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ZAGG Inc Reports Third Quarter 2020 Results

SALT LAKE CITY, Nov. 09, 2020 (GLOBE NEWSWIRE) -- ZAGG Inc (Nasdaq: ZAGG) (“we,” “us,” “our,” “ZAGG,” or the “Company”), a leading global mobile lifestyle company, today announced financial results for the third quarter ended September 30, 2020.

Third Quarter 2020 Review (Comparisons versus Third Quarter 2019)

- *Net sales of $115.5 million compared to $146.5 million*
- *Gross profit margin of 33% compared to 37%*
- *Net income of $6.2 million compared to $8.7 million*
- *Diluted earnings per share of $0.21 compared to $0.30*
- *Adjusted EBITDA of $14.7 million compared to $20.8 million*
- *Cash provided by operating activities of $9.4 million compared to cash used in operating activities of $(11.1) million*

Year-to-Date 2020 Review (Comparisons versus Year-to-Date 2019)

- *Net sales of $283.6 million compared to $332.0 million*
- *Gross profit margin of 15% compared to 35%. Excluding the $44.8 million non-cash write-down of inventory in March 2020, gross profit margin was 31%*
- *Net loss, inclusive of a $44.8 million non-cash March 2020 inventory write-down, $18.6 million non-cash impairment on goodwill and $3.7 million non-cash loss on disposal of intangible assets and equipment was $(72.7) million compared to $(11.1) million*
- *Diluted loss per share of $(2.44) compared to of $(0.38)*
- *Adjusted EBITDA of $7.3 million compared to $14.2 million*
- *Cash provided by operating activities of $17.9 million compared to cash used in operating activities of $(24.8) million*

Chris Ahern, chief executive officer, commented, “Our business improved meaningfully compared with the second quarter as our wholesale channel moved toward more normalized operations and demand for our portfolio of innovative mobile lifestyle products continued to increase. By taking quick, decisive actions at the outset of the pandemic to reduce costs and adjust our operations, and more recently by working closely with our retail partners in support of their store re-opening plans, we have been able to successfully navigate through incredibly challenging market conditions. Importantly, our balance sheet has continued to strengthen, highlighted by reductions in inventories and net debt since the end of March. While it is unclear how the virus will impact shopping behavior this holiday season, we believe we are well positioned to serve our consumers in whichever channel they choose to engage with our brands and improve on our recent performance.”

“We have taken important steps to emerge from the pandemic a stronger company starting with discontinuing certain low margin products and categories, and simplifying other core lines of business. We have also made progress sharpening our top-line focus and advancing our digital wellness strategies. I am confident in the long-term course we have set for ZAGG and believe we are on track to generate enhanced profitability and increased value for our shareholders.”

Third Quarter 2020 Results (Comparisons versus Third Quarter 2019)
(Amounts in millions, except per share amounts)

	For the Three Months Ended	
	September 30, 2020	September 30, 2019
Net sales	$ 115.5	$ 146.5

Gross profit	$ 38.4	$ 54.3
Gross profit margin	33 %	37 %
Net income	$ 6.2	$ 8.7
Diluted earnings per share	$ 0.21	$ 0.30
Adjusted EBITDA	$ 14.7	$ 20.8

Net sales decreased 21% to $115.5 million, compared to $146.5 million. The decrease in net sales was primarily attributable to retail store closures and related demand reductions due to the global COVID-19 pandemic and the delay of the 2020 launch of Apple's newest iPhones into the early fourth quarter of 2020.

Gross profit was $38.4 million (33% of net sales) compared to $54.3 million (37% of net sales). The decrease in gross profit margin percentage was primarily attributable to (1) increased freight rates and expedited freight charges as we chased demand at the end of the third quarter, and (2) the sale of excess inventory at margins lower than our historical average. The decrease was partially offset by (1) lower duty rates from the extensions of the screen protection and wireless charging exemptions to the end of 2020, and (2) the recognition of expected duty refunds partially offset by the reduction in capitalized duties which were expensed as inventory was sold during the quarter.

Operating expenses decreased 29% to $30.5 million (26% of net sales) compared to $42.7 million (29% of net sales). The decrease in operating expenses was primarily attributable to cost reduction initiatives in response to COVID-19, including (1) a decrease in salaries and related expenses from the furlough of certain employees, (2) reduced in-channel marketing spend, and (3) the elimination of global discretionary spend.

