# Duluth Holdings Inc. Announces Third Quarter Fiscal 2018 Financial Results

Dec 06, 2018

MOUNT HOREB, Wis., Dec. 06, 2018 (GLOBE NEWSWIRE) -- Duluth Holdings Inc. (dba, Duluth Trading Company) ("Duluth Trading" or the "Company") (NASDAQ: DLTH), a lifestyle brand of men's and women's casual wear, workwear and accessories, today announced its financial results for the fiscal third quarter ended October 28, 2018.

**Highlights for the Third Quarter Ended October 28, 2018**

- Net sales increased 27.4% to $106.7 million compared to $83.7 million in the prior-year third quarter
- Gross margin increased 50 basis points to 57.1% compared to 56.6% in the prior-year third quarter
- Operating loss of $2.6 million compared to operating loss of $0.6 million in the prior-year third quarter
- Net loss of $3.2 million, or $0.10 per diluted share, compared to net loss of $0.8 million, or $0.03 per diluted share, in the prior-year third quarter
- Adjusted EBITDA[1] of $1.0 million compared to $1.9 million in the prior-year third quarter
- The Company opened four retail stores in Golden, CO; Ramsey, NJ; Canton, OH and Greensboro, NC, totaling approximately 79,000 gross square feet
- 35th consecutive quarter of increased net sales year-over-year

[1]See Reconciliation of net income to EBITDA and EBITDA to Adjusted EBITDA in the accompanying financial tables.

**Management Commentary**

"We are pleased with our third quarter results, which were in-line with our expectations and also marked our 35th consecutive quarter of increased net sales year-over-year. We continue to see strong contribution from our new stores and growth from our Women's business," said Stephanie Pugliese, Chief Executive Officer of Duluth Trading.

"Throughout the year, our team worked tirelessly and our results year-to-date put us in a strong position heading into the holiday season. We expect to deliver on our fiscal 2018 guidance. We have made significant investments during the year that strengthen our competitive position and enable us to provide an outstanding customer experience, including:

- improvements in the e-commerce and mobile experience;
- buy-online-pickup-in-store and ship-from-store in seven of our stores;
- mini-distribution center in our Greensboro retail store;
- electronic gift cards;
- launch of our Women's plus line;
- 15 new store locations to touch and experience our products; and
- upgrades to our Belleville distribution center."

**Operating Results for the Third Quarter Ended October 28, 2018**

Net sales increased 27.4% to $106.7 million, compared to $83.7 million in the same period a year ago. The net sales increase was driven by a 10.5% growth in direct net sales, or 6.6% after adjustment for the change in revenue recognition standards, and a 58.4% growth in retail net sales, with increases in both the men's and women's businesses. The increase in retail net sales was primarily due to having 43 stores in the third quarter of 2018 as compared to 26 stores in the same period a year ago.

Gross profit increased 28.6% to $61.0 million, or 57.1% of net sales, compared to $47.4 million, or 56.6% of net sales, in the corresponding prior-year period. The 50-basis point increase in gross margin was primarily attributable to an increase in product margin, partially offset by a decline in shipping revenues.

Selling, general and administrative expenses increased 32.3% to $63.5 million, compared to $48.0 million in the same period a year ago. As a percentage of net sales, selling, general and administrative expenses increased 210 basis points to 59.5%, compared to 57.4% in the corresponding prior-year period. As a percentage of net sales, advertising and marketing costs increased 20 basis points to 20.4% compared to 20.2% in the corresponding prior-year period, primarily due to an increase in women's television advertising to fuel the growth in the women's business, offset by a decrease in catalog expense due to a planned decrease in catalog spend as a percentage of net sales. As a percentage of net sales, selling expenses increased 70 basis points to 16.5%, compared to 15.8% in the corresponding prior-year period, primarily due to an increase in customer service expense as a result of the growth in retail stores, partially offset by a decrease in shipping expenses due to leverage from an increase in the proportion of retail net sales. As a percentage of net sales, general and administrative expenses increased 120 basis points to 22.6% compared to 21.4% in the corresponding prior-year period, primarily due to an increase in information technology support and outside services and an increase in depreciation as a result of more stores.

**Balance Sheet and Liquidity**

The Company ended the quarter with a cash balance of $2.5 million, with net working capital of $85.1 million, and $65.0 million outstanding on its $80.0 million revolving line of credit.

