



Sequential Brands Group Announces Second Quarter 2019 Results

August 9, 2019

NEW YORK, Aug. 09, 2019 (GLOBE NEWSWIRE) -- Sequential Brands Group, Inc. ("Sequential" or the "Company") (Nasdaq:SQBG) today announced financial results for the second quarter ended June 30, 2019.

"Our second quarter results reflect a transformation currently underway at Sequential. The first phase of that transition included the completion of the divestiture of the Martha Stewart and Emeril Lagasse brands which occurred during the quarter. The second phase, which is currently underway, is right sizing our operational cost structure to ensure it is aligned with the current business. We are confident that we are on the right path to best position our business for 2020," said Karen Murray, CEO of Sequential.

Second Quarter 2019 Results from Continuing Operations:

Total revenue from continuing operations for the second quarter ended June 30, 2019 was \$26.4 million, compared to \$33.1 million in the prior year quarter. On a GAAP basis, net loss from continuing operations for the second quarter 2019 was \$(3.3) million or \$(0.05) per diluted share compared to net income from continuing operations for the second quarter 2018 of \$2.2 million or \$0.03 per diluted share. Non-GAAP net loss from continuing operations for the second quarter 2019 was \$(2.6) million, or \$(0.04) per diluted share, compared to non-GAAP net income from continuing operations of \$4.5 million, or \$0.07 per diluted share, in the second quarter 2018. See Non-GAAP Financial Measure Reconciliation tables below for a reconciliation of GAAP to non-GAAP measures. Adjusted EBITDA from continuing operations (defined under "Non-GAAP Financial Measures" below) for the second quarter of 2019 was \$13.3 million, compared to \$21.2 million in the prior year quarter.

Year-to-Date 2019 Results from Continuing Operations:

Total revenue from continuing operations for the six months ended June 30, 2019 was \$51.9 million, compared to \$62.6 million in the prior year period. On a GAAP basis, net loss from continuing operations for the six months ended June 30, 2019 was \$(8.1) million or \$(0.13) per diluted share compared to a net loss from continuing operations for the six months ended June 30, 2018 of \$(1.4) million or \$(0.02) per diluted share. Non-GAAP net loss from continuing operations for the six months ended June 30, 2019 was \$(6.9) million, or \$(0.11) per diluted share, compared to non-GAAP net income from continuing operations of \$5.8 million, or \$0.08 per diluted share, in the prior year period. Adjusted EBITDA from continuing operations for the six months ended June 30, 2019 was \$24.6 million, compared to \$39.0 million in the prior year period.

Discontinued Operations:

On June 10, 2019, Sequential completed its previously announced sale of 100% of the issued and outstanding equity interests of Martha Stewart Living Omnimedia, Inc. ("MSLO"), a Delaware corporation and a wholly-owned subsidiary of Sequential, for approximately \$166 million in cash consideration at closing, plus additional amounts in respect of pre-closing accounts receivable that are received after the closing, subject to certain adjustments, to Marquee Brands LLC. The sale was made pursuant to the equity purchase agreement ("Purchase Agreement") entered into on April 16, 2019. In addition, the Purchase Agreement provides for an earnout of up to \$40 million if certain performance targets are achieved during each of the three calendar years ending December 31, 2020, December 31, 2021 and December 31, 2022.

Sequential's after-tax net loss from discontinued operations was \$(1.3) million and \$(121.9) million for the three and six months ended June 30, 2019, respectively.

Investor Call and Webcast:

Management will provide further commentary today, August 9, 2019, on the Company's financial results and financial update via a conference call and webcast beginning at approximately 8:30 am ET. To join the conference call, please dial (877) 407-9208 or visit the investor relations page on the Company's website www.sequentialbrandsgroup.com. A replay of the conference call is available on the Company's website.

