



## PFSweb Reports First Quarter 2019 Results

May 9, 2019

ALLEN, Texas, May 09, 2019 (GLOBE NEWSWIRE) -- PFSweb, Inc. (NASDAQ: PFSW), a global commerce services company, is reporting results for the first quarter ended March 31, 2019.

### First Quarter 2019 Summary vs. Same Year-Ago Quarter

- Total revenues were \$72.1 million compared to \$78.4 million.
- Service fee equivalent (SFE) revenue (a non-GAAP measure defined below) was \$51.9 million compared to \$56.9 million.
- Service fee gross margin was 34.0% compared to 37.0%.
- Net loss was \$1.2 million or \$(0.06) per share, compared to a net loss of \$0.7 million or \$(0.04) per share.
- Adjusted EBITDA (a non-GAAP measure defined below) was \$3.3 million compared to \$4.4 million.

### Management Commentary

"During the first quarter, we continued to perform at a high level for clients across both our LiveArea and PFS business segments, while introducing several new growth initiatives," said Mike Willoughby, CEO of PFSweb. "These initiatives include next-generation PFS FaaS products like RetailConnect and CloudPick, as well as expanding our technology expertise with SMB eCommerce platforms including BigCommerce and Shopify Plus. We also made progress in our effort to expand our LiveArea service offering to include implementation and support of the IBM Sterling Commerce order management platform, with our first client launch successfully completed in April.

"Looking ahead, we are keenly focused on revitalizing growth. We believe our enhanced services offering and go-to-market approach across the business will increase our addressable market, providing us the opportunity to accelerate our growth."

### First Quarter 2019 Financial Results

Total revenues in the first quarter of 2019 were \$72.1 million compared to \$78.4 million in the same period of 2018. Service fee revenue in the first quarter was \$51.4 million compared to \$56.5 million in the first quarter last year. Product revenue from the company's last remaining client under this legacy business model was \$7.5 million compared to \$9.8 million in the same period of 2018.

SFE revenue was \$51.9 million compared to \$56.9 million in the year-ago quarter. The decline was primarily driven by lower new client project activity in LiveArea and the transition of certain client engagements in PFS, partially offset by growth from existing clients.

Service fee gross margin in the first quarter of 2019 was 34.0% compared to 37.0% in the same period of 2018. The decrease was primarily due to lower gross margins in the LiveArea business segment as a result of higher than expected costs incurred on certain client projects.

Net loss in the first quarter of 2019 was \$1.2 million or \$(0.06) per share, compared to a net loss of \$0.7 million or \$(0.04) per share in the same period of 2018. Net income in the first quarter of 2019 included \$0.7 million of stock-based compensation expense, \$0.4 million of acquisition-related, restructuring and other costs, \$0.2 million in amortization of acquisition-related intangible assets, and \$0.1 million of deferred tax expense related to goodwill amortization. This compares to \$0.6 million of stock-based compensation expense, \$0.4 million in amortization of acquisition-related intangible assets, \$0.1 million of acquisition-related, restructuring and other costs, and a \$0.1 million deferred tax credit related to goodwill amortization in the same period of 2018.

Adjusted EBITDA in the first quarter was \$3.3 million compared to \$4.4 million in the year-ago quarter. As a percentage of SFE revenue, adjusted EBITDA was 6.4% compared to 7.8%, with the decrease primarily due to lower gross margin in the LiveArea segment

Non-GAAP net income in the first quarter of 2019 was \$0.2 million compared to \$0.6 million in the first quarter of 2018.

At March 31, 2019, net debt (defined as total debt, excluding operating lease liabilities, less cash and cash equivalents) was \$20.9 million compared to \$26.5 million at December 31, 2018. Cash and cash equivalents totaled \$14.7 million compared to \$15.4 million at December 31, 2018. Total debt at March 31, 2019 was \$35.5 million compared to \$42.0 million at the end of last year.

### 2019 Outlook

PFSweb continues to expect 2019 SFE revenue to increase low-single digits on a percentage basis compared to 2018. The company also continues to expect adjusted EBITDA to increase low to mid-single digits on a percentage basis from last year, reflecting continued expected operating leverage in the business.

