



Sequential Brands Group Announces Second Quarter 2020 Results

August 13, 2020

NEW YORK, Aug. 13, 2020 (GLOBE NEWSWIRE) -- Sequential Brands Group, Inc. ("Sequential" or the "Company") (Nasdaq:SQBG) today announced financial results for the second quarter ended June 30, 2020.

"Despite the ongoing challenges that the COVID-19 pandemic has presented, it has also demonstrated the durability of our business model and the demand for several of our core brands. While there is still much uncertainty in the macro-environment and the apparel and accessories industry, we believe that we're on the right path forward to position the Company for long-term growth," said Sequential Brands Group CEO David Conn.

Reverse Stock Split

On July 27, 2020, the Company's previously announced 1 share-for-40 shares (1:40) reverse stock split (the "Reverse Stock Split") of the Company's outstanding common stock, par value \$0.01 per share became effective. All share and per share amounts in this press release have been adjusted to reflect the Reverse Stock Split. Prior periods have been reclassified to reflect the change in the Company's stated capital attributable to common stock which was reduced proportionately to the Reverse Stock Split ratio, and the additional paid-in capital account which was credited with the amount by which common stock was reduced. As a result of the Reverse Stock Split, the Company is back in compliance with the minimum bid price listing rules of The Nasdaq Stock Market.

Second Quarter 2020 Results from Continuing Operations:

Total revenue from continuing operations for the second quarter ended June 30, 2020 was \$22.6 million, compared to \$26.4 million in the prior year quarter. On a GAAP basis, loss from continuing operations for the second quarter 2020 was \$(2.9) million or \$(1.78) per diluted share compared to loss from continuing operations for the second quarter 2019 of \$(3.3) million or \$(2.03) per diluted share. Non-GAAP net loss from continuing operations for the second quarter 2020 was \$(1.8) million, or \$(1.10) per diluted share, compared to \$(2.6) million, or \$(1.57) per diluted share, in the prior year quarter. 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 2020 was \$15.1 million, compared to \$13.3 million in the prior year quarter.

Year-to-Date 2020 Results from Continuing Operations:

Total revenue from continuing operations for the six months ended June 30, 2020 was \$42.8 million, compared to \$51.9 million in the prior year period. On a GAAP basis, net loss from continuing operations for the six months ended June 30, 2020 was \$(88.2) million or \$(53.80) per diluted share compared to a net loss from continuing operations for the six months ended June 30, 2019 of \$(8.1) million or \$(5.00) per diluted share. Included in the net loss from continuing operations for the six months ended June 30, 2020 were non-cash impairment charges of \$85.6 million for indefinite-lived intangible assets related to the trademarks for the *Jessica Simpson*, *Gaiam*, *Joe's* and *Ellen Tracy* brands reflecting the financial impacts of COVID-19. Non-GAAP net loss from continuing operations for the six months ended June 30, 2020 was \$(12.2) million, or \$(7.40) per diluted share, compared to \$(6.9) million, or \$(4.21) per diluted share, in the prior year period. Adjusted EBITDA from continuing operations for the six months ended June 30, 2020 was \$24.9 million, compared to \$24.6 million in the prior year period.

COVID-19 Update:

The impact of the COVID-19 pandemic and the pace at which there are new developments has created significant uncertainty in the current economic environment. The impacts of COVID-19 have adversely affected our near-term and long-term revenues, earnings, liquidity and cash flows as certain licensees have requested temporary relief or deferred making their scheduled payments. However, the situation is dynamic, and the Company is not currently able to predict the full impact of COVID-19 on its results of operations and cash flows.

Liquidity and Financing Update:

Sequential ended the second quarter with \$16.8 million in cash, including restricted cash.

