APEX TOOL GROUP, LLC

Report for the Three Months Ended
March 31, 2023 and
April 1, 2022

The date of this Quarterly Report is May 15, 2023.

PART I – FINANCIAL INFORMATION

PART II – OTHER INFORMATION

CERTAIN DEFINED TERMS

Unless the context otherwise requires, in this report, the terms (i) "we," "us," "our," the "Company," "Apex Tool Group, LLC" and similar terms refer to Apex Tool Group, LLC, together with, where appropriate, its consolidated subsidiaries, and (ii) "Parent" or "Holdings" refers to BC Mountain Holdings, Inc., an entity controlled by investment funds associated with Bain Capital, of which entities that it controls are the direct and indirect parent companies of the Company. The terms "first quarter 2023" and "first quarter 2022" refer to the three months ended March 31, 2023 and April 1, 2022, respectively.

PRESENTATION OF FINANCIAL INFORMATION

This unaudited quarterly report ("Quarterly Report") provides information relating to the Company as of March 31, 2023 and April 1, 2022 and for the three month periods then ended.

The results for the periods included in this Quarterly Report are unaudited, but reflect all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of our financial position, results of operations and cash flows. Results of operations for interim periods are not necessarily indicative of results of operations for a full year. Our unaudited consolidated condensed financial statements included in this Quarterly Report should be read in conjunction with our consolidated financial statements for the year ended December 31, 2022 and the notes thereto and our 2022 Annual Report. Copies of our 2022 Annual Report are available on Syndtrak Lender Site.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report includes certain "forward-looking statements" that involve many risks and uncertainties. Forward-looking statements included all statements that do not relate solely to historical or current facts, and contain words such as "believes," "expects," "may," "will," "should," "seeks," "intends," "plans," "estimates," "projects," or "anticipates," or similar expressions that concern our strategy, plans or intentions. All statements made relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may change at any time and, therefore, our actual results may differ materially from those expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, it is very difficult to predict the impact of known factors, and, of course, it is impossible to anticipate all factors that could affect our actual results. Some of the important factors that could cause actual results to differ materially from our expectations include:

- the effects of a pandemic on our business, operations and financial results, including the change of customer behaviors, the effect of government lockdowns, restrictions and new regulations on our operations and processes;
- disruptions or limitations with respect to our supply chain, transportation and manufacturing processes;
- our customers potentially reducing demand for our products due to, among other things, deterioration of or instability in the global economy, adverse changes in our relationships with or the financial condition of our customers and cycles in the industries to which we sell our products;
- our exposure to product liability and warranty claims and environmental obligations;
- inflationary economic conditions and our ability to recover higher costs through customer price increases;
- rising interest rates;
- movements in foreign currency exchange rates;
- our ability to integrate acquisitions;

- our ability to execute restructuring activities;
- cyber-security risks and disruptions in our information technology systems;
- we may not maintain or obtain required regulatory approvals, permits or consents;
- regulations that may impact our operations or affect our profitability;
- our ability to attract and retain key management personnel;
- the availability of skilled employees and other workforce factors;
- our inability to service our indebtedness;
- risks related to natural disasters, catastrophes, public health issues or pandemics;
- risks related to wars, such as on-going war between Russia and Ukraine and the potential of escalation or extended involvement of the US, China or other countries;
- trade protection measures and import or export licensing requirements including those related to the United States' relations with foreign countries, including China;
- risks relating to U.S. and International tax reform;
- we may be adversely affected by other economic, business, and competitive factors, including economic slowdown; and
- other factors mentioned in the section entitled "Risk Factors" in our 2022 Annual Report.

All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements. All such statements speak only as of the date made, and we undertake no obligation to update publicly or otherwise or to revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

IMPORTANT NOTE REGARDING CONFIDENTIALITY

This Quarterly Report is confidential, and has been prepared exclusively for use by creditors, investors, prospective investors, broker-dealers, market makers and securities analysts. You are authorized to use this report solely for the purpose of evaluating your investment. You may not reproduce or distribute this report, in whole or in part, and you may not disclose any of the contents of this report or use any information herein for any purpose other than evaluating your investment. You agree to the foregoing by accepting delivery of, or access to, this report.

The delivery of or access to this report does not imply that any information set forth in this report is correct as of any date after the date of this report.

INTELLECTUAL PROPERTY

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. In addition, our names, logos and website names and addresses are owned by us or licensed by us. We also own or have the rights to copyrights that protect the content of our products. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this Report are listed without the ©, ® and ™ symbols.

This Report may include trademarks, service marks or trade names of other companies. Our use or display of other parties' trademarks, service marks, trade names or products is not intended to, and does not imply a relation with, or endorsement or sponsorship of us by, the trademark, service mark or trade name owners.

Apex Tool Group, LLC

Consolidated Condensed Balance Sheets (Unaudited)

(Dollars in Thousands)

	March 31, 2023	December 31, 2022
Assets		
Cash and cash equivalents	**$ 50,063**	$ 56,652
Accounts receivable, net of allowances of $7,075 as of March 31, 2023 and $6,037 as of December 31, 2022	**175,199**	169,423
Inventories	**384,924**	405,193
Current derivative assets	**16,905**	15,472
Prepaid expenses and other current assets	**29,227**	30,657
Total current assets	**656,318**	677,397
Property, plant, and equipment, net	**117,124**	116,539
Goodwill, net	**349,957**	362,619
Other intangibles, net	**127,718**	127,102
Noncurrent deferred tax assets	**12,640**	11,774
Right of use assets - operating leases, net	**65,124**	66,450
Other assets	**24,098**	23,261
Total assets	**$ 1,352,979**	$ 1,385,142
Liabilities and member's deficit		
Current maturities of long-term debt	**$ 8,550**	$ 8,550
Accounts payable	**138,804**	138,657
Income taxes payable	**21,188**	20,839
Accrued salaries, wages, and employee benefits	**36,618**	39,018
Accrued expenses and other current liabilities	**108,687**	116,831
Total current liabilities	**313,847**	323,895
Accounts receivable securitization facility	**53,000**	57,500
Revolving credit facility	**140,000**	110,000
Long-term debt, net of current maturities	**1,162,756**	1,163,778
Postretirement benefit obligations	**56,014**	54,433
Noncurrent deferred tax liabilities	**12,203**	13,548
Noncurrent derivative liabilities	**6,840**	602
Operating lease obligations	**65,810**	66,434
Other noncurrent liabilities	**11,576**	11,180
Total liabilities	**1,822,046**	1,801,370
Additional paid-in capital	**642,328**	642,136
Accumulated deficit	**(968,380)**	(905,784)
Accumulated other comprehensive loss	**(143,015)**	(152,580)
Total member's deficit	**(469,067)**	(416,228)
Total liabilities and member's deficit	**$ 1,352,979**	$ 1,385,142

See accompanying notes.

Apex Tool Group, LLC

Consolidated Condensed Statements of Operations (Unaudited)

(Dollars in Thousands)

	Three months ended	
	March 31, 2023	**April 1, 2022**
Revenues	**$ 344,995**	$ 297,663
Cost of sales	**247,511**	215,902
Gross profit	**97,484**	81,761
Selling, general, and administrative expenses	**87,641**	83,334
Restructuring	**855**	—
Operating income (loss)	**8,988**	(1,573)
Interest expense, net	**(39,348)**	(27,839)
Amortization of goodwill	**(15,187)**	(15,482)
(Loss) Gain from foreign currency, net	**(7,409)**	6,094
Other expense, net	**(244)**	(7,109)
Loss before taxes	**(53,200)**	(45,909)
Income tax expense	**6,546**	3,613
Net loss	**$ (59,746)**	$ (49,522)

See accompanying notes.

