
Section 1: 8-K (CURRENT REPORT)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 9, 2018

Purple Innovation, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State of Incorporation)

001-37523
(Commission
File Number)

47-4078206
(IRS Employer
Identification No.)

123 East 200 North
Alpine, Utah
(Address of Principal Executive Offices)

84004
(Zip Code)

Registrant's telephone number, including area code: (801) 756-2600

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencements communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

ITEM 2.02 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

On August 9, 2018, Purple Innovation, Inc. (the "Company") issued a press release announcing its financial results for the second quarter ended June 30, 2018. A copy of the Company's press release is attached as Exhibit 99.1 to this report and incorporated by reference.

The information furnished pursuant to this Item 2.02 and the exhibit hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed to be incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act except as shall be expressly set forth by specific reference in such filing.

The press release furnished herewith in Exhibit 99.1 contains non-GAAP financial measures. Management believes non-GAAP financial measures assist management and investors in evaluating and comparing period-to-period results and projections in a more meaningful and consistent manner. Reconciliations for these non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the press release.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

EXHIBIT INDEX

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|--|
| 99.1 | <u>Press Release dated August 9, 2018, regarding financial results for the second quarter ended June 30, 2018.</u> |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 9, 2018

PURPLE INNOVATION, INC.

By: /s/ Mark Watkins
Mark Watkins
Chief Financial Officer

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Section 2: EX-99.1 (PRESS RELEASE DATED AUGUST 9, 2018, REGARDING FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED JUNE 30, 2018)

Exhibit 99.1



Purple Innovation Reports Second Quarter 2018 Results Company Reiterates 2018 Full Year Outlook

Alpine, Utah, August 9, 2018 – Purple Innovation, Inc. (NASDAQ: PRPL) (“Purple”), a comfort technology company known for creating the “World’s First No Pressure™ Mattress,” today announced strong continued revenue growth for the second quarter ended June 30, 2018.

Second Quarter Financial Summary (Comparisons versus Second Quarter 2017)¹

- Net revenue increased 58.1% to \$75.4 million, compared to \$47.7 million.
- Gross margin was 43.8% compared to 44.4%.
- Operating loss was \$(3.5) million compared to operating income of \$3.6 million. Adjusted operating loss was \$(2.9) million compared to adjusted operating income of \$4.0 million.
- Net loss was \$(4.3) million compared to a net income of \$3.6 million.
- EBITDA was \$(2.9) million compared to \$3.8 million. Adjusted EBITDA was \$(2.3) million compared to \$4.1 million.

“The product, marketing, and channel strategies we are executing continue to fuel strong revenue gains and increased market share,” commented Terry Pearce, Co-Founder, Chairman and CEO. “During the first half of 2018 the Company made continued progress in building a strong foundation to support future growth. This included enhancing our manufacturing, supply chain, and logistics capabilities. Despite some challenges typical of a new high-growth company, I am confident that the business is well positioned to succeed in the current competitive environment and generate profitable growth and increased shareholder value over the long-term.”

Second Quarter 2018 Review

Second quarter 2018 net revenue increased 58.1% to \$75.4 million, compared to \$47.7 million in the second quarter of 2017. The increase in net revenue was driven primarily by higher direct-to-consumer demand for mattresses, fueled by increased marketing investments. The second quarter of 2018 also benefitted from contributions from mattress sales in the wholesale channel, which launched in the fourth quarter 2017.

Gross margin for the second quarter 2018 was 43.8% compared to 44.4% in the year ago period. The decrease was partially driven by higher freight costs early in the quarter associated with the new mattress models that were initially flat-packed as opposed to rolled post the February launch, combined with lower net revenues relative to gross revenues as a result of higher dollar returns. These headwinds were partially offset by the higher product margins from the new mattress models.

Operating expenses were \$36.5 million in the second quarter 2018 compared to \$17.5 million in the prior year period. The increase in operating expenses is primarily attributable to higher marketing investments to expand brand awareness and drive consumer demand for the Company’s product portfolio.

¹ Reconciliations for non-GAAP financial measures to the most directly comparable GAAP financial measures are included in the “RECONCILIATION OF GAAP TO NON-GAAP MEASURES” tables at the end of this press release.