As of June 30, 2020, the Company was party to the Amended BoA Credit Agreement and the Fourth Amendment to the Third Amended and Restated Credit Agreement with Wilmington Trust, National Association as administrative agent and collateral agent (the "Amended Wilmington Credit Agreement"), referred to as its loan agreements ("Loan Agreements"). The Loan Agreements contain financial covenants and the Company is in compliance with its financial covenants included in its Loan Agreements as of June 30, 2020. However, due to COVID-19 and our current forecasts, we currently believe we will not be able to satisfy our covenants in our existing financing arrangements for at least twelve months from today's date. The Company expects that it will need to modify the loan covenants, obtain a waiver of the covenants or a waiver of a default, or otherwise restructure the terms of the Loan Agreements. If the Company fails to comply with its financial covenants, as modified, a default under the Loan Agreements would be triggered and the Company's obligations under the Loan Agreements may be accelerated. The Company continues to evaluate strategic alternatives and plans to work with the lenders to amend such financial covenants in the Loan Agreement; however, there can be no assurance that such efforts will be successful. As previously noted in the Company's filings, this risk of non-compliance creates a material uncertainty that casts substantial doubt with respect to the ability of the Company to continue as a going concern. See our Quarterly Report on Form 10-Q for the period ended June 30, 2020 for additional information.

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. The Company's after-tax net income from discontinued operations was \$0.1 million for the second quarter ended June 30, 2020 compared to after-tax net loss from discontinued operations of

\$(1.3) million in the prior year quarter. The Company's after-tax net loss from discontinued operations was \$(1.2) million for the six months ended June 30, 2020 compared to \$(121.9) million in the prior year period.

Investor Call and Webcast:

Management will provide further commentary today, August 13, 2020, 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 from continuing operations and non-GAAP loss per diluted share from continuing operations. The Company defines Adjusted EBITDA from continuing operations as loss 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, gain on sale of asset, non-cash impairment of trademarks, net of non-controlling interest, non-cash mark-to-market adjustments on interest rate swaps, and severance. Non-GAAP net loss and non-GAAP loss per diluted share from continuing operations are non-GAAP financial measures which represent net loss from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries, excluding deal advisory costs, debt refinancing costs, non-cash mark-to-market adjustments to equity securities, gain on sale of asset, non-cash impairment of trademarks, net of non-controlling interest, non-cash mark-to-market adjustments on interest rate swaps, and provision for (benefit from) income 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: SQBQ) owns, promotes, markets, and licenses a portfolio of consumer brands in the active and lifestyle categories. Sequential seeks to ensure that its brands continue to thrive and grow by employing strong brand management, 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@sbg-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 or actual events 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 any potential future acquisitions; (v) the Company's ability to successfully integrate acquisitions into its ongoing business; (vi) the potential impact of the consummation 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) uncertainties related to the timing, proposals or decisions arising from the Company's strategic review, including the divestiture of one or more existing brands; (xvi) adverse effects on the Company and its licensees due to natural disasters, pandemic disease and other unexpected events; (xvii) uncertainties around the effects of the COVID-19 pandemic, including adverse effects on the Company's business, financial position, cash flows, ability to comply with its debt covenants and related uncertainty around the Company's ability to continue as a going concern; and (xviii) 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. In addition, the global economic climate and additional or unforeseen effects from the COVID-19 pandemic amplify many of the foregoing risks. 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@sbg-ny.com

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

	June 30, 2020 (Unaudited)	December 31, 2019
Assets		
Current Assets:		
Cash	\$ 16,034	\$ 6,264
Restricted cash	727	2,043
Accounts receivable, net	41,200	39,452
Prepaid expenses and other current assets	7,830	4,228
Current assets from discontinued operations	171	6,839
Total current assets	65,962	58,826
Property and equipment, net	1,780	5,349
Intangible assets, net	494,677	599,967
Right-of-use assets - operating leases	52,181	50,320
Other assets	14,956	8,782
Total assets	\$ 629,556	\$ 723,244
Liabilities and Equity		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 18,315	\$ 15,721
Current portion of long-term debt	16,250	12,750
Current portion of deferred revenue	6,456	6,977
Current portion of lease liabilities - operating leases	3,209	3,035
Current liabilities from discontinued operations	359	1,959
Total current liabilities	44,589	40,442
Long-term debt, net of current portion	440,316	433,250
Long-term deferred revenue, net of current portion	2,793	4,604
Deferred income taxes	14,456	14,351
Lease liabilities - operating leases	53,067	54,168
Other long-term liabilities	3,276	3,389
Total liabilities	558,497	550,204
Equity:		
Preferred stock	-	-
Common stock	17	17
Additional paid-in capital	515,442	515,151
Accumulated other comprehensive loss	(4,004)	(4,096)
Accumulated deficit	(483,523)	(394,126)
Treasury stock	(3,237)	(3,230)
Total Sequential Brands Group, Inc. and Subsidiaries stockholders' equity	24,695	113,716
Noncontrolling interests	46,364	59,324
Total equity	71,059	173,040
Total liabilities and equity	\$ 629,556	\$ 723,244

