

March 13, 2020



KushCo Holdings Announces Preliminary Fiscal Second Quarter 2020 Revenue Results and Provides Corporate Updates

CYPRESS, CA / ACCESSWIRE / March 13, 2020 /KushCo Holdings, Inc. (OTCQX:KSHB) ("KushCo" or the "Company"), the premier producer of ancillary products and services to the legal cannabis and CBD industries, today reported preliminary revenue results for its fiscal second quarter ended February 29, 2020. The Company also provides general corporate updates regarding the business and the recent outbreak of COVID-19 ("Coronavirus").

Fiscal Second Quarter 2020 Preliminary Revenue Results

KushCo expects its fiscal second quarter 2020 revenue to be approximately \$30 million, compared to \$35.0 million in its fiscal first quarter 2020. The 14% sequential decrease in revenue was driven primarily by a slower-than-expected rebound in demand for the Company's vape hardware products, continued weakness in the California market, a slower-than-anticipated rollout of its hemp trading business, the extension of the Chinese New Year holiday, and a delay in the rollout of cannabis 2.0 products in Canada, especially due to some provincial bans and taxes on vape products.

"Our revenue for fiscal Q2 was negatively impacted by several short-term factors, but we are fortunately seeing strong fundamental trends across the business that give us confidence for a stronger second half of the fiscal year and beyond," said Nick Kovacevich, KushCo's Co-founder, Chairman and Chief Executive Officer. "For one, despite a challenging near-term market backdrop in California, we have been actively tightening our customer credit terms, ramping up our collection efforts, and continuing to move away from the smaller and less financially stable customers that historically comprised a core part of our business. In fact, over the past few years, this regional customer base, especially in recent months due to their heightened liquidity challenges, is gradually comprising a smaller part of our business, whereas our business with our larger MSOs and LPs, which each spend more than \$500,000 on a trailing twelve months basis, has ballooned from less than 20% of sales in fiscal 2017 to more than 60% in fiscal 2019. While it will take some time for this transition to fully scale, we are encouraged with the progress thus far in securing and entrenching ourselves even further with these larger and more financially stable customers. With respect to the broader demand for our vape products, we were disappointed to see a roughly flat quarter-over-quarter contribution from this category, but are encouraged with the underlying trends in our business that show continued robust growth in many of our key markets, such as Illinois, Michigan, Massachusetts, and Canada. As consumer sentiment and the regulatory environment around vape continues to improve, we expect this category to rebound and drive our revenue growth as well."

The Company ended the fiscal quarter with approximately \$11 million in cash. As previously highlighted, KushCo also has a revolving line of credit with Monroe Capital that allows for

borrowings up to \$35 million, subject to the Company meeting certain borrowing base requirements. As of the fiscal second quarter ended, the Company did not have any outstanding borrowings under the revolver.

As a result of the Company's sales trends during the first half of fiscal 2020, and the challenges associated with forecasting near-term market volatility and uncertainty, the Company is retracting its net revenue guidance for fiscal 2020 of \$230 million to \$250 million, which was originally issued on November 7, 2019. The Company is also retracting its expectation that net revenue from its hemp trading business would exceed \$25 million for fiscal 2020.

Kovacevich added: "While the longer-term thesis and business opportunity still remain very much intact, given some of the recent market developments, and the challenges they have created for providing the investment community with reasonable near-term targets for our business, we believe removing our fiscal 2020 revenue guidance is the prudent approach at this time. That being said, we remain confident in our ability to achieve profitable growth in the near term given the significant cost savings initiatives we have recently undertaken, the market and customer data that suggest a stronger second half to the fiscal year, and the financial resources currently at hand, including the proceeds from our recent capital raise and our revolving line of credit, which we believe will support our working capital needs for the remainder of the fiscal year."

KushCo expects to report its complete fiscal second quarter 2020 financial results in April 2020. The Company will announce the date, time and details of its earnings conference call at least a week prior to the call.

General Business Update

During the fiscal second quarter and the period following shortly thereafter, KushCo completed a number of strategic initiatives to help drive revenue growth, increase margins, reduce costs, and increase shareholder value, including:

- ***Launched KushCommodities.com:*** The Company recently launched its new hemp trading platform, KushCommodities.com, which is a bulk hemp and CBD trading ecosystem that makes it easier for sellers and growers to display their products online, and for buyers to place bids on the purchase of those products.
- ***Placed several CBD brands into various convenience and conventional retailers:*** Through its partnership with C.A. Fortune, as well as its own internal sales and marketing efforts, KushCo has successfully placed some of the CBD brands from its Retail Services division into select convenience and conventional retailers, including one of the nation's largest drugstore chains.
- ***Ramped up customer relationship and sales activity with Canadian LPs:*** In the past several months, KushCo has invested in strengthening its relationships with many of the LPs, which the Company believes has contributed to a recent uptick in orders in Canada for its vape hardware products, as well as a broader market understanding of how KushCo can be a long-term partner for these LPs' future needs.
- ***Launched a plan to synergize our warehouse footprint to reduce costs and better address near-term market opportunity:*** During January 2020, the Company took steps to optimize its footprint, including evaluating right-sizing and consolidating warehouses nationwide to improve efficiency and eliminate duplicative costs, while

continuing to ensure top-tier customer service.