Year-to-Date 2020 Results (Comparisons versus Year-to-Date 2019)
(Amounts in millions, except per share amounts)

	For the Nine Months Ended	
	September 30, 2020	**September 30, 2019**
Net sales	$ 283.6	$ 332.0
Gross profit	$ 42.8	$ 115.9
Gross profit margin	15%	35%
Adjusted gross profit (excluding March 2020 inventory write-down)	$ 87.6	$ 115.9
Adjusted gross profit margin (excluding March 2020 inventory write-down)	31%	35%
Net loss	$ (72.7)	$ (11.1)
Diluted loss per share	$ (2.44)	$ (0.38)
Adjusted EBITDA	$ 7.3	$ 14.2

Net sales decreased 15% to $283.6 million, compared to $332.0 million. The decrease in net sales was primarily attributable to retail store closures and related demand reductions due to the global COVID-19 pandemic and the delay of the 2020 launch of Apple's newest iPhones into the early fourth quarter of 2020.

Gross profit was $42.8 million (15% of net sales) compared to $115.9 million (35% of net sales). The decrease in gross profit margin percentage was primarily attributable to (1) the March 2020 inventory write-downs of $44.8 million primarily linked to the discontinuation of certain brands and product lines resulting from our March 2020 strategic review of long-term profitability of all brands and product lines and the recoverability of inventory on-hand, combined with decreased demand due to the effects of COVID-19, (2) increased freight rates and expedited freight charges, and (3) the sale of excess inventory at margins lower than our historical average. Excluding the impact from the inventory write-downs, the adjusted gross profit margin was 31% for the nine months ended September 30, 2020, compared to 35% for the nine months ended September 30, 2019.

Operating expenses decreased 3% to $123.3 million (43% of net sales) compared to $127.5 million (38% of net sales). The decrease in operating expenses was primarily attributable to cost reduction initiatives in response to COVID-19, including (1) a decrease in salaries and related expenses from the furlough of certain employees, elimination of bonuses in the second quarter of 2020, and reductions in salary of executives and senior management, (2) reduced in-channel marketing spend, and (3) the elimination of global discretionary spend. The decrease was partially offset by (1) an $18.6 million impairment charge to goodwill resulting from the carrying value of our net assets exceeding our market capitalization, (2) a $2.5 million charge from the write-off of product tooling linked to discontinued brands and product lines, (3) a $1.1 million write-off recorded for the intangible assets resulting from discontinued brands and product lines, and (4) $0.8 million incurred in connection with the lay-off of certain employees in 2020.

Balance Sheet Highlights (as of September 30, 2020, December 31, 2019, and September 30, 2019)

	September 30, 2020	December 31, 2019	September 30, 2019
Cash and cash equivalents	$ 16.1	$ 17.8	$ 14.7
Accounts receivable, net of allowances	$ 91.2	$ 142.8	$ 135.3
Inventories	$ 80.0	$ 144.9	$ 138.5
Line of credit	$ 87.7	$ 107.1	$ 111.4
CARES Act - Paycheck Protection Program loan	$ 9.4	$ —	$ —
Total debt outstanding	$ 97.1	$ 107.1	$ 111.4
Net debt (Total debt outstanding less cash)	$ 81.0	$ 89.3	$ 96.7
QTD Days sales outstanding (DSOs)	73	69	87

2020 Business Outlook

As a result of ongoing disruption and uncertainty related to the global COVID-19 pandemic, ZAGG previously withdrew its full-year 2020 outlook. The Company is not providing an update at this time.

Conference Call

A conference call will be held today, November 9, 2020, at 5:00 p.m. Eastern Standard Time to review these results. Interested parties may access the call via the Internet on the Company's website at investors.zagg.com (the URLs are included in this exhibit as inactive textual references and information contained on, or accessible through, our websites is not a part of, and is not incorporated by reference into, this report).

About Non-U.S. GAAP Financial Information

This press release includes Adjusted EBITDA and adjusted gross profit excluding March 2020 inventory write-downs (and corresponding adjusted gross profit margin) . Readers are cautioned that (1) Adjusted EBITDA (earnings before stock-based compensation expense, depreciation and amortization, other expense, net, transaction costs, BRAVEN employee retention bonus, former CFO retention bonus, inventory step-up amount in connection with the acquisition of HALO, severance expense, March 2020 inventory write-down, impairment of goodwill, loss on disposal of intangible assets and equipment (loss of discontinued brands, product lines, and related product tooling), adjustments to fair value of acquisition contingent consideration, and income tax provision (benefit)) and (2) adjusted gross profit excluding March 2020 inventory write-downs (and corresponding adjusted gross profit margin) are not financial measures prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). In addition, this financial information should not be construed as an alternative to any other measure of performance determined in accordance with U.S. GAAP, or as an indicator of operating performance, liquidity, or cash flows generated by operating, investing, and financing activities, as there may be significant factors or trends that it fails to address. As such, it should be read only in conjunction with our consolidated financial statements prepared in accordance with U.S. GAAP. We present Adjusted EBITDA and adjusted gross profit excluding March 2020 inventory write-downs (and corresponding adjusted gross profit margin) because we believe that these measures are helpful to some investors as a measure of performance and to normalize the impact of recent non-recurring events. We caution readers that non-U.S. GAAP financial information, by its nature, departs from traditional accounting conventions. Accordingly, its use can make it difficult to compare current results with results from other reporting periods and with the financial results of other companies. We have provided a reconciliation of Adjusted EBITDA and adjusted gross profit excluding March 2020 inventory write-downs (and corresponding adjusted gross profit margin) to the most directly comparable U.S. GAAP measures in the supplemental financial information attached to this press release.