Apex Tool Group, LLC

Consolidated Condensed Statements of Comprehensive Loss (Unaudited)

(Dollars in Thousands)

	Three months ended	
	March 31, 2023	**April 1, 2022**
Net loss	**$ (59,746)**	$ (49,522)
Other comprehensive income (loss):		
Foreign currency translation adjustments	**14,520**	941
Changes in unrecognized pension benefit, net of tax	**(149)**	37
(Loss) Gain on derivative financial instruments, net of tax	**(4,806)**	1,562
Total other comprehensive income	**9,565**	2,540
Comprehensive loss	**$ (50,181)**	$ (46,982)

See accompanying notes.

Apex Tool Group, LLC

Consolidated Condensed Statement of Member's Deficit (Unaudited)

(Dollars in Thousands)

	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total member's deficit
Balance at January 1, 2023	$ 642,136	$ (905,784)	$ (152,580)	$ (416,228)
Adoption of ASU 2016-3 (Note 1)	**—**	**(2,850)**	**—**	**(2,850)**
Stock-based compensation	**375**	**—**	**—**	**375**
Settlement of unit appreciation rights	**(183)**	**—**	**—**	**(183)**
Net loss for the period	**—**	**(59,746)**	**—**	**(59,746)**
Foreign currency translation adjustments	—	—	**14,520**	**14,520**
Unrecognized pension benefit, net of taxes	—	—	**(149)**	**(149)**
Gain on derivative financial instruments, net of taxes	—	—	**(4,806)**	**(4,806)**
Balance at March 31, 2023	**$ 642,328**	**$ (968,380)**	**$ (143,015)**	**$ (469,067)**

See accompanying notes.

Apex Tool Group, LLC

Consolidated Condensed Statements of Cash Flows (Unaudited)

(Dollars in Thousands)

	Three months ended	
	March 31, 2023	**April 1, 2022**
Operating activities		
Net loss	**$ (59,746)**	$ (49,522)
Adjustments to reconcile net loss to cash flow from operating activities:		
Depreciation	**5,335**	5,771
Amortization of goodwill and intangible assets	**15,412**	19,648
Bad debt and other accounts receivable allowances	**(1,012)**	243
Deferred income tax (benefit) expense	**(2,006)**	194
Amortization of debt issue costs and debt discount	**1,370**	1,150
Loss on refinancing transaction	**—**	2,924
Gain on disposal of fixed assets	**(65)**	(125)
Stock-based compensation	**375**	253
Changes in operating assets and liabilities:		
Accounts receivable	**(6,049)**	25,253
Inventories	**24,802**	(81,471)
Accounts payable	**(1,768)**	(13,114)
Other current assets and liabilities	**(9,758)**	(4,612)
Other assets and liabilities	**7,216**	(3,092)
Cash flow used in operating activities	**(25,894)**	(96,500)
Investing activities		
Capital expenditures	**(4,523)**	(3,272)
Proceeds from disposal of fixed assets	**149**	3,064
Cash flow used in investing activities	**(4,374)**	(208)
Financing activities		
Proceeds from borrowings on revolving note loan - shareholders	**—**	15,000
Proceeds from borrowings on accounts receivable securitization facility	**12,000**	—
Repayments of borrowings on accounts receivable securitization facility	**(16,500)**	—
Proceeds from borrowings on revolving credit facility	**40,000**	65,000
Repayments of revolving credit facility	**(10,000)**	(147,500)
Proceeds from borrowing on term loans	**—**	1,205,000
Repayment of term loan facility	**(2,138)**	(819,813)
Repayment of notes	**—**	(325,000)
Debt issuance costs	**—**	(36,097)
Bain Capital contribution	**—**	135,000
Others	**(167)**	(150)
Cash flow provided by financing activities	**23,195**	91,440
Effect of exchange rate changes on cash	**484**	141
Decrease in cash and cash equivalents	**(6,589)**	(5,127)
Cash and cash equivalents at beginning of period	**56,652**	50,132
Cash and cash equivalents at end of period	**$ 50,063**	45,005
Non-cash financing activities:		
Conversion of Revolving Note Loan - Shareholder to equity of the parent ("Holdings")	$ —	$ 46,000

1. General

Business

Apex Tool Group, LLC (the "Company"), based in Charlotte, North Carolina, is one of the largest worldwide producers of industrial hand and power tools, tool storage, drill chucks, chain, and electronic soldering products. The Company serves a multitude of global markets, including automotive, aerospace, electronics, energy, hardware, industrial, and consumer retail. The Company markets its portfolio of diverse products under its own brand names. In addition, the Company is the principal manufacturer for several key private label products for certain retailers.

Basis of Presentation

The unaudited consolidated condensed financial statements included herein have been prepared by the Company in accordance with accounting principles generally accepted in the United States ("GAAP") and do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the unaudited consolidated condensed financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and the results of operations of the Company for the interim periods.

Interim results are not necessarily indicative of the results that may be expected for a full fiscal year. The information included in this Quarterly Report should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2022, which were included in the Annual Report and Financial Statements for the year ended December 31, 2022 (the "2022 Annual Report" and the "2022 Financial Statements).

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions have been eliminated in consolidation.

Significant Accounting Policies

The significant accounting policies are summarized in Note 1 to the consolidated financial statements for the year ended December 31, 2022. There were no changes to significant accounting policies in the first quarter of the current year, except the adoption of ASU 2016-03, as discussed below.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments - Credit Losses (Topic 326), which requires the measurement of expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable forecasts. The objective of the standard is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company adopted ASU 2016-13 in the first quarter of 2023, on a modified retrospective basis and applied the transition method which does not require adjustments to comparative periods nor require modified disclosures in those comparative periods. As the result of the adoption, the Company recognized a $2.85 million cumulative-effect adjustment to retained earnings related to the Company's allowance for credit losses on accounts receivable. Beginning January 1, 2023, the Company determines allowances for credit losses for all customers based on a range of percentages applied to aging categories (an aging method). These percentages are based on historical collection and write-off experience and include an expected loss for receivables that may be current with respect to their payment terms or for customers the Company believes the risk of loss is remote. Historical information may be adjusted to reflect any current conditions if management believes current conditions reflect different forecasts from historical experience. Actual write-offs are charged against the allowance when collection efforts have been unsuccessful. Additions to the allowances for credit losses are charged to current period earnings.

(Amounts in thousands except where otherwise indicated)

2. Key Transactions

Amendment of Securitization Facility Borrowing Capacity

In January 2023, Apex Tool Group, LLC executed an amendment with MUFG Bank, Ltd. and credit parties to change the borrowing capacity of the Securitization Facility to the lesser of $75.0 million and Net Receivable Pool Balance minus the Reserve. Refer to Note 6, Debt for more details.

China Line of Credit

In January 2023, China Merchant Bank approved a line of credit to the Company's China subsidiary with a maximum capacity of RMB 100.0 million ($14.6 million). Refer to Note 6, Debt for more details.

3. Inventories

The classification of inventories was as follows:

	March 31, 2023	December 31, 2022
Finished goods	**$ 231,529**	$ 267,087
Work in process	**123,342**	107,289
Raw materials	**30,053**	30,817
Total Inventories	**$ 384,924**	$ 405,193

4. Goodwill and Other Intangible Assets

The change in the carrying amount of goodwill was as follows:

	Gross Book Value	Accumulated Impairment	Accumulated Amortization	Net Book Value
Balance at December 31, 2022	$ 604,548	$ (4,515)	$ (237,414)	$ 362,619
Currency translation	**4,256**	**—**	**(1,731)**	**2,525**
Amortization	**—**	**—**	**(15,187)**	**(15,187)**
Balance at March 31, 2023	**$ 608,804**	**$ (4,515)**	**$ (254,332)**	**$ 349,957**

(Amounts in thousands except where otherwise indicated)

The carrying amounts and accumulated amortization of intangible assets other than goodwill were as follows:

	March 31, 2023	December 31, 2022
Gross carrying value:		
Customer relationships	**$ 397,449**	$ 394,760
Technology and other	**16,224**	16,185
Indefinite-lived trade names	**122,517**	121,716
	536,190	532,661
Accumulated amortization:		
Customer relationships	**(392,286)**	(389,482)
Technology and other	**(16,186)**	(16,077)
	(408,472)	(405,559)
Total other intangible assets, net	**$ 127,718**	$ 127,102

Amortization on the intangible assets other than goodwill during the three months ended March 31, 2023 and April 1, 2022 was $0.2 million and $4.2 million, respectively.

5. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities included the following:

	March 31, 2023	December 31, 2022
Sales allowances and returns	**$ 53,159**	$ 57,777
Advertising	**2,665**	4,613
Warranty	**5,228**	4,815
Claims, including self-insurance and litigation	**3,990**	3,184
Freight and duty	**6,523**	11,633
Non-income tax-related liabilities	**2,554**	4,111
Restructuring reserve (1)	**2,584**	3,480
Interest	**8,882**	8,173
Current maturities of operating lease obligations (2)	**3,899**	3,901
Professional services	**5,365**	3,181
Others	**13,838**	11,963
Total accrued expenses and other current liabilities	**$ 108,687**	$ 116,831

(1) See Note 12, Restructuring

(2) See Note 15, Leases

(Amounts in thousands except where otherwise indicated)

Changes in the Company's warranty reserve were as follows:

Warranty reserve at January 1, 2023	$	4,815
Accruals for new warranties and adjustments to existing warranties		**1,652**
Settlements made		**(1,304)**
Currency translation adjustments		**65**
Warranty reserve at March 31, 2023	**$**	**5,228**

6. Debt

Term Loans and Revolving Credit Facility

On February 8, 2022, the Company executed a new debt agreement consisting of an $855.0 million First Lien Term Loan and $350.0 million Second Lien Term Loan (collectively the "Term Loans"), and a revolving credit facility with a $171.6 million borrowing capacity ("Revolving Credit Facility"). The proceeds of the new debt agreement, along with a $125.0 million cash contribution from Bain Capital, were used to repay the $819.8 million principal balance and $1.2 million interest balance of the previously issued Senior Secured Term Loan Facility, $147.5 million principal balance and $0.4 million interest balance of the previously executed Senior Secured Revolving Credit Facility. Additionally, the proceeds of the new debt agreement were used to call the previously issued $325.0 million 9.0% Senior Notes due in 2023 at par plus interest. The execution of the new debt agreement and repayment of previously issued instruments is hereafter referred to as the "Refinancing". The new Revolving Credit Facility, the First Lien Term Loan and the Second Lien Term Loan mature on February 8, 2027, February 8, 2029, and February 8, 2030, respectively.

The First Lien Term Loan and Revolving Credit Facility bear interest at a rate per annum, equal to Daily Simple SOFR, plus a credit spread adjustment of 0.10%, plus a margin ranging from 4.75% to 5.25%. The Second Lien Term Loan bears interest at a rate per annum, equal to Daily Simple SOFR, plus a credit spread adjustment of 0.10%, plus a margin of 10.00%.

The Revolving Credit Facility includes a commitment fee for any unutilized commitments. The fee ranges from 0.25% to 0.50% per annum. The Letter of Credit incurs a fee at the per annum rate equal to the Revolving Credit Facility that are SOFR Loans, plus a fronting fee of 0.125% per annum.

The new debt agreement requires annual payments of $8.5 million of principal of First Lien Term Loan in the form of quarterly installments of $2.1 million on the last business day of each quarter end, commencing September 30, 2022.

As part of the Refinancing, during the year ended December 31, 2022, the Company incurred a loss on refinancing transaction of $4.5 million, comprised of $1.6 million of expenses not eligible for capitalization and $2.9 million of previously capitalized debt discount and issuance costs that were extinguished as part of the Refinancing.

Also, related to the Refinancing, the Company incurred cash costs of $36.1 million, comprised of $4.2 million of expenses not eligible for capitalization and $31.9 million of lender fees and third-party expenses capitalized as unamortized discount and unamortized debt issuance costs. Of the $31.9 million capitalized as unamortized discount and unamortized debt issuance costs, $29.2 million relates to the Term Loans, and $2.7 million relates to the Revolving Credit Facility.

(Amounts in thousands except where otherwise indicated)

The $29.2 million of Term Loan fees and expenses capitalized are included in the table to follow as unamortized discount and unamortized debt issuance costs, along with $3.2 million of previously capitalized debt discount and issuance costs that were not extinguished as part of the Refinancing. The amounts included in the table to follow are net of any amortization that has occurred since the Refinancing.

Amounts outstanding under the Company's Term Loans, net of unamortized discounts and debt issuance costs, were as follows:

	March 31, 2023					**December 31, 2022**
	Long-Term Debt Less Current Maturities	Current Maturities of Long-Term Debt	Unamortized Discount (1)	Unamortized Debt Issuance Costs (1)	Maturity Amount	Long-term Debt Less Current Maturities
Term Loans	**$ 1,162,756**	**$ 8,550**	**$ (11,152)**	**$ (16,129)**	**$ 1,198,587**	$ 1,163,778

(1) Unamortized discount and unamortized debt issuance costs are contra-liability accounts within long-term debt, net of current maturities, on the consolidated condensed balance sheet.

Under the terms of the Term Loans, the Company is subject to certain financial covenants, including a net leverage ratio and other customary covenants, such as restrictions on liens, restrictions on investments, and limits on indebtedness. Further, the terms of the Revolving Credit Facility require the first lien net leverage ratio (as defined in the First Lien Credit Agreement) not exceed 7.25 beginning in the third quarter of 2022. As of March 31, 2023, the Company was in compliance with all of its debt covenants. Deterioration or instability of the economies and financial markets (such as a recession) in the geographies in which the Company does business could adversely affect the Company's business and its compliance with debt covenants. Breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness, in addition to any other indebtedness cross-defaulted against such instruments. Any such breach could materially adversely affect the Company's results of operations and financial condition.

At March 31, 2023, the weighted-average interest rate on the Revolving Credit Facility was 9.90%, exclusive of commitment fees. At March 31, 2023, the balance on the Revolving Credit Facility was $140.0 million. Additionally, at March 31, 2023, the Revolving Credit Facility had $9.9 million of outstanding letters of credit and there was $21.7 million unused borrowing capacity under the Revolving Credit Facility.

The Company made Term Loan and Revolving Credit Facility interest payments of $35.8 million and $24.1 million during the three months ended March 31, 2023 and April 1, 2022, respectively.

Accounts Receivable Securitization Facility

In September 2022, Apex Tool Group, LLC executed agreements with MUFG Bank, Ltd. and credit parties for an accounts receivable securitization facility ("Securitization Facility"), on a revolving basis, with a borrowing capacity up to the lesser of $100.0 million and Net Receivable Pool Balance minus the Reserves, over 3 years. In January 2023, the Company executed an amendment with the parties to change the borrowing capacity to the lesser of $75.0 million and Net Receivable Pool Balance minus the Reserve. Pursuant to the agreements, Apex Tool Group, LLC sells current and future accounts receivable to Apex Tool TR, LLC, ("SPE"), its wholly-owned special purpose entity. The SPE, in turn, pledges its interests in the accounts receivable to creditors which make loans to the SPE. The Company consolidates the SPE and continues to report the pledged accounts receivable as part of its consolidated accounts receivables and the Securitization Facility as noncurrent liabilities in its consolidated balance sheet since the Company has the power to direct the activities of the SPE and continues involvement in the pledged accounts receivable.

The Securitization Facility bears interest at a rate per annum, equal to one-month Term SOFR, plus a credit spread adjustment of 0.10%, plus a margin of 2.25%. The Securitization Facility requires the monthly interest payment and repayment of principal on the final maturity date.

The Securitization Facility also accrues a commitment fee on unused capacity ranging from 0.40% to 0.60% per annum depending on the percentage of unused capacity.

Related to the Securitization Facility, during the year ended December 31, 2022, the Company incurred fees and expenses of $1.0 million, comprised of $0.1 million of expenses not eligible for capitalization and $0.9 million of lender fees and third-party expenses capitalized as unamortized debt issuance costs.

