

May 22, 2023

**DIGITAL
BRANDS
GROUP**

Digital Brands Group Reports First Quarter 2023 Financial Results

Revenues increased 48.4% to \$5.1 million

Gross margin increased 113.9% to \$2.4 million

AUSTIN, Texas, May 22, 2023 /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, 2023.

"We are pleased to see the significant operating leverage we experienced with the acquisition of Sundry, and still expect to achieve positive EBITDA this fall even in a challenging macro environment" said Hil Davis, CEO of Digital Brands Group. "We are also excited about our two new revenue channels that launch this Fall, which are our proprietary affiliate program and our multi-brand retail stores."

Results for the First Quarter

- Net revenues increased 48.4% to \$5.1 million compared to \$3.4 million a year ago
- Gross margin increased 113.9% to \$2.4 million compared to \$1.1 million a year ago
 - Gross profit margins increased significantly to 47.9% from 33.2% a year ago
- G&A expenses, including non-cash items, increased 8.4% to \$4.6 million compared to \$4.3 million a year ago
 - G&A as a % of revenue declined to 91.0% from 124.6% a year ago
 - G&A expenses included \$3.1 million in non-cash expenses compared to \$1.8 million a year ago
 - Excluding these non-cash items, G&A would have been \$1.6 million compared to \$2.5 million a year ago, which as a % of revenues declined to 30.4% from 72.6% a year ago
- Sales & Marketing expenses increased 7.2% to \$1.1 million compared to \$1.0 million a year ago
 - Sales and marketing expenses ratio was 21.9% compared to 30.3% a year ago
- Loss from operations declined to \$3.6 million compared to a loss of \$5.6 million a year ago
 - Excluding the non-cash items in G&A expenses, loss from operations declined to

- \$500,000 compared to a loss of \$3.8 million a year ago
- These losses included approximately \$250,000 in expenses associated with the integration and timing of the Sundry transition, which will no longer be incurred
- Net loss attributable to common stockholders was \$6.2 million, or \$1.08 per diluted share, compared to \$7.8 million, or \$59.18 per diluted share, a year ago
 - Excluding the non-cash items from G&A and other income, net loss would have been \$2.4 million, or \$0.42 per diluted share, compared to a net loss of \$6.1 million, or a loss of \$45.77 per diluted share, a year ago

"Our business is completely different now than it was in 2022. We lost a year due to the market decline in 2022, which delayed our acquisition of Sundry. We knew this acquisition was the critical step in our path to build a company with scale, positive EBITDA and positive cash flow. Now that the Sundry acquisition has closed, we are well on our way to achieving our initial goals," said Hil Davis, Chief Executive Officer of Digital Brands Group.

Davis continued, "we are also excited for the forecasted monthly free cash flow that we will generate this fall associated with the transition to positive EBITDA coupled with the end of our MCA payments in early October. We should generate over \$500,000 in free cash flow monthly starting after our last MCA payment."

Conference Call and Webcast Details Updated

Management will host a conference call on Monday, May 22 at 10:00 a.m. ET to discuss the 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 13739029 or via the web by using the following link: <https://event.choruscall.com/mediaframe/webcast.html?webcastid=VEEr5XVj>.

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	
	March 31,	
	2023	2022
		Restated
Net revenues	\$ 5,095,234	\$ 3,432,410
Cost of net revenues	2,656,652	2,292,191
Gross profit	2,438,582	1,140,219
Operating expenses:		
General and administrative	4,636,844	4,277,955
Sales and marketing	1,115,643	1,040,572
Distribution	270,185	202,848
Change in fair value of contingent consideration	-	1,200,321
Total operating expenses	6,022,672	6,721,696
Loss from operations	(3,584,090)	(5,581,477)
Other income (expense):		
Interest expense	(1,873,270)	(1,567,877)
Other non-operating income (expenses)	(678,989)	(683,588)
Total other income (expense), net	(2,552,259)	(2,251,465)
Income tax benefit (provision)	-	-
Net loss	<u>\$ (6,136,349)</u>	<u>\$ (7,832,942)</u>
Weighted average common shares outstanding - basic and diluted	<u>5,670,362</u>	<u>132,351</u>
Net loss per common share - basic and diluted	<u>\$ (1.08)</u>	<u>\$ (59.18)</u>