Cautionary Note Regarding Forward-Looking Statements

This press release contains (and oral communications made by us may contain) “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “predict,” “project,” “target,” “future,” “seek,” “likely,” “strategy,” “may,” “should,” “will” and similar references to future periods. Examples of forward-looking statements include, among others, statements we make regarding our outlook for the Company and statements that estimate or project future results of operations or the performance of the Company.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

a. the impacts of certain environmental and health risks, including the recent outbreak of the coronavirus (COVID-19) and its potential effects on the Company's operations, sourcing from China, and future demand for the Company's products for an uncertain duration of time;
b. the ability to design, produce, and distribute the creative product solutions required to retain existing customers and to attract new customers;
c. building and maintaining marketing and distribution functions sufficient to gain meaningful international market share for our products;
d. the ability to respond quickly with appropriate products after the adoption and introduction of new mobile devices by major manufacturers like Apple®, Samsung®, and Google®;
e. changes or delays in announced launch schedules for (or recalls or withdrawals of) new mobile devices by major manufacturers like Apple, Samsung, and Google;
f. the ability to successfully integrate new operations or acquisitions;
g. the impacts of inconsistent quality or reliability of new product offerings;
h. the impacts of lower profit margins in certain new and existing product categories, including certain mophie products;
i. the impacts of changes in economic conditions, including on customer demand;
j. managing inventory in light of constantly shifting consumer demand;
k. the failure of information systems or technology solutions or the failure to secure information system data, failure to comply with privacy laws, security breaches, or the effect on the Company from cyber-attacks, terrorist incidents or the threat of terrorist incidents;
l. changes in U.S. and international trade policy and tariffs, including the effect of increases in U.S.-China tariffs on selected materials used in the manufacture of products sold by the Company which are sourced from China;
m. adoption of or changes in accounting policies, principles, or estimates; and
n. changes in the law, economic and financial conditions, including the effect of enactment of U.S. tax reform or other tax law changes.

Any forward-looking statement made by us in this press release speaks only as of the date on which such statement is made. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Readers should also review the risks and uncertainties listed in our most recent Annual Report on Form 10-K and other reports we file with the U.S. Securities and Exchange Commission, including (but not limited to) Item 1A - “Risk Factors” in the Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and the risks described therein from time to time. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking statements contained in this press release are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

About ZAGG Inc

ZAGG Inc (NASDAQ:ZAGG) is a global leader in accessories and technologies that empower mobile lifestyles. The Company has an award-winning product portfolio that includes screen protection, mobile keyboards, power management solutions, social tech, and personal audio sold under the ZAGG®, mophie®, InvisibleShield®, IFROGZ®, Gear4®, and HALO® brands. ZAGG has operations in the United States, Ireland, and China. ZAGG products are available worldwide, and can be found at leading retailers including Best Buy, Verizon, AT&T, Sprint, T-Mobile, Walmart, Target, and Amazon.com. For more information, please visit the Company's website at www.ZAGG.com and follow us on Facebook, Twitter, and Instagram.

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ZAGG INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except par value amounts)
(Unaudited)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,115	$ 17,801
Accounts receivable, net of allowances of $1,088 and $1,143	91,196	142,804
Income tax receivable	7,980	—
Inventories	80,024	144,944
Prepaid expenses and other current assets	8,539	6,124
Total current assets	203,854	311,673
Property and equipment, net of accumulated depreciation of $14,354 and $14,159	15,759	18,019
Intangible assets, net of accumulated amortization of $105,168 and $95,632	51,704	63,110
Deferred income tax assets, net	23,680	22,657
Operating lease right of use assets	9,890	9,636
Goodwill	24,920	43,569
Other assets	243	567
Total assets	$ 330,050	$ 469,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 60,142	$ 87,303
Income tax payable	—	5,266
Sales returns liability	25,668	43,853
Accrued wages and wage related expenses	6,225	6,328
Accrued liabilities	5,440	15,164
Current portion of other long-term liabilities	662	—
Current portion of operating lease liabilities	2,786	2,099
Total current liabilities	100,923	160,013
Line of credit	87,655	107,140
Operating lease liabilities	9,915	10,599
Other long-term liabilities	8,782	—
Total liabilities	207,275	277,752
Stockholders' equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 36,884 and 36,610 shares issued	37	37
Treasury stock, 7,055 and 7,055 common shares at cost	(50,455)	(50,455)
Additional paid-in capital	120,188	116,533
Accumulated other comprehensive loss	(962)	(1,631)

