

November 14, 2022

**DIGITAL  
BRANDS  
GROUP**

## **Digital Brands Group Reports Third Quarter 2022 Financial Results with a 58% Increase in Revenues**

AUSTIN, Texas, Nov. 14, 2022 /PRNewswire/ -- **Digital Brands Group, Inc. ("DBG") (NASDAQ: DBGI)**, a curated collection of luxury lifestyle, digital-first brands, today reported financial results for its third quarter ended September 30, 2022.

### **Third Quarter 2022 Highlight Compared to Third Quarter 2021**

- Net revenues of \$3.4 million, an increase of 58.3% or \$2.2 million
  - This excludes deferred revenue of \$0.4 million, which will be recognized in our fourth quarter results
- Gross profit margin of 48.3% versus 55.9%
  - Gross profit was negatively impacted by 5.1% due to the accounting treatment of deferred revenue and the timing of fabric costs in our men's custom business, which will benefit the fourth quarter gross profit
- Net loss per diluted share of \$9.26 versus a net loss of \$75.83
- Net loss attributable to common stockholders was \$4.9 million versus a net loss of \$8.9 million
  - The net loss included interest expense of \$2.3 million, which should be less than \$150,000 a quarter going forward due to the elimination of debt

"We are pleased to announce that we delivered strong revenue growth and continued operating leverage on our fixed costs in the third quarter," said Hil Davis, Chief Executive Officer of Digital Brands Group. "We also reduced our debt significantly during the quarter, which allows us to factor our wholesale purchase orders. This enables us to transition to a positive working capital cycle from the negative working capital cycle we have historically operated our businesses.

"Additionally, we launched the Bailey shop in October, which is a single e-commerce destination that features all our brands. We have experienced strong results and consumer trends since we launched this multi-brand site. We believe this shows the power of our initial vision and business model and sets a strong foundation to which we can add additional brands, like Sundry, as we bring them into our portfolio," said Davis.

### **Third Quarter 2022 Highlights**

Net Sales were \$3.4 million versus \$2.2 million in the year ago quarter, an increase of 58.3% year over year. Net sales excluded \$0.4 million in deferred revenue associated with the timing of when customer orders were placed versus when they were shipped in our men's custom business, as there is an approximate four-week lag between ordered versus shipped. Net sales were also negatively impacted due to some Stateside wholesale orders shipping after September 30<sup>th</sup>. The revenue associated with these wholesale orders will shift to our fourth quarter revenue.

Gross profit margin was 48.3% versus 55.9% a year ago, a decrease of 7.6% in gross profit margin. Gross profit margin was negatively impacted by 5.1% due to the accounting treatment of deferred revenue and the timing of fabric costs in our men's custom business, which will shift into the fourth quarter as a benefit to gross profit. Additionally, gross profit margin was negatively impacted by price increases in our production expenses during the third quarter. These increases in production prices have been offset with price increases in our retail price points starting the first quarter of 2023.

General and administrative expenses as a % of revenue decreased 38.5% to 105.8% of revenues versus 172.0% a year ago. General and administrative expenses were \$3.6 million versus \$3.7 million in the year ago quarter. We continue to get leverage on our fixed costs. We do not expect any additional increases in general and administrative expenses.

Sales and marketing expenses were 35.8% of revenues versus 60.4% a year ago, a decrease of 40.8%. Sales and marketing expenses were \$1.2 million versus \$1.3 million a year ago. We slowed our digital advertising spend in the third quarter in advance of our Bailey Shop rollout in October. In October, we redirected our advertising spend from each of our brand sites to our Bailey Shop site, which features all our brands on a single site. This shift in our advertising strategy should result in sales and marketing efficiencies going forward.

Distribution expenses were 2.9% of revenues versus 4.9% a year ago, a decline of 41.4%. Distribution expenses were \$98,000 versus \$105,000 a year ago. We expect to continue to benefit from a reduction in our distribution expenses associated with operating one distribution center versus two distribution centers, as we consolidated two distribution centers into one distribution center during the second quarter of this year.

Loss from operations was \$2.6 million versus \$7.9 million a year ago, a decline of \$5.3 million from a year ago.

Interest expenses was \$2.3 million versus \$0.5 million a year ago. Going forward, interest expense should be less than \$150,000 a quarter due to the elimination of debt.

Net loss attributable to common stockholders was \$4.9 million, or \$9.26 per diluted share, compared to net loss attributable to common stockholders of \$8.9 million, or \$75.83 per diluted share, a year ago.

### **Conference Call and Webcast Details**

The Company will host a conference call and webcast at 6:00 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 13734491 or via the web by using the following link: [tinyurl.com/jt5rbzkr](https://tinyurl.com/jt5rbzkr).

### ***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**

	Three Months Ended September 30,	
	2022	2021
Net revenues	\$ 3,424,522	\$ 2,163,280
Cost of net revenues	1,771,178	954,137
Gross profit	1,653,344	1,209,143
General and administrative	3,624,841	3,720,863
Sales and marketing	1,225,417	1,307,219
Other operating expenses	(605,148)	4,093,825
Operating loss	(2,591,766)	(7,912,764)
Other expenses	(2,302,706)	(1,025,283)
Loss before provision for income taxes	(4,894,472)	(8,938,047)
Provision for income taxes	-	-
Net loss	\$ (4,894,472)	\$ (8,938,047)
Weighted average common shares outstanding - basic and diluted	528,758	117,866
Net loss per common share - basic and diluted	\$ (9.26)	\$ (75.83)