Non-GAAP Financial Measures:

This press release contains historical and projected measures of Adjusted EBITDA from continuing operations, non-GAAP net (loss) income from continuing operations and non-GAAP earnings per diluted share from continuing operations. The Company defines Adjusted EBITDA from continuing operations as net income from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries, excluding provision for (benefit from) income taxes, interest income or expense, non-cash compensation, depreciation and amortization, deal advisory costs, debt refinancing costs, non-cash mark-to-market adjustments to equity securities, loss on sale of assets, non-cash mark-to-market adjustments on interest rate swaps, other non-cash items and severance. Non-GAAP net income and non-GAAP earnings per share from continuing operations are non-GAAP financial measures which represent net income (loss) from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries, excluding deal advisory costs, non-cash mark-to-market adjustments to stock-based compensation provided to non-employees, debt refinancing costs, non-cash mark-to-market adjustments to equity securities, loss on sale of assets, non-cash mark-to-market adjustments on interest rate swaps, other non-cash items and adjustments to taxes. These non-GAAP metrics are an alternative to the information calculated under U.S. generally accepted accounting principles ("GAAP"), as provided in the reports the Company files with the Securities and Exchange Commission, may be inconsistent with similar measures presented by other companies and should only be used in conjunction with the Company's results reported according to 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. We consider these measures to be useful measures of our ongoing financial performance because they adjust for certain costs and other events that the Company believes are not representative of its core licensing business. See below for a reconciliation of these non-GAAP metrics to the most directly comparable GAAP measure.

About Sequential Brands Group, Inc.

Sequential Brands Group, Inc. (Nasdaq:SQBG) owns, promotes, markets, and licenses a portfolio of consumer brands in the active and fashion categories. Sequential seeks to ensure that its brands continue to thrive and grow by employing strong brand management, design and marketing teams. Sequential has licensed and intends to license its brands in a variety of consumer categories to retailers, wholesalers and distributors in the United States and around the world. For more information, please visit Sequential's website at: www.sequentialbrandsgroup.com. To inquire about licensing opportunities, please email: newbusiness@sbq-ny.com.

Forward-Looking Statements

Certain statements in this press release and oral statements made from time to time by representatives of the Company are forward-looking statements ("forward-looking statements") within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are made as of the date hereof and are based on current expectations, estimates, forecasts and projections as well as the beliefs and assumptions of management. The Company's actual results could differ materially from those stated or implied in forward-looking statements. Forward-looking statements include statements concerning estimates of GAAP net income, non-GAAP net income, Adjusted EBITDA, revenue (including guaranteed minimum royalties), and margins, guidance, plans, objectives, goals, strategies, expectations, intentions, projections, developments, future events, performance or products, underlying assumptions and other statements that are not historical in nature, including those that include the words "subject to," "believes," "anticipates," "plans," "expects," "intends," "estimates," "forecasts," "projects," "aims," "targets," "may," "will," "should," "can," "future," "seek," "could," "predict," the negatives thereof, variations thereon and similar expressions. Such forward-looking statements reflect the Company's current views with respect to future events, based on what the Company believes are reasonable assumptions. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including: (i) risks and uncertainties discussed in the reports that the Company has filed with the Securities and Exchange Commission (the "SEC"); (ii) general economic, market or business conditions; (iii) the Company's ability to identify suitable targets for acquisitions and to obtain financing for such acquisitions on commercially reasonable terms; (iv) the Company's ability to timely achieve the anticipated results of recent acquisitions and any potential future acquisitions; (v) the Company's ability to successfully integrate acquisitions into its ongoing business; (vi) the potential impact of the consummation of recent acquisitions or any potential future acquisitions on the Company's relationships, including with employees, licensees, customers and competitors; (vii) the Company's ability to achieve and/or manage growth and to meet target metrics associated with such growth; (viii) the Company's ability to successfully attract new brands and to identify suitable licensees for its existing and newly acquired brands; (ix) the Company's substantial level of indebtedness, including the possibility that such indebtedness and related restrictive covenants may adversely affect the Company's future cash flows, results of operations and financial condition and decrease its operating flexibility; (x) the Company's ability to achieve its guidance; (xi) continued market acceptance of the Company's brands; (xii) changes in the Company's competitive position or competitive actions by other companies; (xiii) licensees' ability to fulfill their financial obligations to the Company; (xiv) concentrations of the Company's licensing revenues with a limited number of licensees and retail partners; (xv) risks related to the effects of the Martha sale and (xvi) other circumstances beyond the Company's control. Refer to the section entitled "Risk Factors" set forth in the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q for a discussion of important risks, uncertainties and other factors that may affect the Company's business, results of operations and financial condition. The Company's stockholders are urged to consider such risks, uncertainties and factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Forward-looking statements are not, and should not be relied upon as, a guarantee of future performance or results, nor will they necessarily prove to be accurate indications of the times at or by which any such performance or results will be achieved. As a result, actual outcomes and results may differ materially from those expressed in forward-looking statements. The Company is not under any obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events or otherwise. Readers should understand that it is not possible to predict or identify all risks and uncertainties to which the Company may be subject. Consequently, readers should not consider such disclosures to be a complete discussion of all potential risks or uncertainties.