### Conference Call

PFSweb will conduct a conference call today at 5:00 p.m. Eastern time to discuss its results for the first quarter ended March 31, 2019.

PFSweb CEO Mike Willoughby and CFO Tom Madden will host the conference call, followed by a question and answer period.

Date: Thursday, May 9, 2019

Time: 5:00 p.m. Eastern time (2:00 p.m. Pacific time)

Toll-free dial-in number: 1-888-599-8686  
International dial-in number: 1-323-994-2093  
Conference ID: 6115831

Please call the conference telephone number 5-10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Gateway Investor Relations at 1-949-574-3860.

The conference call will be broadcast live and available for replay [here](#) and via the investor relations section of the company's website at [www.pfsweb.com](http://www.pfsweb.com).

A replay of the conference call will be available after 8:00 p.m. Eastern time on the same day through May 23, 2019.

Toll-free replay number: 1-844-512-2921  
International replay number: 1-412-317-6671  
Replay ID: 6115831

#### **About PFSweb, Inc.**

PFSweb (NASDAQ:PFSW) is a global commerce services company that manages the online customer shopping experience on behalf of major branded manufacturers and retailers. Across two business units – **LiveArea** for strategy consulting, creative design, digital marketing, and web development services, and **PFS** for order fulfillment, contact center, payment processing/fraud management, and order management services – they provide solutions to a broad range of Fortune 500® companies and household brand names such as Procter & Gamble, L'Oréal USA, Ralph Lauren, PANDORA, ASICS, the United States Mint, and many more. PFSweb enables these brands to provide a more convenient and brand-centric online shopping experience through both traditional and online business channels. The company is headquartered in Allen, TX with additional locations around the globe. For more information, please visit [www.pfsweb.com](http://www.pfsweb.com).

#### **Non-GAAP Financial Measures**

This news release contains certain non-GAAP measures, including non-GAAP net income (loss), earnings before interest, income taxes, depreciation and amortization (EBITDA), adjusted EBITDA and service fee equivalent revenue.

Non-GAAP net income (loss) represents net income (loss) calculated in accordance with U.S. GAAP as adjusted for the impact of non-cash stock-based compensation expense, acquisition-related, restructuring and other costs (including certain client related bankruptcy costs), amortization of acquisition-related intangible assets and deferred tax expense for goodwill amortization.

EBITDA represents earnings (or losses) before interest, income taxes, depreciation, and amortization. Adjusted EBITDA further eliminates the effect of stock-based compensation, as well as acquisition-related, restructuring, and other costs (including certain client related bankruptcy costs).

Service fee equivalent revenue represents service fee revenue plus the gross profit earned on product revenue and does not alter existing revenue recognition.

Non-GAAP net income (loss), EBITDA, adjusted EBITDA and service fee equivalent revenue are used by management, analysts, investors and other interested parties in evaluating our operating performance compared to that of other companies in our industry. The calculation of non-GAAP net income (loss) eliminates the effect of stock-based compensation, acquisition-related, restructuring and other costs (including certain client related bankruptcy costs), amortization of acquisition-related intangible assets, and deferred tax expense for goodwill amortization, and EBITDA and adjusted EBITDA further eliminate the effect of financing, remaining income taxes and the accounting effects of capital spending, which items may vary from different companies for reasons unrelated to overall operating performance. Service fee equivalent revenue allows client contracts with similar operational support models but different financial models to be combined as if all contracts were being operated on a service fee revenue basis.

PFS believes these non-GAAP measures provide useful information to both management and investors by focusing on certain operational metrics and excluding certain expenses in order to present its core operating performance and results. These measures should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. The non-GAAP measures included in this press release have been reconciled to the GAAP results in the attached tables.