- **Completed another round of reductions in force:** In February 2020, KushCo completed another round of layoffs, letting go 26 employees, which the Company expects will result in approximately \$3.7 million in annual savings. In total, the Company has reduced its headcount by approximately 30% since September 2019, which it expects will result in an aggregate annual savings of approximately \$8 million.

"Remaining focused on the bigger opportunities and not getting discouraged by the short-term challenges in the marketplace have been paramount to us these last few months, as we navigate choppy waters and look to come out stronger on the other side," said Jason Vegotsky, KushCo's President and Chief Revenue Officer. "Over the past decade, we have encountered and overcome numerous challenges to our business because of our relentless drive to address problems quickly, find creative solutions, and take calculated strategic risks when others are unwilling or unable to do the same. This has enabled us to become one of the largest and most recognizable companies in the industry today, having more than doubled our revenue in each of the last five fiscal years. This current market environment we're in presents fertile ground for us to entrench ourselves even deeper with our customer base. In fact, we have already made great strides in ensuring we're even more relevant to the operators we think will be the ultimate winners by providing exceptional service, scale, breadth of offerings and reliability, which are at a premium in times like these. Overall, I'm encouraged by the progress we have made in not only ensuring that we can grow the topline, but also taking meaningful steps to improve the bottom line as well, such that we can be in the enviable position of controlling our own destiny."

COVID-19 ("Coronavirus") Update

In anticipation of the annual disruption expected during Chinese New Year, which took place this year from January 25 to February 8, 2020, the Company pre-ordered a level of inventory in advance that it believed to be sufficient to continue servicing its customers during the nationwide shutdown that occurs during this holiday.

During the past month, the Company experienced a small, but manageable, disruption in the supply chain, which briefly affected its ability to procure certain products on time. These receipts were ultimately delayed by a couple of days, and the products have now been received by the Company in its warehouses in the U.S. KushCo believes that its current inventory level is sufficient to support its customers for the next several months, and will periodically place additional orders, as needed, to replenish its inventory going forward.

"With the recent coronavirus outbreak, our business was briefly and minimally affected by temporary factory shutdowns, production delays and product shortages," said Rodrigo de Oliveira, KushCo's Chief Operating Officer. "Fortunately, we entered Chinese New Year with healthy inventory levels, whereas some of our peers who don't have the same scale, resources, supplier relationships, or inventory quickly ran out of product. Overall, we're pleased to see the situation slowly improving and for new shipments to make their way into our warehouses again, from which we can accelerate our sales again."

About KushCo Holdings

KushCo Holdings, Inc. (OTCQX:KSHB) (www.kushco.com) is the premier producer of ancillary products and services to the legal cannabis and CBD industries. KushCo Holdings'

subsidiaries and brands provide product quality, exceptional customer service, compliance knowledge and a local presence in serving its diverse customer base.

Founded in 2010, KushCo Holdings has now sold more than 1 billion units to growers, processors and producers across North America, South America, and Europe.

The Company has been featured in media nationwide, including CNBC, Fox News, Yahoo Finance, Cheddar, Los Angeles Times, TheStreet.com, and Entrepreneur, Inc Magazine. While KushCo Holdings provides products and solutions to customers in the cannabis and CBD industries, it has no direct involvement with the cannabis plant or any products that contain THC.

For more information, visit www.kushco.com or call (888) 920-5874.

Forward-Looking Statements

This press release may include predictions, estimates or other information that might be considered forward-looking within the meaning of applicable securities laws. While these forward-looking statements represent the Company's current judgments, they are subject to risks and uncertainties that could cause actual results to differ materially. You are cautioned not to place undue reliance on these forward-looking statements, which reflect the opinions of the Company's management only as of the date of this release. Please keep in mind that the Company is not obligating itself to revise or publicly release the results of any revision to these forward-looking statements in light of new information or future events. When used herein, words such as: "potential," "look forward," "expect," "anticipate," "project," "should," "believe," or variations of such words and similar expressions are intended to identify forward-looking statements. Factors that could cause actual results to differ materially from those contemplated in any forward- looking statements made by the Company herein are often discussed in the Company's filings with the United States Securities and Exchange Commission (SEC), which are available at: www.sec.gov, and on the Company's website, at: www.kushco.com.

KushCo Holdings Contact

Investor Contact:

Najim Mostamand, CFA
Director of Investor Relations
714-539-7653
ir@kushco.com

SOURCE: KushCo Holdings, Inc.

View source version on accesswire.com:

<https://www.accesswire.com/580518/KushCo-Holdings-Announces-Preliminary-Fiscal-Second-Quarter-2020-Revenue-Results-and-Provides-Corporate-Updates>