For Media and Investor Relations inquiries, contact:

Sequential Brands Group, Inc.

Katherine Nash

T: +1 512-757-2566

E: knash@sbq-ny.com

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands)

	June 30, 2019 (Unaudited)	December 31, 2018
Assets		
Current Assets:		
Cash	\$ 6,919	\$ 14,106
Restricted cash	2,040	2,032
Accounts receivable, net	45,905	49,600
Prepaid expenses and other current assets	3,086	3,981
Current assets held for disposition from discontinued operations	10,219	23,845
Total current assets	68,169	93,564
Property and equipment, net	7,635	8,391

Intangible assets, net	633,937	634,827
Right-of-use assets - operating leases	48,862	-
Other assets	13,248	11,222
Long-term assets held for disposition from discontinued operations	-	330,664
Total assets	\$ 771,851	\$ 1,078,668
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 10,382	\$ 11,600
Current portion of long-term debt	28,300	28,300
Current portion of deferred revenue	8,545	8,172
Current portion of lease liabilities - operating leases	2,883	-
Current liabilities held for disposition from discontinued operations	3,875	15,450
Total current liabilities	53,985	63,522
Long-term debt, net of current portion	417,582	582,487
Long-term deferred revenue, net of current portion	6,414	8,224
Deferred income taxes	22,772	32,064
Lease liabilities - operating leases	52,964	-
Other long-term liabilities	5,698	9,160
Long-term liabilities held for disposition from discontinued operations	-	38,567
Total liabilities	559,415	734,024
Equity:		
Preferred stock	-	-
Common stock	668	657
Additional paid-in capital	513,922	513,764
Accumulated other comprehensive loss	(4,718)	(1,554)
Accumulated deficit	(364,667)	(234,723)
Treasury stock	(3,350)	(4,226)
Total Sequential Brands Group, Inc. and Subsidiaries stockholders' equity	141,855	273,918
Noncontrolling interests	70,581	70,726
Total equity	212,436	344,644
Total liabilities and equity	\$ 771,851	\$ 1,078,668

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net revenue	\$ 26,415	\$ 33,126	\$ 51,939	\$ 62,589
Operating expenses	13,907	13,428	29,453	26,719
Loss on sale of assets	-	1,975	-	7,117
Income from operations	12,508	17,723	22,486	28,753
Other expense (income)	829	31	427	(104)
Interest expense, net	13,893	13,950	27,746	27,747
(Loss) income from continuing operations before income taxes	(2,214)	3,742	(5,687)	1,110
(Benefit from) provision for income taxes	(379)	441	(620)	(544)
Net (loss) income from continuing operations	(1,835)	3,301	(5,067)	1,654
Net income attributable to noncontrolling interest from continuing operations	(1,455)	(1,102)	(2,994)	(3,062)
Net (loss) income from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries	(3,290)	2,199	(8,061)	(1,408)
(Loss) income from discontinued operations, net of income taxes	(1,309)	1,388	(121,883)	2,731
Net (loss) income attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (4,599)	\$ 3,587	\$ (129,944)	\$ 1,323
(Loss) earnings per share - basic:				
Continuing operations	\$ (0.05)	\$ 0.03	\$ (0.13)	\$ (0.02)

