

May 7, 2019

ZAGG Supplemental Financial Information - CFO Commentary

Document reference information

The commentary in this document can be referenced in the financial information found in the press release announcing the results of operations for the three months ended March 31, 2019, and 2018, including certain supplemental financial information, issued earlier today. The release can be found at [investors.ZAGG.com](http://investors.ZAGG.com), or in the Form 8-K furnished to the Securities and Exchange Commission website at [sec.gov](http://sec.gov) (the URLs are included here in this exhibit as inactive textual references and information contained on, or accessible through, our websites is not a part of, and is not incorporated by reference into, this report).

Three months ended March 31, 2019, and 2018 Summary Results

(Amounts in millions, except per share amounts)

Summary of quarter-to-date financial results	For the Three Months Ended	
	March 31, 2019	March 31, 2018
Net sales	\$ 78.8	\$ 112.1
Gross profit	\$ 23.8	\$ 37.6
Gross profit margin	30 %	34 %
Net (loss) income	\$ (14.4)	\$ 7.0
Diluted (loss) earnings per share	\$ (0.50)	\$ 0.24
Diluted operating (loss) earnings per share	\$ (0.43)	\$ 0.24
Adjusted EBITDA	\$ (9.0)	\$ 13.6
Diluted shares outstanding	28.9	28.7

Net sales by category	For the Three Months Ended			
	March 31, 2019		March 31, 2018	
	(%)	(\$)	(%)	(\$)
Protection (screen protection and cases)	59 %	\$ 46.3	50 %	\$ 55.9
Power (power management and power cases)	29 %	\$ 23.2	39 %	\$ 44.0
Audio	5 %	\$ 3.7	5 %	\$ 6.3
Productivity (keyboards and other)	7 %	\$ 5.6	6 %	\$ 5.9

Net sales by channel	For the Three Months Ended			
	March 31, 2019		March 31, 2018	
	(%)	(\$)	(%)	(\$)
Indirect channel	79 %	\$ 62.2	88 %	\$ 98.7
Website	14 %	\$ 11.0	8 %	\$ 9.3
Franchisees	7 %	\$ 5.6	4 %	\$ 4.1

Net sales by region	For the Three Months Ended			
	March 31, 2019		March 31, 2018	
	(%)	(\$)	(%)	(\$)
Domestic	71 %	\$ 55.8	82 %	\$ 91.4

**2019 First Quarter Results Discussion**

(All comparisons are 2019 consolidated versus 2018 consolidated, unless otherwise noted)

**Net sales**

Net sales for the three months ended March 31, 2019, were \$78.8 million, compared to net sales of \$112.1 million for the three months ended March 31, 2018, a decrease of \$33.3 million, or approximately 30%. The \$33.3 million decrease in net sales was primarily attributable to (1) decreased sales of wireless charging accessories due to challenging sell-in comparisons from the initial product launch in 2017 that extended into the first quarter of 2018, and (2) a decrease in sales of screen protection products and wireless charging accessories due to a pull forward of shipments into the fourth quarter of 2018 ahead of a potential tariff increase. These decreases were partially offset by increased sales of power cases driven from the launch of the new juice pack access and initial sales from our newly acquired brands: BRAVEN, Gear4, and HALO.

**Gross profit**

Gross profit for the three months ended March 31, 2019, was \$23.8 million, or approximately 30% of net sales, a decrease of \$13.8 million or 37%, compared to gross profit of \$37.6 million, or approximately 34% of net sales for the three months ended March 31, 2018. The decrease in gross profit margin was primarily attributable to (1) the mix of curved glass screen protection products, which are at comparatively lower margins than our flat glass products and which sales increased during the three months ended March 31, 2019 compared to the same period last year, and (2) a decrease in sales of our wireless charging products compared to the same period last year.

**Operating expenses**

Operating expenses for the three months ended March 31, 2019, were \$40.9 million, compared to operating expenses of \$29.7 million for the three months ended March 31, 2018, an increase of \$11.2 million, or approximately 38%. The \$11.2 million increase was primarily attributable to (1) additional selling, general and administrative expense associated with the newly acquired BRAVEN, Gear4, and HALO brands, (2) higher amortization of long-lived intangibles related to the BRAVEN, Gear4, and HALO acquisitions, and (3) increased marketing investments to support our growing portfolio of brands and products.