#### **Forward-Looking Statements**

The matters discussed herein consist of forward-looking information under the Private Securities Litigation Reform Act of 1995 and is subject to and involves risks and uncertainties, which could cause actual results to differ materially from the forward-looking information. PFS' Annual Report on Form 10-K for the year ended December 31, 2018 identifies certain factors that could cause actual results to differ materially from those projected in any forward looking statements made and investors are advised to review the Annual Report of the company and the Risk Factors described therein. PFS undertakes no obligation to update publicly any forward-looking statement for any reason, even if new information becomes available or other events occur in the future. There may be additional risks that we do not currently view as material or that are not presently known.

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**PFSweb, Inc. and Subsidiaries**

## Condensed Consolidated Balance Sheets

(In Thousands, Except Share Data)

|  | March 31,<br>2019 | December 31,<br>2018 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| <b>CURRENT ASSETS:</b>   |                   |                      |
| Cash and cash equivalents  | \$ 14,679         | \$ 15,419            |
| Restricted cash  | 207               | 207                  |
| Accounts receivable, net of allowance for doubtful accounts of \$597 and \$585 at March 31, 2019 and December 31, 2018, respectively   | 52,545            | 72,415               |
| Inventories, net of reserves of \$289 and \$298 at March 31, 2019 and December 31, 2018, respectively  | 4,124             | 6,090                |
| Other receivables  | 3,906             | 4,014                |
| Prepaid expenses and other current assets  | 7,202             | 6,943                |
| Total current assets   | 82,663            | 105,088              |
| PROPERTY AND EQUIPMENT, net  | 19,972            | 21,496               |
| OPERATING LEASE RIGHT-OF-USE ASSETS  | 38,788            | -                    |
| IDENTIFIABLE INTANGIBLES, net  | 1,636             | 1,803                |
| GOODWILL   | 45,348            | 45,185               |
| OTHER ASSETS   | 3,560             | 3,501                |
| Total assets   | 191,967           | 177,073              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                      |
| <b>CURRENT LIABILITIES:</b>  |                   |                      |
| Trade accounts payable   | \$ 35,147         | \$ 47,580            |
| Accrued expenses   | 19,509            | 24,623               |
| Current portion of operating lease liabilities   | 7,835             | -                    |
| Current portion of long-term debt and finance lease obligations  | 2,846             | 2,610                |
| Deferred revenues  | 6,883             | 7,328                |
| Performance-based contingent payments  | -                 | -                    |
| Total current liabilities  | 72,220            | 82,141               |
| LONG-TERM DEBT AND FINANCE LEASE OBLIGATIONS, less current portion   | 32,698            | 39,348               |
| DEFERRED REVENUES, less current portion  | 1,590             | 1,927                |
| DEFERRED RENT  | (0                | ) 4,625              |
| OPERATING LEASE LIABILITIES  | 36,688            |                      |
| OTHER LIABILITIES  | 2,668             | 2,449                |
| Total liabilities  | 145,864           | 130,490              |
| <b>COMMITMENTS AND CONTINGENCIES</b>   |                   |                      |
| <b>SHAREHOLDERS' EQUITY:</b>   |                   |                      |
| Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued or outstanding   | -                 | -                    |
| Common stock, \$0.001 par value; 35,000,000 shares authorized; 19,295,796 and 19,294,296 shares issued at March 31, 2019 and December 31, 2018, respectively; and 19,262,329 and 19,260,829 shares outstanding at March 31, 2019 and December 31, 2018, respectively | 19                | 19                   |
| Additional paid-in capital   | 156,108           | 155,455              |
| Accumulated deficit  | (108,937          | ) (107,773 )         |
| Accumulated other comprehensive income   | (962              | ) (993 )             |
| Treasury stock at cost, 33,467 shares  | (125              | ) (125 )             |
| Total shareholders' equity   | 46,103            | 46,583               |
| Total liabilities and shareholders' equity   | \$ 191,967        | \$ 177,073           |

**PFSweb, Inc. and Subsidiaries**

## Unaudited Condensed Consolidated Statements of Operations

(In Thousands, Except Per Share Data)

Three Months Ended

March 31,

2019

2018

REVENUES:

|                      |           |           |
|----------------------|-----------|-----------|
| Service fee revenue  | \$ 51,439 | \$ 56,487 |
| Product revenue, net | 7,499     | 9,765     |
| Pass-through revenue | 13,211    | 12,169    |
| Total revenues       | \$ 72,149 | \$ 78,421 |

