



Reed's, Inc. Announces Fourth Quarter and Full Year 2019 Financial Results

March 12, 2020

Core brand gross sales increased 9% in Fiscal 2019

First production of Reed's Really Real Ginger Ale began today

NORWALK, Conn., March 12, 2020 (GLOBE NEWSWIRE) -- Reed's Inc. (Nasdaq:REED), owner of the nation's leading portfolio of handcrafted, all-natural beverages, today announced financial results for the fiscal fourth quarter and full year ended December 31, 2019.

Highlights for the Fourth Quarter of 2019

- Net Sales were \$7.2 million in the fourth quarter compared to \$9.6 million in the prior year. The decline compared to the prior year reflects the sale of the private label business at the end of 2018 and the discontinuation of non-core products, which collectively contributed \$2.2 million of gross sales in the prior year period;
- Core brand gross sales were flat versus prior year period as strong 6% volume growth of the Virgil's brand, offset a decline in Reed's;
- Gross profit was \$0.6 million compared to \$2.7 million in the prior year period, reflecting discreet fourth quarter charges for inventory write-downs and year end true-ups to inventory reserves. Gross margin decreased to 8% from 28% in the prior year period. Excluding the discrete items, gross margin was approximately 26% in the fourth quarter of 2019;
- Operating loss was \$3.5 million compared to \$2.1 million in the fourth quarter of 2018; and
- Net loss was \$3.8 million, or \$0.09 per share, compared to \$2.7 million, or \$0.10 per share, in the prior year period

Highlights for the Full Year of 2019

- Net Sales were \$33.8 million in 2019 compared to \$38.1 million in the prior year, reflecting a 9% increase in gross sales of core brands, offset by the sale of the private label business at the end of 2018 and the discontinuation of non-core products, which collectively contributed \$6.0 million of gross sales in the prior year;
- Gross profit decreased 26% to \$7.9 million from \$10.7 million in the prior year period. Gross margin decreased 475 basis points to 23% from 28% in the prior year period. Excluding the discrete items noted above, gross margin was approximately 26% in fiscal 2019;
- Operating loss increased to \$14.9 million from \$8.1 million in the prior year period; and
- Net loss was \$16.1 million or \$0.46 per share compared to \$10.3 million or \$0.41 per share in the prior year period.

Management Commentary

"We had a very productive fourth quarter, accomplishing a significant amount in a short period of time. We have strengthened our supply chain, upgrading and expanding our copacker organization and adding capacity to the equivalent of three times our current volume. We now have redundancies in each of our package types, and are now operating with uninterrupted fulfillment while driving higher quality standards. We have also worked diligently to reduce costs, both in our supply chain and SG&A, which should begin to be reflected in our margins during fiscal 2020. We feel very good about where we stand heading into the upcoming year," stated Norman E. Snyder, Chief Executive Officer of Reed's, Inc. "During the fourth quarter, we continued to drive growth of our core brands, led by continued strong volume growth of Virgil's while Reed's volume improved to roughly flat with the prior year period. The availability of Reed's Zero Sugar in both bottles and cans positions us to return to growth in our largest brand. Our innovation continues, while more targeted and manageable. Reed's Wellness Ginger Shots launched during the fourth quarter and we are focused on driving online sales and retail distribution. Reed's Craft Ginger Mules are now in test in specific

retailers and we are excited to begin production of Reed's Real Ginger Ale, which began today. I am very pleased with our positioning, improved supply chain operations and how our organization has adopted a culture of execution over the past several months. We have the brands, and are now well equipped to deliver upon our opportunity. We will continue to drive constant improvement while focused on driving volume and margin enhancement in fiscal 2020 and beyond."

Financial Overview for the Fourth Quarter of 2019 Compared to the Fourth Quarter of 2018

During the fourth quarter of 2019, net sales decreased 26% to \$7.2 million compared with \$9.6 million in the prior year. Core brand gross sales were flat compared to the same period in 2018, driven by 6% volume growth of the Virgil's brand offsetting a decline in Reed's. The decline in consolidated net sales reflected the sale of the private label business at end of fiscal 2018 and planned discontinued sales of exited and non-core products, which collectively contributed \$2.2 million of gross sales in the prior year period.