Retained earnings	53,967	126,995
Total stockholders' equity	122,775	191,479
Total liabilities and stockholders' equity	$ 330,050	$ 469,231

ZAGG INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Amounts in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net sales	$ 115,456	$ 146,488	$ 283,554	$ 332,034
Cost of sales	77,023	92,143	240,751	216,108
Gross profit	38,433	54,345	42,803	115,926
Operating expenses:				
Advertising and marketing	3,218	4,129	10,063	13,228
Selling, general, and administrative	23,849	33,967	80,185	100,036
Transaction costs	72	547	468	1,168
Impairment of goodwill	—	—	18,649	—
Loss on disposal of intangible assets and equipment	—	96	3,683	102
Amortization of intangible assets	3,357	3,948	10,258	13,013
Total operating expenses	30,496	42,687	123,306	127,547
Income (loss) from operations	7,937	11,658	(80,503)	(11,621)
Other income (expense):				
Interest expense	(885)	(1,221)	(3,375)	(3,334)
Other income (expense)	867	(462)	1,086	214
Total other expense	(18)	(1,683)	(2,289)	(3,120)
Income (loss) before provision for income taxes	7,919	9,975	(82,792)	(14,741)
Income tax (provision) benefit	(1,700)	(1,293)	10,123	3,663
Net income (loss)	$ 6,219	$ 8,682	$ (72,669)	$ (11,078)
Earnings (loss) per share attributable to stockholders:				
Basic earnings (loss) per share	$ 0.21	$ 0.30	$ (2.44)	$ (0.38)
Diluted earnings (loss) per share	$ 0.21	$ 0.30	$ (2.44)	$ (0.38)

ZAGG INC AND SUBSIDIARIES
RECONCILIATION OF NON-U.S. GAAP FINANCIAL INFORMATION TO U.S. GAAP
(Amounts in thousands)
(Unaudited)

UNAUDITED SUPPLEMENTAL DATA

The following adjusted EBITDA, adjusted gross profit and adjusted gross profit margin are not financial measures prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In addition, they should not be construed as an alternative to any other measures of performance determined in accordance with U.S. GAAP, or as an indicator of our operating performance, liquidity, or cash flows generated by operating, investing, and financing activities as there may be significant factors or trends that they fail to address. We present this financial information because we believe that these measures are helpful to some investors as a measure of our operations. We caution investors that non-U.S. GAAP financial information, by its nature, departs from traditional accounting conventions; accordingly, its use can make it difficult to compare our results with our results from other reporting periods and with the results of other companies.

	Three Months Ended		Nine Months Ended	
ADJUSTED EBITDA RECONCILIATION	**September 30, 2020**	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Net income (loss) in accordance with U.S. GAAP	$ 6,219	$ 8,682	$ (72,669)	$ (11,078)
Adjustments:				
a. Stock-based compensation expense	1,326	632	3,930	3,291
b. Depreciation and amortization	5,090	5,751	15,435	18,007
c. Other expense, net	18	1,683	2,289	3,120
d. Transaction costs	72	547	468	1,168
e. BRAVEN employee retention bonus	—	—	—	93
f. Former CFO retention bonus	—	—	—	110
g. Inventory step-up amount in connection with acquisition of HALO	—	—	—	589
h. Severance expense	258	1,818	786	2,225
i. March 2020 inventory write-down	—	—	44,833	—
j. Impairment of goodwill	—	—	18,649	—
k. Loss on disposal of intangible assets and equipment	—	—	3,683	—
l. Adjustment to fair value of acquisition contingent consideration	—	355	—	355
m. Income tax provision (benefit)	1,700	1,293	(10,123)	(3,663)
Total adjustments	8,464	12,079	79,950	25,295
Adjusted EBITDA	$ 14,683	$ 20,761	$ 7,281	$ 14,217

ZAGG INC AND SUBSIDIARIES
RECONCILIATION OF NON-U.S. GAAP FINANCIAL INFORMATION TO U.S. GAAP
(Amounts in thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Nine Months Ended	
GROSS PROFIT RECONCILIATION	**September 30, 2020**	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
Gross profit in accordance with U.S. GAAP	$ 38,433	$ 54,345	$ 42,803	$ 115,926
Adjustment:				
March 2020 inventory write-down	—	—	44,833	—
Adjusted gross profit	$ 38,433	$ 54,345	$ 87,636	$ 115,926

Adjusted gross profit margin	33 %	37 %	31 %	35 %