

July 9, 2019



KushCo Holdings Reports Third Fiscal Quarter 2019 Results

Net Revenue Increased 221% Year-Over-Year to \$41.5 Million, Setting a New Company Record for Quarterly Revenue; Gross Profit Improved by 4.9% Sequentially to 17.8% on a GAAP Basis

GARDEN GROVE, CA / ACCESSWIRE / July 9, 2019 /KushCo Holdings, Inc. (OTCQX: KSHB) ("KushCo" or the "Company"), today reported financial results for its third fiscal quarter ended May 31, 2019.

Third Fiscal Quarter 2019 Financial Summary

- Net revenue increased 221% year-over-year to \$41.5 million, compared to the same quarter a year ago and 17.9% on a sequential basis versus the second fiscal quarter of 2019.
- On a GAAP basis, gross profit increased to 17.8%, compared to 12.9% during the second fiscal quarter of 2019.
- On a Non-GAAP basis, excluding the impact of certain non-recurring items, gross profit was approximately 22.8%.
- On a GAAP basis, net loss was approximately \$10.6 million, compared to a net loss of approximately \$9.2 million during the third quarter of fiscal 2018. Loss per share improved from negative \$0.14 during the third quarter of fiscal 2018 to negative \$0.12 during the third quarter of fiscal 2019.
- On a Non-GAAP basis, excluding the impact of certain non-recurring charges and gains, net loss during the third quarter was \$8.6 million and net loss per share was negative \$0.10.
- Cash was approximately \$12.2 million as of May 31, 2019, compared to approximately \$13.5 million as of August 31, 2018.

Third Fiscal Quarter Operational Summary

- Launched first biodegradable packaging solution through contract with SunGrown
- Completed warehouse management system implementation
- Secured \$21.3 million in senior unsecured note
- Signed exclusive development and distribution agreement with IEKO to produce biodegradable and compostable plastics portfolio

Nick Kovacevich, Chairman and Chief Executive Officer, commented, "Revenue for the third fiscal quarter of 2019 saw strong growth of 221% year-over-year, reaching a record \$41.5 million, compared with \$12.9 million in the third fiscal quarter of 2018 and \$35.2 million in the second fiscal quarter of 2019. More importantly, we saw gross margins move up ~490bps on a GAAP basis quarter over quarter which is a testament to our commitment of profitable and sustainable growth over time. The Company's organic revenue growth and overall

performance were attributable to the growth of our customer base and effective cross-selling of our offerings.”

“We remain committed to investing in the expansion of the business through initiatives targeting high-demand, high-margin opportunities that will facilitate increased cross-selling throughout our robust customer base. Partnerships will help us achieve those revenue and margin goals, including our recently announced deal with CA Fortune, which opens an entirely new vertical that will facilitate access to a distribution network unlike anything ever experienced by the cannabis and hemp industries before. We continue to evaluate accretive business opportunities and anticipate more partnerships coming online soon that service our vast network and power the cannabis ecosystem,” continued Mr. Kovacevich.

“We expect demand to increase for the Company’s core product offerings as the cannabis and hemp markets continue to expand and mature. Our customer base is gaining strength with the largest multi-state operators and Canadian LP’s starting to scale in existing markets, while also preparing for growth in new emerging geographies - including recently approved Illinois. We remain committed to building out the Company’s core competencies as we increase efficiency at a larger scale and strategically adding new verticals that will further establish KushCo as a major player in the cannabis and hemp industries,” concluded Mr. Kovacevich.

Conference Call Information

The company will also host a conference call on Tuesday, July 9, 2019 at 4:30 PM Eastern Time.

Participant Dial-In Numbers:

Toll-Free: 1-877-407-9039

Toll / International: 1-201-689-8470

***Participants should request the KushCo Holdings Earnings Call or provide confirmation code 13692223**

The call will be webcast, with an accompanying slide deck, on the KushCo Events page of the Company website at www.kushco.com. Please visit the website at least 15 minutes prior to the call to register, download, and install any necessary audio software. A replay of the call will be available on the KushCo Events page approximately two hours after the conference call has ended.

Nick Kovacevich, Chief Executive Officer of KushCo, Jason Vegotsky, President and Chief Revenue Officer, and Chris Tedford, Chief Financial Officer, will be conducting a question and answer session following their prepared remarks.

To be added to the distribution list, please email ir@kushco.com with "Kush" in the subject line.

About KushCo Holdings, Inc.

KushCo Holdings, Inc. (OTCQX: KSHB) (www.kushco.com) is the premier producer of ancillary products and services to the cannabis and hemp 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, Los Angeles Times, TheStreet.com, Entrepreneur, and 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 or CBD.

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

About Non-GAAP Financial Measures

This press release and the accompanying tables include non-GAAP financial measures. For a description of these non-GAAP financial measures and reconciliations of these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with Generally Accepted Accounting Principles, please see the accompanying table titled "Reconciliation of Selected GAAP Measures to Non-GAAP Measures" and the section following such table titled "About Non-GAAP Financial Measures."

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," "believe," "dedicated," "building," 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 filings the Company makes with the United States Securities and Exchange Commission (SEC), available at: www.sec.gov, and on the Company's website, at: www.kushco.com.