**Fiscal 2018 Outlook**

The Company's fiscal 2018 outlook is provided on a 53-week period, compared to a 52-week period in fiscal 2017. The Company reaffirmed its fiscal 2018 outlook as follows:

- Net sales in the range of $555.0 million to $575.0 million
- EPS in the range of $0.79 to $0.84 per diluted share, with an effective tax rate of 26%
- The Company has completed its plan of opening 15 new stores, which added approximately 250,000 of additional gross square footage

The Company updated its fiscal 2018 outlook as follows:

- Adjusted EBITDA[1] in the range of $53.0 million to $56.0 million, up from previous guidance of $51.0 million to $54.0 million
- Capital expenditures, net of proceeds from finance lease obligations, of $50.0 million to $55.0 million[2]

[1]See Reconciliation of forecasted net income to forecasted EBITDA and forecasted EBITDA to forecasted Adjusted EBITDA in the accompanying financial tables.

[2]Fiscal 2018 capital expenditures primarily include the opening of 15 retail stores, investments in technology and infrastructure improvements.

The table below recaps the Company's fiscal 2018 stores opened and signed new store leases and the anticipated opening timeframe.

| Location | Timing | Gross Square Footage |
|---|---|---|
| Anchorage, AK[1] | Opened March 1, 2018 | 25,409 |
| West Fargo, ND | Opened March 22, 2018 | 14,557 |
| Colorado Springs, CO | Opened May 3, 2018 | 12,410 |
| Lubbock, TX | Opened May 10, 2018 | 15,536 |
| Denton, TX | Opened May 17, 2018 | 14,557 |
| Portland, OR | Opened May 24, 2018 | 19,075 |
| Columbus, OH | Opened June 7, 2018 | 14,749 |
| Arlington, TX | Opened July 12, 2018 | 15,536 |
| Golden, CO | Opened September 13, 2018 | 20,415 |
| Ramsey, NJ | Opened September 27, 2018 | 13,300 |
| Canton, OH | Opened October 11, 2018 | 14,557 |
| Greensboro, NC[1] | Opened October 25, 2018 | 30,508 |
| Oklahoma City, OK | Opened November 1, 2018 | 15,536 |
| South Portland, ME | Opened November 8, 2018 | 12,964 |
| Cary, NC | Opened November 15, 2018 | 11,164 |
| Friendswood, TX | First half Fiscal 2019 | 16,026 |
| Katy, TX | First half Fiscal 2019 | 16,000 |
| Wichita, KS | First half Fiscal 2019 | 15,385 |
| Spokane Valley, WA | First half Fiscal 2019 | 15,656 |
| Jacksonville, FL | First half Fiscal 2019 | 14,557 |
| Rogers, AR | First half Fiscal 2019 | 15,656 |
| Danbury, CT | First half Fiscal 2019 | 9,792 |
| Madison, AL | First half Fiscal 2019 | 15,656 |
| Round Rock, TX | Second half Fiscal 2019 | 15,536 |

[1]Gross square footage includes space used for direct-to-customer fulfillment

**Conference Call Information**

A conference call and audio webcast with analysts and investors will be held on Thursday, December 6, 2018 at 9:30 am Eastern Time, to discuss the results and answer questions.

- Live conference call: 844-875-6915 (domestic) or 412-317-6711 (international)
- Conference call replay available through December 20, 2018: 877-344-7529 (domestic) or 412-317-0088 (international)
- Replay access code: 10126364
- Live and archived webcast: ir.duluthtrading.com

The Company is enabling investors to pre-register for the earnings conference call so that they can expedite their entry into the call and avoid the need to wait for a live operator. In order to pre-register for the call, investors can visit http://dpregister.com/10126364 and enter in their contact information. Investors will then be issued a personalized phone number and pin to dial into the live conference call. Individuals can pre-register any time prior to the start of the conference call.

**About Duluth Trading**

Duluth Trading is a rapidly growing lifestyle brand for the Modern, Self-Reliant American. Based in Mount Horeb, Wisconsin, we offer high quality, solution-based casual wear, workwear and accessories for men and women who lead a hands-on lifestyle and who value a job well-done. We provide our customers an engaging and entertaining experience. Our marketing incorporates humor and storytelling that conveys the uniqueness of our products in a distinctive, fun way, and our products are sold exclusively through our content-rich website, catalogs, and “store like no other” retail locations. We are committed to outstanding customer service backed by our “No Bull Guarantee” - if it’s not right, we’ll fix it. Visit our website at www.duluthtrading.com