Gross profit during the fourth quarter of 2019 decreased 77% to \$0.6 million compared to the same period in 2018. The decrease in gross profit relates to the discontinuation of non-core and private label sales, an increase in accruals for trade promotions, approximately \$0.8 million of inventory write-downs and a \$0.4 million year end true-up to inventory reserves, reflecting a reversal of estimates in prior year periods. Gross margin, excluding the discrete items noted above, would have been 26% during the fourth quarter of 2019 compared to 28% of net sales in the same period in 2018.

Delivery and handling costs decreased 14% to \$1.6 million during the fourth quarter of 2019 compared to the same period in 2018. As a percentage of net sales, delivery and handling costs increased 305 basis points compared to the prior year, reflecting additional freight required to rebalance inventory at the needed warehouse locations, shipping innovation products produced in limited locations and a higher portion of LTL (less than truck load) shipments to support new retailer launches. Reflecting expanded copacker production capabilities, transportation costs are expected to be reduced in coming quarters.

Selling and marketing costs increased 15% to \$1.5 million during the fourth quarter of 2019. As a percentage of net sales, selling and marketing costs increased to 21%. The increase was driven by investment in sales and marketing initiatives and infrastructure, consistent with the Company's strategy to refresh the brands, increase brand awareness, launch new products into the market, open new retail outlets and channels and increase core brands sales velocity to accelerate growth of the core brands.

General and administrative expenses (G&A) decreased to \$1.0 million during the fourth quarter of 2019 compared to \$1.5 million in the prior year period. The decrease in general and administrative expenses compared to the prior year period was largely driven by the exit of the Los Angeles facility and reduction of office expenses, leases, and utilities.

Operating loss during the fourth quarter of 2019 increased to \$3.5 million from \$2.1 million in the prior year period.

Interest expense decreased to \$0.3 million during the fourth quarter of 2019 from \$0.7 million during the fourth quarter of 2018.

Net loss during the fourth quarter of 2019 was \$3.8 million, or \$0.09 per share, compared to \$2.7 million, or \$0.10 per share in the fourth quarter of 2018.

Modified EBITDA loss was \$3.8 million in the fourth quarter of 2019 compared to a loss \$1.7 million in the fourth quarter of 2018.

Financial Overview for the Full Year of 2019 Compared to the Full Year of 2018

During the full year of 2019, net sales decreased 11% to \$33.8 million compared with \$38.1 million in the prior year. The decrease in gross sales was 6% compared to the same period in 2018 while core brand gross sales increased 9% compared to the same

period in 2018. The core brand growth was driven by 23% volume growth of the Virgil's brand, offset by the decline in consolidated net sales reflecting the sale of the private label business at end of fiscal 2018 and planned discontinued sales of exited and non-core products, which collectively contributed \$6.0 million of gross sales in the prior year period. Additionally, reflecting the supply chain challenges during the full year, net sales were negatively impacted by approximately \$2.7 million as a result of orders that were not shipped during the year.

Gross profit during the full year of 2019 decreased 26% to \$7.9 million compared to the same period in 2018. The decrease in gross profit primarily relates to discontinuation of non-core and private label sales, incremental discounts and increases in inventory write offs and obsolescence reserves. Gross margin was 23% of net sales during the full year of 2019 compared to 28% of net sales in the same period in 2018. Excluding the fourth quarter inventory write-offs and reserves, and accrual for incremental discounts, gross margin would have been 26% for the full year.

Delivery and handling costs increased 9% to \$6.0 million during the full year of 2019 compared to \$5.5 million in the same period in 2018. As a percentage of net sales, delivery and handling costs increased 330 basis points compared to the prior year, reflecting additional freight required to rebalance inventory at the needed warehouse locations, shipping innovation products produced in limited locations and a higher portion of LTL (less than truck load) shipments to support new retailer launches.

Selling and marketing costs increased 88% to \$9.2 million during the full year of 2019. As a percentage of net sales, selling and marketing costs increased to 27%. The increase was driven by investment in sales and marketing initiatives and infrastructure, consistent with the Company's strategy to refresh the brands, increase brand awareness, launch new products into the market, open new retail outlets and channels and create new pull campaigns to increase core brands sales velocity and lay the groundwork to accelerate growth of the core brands.

