



Duluth Holdings Inc. Announces Second Quarter Fiscal 2020 Financial Results

Sep 03, 2020

MOUNT HOREB, Wis., Sept. 03, 2020 (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 second quarter ended August 2, 2020.

Highlights for the Second Quarter Ended August 2, 2020

- Net sales increased 12.6% to \$137.4 million compared to \$122.0 million in the prior-year second quarter
- Direct-to-consumer net sales increased 66.9% and retail store net sales decreased 40.4% as stores re-opened throughout the first half of the quarter
- Gross margin decreased to 52.8% compared to 53.1% in the prior-year second quarter
- Operating income increased to \$9.8 million compared to operating income of \$3.7 million in the prior-year second quarter
- Net income increased to \$5.9 million, or \$0.18 per diluted share, compared to net income of \$1.9 million, or \$0.06 per diluted share, in the prior-year second quarter
- Adjusted EBITDA¹ increased 75.3% to \$16.8 million compared to \$9.6 million in the prior-year second quarter
- As of June 15, 2020, we have re-opened all of our 62 retail stores in some capacity

¹See Reconciliation of net income (loss) to EBITDA and EBITDA to Adjusted EBITDA in the accompanying financial tables.

Management Commentary

"The real success story of the second quarter is the strength of the Duluth Trading brand and our ecommerce channel. Net sales grew 13% to \$137 million driven by a 67% growth in direct sales year-over-year and more than doubled the first quarter's strong direct sales growth rate," said Steve Schlecht, Executive Chairman and CEO of Duluth Trading.

"Our solid second quarter results can be attributed to several factors. First, our spring and summer product assortments had widespread appeal to both men and women whether staying at home or venturing outdoors. Second, the technology and infrastructure investments that we made well before the pandemic were critical in meeting the sudden shift in consumer shopping trends. Our enhanced website and mobile capabilities allowed us to easily accommodate the surge in demand. Third, our shift to more digital marketing versus traditional media spend generated a 130% lift in new buyer growth in our direct channel. Finally, the omnichannel model continued to validate our commitment even in the face of lower store traffic. Our thesis that having a store in a market builds overall brand awareness once again proved out in the second quarter. Direct sales growth in store markets outpaced that of non-store markets by 21 percentage points."

"As we move into the fall and holiday seasons, we are doing everything in our control to keep the momentum going. I am confident that our team has the talent, agility and conviction to meet the challenges ahead," concluded Schlecht.

Operating Results for the Second Quarter Ended August 2, 2020

Net sales increased 12.6%, to \$137.4 million, compared to \$122.0 million in the same period a year ago. The increase was attributed to a 66.9% increase in direct-to-consumer net sales, partially offset by a 40.4% decrease in retail store net sales. The increase in the direct-to-consumer net sales was driven by a shift of existing customers to online, as well as new buyer growth, particularly within our women's products. Total new buyer growth increased 54.6% compared to the same period a year ago. The decrease in retail store net sales was due to the temporary closure of all stores due to the COVID-19 pandemic. Retail store re-openings ranged from the first week in May through the third week in June.

Net sales in non-store markets increased \$17.3 million, or 58.6% primarily due to an increase in digital advertising to promote Mother's Day, Father's Day and online warehouse clearance events. Net sales in store markets decreased \$1.6 million, or 1.8%, due to temporary store closures, partially mitigated by a 79.8% increase in direct-to-consumer sales in store markets. We believe the difference in the increase in website and catalog sales between store and non-store markets continues to demonstrate the importance of our retail stores in building brand awareness and expanding our loyal customer base.

Men's business net sales increased 15.3% driven by growth in men's underwear, Alaskan Hardgear and apparel newness. Women's business net sales increased 9.6% driven by the summer solved collection, comfortable basics and plus line apparel.

Gross profit increased 11.8%, to \$72.5 million, or 52.8% of net sales, compared to \$64.8 million, or 53.1% of net sales, in the corresponding prior-year period. The decrease in gross margin rate was primarily driven by promotional, clearance and sitewide sales events to continue moving inventory during the period of slower store traffic and uncertainty in customer demand. The decrease was partially offset by reduced store delivery costs from lower store sales volumes as well as favorable retail physical inventory count results as compared to the same period a year ago.

Selling, general and administrative expenses increased 2.6% to \$62.7 million, compared to \$61.1 million in the same period a year ago. As a percentage of net sales, selling, general and administrative expenses decreased to 45.6%, compared to 50.1% in the corresponding prior-year period. The positive leverage was primarily due to shifting to a more efficient digital marketing approach as customer purchasing patterns migrated to online.

The increase in selling, general and administrative expense was due to increased shipping costs to support website sales, higher retail overhead costs driven by new store growth and increased depreciation expense associated with investments in technology, partially offset by reduced catalog spend and national TV advertising.

