C. Wonder brand. We appointed fashion celebrity Brad Goreski as the Creative Director and our on-air personality at QVC. Brad, as some of you know, is a well-known celebrity stylist with a highly relevant voice in fashion. I'm happy to report that we launched C. Wonder on QVC on March 3 of this year with impressive results. We plan to launch this brand in Italy, the UK, France and Germany with QVC this year.

Fourth, in September of 2015, we launched our H by Halston brand on QVC, which we acquired in December of 2014. We could not have been more pleased with the initial performance of the brand, which exceeded our expectations. After a successful launch in the United States, QVC further expanded the H by Halston brand to the United Kingdom, and we expect to launch the brand in ’16 on additional international networks, including Germany, Italy and France. We could not be more excited for our investments in the H by Halston and C. Wonder brands, which we believe will contribute positively to our earnings in 2016.

Finally, in September, we announced an innovative alliance with the Hudson’s Bay Company, which owns The Bay, Lord & Taylor, Saks, Saks Off Fifth, Gilt Groupe, Home Outfitters, and Kaufhof in Germany. Under this alliance, we plan to provide HBC with a turnkey 360-degree licensing solution. They have licensed our IMNYC Isaac Mizrahi, H Halston, C. Wonder Limited, and newly created Highline Collective brands, and we are providing our Design and Marketing Teams and the short lead or fast fashion supply chain we’ve developed. The alliance will also give HBC the opportunity for cross-promotion by our influential brand spokespersons across television and social media. Our Team is diligently working on the development of these lines and we plan to launch three of the brands this April in Lord & Taylor in the United States and The Bay in Canada, followed by a fourth in the fall.

Now, in review of each of our channels of distribution, QVC remains an important and strategic partner for us in interactive TV. Our Isaac Mizrahi Live, Judith Ripka, H by Halston and C. Wonder brands continue to perform well, and we believe that we have significant opportunities for growth as new categories are launched and the brands are expanded into QVC’s international markets. We continue to work together with QVC both to grow our existing businesses and to develop new opportunities for our Companies to grow together, and we are excited to be able to further leverage our relationship with QVC through their eCommerce platform, zulily, which we have begun to test in the past few months with positive results.

With respect to our department store or bricks and mortar channel, we are in the early stages of our partnership with HBC but are optimistic about the alliance’s success and excited to be working with a retailer as innovative as HBC. The quick time response with short lead time production platform that we’ve developed, coupled with our responsive and reactive design platform and proprietary brands, seeks to address the challenges faced by department stores today, mainly decreasing in-store sales caused by a decline in customer traffic and margin pressures caused by showrooming and long-lead supply chains.

To be clear and not oversimplify this initiative, it has a lot of moving parts and has required us to make significant investments in production and supply chain experts and information technology systems. However, we believe that our platform provides our department store partners, such as HBC, with a virtual vertical model and we intend to grow the business with HBC and leverage the platform across multiple brands and retailers. In short, this platform positions us as an innovator in the retail industry as we seek to grow our brands and business across all channels.

While it is too early to determine if this initiative will contribute to earnings in 2016, we believe that this business is an important step in the right direction for our industry and presents significant upside potential for us in 2017 and beyond. Finally, our specialty retail chain distribution continues to grow under retailers like Michaels and 1-800-FLOWERS. We expect to continue to grow this channel of distribution with all of our brands.

Finally, we will continue to pursue new brand acquisitions that fit within our current portfolio, allow us to leverage our current product development platforms and channels of distribution, and provide meaningful growth potential and expansion to our bottom line. In closing, it is only fair for me to say that our impressive achievements in 2015 could not have been achieved without the hard work and dedication of our entire Team. We are confident in our future opportunities for growth and believe we have the right Team in place to execute on our strategic plan.

Now, I'd like to turn the call over to Jim to review our financial results for the fourth quarter and the full year. Jim?

James Haran:

Thanks, Bob. I will briefly discuss selected financial results of our fourth quarter and for the year ended December 31, 2015. Please note that our financial results are described more fully in our Annual Report on Form 10-K, which will be filed by March 30.

In the fourth quarter, revenues increased by 31% to $7.5 million compared with $5.7 million in the prior year quarter. The increased revenues were primarily driven by an increase in licensing revenues attributable to our recent acquisitions and our organic growth of our existing brands. Net income for the quarter was $768,000 compared with a net loss of $552,000 for the prior year quarter. Non-GAAP net income for the quarter was $2.1 million or non-GAAP diluted EPS of $0.10 based on approximately 19.4 million weighted average shares outstanding. This compares to non-GAAP net income of $1 million or non-GAAP diluted EPS of $0.07 based on approximately 13.3 million weighted average shares outstanding for the prior year quarter. Adjusted EBITDA in the fourth quarter was approximately $3 million or more than double the prior year quarter's Adjusted EBITDA of $1.3 million.

