

October 23, 2019



Rocky Brands, Inc. Announces 2019 Third Quarter Results

Retail Sales Increased 21.8% to \$14.5 Million

Net Income Per Share Increased 11.9% to \$0.75

Adjusted Net Income Per Share Increased 13.3% to \$0.68

NELSONVILLE, Ohio--(BUSINESS WIRE)-- Rocky Brands, Inc. (NASDAQ: RCKY) today announced financial results for its third quarter ended September 30, 2019.

Third Quarter 2019 and Year-to-Date Sales and Income

Third quarter net sales increased 2.0% to \$67.2 million compared to \$65.9 million in the third quarter of 2018. The Company reported third quarter net income of \$5.6 million, or \$0.75 per diluted share compared to net income of \$5.0 million, or \$0.67 per diluted share in the third quarter of 2018. Adjusted net income for the third quarter of 2019 was \$5.0 million, or \$0.68 per diluted share compared to adjusted net income of \$4.5 million, or \$0.60 per diluted share in the prior year period.

Net sales for the first nine months of 2019 increased 5.2% to \$195.1 million compared with \$185.5 million for the first nine months of 2018. The Company reported net income of \$12.4 million, or \$1.66 per diluted share and net income of \$10.9 million, or \$1.47 per diluted share for the nine months ended September 30, 2019 and 2018, respectively. Adjusted net income for the first nine months of 2019 was \$11.8 million, or \$1.59 per diluted share compared to adjusted net income of \$10.4 million, or \$1.40 per diluted share for the same period of 2018.

Jason Brooks, President and Chief Executive Officer, commented, "We continue to have success capitalizing on the key growth opportunities we have identified for our Company. Our retail division is benefitting from the investments we have made in people as well as systems & processes which are driving strong sales increases across both our Lehigh CustomFit model and ecommerce channels. At the same time, the focus we have placed on product innovation, enhanced consumer engagement, and stronger retail partnerships is fueling consistent gains for our wholesale business led most recently by our western, outdoor and commercial military categories. Importantly, we've been able to translate our

top-line results into even stronger bottom line performances through gross margin expansion and our commitment to operational excellence. While we now face some near-term headwinds due to the tariff increase on footwear imports from China that went into effect in September, we believe the strength of our brand portfolio, margin enhancing growth prospects and internal manufacturing capabilities have us well positioned to deliver increased profitability over the long-term.”

Third Quarter and Year-to-Date Review

Net sales for the third quarter increased 2.0% to \$67.2 million compared to \$65.9 million a year ago. Wholesale sales for the third quarter increased 0.4% to \$47.2 million compared to \$47.0 million for the same period in 2018. Retail sales for the third quarter increased 21.8% to \$14.5 million compared to \$11.9 million for the same period last year. Military segment sales for the third quarter decreased, as expected, to \$5.4 million compared to \$7.0 in the third quarter of 2018.

Gross margin in the third quarter of 2019 increased to \$25.0 million, or 37.2% of sales, compared to \$22.4 million, or 34.0% of sales, for the same period last year. The 320 basis point increase was driven by a higher percentage of retail sales, which carry higher gross margins than wholesale and military sales combined with higher retail, wholesale and military margins. Third quarter 2019 gross margins also benefitted from a hurricane related expense reimbursement, which contributed approximately 100 basis points to the year-over-year improvement. Excluding the hurricane related expense reimbursement, gross margin in the third quarter of 2019 was \$24.3 million, or 36.2% of sales.

Operating expenses were \$18.0 million, or 26.8% of net sales, for the third quarter of 2019 compared to \$16.8 million, or 25.5% of net sales, a year ago. The increase in operating expenses was primarily attributable to higher variable expenses associated with the growth in retail sales.

Income from operations for the third quarter of 2019 was \$7.0 million, or 10.4% of net sales compared to \$5.6 million for the same period a year ago, or 8.5% of net sales.

For the first nine months of 2019, wholesale sales increased 2.4% to \$130.3 million compared to \$127.2 million for the same period in 2018. Retail sales for the first nine months increased 19.9% to \$44.0 million compared to \$36.7 million for the same period last year. Military segment sales for the first nine months decreased, as expected, to \$20.8 million compared to \$21.6 million in the first nine months of 2018.

Gross margin in the first nine months of 2019 increased 10.3% to \$69.4 million, or 35.6% of sales, compared to \$62.9 million, or 33.9% of sales, for the same period last year. Excluding the hurricane related expense reimbursement gross margin for the first nine months of 2019 was \$68.7 million, or 35.2% of sales.

Operating expenses were \$54.0 million, or 27.7% of net sales, for the first nine months of 2019 compared to \$49.7 million, or 26.8% of net sales, a year ago.

Income from operations for the first nine months of 2019 increased 16.7% to \$15.4 million, or 7.9% of net sales compared to \$13.2 million for the same period a year ago, or 7.1% of net sales.