Discontinued operations	\$ (0.02)	\$ 0.02	\$ (1.89)	\$ 0.04
(Loss) earnings per share - diluted:				
Continuing operations	\$ (0.05)	\$ 0.03	\$ (0.13)	\$ (0.02)
Discontinued operations	\$ (0.02)	\$ 0.02	\$ (1.89)	\$ 0.04
(Loss) earnings per share attributable to Sequential Brands Group, Inc. and Subsidiaries:				
Basic	\$ (0.07)	\$ 0.06	\$ (2.02)	\$ 0.02
Diluted	\$ (0.07)	\$ 0.06	\$ (2.02)	\$ 0.02
Weighted-average common shares outstanding:				
Basic	64,685,188	63,583,280	64,454,718	63,408,679
Diluted	64,685,188	64,029,972	64,454,718	64,329,308

SEQUENTIAL BRANDS GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended June 30,	
	2019	2018
Cash (Used In) Provided By Operating Activities	\$ (824)	\$ 16,724
Cash Provided By Investing Activities	165,767	478
Cash Used In Financing Activities	(172,122)	(21,995)
Net Decrease In Cash and Restricted Cash	(7,179)	(4,793)
Balance — Beginning of period	16,138	20,433
Balance — End of period	\$ 8,959	\$ 15,640

Non-GAAP Financial Measure Reconciliation
(in thousands, except earnings per share data)

	(Unaudited)		Six Months Ended	
	Three Months Ended		June 30,	
	2019	2018	2019	2018
Reconciliation of GAAP net (loss) income to non-GAAP net (loss) income from continuing operations:				
GAAP net (loss) income attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (4,599)	\$ 3,587	\$ (129,944)	\$ 1,323
Discontinued operations, net of tax	(1,309)	1,388	(121,883)	2,731
Net (loss) income from continuing operations	(3,290)	2,199	(8,061)	(1,408)
Adjustments:				
Deal advisory costs (a)	235	474	1,280	771
Non-cash mark-to-market adjustments to stock-based compensation (b)	-	76	-	82
Debt refinancing costs (c)	-	-	-	373
Non-cash mark-to-market adjustments to equity securities (d)	-	-	(328)	-
Loss on sale of assets (e)	-	1,260	-	6,402
Non-cash mark-to-market adjustments on interest rate swaps (f)	872	-	872	-
Other non-cash items (g)	-	31	-	88
Adjustment to taxes (h)	(379)	441	(620)	(544)
Total non-GAAP adjustments	728	2,282	1,204	7,172
Non-GAAP net (loss) income from continuing operations (1)	\$ (2,562)	\$ 4,481	\$ (6,857)	\$ 5,764
Non-GAAP weighted-average diluted shares (i)	65,216	64,030	65,167	64,329

(Unaudited)
Three Months Ended
June 30,

Six Months Ended
June 30,

	2019	2018	2019	2018
Reconciliation of GAAP Diluted EPS to non-GAAP Diluted EPS from continuing operations:				
GAAP (loss) earnings per share attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (0.07)	\$ 0.06	\$ (1.99)	\$ 0.02
GAAP (loss) earnings per share from discontinued operations	(0.02)	0.02	(1.87)	0.04
GAAP (loss) earnings per share from continuing operations	\$ (0.05)	\$ 0.03	\$ (0.12)	\$ (0.02)
Adjustments:				
Deal advisory costs (a)	0.00	0.01	0.02	0.01
Non-cash mark-to-market adjustments to stock-based compensation (b)	-	0.00	-	0.00
Debt refinancing costs (c)	-	-	-	0.01
Non-cash mark-to-market adjustments to equity securities (d)	-	-	(0.01)	-
Loss on sale of assets (e)	-	0.02	-	0.10
Non-cash mark-to-market adjustments on interest rate swaps (f)	0.01	-	0.01	-
Other non-cash items (g)	-	0.00	-	0.00
Adjustment to taxes (h)	(0.00)	0.01	(0.01)	(0.01)
Total non-GAAP adjustments	0.01	0.04	\$ 0.01	\$ 0.11
Non-GAAP (loss) earnings per share from continuing operations (1)	\$ (0.04)	\$ 0.07	\$ (0.11)	\$ 0.09