Balance Sheet and Liquidity

The Company ended the quarter with a cash balance of \$19.0 million, an inventory balance of \$167.6 million, net working capital of \$117.7 million, \$49.5 million outstanding on its \$70.5 million term loan, and \$30.0 million outstanding on its \$80.0 million revolving line of credit.

Fiscal 2020 Outlook

Given the unpredictability of the effects of the COVID-19 pandemic on, among other things, consumer behavior, store traffic, store operations, production capabilities, timing of deliveries, our people, economic activity and the market generally in the coming weeks and months, the Company is unable to provide specific earnings guidance at this time.

In response to expected impacts to sales plans, the Company has reduced its planned capital spend levels from the beginning of the fiscal year by 50% to approximately \$15 million primarily by decreasing fiscal 2020 new store openings to four and deferring certain technology and infrastructure projects, as well as continuing to focus on managing expense, extending payment terms and adjusting inventory receipt plans.

The following table recaps the Company's fiscal 2020 stores opened as well as signed new store leases and the anticipated opening timeframes, which reflects the Company's plan to reduce fiscal 2020 store openings to four.

Location	Timing	Gross Square Footage
Short Pump, VA	Opened March 5, 2020	16,828
Springfield, OR	Opened August 14, 2020	20,388
Orland Park, IL	Opened August 20, 2020	10,000
Florence, KY	Q3 Fiscal 2020	11,441
Cherry Hill, NJ	Fiscal 2021	11,441

Conference Call Information

A conference call and audio webcast with analysts and investors will be held on Thursday, September 3, 2020 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 September 17, 2020: 877-344-7529 (domestic) or 412-317-0088 (international)
- Replay access code: 10147470
- Live and archived webcast: ir.duluthtrading.com

Investors can pre-register for the earnings conference call to expedite their entry into the call and avoid waiting for a live operator. To pre-register for the call, please visit <http://dpreregister.com/10147470> and enter your contact information. You will then be issued a personalized phone number and pin to dial into the live conference call. Investors can pre-register any time prior to the start of the conference call.

About Duluth Trading

Duluth Trading is a 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 Loss to EBITDA and EBITDA to Adjusted EBITDA," for a reconciliation of net loss to EBITDA and EBITDA to Adjusted EBITDA for the three and six months ended August 2, 2020, versus the three and six months ended August 4, 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, and statements under the heading "Fiscal 2020 Outlook." 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 I, Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K filed with the SEC on March 20, 2020 and Part II, Item 1A "Risk Factors" in the Company's Quarterly Report on Form 10-Q filed with the SEC on June 5, 2020, 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: adverse changes in the economy or business conditions, including the adverse effects of the COVID-19 pandemic; prolonged effects of the COVID-19 pandemic on store traffic and disruptions to our distribution network, supply chains and operations; 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 inability to maintain the performance of a maturing store portfolio; 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)

	August 2, 2020	February 2, 2020
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 19,005	\$ 2,189
Receivables	2,095	1,470
Income taxes receivable	3,780	—
Inventory, net	167,584	147,849
Prepaid expenses & other current assets	9,075	9,503
Prepaid catalog costs	254	1,181
Total current assets	201,793	162,192
Property and equipment, net	136,448	137,071
Operating lease right-of-use assets	114,211	120,431
Finance lease right-of-use assets, net	45,920	46,677
Restricted cash	163	51
Available-for-sale security	6,004	6,432
Other assets, net	1,644	1,196
Total assets	\$ 506,183	\$ 474,050
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	\$ 40,141	\$ 33,053
Accrued expenses and other current liabilities	28,816	29,464
Income taxes payable	—	3,427
Current portion of operating lease liabilities	10,411	10,674
Current portion of finance lease liabilities	1,664	1,600
Current portion of Duluth long-term debt	2,500	1,000
Current maturities of TRI long-term debt ¹	589	557

Total current liabilities	84,121		79,775	
Operating lease liabilities, less current maturities	101,506		106,120	
Finance lease liabilities, less current maturities	36,934		37,434	
Duluth long-term debt, less current maturities	77,000		38,332	
TRI long-term debt, less current maturities ¹	27,512		27,778	
Deferred tax liabilities	11,710		8,505	
Total liabilities	338,783		297,944	
Commitments and contingencies				
Shareholders' equity:				
Treasury stock	(581	)	(407	)
Capital stock	91,921		90,902	
Retained earnings	78,395		87,589	
Accumulated other comprehensive income, net	(82	)	188	
Total shareholders' equity of Duluth Holdings Inc.	169,653		178,272	
Noncontrolling interest	(2,253	)	(2,166	)
Total shareholders' equity	167,400		176,106	
Total liabilities and shareholders' equity	\$ 506,183		\$ 474,050	

¹ Represents debt of the variable interest entity, TRI Holdings, LLC, that is consolidated in accordance with ASC 810, *Consolidation*. Duluth Trading Company is not the guarantor nor the obligor of this debt.

