



Duluth Holdings Inc. Announces Second Quarter Fiscal 2019 Financial Results

September 12, 2019

MOUNT HOREB, Wis., Sept. 12, 2019 (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 4, 2019.

Highlights for the Second Quarter Ended August 4, 2019

- Net sales increased 10.2% to \$122.0 million compared to \$110.7 million in the prior-year second quarter
- Gross margin decreased 310 basis points to 53.1% compared to 56.2% in the prior-year second quarter
- Operating income of \$3.7 million compared to operating income of \$9.9 million in the prior-year second quarter
- Net income of \$1.9 million, or \$0.06 per diluted share, compared to net income of \$6.4 million, or \$0.20 per diluted share, in the prior-year second quarter
- Adjusted EBITDA¹ of \$9.6 million compared to \$13.1 million in the prior-year second quarter
- The Company opened four retail stores in Rogers, AR; Danbury, CT; Madison, AL; and Kennesaw, GA; totaling approximately 61,000 gross square feet
- 38th consecutive quarter of increased net sales year-over-year

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

Management Commentary

"Since reassuming the role of CEO following the resignation of Stephanie L. Pugliese on August 29th, I have had the complete support of our talented and dedicated leadership team, and together, we have achieved a quick and smooth transition without disruption to our business," said Stephen L. Schlecht, Founder and Chief Executive Officer of Duluth Trading. "We know that our performance in the first half of this fiscal year fell below our expectations, and that now all our attention and resources must be completely focused on delivering a successful fourth quarter, which accounts for the lion's share of our sales and profitability for the entire year."

Schlecht added, "I also want to recognize that we have had some growing pains over the past year and a half. In response, we plan to slow down the pace of our retail expansion in 2020 and direct our focus to improving asset productivity and thus our operating margin rate. We have made a number of improvements in our business that are expected to bear fruit in 2020, and we have a strong team in place focused on the long-term success of our Company."

Operating Results for the Second Quarter Ended August 4, 2019

Net sales increased 10.2%, to \$122.0 million, compared to \$110.7 million in the same period a year ago. Net sales were driven by a 23.8% growth in retail net sales, with increases in both our men's and women's businesses, offset by a 0.9% decline in direct net sales. The increase in retail net sales was driven by new stores with 55 stores in the second quarter of 2019 as compared to 39 stores in the same period a year ago, partially offset by existing stores.

Gross profit increased 4.1%, to \$64.8 million, or 53.1% of net sales, compared to \$62.2 million, or 56.2% of net sales, in the corresponding prior-year period. The 310 basis point decrease in gross margin rate was primarily attributable to a decrease in product margins due to additional global promotions, coupled with recent clearance activity.

Selling, general and administrative expenses increased 16.7% to \$61.1 million, compared to \$52.3 million in the same period a year ago. As a percentage of net sales, selling, general and administrative expenses increased 280 basis points to 50.1%, compared to 47.3% in the corresponding prior-year period. As a percentage of net sales, advertising and marketing costs decreased 90 basis points to 13.4%, compared to 14.3% in the corresponding prior-year period, primarily due to advertising leverage gained from a higher mix of retail sales. As a percentage of net sales, selling expenses decreased 30 basis points to 14.4%, compared to 14.7% in the corresponding prior-year period, primarily due to a decrease in shipping expenses due to improved shipping rates, partially offset by an increase in store labor. As a percentage of net sales, general and administrative expenses increased 400 basis points to 22.3%, compared to 18.3% in the corresponding prior-year period, primarily due to an increase in occupancy and equipment cost due to growth in the number of retail stores, an increase in depreciation expense due to investments in technology and corporate facilities, and an increase in personnel cost due to an increase in headcount to support the growth of the business.

Balance Sheet and Liquidity

The Company ended the quarter with a cash balance of \$3.5 million, net working capital of \$66.1 million, and \$45.0 million outstanding on its \$130.0 million revolving line of credit.

Updated Fiscal 2019 Outlook

The Company updated its fiscal 2019 outlook as follows:

- Net sales in the range of \$610.0 million to \$620.0 million
- Adjusted EBITDA¹ in the range of \$51.0 million to \$55.0 million

- EPS in the range of \$0.60 to \$0.66 per diluted share
- Capital expenditures of \$38.0 million to \$42.0 million²
- 15 new store openings, adding approximately 215,000 of additional gross square footage

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

²Fiscal 2019 capital expenditures primarily include the opening of 15 retail stores, investments in technology and infrastructure improvements.