**Non-GAAP Measurements**

Management believes that non-GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Within this release, including the tables attached hereto, reference is made to adjusted earnings before interest, taxes, depreciation and amortization (EBITDA). See attached Table “Reconciliation of Net Income to EBITDA and EBITDA to Adjusted EBITDA,” for a reconciliation of net income to EBITDA and EBITDA to Adjusted EBITDA for the three and nine months ended October 28, 2018, versus the three and nine months ended October 29, 2017. See also attached Table “Reconciliation of Forecasted Net Income to Forecasted EBITDA and Forecasted EBITDA to Forecasted Adjusted EBITDA,” for a reconciliation of forecasted net income to forecasted EBITDA and forecasted EBITDA to forecasted adjusted EBITDA for the fiscal year ending February 3, 2019. Adjusted EBITDA is a metric used by management and frequently used by the financial community, which provides insight into an organization’s operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period. The Company provides this information to investors to assist in comparisons of past, present and future operating results and to assist in highlighting the results of on-going operations. While the Company’s management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace the Company’s GAAP financial results and should be read in conjunction with those GAAP results.

**Forward-Looking Statements**

This press release includes “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts included in this press release, including statements concerning Duluth Trading's plans, objectives, goals, beliefs, business strategies, future events, business conditions, its results of operations, financial position and its business outlook, business trends and certain other information herein are forward-looking statements, including statements regarding Duluth Trading’s ability to execute on its growth strategies, statements under the heading “Fiscal 2018 Outlook” and the forecasted results of operations in the Table “Reconciliation of Forecasted Net Income to Forecasted EBITDA and Forecasted EBITDA to Forecasted Adjusted EBITDA.” You can identify forward-looking statements by the use of words such as “may,” ”might,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “believe,” “estimate,” “project,” “target,” “predict,” “intend,” “future,” “budget,” “goals,” “potential,” “continue,” “design,” “objective,” “forecasted,” “would” and other similar expressions. The forward-looking statements are not historical facts, and are based upon Duluth Trading's current expectations, beliefs, estimates, and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond Duluth Trading's control. Duluth Trading's expectations, beliefs and projections are expressed in good faith, and Duluth Trading believes there is a reasonable basis for them. However, there can be no assurance that management's expectations, beliefs, estimates, and projections will be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the forward-looking statements, including, among others, the risks, uncertainties, and factors set forth under Part 1, Item 1A “Risk Factors” in the Company’s Annual Report on Form 10-K filed with the SEC on March 21, 2018, and other factors as may be periodically described in Duluth Trading’s subsequent filings with the SEC. These risks and uncertainties include, but are not limited to, the following: our ability to maintain and enhance a strong brand image; our ability to successfully open new stores; effectively adapting to new challenges associated with our expansion into new geographic markets; generating adequate cash from our existing stores to support our growth; the impact of changes in corporate tax regulations; identifying and responding to new and changing customer preferences; the success of the locations in which our stores are located; our ability to attract and retain customers in the various retail venues and locations in which our stores are located; competing effectively in an environment of intense competition; our ability to adapt to significant changes in sales due to the seasonality of our business; price reductions or inventory shortages resulting from failure to purchase the appropriate amount of inventory in advance of the season in which it will be sold; increases in costs of fuel or other energy, transportation or utility costs and in the costs of labor and employment; failure of our information technology systems to support our current and growing business, before and after our planned upgrades; and other factors that may be disclosed in our SEC filings or otherwise. Forward-looking statements speak only as of the date the statements are made. Duluth Trading assumes no obligation to update forward-looking statements to reflect actual results, subsequent events or circumstances or other changes affecting forward-looking information except to the extent required by applicable securities laws.

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(Tables Follow)

**DULUTH HOLDINGS INC.**
**Condensed Consolidated Balance Sheets**
**(Unaudited)**
**(Amounts in thousands)**

| | October 28, 2018 | January 28, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |

| | | |
|---|---|---|
| Cash | $ 2,500 | $ 2,865 |
| Accounts receivable | 339 | 52 |
| Other receivables | 2,827 | 273 |
| Inventory, net | 131,448 | 89,548 |
| Prepaid expenses & other current assets | 11,975 | 7,642 |
| Deferred catalog costs | 1,137 | 1,446 |
| Total current assets | 150,226 | 101,826 |
| Property and equipment, net | 165,885 | 109,705 |
| Restricted cash | 693 | 4,218 |
| Available-for-sale security | 6,323 | 6,323 |
| Goodwill | 402 | 402 |
| Other assets, net | 988 | 628 |
| Total assets | $ 324,517 | $ 223,102 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 34,200 | $ 17,320 |
| Accrued expenses and other current liabilities | 30,715 | 25,261 |
| Income taxes payable | — | 7,631 |
| Current maturities of capital lease obligations | 165 | 4 |
| Current maturities of long-term debt | 80 | 80 |
| Total current liabilities | 65,160 | 50,296 |
| Long-term line of credit | 65,000 | — |
| Capitalized lease obligations, less current maturities | 27,578 | 31 |
| Finance lease obligations under build-to-suit leases | 17,330 | 26,578 |
| Deferred rent obligations, less current maturities | 3,892 | 3,355 |
| Deferred tax liabilities | 1,573 | 2,100 |
| Long-term debt, less current maturities | 1,333 | 1,393 |
| Total liabilities | 181,866 | 83,753 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Treasury stock | (92) | (57) |
| Capital stock | 89,335 | 88,043 |
| Retained earnings | 49,972 | 48,084 |
| Total shareholders' equity of Duluth Holdings Inc. | 139,215 | 136,070 |
| Noncontrolling interest | 3,436 | 3,279 |
| Total shareholders' equity | 142,651 | 139,349 |
| Total liabilities and shareholders' equity | $ 324,517 | $ 223,102 |

**DULUTH HOLDING INC.**
**Consolidated Statements of Operations**
**(Unaudited)**
**(Amounts in thousands, except per share figures)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **October 28, 2018** | **October 29, 2017** | **October 28, 2018** | **October 29, 2017** |
| Net sales | $ 106,701 | $ 83,729 | $ 317,561 | $ 253,642 |
| Cost of goods sold (excluding depreciation and amortization) | 45,730 | 36,302 | 138,410 | 108,649 |
| Gross profit | 60,971 | 47,427 | 179,151 | 144,993 |
| Selling, general and administrative expenses | 63,534 | 48,039 | 172,075 | 137,467 |
| Operating (loss) income | (2,563) | (612) | 7,076 | 7,526 |
| Interest expense | 1,583 | 661 | 3,638 | 1,199 |
| Other income, net | 3 | 73 | 168 | 175 |
| (Loss) income before income taxes | (4,143) | (1,200) | 3,606 | 6,502 |
| Income tax (benefit) expense | (1,067) | (454) | 913 | 2,480 |
| Net (loss) income | (3,076) | (746) | 2,693 | 4,022 |
| Less: Net income attributable to noncontrolling interest | 74 | 70 | 157 | 199 |
| Net (loss) income attributable to controlling interest | $ (3,150) | $ (816) | $ 2,536 | $ 3,823 |
| **Basic earnings per share (Class A and Class B):** | | | | |
| Weighted average shares of common stock outstanding | 32,098 | 31,861 | 32,065 | 31,837 |
| Net (loss) income per share attributable to controlling interest | $ (0.10) | $ (0.03) | $ 0.08 | $ 0.12 |
| **Diluted earnings per share (Class A and Class B):** | | | | |
| Weighted average shares and equivalents outstanding | 32,098 | 31,861 | 32,402 | 32,297 |

| | | | | |
|---|---|---|---|---|
| Net (loss) income per share attributable to controlling interest | $ (0.10) | $ (0.03) | $ 0.08 | $ 0.12 |

**DULUTH HOLDINGS INC.**
**Consolidated Statements of Cash Flows**
**(Unaudited)**
**(Amounts in thousands)**

| | Nine Months Ended | |
|---|---|---|
| | **October 28, 2018** | **October 29, 2017** |
| **Cash flows from operating activities:** | | |
| Net income | $ 2,693 | $ 4,022 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 8,187 | 5,104 |
| Stock based compensation | 1,305 | 1,186 |
| Deferred income taxes | (150) | (60) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (287) | (17) |
| Other receivables | (2,554) | (1,320) |
| Inventory | (44,776) | (57,020) |
| Prepaid expense & other current assets | (4,951) | (3,136) |
| Deferred catalog costs | (1,416) | (1,006) |
| Trade accounts payable | 19,126 | 18,665 |
| Income taxes payable | (7,780) | (5,225) |
| Accrued expenses and deferred rent obligations | 7,101 | 3,850 |
| Net cash used in operating activities | (23,502) | (34,957) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (45,878) | (37,501) |
| Change in other assets | (439) | (6,323) |
| Purchases of other assets | — | (85) |
| Net cash used in investing activities | (46,317) | (43,909) |
| **Cash flows from financing activities:** | | |
| Proceeds from line of credit | 100,982 | 76,476 |
| Payments on line of credit | (35,982) | (26,375) |
| Proceeds from long term debt | — | 800 |
| Payments on long term debt | (60) | (34) |
| Payments on capital lease obligations | (4) | (14) |
| Change in bank overdrafts | — | 2,930 |
| Distributions to holders of noncontrolling interest in variable interest entity | — | (400) |
| Proceeds from finance lease obligations | 941 | 2,358 |
| Capital contributions to variable interest entity | — | 794 |
| Shares withheld for tax payments on vested restricted shares | (35) | (57) |
| Other | 87 | 38 |
| Net cash provided by financing activities | 65,929 | 56,516 |
| Decrease in cash and restricted cash | (3,890) | (22,350) |
| Cash and restricted cash at beginning of period | 7,083 | 25,477 |
| Cash and restricted cash at end of period | $ 3,193 | $ 3,127 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid | $ 3,362 | $ 947 |
| Income taxes paid | $ 10,055 | $ 8,950 |
| **Supplemental disclosure of non-cash information:** | | |
| Property and equipment acquired through capital lease | $ 27,711 | $ — |
| Property and equipment acquired under build-to-suit leases | $ 3,583 | $ 12,739 |
| Unpaid liability to acquire property and equipment | $ 3,001 | $ 4,144 |