At March 31, 2023, the weighted-average interest rate on the Securitization Facility was 7.06%, exclusive of commitment fees. As of March 31, 2023, the Securitization Facility had an outstanding borrowing of $53.0 million and an unused capacity of $22.0 million. Interest payment associated with the Securitization Facility was $0.9 million for the three months ended March 31, 2023.

China Line of Credit

In January 2023, China Merchant Bank approved a line of credit ("China Line of Credit") to the Company's China subsidiary with a maximum capacity of RMB 100.0 million ($14.6 million) on a revolving basis over a year. The bank issues bank acceptance drafts or letters of credit for the China subsidiary's domestic transactions. As of March 31, 2023, the China Line of Credit had an outstanding balance of RMB 26.3 million ($3.8 million) and an unused capacity of RMB 73.7 million ($10.8 million).

7. Derivative Financial Instruments

Net Investment Hedges

The Company is exposed to fluctuations in foreign exchange rates on investments it holds in foreign entities whose functional currencies are euro (EUR) denominated, which differs from that of the Company, which is the U.S. dollar (USD). As a result, the Company is exposed to the risk of adverse changes between the EUR-USD exchange rate in its consolidated financial statements.

As of December 31, 2021, the Company had three outstanding foreign currency derivatives that were used to hedge its net investments in foreign operations, with an aggregate notional value of EUR 136.5 million (collectively the "Hedging Instruments"). The Hedging Instruments expired on February 15, 2022. The Company terminated the Hedging Instruments on February 11, 2022. As of March 31, 2023 and December 31, 2022, the Company did not have any outstanding foreign currency derivatives. The fair values of the Company's Hedging Instruments were based on values for similar instruments using models with market-based inputs and were categorized as Level 2 under the GAAP fair value hierarchy. These instruments were considered effective hedging arrangements.

As of March 31, 2023, there were $8.9 million of gains relating to the net investment hedges in Accumulated other comprehensive loss. Gains are reclassified out of Accumulated other comprehensive loss into earnings when the hedged net investment is either sold or substantially liquidated. See the Consolidated Statements of Comprehensive Loss for unrealized gains and losses on these derivative financial instruments incurred during the periods.

(Amounts in thousands except where otherwise indicated)

Cash Flow Hedges of Interest Rate Risk

The Company uses interest rate caps to manage the Company's exposure to interest rate movements as part of the Company's strategy to manage interest rate risk.

In the second quarter of 2022, the Company executed two SOFR interest rate caps including $315.0 million effective on May 9, 2022 and expiring on June 9, 2025, and $800.0 million effective on November 9, 2022 and expiring on June 9, 2025. The new interest rate caps provide for interest payments on the Company's SOFR floating rate debt, as discussed in Note 6, Debt, on the aggregate notional amount at a cap of 3.5%. The premium for new interest rate caps is paid at the expiration date.

All interest rate caps are recognized on the consolidated Balance Sheets at fair value. The fair values of the Company's interest rate caps derivative financial instruments are based on values for similar instruments using models with market-based inputs and are categorized as Level 2 under the GAAP fair value hierarchy.

The Company's interest rate caps were classified in the Consolidated Balance Sheets as follows:

	March 31, 2023	December 31, 2022
Current derivative assets	**$ 16,905**	$ 15,472
Accrued expenses and other current liabilities	**2,554**	1,253
Noncurrent derivative liabilities	**6,840**	602

8. Income Taxes

The income tax expense for the three months ended March 31, 2023 and April 1, 2022 was $6.5 million and $3.6 million, respectively, and is the result of the expected geographic mix of full year taxable earnings, changes in statutory tax rates, and the impact of permanent differences on taxable income. Tax expense is primarily driven by significant earnings of subsidiaries in foreign tax jurisdictions on which foreign taxes are provided.

Cash payments for income taxes, net of refunds received, attributable to the operations of the Company for the three months ended March 31, 2023 and April 1, 2022 were $8.2 million and $4.8 million, respectively.

As a wholly-owned subsidiary of Holdings, the Company’s earnings are subject to corporate taxes for U.S. federal and state income tax purposes. The Company owns subsidiaries outside the U.S. that are subject to income tax in their respective foreign jurisdictions and, as a result, the Company maintains deferred income tax assets and liabilities for those foreign subsidiaries.

(Amounts in thousands except where otherwise indicated)

9. Postretirement Benefits

The Company has one noncontributory defined benefit pension plan, which covers certain of its U.S. employees ("U.S. Pension Plan"). In addition, the Company has defined benefit pension plans in Mexico, Germany, Taiwan, and Brazil ("Non-U.S. Pension Plans") (collectively, the "Pension Plans").

The net periodic cost (benefit) related to the defined benefit pension plans included the following components:

	Three months ended			
	March 31, 2023		April 1, 2022	
	U.S. pension plan	Non-U.S. pension plans	U.S. pension plan	Non-U.S. pension plans
Service cost	**$ 115**	**$ 123**	$ 93	$ 186
Interest cost	**164**	**527**	109	266
Expected return on plan assets	**(194)**	**(8)**	(248)	(6)
Amortization of net (gain) loss	**(45)**	**(24)**	(35)	223
Net periodic cost (benefit)	**$ 40**	**$ 618**	$ (81)	$ 669

10. Comprehensive Loss

The changes in accumulated other comprehensive loss by component for the three months ended March 31, 2023 and April 1, 2022, are summarized as follows:

	Foreign currency translation adjustments	Unrecognized pension benefits	Unrealized gain on derivative financial instruments	Total
Balance at January 1, 2023	$ (183,875)	$ 7,572	$ 23,723	$ (152,580)
Other comprehensive income (loss) before reclassifications:				
Pre-tax other comprehensive income (loss)	**14,520**	**159**	**(3,618)**	**11,061**
Related income tax expense	**—**	**(46)**	**—**	**(46)**
Other comprehensive income (loss) before reclassifications, net of income taxes	**14,520**	**113**	**(3,618)**	**11,015**
Amounts reclassified from accumulated other comprehensive income (loss):				
Pre-tax other comprehensive income	**—**	**271**	**1,188**	**1,459**
Related income tax expense	**—**	**(9)**	**—**	**(9)**
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	**—**	**262**	**1,188**	**1,450**
Net current period other comprehensive income (loss), net of income taxes	**14,520**	**(149)**	**(4,806)**	**9,565**
Balance at March 31, 2023	**$ (169,355)**	**$ 7,423**	**$ 18,917**	**$ (143,015)**

(Amounts in thousands except where otherwise indicated)

	Foreign currency translation adjustments	Unrecognized pension costs	Unrealized gain on derivative financial instruments	Total
Balance at January 1, 2022	$ (135,300)	$ (6,360)	$ 8,810	$ (132,850)
Other comprehensive income (loss) before reclassifications:				
Pre-tax other comprehensive income	941	248	1,505	2,694
Related income tax expense	—	(80)	—	(80)
Other comprehensive income before reclassifications, net of income taxes	941	168	1,505	2,614
Amounts reclassified from accumulated other comprehensive income (loss):				
Pre-tax other comprehensive income (loss)	—	68	(57)	11
Related income tax benefit	—	63	—	63
Amounts reclassified from accumulated other comprehensive income (loss), net of income taxes	—	131	(57)	74
Net current period other comprehensive income, net of income taxes	941	37	1,562	2,540
Balance at April 1, 2022	$ (134,359)	$ (6,323)	$ 10,372	$ (130,310)

Foreign currency translation adjustments included on intra-entity transactions that are of a long-term investment nature of $0.1 million gain and $1.3 million gain were recorded for the three months ended March 31, 2023 and April 1, 2022, respectively.

11. Related-Party Transactions

The management fee paid to Bain Capital totaled $0.8 million for the three months ended March 31, 2023 and April 1, 2022. Reimbursement for out-of-pocket expenses totaled less than $0.1 million for the three months ended March 31, 2023 and April 1, 2022.