Operating loss was \$(3.5) million, compared to an operating income of \$3.6 million in the prior year. Adjusted operating loss was \$(2.9) million compared to an adjusted operating income of \$4.0 million in second quarter 2017. Adjusted operating loss excludes stock-based compensation expense and CEO search costs.

Net loss was \$(4.3) million for the second quarter 2018 compared to a net income of \$3.6 million in the year ago period.

EBITDA for the second quarter 2018 was \$(2.9) million compared to \$3.8 million in the second quarter 2017. Adjusted EBITDA, which excludes stock-based compensation expense and CEO search costs was \$(2.3) million, compared to adjusted EBITDA of \$4.1 million last year.

Balance Sheet Highlights

As of June 30, 2018, the Company had cash and cash equivalents of \$10.4 million compared to \$3.6 million in cash and cash equivalents as of December 31, 2017. Inventories as of June 30, 2018 totaled \$33.2 million compared with \$13.3 million as of December 31, 2017.

2018 Outlook

For the third quarter of 2018, the Company expects net revenue to be between \$71.0 million and \$75.0 million and adjusted EBITDA to be in the range of \$(1.0) million to \$1.0 million.

For 2018, the Company still expects net revenue to be between \$290.0 million and \$310.0 million, an increase of between 47% and 57% over annual 2017, and adjusted EBITDA of approximately breakeven.

Webcast and Conference Call Information

Purple Innovation, Inc. will host a live conference call to discuss financial results today, August 9, 2018, at 4:30 p.m. Eastern Time. The dial-in number for the conference call is (855) 327-6837. The dial-in number for international callers is (778) 327-3988. The call is also being webcast and can be accessed on the investor relations section of the Company's website, investors.purple.com. After the conference call, a webcast replay will remain available on the investor relations section of the Company's website for 30 days.

About Purple

Purple is a comfort technology company that designs and manufactures products to improve how people sleep, sit, and stand. It designs and manufactures a range of comfort technology products, including mattresses, pillows, and cushions, using its patented Hyper-Elastic Polymer technology designed to improve comfort. The Company markets and sells its products through its direct-to-consumer online channel, traditional retail partners, and third party online retailers. For more information on Purple, visit www.purple.com.



Forward Looking Statements

Certain statements made in this release that are not historical facts are “forward looking statements” within the meaning of the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements include but are not limited to statements about our outlook and expectations for our financial results for the third quarter of 2018 and the fiscal year ended December 31, 2018, as well as our ability to create sustained profitability and shareholder value and our expectations with regard to our partnership with Mattress Firm. Statements based on historical data are not intended and should not be understood to indicate the Company’s expectations regarding future events. Forward-looking statements provide current expectations or forecasts of future events or determinations. These forward-looking statements are not guarantees of future performance, conditions or results, and involve a number of known and unknown risks, uncertainties, assumptions and other important factors, many of which are outside the Company’s control, that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements. Factors that could influence the realization of forward-looking statements include the risk factors outlined in the “Risk Factors” section of our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 15, 2018 and in our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 8, 2018, as amended February 14, 2018, March 15, 2018 and April 17, 2018. The Company does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Non-GAAP Financial Measures

Adjusted Operating Loss and Adjusted EBITDA are non-GAAP financial measures that remove the impact of costs incurred due to the merger transaction with GPAC, as well as certain other nonrecurring legal fees and severance payments. Management believes that the use of such non-GAAP financial measures provides investors with additional useful information with respect to the impact of various adjustments, which we view as a better measure of our operating performance. Refer to the attached table for the reconciliation of such non-GAAP financial measures to the most comparable GAAP financial measure.

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Purple Innovation, Inc.

For information regarding Purple products, please contact:
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PURPLE INNOVATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

