

## **Boss Holdings, Inc.**

### **2020 Fiscal Year End Report**

Boss Holdings, Inc. and its subsidiaries (collectively, the “Company”) currently operate in three business segments. Boss Pet Products, Inc. (“Boss Pet”) distributes a wide range of pet supplies through direct marketing to professional groomers, boarders and veterinarians on its PetEdge website and via catalog, as well as wholesale distribution to retailers. Galaxy Balloons, Incorporated is our industry award-winning custom imprinter and distributor of promotional and specialty products. Aries Manufacturing is a nationwide distributor of cell phone accessories.

This was a year of further change for the Company as we faced the unprecedented challenges from the COVID-19 pandemic while simultaneously transitioning from the December 2019 sale of our legacy Boss Manufacturing work glove and protective wear distribution business. Information concerning the work glove and protective wear segment now is reported under discontinued operations in the Company’s consolidated financials. Prior year results have been reclassified where applicable to reflect this change.

#### Executive Summary

The Company’s pet supply and cell phone accessory segments remained open for business throughout 2020 despite coronavirus conditions. Our distribution centers in Reno, Nevada and Kewanee, Illinois operated as essential infrastructure with enhanced attention to employee social distancing and workplace sanitization requirements. Pet segment sales did well during the pandemic, assisted in part by a significant uptick in U.S. pet adoptions spurred by work-from-home and at-home schooling during the pandemic. Galaxy Balloons operations were closed for approximately six weeks during late March and April 2020 due to state stay-at-home orders and its business for the remainder of the year was reduced significantly from pre-COVID levels. Aries’ normal distribution channels (convenience stores, truck stops and travel centers) were significantly adversely affected by coronavirus impact throughout 2020. As well, each operating segment encountered supply chain challenges due to coronavirus restrictions at manufacturing facilities and unprecedented disruption of ocean freight and transportation logistics.

#### Revenue Trends

As a result, the Company’s consolidated revenues from continuing operations in fiscal 2020 decreased 11.4% to \$48,592,000, down \$6,271,000 from fiscal 2019. Pet supply segment revenues in fiscal 2020 grew by 5% over 2019 levels to \$39,137,000 as our Ecommerce B-to-B business enabled us to mitigate negative effects of the covid pandemic. Combined cell phone accessory and promotional product revenues in 2020 fell to \$9,455,000, down 46.2% from 2019.

The pet supply segment extended its upward revenue trend since the acquisition of the PetEdge assets in April 2018. Our pet supply operations are focused into three distinct business channels: groomer/stylist (primarily our PetEdge.com website), pet dealer services (BossPetEdge.com) and farm & hardware distributor, each of which is growing. We successfully installed new website infrastructure during 2020 and the Kewanee and Reno distribution centers now are fully operational for the pet division, enabling us to expand our distribution footprint in all key markets and channels. Having reestablished PetEdge as a leading pet supply distributor, our Boss PetEdge business is building momentum which we anticipate will continue throughout 2021.

Revenues in the promotional and specialty products segment (down 49.7% year-over-year) bore the heaviest COVID-19 burden. This segment is dependent upon in-person activities, whether school activities, sporting events, conventions, trade shows, parties or other social gatherings. All were largely absent in the U.S. during most of 2020. The second and third quarters were most impacted, but Galaxy did experience an uptick in fourth quarter revenue derived from sales of holiday ornaments and related seasonal items as the economy began to reopen. Although less heavily impacted than the promotional product industry, our cell phone accessory segment experienced a 35.4% decrease in fiscal 2020 revenue compared to 2019. Our primary distribution channels in this segment (convenience stores, truck stops and travel centers) were disadvantaged by COVID restrictions, but management looks for a rebound of this segment during 2021.

### Profitability

Despite improved performance in the pet supply segment, consolidated continuing operations in fiscal 2020 posted an operating loss of \$3,597,000 compared with a consolidated 2019 operating loss of \$2,935,000. After taxes and other income and expense, our 2020 consolidated net loss from continuing operations was \$1,341,000 compared with a loss of \$2,581,000 in fiscal 2019. Net loss from discontinued operations was \$378,000, reflecting final severance costs and other wind down expenses related to our legacy work glove and protective wear operations in the U.S. and Canada. Bottom line 2020 consolidated net loss was \$1,719,000. The consolidated net loss and results from continuing operations were positively impacted by an unrealized (non-cash) gain of \$1,728,000 on available for sale securities. These holdings are “marked-to-market” at the end of the accounting period and unrealized gains or losses are reported although the underlying securities still are held by the Company. By comparison, fiscal 2019 showed an unrealized loss of \$83,000 on the same available for sale securities.

Disparate COVID-19 impacts on our 2020 segment revenues required differentiated management responses. In the pet supply segment sales were up, requiring significant focus and effort to source sufficient inventory to meet increased customer demand despite supply chain disruptions both internationally and domestically. Pet supply operations were EBITDA positive for the year and pet supply has become our largest operational segment. In the promotional products and cell phone accessory segments, on the other hand, COVID-19 pushed management into major 2020 cost-cutting. The cell phone accessory division management now operates 100% remotely and we were able to early-terminate our Aries office lease without additional cost. Despite reduced revenues and an overall operating loss, cell phone accessory results improved by approximately \$1,000,000 in fiscal 2020 compared with its losses in 2019. In March 2020, our promotional products segment was forced to lay off all of its production workers for six weeks and managers took extended salary cuts. When Galaxy operations resumed during late second quarter, it was at significantly reduced hours for all employees. Although it experienced a recovery in the fourth quarter, Galaxy posted an overall 2020 operating loss.

### Liquidity and Capital Resources

The Company held cash and cash equivalents of \$21,818,000 at fiscal year-end 2020, most of which constituted sale proceeds from disposition of the work glove and protective wear segment in December 2019. Due primarily to the operating losses from continuing operations and payment of taxes on gain from sale of the work glove and protective wear segment, the Company

experienced a \$4,926,000 decrease in cash and cash equivalents during fiscal 2020. Continuing operations utilized \$324,000 in 2020 for investing activities comprised of capital investment, primarily for material handling equipment and related fixtures at the pet supply segment. The Company currently holds no long term or short-term bank debt, so cash used during fiscal 2020 for financing activities was negligible.

#### Subsequent Events

In December 2019, as part of the Company's disposition of its work glove and protective wear distribution business, we acquired a minority limited partnership interest in PIP Acquisition Holdings, LP ("PIP Holdings"), in exchange for a tax-free contribution of goodwill valued at \$10,000,000. After the end of fiscal 2020, PIP Holdings sold the entirety of its work glove and protective wear business to Odyssey Investment Partners, a large private equity firm. Accordingly, during the first quarter of fiscal 2021 the Company received a cash distribution in the amount of \$17,459,127 from the PIP Holdings/Odyssey sale proceeds.

As a result, on March 31, 2021, the Company held a total of approximately \$38,000,000 in cash and cash equivalents. Management believes the Company's cash and cash equivalents should provide ample liquidity for the Company's expected working capital and operating needs.

With 2021 operations of the Company moving forward, we are seeing further revenue growth in our pet supply segment and improving conditions in both the promotional product and cell phone accessory segments. Although Company management cannot predict when our national economy will fully resume all pre-COVID activities, we continue to look for opportunities to expand our businesses while maintaining vigilance on the health and safety of our employees and customers. Margin pressures will be a challenge in all of our business segments throughout 2021 due to numerous supply chain factors, including rising raw material and manufacturing costs, transportation disruptions and product availability constraints. The Company also faces challenges in attracting employees back to work due to increased levels of government-provided unemployment benefits.