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net revenue	\$ 22,594	\$ 26,415	\$ 42,825	\$ 51,939
Operating expenses	11,143	13,907	28,850	29,453
Impairment charges	-	-	85,590	-
Gain on sale of asset	(901)	-	(901)	-
Income (loss) from operations	12,352	12,508	(70,714)	22,486
Other expense	660	829	3,539	427
Interest expense, net	11,994	13,893	24,437	27,746
Loss from continuing operations before income taxes	(302)	(2,214)	(98,690)	(5,687)
Provision for (benefit from) income taxes	1,563	(379)	480	(620)
Loss from continuing operations	(1,865)	(1,835)	(99,170)	(5,067)
Net (income) loss attributable to noncontrolling interest from continuing operations	(1,062)	(1,455)	10,944	(2,994)
Loss from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries	(2,927)	(3,290)	(88,226)	(8,061)
Income (loss) from discontinued operations, net of income taxes	143	(1,309)	(1,171)	(121,883)
Net loss attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (2,784)	\$ (4,599)	\$ (89,397)	\$ (129,944)
Loss per share from continuing operations:				
Basic	\$ (1.78)	\$ (2.03)	\$ (53.80)	\$ (5.00)
Diluted	\$ (1.78)	\$ (2.03)	\$ (53.80)	\$ (5.00)
Earnings (loss) per share from discontinued operations:				
Basic	\$ 0.09	\$ (0.81)	\$ (0.71)	\$ (75.64)
Diluted	\$ 0.09	\$ (0.81)	\$ (0.71)	\$ (75.64)
Loss per share attributable to Sequential Brands Group, Inc. and Subsidiaries:				
Basic	\$ (1.69)	\$ (2.84)	\$ (54.51)	\$ (80.64)
Diluted	\$ (1.69)	\$ (2.84)	\$ (54.51)	\$ (80.64)
Weighted-average common shares outstanding:				
Basic	1,644,446	1,617,130	1,640,027	1,611,368
Diluted	1,646,440	1,617,130	1,640,027	1,611,368

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

	Six Months Ended June 30,	
	2020	2019
Continuing Operations:		
Cash Used In Operating Activities	\$ (2,419)	\$ (42,717)
Cash Provided By Investing Activities	939	165,811
Cash Provided By (Used In) Financing Activities	6,037	(171,548)
Discontinued Operations:		
Cash Provided By Operating Activities	\$ 3,897	\$ 41,893
Cash Used In Investing Activities	-	(44)
Cash Used In Financing Activities	-	(574)
Net Increase (Decrease) In Cash and Restricted Cash	8,454	(7,179)
Balance — Beginning of period	8,307	16,138
Balance — End of period	\$ 16,761	\$ 8,959

Non-GAAP Financial Measure Reconciliation

(in thousands, except earnings per share data)

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30,	2019	Six Months Ended June 30,	2019
	2020		2020	
Reconciliation of GAAP net loss to non-GAAP net loss from continuing operations:				
GAAP net loss attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (2,784	) \$ (4,599	) \$ (89,397	) \$ (129,944
Discontinued operations, net of tax	143	(1,309	) (1,171	) (121,883
Loss from continuing operations	(2,927	) (3,290	) (88,226	) (8,061
Adjustments:				
Deal advisory costs (a)	3	235	51	1,280
Debt refinancing costs (b)	54	-	104	-
Non-cash mark-to-market adjustments to equity securities (c)	(209	) -	(293	) (328
Gain on sale of asset (d)	(901	) -	(901) -
Non-cash impairment of trademarks, net (e)	-	-	73,136	-
Non-cash mark-to-market adjustments on interest rate swaps (f)	602	872	3,484	872
Provision for (benefit from) income taxes (g)	1,563	(379	) 480	(620
Total non-GAAP adjustments	1,112	728	76,061	1,204
Non-GAAP net loss from continuing operations (1)	\$ (1,815	) \$ (2,562	) \$ (12,165	) \$ (6,857
Non-GAAP weighted-average diluted shares (h)	1,646	1,630	1,645	1,629