| | <u>June 30,</u> <u>2018</u> | <u>December 31,</u> <u>2017</u> |
|---|--------------------------------|------------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,431 | \$ 3,593 |
| Accounts receivable, net | 7,238 | 4,182 |
| Inventories, net | 33,241 | 13,345 |
| Prepaid inventory | 3,990 | 2,219 |
| Other current assets | 1,156 | 492 |
| Total current assets | <u>56,056</u> | <u>23,831</u> |
| Property and equipment, net | 19,536 | 13,464 |
| Intangible assets, net | 1,352 | 1,267 |
| Other long-term assets | 5 | 22 |
| Total Assets | <u>\$ 76,949</u> | <u>\$ 38,584</u> |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,660 | \$ 21,131 |
| Accrued sales returns | 5,630 | 4,825 |
| Accrued compensation | 2,304 | 2,097 |
| Customer prepayments | 6,921 | 3,213 |
| Accrued sales tax | 5,848 | 8,466 |
| Other accrued liabilities | 2,554 | 1,451 |
| Current portion of long-term obligations | 31 | 29 |
| Total current liabilities | <u>43,948</u> | <u>41,212</u> |
| Long-term debt | 20,019 | 8,000 |
| Other long-term liabilities and obligations, net of current portion | 3,004 | 2,368 |
| Total liabilities | <u>66,971</u> | <u>51,580</u> |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Class A common stock | 1 | — |
| Class B common stock | 4 | — |
| Additional paid-in capital | 3,569 | — |
| Accumulated deficit | (2,213) | — |
| Total stockholders' equity | <u>1,361</u> | <u>—</u> |
| Noncontrolling interest | 8,617 | — |
| Member deficit | — | (12,996) |
| Total equity | <u>9,978</u> | <u>(12,996)</u> |
| Total Liabilities and Equity | <u>\$ 76,949</u> | <u>\$ 38,584</u> |



PURPLE INNOVATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues, net | \$ 75,397 | \$ 47,685 | \$ 136,377 | \$ 77,809 |
| Cost of revenues | 42,358 | 26,512 | \$ 76,938 | \$ 42,342 |
| Gross profit | 33,039 | 21,173 | 59,439 | 35,467 |
| Operating expenses: | | | | |
| Marketing and sales | 30,723 | 14,524 | 52,768 | 28,315 |
| General and administrative | 5,213 | 2,741 | 11,975 | 4,953 |
| Research and development | 555 | 271 | 1,066 | 548 |
| Total operating expenses | 36,491 | 17,536 | 65,809 | 33,816 |
| Operating (loss) income | (3,452) | 3,637 | (6,370) | 1,651 |
| Interest expense | 971 | — | 1,673 | — |
| Other (income) expense, net | (82) | 6 | (101) | — |
| Net (loss) income | (4,341) | 3,631 | (7,942) | 1,651 |
| Net loss attributable to noncontrolling interest | (3,556) | — | (5,729) | — |
| Net (loss attributable) income available to Purple Innovation, Inc. | \$ (785) | \$ 3,631 | \$ (2,213) | \$ 1,651 |
| Net (loss) income per common share—basic and diluted | \$ (0.09) | \$ 0.43 | \$ (0.26) | \$ 0.20 |
| Weighted average common shares outstanding—basic and diluted | 8,410 | 8,389 | 8,399 | 8,389 |



PURPLE INNOVATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-----------------|-------------------------|-----------------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cash flows from operating activities: | | | | |
| Net (loss) income | \$ (4,341) | \$ 3,631 | \$ (7,942) | \$ 1,651 |
| Adjustments to reconcile net (loss) income to net cash from operating activities: | | | | |
| Depreciation and amortization | 545 | 167 | 1,001 | 242 |
| Non-cash interest | 938 | — | 1,092 | — |
| Stock-based compensation | 313 | — | 313 | — |
| Loss on disposal of property and equipment | — | 10 | — | 10 |
| Changes in operating assets and liabilities: | | | | |
| (Increase) decrease in accounts receivable | (3,327) | 919 | (3,056) | 176 |
| Increase in inventories | (6,662) | (2,310) | (19,896) | (6,340) |
| (Increase) decrease in prepaid inventory and other assets | (680) | 886 | (2,433) | (1,425) |
| (Decrease) increase in accounts payable | 702 | 370 | (544) | 5,458 |
| Increase in accrued sales returns | 1,024 | 1,258 | 805 | 2,094 |
| Increase in accrued compensation | 557 | 94 | 207 | 574 |
| (Decrease) increase in customer prepayments | (139) | (6,620) | 3,708 | (2,892) |
| (Decrease) increase in other accrued liabilities | (963) | 3,783 | (863) | 5,312 |
| Net cash (used in) provided by operating activities | <u>(12,033)</u> | <u>2,188</u> | <u>(27,608)</u> | <u>4,860</u> |
| Cash flows from investing activities: | | | | |
| Purchase of property and equipment | (4,323) | (1,372) | (6,968) | (3,985) |
| Investment in intangible assets | (49) | — | (117) | — |
| Net cash used in investing activities | <u>(4,372)</u> | <u>(1,372)</u> | <u>(7,085)</u> | <u>(3,985)</u> |
| Cash flows from financing activities: | | | | |
| Proceeds from the Transaction | — | — | 25,912 | — |
| Proceeds from credit agreement | — | — | 24,000 | — |
| Payments on line of credit | — | — | (8,000) | — |
| Payments for debt issuance costs | — | — | (367) | — |
| Principal payments on capital lease obligations | (7) | — | (14) | — |
| Members distributions | — | (2,389) | — | (2,389) |
| Payments on related party notes payable | — | — | — | (300) |
| Payments on long-term obligations | — | (40) | — | (40) |
| Net cash (used in) provided by financing activities | <u>(7)</u> | <u>(2,429)</u> | <u>41,531</u> | <u>(2,729)</u> |
| Net (decrease) increase in cash | (16,412) | (1,613) | 6,838 | (1,854) |
| Cash, beginning of the period | 26,843 | 3,772 | 3,593 | 4,013 |
| Cash, end of the period | <u>\$ 10,431</u> | <u>\$ 2,159</u> | <u>\$ 10,431</u> | <u>\$ 2,159</u> |