Turning now to our results for the full year, total revenues increased by 34% to $27.7 million compared with $20.7 million in the prior year. This was primarily driven by increased licensing revenues as a result of our acquisitions of the Halston and C. Wonder brands and full-year revenues for the Judith Ripka brand. We also continued to experience organic growth in the Isaac Mizrahi brand.

Net income for the year was $2.6 million compared with a net loss of $1 million for the prior year. Non-GAAP net income for the year was $6.3 million or non-GAAP diluted EPS of $0.36 based on approximately 17.2 million weighted average shares outstanding. This compares to non-GAAP net income of $5.2 million or non-GAAP diluted EPS of $0.40 based on approximately 12.8 million weighted average shares outstanding for the prior year. Adjusted EBITDA for the year was approximately $9.3 million, up 33% from the prior year's Adjusted EBITDA of $7 million.

As a reminder, non-GAAP net income, non-GAAP diluted EPS, and Adjusted EBITDA are non-GAAP unaudited terms. Our Annual Report on Form 10-K, Item 7, presents a reconciliation of these items with the most directly comparable GAAP measures.

Now turning to our cash position, as of December 31, 2015, the Company had total cash and cash equivalents of approximately $16.9 million compared with total cash of $8.5 million at December 31, 2014. The $8.3 million increase in cash was primarily attributable to $16.1 million in net proceeds from our public equity offering and cash provided from continuing operations of $3.2 million. This was partially offset by $3.3 million of term debt payments, $2.2 million in payments related to the acquisition of the Ripka brand, $3.6 million cash portion of the C. Wonder brand acquisition, $1.1 million in restricted cash for security for our new property lease, and $0.5 million for fixed asset purchases.

Looking at our debt, at December 31, 2015, total liabilities were $52 million, which includes $41 million of debt and $6.7 million of deferred cash liability. Debt consists of bank term debt of $28.7 million and seller notes and contingent obligations of $12.3 million, which $11 million is payable in stock or cash at the Company's option. As of December 31, 2015, total current liabilities amounted to $13.1 million, of which $9.2 million represents the current portions of debt obligations just mentioned.

Our adjusted working capital ratio, which excludes a $4 million seller note payable in stock, was 2.8 to 1 at the end of 2015 compared with 1.4 to 1 at the end of 2014. With approximately $17 million of cash and approximately $20 million of senior term debt, we are positioned with one of the lowest leverage ratios of any of our peers.

With that, I would like to turn the call back over to Bob for his closing remarks. Bob?

Robert D'Loren:

Thank you, Jim. Ladies and gentlemen, as a Company, our vision is to re-imagine shopping, entertainment and social as one, and our mission is to design great products. But today, there is more to it than just great product. We operate in an increasingly competitive marketplace where control of our margins has shifted from retailers to consumers. Today's customers want not only high quality, good value products, but they want them when they first see them and in increasingly shorter production cycles. Fifty-two seasons are now upon us. Xcel's unique business model enables us to deliver the right brands, the best products, the most engaging media content, and significantly reduced production times. All of this enables our retail partners to succeed in an increasingly competitive environment.

Today, we have a strong foundation as an innovative Company. Although 2016 is both a transformative and in some respects a transitional year, our current investments in brands, people and processes will position us strongly to achieve continued growth in 2016 and beyond. We are confident that we will achieve improved top line growth across our core brands, expanded profitability, and in turn, further increase long-term value for our shareholders.

That concludes our prepared remarks. Jim, Seth and I will now open up the call for questions. Operator?

Operator:

Thank you. If you'd like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, that's star, one for questions.

We have a question from Mr. Eric Beder with Wunderlich Securities.

Eric Beder:

Good afternoon. Congratulations on a solid end to the year.

Robert D'Loren:

Thank you, Eric.

Eric Beder:

Could you talk a little bit about the international expansion with QVC? What are the implications in that in terms of profitability for the firm and can you leverage that, and do you use—when you do that, do you use the same representatives, and how does that work basically?

Robert D'Loren:

In terms of our celebrities, Eric, it would be extremely difficult for us to fly, for instance, Isaac, to eight different countries to broadcast shows through all of the QVC network, so what we've done is we have recruited and trained hosts in each of QVC's network affiliates around the world, and then what we do in terms of assisting them in merchandising and styling shows is we provide style guides for each buy that they make, so that's how we've set up the global expansion throughout the world with QVC.

Seth Burroughs:

Yes, and Eric, this is Seth. I would add to that, so today internationally with QVC, we are working very closely with them to expand our brands. We're one of a select few companies that they've selected to take global through their global network, so as we've discussed in the past, they operate or have in the past operated each global network as a separate company. Now, they're operating as one unified company, and today we have our brands in the UK, Italy, France, Germany and Japan. QVC also has a division in China, and as QVC expands, they're looking to expand our brands. In fact, for C. Wonder, we launched in the United States this month. We will be in three of their European countries by the end of the month, which is actually a first for QVC.

