

May 16, 2022

DIGITAL  
BRANDS  
GROUP

# Digital Brands Group Reports First Quarter 2022 Financial Results

AUSTIN, Texas, May 16, 2022 /PRNewswire/ -- **Digital Brands Group, Inc. ("DBG") (NASDAQ: DBGI)**, a curated collection of luxury lifestyle, digital-first brands, today reported financial results for its first quarter ended March 31, 2021.

First quarter 2022 net revenue was \$3.4 million versus \$0.4 million a year ago, an increase of 740% year over year. Our gross profit margin increased 94% year over year to 42.9% from negative 50.8% a year ago, an increase of \$1.7 million in gross profit dollars

Our net loss per diluted share was \$0.59 versus a net loss of \$4.55 per diluted share a year ago, an improvement of 671% year over year. Our net loss attributable to common stockholders was \$7.8 million versus a net loss of \$3.0 million a year ago. The net loss included non-cash expenses associated with a change in the fair value of contingent liabilities and amortization of loan discount and fees of \$3.0 million.

"Our first quarter 2022 results reflect another quarter of meaningful improvement in our business results," said Hil Davis, Chief Executive Officer of Digital Brands Group.

"We continue to drive significant revenue growth year-over-year. In fact, based on our current wholesale orders for this summer and fall, we believe that we will continue to experience strong year-over-year revenue growth. This revenue growth is creating leverage on our fixed costs. We believe that we will benefit from this revenue growth in the fall to fully leverage our fixed costs," concluded Davis.

## **First Quarter 2022 Highlights**

- Net Sales were \$3.4 million versus \$0.4 million in the year ago quarter, an increase of 740% year over year. The increase in net sales was driven by an increase in revenue across all our brands.
- Our gross profit margin increased 671% year over year to 42.9% from negative 50.8%. Gross profit increased by \$1.7 million due to improved gross margins at all our brands.
- Net loss attributable to common stockholders was \$7.8 million, or \$0.59 per diluted share, compared to net loss attributable to common stockholders of \$3.0 million, or \$4.55 per diluted share, in the prior year period.

- Net loss in the first quarter of 2022 included non-cash expenses associated with a change in the fair value of contingent liabilities and amortization of loan discount and fees of \$3.0 million.

## **Conference Call and Webcast Details**

The Company will host a conference call and webcast at 5:30 p.m. ET today to discuss results. The live conference call can be accessed by dialing (866) 605-1828 from the U.S. or internationally. The conference I.D. code is 13730157.

## ***Forward-looking Statements***

Certain statements included in this release are "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements are made based on our expectations and beliefs concerning future events impacting DBG and therefore involve several risks and uncertainties. You can identify these statements by the fact that they use words such as "will," "anticipate," "estimate," "expect," "should," and "may" and other words and terms of similar meaning or use of future dates, however, the absence of these words or similar expressions does not mean that a statement is not forward-looking. All statements regarding DBG's plans, objectives, projections and expectations relating to DBG's operations or financial performance, and assumptions related thereto are forward-looking statements. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements. DBG undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Potential risks and uncertainties that could cause the actual results of operations or financial condition of DBG to differ materially from those expressed or implied by forward-looking statements include, but are not limited to: risks arising from the widespread outbreak of an illness or any other communicable disease, or any other public health crisis, including the coronavirus (COVID-19) global pandemic; the level of consumer demand for apparel and accessories; disruption to DBG's distribution system; the financial strength of DBG's customers; fluctuations in the price, availability and quality of raw materials and contracted products; disruption and volatility in the global capital and credit markets; DBG's response to changing fashion trends, evolving consumer preferences and changing patterns of consumer behavior; intense competition from online retailers; manufacturing and product innovation; increasing pressure on margins; DBG's ability to implement its business strategy; DBG's ability to grow its wholesale and direct-to-consumer businesses; retail industry changes and challenges; DBG's and its vendors' ability to maintain the strength and security of information technology systems; the risk that DBG's facilities and systems and those of our third-party service providers may be vulnerable to and unable to anticipate or detect data security breaches and data or financial loss; DBG's ability to properly collect, use, manage and secure consumer and employee data; stability of DBG's manufacturing facilities and foreign suppliers; continued use by DBG's suppliers of ethical business practices; DBG's ability to accurately forecast demand for products; continuity of members of DBG's management; DBG's ability to protect trademarks and other intellectual property rights; possible goodwill and other asset impairment; DBG's ability to execute and integrate acquisitions; changes in tax laws and liabilities; legal, regulatory, political and economic risks; adverse or unexpected weather conditions; DBG's indebtedness and its ability to obtain financing on favorable terms, if needed, could prevent DBG from fulfilling its financial obligations; and climate

change and increased focus on sustainability issues. More information on potential factors that could affect DBG's financial results is included from time to time in DBG's public reports filed with the SEC, including DBG's Annual Report on Form 10-K, and Quarterly Reports on Form 10-Q, and Forms 8-K filed or furnished with the SEC.