On February 16, 2021, the Company entered into a $30.0 million secured revolving promissory note agreement ("2021 Revolving Note Loan - Shareholder") with a subsidiary of Bain Capital. The $30.0 million 2021 Revolving Note Loan bore interest at a rate per annum equal to the one-month adjusted LIBOR plus 5.50%, compounded monthly. In January 2022, the principal was increased by $15.0 million to $45.0 million. The principal of $45.0 million and interest of $1.0 million were converted to an equity contribution by Bain Capital in February 2022.

In the first quarter of 2022, the Company received $135.0 million cash contributions from Bain Capital, in which a $125.0 million contribution was contemporaneous with the Refinancing.

12. Restructuring

The Company has historically implemented restructuring initiatives in various locations to reduce its manufacturing footprint and overall operating costs. The charges consist primarily of cash costs such as termination benefits, facility closure costs, equipment movement costs, and non-cash asset impairment costs. In 2022 and the first quarter of 2023, the Company has consolidated or eliminated some key executive positions, and right sized the Company's operations and support functions in light of recent economic indicators, especially in North America retail, resulting in new restructuring charges primarily related to termination benefits.

(Amounts in thousands except where otherwise indicated)

The following table summarizes the activity in the reserves related to the Company's restructuring actions for the three months ended March 31, 2023 and the year ended December 31, 2022:

Balance at January 1, 2022	$	906
Additions and adjustments to existing reserves (excludes non-cash impairment charges)		5,634
Cash utilization of reserves		(3,059)
Currency translation adjustments		(1)
Balance at December 31, 2022		3,480
Additions and adjustments to existing reserves (excludes non-cash impairment charges)		**855**
Cash utilization of reserves		**(1,781)**
Currency translation adjustments		**30**
Balance at March 31, 2023	**$**	**2,584**

Non-cash charges		
Year ended December 31, 2022	$	—
Three months ended March 31, 2023		**72**

13. Stock-Based Compensation

The time-vested stock option expense, recorded as a component of selling, general, and administrative expenses in the Company's consolidated condensed statements of operations, was $0.4 million for the three months ended March 31, 2023 and $0.3 million for the three months ended April 1, 2022. As of March 31, 2023, there was approximately $4.7 million of total unrecognized compensation expense related to the non-vested, time-vested stock options outstanding. No compensation expense has been recorded by the Company for the performance-based options as the Company is not able to conclude at March 31, 2023 that it is probable that the performance conditions will be satisfied. At March 31, 2023, there was approximately $21.1 million of total unrecognized compensation expense related to the non-vested, performance-vested options outstanding.

14. Commitments and Contingencies

In February 2021, United States Customs and Border Protection ("CBP") issued a pre-penalty notice to the Company, asserting that through gross negligence, the Company had underpaid customs duties owed for various products introduced into the United States, from May 2016 to April 2018. CBP requested payment of $3.5 million for monetary loss, alleging non-payment of duties, taxes, and fees, of which $0.5 million relates to undeclared merchandise and $3.0 million relates to errors in calculating the value of the sales. CBP also proposed a statutory penalty for gross negligence of four times the monetary loss, or $14.0 million. The Company vigorously disputes the gross negligence assertion, because the Company exercised reasonable care in the design and implementation of its import process relating to such sales. Thus, the Company maintains that CBP cannot collect penalties. The Company also strongly believes that because the Company exercised reasonable care, the time period as to the assessment by CBP for the alleged duties, taxes, and fees has expired. While the Company believes the CBP claim is without merit, it maintains an accrual for potential loss liability associated with such matters. The accrual was $1.3 million as of March 31, 2023 and December 31, 2022. While it is reasonably possible that the estimated amount of the loss will change and that the effect of the change could be material, such an estimate cannot yet be made at this preliminary stage of the process. The initial mitigation proposal with the CBP was provided in the third quarter of 2021. On April 17, 2023, the Company received correspondence from Customs Fines, Penalties & Forfeitures stating that CBP rejected our arguments with respect to reasonable care and has not modified the penalty claim. The Company plans to move to an offer in compromise with the Department of Justice.

The Company and its subsidiaries are defendants or otherwise involved in a number of lawsuits in the ordinary course of business. The Company accrues for the estimated cost of defense of lawsuits and accrues a loss liability related to pending litigation when it believes the amount and range of loss, either from an adverse judgment or settlement of litigation can be estimated. The Company records its best estimate of a loss when the loss is considered probable. When a liability is probable and there is a range of estimated loss with no best estimate in the range, the minimum estimated liability for loss related to the lawsuits is recorded. As of March 31, 2023, the Company had an accrual of $0.9 million for employment matters in Brazil, in which no single case is material and such cases have occurred in the ordinary course of business. As additional information becomes available, management assesses the potential liability related to the pending litigation and revises its estimates. Due to uncertainties related to the resolution of lawsuits, the ultimate outcome may differ from management's estimates. In the opinion of management, after considering accruals provided, the Company believes these pending lawsuits will not have a material adverse effect on its consolidated financial position. The Company believes it has sufficient product liability insurance for any material known product liability claims. The Company has not utilized any form of discounting in establishing its product liability accruals.

Environmental remediation activities, generally involving soil and/or groundwater contamination, include pre-cleanup activities such as fact finding and investigation, risk assessment, feasibility study, design and action planning, performance (where actions may range from monitoring, to removal of contaminants, to installation of longer-term remediation systems), and operation and maintenance of a remediation system. The extent of expected remediation activities and costs varies by site. A number of factors affect the cost of environmental remediation, including the number of parties involved at a particular site, the determination of the extent of contamination, the length of time the remediation may require, the complexity of environmental regulations, and the continuing advancement of remediation technology. Taking these factors into account, the Company has estimated the costs of remediation, which will be paid over a period of years. The Company accrues an amount on an undiscounted basis, consistent with its best estimate of these costs, when it is probable that a liability has been incurred. Actual results may differ from these estimates. At March 31, 2023 and December 31, 2022, the Company had environmental reserves of $4.3 million and $4.4 million, respectively, which are included in accrued expenses and other current liabilities and in other noncurrent liabilities.

Both product liability and environmental liability accruals involve estimates that can change over time. However, the Company does not believe that the nature of its products, its production processes, or the materials or other factors involved in the manufacturing process subject it to unusual risks or exposures for product or environmental liability.

15. Leases

The Company accounts for its leases in accordance with ASC 842 Leases. In applying the guidance, the Company has made several accounting policy elections, including (1) the Company does not separate lease and non-lease components for all of the Company's leases, and (2) for leases with a non-cancellable term of twelve months or less, the Company has elected the short-term lease exemption, meaning no right of use asset or lease liability are presented in our consolidated balance sheets for such leases.

(Amounts in thousands except where otherwise indicated)

ASC 842 requires the recognition of lease assets and liabilities for operating leases on the Company's Consolidated Condensed Balance Sheets. The following summarizes right of use assets and lease liabilities:

	Classification	March 31, 2023	December 31, 2022
Assets			
Operating lease assets	Right of use assets - operating leases	**$ 78,304**	$ 78,079
	Less accumulated amortization	**(13,180)**	(11,629)
Total leased assets	Right of use assets - operating leases, net	**65,124**	66,450
Liabilities			
Current			
Operating	Accrued expenses and other current liabilities	**3,899**	3,901
Long-term			
Operating	Operating lease obligations	**65,810**	66,434
Total lease liabilities		**$ 69,709**	$ 70,335

The Company determines incremental borrowing rate at lease inception based on interest rates from recent debt issuances and taking into consideration adjustments for lease terms, foreign currency, and other adjustments. The following is a summary of the weighted-average incremental borrowing rate:

Lease term and discount rate	March 31, 2023
Weighted-average remaining lease term (years)	
Operating leases	16.1
Weighted-average discount rate	
Operating leases	10.7 %

The following is a summary of the Company's total lease cost for the three months ended March 31, 2023 and April 1, 2022:

	March 31, 2023	April 1, 2022
Operating lease cost	**3,460**	3,177
Other lease cost (1)	**970**	861
Total lease cost	**$ 4,430**	$ 4,038

(1) Other lease cost includes short term and variable lease costs

During the three months ended March 31, 2023 and April 1, 2022, the Company had cash payments of $2.8 million and $2.8 million, respectively, for amounts included in the measurement of operating lease liabilities. The right of use assets obtained in exchange for new lease obligations during the first quarter of 2023 and 2022 were immaterial to the Consolidated Financial Statements. The Company terminated its only financing lease during 2020.