The table below recaps the Company's fiscal 2019 stores opened and signed new store leases and the anticipated opening timeframe.

| Location | Timing | Gross Square Footage |
|--------------------|--------------------------|-----------------------------|
| Friendswood, TX | Opened March 7, 2019 | 16,026 |
| Katy, TX | Opened March 8, 2019 | 16,000 |
| Wichita, KS | Opened March 21, 2019 | 15,385 |
| Spokane Valley, WA | Opened April 11, 2019 | 15,656 |
| Jacksonville, FL | Opened May 2, 2019 | 14,557 |
| Rogers, AR | Opened May 16, 2019 | 15,656 |
| Danbury, CT | Opened May 23, 2019 | 9,792 |
| Madison, AL | Opened June 6, 2019 | 15,656 |
| Kennesaw, GA | Opened June 28, 2019 | 19,620 |
| Round Rock, TX | Opened September 5, 2019 | 15,536 |
| Hoover, AL | Q3 Fiscal 2019 | 15,656 |
| Sandy, UT | Q3 Fiscal 2019 | 15,602 |
| Bloomington, MN | Q4 Fiscal 2019 | 1,663 |
| Franklin, TN | Q4 Fiscal 2019 | 11,940 |
| Knoxville, TN | Q4 Fiscal 2019 | 15,385 |
| Richmond, VA | Q1 Fiscal 2020 | 16,828 |

Conference Call Information

A conference call and audio webcast with analysts and investors will be held on Thursday, September 12, 2019 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 19, 2019: 877-344-7529 (domestic) or 412-317-0088 (international)
- Replay access code: 10134140
- 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/10134140> 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 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 six months ended August 4, 2019, versus the three and six months ended July 29, 2018. 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 2, 2020. 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 "Updated Fiscal 2019 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 April 19, 2019, 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 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.

Investor Contacts:

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(Tables Follow)

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

| | August 4, 2019 | February 3, 2019 |
|---|----------------|------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 3,468 | \$ 731 |
| Accounts receivable | 372 | 28 |
| Other receivables | 5,992 | 4,611 |
| Inventory, net | 114,849 | 97,685 |
| Prepaid expenses & other current assets | 12,225 | 12,640 |
| Prepaid catalog costs | 568 | 2,503 |
| Total current assets | 137,474 | 118,198 |
| Property and equipment, net | 136,427 | 167,109 |
| Operating lease right-of-use assets | 115,053 | — |
| Finance lease right-of-use assets | 32,872 | — |
| Restricted cash | 2,688 | 2,354 |
| Available-for-sale security | 6,239 | 6,295 |
| Goodwill | 402 | 402 |
| Other intangible asset, net | 292 | 306 |
| Other assets, net | 2,648 | 641 |
| Total assets | \$ 434,095 | \$ 295,305 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |

| | | | |
|--|---------|---------|------------|
| Current liabilities: | | | |
| Trade accounts payable | \$ | 36,255 | \$ 25,363 |
| Accrued expenses and other current liabilities | | 23,693 | 26,530 |
| Income taxes payable | | — | 218 |
| Current portion of operating lease liabilities | | 9,825 | — |
| Current portion of finance lease liabilities | | 1,072 | — |
| Current maturities of long-term debt | | 525 | 500 |
| Total current liabilities | | 71,370 | 52,611 |
| Long-term line of credit | | 45,000 | 16,542 |
| Finance lease obligations under build-to-suit leases | | — | 23,034 |
| Operating lease liabilities, less current maturities | | 101,173 | — |
| Finance lease liabilities, less current maturities | | 26,208 | — |
| Deferred rent obligations, less current maturities | | — | 5,003 |
| Deferred tax liabilities | | 9,028 | 9,722 |
| Long-term debt, less current maturities | | 28,016 | 28,283 |
| Total liabilities | | 280,795 | 135,195 |
| Commitments and contingencies | | | |
| Shareholders' equity: | | | |
| Treasury stock | (405 |) | (92 |
| Capital stock | 91,075 | | 89,849 |
| Retained earnings | 63,032 | | 70,592 |
| Total shareholders' equity of Duluth Holdings Inc. | 153,702 | | 160,349 |
| Noncontrolling interest | (402 |) | (239 |
| Total shareholders' equity | 153,300 | | 160,110 |
| Total liabilities and shareholders' equity | \$ | 434,095 | \$ 295,305 |

