Chicken Soup for the Soul Entertainment Reports Q4 and Full Year 2019 Results

March 30, 2020

Record net revenue driven by outperformance from Crackle Plus networks and strong results from new distribution and production business model

COS COB, Conn., March 30, 2020 (GLOBE NEWSWIRE) -- Chicken Soup for the Soul Entertainment, Inc. (Nasdaq: CSSE), one of the largest operators of streaming advertising-supported video-on-demand (AVOD) networks, today announced its financial results for the fourth quarter and full year ended December 31, 2019.

Fourth Quarter 2019 Financial Highlights

- Record net revenue of $24.4 million, compared to $11.6 million in the year-ago period
- Net loss of $12.4 million compared to net income of $0.8 million in the year-ago period; $11.4 million net loss before preferred dividends, compared to $1.5 million in net income before preferred dividends in the year-ago period
- Adjusted EBITDA was $5.8 million, compared to $5.2 million in the year-ago period
- Online networks, which include Crackle, Popcornflix and Pivotshare generated $14.9 million in revenue compared to $1.1 million in the year-ago period

Full Year 2019 Financial Highlights

- Record net revenue of $55.4 million, compared to $26.9 million in the year-ago period
- Net loss of $35.0 million compared to $2.0 million in the year-ago period; $31.7 million net loss before preferred dividends, compared to $0.8 million net loss before preferred dividends in the year-ago period
- Adjusted EBITDA was $6.0 million, compared to $10.0 million in the year-ago period
- Online networks generated $40.0 million in revenue compared to $4.4 million in the year-ago period

"We delivered results well ahead of expectations, including record fourth quarter and full year 2019 revenue and improved fourth quarter Adjusted EBITDA, as compared to fourth quarter 2018, in what was a transformative year for the company," said William J. Rouhana Jr., chairman and chief executive officer of Chicken Soup for the Soul Entertainment. "Our growth was driven by continued outperformance from our Crackle Plus networks, including contributions from our original content library, as well as strong early results from our new Distribution and Production business model. While the near-term environment is uncertain amid the global pandemic, we've seen continued momentum in the business to date and we are supported by a solid and flexible balance sheet."

2019 Business Highlights

- Completed the Sony/Crackle transaction, and put Crackle Plus on track for sustained profitable growth while growing viewers over 55% from May to December;
- Launched Landmark Studio Group with industry veteran David Ozer, an example of the new distribution and production model;
- Continued to build the valuable Screen Media library with the acquisition of the Foresight Media film library and a new international partnership with Mark Damon;
- Produced and distributed the most successful piece of original content in the company's history with *Going From Broke*; and
- Signed new ad sales partnerships in Q4 with Crunchyroll, Xumo, and Jukin Media.

Total net revenue for the 12 months ended December 31, 2019 was $55.4 million compared to $26.9 million in the year-ago period. The increase was primarily driven by the results in our Online Networks operations area. Revenue in 2019 was generated as follows:

- Online networks (Crackle Plus) generated $40.0 million in revenue compared to $4.4 million in the year-ago period
- Television and film distribution generated $16.0 million, compared to $13.2 million in the year-ago period
- Television and short-form video production generated $0.6 million, compared to $10.2 million in the year-ago period, reflecting the short-term impact of the transition to the company's new distribution and production business model

Gross profit for the 12 months ended December 31, 2019 was $14.9 million, or 27% of net revenue, compared to $14.5 million, or 54% of net revenue for the year-ago period. The change in the percentage of gross profit resulted in part from $10.2 million of non-cash amortization of the film library in the company's traditional distribution business, which is required by GAAP to be included in cost of revenue. Without this non-cash film library amortization expense, the gross profit would have been $25.1 million or 45% of total net revenue, which is well in excess of last year.

Operating loss for the 12 months ended December 31, 2019 was $26.1 million compared to an operating income of $0.8 million for the year-ago period. Without this film library amortization expense, the operating loss would have been $15.4 million.

Adjusted EBITDA for the 12 months ended December 31, 2019 was $6.0 million compared to $10.0 million in 2018.

As of December 31, 2019, the company had $6.4 million of cash and cash equivalents, compared to $6.2 million as of September 30, 2019, and $7.2 million as of December 31, 2018. Outstanding debt was $20.0 million as of December 31, 2019 compared to $7.6 million outstanding as of December 31, 2018.

The company will file an annual report on Form 10-K with the SEC with respect to its annual financial results.

For a discussion of the financial measures presented herein which are not calculated or presented in accordance with U.S. generally accepted accounting principles ("GAAP"), see "Note Regarding Use of Non-GAAP Financial Measures" below and the schedules to this press release for additional information and reconciliations of non-GAAP financial measures.

The company presents non-GAAP measures such as Adjusted EBITDA and Pro Forma Adjusted EBITDA to assist in an analysis of its business. These non-GAAP measures should not be considered an alternative to GAAP measures as an indicator of the Company's operating performance.