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30,	2019	Six Months Ended June 30,	2019
	2020		2020	
Reconciliation of GAAP Diluted EPS to non-GAAP Diluted EPS from continuing operations:				
GAAP loss per share attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (1.69	) \$ (2.82	) \$ (54.36	) \$ (79.76
GAAP earnings (loss) per share from discontinued operations	0.09	(0.80	) (0.71	) (74.81
GAAP loss per share from continuing operations	\$ (1.78	) \$ (2.02	) \$ (53.65	) \$ (4.95
Adjustments:				
Deal advisory costs (a)	0.00	0.14	0.03	0.78
Debt refinancing costs (b)	0.03	-	0.06	-
Non-cash mark-to-market adjustments to equity securities (c)	(0.13	) -	(0.18	) (0.20
Gain on sale of asset (d)	(0.54	) -	(0.55) -
Non-cash impairment of trademarks, net (e)	-	-	44.47	-
Non-cash mark-to-market adjustments on interest rate swaps (f)	0.37	0.54	2.12	0.54
Provision for (benefit from) income taxes (g)	0.95	(0.23	) 0.30	(0.38
Total non-GAAP adjustments	0.68	0.45	\$ 46.25	\$ 0.74
Non-GAAP loss per diluted share from continuing operations (1)	\$ (1.10	) \$ (1.57	) \$ (7.40	) \$ (4.21

	(Unaudited)		(Unaudited)	
	Three Months Ended June 30,	2019	Six Months Ended June 30,	2019
	2020		2020	
Reconciliation of GAAP net loss to Adjusted EBITDA from continuing operations:				
GAAP net loss attributable to Sequential Brands Group, Inc. and Subsidiaries	\$ (2,784	) \$ (4,599	) \$ (89,397	) \$ (129,944
Discontinued operations, net of tax	143	(1,309	) (1,171	) (121,883
Loss from continuing operations	(2,927	) (3,290	) (88,226	) (8,061
Adjustments:				
Provision for (benefit from) income taxes (g)	1,563	(379	) 480	(620
Interest expense, net	11,994	13,893	24,437	27,746

Non-cash compensation	94	450	326	1,109
Depreciation and amortization	4,791	866	12,072	1,762
Deal advisory costs (a)	3	235	51	1,280
Debt refinancing costs (b)	54	-	104	-
Non-cash mark-to-market adjustments to equity securities (c)	(209)	-	(293)	(328)
Gain on sale of asset (d)	(901)	-	(901)	-
Non-cash impairment of trademarks, net (e)	-	-	73,136	-
Non-cash mark-to-market adjustments on interest rate swaps (f)	602	872	3,484	872
Severance (i)	-	659	188	820
Total Adjustments	17,991	16,596	113,084	32,641
Adjusted EBITDA from continuing operations (2)	\$ 15,064	\$ 13,306	\$ 24,858	\$ 24,580

(1) Non-GAAP net loss from continuing operations and non-GAAP loss per diluted share from continuing operations are non-GAAP financial measures which represent net loss from continuing operations attributable to Sequential Brands Group, Inc. and Subsidiaries, excluding deal advisory costs, debt refinancing costs, non-cash mark-to-market adjustments on equity securities, gain on sale of asset, non-cash impairment of trademarks, net of non-controlling interest, non-cash mark-to-market adjustments on interest rate swaps and provision for (benefit from) income 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 loss 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 on equity securities, gain on sale of asset, non-cash impairment of trademarks, net of non-controlling interest, non-cash mark-to-market adjustments on interest rate swaps 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 expenses for professional fees associated with the Company's refinancing and amending its debt facilities.

(c) Represents the non-cash mark-to-market adjustments to equity securities.

(d) Represents gain on the sale of the *Nevados* trademark completed in June 2020.

(e) Represents non-cash impairment charges, net of minority interest, related to the Company's indefinite-lived intangible assets for certain brands.

(f) Represents the non-cash mark-to-market adjustment on interest rate swaps.

(g) Adjustment to remove GAAP provision for (benefit from) income taxes. The Company does not expect to make material cash income tax payments related to continuing operations in 2020 or 2019 because the Company's net operating losses and other tax benefits are expected to reduce any additional tax obligation.

(h) Represents weighted-average diluted shares the Company reported or would have reported if the Company had GAAP net income in 2020 and 2019.

(i) 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.