PURPLE INNOVATION, INC.
RECONCILIATION OF GAAP TO NON-GAAP MEASURES
(In thousands)

Management believes that the use of the following non-GAAP financial measures provides investors with additional useful information with respect to the impact of various adjustments, which we view as a better measure of our operating performance. These non-GAAP financial measures are EBITDA, adjusted EBITDA and adjusted operating loss. Other companies may calculate these non-GAAP measures differently than we do. These non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as a substitute for our financial results prepared in accordance with GAAP.

Reconciliation of GAAP Net (Loss) Income to Non-GAAP EBITDA and Adjusted EBITDA

A reconciliation of GAAP net (loss) income to the non-GAAP measures of EBITDA and adjusted EBITDA is provided below. EBITDA represents net (loss) income before interest expense, other (income) expense, net and depreciation and amortization. Adjusted EBITDA represents EBITDA excluding costs incurred due to the merger transaction with GPAC, stock-based compensation expense, nonrecurring legal fees and severance and CEO search costs.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------|--------------------------------|-----------------|------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| GAAP net (loss) income | \$ (4,341) | \$ 3,631 | \$ (7,942) | \$ 1,651 |
| Interest expense | 971 | — | 1,673 | — |
| Other (income) expense, net | (82) | 6 | (101) | — |
| Depreciation and amortization | 545 | 167 | 1,001 | 242 |
| EBITDA | (2,907) | 3,804 | (5,369) | 1,893 |
| Adjustments: | | | | |
| Merger transaction costs | — | 43 | 2,028 | 43 |
| Stock-based compensation expense | 313 | — | 313 | — |
| Legal fees | — | 274 | 199 | 320 |
| Severance and CEO search costs | 280 | — | 420 | — |
| Adjusted EBITDA | \$ (2,314) | \$ 4,121 | \$ (2,409) | \$ 2,256 |

Reconciliation of GAAP Operating (Loss) Income to Non-GAAP Adjusted Operating (Loss) Income

A reconciliation of GAAP operating (loss) income to the non-GAAP measure of adjusted operating (loss) income is provided below. Adjusted operating (loss) income represents GAAP operating (loss) income excluding costs incurred due to the merger transaction with GPAC, stock-based compensation expense, nonrecurring legal fees and severance and CEO search costs.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------------|------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| GAAP operating (loss) income | (3,452) | 3,637 | (6,370) | 1,651 |
| Adjustments: | | | | |
| Merger transaction costs | — | 43 | 2,028 | 43 |
| Stock-based compensation expense | 313 | — | 313 | — |
| Legal fees | — | 274 | 199 | 320 |
| Severance and CEO search costs | 280 | — | 420 | — |
| Adjusted operating (loss) income | \$ (2,859) | \$ 3,954 | \$ (3,410) | \$ 2,014 |