General and administrative expenses (G&A) decreased to \$7.6 million during the full year of 2019 compared to \$8.4 million in the prior year period. The decrease in general and administrative expenses compared to the prior year period was largely driven by the exit of the Los Angeles facility and reduction of office expenses, leases, and utilities.

Operating loss during the full year of 2019 increased to \$14.9 million from \$8.1 million in the prior year period.

Interest expense decreased to \$1.3 million during the full year of 2019 from \$2.2 million during the full year of 2018.

Net loss during the full year of 2019 was \$16.1 million, or \$0.46 per share, compared to \$10.3 million, or \$0.41 per share in the full year of 2018.

Modified EBITDA loss was \$12.8 million in the full year of 2019 compared to a loss \$5.0 million in the full year of 2018.

Liquidity and Cash Flow

During the full year months of 2019, the Company used \$18.2 million of cash in operating activities compared to \$9.3 million of cash used in operating activities in the prior year period. In the three months ending December 31, 2019, the Company used \$3.5 million of cash in operating activities compared to \$1.2 million in the prior year period. The increase in cash used in operating activities during the fourth quarter of 2019 relates primarily to the increase in net loss and increases in inventory. As of December 31, 2019, the Company had cash of \$0.9 million and \$3.2 million of available borrowing capacity on its revolving line of credit.

Full Year 2020 Guidance

During fiscal 2020, the Company expects to generate core brand growth in the range of 10%+. The Company anticipates a gross

margin of 32% or greater for the full year 2020.

Fourth Quarter 2019 Earnings Call Details

The Company will conduct a conference call at 4:30 pm Eastern Time today, March 12, 2020 to discuss its fourth quarter 2019 results. This conference call can be accessed via a link on Reed's investor website at <http://investor.reedsinc.com/> under the "Events & Presentations" section or directly at <http://public.viavid.com/index.php?id=138285>. To listen to the live call over the Internet, please go to Reed's website at least fifteen minutes early to register, download and install any necessary audio software. Additionally, the call may be accessed with the toll-free dial-in number, 1-(877) 425-9470 (U.S.); or 1-(201) 389-0878 (International). Please dial in at least five minutes before the start of the conference call.

A replay of the webcast will be archived on the Company's website at <http://investor.reedsinc.com/> under the "Events & Presentations" section for approximately 90 days.

About Reed's, Inc.

Established in 1989, Reed's is America's best-selling Ginger Beer brand and has been the leader and innovator in the ginger beer category for decades. Virgil's is America's best-selling independent, full line of natural craft sodas. The Reed's Inc. portfolio is sold in over 35,000 retail doors nationwide. Reed's Ginger Beers are unique due to the proprietary process of using fresh ginger root combined with a Jamaican inspired recipe of natural spices and fruit juices. The Company uses this same handcrafted approach in its award-winning Virgil's line of great tasting, bold flavored craft sodas.

For more information about Reed's, please visit the Company's website at: <http://www.drinkreeds.com> or call 800-99-REEDS. Follow Reed's on Twitter, Instagram, and Facebook @drinkreeds.

For more information about Virgil's please visit Virgil's website at: <http://www.virgils.com>. Follow Virgil's on Twitter and Instagram @drinkvirgils and on Facebook @drinkvirgilssoda.

Safe Harbor Statement

Some portions of this press release, particularly those describing Reed's goals and strategies, contain "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement will include words, such as "expects," "should," "believes," "anticipates" or words of similar import. Similarly, statements that describe future plans, objectives or goals are also forward-looking statements. While Reed's is working to achieve those goals and strategies, actual results could differ materially from those projected in the forward-looking statements as a result of a number of risks and uncertainties. These risks and uncertainties include difficulty in marketing its products and services, maintaining and protecting brand recognition, the need for significant capital, dependence on third party distributors, dependence on third party brewers, increasing costs of fuel and freight, protection of intellectual property, competition and other factors, any of which could have an adverse effect on the business plans of Reed's, its reputation in the industry or its expected financial return from operations and results of operations. In light of significant risks and uncertainties inherent in forward-looking statements included herein, the inclusion of such statements should not be regarded as a representation by Reed's that they will achieve such forward-looking statements. For further details, please see our most recent reports on Form 10-K and Form 10-Q, as filed with the Securities and Exchange Commission, as they may be amended from time to time. Reed's undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise.

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REED'S, INC.