**DIGITAL BRANDS GROUP, INC  
STATEMENT OF OPERATIONS**

|  | <b>Three Months Ended<br/>March 31,</b> |                |
|--|---|----------------|
|  | <b>2022</b>                             | <b>2021</b>    |
| Net revenues   | \$ 3,432,410                            | \$ 408,405     |
| Cost of net revenues   | 1,958,911                               | 615,942        |
| Gross profit (loss)  | 1,473,499                               | (207,537)      |
| Operating expenses:  |   |                |
| General and administrative                                     | 4,611,235                               | 1,907,518      |
| Sales and marketing  | 1,040,572                               | 170,820        |
| Distribution   | 202,848                                 | 63,578         |
| Change in fair value of contingent consideration               | 1,200,321                               | -              |
| Total operating expenses                                       | 7,054,976                               | 2,141,916      |
| Loss from operations   | (5,581,477)                             | (2,349,453)    |
| Other income (expense):  |   |                |
| Interest expense   | (1,567,877)                             | (675,044)      |
| Other non-operating income (expenses)                          | (683,588)                               | 562            |
| Total other income (expense), net                              | (2,251,465)                             | (674,482)      |
| Income tax benefit (provision)                                 | -                                       | -              |
| Net loss   | \$ (7,832,942)                          | \$ (3,023,935) |
| Weighted average common shares outstanding - basic and diluted | 13,235,062                              | 664,167        |
| Net loss per common share - basic and diluted                  | \$ (0.59)                               | \$ (4.55)      |

*The accompanying notes are an integral part of these financial statements.*

**DIGITAL BRANDS GROUP, INC  
STATEMENTS OF CASH FLOW**

|   | <b>Three Months Ended<br/>March 31,</b> |                |
|---|---|----------------|
|   | <b>2022</b>                             | <b>2021</b>    |
| <b>Cash flows from operating activities:</b>                                |   |                |
| Net loss  | \$ (7,832,942)                          | \$ (3,023,935) |
| Adjustments to reconcile net loss to net cash used in operating activities: |   |                |
| Depreciation and amortization   | 552,004                                 | 100,687        |
|   | 1,093,583                               | 223,065        |
| Amortization of loan discount and fees                                      | 139,093                                 | 36,976         |
| Stock-based compensation  | (5,970)                                 | (562)          |
| Change in fair value of warrant liability                                   | 682,103                                 | -              |
| Change in fair value of derivative liability                                | 1,200,321                               | -              |
| Change in fair value of contingent consideration                            | (9,067)                                 | 3,335          |
| Change in credit reserve  | (49,554)                                | 22,700         |
| Changes in operating assets and liabilities:                                |   |                |
| Accounts receivable, net  | 294,439                                 | (6,950)        |
| Due from factor, net  | 262,753                                 | 573,496        |
| Inventory   | (126,369)                               | (195,027)      |
| Prepaid expenses and other current assets                                   | 1,972,441                               | 195,528        |
| Accounts payable  | 669,514                                 | 98,075         |
| Accrued expenses and other liabilities                                      |   |                |

|   |                   |                   |
|---|-------------------|-------------------|
| Deferred revenue                                  | 71,707            | (1,667)           |
| Accrued compensation - related party              | -                 | (62,777)          |
| Accrued interest                                  | 450,788           | 394,479           |
| Net cash used in operating activities             | (635,156)         | (1,642,577)       |
| <b>Cash flows from investing activities:</b>      |                   |                   |
| Purchase of property, equipment and software      | (5,576)           | -                 |
| Net cash used in investing activities             | (5,576)           | -                 |
| <b>Cash flows from financing activities:</b>      |                   |                   |
| Proceeds (repayments) from related party advances | (11,105)          | -                 |
| Advances (repayments) from factor                 | (179,126)         | 32,617            |
| Proceeds from venture debt and loan payable       | 868,582           | 1,347,050         |
| Issuance of convertible notes payable             | -                 | 528,650           |
| Offering costs                                    | -                 | (130,523)         |
| Net cash provided by financing activities         | 678,351           | 1,777,794         |
| <b>Net increase in cash and cash equivalents</b>  | <b>37,619</b>     | <b>135,217</b>    |
| Cash and cash equivalents at beginning of period  | 528,394           | 575,986           |
| Cash and cash equivalents at end of period        | <b>\$ 566,013</b> | <b>\$ 711,203</b> |