### *Net (loss) income*

As a result of the factors noted above, we reported net loss of \$(14.4) million, or diluted loss per share of \$(0.50), for the three months ended March 31, 2019, compared to net income of \$7.0 million, or diluted earnings per share of \$0.24, for the three months ended March 31, 2018.

### *Adjusted EBITDA*

Adjusted EBITDA decreased to \$(9.0) million compared to \$13.6 million.

### **Balance Sheet Highlights (as of March 31, 2019, December 31, 2018, and March 31, 2018)**

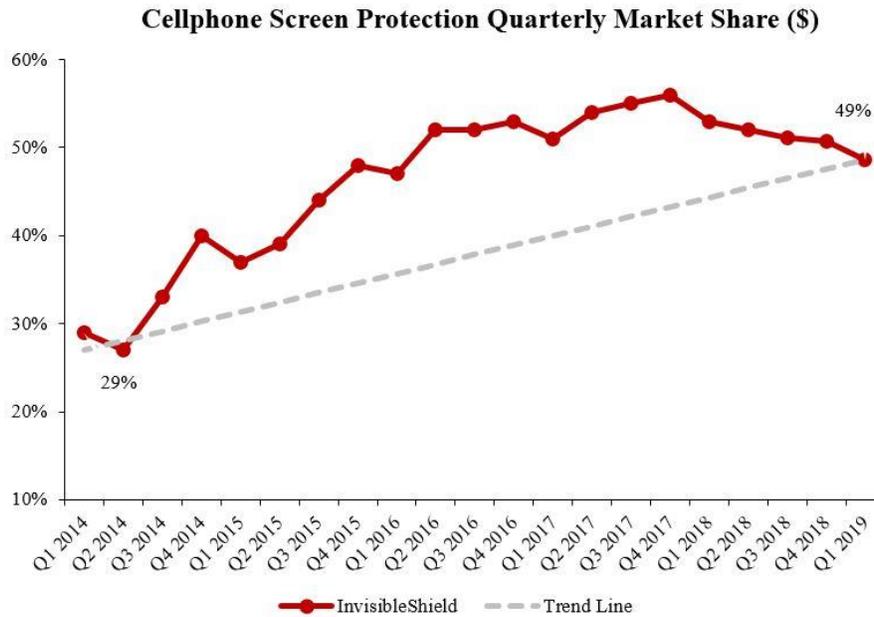
	<b><u>March 31, 2019</u></b>	<b><u>December 31, 2018</u></b>	<b><u>March 31, 2018</u></b>
Cash and cash equivalents	\$ 14.8	\$ 15.8	\$ 17.7
Accounts receivable, net of allowances	\$ 93.6	\$ 156.7	\$ 73.9
Inventories	\$ 100.2	\$ 82.9	\$ 78.9
Line of credit	\$ 93.4	\$ 58.4	\$ 22.0
Net debt (Total debt less cash)	\$ 78.6	\$ 42.6	\$ 4.3
QTD Days sales outstanding (DSOs)	107	87	59
Inventory turns*	5.5x	6.8x	6.8x

\* Inventory turns defined as trailing 12-month sales divided by period-end inventory. For year-over-year comparison purposes, March 31, 2019 and December 31, 2018 excludes the impact of 2018 and 2019 acquisitions.

## Market Share Information

### *Screen Protection*

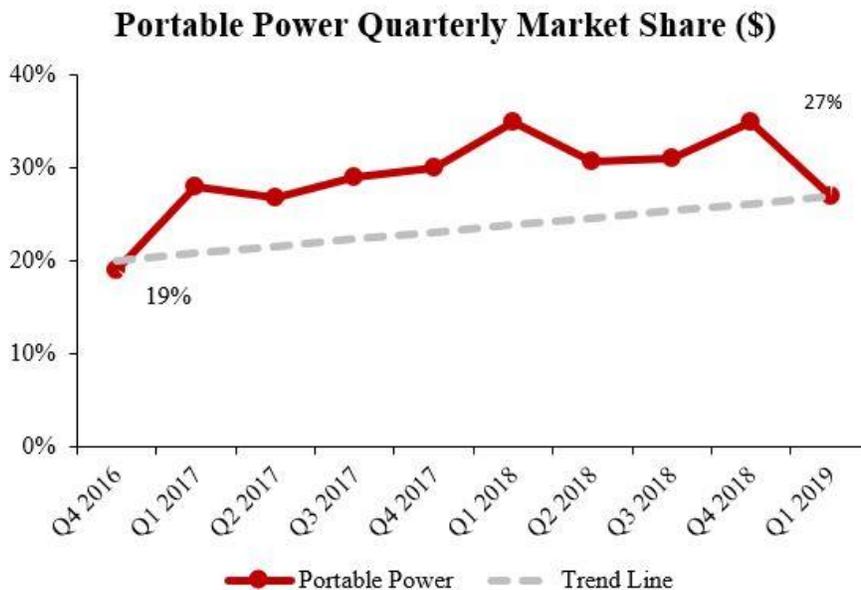
From the first quarter of 2014 to the first quarter of 2019, InvisibleShield cellphone screen protection quarterly dollar market share increased from 29% to 49%.