COSTS OF REVENUES:

|                              |           |           |
|------------------------------|-----------|-----------|
| Cost of service fee revenue  | \$ 33,958 | \$ 35,608 |
| Cost of product revenue      | 7,077     | 9,316     |
| Cost of pass-through revenue | 13,211    | 12,169    |
| Total costs of revenues      | \$ 54,246 | \$ 57,093 |
| Gross profit                 | 17,903    | 21,328    |

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

|                               |       |       |
|-------------------------------|-------|-------|
| Income (loss) from operations | (443) | ) 669 |
|-------------------------------|-------|-------|

INTEREST EXPENSE, NET

|                                   |       |      |
|-----------------------------------|-------|------|
| Income (loss) before income taxes | (955) | ) 64 |
|-----------------------------------|-------|------|

INCOME TAX EXPENSE

|          |            |            |   |
|----------|------------|------------|---|
| NET LOSS | \$ (1,164) | ) \$ (749) | ) |
|----------|------------|------------|---|

NON-GAAP NET INCOME

|  |        |        |
|--|--------|--------|
|  | \$ 178 | \$ 569 |
|--|--------|--------|

NET LOSS PER SHARE:

|         |           |             |   |
|---------|-----------|-------------|---|
| Basic   | \$ (0.06) | ) \$ (0.04) | ) |
| Diluted | \$ (0.06) | ) \$ (0.04) | ) |

WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING:

|         |        |        |
|---------|--------|--------|
| Basic   | 19,486 | 19,145 |
| Diluted | 19,486 | 19,145 |

EBITDA

|                 |          |          |
|-----------------|----------|----------|
| ADJUSTED EBITDA | \$ 2,272 | \$ 3,647 |
|                 | \$ 3,318 | \$ 4,415 |

**PFSweb, Inc. and Subsidiaries**

Unaudited Reconciliation of Certain Non-GAAP Items to GAAP  
(In Thousands)

Three Months Ended

March 31,

2019

2018

|  |            |            |   |
|--|------------|------------|---|
| NET LOSS   | \$ (1,164) | ) \$ (749) | ) |
| Income tax expense                                 | 209        | 813        |   |
| Interest expense, net                              | 512        | 605        |   |
| Depreciation and amortization                      | 2,715      | 2,978      |   |
| EBITDA   | \$ 2,272   | \$ 3,647   |   |
| Stock-based compensation                           | 651        | 646        |   |
| Acquisition-related, restructuring and other costs | 395        | 122        |   |
| ADJUSTED EBITDA                                    | \$ 3,318   | \$ 4,415   |   |

Three Months Ended

March 31,

2019

2018

|   |            |            |   |
|---|------------|------------|---|
| NET LOSS  | \$ (1,164) | ) \$ (749) | ) |
| Stock-based compensation                              | 651        | 646        |   |
| Amortization of acquisition-related intangible assets | 166        | 438        |   |
| Acquisition-related, restructuring and other costs    | 395        | 122        |   |

|  |        |        |
|--|--------|--------|
| Deferred tax expense - goodwill amortization | 130    | 112    |
| NON-GAAP NET INCOME                          | \$ 178 | \$ 569 |

|                                | Three Months Ended |           |
|--------------------------------|--------------------|-----------|
|                                | March 31,          |           |
|                                | 2019               | 2018      |
| TOTAL REVENUES                 | \$ 72,149          | \$ 78,421 |
| Pass-through revenue           | (13,211 )          | (12,169 ) |
| Cost of product revenue        | (7,077 )           | (9,316 )  |
| SERVICE FEE EQUIVALENT REVENUE | \$ 51,862          | \$ 56,936 |

### **PFSweb, Inc. and Subsidiaries**

Unaudited Consolidated Segment Information  
and Reconciliation of Certain Non-GAAP Items to GAAP  
(In Thousands)

Effective January 1, 2018, the company changed its organizational structure in an effort to create more effective and efficient operations and to improve client and service focus. As a result, the company is now presenting supplemental financial data below based on the reportable operating business segments of its PFS Operations and LiveArea Professional Services units, which are comprised of strategic businesses that are defined by the types of service offerings they provide. In addition, certain costs that are not fully directly allocable to a business unit are presented as Corporate selling, general, and administrative expenses.