CONDENSED STATEMENTS OF OPERATIONS

For the Three Months and Full Year Ended December 31, 2019 and 2018

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	Three Months Ended December 31,		Twelve Months
	2019	2018	2019
Net Sales	\$ 7,151	\$ 9,629	\$ 33,820
Cost of goods sold	6,554	6,977	25,944
Gross profit	<u>597</u>	<u>2,652</u>	<u>7,876</u>
Operating expenses:			
Delivery and handling expense	1,624	1,890	5,993
Selling and marketing expense	1,470	1,278	9,188
General and administrative expense	1,009	1,535	7,596
Impairment of assets	0	229	0
Gain on sale or disposal of equipment	(15)	(5)	(45)
Gain on sale of manufacturing plant to related party	0	(180)	
Total operating expenses	<u>4,088</u>	<u>4,747</u>	<u>22,732</u>
Loss from operations	(3,491)	(2,095)	(14,856)
Interest expense and other financing related costs, net	(339)	(659)	(1,286)
Financing costs and warrant modification	0	0	0
Change in fair value of warrant liability	7	95	30
Extinguishment of convertible note	0	0	0
Net loss	<u>(3,823)</u>	<u>(2,659)</u>	<u>(16,112)</u>
Preferred Stock Dividends	-	-	(5)
Net loss attributable to common stockholders	<u>\$ (3,823)</u>	<u>\$ (2,659)</u>	<u>\$ (16,117)</u>
Loss per share – basic and diluted	\$ (0.09)	\$ (0.10)	\$ (0.46)
Weighted average number of shares outstanding – basic and diluted	43,597,097	25,705,555	35,058,004

REED'S, INC.

BALANCE SHEETS

As of December 31, 2019 and December 31, 2018

(Amounts in thousands)

	<u>December 31, 2019</u>	<u>De</u>
ASSETS		
Current assets:		
Cash	\$ 913	\$
Accounts receivable, net of allowance for doubtful accounts and returns and discounts of \$623 and \$601, respectively	2,099	
Receivable from related party		
Inventory, net of reserve for obsolescence of \$197 and \$509, respectively	10,508	
Prepaid expenses and other current assets	776	
Total Current Assets	<u>14,296</u>	
Property and equipment, net of accumulated depreciation of \$342 and \$799, respectively	1,053	
Equipment held for sale, net of impairment reserves of \$118 and \$5,925, respectively	67	
Intangible assets	576	
Total assets	<u>\$ 15,992</u>	<u>\$</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	\$ 5,539	\$
Accrued expenses	646	
Advances from officers		
Line of credit	3,177	
Current portion of leases payable	49	
Current portion of long term financing obligation		
Current portion of bank notes		
Total current liabilities	<u>9,411</u>	
Leases payable, less current portion	737	
Long term financing obligation, less current portion, net of discount of \$714 at December 31, 2017		
Convertible note to a related party	4,689	
Warrant liability	8	
Other long term liabilities		
Total Liabilities	<u>14,845</u>	
Stockholders' equity (deficit):		
Series A Convertible Preferred stock, \$10 par value, 500,000 shares authorized, 9,411 shares issued and outstanding	94	
Common stock, \$.0001 par value, 70,000,000 and 40,000,000 shares authorized, respectively; 25,729,461 and 24,619,591 shares issued and outstanding, respectively	5	
Common stock issuable, 400,000 shares at December 31, 2017		
Additional paid in capital	77,596	
Accumulated deficit	(76,548)	
Total stockholders' equity (deficit)	<u>1,147</u>	

Total liabilities and stockholders' equity (deficit)	\$	15,992	\$
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REED'S, INC.

CONDENSED STATEMENTS OF CASH FLOWS

For the Full Year Ended December 31, 2019 and 2018

(Unaudited)

(Amounts in thousands)