(Source: The NPD Group / Retail Tracking Service for each quarterly period; NPD data refers to dollar share and pertains only to U.S. retail sales)

### *Power Management*

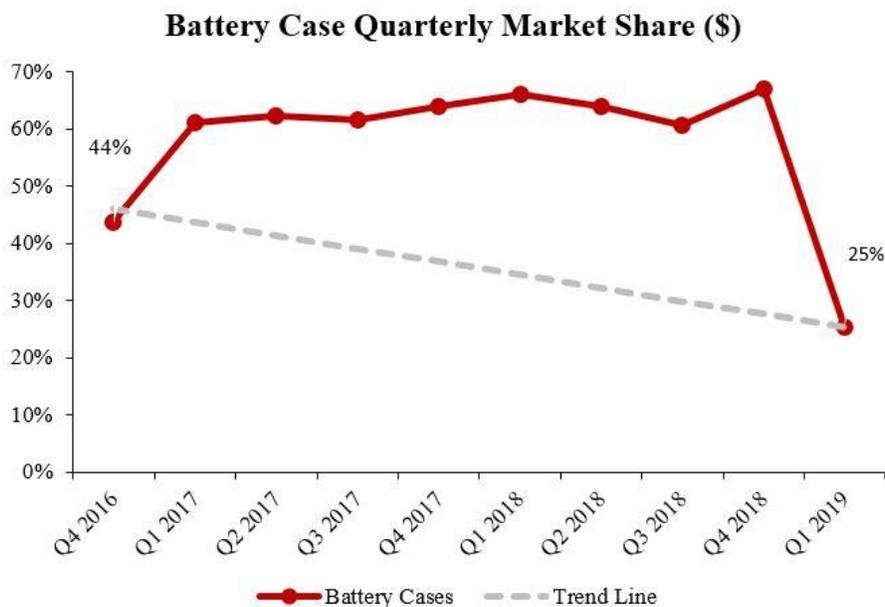
Portable power dollar market share increased from 19% to 27% from the fourth quarter 2016 to first quarter 2019. The quarterly increases in the fourth quarters of 2017 and 2018 is driven primarily by on-air sales of HALO products.



(Source: The NPD Group / Retail Tracking Service for each quarterly period; NPD data refers to dollar share and pertains only to U.S. retail sales)

## Battery Cases

From the fourth quarter of 2016 to the fourth quarter of 2018, mophie branded battery cases dollar market share increased from 44% to 67%. Quarterly battery case dollar market share decreased from 67% to 25% from the fourth quarter of 2018 to the first quarter of 2019 due to the launch of Apple branded battery cases during the first quarter of 2019. However, the Company announced the launch of the juice pack access during the first quarter of 2019 and started loading units into retail at the end of the quarter. The Company expects to see the impact of the retail sell-through of the juice pack access starting in the second quarter of 2019.



(Source: The NPD Group / Retail Tracking Service for each quarterly period; NPD data refers to dollar share and pertains only to U.S. retail sales)

## Acquisition

In January 2019, the Company purchased HALO, a leading direct-to-consumer accessories company with a strong relationship with QVC, for a combination of cash and stock consideration totaling approximately \$38.5 million. The addition of HALO along with the acquisitions of Gear4 and BRAVEN in 2018, provide the Company with increased diversification and an innovative product portfolio in the growing product categories of Bluetooth audio, rugged cases, and portable power. The Company expects to grow sales and profitability over the next several years by taking these brands to its current retail distribution network and further investing in the direct-to-consumer channel.