ABOUT NON-GAAP FINANCIAL MEASURES

The accompanying press release dated July 9, 2019, contains non-GAAP financial measures. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with GAAP. These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same names and may differ from non-

GAAP financial measures with the same or similar names that are used by other companies. The Company computes non-GAAP financial measures using the same consistent method from quarter to quarter and year to year. The Company may consider whether other significant items that arise in the future should be excluded from the non-GAAP financial measures. The Company believes that these non-GAAP financial measures provide meaningful supplemental information regarding the Company's operating results primarily because they exclude amounts that are not considered part of ongoing operating results when planning and forecasting and when assessing the performance of the organization. In addition, the Company believes that non-GAAP financial information is used by analysts and others in the investment community to analyze the Company's historical results and in providing estimates of future performance and that failure to report these non-GAAP measures, could result in confusion among analysts and others and create a misplaced perception that the Company's results have underperformed or exceeded expectations.

KUSHCO HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2019	2018	2019	2018
		(Restated)		(Restated)
Net revenue	\$ 41,486	\$ 12,905	\$ 101,982	\$ 32,113
Cost of goods sold	34,090	9,247	86,834	22,860
Gross profit	7,396	3,658	15,148	9,253
Operating expenses:				
Selling, general and administrative	20,719	5,742	52,032	12,067
Gain on disposition of assets	-	-	(1,254)	-
Change in fair value of contingent consideration	2,961	7,041	(2,247)	18,182

Total operating expenses	<u>23,680</u>	<u>12,783</u>	<u>48,531</u>	<u>30,249</u>
Loss from operations	(16,284)	(9,125)	(33,383)	(20,996)
Other income (expense):				
Change in fair value of warrant liability	6,254	-	7,309	-
Change in fair value of equity investment	(71)	-	(663)	-
Interest expense	(474)	(81)	(1,452)	(112)
Other income, net	(10)	-	110	-
Total other income (expense)	<u>5,699</u>	<u>(81)</u>	<u>5,304</u>	<u>(112)</u>
Loss before income taxes	(10,585)	(9,206)	(28,079)	(21,108)
Income tax expense	13	-	13	66
Net loss	<u>\$(10,598)</u>	<u>\$ (9,206)</u>	<u>\$ (28,092)</u>	<u>\$ (21,174)</u>
Net loss per share:				
Basic and diluted net loss per common share	<u>\$ (0.12)</u>	<u>\$ (0.14)</u>	<u>\$ (0.34)</u>	<u>\$ (0.34)</u>
Weighted-average common shares - basic and diluted	<u>88,286</u>	<u>64,680</u>	<u>83,338</u>	<u>61,995</u>

KUSHCO HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	May 31,	August 31,
	2019	2018
	<hr/>	<hr/>
ASSETS		
CURRENT ASSETS		
Cash	\$ 12,230	\$ 13,467
Accounts receivable, net	14,504	8,601
Prepaid expenses and other current assets	13,019	13,623
Inventory, net	53,013	11,814
	<hr/>	<hr/>
Total current assets	92,766	47,505
Goodwill	52,267	52,267
Intangible assets, net	3,340	4,488
Property and equipment, net	8,813	4,135
Other assets	3,473	250
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TOTAL ASSETS	\$ 160,659	\$ 108,645
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 16,075	\$ 2,822

Accrued expenses and other current liabilities	10,756	3,989
Contingent consideration payable	2,961	5,488
Total current liabilities	29,792	12,299
Notes payable	18,495	172
Warrant liability	8,221	14,430
Other liabilities	614	106
TOTAL LIABILITIES	57,122	27,007
Total stockholders' equity	103,537	81,638
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 160,659	\$ 108,645

KUSHCO HOLDINGS, INC.
RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended	Nine Months Ended
	May 31, 2019	May 31, 2019
GAAP Gross Profit	\$ 7,396	\$ 15,148
Adjusted for non-recurring air freight costs	-	1,502
Adjusted for non-recurring product quality costs	-	1,344

Adjusted for China tariff impact	1,972	3,367
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Non-GAAP Gross Profit	\$ 9,368	\$ 21,361
	22.8%	21.0%
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GAAP Net loss	\$ (10,598)	\$ (28,092)
Adjusted for non-recurring air freight costs	-	1,502
Adjusted for non-recurring product quality costs	-	1,344
Adjusted for China tariff impact	1,972	3,367
Litigation costs	550	550
Change in fair value of warrant liability	(6,254)	(7,309)
Change in fair value of equity investment	71	663
Change in fair value of contingent consideration	2,961	(2,247)
Gain on disposition of assets	-	(1,254)
Stock-based compensation	2,667	8,839
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Non-GAAP Net loss	\$ (8,631)	\$ (22,637)
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Non-GAAP Net loss per share	\$ 0.10	\$ 0.27
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Basic and diluted weighted-average shares outstanding	88,286	83,338
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Non-GAAP Net loss	\$ (8,631)	\$ (22,637)

Depreciation and amortization expense	633	1,711
Interest Expense	474	1,452
Income Tax Expense	13	13
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Adjusted EBITDA	\$ (7,511)	\$ (19,461)
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SOURCE: KushCo Holdings, Inc.

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