(Amounts in thousands except where otherwise indicated)

The following is a summary of the Company's future lease obligations on an undiscounted basis at March 31, 2023:

Year	**Operating Leases**
2023 (remaining nine months)	$ 8,068
2024	10,284
2025	10,156
2026	8,730
2027	8,576
Thereafter	112,343
Total minimum lease payments	158,157
Less: estimated executory costs	—
Net minimum lease payments	158,157
Less: imputed interest	(88,448)
Present value of minimum lease payments	$ 69,709

16. Subsequent Events

The Company has evaluated subsequent events through May 15, 2023, the date of issuance of these consolidated condensed financial statements, and determined that (i) no other subsequent events have occurred that would require recognition in its consolidated condensed financial statements for the three months ended March 31, 2023, and (ii) no other events have occurred that would require disclosure in the notes thereto.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

This management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to and should be read in conjunction with our consolidated condensed financial statements and related notes, to help provide an understanding of our financial condition, changes in financial condition and results of operations.

This MD&A includes statements that are, or may be deemed to be, "forward-looking statements." These forward-looking statements are based on management's present expectations and beliefs about future events. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the "Item 1A. Risk Factors" section included in our 2022 Annual Report. It is not possible for us to predict all of these risks or uncertainties, nor can we assess the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in forward-looking statements. Any forward-looking statements speak only as of the date of such statement, and we undertake no obligation to update such statements. See "Item 1A. Risk Factors" and "Disclosure Regarding Forward-Looking Statements" included in our 2022 Annual Report.

Overview

We are a leading global manufacturer, supplier and marketer of high-performance hand and power tools for industrial, commercial and demanding do-it-yourself (“DIY”) applications featuring a portfolio of innovative, premium hand tools and power tools used by a broad set of customers across diverse end markets. We design, manufacture, market and sell a variety of proprietary brands, including SATA, GEARWRENCH, CRESCENT, Cleco, Weller and APEX. We sell our products through professional and retail trade channels (both traditional and online) to customers in approximately 100 countries worldwide. In addition, we also design and manufacture a number of private label products for selected retailers, such as The Home Depot (through the HUSKY brand). We are headquartered in Charlotte, North Carolina, and have a global manufacturing footprint with locations in North America, Europe, Asia and Latin America.

Cybersecurity Event

The Company continues to move forward from the cybersecurity event that was detected on March 11, 2022 and resulted in the Company proactively taking offline its worldwide systems. The Company worked with cybersecurity experts to investigate and remediate the event, and to return our systems safely and securely to normal operations. The Company will continue to assess its cybersecurity protections and invest in necessary resources and technologies to further strengthen those protections.

Consolidated Results of Operations

Three months ended March 31, 2023 compared to three months ended April 1, 2022.

The following tables present selected consolidated comparative results of operations from our unaudited consolidated condensed financial statements for the three months ended March 31, 2023 and April 1, 2022 (in thousands):

	Three months ended			
	March 31, 2023	**April 1, 2022**	**$ Change**	**% Change**
Revenues	**$ 344,995**	$ 297,663	$ 47,332	16 %
Cost of sales	**247,511**	215,902	31,609	15 %
Gross profit	**97,484**	81,761	15,723	19 %
Selling, general, and administrative expenses	**87,641**	83,334	4,307	5 %
Restructuring	**855**	—	855	n/m
Operating income (loss)	**8,988**	(1,573)	10,561	n/m
Interest expense, net	**(39,348)**	(27,839)	(11,509)	41 %
Amortization of goodwill	**(15,187)**	(15,482)	295	(2)%
Loss (Gain) from foreign currency, net	**(7,409)**	6,094	(13,503)	n/m
Other expense, net	**(244)**	(7,109)	6,865	(97)%
Loss before taxes	**(53,200)**	(45,909)	(7,291)	16 %
Income tax expense	**6,546**	3,613	2,933	81 %
Net loss	**$ (59,746)**	$ (49,522)	$ (10,224)	21 %

n/m - not meaningful

Revenues

	Three months ended			
	March 31, 2023	**April 1, 2022**	**$ Change**	**% Change**
Revenues by division:				
Hand Tools division	**$ 256,997**	$ 234,312	$ 22,685	10 %
Power Tools division	**87,998**	63,351	24,647	39 %
Total Revenues	**$ 344,995**	$ 297,663	$ 47,332	16 %

Total revenues increased $47.3 million or 16% for the quarter, largely due to overcoming the cybersecurity event and China lockdowns that occured in March 2022 driving growth in both our Hand Tools division and our Power Tools division. There was an unfavorable foreign currency impact of $7.6 million in the overall $47.3 million increase in revenues. Excluding the unfavorable foreign currency impact, the revenues increased 19% for the quarter.

Hand Tools division revenues increased $22.7 million or 10% for the quarter, primarily related to growth in our SATA, GEARWRENCH and CRESCENT brands. There was an unfavorable foreign currency impact of $5.9 million in the overall $22.7 million increase in revenues. Excluding the unfavorable foreign currency impact, the revenues increased 13% for the quarter.

Power Tools division revenues increased $24.6 million or 39% for the quarter, primarily related to growth in our Cleco, Weller and APEX brands. There was an unfavorable foreign currency impact of $1.7 million in $24.6 million increase in revenues. Excluding the unfavorable foreign currency impact, the revenues increased 43% for the quarter.

Gross Profit

	Three months ended					
	March 31, 2023			**April 1, 2022**		
	Hand Tools division	**Power Tools division**	**Total**	**Hand Tools division**	**Power Tools division**	**Total**
Gross profit	**$ 68,307**	**$ 29,177**	**$ 97,484**	$ 56,819	$ 24,942	$ 81,761
Gross profit as a % of Net sales	**27 %**	**33 %**	**28 %**	24 %	39 %	27 %

First quarter 2023 gross profit increased $15.7 million to $97.5 million, or 28% of net sales, compared to first quarter 2022 gross profit of $81.8 million, or 27% of net sales. The increase in gross profit and gross profit as a percentage of sales was primarily due to gross profit contribution from higher sales volume, customer price realization and cost productivity. There was an unfavorable foreign currency impact of $2.4 million included in the overall $15.7 million increase of gross profit.

First quarter 2023 gross profit for the Hand Tools division was $68.3 million, or 27% of net sales, compared to first quarter 2022 gross profit of $56.8 million, or 24% of net sales. The increase in gross profit and gross profit as a percentage of sales for the Hand Tools division was primarily due to gross profit contribution from higher sales volume, customer price realization, cost productivity and favorable product sales mix, partially offset by the continued amortization of higher cost inventory as levels are reduced.

First quarter 2023 gross profit for the Power Tools division was $29.2 million, or 33% of net sales, compared to first quarter 2022 gross profit of $24.9 million, or 39% of net sales. The decrease in gross profit as a percentage of sales for the Power Tools division was primarily due to product sales mix and the continued amortization of higher cost inventory as levels are reduced, partially offset by higher sales volume, customer price realization and cost productivity.

Selling, General, and Administrative ("SG&A") Expenses

First quarter 2023 SG&A expenses increased $4.3 million, or 5%, to $87.6 million, compared to first quarter 2022 SG&A expenses of $83.3 million. SG&A expenses increased primarily due to the variable costs needed to support the volume growth, especially in sales and distribution. In addition, we continue to make investments in areas we believe will drive our long-term growth, including new product development.

The following table presents our SG&A by division (in thousands):

	Three months ended			
	March 31, 2023	**April 1, 2022**	**$ Change**	**% Change**
SG&A by division:				
Hand Tools division	**$ 47,865**	$ 43,157	$ 4,708	11 %
Power Tools division	**18,736**	19,520	(784)	(4)%
Corporate overhead	**21,040**	20,657	383	2 %
SG&A	**$ 87,641**	$ 83,334	$ 4,307	5 %

Corporate overhead is primarily comprised of expenses associated with centralized finance, information technology, human resources, executive, legal and business development functions.