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

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

	Nine Months Ended September 30,	
	2022	2021
<b>Cash flows from operating activities:</b>		
Net loss	\$ (22,261,338)	\$ (22,659,480)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,669,782	652,732
Amortization of loan discount and fees	4,610,234	682,956
Stock-based compensation	491,945	4,155,641
Fees incurred in connection with debt financings	48,245	132,609
Change in fair value of warrant liability	(18,223)	21,930
Change in fair value of derivative liability	(794,477)	627,956
Change in fair value of contingent consideration	6,418,355	7,039,394
Forgiveness of Payroll Protection Program	(1,760,755)	-
Deferred income tax benefit	-	(1,100,120)
Change in credit reserve	(26,429)	66,748
Changes in operating assets and liabilities:		
Accounts receivable, net	(289,061)	(32,582)
Due from factor, net	433,671	(540,257)
Inventory	100,006	(483,477)
Prepaid expenses and other current assets	(522,434)	(1,259,835)
Accounts payable	382,941	749,352
Accrued expenses and other liabilities	1,715,221	451,298
Deferred revenue	119,977	(78,492)
Accrued compensation - related party	-	(108,550)
Accrued interest	992,482	206,163
Net cash used in operating activities	(8,689,858)	(11,476,015)
<b>Cash flows from investing activities:</b>		
Cash acquired (consideration) pursuant to business combination	-	(5,442,966)
Purchase of property, equipment and software	(5,533)	(13,585)
Deposits	-	(67,431)
Net cash used in investing activities	(5,533)	(5,523,982)
<b>Cash flows from financing activities:</b>		
Proceeds (repayments) from related party advances	(162,692)	-

Advances (repayments) from factor	(60,734)	(39,520)
Proceeds from venture debt	237,500	-
Issuance of loans payable	248,858	2,626,050
Repayments of convertible and promissory notes	(3,068,750)	(2,002,731)
Issuance of convertible notes payable	3,751,250	5,078,650
Proceeds from initial public offering	9,347,450	10,000,002
Exercise of over-allotment option with public offering, net	-	1,364,997
Exercise of warrants	-	1,768,046
Offering costs	(1,930,486)	(2,116,957)
Net cash provided by financing activities	8,362,396	16,678,537
<b>Net increase in cash and cash equivalents</b>	<b>(332,995)</b>	<b>(321,460)</b>
Cash and cash equivalents at beginning of period	528,394	575,986
Cash and cash equivalents at end of period	<u>\$ 195,399</u>	<u>\$ 254,526</u>

**Supplemental disclosure of cash flow information:**

Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 318,576	\$ 460,179

**Supplemental disclosure of non-cash investing and financing activities:**

Conversion of notes into common stock	\$ 1,802,372	\$ 2,680,289
Right of use asset	\$ 152,387	\$ -
Warrants issued in connection with note	\$ 790,540	\$ -
Derivative liability in connection with convertible note	\$ 559,957	\$ 1,858,887
Conversion of related party notes and payables into preferred and common stock	\$ 25,000	\$ 257,515
Conversion of venture debt into preferred stock	\$ 6,300,000	\$ -
Conversion of preferred stock into common stock	\$ -	\$ 6,293
Common shares issued pursuant to equity line of credit	\$ -	\$ 367,996

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

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

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Current assets:		
	\$	\$
Cash and cash equivalents	195,399	528,394
Accounts receivable, net	378,455	89,394
Due from factor, net	638,781	985,288
Inventory	2,655,352	2,755,358
Prepaid expenses and other current assets	940,334	417,900
Total current assets	4,808,321	4,776,334
Deferred offering costs	367,696	367,696
Property, equipment and software, net	46,454	97,265
Goodwill	18,264,822	18,264,822
Intangible assets, net	11,227,876	12,841,313
Deposits	137,794	137,794
Right of use asset	152,387	-
	\$	\$
Total assets	<u>35,005,350</u>	<u>36,485,224</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
	\$	\$
Accounts payable	6,945,633	6,562,690
Accrued expenses and other liabilities	3,952,366	2,237,145
Deferred revenue	396,374	276,397
Due to related parties	209,943	277,635
Contingent consideration liability	18,597,831	12,179,476
Convertible note payable, net	8,075,872	100,000
Accrued interest payable	2,103,161	1,110,679
Note payable - related party	179,489	299,489
Venture debt, net of discount	-	6,001,755

Loan payable, current	1,426,885	2,502,000
Promissory note payable	3,500,000	3,500,000
Right of use liability, current portion	152,387	-
Total current liabilities	45,539,941	35,047,266
Convertible note payable, net	-	5,501,614
Loan payable	298,900	713,182
Derivative liability	1,690,807	2,294,720
Warrant liability	-	18,223
Total liabilities	47,529,648	43,575,005

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 September 30, 2022 and December 31, 2021	-	-
Series A preferred stock, \$0.0001 par, 1 share authorized, issued and outstanding as of September 30, 2022, none authorized or outstanding as of December 31, 2021	-	-
Series A convertible preferred stock, \$0.0001 par, 6,800 shares designated, 6,300 shares issued and outstanding as of September 30, 2022, none authorized or outstanding as of December 31, 2021	1	-
Common stock, \$0.0001 par, 1,000,000,000 shares authorized, 529,492 and 528,742 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	53	13
Additional paid-in capital	75,440,940	58,614,160
Accumulated deficit	(87,965,292)	(65,703,954)
Total stockholders' equity (deficit)	(12,524,298)	(7,089,781)
	\$	\$
Total liabilities and stockholders' equity (deficit)	35,005,350	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 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.

Digital Brands Group, Inc. Company Contact

**Hil Davis**, CEO

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

Phone: (800) 593-1047

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