**DULUTH HOLDINGS INC.**
**Reconciliation of Net Income to EBITDA and EBITDA to Adjusted EBITDA**
**(Unaudited)**
**(Amounts in thousands)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **October 28, 2018** | **October 29, 2017** | **October 28, 2018** | **October 29, 2017** |

| | | | | |
|---|---|---|---|---|
| Net (loss) income | $ (3,076) | $ (746) | $ 2,693 | $ 4,022 |
| Depreciation and amortization | 3,118 | 1,824 | 8,187 | 5,104 |
| Interest expense | 1,583 | 661 | 3,638 | 1,199 |
| Income tax (benefit) expense | (1,067) | (454) | 913 | 2,480 |
| EBITDA | $ 558 | $ 1,285 | $ 15,431 | $ 12,805 |
| Non-cash stock based compensation | 447 | 569 | 1,305 | 1,186 |
| Adjusted EBITDA | $ 1,005 | $ 1,854 | $ 16,736 | $ 13,991 |

**DULUTH HOLDINGS INC.**
**Segment Information**
**(Unaudited)**
**(Amounts in thousands)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 28, 2018 | October 29, 2017 | October 28, 2018 | October 29, 2017 |
| **Net sales** | | | | |
| Direct | $ 59,827 | $ 54,146 | $ 186,872 | $ 175,588 |
| Retail | 46,874 | 29,583 | 130,689 | 78,054 |
| Total net sales | $ 106,701 | $ 83,729 | $ 317,561 | $ 253,642 |
| **Operating (loss) income** | | | | |
| Direct | $ (8,357) | $ (2,738) | $ (9,362) | $ 230 |
| Retail | 5,794 | 2,126 | 16,438 | 7,296 |
| Total operating (loss) income | (2,563) | (612) | 7,076 | 7,526 |
| Interest expense | 1,583 | 661 | 3,638 | 1,199 |
| Other income, net | 3 | 73 | 168 | 175 |
| **(Loss) income before income taxes** | $ (4,143) | $ (1,200) | $ 3,606 | $ 6,502 |

**DULUTH HOLDINGS INC.**
**Net Sales by Business**
**(Unaudited)**
**(Amounts in thousands)**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | October 28, 2018 | October 29, 2017 | October 28, 2018 | October 29, 2017 |
| **Net sales** | | | | |
| Men's | $ 72,789 | $ 58,186 | $ 216,143 | $ 176,692 |
| Women's | 28,459 | 21,068 | 85,244 | 63,431 |
| Hard goods/other | 5,453 | 4,475 | 16,174 | 13,519 |
| Total net sales | $ 106,701 | $ 83,729 | $ 317,561 | $ 253,642 |

**DULUTH HOLDINGS INC.**
**Reconciliation of Forecasted Net Income to Forecasted EBITDA and Forecasted EBITDA to Forecasted Adjusted EBITDA**
**For the Fiscal Year Ending February 3, 2019**
**(Unaudited)**
**(Amounts in thousands)**

| | Low | High |
|---|---|---|
| ***Forecasted*** | | |
| Net income | $ 26,000 | $ 27,500 |
| Depreciation and amortization | 12,100 | 12,500 |
| Interest expense | 4,450 | 4,950 |
| Income tax expense | 9,000 | 9,550 |
| EBITDA | $ 51,550 | $ 54,500 |
| Non-cash stock based compensation | 1,450 | 1,500 |
| Adjusted EBITDA | $ 53,000 | $ 56,000 |

Source: Duluth Trading Company