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

	Three Months Ended		Six Months Ended	
	August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
Net sales	\$ 137,375	\$ 121,963	\$ 247,292	\$ 236,207
Cost of goods sold (excluding depreciation and amortization)	64,903	57,159	122,488	110,485
Gross profit	72,472	64,804	124,804	125,722
Selling, general and administrative expenses	62,680	61,069	133,986	132,091
Operating income (loss)	9,792	3,735	(9,182	) (6,369
Interest expense	1,778	1,203	3,128	1,631
Other (loss) income, net	(250	) (8	) (191	) 196
Income (loss) before income taxes	7,764	2,524	(12,501	) (7,804
Income tax expense (benefit)	1,866	678	(3,220	) (2,005
Net income (loss)	5,898	1,846	(9,281	) (5,799
Less: Net loss attributable to noncontrolling interest	(43	) (90	) (87	) (163
Net income (loss) attributable to controlling interest	\$ 5,941	\$ 1,936	\$ (9,194	) \$ (5,636
Basic earnings (loss) per share (Class A and Class B):				
Weighted average shares of common stock outstanding	32,445	32,288	32,408	32,253
Net income (loss) per share attributable to controlling interest	\$ 0.18	\$ 0.06	\$ (0.28	) \$ (0.17
Diluted earnings (loss) per share (Class A and Class B):				
Weighted average shares and equivalents outstanding	32,445	32,399	32,408	32,253
Net income (loss) per share attributable to controlling interest	\$ 0.18	\$ 0.06	\$ (0.28	) \$ (0.17

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

	Six Months Ended	
	August 2, 2020	August 4, 2019
Cash flows from operating activities:		
Net loss	\$ (9,281	) \$ (5,799

Adjustments to reconcile net loss to net cash used in operating activities:

Depreciation and amortization	13,292		9,405	
Stock based compensation	881		1,029	
Deferred income taxes	3,300		(694	)
Loss on disposal of property and equipment	321		—	
Changes in operating assets and liabilities:				
Receivables	(625	)	606	
Income taxes receivable	(3,780	)	(2,331	)
Inventory	(19,735	)	(17,164	)
Prepaid expense & other current assets	2,594		1,508	
Deferred catalog costs	927		1,935	
Trade accounts payable	3,360		10,766	
Income taxes payable	(3,427	)	(218	)
Accrued expenses and deferred rent obligations	(1,556	)	(7,088	)
Noncash lease impacts	927		—	
Net cash used in operating activities	(12,802	)	(8,045	)
Cash flows from investing activities:				
Purchases of property and equipment	(8,842	)	(13,773	)
Capital contributions towards build-to-suit stores	(357	)	(3,013	)
Principal receipts from available-for-sale security	64		56	
Change in other assets	—		17	
Net cash used in investing activities	(9,135	)	(16,713	)
Cash flows from financing activities:				
Proceeds from line of credit	52,484		104,871	
Payments on line of credit	(41,816	)	(76,413	)
Proceeds from delayed draw term loan	30,000		—	
Payments on delayed draw term loan	(500	)	—	
Payments on TRI long term debt	(234	)	(240	)
Payments on finance lease obligations	(793	)	(273	)
Shares withheld for tax payments on vested restricted shares	(174	)	(313	)
Other	(102	)	197	
Net cash provided by financing activities	38,865		27,829	
Increase in cash, cash equivalents and restricted cash	16,928		3,071	
Cash, cash equivalents and restricted cash at beginning of period	2,240		3,085	
Cash, cash equivalents and restricted cash at end of period	\$ 19,168		\$ 6,156	
Supplemental disclosure of cash flow information:				
Interest paid	\$ 3,151		\$ 1,712	
Income taxes paid	\$ 40		\$ 562	
Supplemental disclosure of non-cash information:				
Unpaid liability to acquire property and equipment	\$ 2,451		\$ 509	

DULUTH HOLDINGS INC.

**Reconciliation of Net Income (Loss) to EBITDA and EBITDA to Adjusted EBITDA
(Unaudited)
(Amounts in thousands)**

	Three Months Ended		Six Months Ended	
	August 2, 2020	August 4, 2019	August 2, 2020	August 4, 2019
Net income (loss)	\$ 5,898	\$ 1,846	\$ (9,281	) \$ (5,799
Depreciation and amortization	6,603	5,013	13,292	9,405
Interest expense	1,778	1,203	3,128	1,631
Amortization of build-to-suit operating leases capital contribution	198	265	397	479
Income tax expense (benefit)	1,866	678	(3,220	) (2,005
EBITDA	\$ 16,343	\$ 9,005	\$ 4,316	\$ 3,711
Stock based compensation	418	555	881	1,029
Adjusted EBITDA	\$ 16,761	\$ 9,560	\$ 5,197	\$ 4,740



Source: Duluth Trading Company