Conference Call Information

- Date, Time: Monday, March 30, 2020, 4:30 p.m. E.T.
- Toll-free: (833) 832-5128
- International: (484) 747-6583
- Conference ID: 9597934
- A live webcast and replay will be available at http://ir.cssentertainment.com/ under the "News & Events" tab

Conference Call Replay Information

- Toll-free: (855) 859-2056
- International: (404) 537-3406
- Reference ID: 9597934

ABOUT CHICKEN SOUP FOR THE SOUL ENTERTAINMENT

Chicken Soup for the Soul Entertainment, Inc. (Nasdaq: CSSE) operates streaming video-on-demand networks (VOD). The company owns a majority stake in Crackle Plus, a company formed with Sony Pictures Television, which owns and operates a variety of ad-supported and subscription-based VOD networks including Crackle, Popcornflix, Popcornflix Kids, Truli, Pivotshare, Españolflix and FrightPix. The company also acquires and distributes video content through its Screen Media subsidiary and produces original long and short-form content through Landmark Studio Group, its Chicken Soup for the Soul Originals division and APlus.com. Chicken Soup for the Soul Entertainment is a subsidiary of Chicken Soup for the Soul, LLC, which publishes the famous book series and produces super-premium pet food under the Chicken Soup for the Soul brand name.

Note Regarding Use of Non-GAAP Financial Measures

The company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). It uses a non-GAAP financial measure to evaluate its results of operations and as a supplemental indicator of operating performance. The non-GAAP financial measure that is used is Adjusted EBITDA. Adjusted EBITDA (as defined below) is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. Management believes this non-GAAP financial measure enhances the understanding of the company's historical and current financial results and enables the board of directors and management to analyze and evaluate financial and strategic planning decisions that will directly affect operating decisions and investments. The presentation of Adjusted EBITDA should not be construed as an inference that future results will be unaffected by unusual or non-recurring items or by non-cash items. This non-GAAP financial measure should be considered in addition to, rather than as a substitute for, the company's actual operating results included in its condensed consolidated financial statements.

"Adjusted EBITDA" means earnings before interest, taxes, depreciation, amortization and non-cash share-based compensation expense, and also includes the gain on bargain purchase of subsidiary and adjustments for other identified charges such as costs incurred to form the company and to prepare for the offering of its Class A common stock to the public, prior to its IPO. Identified charges also include the cost of maintaining a board of directors prior to being a publicly traded company. As the IPO has been completed, director fees will be deducted from Adjusted EBITDA going forward. Adjusted EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP; accordingly, Adjusted EBITDA may not be comparable to similar measures presented by other companies. Management believes Adjusted EBITDA to be a meaningful indicator of the company's performance that provides useful information to investors regarding its financial condition and results of operations. The most comparable GAAP measure is operating income.

A reconciliation of net loss to Adjusted EBITDA is provided in the company's Annual Report on Form 10-K for the year ended December 31, 2019 under "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Reconciliation of Unaudited Historical Results to Adjusted EBITDA.*"

FORWARD-LOOKING STATEMENTS

This press release includes forward-looking statements that involve risks and uncertainties. Forward-looking statements are statements that are not historical facts. Such forward-looking statements are subject to risks (including those set forth in the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 30, 2020) and uncertainties which could cause actual results to differ from the forward-looking statements. The company expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the company's expectations with respect thereto or any change in events, conditions or circumstances on which any statement is based. Investors should realize that if our underlying assumptions for the projections contained herein prove inaccurate or that known or unknown risks or uncertainties materialize, actual results could vary materially from our expectations and projections.

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Tables Follow

Chicken Soup for the Soul Entertainment, Inc.
Consolidated Balance Sheets

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents	$ 6,447,402	$ 6,451,758
Restricted cash	—	750,000
Accounts receivable, net	34,661,119	12,841,099
Prepaid expenses	861,190	218,736
Inventory, net	312,033	262,068
Goodwill	21,448,106	2,537,079
Indefinite lived intangible assets	12,163,943	12,163,943
Intangible assets, net	35,451,951	2,971,637
Film library, net	33,250,149	25,338,502
Due from affiliated companies	7,642,432	1,213,436
Programming costs, net	14,459,271	12,790,489
Program rights, net	654,303	—
Deferred tax asset, net	—	452,000
Other assets, net	313,585	356,221
Total assets	$ 167,665,484	$ 78,346,968
LIABILITIES AND EQUITY		
Current maturities of commercial loan	$ 3,200,000	$ 1,000,000
Commercial loan and revolving line of credit, net of unamortized deferred finance cost of $189,525 and $334,554, respectively	11,810,475	6,582,113
Notes payable under revolving credit facility	5,000,000	—
Accounts payable and accrued expenses	26,646,390	5,078,805
Ad representation fees payable	12,429,838	—
Film library acquisition obligations	5,020,600	2,715,600
Programming obligations	7,300,861	—
Accrued participation costs	5,066,512	1,539,139
Other liabilities	170,106	414,506
Deferred revenue	—	6,469
Total liabilities	76,644,782	17,336,632

Equity
Stockholders' Equity:

Series A cumulative redeemable perpetual preferred stock, $.0001 par value, liquidation preference of $25.00 per share, 10,000,000 shares authorized; 1,599,002 and 918,497 shares issued and outstanding, respectively, redemption value of $39,975,050 and $22,962,425, respectively	160	92
Class A common stock, $.0001 par value, 70,000,000 shares authorized; 4,259,920 and 4,227,740 shares issued, 4,185,685 and 4,153,505 shares outstanding, respectively	425	421
Class B common stock, $.0001 par value, 20,000,000 shares authorized; 7,813,938 and 7,817,238 shares issued and outstanding, respectively	782	782
Additional paid-in capital	87,610,030	59,360,583
Retained (deficit) earnings	(32,695,629)	2,281,187
Class A common stock held in treasury, at cost (74,235 shares)	(632,729)	(632,729)
Total stockholders' equity	54,283,039	61,010,336
Subsidiary convertible preferred stock	36,350,000	—
Noncontrolling interests	387,663	—
Total Equity	91,020,702	61,010,336
Total liabilities and equity	$ 167,665,484	$ 78,346,968

Chicken Soup for the Soul Entertianment, Inc.
Consolidated Statements of Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Online networks	$ 14,899,288	$ 1,071,526	$ 40,027,289	$ 4,411,427
Television and film distribution	9,908,645	5,403,133	15,967,507	13,188,560
Television and short-form video production	14,104	5,431,926	610,356	10,152,020
Total revenue	24,822,037	11,906,585	56,605,152	27,752,007
Less: Television & film distribution returns and allowances	(412,461)	(339,194)	(1,241,246)	(892,488)
Net revenue	24,409,576	11,567,391	55,363,906	26,859,519
Cost of revenue	16,854,807	4,947,483	40,423,550	12,345,590
Gross profit	7,554,769	6,619,908	14,940,356	14,513,929
Operating expenses:				
Selling, general and administrative	8,347,681	3,277,581	22,242,032	10,745,235
Amortization	7,662,143	129,237	13,293,279	326,988
Management and license fees	2,445,297	1,154,220	5,536,390	2,666,907
Total operating expenses	18,455,121	4,561,038	41,071,701	13,739,130
Operating (loss) income	(10,900,352)	2,058,870	(26,131,345)	774,799
Interest income	(5,645)	(18,528)	(40,191)	(39,058)
Interest expense	327,654	136,097	811,017	388,036
Loss on extinguishment of debt		—	350,691	—
Acquisition-related costs	232,916	168,661	3,968,289	396,793
(Loss) income before income taxes and preferred dividends	(11,455,277)	1,772,640	(31,221,151)	29,028
Provision for income taxes	28,000	295,000	585,000	874,000
Net (loss) income before noncontrolling interests and preferred dividends	(11,483,277)	1,477,640	(31,806,151)	(844,972)
Net (loss) attributable to noncontrolling interests	(97,322)	—	(134,282)	—
Net (loss) income attributable to Chicken Soup for the Soul Entertainment, Inc.	**(11,385,955)**	**1,477,640**	**(31,671,869)**	**(844,972)**
Less: Preferred dividends	974,272	690,131	3,304,947	1,112,910

Net (loss) available to common stockholders	$ (12,360,227)	$ 787,509	$ (34,976,816)	$ (1,957,882)
Net (loss) per common share:				
Basic and diluted	$ (1.03)	$ 0.07	$ (2.92)	$ (0.16)

Chicken Soup for the Soul Entertainment, Inc.
Adjusted EBITDA

	Three Months Ended December 31,	
	2019	**2018**
Net loss available to common stockholders, as reported	$ (12,360,227)	$ 787,509
Preferred dividends	974,272	690,131
Provision for income taxes	28,000	295,000
Other Taxes	73,940	—
Interest expense, net of interest income	322,009	117,569
Film library and program rights amortization, included in cost of revenue	6,878,959	2,802,916
Share-based compensation expense	267,777	216,896
Acquisition-related costs and other one-time consulting fees	232,916	(31,339)
Reserve for bad debt & video returns	1,394,640	(68,217)
Amortization	7,662,143	—
Loss on extinguishment on debt	—	129,237
Transitional Expenses	629,731	—
All other nonrecurring costs	(287,839)	293,428
Adjusted EBITDA	$ 5,816,321	$ 5,233,130

	Year Ended December 31,	
	2019	**2018**
Net loss available to common stockholders, as reported	$ (34,976,816)	$ (1,957,882)
Preferred dividends	3,304,947	1,112,910
Provision for income taxes	585,000	874,000
Other Taxes	460,205	—
Interest expense, net of interest income	770,826	348,978
Film library amortization, included in cost of revenue	10,683,227	6,459,431
Share-based compensation expense	1,061,926	953,688
Acquisition-related costs and other one-time consulting fees	3,968,289	666,793
Reserve for bad debt and video returns	2,669,699	646,289
Amortization	13,293,279	326,988
Loss on extinguishment on debt	350,691	—
Transitional Expenses	3,505,855	—
All other nonrecurring costs	276,400	589,679
Adjusted EBITDA	$ 5,953,528	$ 10,020,874

Source: Chicken Soup for the Soul Entertainment, Inc.