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | August 4, 2019 | July 29, 2018 | August 4, 2019 | July 29, 2018 |
| Net sales | \$ 121,963 | \$ 110,653 | \$ 236,207 | \$ 210,860 |
| Cost of goods sold (excluding depreciation and amortization) | 57,159 | 48,413 | 110,485 | 92,680 |
| Gross profit | 64,804 | 62,240 | 125,722 | 118,180 |
| Selling, general and administrative expenses | 61,069 | 52,344 | 132,091 | 108,541 |
| Operating income (loss) | 3,735 | 9,896 | (6,369 |) 9,639 |
| Interest expense | 1,203 | 1,234 | 1,631 | 2,055 |
| Other (loss) income, net | (8 |) 2 | 196 | 165 |
| Income (loss) before income taxes | 2,524 | 8,664 | (7,804 |) 7,749 |
| Income tax expense (benefit) | 678 | 2,212 | (2,005 |) 1,980 |
| Net income (loss) | 1,846 | 6,452 | (5,799 |) 5,769 |
| Less: Net (loss) income attributable to noncontrolling interest | (90 |) 75 | (163 |) 83 |
| Net income (loss) attributable to controlling interest | \$ 1,936 | \$ 6,377 | \$ (5,636 |) \$ 5,686 |
| Basic earnings (loss) per share (Class A and Class B): | | | | |
| Weighted average shares of common stock outstanding | 32,288 | 32,065 | 32,253 | 32,056 |
| Net income (loss) per share attributable to controlling interest | \$ 0.06 | \$ 0.20 | \$ (0.17 |) \$ 0.18 |
| Diluted earnings (loss) per share (Class A and Class B): | | | | |
| Weighted average shares and equivalents outstanding | 32,399 | 32,414 | 32,253 | 32,439 |
| Net income (loss) per share attributable to controlling interest | \$ 0.06 | \$ 0.20 | \$ (0.17 |) \$ 0.18 |

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

Six Months Ended

August 4, 2019 July 29, 2018

Cash flows from operating activities:

| | | | |
|---|-----------|---|----------|
| Net (loss) income | \$ (5,799 |) | \$ 5,769 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | 9,405 | | 5,069 |
| Stock based compensation | 1,029 | | 858 |
| Deferred income taxes | (694 |) | (323 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (344 |) | 6 |
| Other receivables | (1,381 |) | (63 |
| Inventory | (17,164 |) | (12,130 |
| Prepaid expense & other current assets | 1,508 | | (2,265 |
| Deferred catalog costs | 1,935 | | (1,483 |
| Trade accounts payable | 10,766 | | 818 |
| Income taxes payable | (218 |) | (5,544 |
| Accrued expenses and deferred rent obligations | (7,088 |) | (3,297 |
| Net cash used in operating activities | (8,045 |) | (12,585 |

Cash flows from investing activities:

| | | | |
|---|---------|---|---------|
| Purchases of property and equipment | (13,773 |) | (26,798 |
| Capital contributions towards build-to-suit stores | (3,013 |) | — |
| Principal receipts from available-for-sale security | 56 | | — |
| Change in other assets | 17 | | (527 |
| Net cash used in investing activities | (16,713 |) | (27,325 |

Cash flows from financing activities:

| | | | |
|--|----------|---|----------|
| Proceeds from line of credit | 104,871 | | 57,093 |
| Payments on line of credit | (76,413 |) | (22,093 |
| Payments on long term debt | (240 |) | (39 |
| Payments on finance lease obligations | (273 |) | (2 |
| Change in bank overdrafts | — | | 481 |
| Proceeds from finance lease obligations | — | | 941 |
| Shares withheld for tax payments on vested restricted shares | (313 |) | (35 |
| Other | 197 | | 58 |
| Net cash provided by financing activities | 27,829 | | 36,404 |
| Increase (decrease) in cash and restricted cash | 3,071 | | (3,506 |
| Cash and restricted cash at beginning of period | 3,085 | | 7,083 |
| Cash and restricted cash at end of period | \$ 6,156 | | \$ 3,577 |

Supplemental disclosure of cash flow information:

| | | | |
|-------------------|----------|--|----------|
| Interest paid | \$ 1,712 | | \$ 1,925 |
| Income taxes paid | \$ 562 | | \$ 7,852 |

Supplemental disclosure of non-cash information:

| | | | |
|--|--------|--|-----------|
| Property and equipment acquired under build-to-suit leases | \$ — | | \$ 12,907 |
| Unpaid liability to acquire property and equipment | \$ 509 | | \$ 2,452 |

DULUTH HOLDINGS INC.