Balance Sheet Review

Cash and cash equivalents increased \$2.2 million or 52.4% to \$6.4 million at September 30, 2019 compared to \$4.2 million on the same date a year ago.

Inventory at September 30, 2019 increased 5.7% to \$82.9 million compared to \$78.4 million on the same date a year ago.

Use of Non-GAAP Financial Measures

In addition to GAAP financial measures, the Company presents the following non-GAAP financial measures: “adjusted net income,” “adjusted net income per share” and “adjusted gross margin.” Adjusted results exclude the impact of items that management of the Company believes affect the comparability or underlying business trends in its consolidated financial statements in the periods presented. The Company believes that these non-GAAP measures are useful to investors and other users of our consolidated financial statements as an additional tool for evaluating operating performance. The Company believes they also provide a useful baseline for analyzing trends in its operations. Investors should not consider these non-GAAP measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. See “Reconciliation of GAAP Measures to Non-GAAP Measures” accompanying this press release.

Conference Call Information

The Company’s conference call to review third quarter 2019 results will be broadcast live over the internet today, Wednesday, October 23, 2019 at 4:30 pm Eastern Time. Investors and analysts interested in participating in the call are invited to dial (877) 705-6003 (domestic) or (201) 493-6725 (international). The conference call will also be available to interested parties through a live webcast at www.rockybrands.com. Please visit the website and select the “Investors” link at least 15 minutes prior to the start of the call to register and download any necessary software.

About Rocky Brands, Inc.

Rocky Brands, Inc. is a leading designer, manufacturer and marketer of premium quality footwear and apparel marketed under a portfolio of well recognized brand names including Rocky®, Georgia Boot®, Durango®, Lehigh®, and the licensed brand Michelin®.

Safe Harbor Language

This press release contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding intent, beliefs, expectations, projections, forecasts, and plans of the Company and its management and include statements in this press release regarding headwinds due to tariffs on footwear imports from China (paragraph 3) the Company’s positioning to deliver expected increased profitability over the long-term based on the Company’s belief in the strength of its brand portfolio, margin enhancing growth prospects and internal manufacturing capabilities (paragraph 3). These forward-looking statements involve

numerous risks and uncertainties, including, without limitation, the various risks inherent in the Company's business as set forth in periodic reports filed with the Securities and Exchange Commission, including the Company's annual report on Form 10-K for the year ended December 31, 2018 (filed March 13, 2019) and quarterly reports on Form 10-Q for the quarters ended March 31, 2019 (filed May 9, 2019) and June 30, 2019 (filed August 8, 2019). One or more of these factors have affected historical results, and could in the future affect the Company's businesses and financial results in future periods and could cause actual results to differ materially from plans and projections. Therefore there can be no assurance that the forward-looking statements included in this press release will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the Company, or any other person should not regard the inclusion of such information as a representation that the objectives and plans of the Company will be achieved. All forward-looking statements made in this press release are based on information presently available to the management of the Company. The Company assumes no obligation to update any forward-looking statements.

Rocky Brands, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands, except share amounts)

| | September 30, 2019 | December 31, 2018 | September 30, 2018 |
|--|-----------------------|----------------------|-----------------------|
| ASSETS: | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$ 6,440 | \$ 10,173 | \$ 4,210 |
| Trade receivables, net | 50,700 | 43,337 | 50,691 |
| Contract receivables | 2,036 | 2,602 | 4,849 |
| Other receivables | 310 | 331 | 282 |
| Inventories – net | 82,881 | 72,822 | 78,409 |
| Income tax receivable | - | 30 | - |
| Prepaid expenses | 2,656 | 1,890 | 2,122 |
| Total current assets | <u>145,023</u> | <u>131,185</u> | <u>140,563</u> |
| LEASED ASSETS | 1,781 | - | - |
| PROPERTY, PLANT & EQUIPMENT – net | 25,150 | 23,057 | 23,209 |
| IDENTIFIED INTANGIBLES – net | 30,248 | 30,273 | 30,283 |
| OTHER ASSETS | 293 | 148 | 163 |
| TOTAL ASSETS | <u>\$ 202,495</u> | <u>\$ 184,663</u> | <u>\$ 194,218</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$ 20,531 | \$ 13,543 | \$ 20,622 |
| Contract liabilities | 1,936 | 2,602 | 4,849 |
| Accrued expenses: | | | |
| Salaries and wages | 2,791 | 3,339 | 3,661 |
| Taxes - other | 624 | 556 | 158 |
| Accrued freight | 495 | 668 | 465 |
| Commissions | 488 | 560 | 432 |
| Accrued duty | 2,597 | 2,334 | 2,727 |
| Income tax payable | 19 | - | 1,888 |
| Other | 1,766 | 1,416 | 1,308 |
| Total current liabilities | <u>31,247</u> | <u>25,018</u> | <u>36,110</u> |
| LONG-TERM TAXES PAYABLE | 169 | 169 | 169 |
| LONG-TERM LEASE | 1,188 | - | - |
| DEFERRED INCOME TAXES | 7,780 | 7,780 | 7,726 |
| DEFERRED LIABILITIES | 230 | 121 | 152 |
| TOTAL LIABILITIES | <u>40,614</u> | <u>33,088</u> | <u>44,158</u> |
| SHAREHOLDERS' EQUITY: | | | |
| Common stock, no par value; | | | |
| 25,000,000 shares authorized; issued and | | | |
| outstanding September 30, 2019 - 7,403,219; | | | |
| December 31, 2018 - 7,368,494 and September 30, 2018 - | | | |
| 7,421,317 | 69,273 | 68,387 | 69,589 |
| Retained earnings | 92,608 | 83,188 | 80,471 |
| Total shareholders' equity | <u>161,881</u> | <u>151,575</u> | <u>150,060</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>\$ 202,495</u> | <u>\$ 184,663</u> | <u>\$ 194,218</u> |