So as far as the revenue potential for these businesses, we're working very closely with QVC. Each country has a different revenue potential based on their audience, but we're working to really maximize these local businesses and drive the businesses along with QVC.

Robert D'Loren:

Just I'll add one other thing to that, Eric. It's a little difficult really to assess exactly what the potential will be because we're just starting, but that said, approximately half of QVC's revenues are global.

Eric Beder:

Yes, that sounds like a big thing. Could you talk a little bit about how the core Isaac business is doing? I know that he's got a big retrospective happening right now. How is the Isaac business doing, and where do you see that going forward?

Robert D'Loren:

The Isaac business is doing very well at QVC. It's growing organically at a very strong organic growth rate. We are launching Isaac in The Hudson's Bay in April, and that will be launching in 150 doors, so we see significant continued growth with the Isaac brand. Isaac continues to resonate with the Michaels customer as well as 1-800-FLOWERS, and we're working on additional opportunities for Isaac in categories like furniture and home improvement.

Eric Beder:

In terms of the Hudson's Bay piece, what—could you talk a little bit about—I know you talked about how you've set it up. Could you talk about what we're going to see when it rolls out in terms of how Hudson's Bay is going to promote this and how is it going to be kind of different and unique on the Hudson's Bay store?

Robert D'Loren:

Well first, each of our brands will have dedicated shops within the Hudson's Bay stores and within Lord & Taylor. The shops will be unique in that the fixturing is different colors and of course will include brand signage. I would say that given the size of the shops and the product assortments, we will have a very good presence on their retail floors.

Eric Beder:

Okay, and finally—

Robert D'Loren:

To answer the question about marketing, Hudson's Bay is fully behind the marketing of the brand. These brands will be proprietary to them, and we will be going out with what you would typically see in marketing, including direct mail, catalogs, email blasts, social media efforts. There will be QVC cross-promotes, so that's the plan for marketing.

Seth Burroughs:

I think, Eric, if I could just add from a collection standpoint, again this business model is really meant to address some of the challenges faced by department stores, so from a collection standpoint, what we believe is revolutionary on this is that not only are we reacting to trends, so bringing designs into the collection with short lead time production that's on trend, but we're also reacting to customer demand. So where previously the department store would buy for a season and have shipments coming throughout the season, there is actually a quick time response component to this where our Design Teams and Hudson Bay's buyers are actually responding to customer demand. So not only will we have signage (phon) to different marketing but we believe in this environment where a lot of brands and a lot of stores are a little bit scared to try new things under their brands, we actually believe this will bring a little bit of freshness to the collection at Hudson's Bay.

Robert D'Loren:

The key, Eric, to the short lead component of this is to increase customer engagement through deliveries, frequent deliveries of product into the store in small batches, with the overall goal to improve full price sell-through.

Eric Beder:

Final question—the M&A market, you guys have a lot on your plate right now, a lot going on. What are you thinking about in terms of the M&A market, and what are you seeing in terms of valuations for product? It seems like you probably have—I'm not sure you need to do another deal this year, but how are you looking at it into 2016?

Robert D'Loren:

I think our view on acquisitions, Eric, continues to be the same as it has been in the past. We look for opportunities that are, first, strategic to us in one of the channels that we currently do business in, and that really means that if we identify a white space in, say, QVC or Hudson's Bay, then we're going to seek a brand acquisition opportunity to fill that white space. I would say the pace of acquisitions, we anticipate will be consistent with what we've done in the past. We're not as acquisitive as some of our competitors, but that said, we have acquired brands just about every year since we started the business.

Eric Beder:

Great. Congratulations and good luck in 2016.

Robert D'Loren:

Thank you.

Seth Burroughs:

Thanks Eric.

Operator:

Our next question is from Liz Pierce with Brean Capital.

Liz Pierce:

Thanks, good afternoon. I'll add my congratulations on a nice job to the end of the year. So Bob, to your comment, I think it was your comment about taking this quick time response to other retailers, other channels. Can you just, without perhaps naming names, just give us some insight on the timing and then what would that mean from an infrastructure perspective in terms of having to add more people?

Robert D'Loren:

So there's two parts to the answer. The first part is to the extent that we bring our existing brands to additional retailers, say by way of example if we were to bring Halston, Isaac, C. Wonder or Highline to Dillard's, there is not a lot of additional overhead that we would incur in doing that. In fact, that's the inflection point where the business gets very interesting, because we're scaling—scaling particularly on the production side.