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Reconciliation of GAAP net (loss) income to Adjusted EBITDA from continuing operations:				
GAAP net (loss) income attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (4,599)	\$ 3,587	\$ (129,944)	\$ 1,323
Discontinued operations, net of tax	(1,309)	1,388	(121,883)	2,731
Net (loss) income from continuing operations	(3,290)	2,199	(8,061)	(1,408)
Adjustments:				
(Benefit from) provision for income taxes	(379)	1,416	(620)	1,375
Interest expense, net	13,893	13,950	27,746	27,747
Non-cash compensation	450	897	1,109	2,029
Depreciation and amortization	866	582	1,762	1,225
Deal advisory costs (a)	235	474	1,280	771
Debt refinancing costs (c)	-	-	-	373
Non-cash mark-to-market adjustments to equity securities (d)	-	-	(328)	-
Loss on sale of assets (e)	-	1,260	-	6,402
Non-cash mark-to-market adjustments on interest rate swaps (f)	872	-	872	-
Other non-cash items (g)	-	31	-	88
Severance (j)	659	393	820	383
Total Adjustments	16,596	19,003	32,641	40,393
Adjusted EBITDA from continuing operations (2)	\$ 13,306	\$ 21,202	\$ 24,580	\$ 38,985

(1) Non-GAAP net income from continuing operations and non-GAAP earnings per share from continuing operations are non-GAAP financial measures which represent net income from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries, excluding deal advisory costs, non-cash mark-to-market adjustments to stock-based compensation provided to non-employees, debt refinancing costs, non-cash mark-to-market adjustments on equity securities, loss on sale of assets, non-cash mark-to-market adjustments on interest rate swaps, other non-cash items and adjustment to taxes. Management uses this information to measure performance over time on a consistent basis and to identify business trends relating to the Company's financial condition and results of continuing operations. Management believes that these non-GAAP measures are useful measures of ongoing financial performance because they adjust for certain costs and other events that the Company believes are not representative of its core licensing business.

(2) Adjusted EBITDA from continuing operations is defined as net income from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries, excluding (benefit from) provision for income taxes, interest income or expense, non-cash compensation, depreciation and amortization, deal advisory costs, debt refinancing costs, non-cash mark-to-market adjustments on equity securities, loss on sale of assets, non-cash mark-to-market adjustments on interest rate swaps, other non-cash items and severance. Management uses Adjusted EBITDA from continuing operations as a measure 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 financial condition and results of continuing operations.

(a) Represents deal advisory costs including legal, financial and accounting services that are not representative of the Company's day-to-day licensing business.

- (b) Represents the non-cash mark-to-market adjustments to stock-based compensation provided to non-employees in 2018. In 2019, the Company adopted ASU No. 2018-07 "Improvements to Nonemployee Share-Based Payment Accounting" ("ASU 2018-07") on a modified retrospective basis. In accordance with ASU 2018-07, the Company recognizes compensation cost for grants to non-employees on a straight-line basis over the service period.
- (c) Represents expenses for professional fees associated with the Company's refinancing of its debt facilities in 2018.
- (d) Represents the non-cash mark-to-market adjustments to equity securities.
- (e) Represents the loss on sale of *Revo* and *FUL* trademarks completed in in 2018.
- (f) Represents the non-cash mark-to-market adjustment on interest rate swaps.
- (g) Adjustments to estimated accruals previously recorded in conjunction with acquisitions.
- (h) The Company does not expect to pay material cash income taxes in 2019 or 2018 as the Company's net operating losses and other tax benefits are expected to reduce any additional tax obligation.
- (i) Represents weighted-average diluted shares the Company reported in 2019. Represents weighted-average diluted shares the Company reported or would have reported if the Company had GAAP net income in 2018.
- (j) Represents costs and adjustments to previously recorded costs associated with employee terminations not representative of the Company's day-to-day compensation costs.



Source: Sequential Brands Group, Inc.