

## **Boss Holdings, Inc.** **2021 Financial Update**

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.

### **Executive Summary**

During 2021, pet supply sales (our largest business segment) continued to grow despite continued supply chain challenges and the ongoing COVID pandemic. Similarly, both the promotional products and cell phone accessory segments are showing signs of recovery from COVID-lockdown conditions in 2020. Although some pandemic-related restrictions were relaxed by the end of 2021, additional waves of coronavirus variants have continued to restrict economic recovery, especially in the retail sector. All of our operating segments continue to encounter unprecedented supply chain disruptions and inflationary cost increases. These challenges are expected to continue for the foreseeable future.

### **Revenue Trends**

2021 Q2: Consolidated revenues from continuing operations in the second quarter of 2021 increased 36.8% to \$15,423,000, up \$4,123,000 from the same period in 2020. Pet supply segment revenues were up 24.8% in Q2 over the same period a year ago to \$12,784,000. Combined cell phone accessory and promotional product revenues in second quarter 2021 more than doubled to \$2,639,000 compared with \$1,057,000 in second quarter 2020 when the most drastic COVID restrictions were imposed.

2021 Q3: During the third quarter of 2021, consolidated Company revenues were \$15,565,000, up 30% compared to the same period in 2020. Pet supply segment revenues for the quarter were down slightly from Q2 levels at \$12,165,000, but still up 22.6% from the third quarter of 2020. Combined cell phone accessory and promotional product revenues in Q3 were \$3,399,000 for the quarter, an increase of 66% over the same period a year ago.

2021 Full Year: Consolidated 2021 Company revenues were \$61,128,000, an increase of 25.8% over 2020 results. Pet supply segment 2021 revenues were \$48,978,000, an increase of \$9,841,000 (+25.1%) over the prior year. 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 those channels experienced 2021 year-over-year revenue growth of over 20%. Combined cell phone accessory and promotional product revenues for 2021 were \$12,150,000, up 28.5% over the COVID-depressed levels of a year ago.

### **Profitability**

2021 Other Income: When the Company sold its work glove and protective wear business in 2019, 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.

Subsequently, PIP Holdings sold the entirety of its work glove and protective wear business to Odyssey Investment Partners and during fiscal 2021 the Company received cash distributions from PIP Holdings totaling \$17,569,000. The resulting gain of \$7,569,000 constitutes the large majority of the amounts reflected as “Other Income” in the 2021 financial statements.

Q2 – Q3:As a result of increased 2021 revenues at each of the operating divisions, the Company posted a Q2 consolidated operating profit of \$320,000 compared with an operating loss of \$1,102,000 during the same period of 2020. Although 2021 Q3 consolidated revenues were relatively consistent with Q2, margins decreased due to inflationary pressures and increased supply chain and logistics costs. As a result, the Company incurred a consolidated operating loss of \$276,000 during the third quarter, which still compared favorably to the consolidated 2020 third quarter operating loss of \$1,180,000. After inclusion of other income and expense, the Company posted consolidated net income of \$250,000 in the second quarter of 2021 and \$178,000 in the third quarter.

2021 FYE: The Company incurred a full year consolidated operating loss from continuing operations of \$1,500,000 in 2021, compared with consolidated 2020 operating loss from continuing operations of \$3,597,000. During fiscal 2021, each of the Company’s operating divisions, pet supply, cell phone accessory and promotional products were EBITDA-positive for the year, with pet supply being our largest operational segment. Including the gain from the PIP Holdings equity interest detailed above, the Company’s 2021 consolidated net income was \$4,799,000, compared with the 2021 consolidated net loss of \$1,774,000.

Unrealized Gains/Losses: Results from continuing operations each quarter and for the full year are impacted by unrealized (non-cash) gains or losses on the Company’s holdings of 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. For example, at year-end 2021 the Company showed an unrealized loss of \$473,000 on those securities, while 2020 saw an unrealized gain of \$1,728,000 on such securities.

### **Liquidity and Capital Resources**

The Company held cash and cash equivalents of \$32,981,000 as of December 25, 2021, up from \$21,818,000 at fiscal year-end 2020. As described above, this is primarily due to the equity distributions received from the PIP Holdings sale. During 2021, other significant uses of cash were for increased inventory at the pet supply segment and payment of taxes on gain from the PIP Holdings distribution. The Company currently has no long term or short-term bank debt.

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. As previously disclosed, in October 2021 Boss Pet acquired the business operations of Frank Rowe and Son, a wholesale supplier of high-quality pet grooming supplies and equipment, as well as sharpening and repair services.

Margin pressures will continue to be a challenge in all of our business segments for the foreseeable future due to the significantly increased inflationary conditions in the U.S. economy and numerous supply chain factors, including increased product costs, increased transportation costs and transportation disruptions, product availability constraints and labor constraints.