Where we will add more overhead, whether it be through additional sourcing people or design people or technical designers, is if and when we develop or acquire brands and bring them to other retailers like Bloomingdale's or Macy's. If we go out and make an acquisition of a brand or develop a brand and we're successful at launching it in one of those retailers, then we're adding more designs but probably not a whole lot of additional costs for production and sourcing. So that all becomes very leverageable, and that's the whole idea in building this platform.

Liz Pierce:

Okay, and so is it you can take these other four brands to another retailer, such as Dillard's, in fiscal '16?

Robert D'Loren:

I would say it probably wouldn't happen in fiscal '16. It—we may be able to sign a deal to do it in '16, but it's not likely at this stage that we would be in those doors until spring of '17.

Liz Pierce:

Got it, okay. Then in terms of what you said with QVC and zulily, are they testing—what did they test, if you can share that with us?

Robert D'Loren:

Oh, sure. It was online, and I'm sure if you go to zulily, it's probably not there because it's typically a three-day event on zulily. But we tested some Isaac products, and the tests were very good. We were all very pleased with the results.

Seth Burroughs:

The other test that we did was with C. Wonder. Again, we're doing a lot of firsts with QVC. QVC put a lot of effort into marketing C. Wonder. We had billboards in Times Square, and on the launch, we did a simultaneously—or pre-launch event, sorry, on zulily, so it was a selection of the events for the C. Wonder launch that were posted on zulily, we launched on QVC US, and then as I mentioned, we'll be in four of their European countries by the beginning of April. So it really is a significant initiative for them, and again, we're testing, we're optimizing, but we're excited about leveraging zulily, working with QVC as a partner that they have done across our brands.

Liz Pierce:

It's my understanding that there is very little crossover in the customer base between zulily and QVC, and that was the whole point, right, that QVC buying them?

Robert D'Loren:

That is correct. zulily currently has 5.5 million millennial shoppers, and that's a new audience for QVC. They have a lot of learnings that we are all experiencing with this new customer base, but so far, it looks like we're off to a good start.

Liz Pierce:

Okay. How did—one of the things I wanted to clarify on Isaac in the fourth quarter, I think you mentioned that it had organic growth for the year, but was there actually organic growth in the quarter?

Seth Burroughs:

In the fourth quarter, you mean on a year-over-year basis, Liz?

Liz Pierce:

Yes, for Isaac.

Seth Burroughs:

So on a year-over-year basis, yes, there was.

Liz Pierce:

Okay, and how about Judith, particularly since you've repositioned that website, which looks a lot better?

Seth Burroughs:

Yes, I mean, Judith for the year—so you know, we don't report numbers by brand.

Liz Pierce:

Right.

Seth Burroughs:

But Judith achieved some growth in the bricks business but it was relatively flat for the year overall.

Liz Pierce:

Okay, now some growth for Q4 or some growth for the year, or both?

Seth Burroughs:

For the year.

Liz Pierce:

Okay, and that was in bricks or all over? I'm sorry, I'm confused.

Seth Burroughs:

Overall, overall.

Liz Pierce:

Okay, okay. Then in terms of talking about fiscal '16 as kind of transition-transformation, it does sound like you anticipate that there could be some expense pressure, so I'm just trying to get a better sense of how we should be thinking about that as we build our models for this year.

Robert D'Loren:

I think it's a little early, Liz, and the reason I say that is we don't know how the product is going to retail when it gets on the floors in HBC. So I think we need a couple of months of sell-throughs to get a sense of what actual sales and actual royalties will look like for the year, and I think we'll have more visibility into that after the launch and we get a sense of how the product is retailing in April and May.

Liz Pierce:

Got it. Okay, all right, well that's—no, one other. Can you just talk a little bit more about what Highline is? Is that a private label that you're doing for them?

Robert D'Loren:

It's a brand that we've created for them, and it is—it's just in a different zone within the store. It is really more of a millennial brand with a contemporary point of view. It's a new customer base for us, and we're excited about it. You can think of it as our version of Zara; it is a brand that is built to chase trends as opposed to interpreting trends through the lens of a brand.

Liz Pierce:

Okay, and so price point, would it be comparable to Zara?

Robert D'Loren:

It will be priced slightly above Zara.

Liz Pierce:

Okay. Okay, all right. Thanks, you guys, and best of luck.

Robert D'Loren:

Okay.

Seth Burroughs:

Thanks Liz.

Operator:

As there are no further questions, I'll turn the call back over to Mr. D'Loren.

Robert D'Loren:

Okay, thank you, Operator. Thank you all for your time today. We remain hard at work growing our business and looking forward to sharing our results for the first quarter and the coming months. We greatly appreciate your continued interest and support in Xcel Brands, and lastly, as always, when I sign off on these, stay fit, eat well, and be healthy. Goodnight, ladies and gentlemen.

Operator:

That concludes today's conference call. Thank you for joining.