Rocky Brands, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|------------|
| | 2019 | 2018 | 2019 | 2018 |
| NET SALES | \$ 67,179 | \$ 65,916 | \$ 195,067 | \$ 185,508 |
| COST OF GOODS SOLD | 42,165 | 43,516 | 125,633 | 122,610 |
| GROSS MARGIN | 25,014 | 22,400 | 69,434 | 62,898 |
| OPERATING EXPENSES | 18,027 | 16,791 | 54,004 | 49,688 |
| INCOME FROM OPERATIONS | 6,987 | 5,609 | 15,430 | 13,210 |
| OTHER INCOME (EXPENSES) | 43 | 31 | 160 | (148) |
| INCOME BEFORE INCOME TAXES | 7,030 | 5,640 | 15,590 | 13,062 |
| INCOME TAX EXPENSE | 1,414 | 595 | 3,212 | 2,117 |
| NET INCOME | \$ 5,616 | \$ 5,045 | \$ 12,378 | \$ 10,945 |
| INCOME PER SHARE | | | | |
| Basic | \$ 0.76 | \$ 0.68 | \$ 1.67 | \$ 1.48 |
| Diluted | \$ 0.75 | \$ 0.67 | \$ 1.66 | \$ 1.47 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | | | | |
| Basic | 7,400 | 7,418 | 7,392 | 7,412 |
| Diluted | 7,455 | 7,480 | 7,443 | 7,454 |

Rocky Brands, Inc. and Subsidiaries
Reconciliation of GAAP Measures to Non-GAAP Measures
(In thousands, except share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Gross Margin | | | | |
| Gross margin, as reported | \$ 25,014 | \$ 22,400 | \$ 69,434 | \$ 62,898 |
| Less: Hurricane related expense reimbursement * | (725) | - | (725) | - |
| Adjusted gross margin | \$ 24,289 | \$ 22,400 | \$ 68,709 | \$ 62,898 |
| Operating Expenses | | | | |
| | \$ 18,027 | \$ 16,791 | \$ 54,004 | \$ 49,688 |
| INCOME FROM OPERATIONS, ADJUSTED | \$ 6,262 | \$ 5,609 | \$ 14,705 | \$ 13,210 |
| Net Income | | | | |
| Net income, as reported | \$ 5,616 | \$ 5,045 | \$ 12,378 | \$ 10,945 |
| Less: Transition Tax Adjustment ** | - | (561) | - | (561) |
| Less: Hurricane related expense reimbursement, after tax | (579) | - | (579) | - |
| Adjusted net income | \$ 5,037 | \$ 4,484 | \$ 11,799 | \$ 10,384 |
| Net income per share, as reported | | | | |
| Basic | \$ 0.76 | \$ 0.68 | \$ 1.67 | \$ 1.48 |
| Diluted | \$ 0.75 | \$ 0.67 | \$ 1.66 | \$ 1.47 |
| Adjusted net income per share | | | | |
| Basic | \$ 0.68 | \$ 0.60 | \$ 1.60 | \$ 1.40 |
| Diluted | \$ 0.68 | \$ 0.60 | \$ 1.59 | \$ 1.40 |
| Weighted average shares outstanding | | | | |
| Basic | 7,400 | 7,418 | 7,392 | 7,412 |
| Diluted | 7,455 | 7,480 | 7,443 | 7,454 |

* Adjustment related to reimbursements of expenses associated with the temporary closure of our Puerto Rican manufacturing facility as a result of Hurricane Maria in 2017

** Adjustment related to the one-time transition tax on the deemed repatriation of undistributed foreign earnings as a result of further analysis of the provisions of the Tax Cuts and Jobs Act.

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