## 2019 Business Outlook

For the full year 2019, the Company maintains the following guidance:

- Net sales of \$610 million to \$630 million
- Gross profit margin as a percentage of net sales in the mid 30's range
- Adjusted EBITDA of \$82 million to \$86 million
- Diluted operating earnings per share of \$1.47 to \$1.60

## **About Non-U.S. GAAP Financial Information**

This Supplemental Financial Information - CFO Commentary (“CFO Commentary”) includes Adjusted EBITDA and Diluted Operating Earnings Per Share, which are not financial measures prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Readers are cautioned that (1) Adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, stock-based compensation expense, other expense, transaction costs, inventory step-up in conjunction with 2018 and 2019 acquisitions, BRAVEN employee retention bonus, and CFO retention bonus) and (2) Diluted Operating Earnings Per Share (diluted earnings per share excluding the impact of transaction costs, inventory step-up, and amortization expense – all in conjunction with the BRAVEN, Gear4 and HALO acquisitions) are not financial measures under U.S. GAAP. In addition, this financial information should not be construed as an alternative to any other measure of performance determined in accordance with U.S. GAAP, or as an indicator of operating performance, liquidity or cash flows generated by operating, investing and financing activities, as there may be significant factors or trends that it fails to address. As such, it should be read only in conjunction with our consolidated financial statements prepared in accordance with U.S. GAAP. We present Adjusted EBITDA and Diluted Operating Earnings Per Share because we believe that these measures are helpful to some investors as a measure of performance and to normalize the impact of acquisitions. We caution readers that non-U.S. GAAP financial information, by its nature, departs from traditional accounting conventions. Accordingly, its use can make it difficult to compare current results with results from other reporting periods and with the financial results of other companies. We have provided a reconciliation of Adjusted EBITDA and Diluted Operating Earnings Per Share to the most directly comparable U.S. GAAP measures in the supplemental financial information attached to the press release to which this CFO Commentary is also attached.

## **Cautionary Note Regarding Forward-Looking Statements**

This CFO Commentary contains (and oral communications made by us may contain) “forward-looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “predict,” “project,” “target,” “future,” “seek,” “likely,” “strategy,” “may,” “should,” “will” and similar references to future periods. Examples of forward-looking statements include, among others, statements we make regarding our outlook for the Company and statements that estimate or project future results of operations or the performance of the Company.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements include, among others, the following:

- a. the ability to design, produce, and distribute the creative product solutions required to retain existing customers and to attract new customers;
- b. building and maintaining marketing and distribution functions sufficient to gain meaningful international market share for our products;
- c. the ability to respond quickly with appropriate products after the adoption and introduction of new mobile devices by major manufacturers like Apple®, Samsung®, and Google®;
- d. changes or delays in announced launch schedules for (or recalls or withdrawals of) new mobile devices by major manufacturers like Apple, Samsung, and Google;
- e. the ability to successfully integrate new operations or acquisitions;
- f. the impacts of inconsistent quality or reliability of new product offerings;
- g. the impacts of lower profit margins in certain new and existing product categories, including certain mophie products;
- h. the impacts of changes in economic conditions, including on customer demand;
- i. managing inventory in light of constantly shifting consumer demand;
- j. the failure of information systems or technology solutions or the failure to secure information system data, failure to comply with privacy laws, security breaches, or the effect on the Company from cyber-attacks, terrorist incidents or the threat of terrorist incidents;
- k. changes in U.S. and international trade policy and tariffs, including the possible effect of recent U.S. tariff proposals on selected materials used in the manufacture of products sold by the Company which are sourced from China;
- l. adoption of or changes in accounting policies, principles, or estimates; and
- m. changes in the law, economic and financial conditions, including the effect of enactment of US tax reform or other tax law changes.

Any forward-looking statement made by us in this CFO Commentary speaks only as of the date on which such statement is made. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of any such factor on the business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Readers should also review the risks and uncertainties listed in our most recent Annual Report on Form 10-K and other reports we file with the U.S. Securities and Exchange Commission, including (but not limited to) Item 1A - "Risk Factors" in the Form 10-K and Management's Discussion and Analysis of Financial Condition and Results of Operations and the risks described therein from time to time. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise. The forward-looking statements contained in this CFO Commentary are intended to qualify for the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.