*The accompanying notes are an integral part of these financial statements.*

**DIGITAL BRANDS GROUP, INC  
STATEMENT OF BALANCE SHEETS**

|   | March 31,<br>2022    | December 31,<br>2021 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                             |                      |                      |
| Current assets:                           |                      |                      |
| Cash and cash equivalents                 | \$ 566,013           | \$ 528,394           |
| Accounts receivable, net                  | 138,948              | 89,394               |
| Due from factor, net                      | 879,042              | 985,288              |
| Inventory                                 | 2,492,605            | 2,755,358            |
| Prepaid expenses and other current assets | 544,269              | 417,900              |
| Total current assets                      | 4,620,877            | 4,776,334            |
| Deferred offering costs                   | 367,696              | 367,696              |
| Property, equipment and software, net     | 88,650               | 97,265               |
| Goodwill                                  | 18,264,822           | 18,264,822           |
| Intangible assets, net                    | 12,303,501           | 12,841,313           |
| Deposits                                  | 137,794              | 137,794              |
| Right of use asset                        | 250,244              | -                    |
| Total assets                              | <b>\$ 36,033,584</b> | <b>\$ 36,485,224</b> |

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

|   |                   |                   |
|---|-------------------|-------------------|
| Current liabilities:                    |                   |                   |
| Accounts payable                        | \$ 8,535,132      | \$ 6,562,690      |
| Accrued expenses and other liabilities  | 2,906,659         | 2,237,145         |
| Deferred revenue                        | 348,104           | 276,397           |
| Due to related parties                  | 256,530           | 277,635           |
| Contingent consideration liability      | 13,379,797        | 12,179,476        |
| Convertible notes, current              | 100,000           | 100,000           |
| Accrued interest payable                | 1,561,467         | 1,110,679         |
| Note payable - related party            | 309,489           | 299,489           |
| Venture debt, net of discount           | 6,251,755         | 6,001,755         |
| Loan payable, current                   | 3,502,000         | 2,502,000         |
| Promissory note payable                 | 3,500,000         | 3,500,000         |
| Right of use liability, current portion | 198,686           | -                 |
| Total current liabilities               | 40,849,619        | 35,047,266        |
| Convertible note payable, net           | 5,671,267         | 5,501,614         |
| Loan payable                            | 366,764           | 713,182           |
| Derivative liability                    | 2,664,171         | 2,294,720         |
| Warrant liability                       | 12,253            | 18,223            |
| Right of use liability                  | 51,558            | -                 |
| Total liabilities                       | <b>49,615,632</b> | <b>43,575,005</b> |

Commitments and contingencies (Note 11)

Stockholders' equity (deficit):

Undesignated preferred stock, \$0.0001 par, 10,000,000 shares authorized, 0 shares

issued and outstanding as of both March 31, 2022 and December 31, 2021  
Common stock, \$0.0001 par, 200,000,000 shares authorized, 13,875,591 and 13,001,690  
shares

|   |               |               |
|---|---------------|---------------|
| issued and outstanding as of March 31, 2022 and December 31, 2021, respectively | 1,387         | 1,300         |
| Additional paid-in capital  | 59,953,461    | 58,612,873    |
| Accumulated deficit   | (73,536,896)  | (65,703,954)  |
| Total stockholders' equity (deficit)  | (13,582,048)  | (7,089,781)   |
| Total liabilities and stockholders' equity (deficit)                            | \$ 36,033,584 | \$ 36,485,224 |

*The accompanying notes are an integral part of these financial statements.*

## About Digital Brands Group

We offer a wide variety of apparel through numerous brands on a both direct-to-consumer and wholesale basis. We have created a business model derived from our founding as a digitally native-first vertical brand. Digital native first brands are brands founded as e-commerce driven businesses, where online sales constitute a meaningful percentage of net sales, although they often subsequently also expand into wholesale or direct retail channels. Unlike typical e-commerce brands, as a digitally native vertical brand we control our own distribution, sourcing products directly from our third-party manufacturers and selling directly to the end consumer. We focus on owning the customer's "closet share" by leveraging their data and purchase history to create personalized targeted content and looks for that specific customer cohort. We have strategically expanded into an omnichannel brand offering these styles and content not only on-line but at selected wholesale and retail storefronts. We believe this approach allows us opportunities to successfully drive Lifetime Value ("LTV") while increasing new customer growth.

Digital Brands Group, Inc. Company Contact

**Hil Davis**, CEO

Email: [invest@digitalbrandsgroup.co](mailto:invest@digitalbrandsgroup.co)

Phone: (800) 593-1047

View original content:<https://www.prnewswire.com/news-releases/digital-brands-group-reports-first-quarter-2022-financial-results-301548368.html>

SOURCE Digital Brands Group, Inc.