Reconciliation of Net Income to EBITDA and EBITDA to Adjusted EBITDA

(Unaudited)

(Amounts in thousands)

| | Three Months Ended | | Six Months Ended | | |
|---|--------------------|---------------|------------------|---------------|-----------|
| | August 4, 2019 | July 29, 2018 | August 4, 2019 | July 29, 2018 | |
| Net income (loss) | \$ 1,846 | \$ 6,452 | \$ (5,799 |) | \$ 5,769 |
| Depreciation and amortization | 5,013 | 2,760 | 9,405 | | 5,069 |
| Interest expense | 1,203 | 1,234 | 1,631 | | 2,055 |
| Amortization of build-to-suit leases capital contribution | 265 | — | 479 | | — |
| Income tax expense (benefit) | 678 | 2,212 | (2,005 |) | 1,980 |
| EBITDA | \$ 9,005 | \$ 12,658 | \$ 3,711 | | \$ 14,873 |
| Stock based compensation | 555 | 449 | 1,029 | | 858 |

| | | | | |
|-----------------|----------|-----------|----------|-----------|
| Adjusted EBITDA | \$ 9,560 | \$ 13,107 | \$ 4,740 | \$ 15,731 |
|-----------------|----------|-----------|----------|-----------|

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

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|----------------------|-------------------------|----------------------|
| | August 4, 2019 | July 29, 2018 | August 4, 2019 | July 29, 2018 |
| Net sales | | | | |
| Direct | \$ 60,267 | \$ 60,833 | \$ 125,968 | \$ 127,045 |
| Retail | 61,696 | 49,820 | 110,239 | 83,815 |
| Total net sales | \$ 121,963 | \$ 110,653 | \$ 236,207 | \$ 210,860 |
| Operating income (loss) | | | | |
| Direct | \$ (4,146) | \$ 1,123 | \$ (16,825) | \$ (1,005) |
| Retail | 7,881 | 8,773 | 10,456 | 10,644 |
| Total operating income (loss) | 3,735 | 9,896 | (6,369) | 9,639 |
| Interest expense | 1,203 | 1,234 | 1,631 | 2,055 |
| Other (loss) income, net | (8) | 2 | 196 | 165 |
| Income (loss) before income taxes | \$ 2,524 | \$ 8,664 | \$ (7,804) | \$ 7,749 |

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

| | Three Months Ended | | Six Months Ended | |
|------------------|---------------------------|----------------------|-------------------------|----------------------|
| | August 4, 2019 | July 29, 2018 | August 4, 2019 | July 29, 2018 |
| Net sales | | | | |
| Men's | \$ 80,090 | \$ 75,434 | \$ 155,890 | \$ 143,354 |
| Women's | 35,742 | 29,625 | 67,915 | 56,785 |
| Hard goods/other | 6,131 | 5,594 | 12,402 | 10,721 |
| Total net sales | \$ 121,963 | \$ 110,653 | \$ 236,207 | \$ 210,860 |

DULUTH HOLDINGS INC.
Reconciliation of Forecasted Net Income to Forecasted EBITDA and Forecasted EBITDA to Forecasted Adjusted EBITDA
For the Fiscal Year Ending February 2, 2020
(Unaudited)
(Amounts in thousands)

| | Low | High |
|---|------------|-------------|
| Forecasted | | |
| Net income | \$ 19,500 | \$ 21,500 |
| Depreciation and amortization | 18,700 | 19,700 |
| Interest expense | 4,100 | 3,900 |
| Amortization of build-to-suit leases capital contribution | 1,000 | 1,300 |
| Income tax expense | 7,000 | 7,700 |
| EBITDA | \$ 50,300 | \$ 54,100 |
| Stock based compensation | 700 | 900 |
| Adjusted EBITDA | \$ 51,000 | \$ 55,000 |



Source: Duluth Trading Company