The following table presents our SG&A by function (in thousands):

	Three months ended			
	March 31, 2023	**April 1, 2022**	**$ Change**	**% Change**
SG&A by function:				
Sales	**$ 24,167**	$ 20,996	$ 3,171	15 %
Marketing	**14,952**	15,232	(280)	(2)%
Distribution costs	**12,514**	11,374	1,140	10 %
Research and development	**7,976**	7,108	868	12 %
Administrative expenses	**28,032**	28,624	(592)	(2)%
SG&A	**$ 87,641**	$ 83,334	$ 4,307	5 %

Administrative expenses include our executive, finance, human resources, legal, information technology and business development functions.

Restructuring

Restructuring charges were $0.9 million in the first quarter of 2023, consisting of cash termination and related benefits. We have taken restructuring initiatives since the third quarter of 2022, including actions focused on right sizing the Company's operations and support functions and consolidation or elimination of key executive positions. There were no restructuring charges in the first quarter of 2022.

Interest expense, net

Interest expense in the first quarter 2023 was $39.3 million compared to interest expense of $27.8 million in the first quarter of 2022. The increase in interest expense was due to higher interest rates and debt balance.

Amortization of Goodwill

The first quarter 2023 and 2022 amortization of goodwill were $15.2 million and $15.5 million, respectively.

(Loss) Gain from foreign currency, net

Loss from foreign currency was $7.4 million for the first quarter of 2023 compared to gain from foreign currency of $6.1 million for the first quarter of 2022, respectively. The net change year over year was the result of the U.S. dollar strengthening (gain) or weakening (loss) relative to other functional currencies in which we operate.

Other Expense, Net

Other expense was $0.2 million for the first quarter of 2023 compared to other expense of $7.1 million for the first quarter of 2022. Other expense in the first quarter of 2022 included $4.5 million loss on refinancing transaction, and $2.6 million of commitment fees that were not capitalized for Second Lien Term Loan.

Income tax expense

The income tax expense for the first quarter 2023 was $6.5 million compared to $3.6 million for the first quarter 2022 and is the result of the expected geographical mix of full year taxable earnings, changes in statutory tax rates, and the impact of permanent differences on taxable income. Tax expense is primarily driven by significant earnings of subsidiaries outside of the U.S. in foreign tax jurisdictions on which foreign taxes are provided.

Liquidity and Capital Resources

Cash Flows

We had cash and cash equivalents totaling $50.1 million and $56.7 million at March 31, 2023 and December 31, 2022, respectively.

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. We rely upon cash generated from operating activities and local working capital facilities to fund these activities. We continue to make strategic investments in the business to improve our ability to generate cash from operating activities over time and expect that our operating cash flow and other sources of liquidity, including potential asset sales and our Revolving Credit Facility and Securitization Facility, will be sufficient to allow us to continue investing in our business, paying interest and servicing debt, and managing our capital structure on a short and long-term basis. A significant portion of our cash generated from operating activities is earned abroad, particularly in China, and may be subject to limitations on the timing of repatriation of such cash.

External pressures since 2021 to date, including global supply chain constraints and inflationary pressures, resulted in a higher than usual use of cash, primarily related to an increase in inventory build up to meet the higher levels of customer demand and manage through extended lead times. We have taken several cash preservation actions since late 2022, which include inventory reduction, workforce restructuring and limited capital expenditures to essential purchases to maintain business operations and certain key long-term growth and high return productivity initiatives, such as new product development and supply chain productivity.

On February 8, 2022, the Company executed a new debt agreement consisting of $855.0 million First Lien Term Loan, $350.0 million Second Lien Term Loan, and $171.6 million Revolving Credit Facility, and $125.0 million cash contribution from Bain Capital. In September 2022, Apex Tool Group, LLC executed agreements with MUFG Bank, Ltd. and credit parties for an accounts receivable securitization facility, with a borrowing capacity up to the lesser of $75.0 million and Net Receivable Pool Balance minus the Reserve, on a revolving basis, over 3 years. The Company is using the net proceeds of the new debt agreement and the Securitization Facility, for working capital and general corporate purposes, including repayment of previous borrowings. See Note 6, Debt, for further information.

For purposes of the comparative discussions below, we define "working capital" as the selected working capital items in the statement of cash flows included in the financial statements for each period presented.

The following table presents selected data from our consolidated condensed statements of cash flows (in thousands):

	Three months ended	
	March 31, 2023	**April 1, 2022**
Statement of cash flows data:		
Net cash provided by (used in):		
Operating activities	**$ (25,894)**	$ (96,500)
Investing activities	**(4,374)**	(208)
Financing activities	**23,195**	91,440
Effect of exchange rate change	**484**	141
Net change in cash and cash equivalents	**(6,589)**	(5,127)
Cash and cash equivalents at beginning of period	**56,652**	50,132
Cash and cash equivalents at end of period	**$ 50,063**	45,005

Cash Flow Used in Operating Activities

Due to payments of annual rebate programs and seasonal increases in operating working capital in support of demand requirements ahead of the fourth quarter holiday sales season, operating cash flow during the first three quarters of the year is usually negative. Operating cash flow improves during the fourth quarter of the year as inventory levels are reduced and the subsequent collection of the seasonal trade receivables, net of trade accounts payable, occurs. Due to the recent easing of supply chain constraints, we expect the cash flow usage during the first three quarters of 2023 to be better than historical trends as we progressively reduce the extra inventory carried to overcome the extended lead times during the periods of constraint.

Cash used in operating activities for the three months ended March 31, 2023 of $25.9 million primarily reflected a net loss of $59.7 million, offset in part by a decrease in our working capital and other assets and liabilities of $14.4 million and non-cash charges and credits totaling $19.4 million. Non-cash charges and credits of $19.4 million primarily included $20.7 million for depreciation and amortization expenses.

Cash used in operating activities for the three months ended April 1, 2022 of $96.5 million primarily reflected net loss of $49.5 million and an increase in our working capital and other assets and liabilities of $77.0 million, offset in part by non-cash charges and credits totaling $30.1 million. Non-cash charges and credits of $30.1 million primarily included $25.4 million for depreciation and amortization expenses.

Cash Flow Used in Investing Activities

Cash used in investing activities for the three months ended March 31, 2023 of $4.4 million was primarily due to capital expenditures of $4.5 million, offset in part by proceeds from disposal of fixed assets of $0.1 million.

Cash used in investing activities for the three months ended April 1, 2022 of $0.2 million was primarily due to capital expenditures of $3.3 million, offset in part by proceeds from disposal of fixed assets of $3.1 million.

Cash Flow Provided by Financing Activities

Cash provided by financing activities for the three months ended March 31, 2023 of $23.2 million was primarily due to borrowings of $40.0 million on our Revolving Credit Facility and $12.0 million on our Securitization Facility; offset in part by $10.0 million in repayments on Revolving Credit Facility and $16.5 million repayments on our Securitization Facility.

Cash provided by financing activities for the three months ended April 1, 2022 was primarily due to borrowings of $855.0 million on First Lien Term Loan, $350.0 million on Second Lien Term Loan, and $65.0 million on Revolving Credit Facility, and $135.0 million of cash contribution from Bain Capital, offset in part by $819.8 million of repayments on previously issued Term Loan Facility, $147.5 million of repayment on previously executed Revolving Credit Facility, $325.0 million of repayment on previously issued 9.0% Notes. See Note 6, Debt, in our consolidated financial statements for more information.

Free Cash Flow

Free cash flow is a non-GAAP liquidity measure that is defined by cash flows provided by (used in) operating activities less capital expenditures (net of proceeds). We use free cash flow as an indicator of liquidity, instead of cash flows from continuing operations, because free cash flow purchases and sales of fixed assets are necessary components of our ongoing operations. We believe the presentation of this measure enhances an investor's understanding of our liquidity.