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

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

	Three Months Ended	
	March 31,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (6,136,349)	\$ (7,832,942)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	959,207	552,004
Amortization of loan discount and fees	1,412,425	1,093,583
Loss on extinguishment of debt	689,100	-
Stock-based compensation	105,594	139,093
Shares issued for services	499,338	-
Change in credit reserve	109,298	(9,067)
Change in fair value of warrant liability	-	(5,970)
Change in fair value of derivative liability	-	682,103
Change in fair value of contingent consideration	-	1,200,321
Changes in operating assets and liabilities:		
Accounts receivable, net	282,947	(49,554)
Due from factor, net	(77,776)	294,439
Inventory	299,188	262,753
Prepaid expenses and other current assets	(218,286)	(126,369)
Accounts payable	(416,093)	1,972,441
Accrued expenses and other liabilities	464,855	669,514
Deferred revenue	115,292	71,707
Accrued interest	218,740	450,788
Net cash used in operating activities	<u>(1,692,520)</u>	<u>(635,156)</u>
Cash flows from investing activities:		
Purchase of property, equipment and software	-	(5,576)
Deposits	87,379	-
Net cash provided by (used in) investing activities	<u>87,379</u>	<u>(5,576)</u>
Cash flows from financing activities:		
Proceeds (repayments) from related party advances	(104,170)	(11,105)
Advances (repayments) from factor	217,625	(179,126)
Issuance of loans and note payable	3,542,199	868,582
Repayments of convertible notes and loan payable	(5,677,621)	-
Issuance of common stock pursuant to private placement	5,000,003	-
Offering costs	(686,927)	-
Net cash provided by financing activities	<u>2,291,109</u>	<u>678,351</u>
Net change in cash and cash equivalents	<u>685,968</u>	<u>37,619</u>
Cash and cash equivalents at beginning of period	1,283,282	528,394
Cash and cash equivalents at end of period	<u>\$ 1,969,250</u>	<u>\$ 566,013</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 60,465	\$ -
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of notes into common stock	\$ -	\$ 1,201,582
Right of use asset	\$ 467,738	\$ 250,244

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

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

March 31, December 31,

	2023	2022
ASSETS		
Current assets:		
	\$	\$
Cash and cash equivalents	1,969,250	1,283,282
Accounts receivable, net	345,439	628,386
Due from factor, net	590,253	839,400
Inventory	4,926,094	5,225,282
Prepaid expenses and other current assets	1,071,330	853,044
Total current assets	8,902,366	8,829,394
Property, equipment and software, net	71,803	76,657
Goodwill	10,103,812	10,103,812
Intangible assets, net	13,473,151	14,427,503
Deposits	110,962	198,341
Right of use asset	467,738	102,349
	\$	
Total assets	33,129,832	\$ 33,738,056
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
	\$	\$
Accounts payable	7,671,050	8,098,165
Accrued expenses and other liabilities	4,921,970	4,457,115
Deferred revenue	317,421	202,129
Due to related parties	452,055	556,225
Contingent consideration liability	12,098,475	12,098,475
Convertible note payable, net	100,000	2,721,800
Accrued interest payable	1,780,535	1,561,795
Note payable - related party	129,489	129,489
Loan payable, current	1,329,507	1,966,250
Promissory note payable, net	10,914,831	9,000,000
Right of use liability, current portion	425,654	102,349
Total current liabilities	40,140,987	40,893,792
Loan payable	798,759	297,438
Right of use liability	53,107	-
Total liabilities	40,992,853	41,191,230
Commitments and contingencies		
Stockholders' equity (deficit):		
Undesignated preferred stock, \$0.0001 par, 10,000,000 shares authorized, 0 shares issued and outstanding as of both March 31, 2023 and December 31, 2022	-	-
Series A preferred stock, \$0.0001 par, 1 share authorized, no shares issued and outstanding as of March 31, 2023 and December 31, 2022	-	-
Series A convertible preferred stock, \$0.0001 par, 6,800 shares designated, 6,300 shares issued and outstanding as of both March 31, 2023 and December 31, 2022	1	1
Common stock, \$0.0001 par, 1,000,000,000 shares authorized, 5,974,969 and 4,468,939 shares issued and outstanding as of March 31, 2023 and December 31, 2022, respectively	598	447
Additional paid-in capital	102,020,045	96,293,694
Accumulated deficit	(109,883,665)	(103,747,316)
Total stockholders' equity (deficit)	(7,863,021)	(7,453,174)
	\$	\$
Total liabilities and stockholders' equity (deficit)	33,129,832	33,738,056

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.

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