The segment financial data for the three months ended March 31, 2019 and 2018, reflect the financial performance for each of the segments based on the current financial presentation reviewed by the company's Chief Operating Decision Makers. The company is continuing to evaluate its segregation of costs among the business units, including an effort to further allocate certain Corporate costs into the two operating business units to enhance cost focus and responsibility.

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2019               | 2018      |
| <b><i>PFS Operations</i></b>                       |                    |           |
| Revenues:  |                    |           |
| Service fee revenue                                | \$ 33,055          | \$ 34,922 |
| Product revenue, net                               | 7,499              | 9,765     |
| Pass-through revenue                               | 12,876             | 11,800    |
| Total revenues                                     | \$ 53,430          | \$ 56,487 |
| Costs of revenues:                                 |                    |           |
| Cost of service fee revenue                        | \$ 23,920          | \$ 25,338 |
| Cost of product revenue                            | 7,077              | 9,316     |
| Cost of pass-through revenue                       | 12,876             | 11,800    |
| Total costs of revenues                            | \$ 43,873          | \$ 46,454 |
| Gross profit                                       | 9,557              | 10,033    |
| Direct operating expenses                          | 7,030              | 5,731     |
| Direct contribution                                | 2,527              | 4,302     |
| Depreciation and amortization                      | 2,052              | 1,932     |
| Stock-based compensation                           | 117                | 59        |
| Acquisition-related, restructuring and other costs | 464                | 20        |
| ADJUSTED EBITDA                                    | \$ 5,160           | \$ 6,313  |
| TOTAL REVENUES                                     | \$ 53,430          | \$ 56,487 |
| Pass-thru revenue                                  | (12,876 )          | (11,800 ) |
| Cost of product revenue                            | (7,077 )           | (9,316 )  |
| SERVICE FEE EQUIVALENT REVENUE                     | \$ 33,477          | \$ 35,371 |

### **PFSweb, Inc. and Subsidiaries**

Unaudited Consolidated Segment Information  
and Reconciliation of Certain Non-GAAP Items to GAAP  
(In Thousands)

|  | Three Months Ended |             |   |
|--|--------------------|-------------|---|
|  | March 31,          |             |   |
|  | 2019               | 2018        |   |
| <b>LiveArea Professional Services</b>              |                    |             |   |
| Service fee revenue                                | \$ 18,384          | \$ 21,565   |   |
| Pass-through revenue                               | 335                | 369         |   |
| Total revenues                                     | 18,719             | 21,934      |   |
| Cost of service fee revenue                        | 10,038             | 10,270      |   |
| Cost of pass-through revenue                       | 335                | 369         |   |
| Total cost of revenues                             | 10,373             | 10,639      |   |
| Gross profit                                       | 8,346              | 11,295      |   |
| Direct operating expenses                          | 6,473              | 9,181       |   |
| Direct contribution                                | 1,873              | 2,114       |   |
| Depreciation and amortization                      | 331                | 692         |   |
| Stock-based compensation                           | 150                | 80          |   |
| Acquisition-related, restructuring and other costs | 33                 | 87          |   |
| ADJUSTED EBITDA                                    | \$ 2,387           | \$ 2,973    |   |
| <b>Corporate</b>                                   |                    |             |   |
| Selling, general and administrative expenses       | \$ (4,843          | ) \$ (5,747 | ) |
| Depreciation and amortization                      | 332                | 354         | ) |
| EBITDA   | \$ (4,511          | ) \$ (5,393 | ) |
| Stock-based compensation                           | 384                | 507         | ) |
| Acquisition-related, restructuring and other costs | (102               | ) 15        | ) |
| ADJUSTED EBITDA                                    | \$ (4,229          | ) \$ (4,871 | ) |



Source: PFSweb, Inc.