	<u>December 31, 2019</u>	<u>De</u>
Cash flows from operating activities:		
Net loss	\$ (16,112)	\$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	61	
(Gain)/loss on sale of property & equipment	(45)	
Loss on termination of leases	8	
Amortization of discount on long-term financing obligation	323	
Amortization of capitalized financings costs	-	
Amortization of right of use assets	91	
Fair value of vested stock options issued to employees for services	790	
Fair value of shares granted for services		
Fair value of vested restricted shares issued for services	506	
Increase (decrease) in allowance for doubtful accounts	(248)	
Increase (decrease) in inventory reserve	449	
Increase/(decrease) in fair value of warrant liability	(30)	
Accrual of interest on convertible note to a related party	528	
Write off of intangible asset	-	
Changes in operating assets and liabilities:		
Accounts receivable	757	
Inventory	(3,575)	
Prepaid expenses and other assets	(645)	
Accounts payable	(182)	
Accrued expenses	(837)	
Other long term obligations	-	
Net cash used in operating activities	<u>(18,161)</u>	
Cash flows from investing activities:		
Proceeds from sale of property and equipment	45	
Purchase of property and equipment	(322)	
Net cash used in investing activities	<u>(277)</u>	
Cash flows from financing activities:		
Borrowings on line of credit	54,831	
Repayments of line of credit	(58,827)	
Capitalization of financing cost	(130)	
Principal repayments on capital expansion loan	-	

Principal repayments on bank notes	-	
Principal repayments on long term financial obligation	-	
Advances from officers	-	
Repayment of amounts due to/from officers	195	
Principal repayments on capital lease obligation	(48)	
Exercise of warrants	365	
Proceeds from sale of common stock	22,341	
Net cash provided by financing activities	18,727	
Net increase/(decrease) in cash	289	
Cash at beginning of period	624	
Cash at end of period	\$ 913	\$

Supplemental disclosures of cash flow information:

Cash paid for interest	\$	498	\$
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Non Cash Investing and Financing Activities

Dividends on Series A Convertible Preferred Stock	\$	5	\$
Acquisition of lease asset and liability	\$	-	\$
Vendor credits issued for fixed asset purchases	\$	-	\$
Fair value of warrant modification recorded as debt discount	\$	-	\$

Modified EBITDA

In addition to our GAAP results, we present Modified EBITDA as a supplemental measure of our performance. However, Modified EBITDA is not a recognized measurement under GAAP and should not be considered as an alternative to net income, income from operations or any other performance measure derived in accordance with GAAP, or as an alternative to cash flow from operating activities as a measure of liquidity. We define Modified EBITDA as net income (loss), plus interest expense, depreciation and amortization, stock-based compensation, changes in fair value of warrant expense, and one-time restructuring-related costs including employee severance and asset impairment.

Management considers our core operating performance to be that which our managers can affect in any particular period through their management of the resources that affect our underlying revenue and profit generating operations that period. Non-GAAP adjustments to our results prepared in accordance with GAAP are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Modified EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Modified EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Set forth below is a reconciliation of net loss to Modified EBITDA for the three months ended December 31, 2019 and 2018 (unaudited; in thousands):

	Three Months Ended December 31,	
	2019	
Net loss	\$	(3,823) \$

Modified EBITDA adjustments:		
Depreciation and amortization	44	
Interest expense	339	
Stock option and other noncash compensation	(301)	
Change in fair value of warrant liability	(7)	
Gain on Plant Sale	-	
Severance	(39)	
Total EBITDA adjustments	\$ 36	\$
Modified EBITDA	\$ (3,787)	\$

We present Modified EBITDA because we believe it assists investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use Modified EBITDA in developing our internal budgets, forecasts and strategic plan; in analyzing the effectiveness of our business strategies in evaluating potential acquisitions; and in making compensation decisions and in communications with our board of directors concerning our financial performance. Modified EBITDA has limitations as an analytical tool, which includes, among others, the following:

- Modified EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Modified EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Modified EBITDA does not reflect future interest expense, or the cash requirements necessary to service interest or principal on debt; and
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Modified EBITDA does not reflect any cash requirements for such replacements.

Set forth below is a reconciliation of net income (loss) to Modified EBITDA for the 12 months ended December 31, 2019 and 2018 (unaudited; in thousands):

	Year Ended Decem	
	2019	
	\$	\$
Net loss	(16,112)	
Modified EBITDA adjustments:		
Depreciation and amortization	152	
Interest expense	1,286	
Stock option and other noncash compensation	1,296	
Change in fair value of warrant liability	(30)	
Gain on Plant Sale	-	
Severance	643	
Total EBITDA adjustments	\$ 3,347	\$
Modified EBITDA	\$ (12,765)	\$

Reed's Logo Source: Reeds, Inc.