We recognize that free cash flow has limitations and should be considered a complement to our Consolidated Statements of Cash Flows. See the table below for a reconciliation of free cash flow to the most comparable U.S. GAAP financial measure, Net cash provided by (used in) operating activities.

	Three months ended	
	March 31, 2023	**April 1, 2022**
Net cash used in operating activities	**$ (25,894)**	$ (96,500)
Capital expenditures	**(4,523)**	(3,272)
Proceeds from disposal of fixed assets	**149**	3,064
Free cash flow	**$ (30,268)**	$ (96,708)

Free cash flow considers SEC adopted rules of non-GAAP financial measures as within the Reconciliation of Net Loss to adjusted EBITDA. See Exhibit I for more information.

Commitments and Contractual Obligations

There were no significant changes to the contractual obligations reported in our 2022 Annual Report other than those which occur in the normal course of business.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Risk

We operate on a global basis and are exposed to the risk that changes in foreign currency exchange rates could adversely affect our financial condition, results of operations and cash flows. We are primarily exposed to foreign currency exchange rate risk with respect to transactions and net assets denominated in euros, British pound sterling, Chinese renminbi, Swiss francs, Mexican pesos, Brazilian real, Canadian dollars and Australian dollars.

We maintain investments in certain of our consolidated subsidiaries which are held in foreign currencies. These investments are exposed to market risk from changes in currency exchange rates. As part of our risk management program, we use different types of derivative and non-derivative financial instruments to hedge our exposure to currency exchange rates, including cross currency swaps to protect the value of our net investments in foreign subsidiaries. In December 2015, we entered into three cross currency swaps with an aggregate notional value of EUR 136.5 million that were used to hedge our net investment in foreign operations. The cross currency swaps were terminated in February 2022.

Interest Rate Risk

We are exposed to market risk associated with changes in interest rates associated with our Term Loans, Revolving Credit Facility and Securitization Facility. We do not use financial instruments for trading purposes or speculation. We use interest rate caps to add stability to interest expense and to manage the Company's exposure to interest rate movements as part of our strategy to manage interest rate risk. See Note 7, Derivative Financial Instruments in our Consolidated Financial Statements.

Commodity Risk

Our operating performance is favorably or negatively impacted by price fluctuations in the commodity-based products that we purchase and sell, which include commodities such as steel, copper, specialized alloys, aluminum, plastics and other petroleum-based products. We try to take actions to offset the effects of higher commodity prices through selling price increases, productivity improvements and cost reduction programs. In addition, we are often able to pass through these price changes to our customers, but the timing of this pass through may fluctuate.

We do not use financial instruments for trading purposes or speculation. We are not currently party to any contracts or arrangements to hedge our commodity risk, but may consider entering into such contracts or arrangements in the future.

PART II - OTHER INFORMATION

Legal Proceedings

We are involved in claims and legal proceedings that occur from time to time in the ordinary course of business, including product liability lawsuits. We are not party to any pending legal proceedings that we believe could have a material adverse effect, after considering accruals provided, on our consolidated condensed financial condition.

Risk Factors

An investment in our Notes involves significant risks. Existing and prospective investors are encouraged to review the "Risk Factors" section of our 2022 Annual Report. The risk factors included in that Annual Report have not materially changed. Prospective investors should consider these risks carefully before making a decision to invest in the Notes. If any of these risks materializes, then our business, financial condition, and results of operations would suffer. The risks described in our 2022 Annual Report are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition or operating results. As a result, you may lose all or part of your original investment.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Defaults Upon Senior Securities

None.

Mine Safety Disclosures

Not applicable.

Other Information

None.

Reconciliation of Net Loss to Adjusted EBITDA (Unaudited)

We define EBITDA as net income (loss) before interest expense, income tax expense, and depreciation and amortization expense. We define Adjusted EBITDA as EBITDA adjusted for the other items described in the following table. Both EBITDA and Adjusted EBITDA are non-GAAP financial measures. We use EBITDA and Adjusted EBITDA for business planning purposes, measuring our performance, and in assessing our compliance with certain debt covenants. We believe the presentation of these measures enhances an investor's understanding of our financial performance. We believe that EBITDA and Adjusted EBITDA are useful in assessing our ability to generate cash from operations sufficient to service debt, to pay taxes and to undertake capital expenditures. The presentation of EBITDA and Adjusted EBITDA is not made in accordance with GAAP and our use of the terms EBITDA and Adjusted EBITDA in this Quarterly Report may vary from the use of similar terms by others. EBITDA and Adjusted EBITDA are not prepared with a view towards compliance with published guidelines of the SEC and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP as measures of operating performance or as alternatives to operating cash flows as a measure of liquidity.

EBITDA and Adjusted EBITDA have important limitations as analytical tools and you should not consider them in isolation or as substitutes for analysis of our results as reported under GAAP. For example, EBITDA and Adjusted EBITDA:

- exclude certain tax payments that may represent a reduction in cash available to us;
- do not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;
- do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations;
- do not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt; and
- do not reflect stock-based compensation expense and other non-cash charges.

In calculating Adjusted EBITDA, we add back certain non-cash, non-recurring and other items that are included in EBITDA and make certain other adjustments including certain adjustments to exclude one-time, non-recurring charges. We are evaluating the amount of adjustments due to the COVID-19 pandemic, and will continue to evaluate such adjustments, and appropriate additional adjustments, on a quarter by quarter basis.

The SEC has adopted rules to regulate the use in filings with the SEC and public disclosures and press releases of non-GAAP financial measures, such as EBITDA, Adjusted EBITDA, and free cash flow that are derived on the basis of methodologies other than in accordance with GAAP. These rules require, among other things:

- presentation with equal or greater prominence of the most comparable financial measure or measures calculated and presented in accordance with GAAP;
- a quantitative reconciliation of the differences between the non-GAAP financial measure and the most comparable financial measure or measures calculated and presented in accordance with GAAP;
- statement disclosing the reasons why the registrant's management believes that presentation of the non-GAAP financial measure provides useful information to investors; and
- a statement disclosing the additional purposes, if any, for which the registrant's management uses the non-GAAP financial measure.

These rules prohibit, among other things:

- exclusion of charges or liabilities that require cash settlement or would have required cash settlement absent an ability to settle in another manner from non-GAAP liquidity measures;

- adjustment of a non-GAAP performance measure to eliminate or smooth items identified as non-recurring, infrequent or unusual, when the nature of the charge or gain is such that it is reasonably likely to recur; and

- presentation of non-GAAP financial measures on the face of any financial statement prepared in accordance with GAAP or pro forma financial information.

EXHIBIT I

Apex Tool Group, LLC
EBITDA and Adjusted EBITDA Reconciliation (Unaudited)
Quarter and Last Twelve Months Ending March 31, 2023
(Dollars in Millions)

Following is a reconciliation of net loss to our EBITDA and Adjusted EBITDA measures:

	Q1 2023	LTM Q1 2023
Net loss	**$ (59.7)**	**$ (158.8)**
Add:		
Interest expense, net	39.4	134.4
Income tax expense	6.5	37.0
Depreciation and amortization expenses	20.7	83.3
EBITDA	**$ 6.9**	**$ 95.9**
Pro-Forma Adjustments:		
Restructuring charges, net of disposals	1.2	8.4
Sponsor management fees	0.8	3.0
Non-cash mark to market adjustments	1.0	1.4
COVID-19 expenses	—	6.5
Cybersecurity expenses	1.6	16.8
Loss on sale of Apex Tool Group (UK Operations), Limited	—	5.3
Product line rationalization	3.8	7.7
Other	4.5	8.9
Transactional FX (gains) losses	6.7	(26.6)
Pro-forma savings from manufacturing footprint and other cost out initiatives	0.9	18.1
Adjusted EBITDA	**$ 27.4**	**$ 145.4**

The Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ James J. Roberts
Name: James J. Roberts
Title: Chief Executive Officer

Date: May 15, 2023

By: /s/ Ross Porter
Name: Ross Porter
Title: Chief Financial Officer

Date: May 15, 2023